

UHY's 2015 academies benchmarking report

Adding value for our academy clients

For academic year 2013/14



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Anne Syred

Dane Court Grammar School

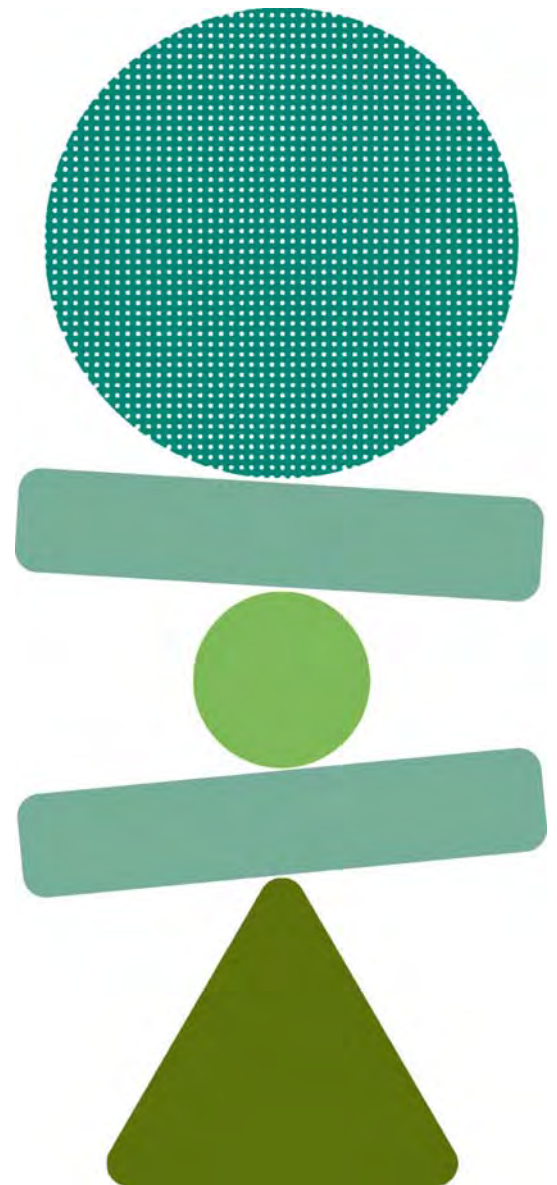
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1. Foreword from UHY's Academies Chair



Welcome to our third annual benchmarking report for academies. The report is designed to bring together information which you can use to benchmark your academy against others, and throughout the report we provide commentary on topical issues.

Allan Hickie, Chair of UHY's national academies group

It has been yet another busy year for the academy sector, with over 1,000 academies opening between 1 September 2013 and 31 August 2014, bringing the total of open academies at the end of 2013/14 to just over 4,000. A further 400 or so academies have opened since 1 September 2014, with another 60 applications approved in December, so the number continues to rise rapidly.

Our benchmarking report covers 100 academies in total, a mix of primary schools, secondary schools, free schools, special schools and MATs. To provide a wider spectrum, our sample includes a mix of UHY Hacker Young clients and other academies, whose information has been sourced from their websites.

We have expanded our report this year to cover some areas covered by the Accounts Submission Form introduced by the Education Funding Agency (EFA) last year, such as trustee movement and audit management letter points, and we have refreshed other areas, so I hope that you like the new format.

Another useful new feature is the benchmarking page, which lists the average results in key areas, with a space alongside for you to add your own school's data. We are able to produce a graphical representation of your results, so please contact us if you would find this useful.

Our report looks at historical data, but let's look to the future for a moment. With the forthcoming general election there is a possibility that a change in government could alter the landscape, although opposition parties have indicated they would retain all recent major education reforms.

The pressure on budgets will intensify over the next year or so, with reductions in the Education Services Grant and rising staff costs due to impending National Insurance Contributions (NICs) and pension changes, and Ofsted's introduction of 'no notice inspections' have added to the pressure to maintain educational standards. Around 40 schools across the country received no-notice inspections towards the end of 2014 and, although Ofsted confirmed that this policy will not be rolled out across all schools, the published results revealed that twenty three schools saw their inspection rating fall following a no-notice inspection from Ofsted, with ten of the schools dropping by more than one grade.

In the next year or so the financial reporting landscape for academies will alter, as they begin to comply with new charity accounting standards. We wait to see whether a specialist academy SORP will be introduced, like the one in existence for the Further and Higher Education sector.

I hope that you enjoy our report and find it interesting, and I would be pleased to discuss anything contained within or to answer any questions you may have on reading it. Please do also let us know if you have any suggestions for our report or would like any specific benchmarking data to be included in the future. Happy reading!

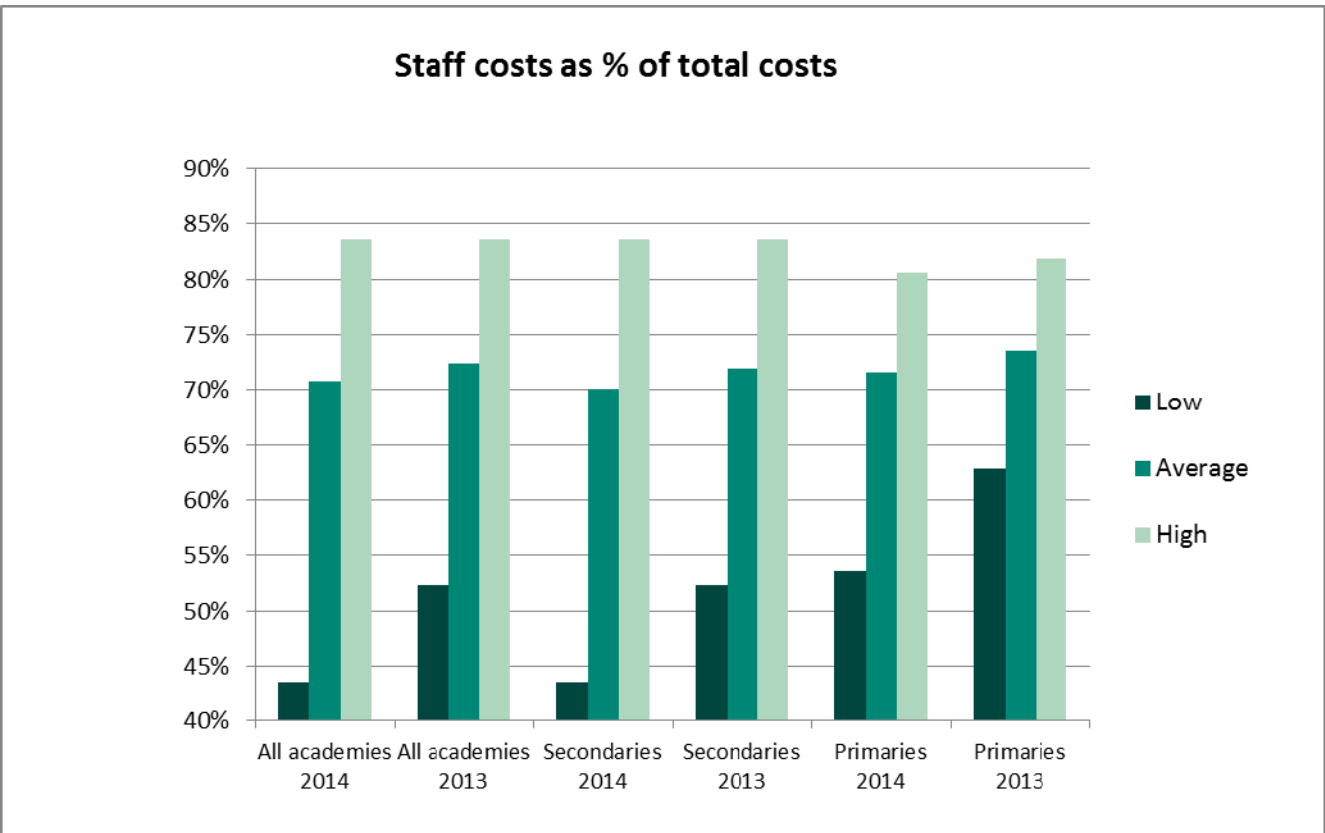


2. Staff costs, numbers and teaching staff to pupil ratios

Staff costs are the largest part of an academy's annual budget. Maintaining educational standards whilst balancing staff costs is perhaps one of the most fundamental challenges for an academy. It would be reasonable to expect most academies to spend broadly similar levels on staffing, however, the

results of our benchmarking show that this is not necessarily the case.

The key ratio to consider is the percentage of staff costs as a percentage of either total costs or total income, as shown in the chart below.



The chart above shows that the average academy, whether a secondary school or a primary school, has staff costs of around 70% of total costs. The average for primary schools is slightly higher each year, but only marginally so.

Looking purely at the staff costs to total costs ratio, the worst performing schools have employment related costs of between 80-85%. This may be because the academies are particularly highly geared in terms of senior staff, or it may be that these schools are not operating as efficiently as they could be. With rising NICs and pension costs in the coming

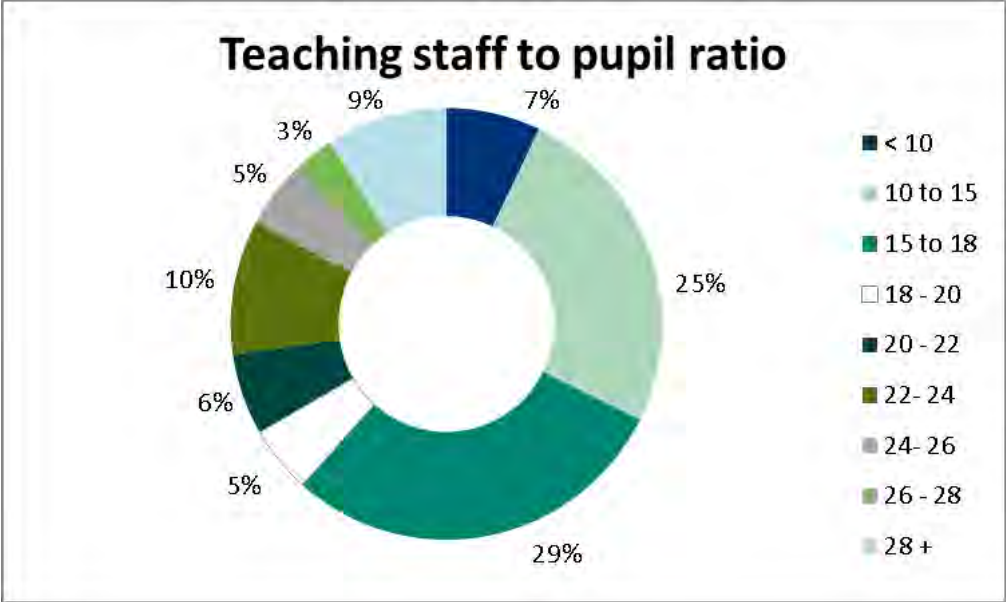
years, academies with staff costs that fall towards the higher end of this spectrum would be wise to consider carefully their staff requirements and make any necessary changes sooner rather than later.

The forthcoming changes in 2015 that will see an end to contracting-out for employers for National Insurance purposes, and an increase of 3.4% in the rate of employers' contributions paid by academies (a 33% rise!), will undoubtedly affect academies hard. Has your academy prepared a three to five year forecast taking these rises into account?

The best performing schools have staff costs as low as 44%, but this was a secondary school with other exceptional costs. Only 14 academies in our sample had staff costs of less than 65% of total costs, and nearly three quarters of the academies were in the range 67%-72%.

Teaching staff to pupil ratio

An academy school may have high staff costs relative to other costs, but one also needs to consider the number of pupils at the school.



As illustrated by the chart above, over half of academies in our sample had a teacher to pupil ratio of between 10 to 18.

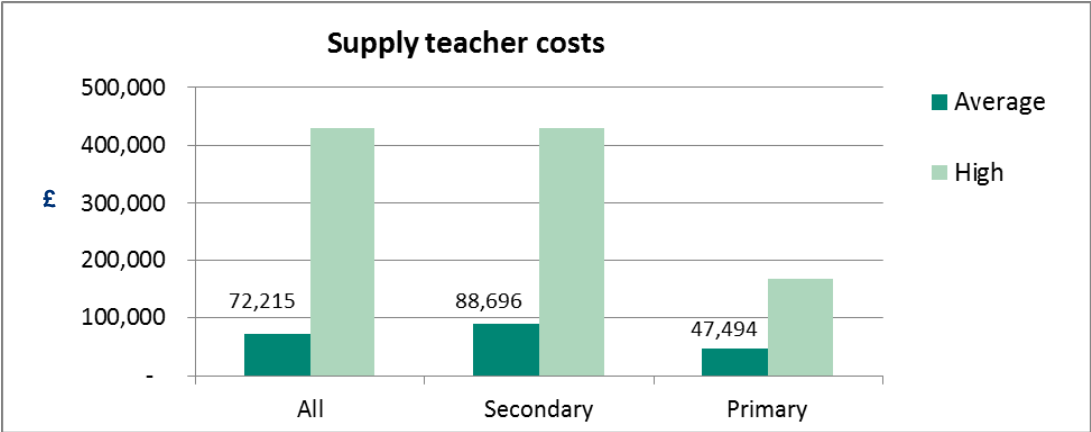
11% of academies had fewer than ten pupils per member of teaching staff, a ratio that would be impressive even at some of the country's top private schools. It seems likely, therefore, that academies have taken different approaches to calculating their average teaching staff numbers. Many academies disclose these on a Full Time Equivalent (FTE) basis, however, if there is significant difference between the numbers of a FTE and a headcount basis then, to a company with company law, academies ought to be disclosing on a headcount basis as well. From information we are party to via discussions with the EFA and academy steering groups, it appears likely that a future Accounts Direction will require

academies to disclose on a headcount basis. This clarity should help to ensure further consistency in financial reporting across the sector.

Supply staff

Academies inevitably have to rely on supply staff from time to time. They may be unfortunate and find themselves with a large number of staff on long term sick, or on maternity leave (we are aware of one small primary academy which had six members of staff (over 50% of their teaching staff!) on maternity leave at the same time. On other occasions academies may engage supply staff to cover routine non-teaching time or for newly qualified teachers (NQTs).

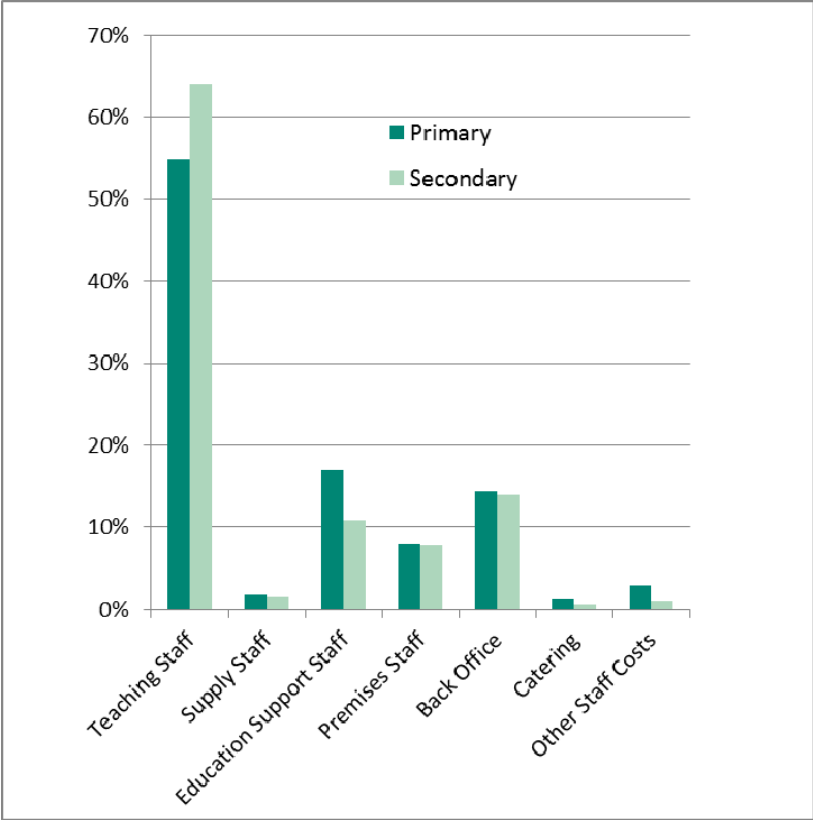
Our analysis of supply costs has proved interesting:



The average secondary academy spent nearly £89k on supply costs, although this average is distorted considerably by the academy which spent over £400k (£429k in fact) on supply staff. Whilst this high level was not typical, other academies reported supply costs of £388k, £221k and £220k. The highest supply cost for a primary school was £167k, compared to an average of £48k. Some academies had virtually no supply costs, but we wonder whether this is because they chose not to disclose these in the accounts despite supply staff costs appearing in the staff costs note in the Accounts Direction.

Breakdown of staff costs

The graphic below is based on data released by the DfE based on open academies as at 31 August 2013, rather than for 2013/14 (which is likely to be available late Spring 2015). It reveals how nearly 10% more of a secondary academy's staff costs are spent on teaching staff than at a primary school. The opposite is true, understandably, when it comes to educational support staff. Primary schools have to finance back office and other staff out of smaller budgets, so this may explain why the primary results are marginally higher.

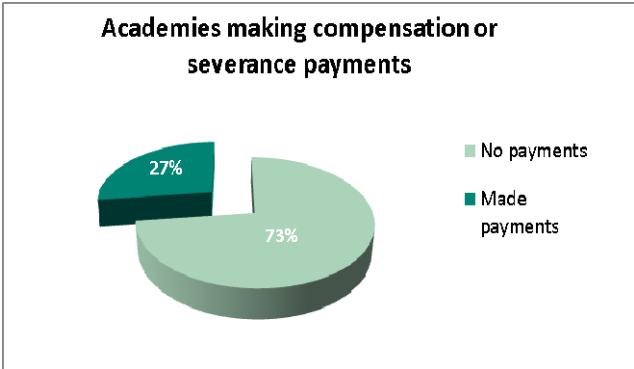


Compensation and severance payments

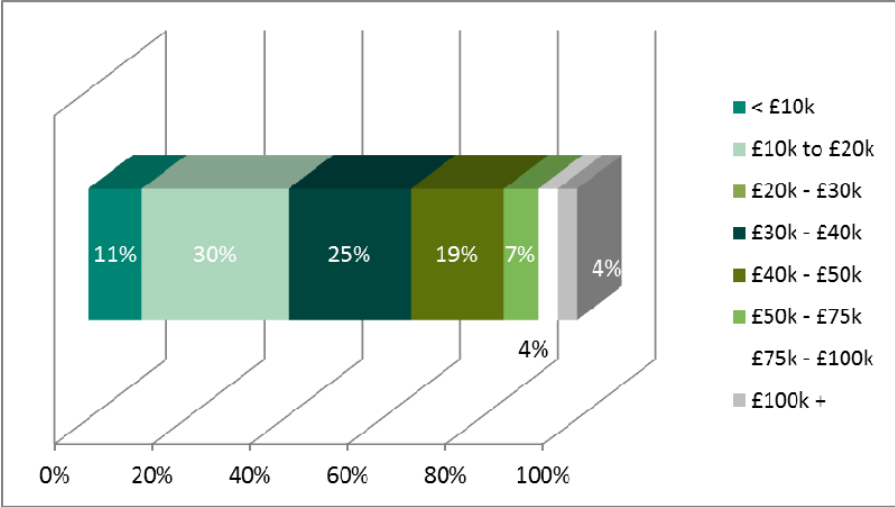
Staff costs are by far the largest expense for an academy, as already discussed. It follows that any academies that are struggling financially will need to reduce their staff costs, and inevitably this often

means redundancies. Of course redundancies can arise for other reasons, but the need to reduce budgets is often the trigger.

Special staff severance payments are paid to employees outside of normal statutory or contractual requirements when leaving employment in public service whether they resign, are dismissed or reach an agreed termination of contract. Academy trusts are required to disclose the total value of such payments made by the trust during the year, plus individual disclosure of items over £5,000. In 2013/14 far fewer academies made compensation payments during the year, just 27% compared to 63% in 2012/2013.

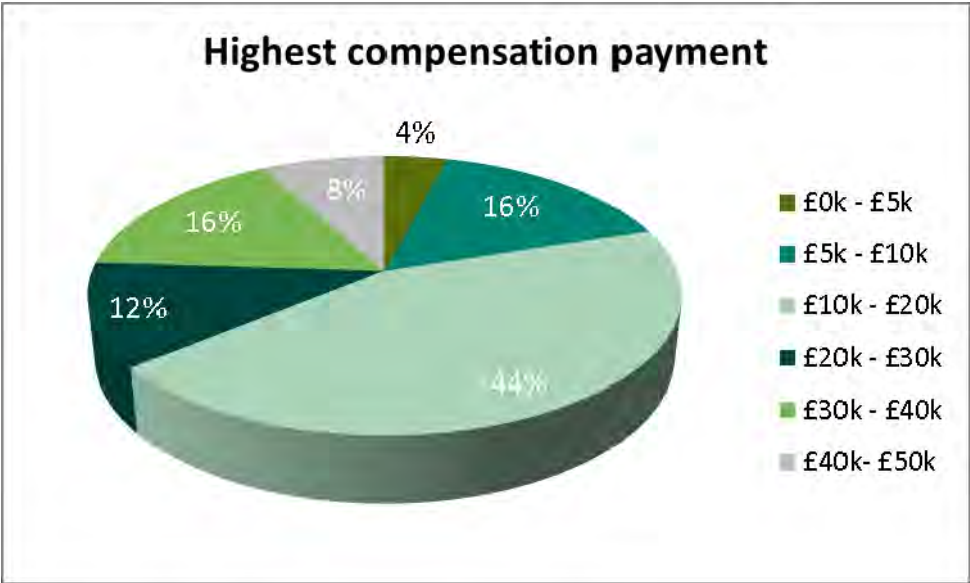


Range of compensation payments



The graphic above, together with the one at the foot of this page, highlights that of the 27% of academies making such payments, the total compensation and severance payments were often in the £10k to £20k or £30k to £40k ranges; these accounted for over half of the sample. 4% of academies paid compensation payments amounting to between £75k to £100k and a further 4% paid more than £100k. One academy paid total compensation payments of over £200k!! 8% of academies paid individual compensation payments of between £40k to £50k, approximately equivalent to the annual cost of employing reasonably experienced teachers.

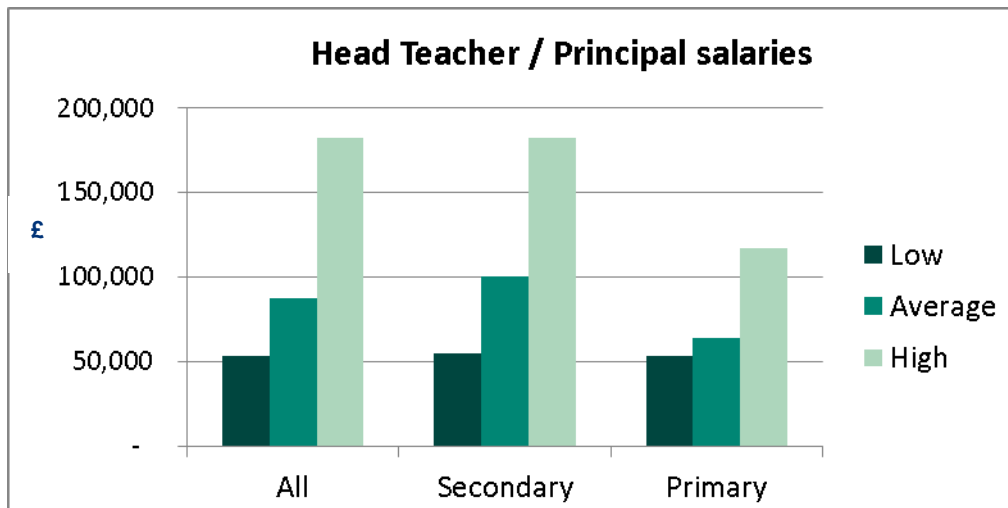
These figures demonstrate how expensive compensation and severance payments can be, and highlight how important it is for academies to plan for the future so they do not become over-staffed, and, perhaps even more importantly, to recruit the right staff. You should remember that if you are considering making a staff severance payment above the statutory or contractual entitlements, you must consider whether the proposed payment is in the interests of the trust, and whether such a payment is justified, based on a legal assessment of the chances of the trust successfully defending the case at employment tribunal.



Headteacher/principal salaries

The EFA are paying increasingly close attention to the remuneration of headteachers, and understandably so. The media also scrutinise this information, almost taking a 'name and shame' approach with individual schools and headteachers. Many of the most highly paid headteachers in academies across the country are doing a fantastic job in highly responsible positions which have the

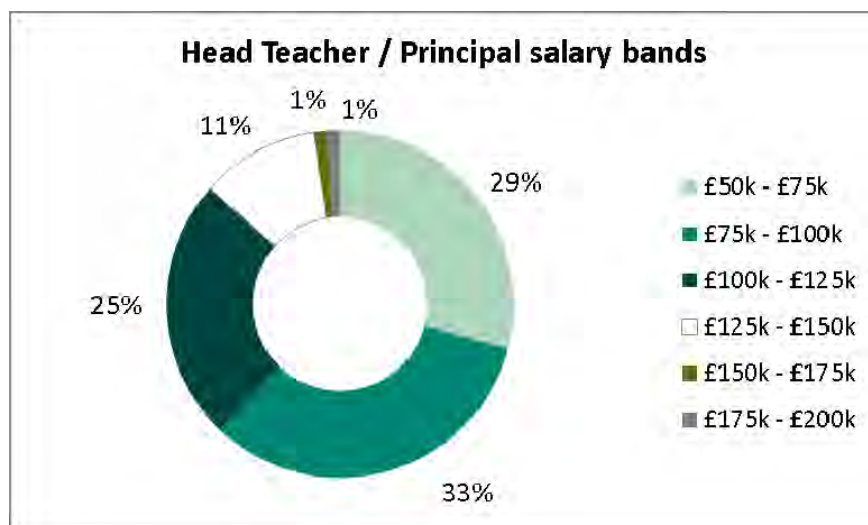
ability to influence thousands of young people. It is perhaps worth reflecting on the compensation payments discussed earlier, since headteachers are often the recipients of some of the highest payments of this nature. The academy sector needs to ensure that these payments cannot be seen as a reward for failure where a headteacher leaves a school with declining standards.



The chart above shows the average, highest and lowest salaries paid to the headteachers of academies within our sample. Whilst the best paid secondary school head received £182k, the average was closer to £100k, with some receiving a modest £55k. As you would expect, primary school headteachers are generally paid less, the average of £64k and low of £53k suggesting that most primary headteachers are paid similar amounts around this range. Of course some of the largest primary schools

are as large as some secondaries, which probably explains the higher salaries in this category, such as the top paid primary headteacher who received £117k.

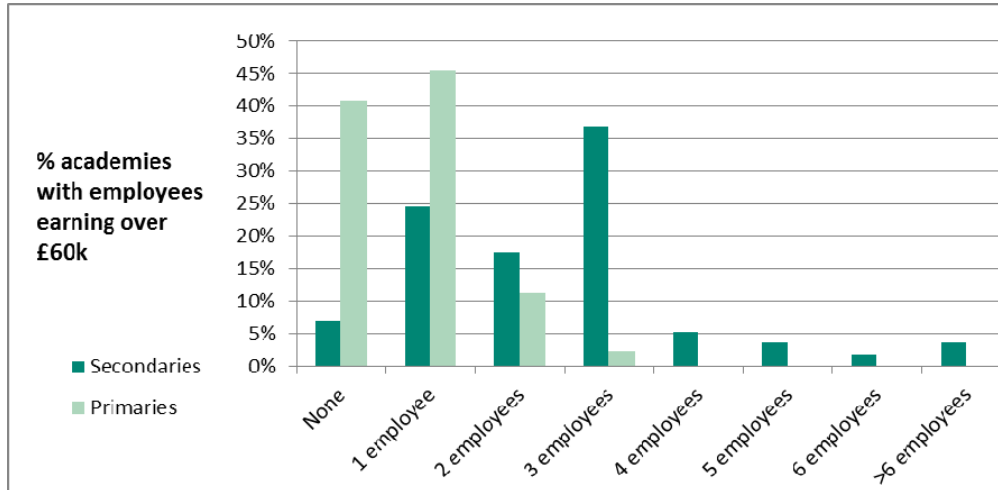
The graphic below shows the distribution across various ranges, with fairly equal numbers paid in the lower three bands. A significant number are paid between £125k and £150k.



Staff salaries

Academy trusts are required to disclose, on a confidential basis, how many employees received remuneration in excess of £60,000. The disclosures

are made in bands of £10,000, and we thought it would be interesting to compare the figures between academies.



The chart reveals that, as you would expect, secondary schools are far more likely to have high earning employees. Many secondary schools have two or three deputy or assistant headteachers in addition to the principal. 2% of primaries did have three employees earning more than £60k, but 86% paid no-one or just the headteacher at this level.

Over a third of secondary schools employed three members of staff earning in excess of £60k.

Are you ready for additional salary disclosures?

The new charity SORP will not impact on most academies until their 31 August 2016 year ends, only trusts incorporating between 1 January and 28 February 2015 need to worry about this now.

The SORP introduces more extensive disclosures on staff and trustee salaries, including:

- a requirement to disclose details of how the pay and remuneration for key management personnel are set.
- there will be a return to disclose individual staff trustees salaries as specific amounts, rather than in bands of £5,000.
- where total trustee remuneration is in excess of £200,000 additional disclosures will be required for the highest paid trustee, presumably the headteacher, showing their accrued entitlements under defined benefit pension schemes and any accrued lump sums. We do wonder how academy trusts would obtain this information in practice!

What the above does demonstrate is that there is only going to be an increasing level of scrutiny on salaries.



3. Pension costs and liabilities

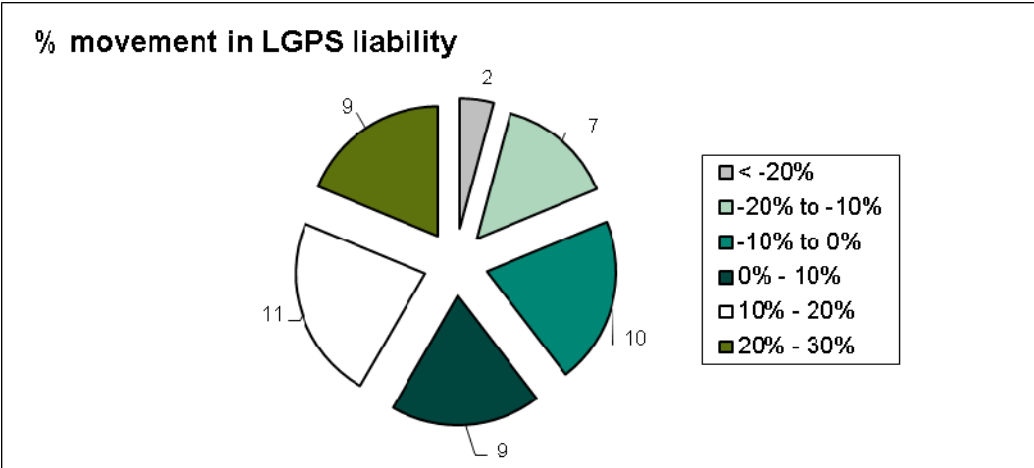
Academies have at least two pension schemes: the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). The TPS is an unfunded scheme, which means an academy does not need to include its share of the liabilities on the trust balance sheet; indeed quantifying an individual share would be very difficult.

Academy accounts do include the LGPS liability, however. This figure which can cause a great deal of confusion, and is often the focus of questions we are asked whenever we attend governors' meetings.

The LGPS, like the TPS, is a defined benefit scheme and, until recently, both of these paid a pension based on a percentage of final salary. The new LGPS, effective from 1 April 2014, changed the basis of the payment from final salary to average salary, which should significantly reduce the future pension costs,

and help to reduce the large liabilities in these schemes. Similar changes will impact on the TPS later this year.

A full valuation of the LGPS took place as at 31 March 2013 (these are completed every three years), and the results were announced during 2014. As a result of this exercise some academies have seen greater fluctuations in their LGPS liabilities. Having discussed this with some of the actuaries, we understand that this is partly because at each full valuation the actual performance is compared to the previous assumptions, and an adjustment is made accordingly. Furthermore, the assets of the pool are redistributed in order to share the experience of all the academies in the pool, and if an individual academy's experience had been better than the average this redistribution is likely to lead to a loss.

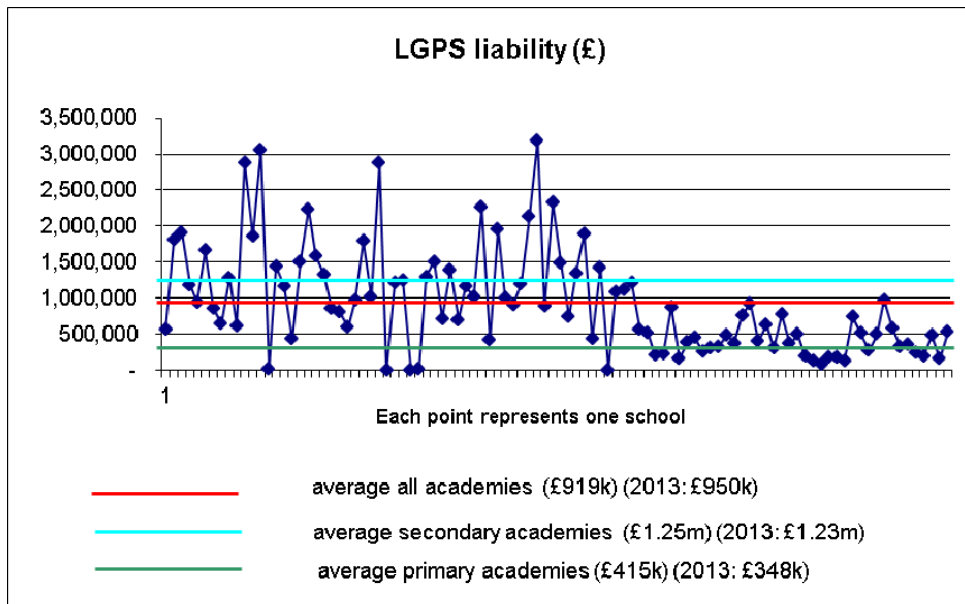


The chart above shows that over half of the academies (61%) saw their LGPS liabilities rise during the course of 2013 to 2014. 19% of these saw increases of between 20%-30%. A further 18% saw increases of between 10%-20%. Of the academies which saw reductions in their LGPS liabilities over half of these were small reductions of no more than 10%.

The liability included in the year end financial statements is based on a detailed FRS 17 report prepared by a qualified actuary. The actuary assesses specific data for your academy, such as staff profile and number of active members, and calculates a liability looking at stock market performance of assets and using various assumptions, such as life expectancy.

Part of the variations will be caused by different actuaries making different assumptions. Even small variations in assumptions can have a large impact on the final liabilities. For example, altering the discount rate by just 0.25% (the rate used is usually between 3.5%-4.0%) can alter the Balance Sheet liability by up to 4%. Whilst you are free to request the actuary you engage to use whichever assumptions you wish, in practice you are likely to be guided by the actuary and few, if any, will request any variation from the standard assumptions.

Academies pay a different contribution rate to LA schools, and the rates for academies can vary enormously depending on where they are located. However, the rates can also vary between academies within the same LA.

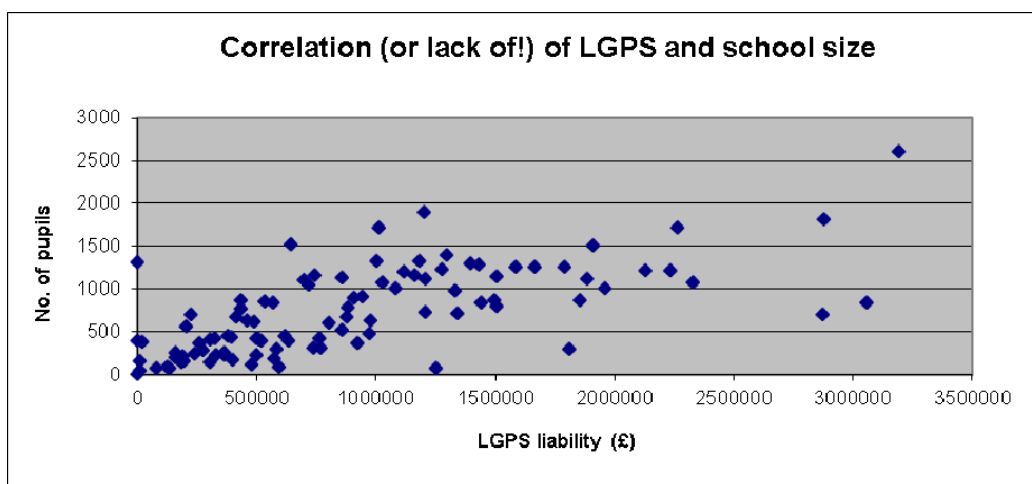


The scatterchart above shows the range of LGPS liabilities across our sample. Despite the high number of academies which saw increases in their liabilities, the average across all academies has, interestingly, actually fallen. The average for primary schools has increased by 19%, and there are some academies with very high fluctuations, with one academy's liabilities more than doubling!

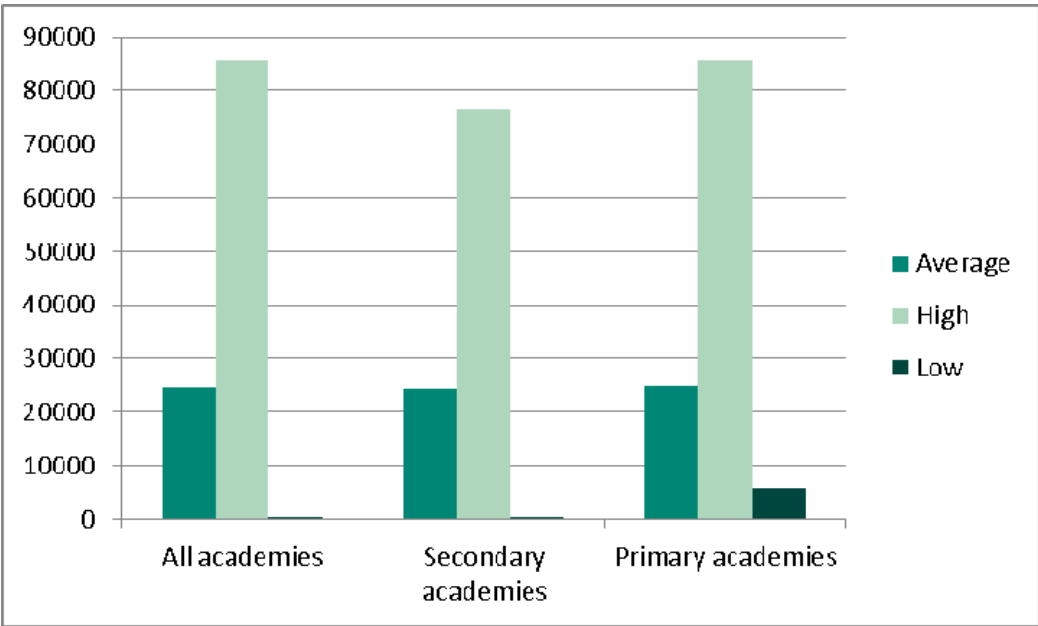
The largest liability in our sample was £3.2m, although this was for a very large secondary school with over 2,500 pupils. On first reflection, we would expect this logic to apply across the board ie. that

the largest academies would have the largest liabilities. However, this is not necessarily the case, with some academies employing far more administration staff than others, even before the detailed staff profile such as age, length of service etc. are factored in.

Whilst there is some correlation, two of the largest pension scheme deficits are for academies with less than 1,000 pupils, and some small schools of under 250 pupils have larger than expected liabilities.



LGPS liability per non-teaching staff member



The bar chart above shows that there is little difference between secondary and primary academies when you compare the ratio of LGPS deficit to non-teaching staff. Whilst the average LGPS liability per non-teaching staff member is around the £24k-£25k, some academies have liabilities of around £80k per member of staff. The lowest entries hardly make a mark on the chart, it is likely that these will be new free schools which have not inherited liabilities from predecessor schools.

Pooling?

In our benchmarking report last year we commented that a consultation had been opened on LGPS pooling, asking for responses on whether pooling should be offered to academies or made compulsory for all academies; how the pooling would work; and whether the pooling would include just academies or also maintained schools and the wider local councils. The full consultation document can be found at www.gov.uk.

The results of this consultation have still not been made available; it will be interesting to see the results of the consultation when these are made available on the DfE’s website, and we understand

that feedback is still being analysed. If pooling for academies proceeds, the LGPS liabilities that currently appear in each academy trust’s accounts are likely to disappear and become off Balance Sheet liabilities, much like the Teachers’ Pensions.

Teachers' Pension Scheme

The Teachers’ Pension Scheme (TPS) contribution rates are changing in September 2015 and, subject to final ratification in May, there will be a total contribution rate of 26%. Since scheme members will pay an average contribution rate of 9.6%, the balance of 16.4% will fall on your academy trust, as the employer. There will be an additional 0.08% administration levy charge. The existing rate of 14.1% will be payable until 1 September. The new employer rate will be payable until the outcome of the following valuation is implemented, which is expected to be April 2019.

The additional contributions due by academies represents a significant increase in pension costs of 16.3%, and could easily add over £20k to the budget of a reasonably sized primary school, or £40k to £50k for a secondary school.

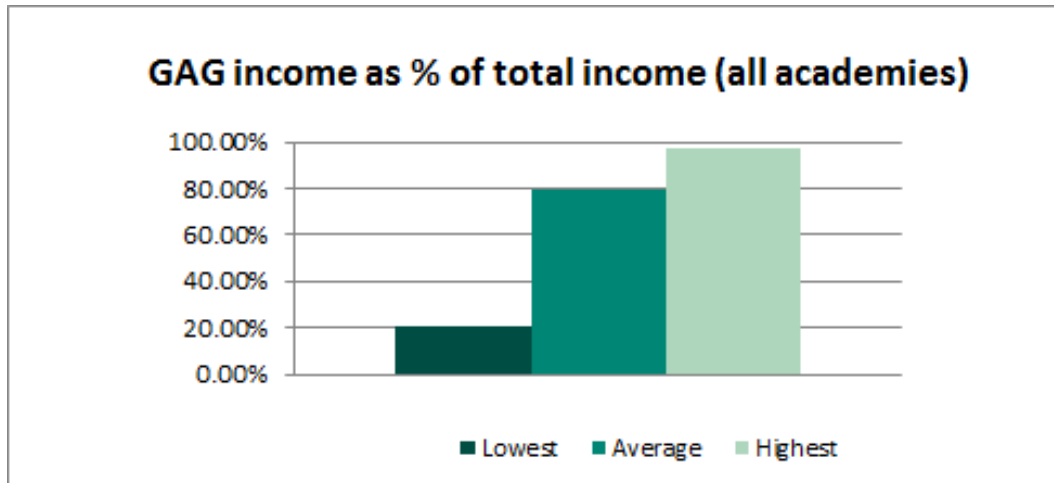


4. Income

General Annual Grant

Your key source of recurring income, as an academy, is likely to be derived from grant funding, and the General Annual Grant (GAG) in particular. However, many academies across the country do have significant other sources of income and over time we are sure other academies will explore the options

available to them. More and more of our academy clients are setting up trading subsidiaries to keep their trading activities away from the main academy, reducing the risk to trustees, and helping to minimise corporation tax and VAT liabilities.



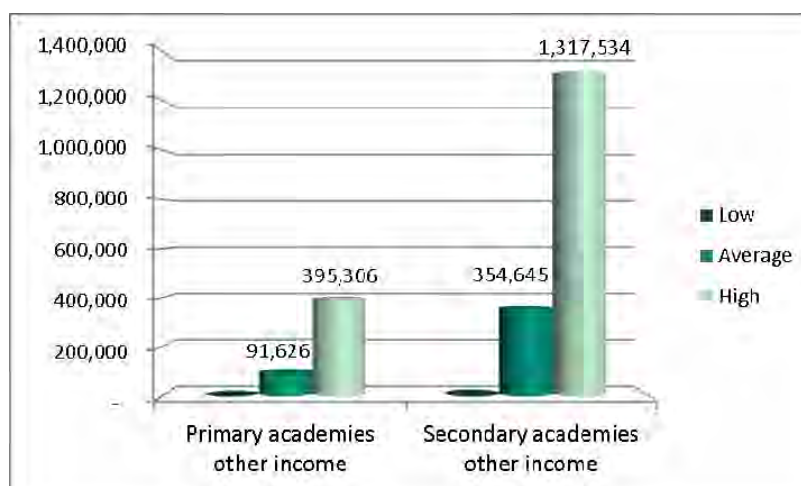
One academy in our sample derived 97% of its income from GAG (in 2013 the highest was also 97%), compared to the average of 70%. The academies with the low results generally had very large capital grants in the year.

Trustees have a responsibility to maximise their academy's income by utilising the resources at their disposal, and if your school does have fantastic sports or kitchen facilities, then it makes sense to use these to generate more funding that can be invested back into the education of your pupils. We would always recommend taking professional advice before embarking on any new activities; it is important to get the structure correct from the start to avoid complications. Many academy trusts are prohibited by their articles from carrying out what are often referred to as 'significant trading facilities' so it is worth checking your articles too.

Other income

Most academies generate some income from lettings, whether by allowing local sports groups to utilise their sports fields, or letting other local community groups rent a part of the building. We have seen a large increase in the number of academies providing services to other schools. These services have included catering, IT assistance, headteacher consultancy, and secondment of teaching and administrative staff.

Other income for the purpose of this report means all non-grant income, although excluding assets inherited in the year of conversion.

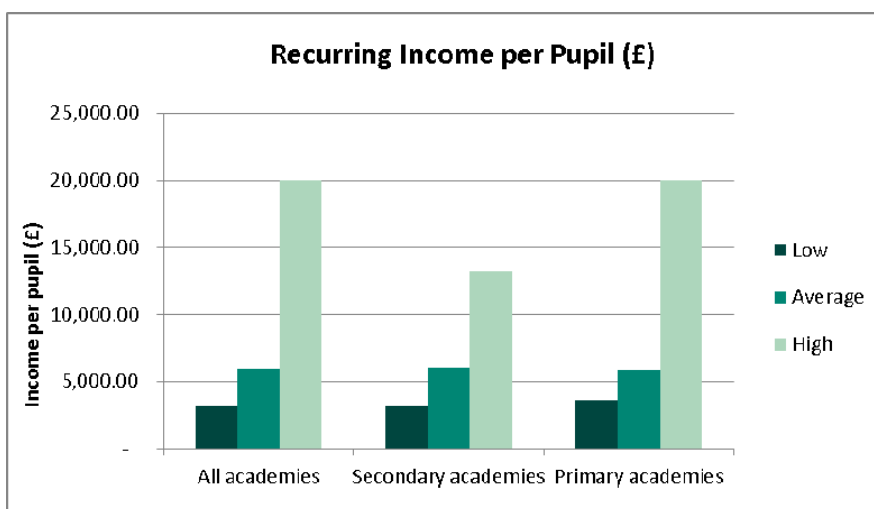


The chart on the previous page shows the huge variation in the amount of other income generated by academies. Some academies had no, or virtually no, other income. One secondary school, on the other hand, received other income of over £1.3m. Of this total, over £600k related to school trip income and £200k related to catering. The average for secondary academies of £354k unsurprisingly outweighs the primary average of £91k.

A total of 16 secondary schools generated other non-grant income in excess of £500k, and of these two generated more than £1m. Seven primary

schools generated over £200k, of which four managed over £300k.

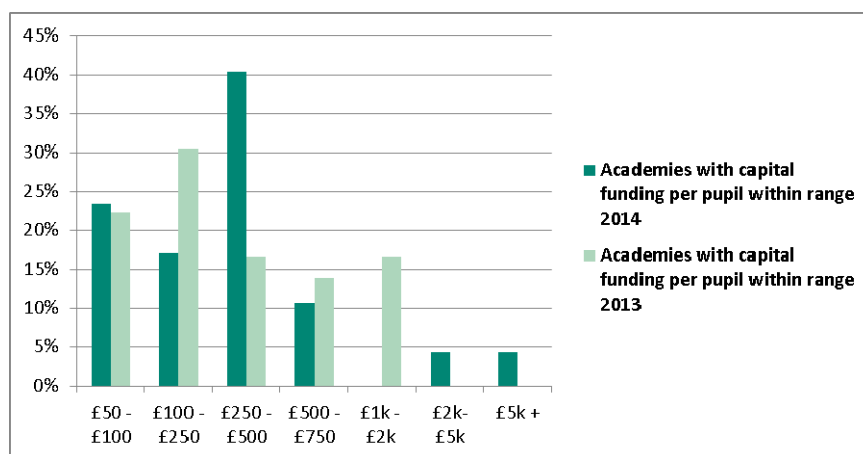
You will note the large disparity between the recurring income per pupil, visualised in the bar chart below. Academies that generate a significant amount of additional income from their own resources would be expected to feature at the top end of the scale here, and primary academies feature lower incomes per pupil than the secondary schools, as you might predict, due to their younger pupils lower educational demands.



Capital funding

Your academy's capital funding can comprise different elements: the core devolved capital funding can often be supplemented by applications for funding for specific projects through the Academies Capital Maintenance Fund (ACMF - recently replaced

by the Condition Improvement Fund (CIF)), for example. Many more of the academies we work with successfully applied for ACMF funding in the 2013/14 academic year than in the previous year.



The DfE undoubtedly have funding available to invest in schools. The closing date for applications for funding from the CIF passed in January. If your school applied you should expect to hear whether

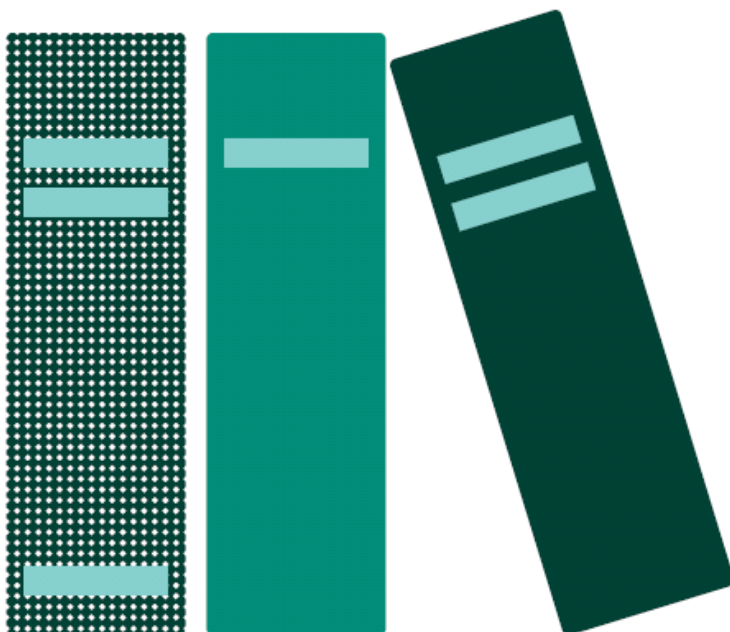
you have been successful by 20 March 2015. The EFA will not be running a second round of the CIF for 2015 to 2016, and we recommend you look out

for announcements about the funding for 2016 to 2017 in due course.

The ACMF 2014 to 2015 round one was open to academies to apply for up to two projects to tackle building condition or to expand facilities, and in total 2,015 academies applied for 3,300 projects worth over £1.4 billion. The DfE awarded nearly £400m of funding across 1,388 projects at 1,134 different academies. In round two, a total 192 academies applied for projects requesting £33m, and 101

academies were successful, receiving a total allocation of almost £16m. In general over half the academies that applied received at least some of the funding they requested.

The maximum project limit is £4m, although the average ACMF project in recent years has been below £400,000. The DfE encourage applicants to strongly prioritise their needs to keep the value of their projects down.



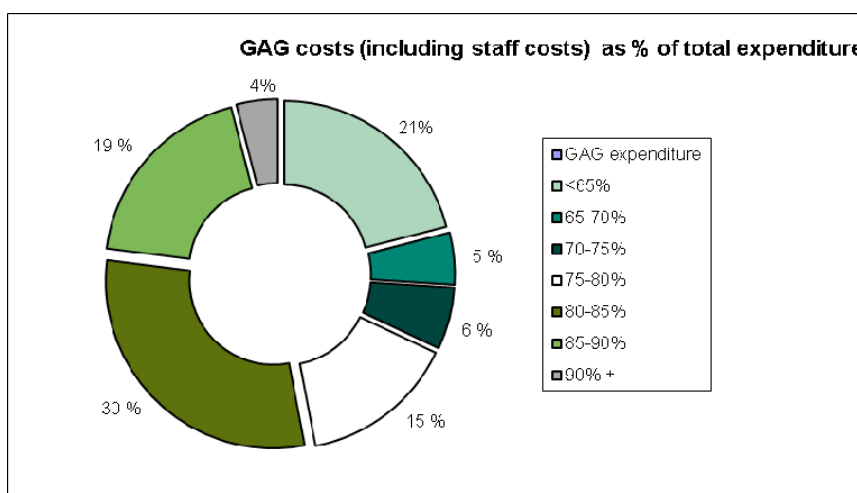
5. GAG expenditure and non-staff costs

Although we have seen earlier in this report that staff costs can be as much as 84% of total costs, it is nevertheless important that other key costs are kept under control. This is especially important if you bear in mind the Value for Money (VFM) requirements. You should ensure that you have published your 2014 VFM statement to comply with the 31 January deadline.

Academies are able to break away from the LA and find alternative service providers, often at preferential rates, and academies within MATs are often able to increase their buying power further. As your service level agreements come to an end, you should be able to renegotiate key contracts such as your catering, grounds maintenance and payroll/HR services, saving significant amounts of money in some instances.

GAG costs

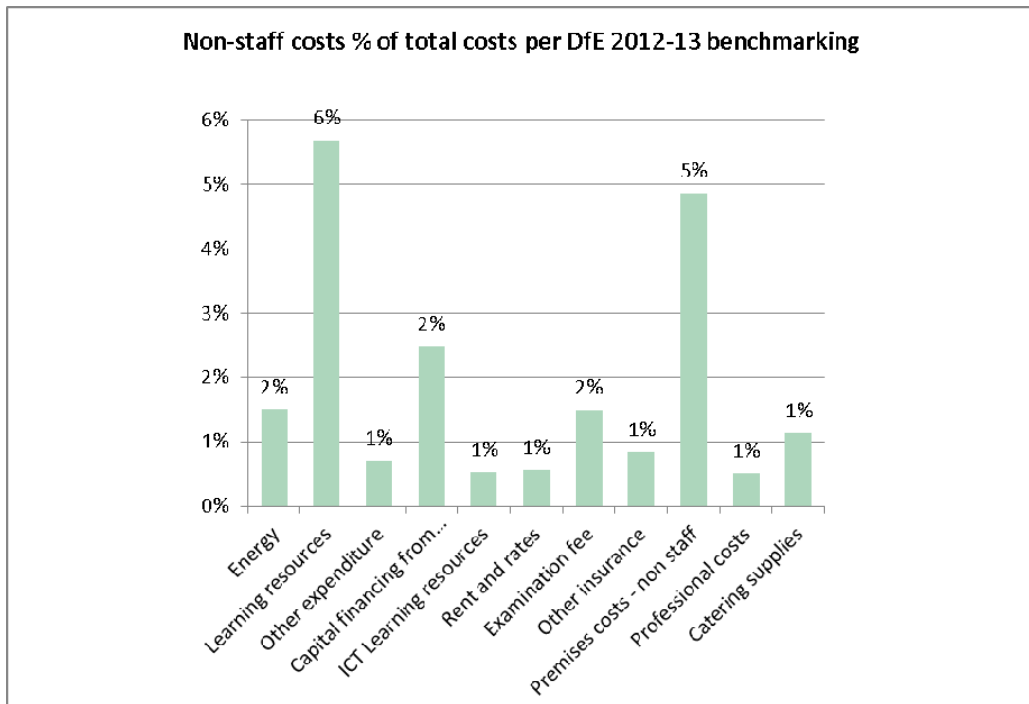
GAG income is an academy's main source of income, and it is inevitable that GAG costs are a similar high proportion of total costs. The chart below shows the variation in GAG costs as a percentage of total expenditure. Most academies fall in the 80-85% or 85-90% ranges, as they did last year, but 4% of academies incurred GAG costs representing over 90% of total costs, with the highest reported at 94%. At the other end of the scale 21% of academies reported GAG costs of less than 65% of total costs, and these schools were generally those that received significant other DfE or LA grants.



Fund accounting is a key requirement for academies, but there are undoubtedly a lot of different approaches to this. It is a difficult area to get correct and, since certain costs can legitimately be allocated to more than one fund, the degree of subjectivity means there is no right or wrong answer.

It is imperative that costs are allocated to the correct fund throughout the year, to minimise the year end adjustments in this area. You should always keep good records that clearly set out the reasons why expenditure has been treated in a certain way. For example, an individual's salary may be allocated across different funds if they spend their time working in different ways or departments.

Breakdown of non-staff costs



In Spring 2014 the DfE released benchmarking data analysing the results of academies across the country for the 2012/13 financial year. The data revealed that there is very little between secondary and primary schools, and so the chart above covers all academies. On average 6% of an academy's budget is spent on learning resources, 5% on non-staff related premises costs, and a further 2% on energy and examination fees. Academies have continued to

invest revenue funding into capital projects with, on average, 2% of budgets used to finance capital expenditure beyond the capital grant funding received.

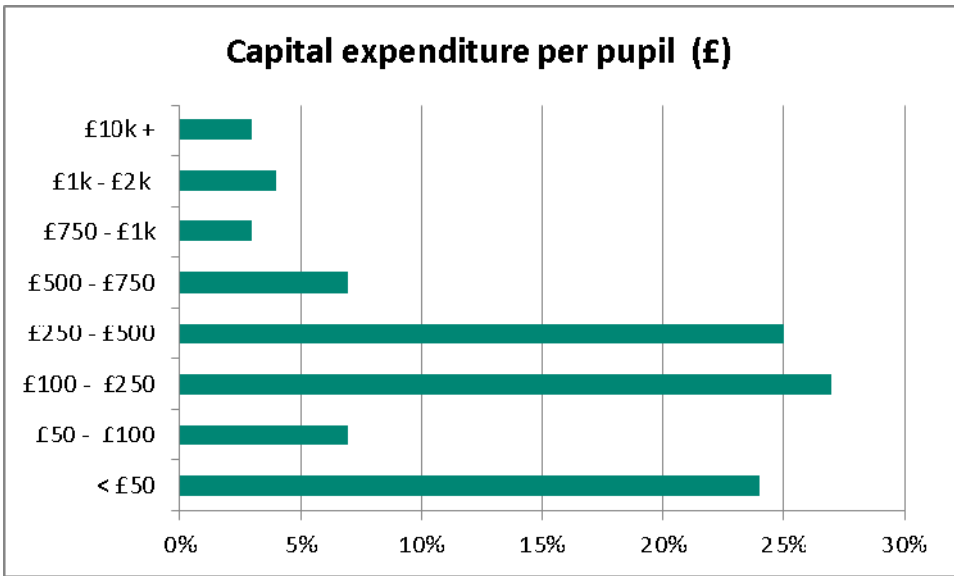
The detailed DfE results are available at <https://www.gov.uk/government/statistics/income-and-expenditure-in-academies-in-england-2012-to-2013> and contain the detail behind these figures.

6. Capital expenditure

We have reflected on capital grant income earlier in this report, commenting that the trend has been for capital grant income to rise from year to year. It follows that capital expenditure has also increased. The previous section explained that academies have recognised the importance of investing in capital expenditure and in some cases have spent significant proportions of their revenue funding on capital works.

The old problem remains that there is a significant range of approaches to capitalisation thresholds, with some academies continuing to recognise qualifying expenditure over a £500 threshold as capital, others apply much larger thresholds. We are increasingly seeing academies apply limits of perhaps £2k to £3k for a primary school, or £5k for a secondary school, although each academy's policy should reflect its own circumstances. Of course significant expenditure funded from capital grants will be treated as capital regardless of whether they are below or above any capitalisation threshold.

Our benchmarking report last year commented on the contrast between approaches to 'group purchase orders', where several assets are purchased as part of a larger asset or group of assets. The 2013 to 2014 Accounts Direction introduced further guidance in this area, recommending that academies set a group or bulk purchase threshold, and we would recommend that you should approve such a policy so that finance staff are clear on the treatment. It is often appropriate to adopt a threshold which is considerably higher than the individual asset policy, and it may not be unreasonable to consider a threshold of £10k, £20k or even higher in some instances. Such a policy means that a large order of items which are individually below the single asset threshold are captured as fixed assets, and it does seem sensible to carry forward large orders of this nature rather than writing the costs off in the year of purchase. ICT equipment is perhaps the area where this applies the most, since schools will usually buy laptops or iPads in bulk to obtain the best value for money.



The chart above compares the spend on capital expenditure per pupil across all academies. Over half of all academies spent between £100 and £500 per pupil, with an almost equal split between the £100-£250 and £250-£500 bands. The number of academies spending more than this was much less

(only 14% of the total), but this is unsurprising, and will capture mainly those academies with significant building works funded by capital grants. At the other end of the spectrum, nearly 25% of academies spent less than £50 per pupil.

		Capital spend per pupil (£)		
		Lowest	Average	Highest
Secondary academies	1	1,003	21,534	
Primary academies	12	478	10,807	

Depreciation

Depreciation can be a somewhat strange accounting concept, and the idea of capitalising the value of the school buildings and then writing these off over a period of time is hard to comprehend. Academies which own the freehold title to their buildings will usually write the cost off over 50 years, whereas academies holding a leasehold interest tend to adopt a policy of writing off over the period of the lease, usually 125 years.

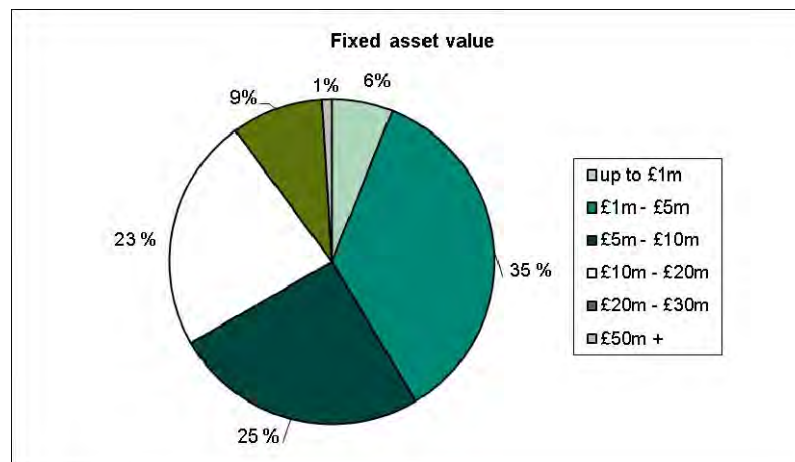
One question we are often asked is what happens at the end of the 50 or 125 year period, because by then the value of the buildings in the accounts will have reduced to nil. Clearly the buildings will still have value, and may even have increased in value, assuming they have been properly maintained. It may be that academies will need to revalue their buildings in the future. If the residual value at the end of the 50 or 125 year period could be ascertained with reasonable value it might be possible to build this into the depreciation policy, reducing or even eliminating the annual charge to the capital fund. This would be far easier for academy trustees and readers of their financial

statements to understand, but for the moment most academies suffer a significant charge each year for depreciation.

Whilst this depreciation charge will be ring fenced in the fixed asset restricted fund, away from the day to day income and expenditure of running the school, we find that trustees often feel very uneasy when they see a large deficit in the accounts, even if we are able to explain this is just due to depreciation.

Our final graph in this section shows the differential in the value of fixed assets. One individual academy school had fixed assets, mainly comprising of the buildings, of £52m compared to the average of just over £9m. Secondary schools had an average of £13m, primary schools just £3m.

Most of the academies within the 6% which reported fixed asset values of less than £1m disclosed very low fixed asset values. This was because these schools did not include the value of buildings at all, and some of these were new free schools occupying short term buildings whilst they await the construction of their long term buildings.



7. Cash balances

There has been a great deal of commentary about the cash balances held by academies over the past year. A recent newspaper article reported that academy schools are hoarding cash balances worth nearly £2.5bn – more than £550,000 per school - and draining the education sector of funds that could be spent on learning.

Comments like this are undoubtedly sensationalist. academy trusts generally cannot borrow, and need to hold sufficient cash to manage their solvency prudently. The EFA published their financial

statements for 2012/13 recently, covering a total of 3,905 academies, and these revealed that the average cash balance held was £632k, down slightly from £658k in the previous year. The cash at bank balance is, of course, merely a snapshot in time and after taking into account current liabilities which often relate to unpaid immediate costs such as supplier invoices, PAYE/NIC and pension contributions, academies have much less spare cash than it first appears, as demonstrated by the extract below from the EFA's financial statements:

The table below shows movements in average key balances by academies at the year-ends from 2012-13 to 2013-14.

Category	At 31 March 2014, average for 3,905 academies, £ 000	At 31 March 2013, average for 2,823 academies, £ 000	At 31 March 2012, average for 1,664 academies, £ 000
Property, plant and equipment	8,063	9,097	10,562
Cash and cash equivalents	632	658	221
Cash and cash equivalents less current liabilities	266	314	317
Pension deficit	622	677	760

Suddenly, after taking into account the current liabilities, the cash balances more than halve, and equate to around one month's working capital for most academies. It is also interesting to note the year on year total 16% reduction.

Many academies hold cash reserves as they save for future capital investment. Whilst most will apply for grant funding to cover the costs of major works, it is common for academies to self-fund part of the costs. The Condition Improvement Fund permits academies to take advantage of preferential loans as part of the CIF proposals, and almost goes as far as

actively encouraging them to do so to demonstrate their commitment to the scheme. Repayments are via rebatement of revenue grant funding, which effectively means that the academies have to finance the costs themselves.

These cash reserve figures are such that the majority of academies do not have immediate cashflow worries. If cash levels do begin to deteriorate it is vital that you prepare cashflow forecasts to enable you to predict any specific periods when cash is anticipated to be especially low.

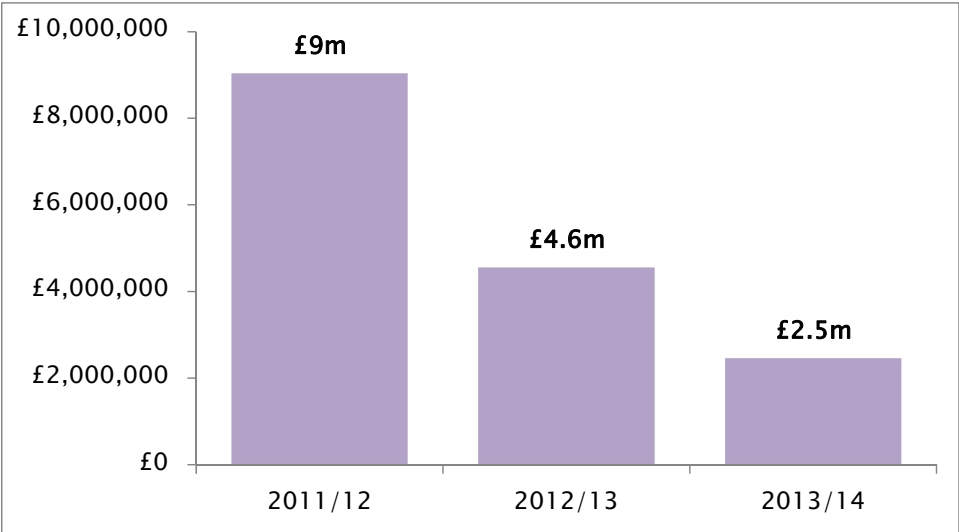
Range of cash days	Number of academy trusts		Percentage of academy trusts	
	2013-14	2012-13	2013-14	2012-13
0-30	329	984	12%	35%
30-60	741	677	27%	24%
60-100	936	702	34%	25%
Over 100	730	449	27%	16%

The table on the previous page is another extract from the EFA's 2013/14 accounts, and shows that 12% of academies held cash equivalent to less than 30 days of expenditure, and these academies need to be particularly careful. It is encouraging to see that the trend has seen cash days increase.

Future funding pressures, such as the reduction to the Education Services Grant, together with the

rising staff costs outlined elsewhere in this report will, we feel, inevitably see more academies struggle financially. Forecasts should be reviewed regularly to react to key changes.

One of our recent news articles on our website commented on the amount of emergency funding paid to academies in recent years:

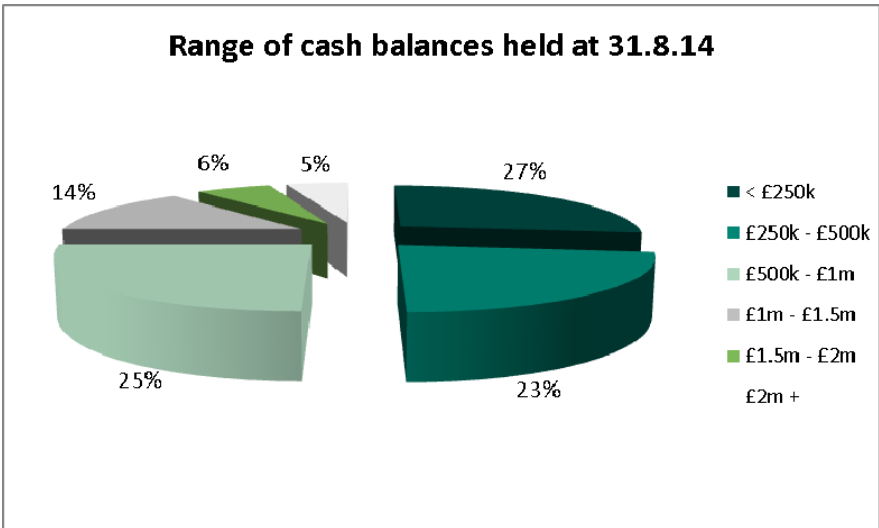


Whilst the DfE can release emergency funding to academies, which they will do in extreme circumstances, the onus is on you to manage your finances in such a way that you do not find yourselves in such dire straits. The figures above either suggest academies are managing themselves better, or the DfE are less prepared to pay emergency funds!

Despite the newspaper headlines, the EFA seems comfortable with the level of cash reserves held by academies. They have stated that where an academy trust reports a cash balance of £1m or above within its annual accounts return they will ask it to confirm that the reported cash balance is correct, and provide an explanation to support the retention of a

high cash balance at the year end. This £1m level is not a formal threshold, just a guide, and the EFA will seek explanations if the cash levels at an academy do not appear reasonable for their circumstances.

It is interesting to note that the EFA have recognised that academy trusts with high cash balances generally require little intervention compared to those with low or no balances, often arising as a result of poor financial governance. We understand that the EFA are conducting an ongoing review of academies reasons for holding cash balances, and of what could be deemed to be 'high', with a report on their findings due to be published by the end of February 2015.

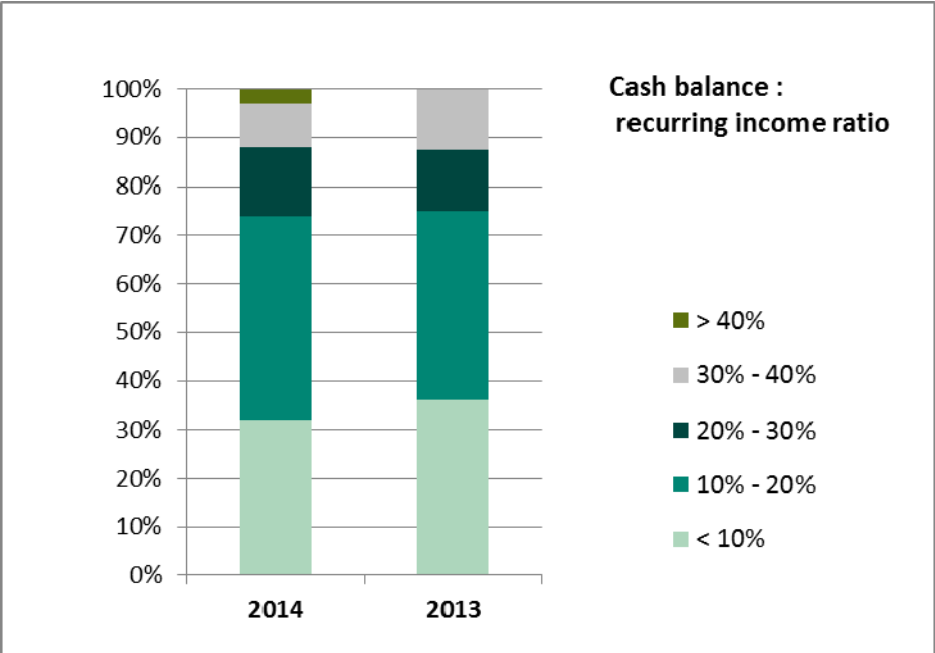


The chart on the previous page shows the split of cash balances held by academies in our sample. A lucky 5% held cash reserves of over £2m, indeed one secondary school based in Dorset held over £4.5m, and also reported an increase of over £600k in the year. This particular school held unspent GAG reserves of over £2m, and did report self-generated funds of over £1m, which have helped to build up such a level of cash.

Excluding the three schools with the highest cash reserves, the average secondary school balance was

around £900k. The highest balance held by a primary school as at 31 August 2014 was £795k, compared to the average of £253k. The academy with the lowest cash balance reported just under £5k - we hope the staff were paid in September!

Seriously, the cash balance can be distorted by the timing of payments, and some of the schools with the lowest cash balances had few current liabilities because they had paid all their outstanding invoices before the end of August.



It is interesting to compare the cash balances held to the recurring levels of income. The graphic above shows that just over 30% of academies held cash equivalent to less than 10% of their annual income, and a total of 74% had a cash to recurring income ratio of less than 20%. Just the top 3% reported cash of more than 40% of their annual income. There has been little change since last year, although the position is slightly healthier overall.

If your academy finds itself in the position where it is predicting a deficit, the EFA will expect you to produce a recovery plan. If the EFA are not content with the plan put in place they could impose a Financial Notice to Improve (FNtI), which would then give your academy a limited period of time to make the required improvements. Typically the EFA will seek to lever struggling academies into an existing multi-academy trust, and there has been a significant amount of consolidation in the past year.

Whilst control over day to day cash rests with the school business manager, chief financial officer and accounting officer, trustees should remember that as a body they have a legal responsibility to ensure that they optimise the financial return on any surplus cash balances, without putting the academy's funds at risk.

Monitoring cashflow carefully helps to highlight the ebbs and flows of cash, and to highlight periods of the year where there may be surplus balances that can then be invested. One way of maximising funds is to introduce a 'sweep' account where surplus funds are automatically transferred to a higher interest bearing account.

As discussed elsewhere in this report, academies are struggling to recruit and retain trustees generally, finding trustees with specific financial skills is harder still.

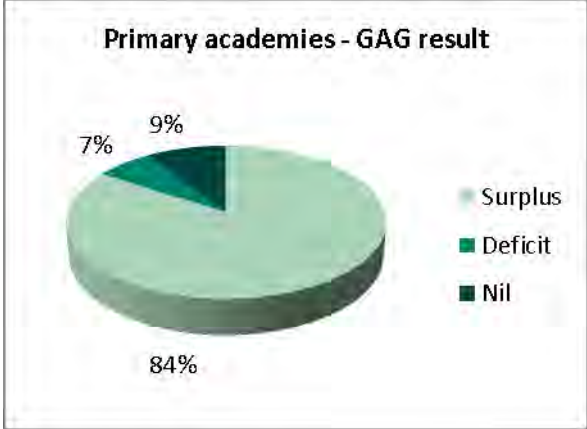
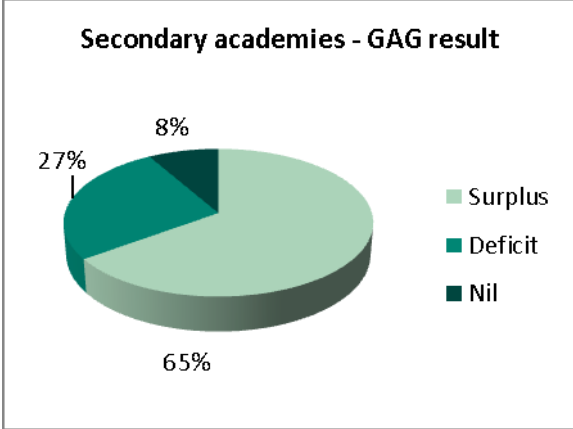
Cashflow

When it comes to monitoring cashflow, what should an academy be doing? Here are some of the key points to consider:

- proper use of the purchase ledger can enable you to post your purchase invoices and review an aged creditor report to see which invoices are due, and how old these are. A management decision can then be made to pay certain key suppliers earlier, whilst there may be other suppliers who are happy to negotiate extended credit terms;
- If you are using the special section 33 VAT reclaim scheme then you have the flexibility to process reclaims periodically, as long as each claim covers whole calendar months. We have witnessed some academies make only one or two reclaims across the whole academic year, but we would recommend that you make your reclaims at least quarterly, and indeed monthly if cashflow is particularly tight;
- if your academy generates significant sources of other income, such as from lettings, you should engage someone with the task of regular credit control, to ensure that invoices are paid within their due dates. Outstanding balances should be followed up immediately they become overdue;
- monitor actual spend against budget regularly throughout the year. The Budget Forecast should not just be an Annual Return that is submitted and then not looked at, reviewing actual spend against budget can highlight areas where you need to tighten up. In our experience, most academies are pretty good in this area, but there is always room for improvement;
- you can predict with reasonable certainty when capital expenditure is likely to be required, and a lot of this may take place in the summer break. However, capital expenditure should be considered alongside cashflow forecasts to ensure that such expenditure takes place at times of the year when cashflow is strong.



8. Surplus or deficit



Elsewhere in this report we have commented on the budget pressures that academies are increasingly facing. But how did academies fair during the 2013/2014 year?

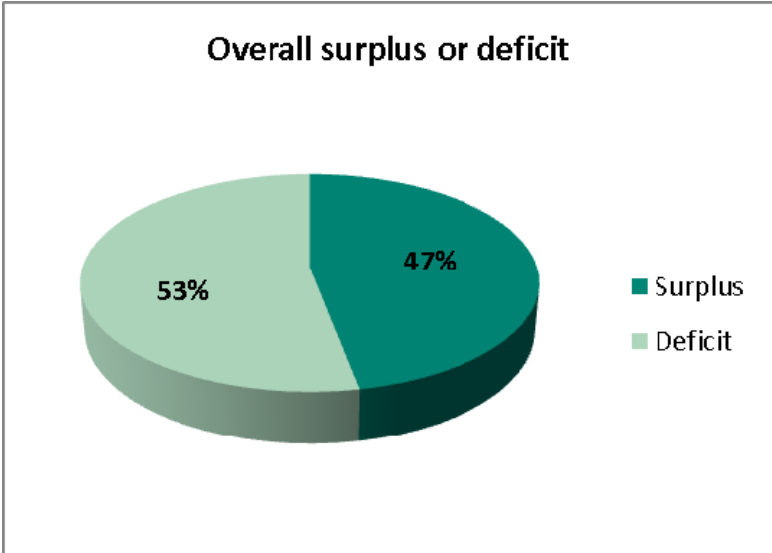
Despite budget pressures, the majority of academies did achieve a GAG surplus for the year to 31 August 2014. Many of these academies reported overall deficits owing to factors such as depreciation, but since these are non-cash movements that do not directly impact on the day to day operation of the school, we feel it is better to first concentrate on GAG.

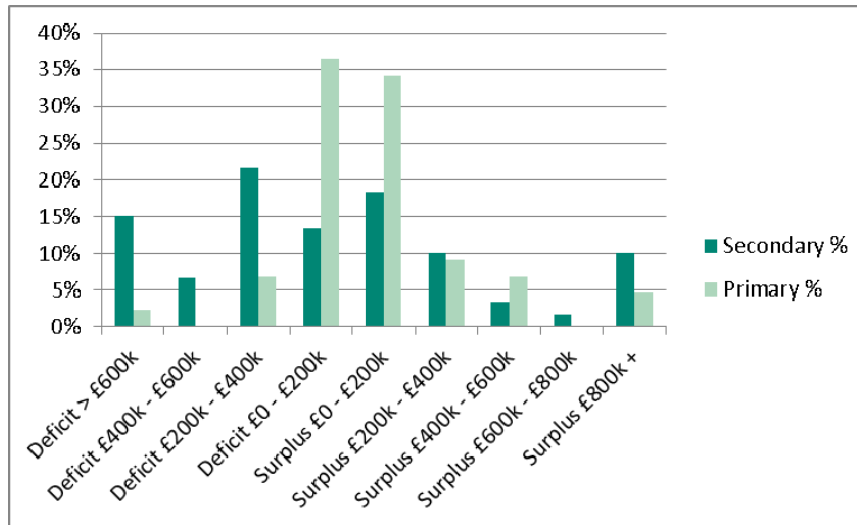
Interestingly, primary academies fared better than secondaries, with 84% of primaries achieving a GAG surplus. Conventional wisdom might suggest that secondary schools are better placed to implement management structures and finance teams which provide them with a better chance to maintain financial stability, so this statistic is a little surprising.

The 8% of secondary academies and 9% of primary academies which reported a break-even position on GAG did so after including transfers in or out of GAG. Since academies should not show a deficit on GAG, some academies have included transfers from unrestricted funds to cover a deficit, leaving the shortfall on unrestricted funds.

When we took a look at the overall result, including capital grants and depreciation, the chart below reveals a different story, with over half of all academies reporting a deficit. With depreciation charges of several hundred thousands of pounds in some cases, this is no surprise.

The range of different results is interesting. It can be assumed that the academies reporting deficits of over £600k mainly suffered these results due to depreciation. Secondary schools fair worse than primaries because they would generally have more valuation buildings, and therefore higher depreciation charges.

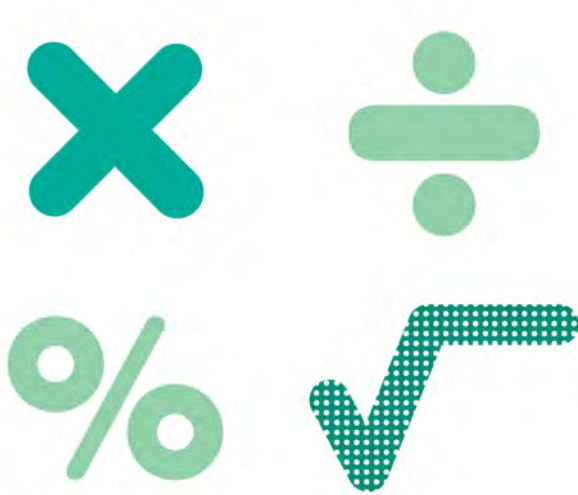




At the other end of the spectrum 10% of secondary academies and 5% of primaries enjoyed surpluses of over £800k, even after depreciation. These academies generally recognised significant capital grant income in the year, and so the surplus related to income recognised in advance of the related costs, which will follow in future years via depreciation. With higher depreciation charges to come, these academies are likely to post deficits in the coming years.

What this demonstrates is that reading the financial statements of academy trusts is far from straight forward, even if you have some financial knowledge. It is still necessary to delve into the detail to get a full understanding of the academy's financial position and results, and there is little wonder that academy trustees can sometimes find the finances difficult to understand.

It will be interesting to see if the ratio of surpluses to deficits changes in the coming years as the pressure on budgets intensifies.



9. Governance and audit findings

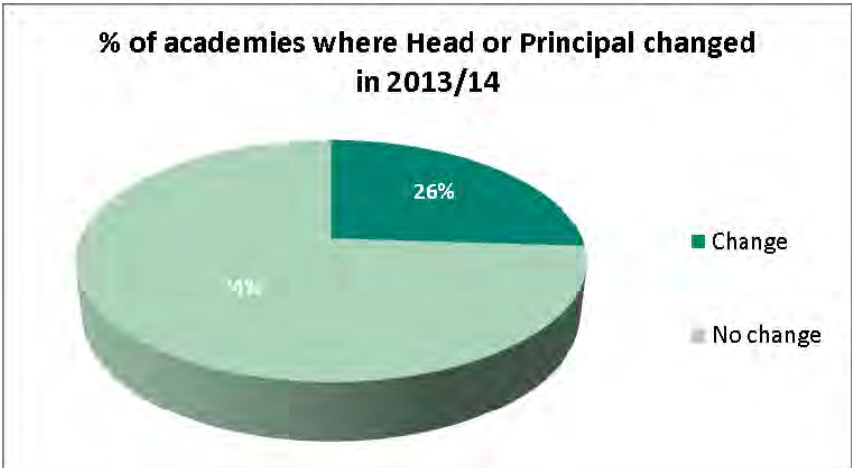
When you submitted your 2013/14 financial statements you were required to complete an Accounts Submission Form, a form which confirmed matters such as changes to trustees and audit management letter points.

The EFA introduced this cover form because they use key information from the accounts and the auditor’s management letters to understand the significant issues being faced by academies. The new form allows the EFA to assess the information on risk areas at the point of submission, allowing them to direct their resources towards supporting academies facing the greatest risks.

We thought it would be useful to take a look at how the academies in our sample fared in a number of these and other similar areas.

Changes in staff

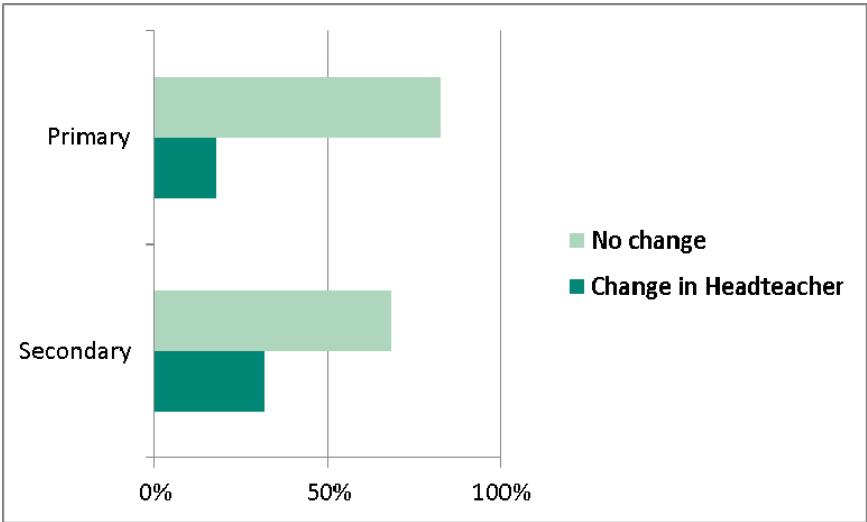
We have noticed a trend whereby a number of our academy clients have seen either, or in some cases both, their headteacher and school business manager (or equivalent) leave the school in the last couple of years.



During the academic year 2013/14 around one quarter of the academies in our sample saw their headteacher or principal leave. There will be a number of reasons for these changes, sometimes a headteacher retires, and sometimes he or she will move on to another school, but there are also instances where headteachers leave after

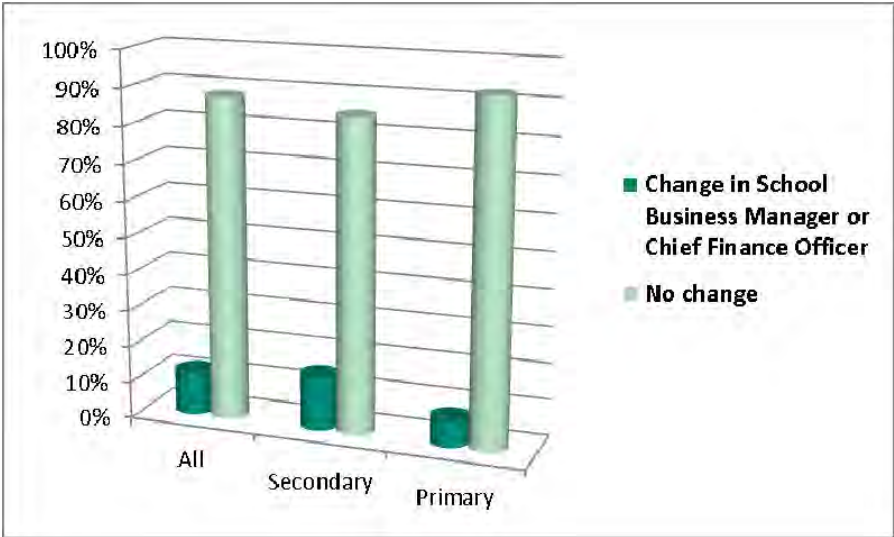
unfavourable Ofsted inspections or negative educational results.

There is also a contrast between secondary and primary schools, with a far higher proportion of secondary academy headteachers leaving their posts.



It is a similar picture when we look at the changes in finance staff, although the changes here have been less frequent. Again there have been more changes at secondary academies. We have witnessed a number of finance officers and school business managers leave their positions within two years of

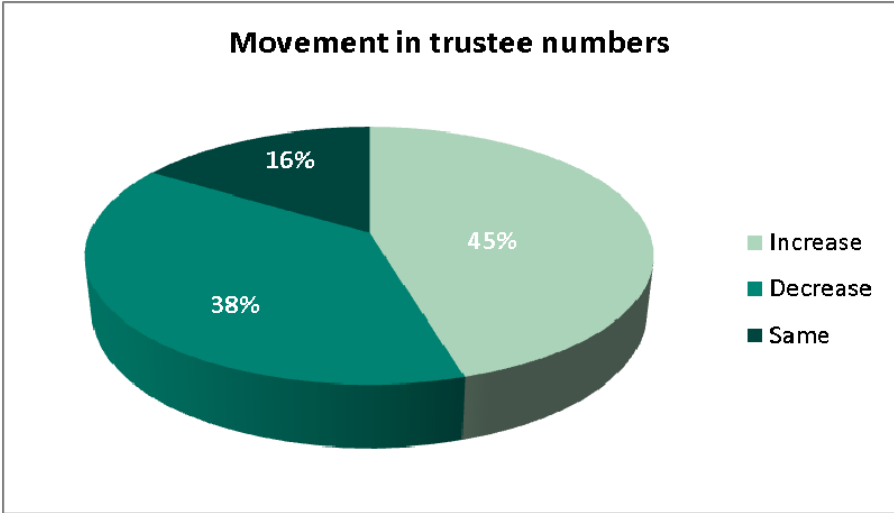
their school converting. Anecdotal evidence suggests most are leaving for reasons other than specific pressures arising from academy status but we believe the number of changes may be too much of a coincidence!



Trustee changes

The position of an academy trustee is a very responsible one, and much more so than the role of a traditional school governor. There are added

complexities and requirement to comply with legislation ranging from charity law, company law, EFA financial handbooks and Accounts Direction.



We reviewed the financial statements of each of the academies in our sample, and noted the number of trustee appointments and resignations during the course of the 2013/14 year, looking to see whether there was a trend.

trustees saw new appointments and resignations which cancelled each other out.

Unsurprisingly, most academies reported movement, and even the majority of the 16% of academies which reported no movement in the total number of

We expected to see that many academies had reported reductions in trustee numbers, so we were surprised to see that the number reporting increases and reductions in trustee numbers were fairly similar. In fact, the number showing an increase was slightly higher.

Whilst as interesting as it is, however, it is difficult to read too much into this. Trustees change naturally as they come to the end of their term of office, and sometimes several trustees can leave or be appointed at the same date.

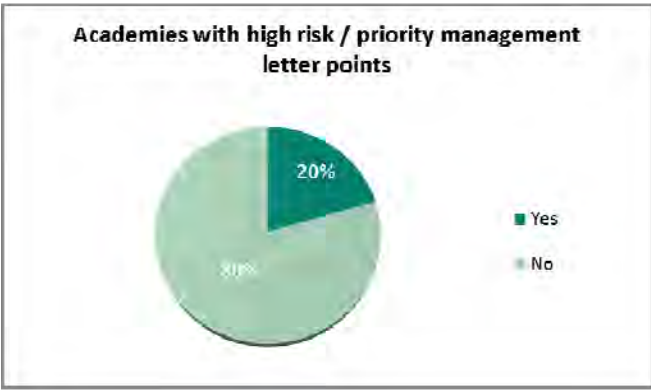
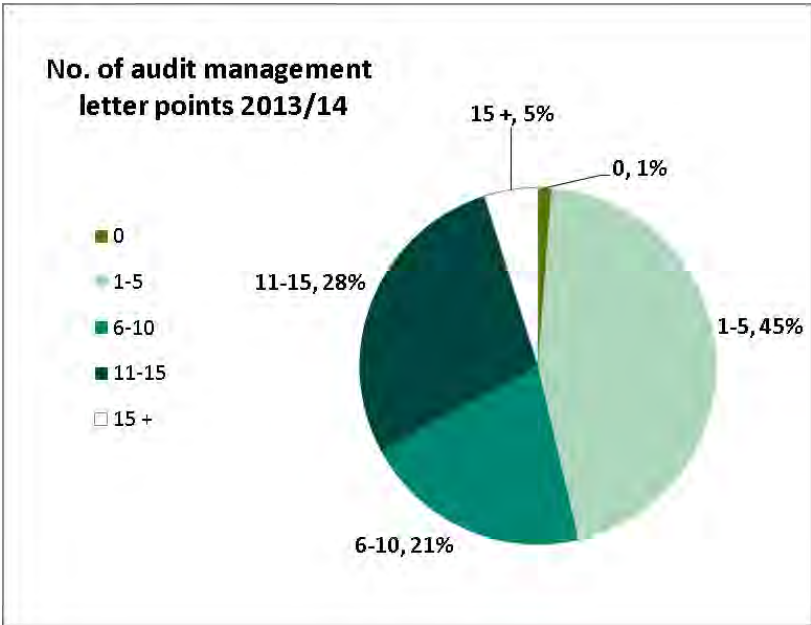
As we have said, it is sometimes difficult to find a trustee with financial skills, perhaps because finance professionals feel, and rightly so, that more would be expected of them. Their concerns arising from this may stem from the difficulty in making key decisions when you are not involved in the day to day activities. Nevertheless, many of our academy clients have trustees who are accountants in practice, business managers at other schools, or who work in the banking industry, so these individuals are out there.

The EFA are particularly keen to harness the skills of accountants to the benefit of the large multi-

academy trusts (MATs). They wrote to many of the top national firms of accountants and auditors last year inviting them to encourage individuals to become involved as pro-bono non-executive directors. Their involvement would be to provide strategic advice on how the trust is run overall, provide robust independent challenge to the executive and Finance Director, and to play a role in the hiring (and firing) of senior staff. A number of our UHY partners are volunteering for these positions.

Audit management letter points

The Accounts Submission form asked academy trusts to confirm the number of management points included by their audit in the management letter, and to indicate the number of high risk or priority points.



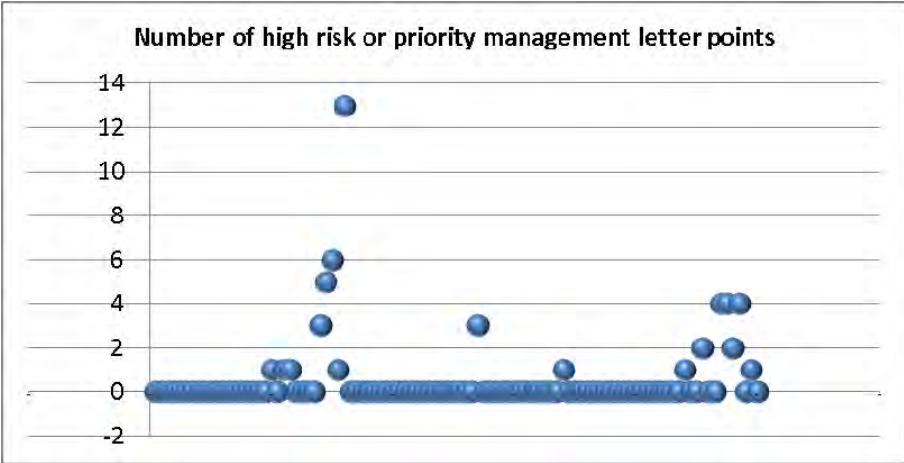
Our academy clients often ask "How do we compare to other schools?" when they see their management letter, and it is perhaps understandable that they do not wish to be seen as below average. Naturally we have only seen management letters for our own clients, so the chart above is based on a slightly reduced sample size. It is rare for academies to have no recommendations in their management letters, although one of our academies did manage just that. The high majority of academies, almost half, had fewer than five recommendations. Although significant numbers, often new converters, had six to ten or even 11-15 recommendations. 5% of the academies have some work to do, with over 15 recommendations, the highest being 21.

Fortunately, only 20% of our academies had any high risk or priority points. These covered matters such as:

- significant improvements required to fund accounting;
- failure of the purchase payment system to stop duplicate payments (fortunately the academy involved recovered the considerable sum, paid twice, from the supplier);
- poor controls over invoicing, resulting in a long backlog of invoices for services provided by the academy's headteacher to other local schools;
- significant payroll payments made without Board knowledge or approval;

- failure to follow capital and revenue tendering procedures;
- connected party transactions with a profit earned;
- VAT incorrectly reclaimed; and
- trustees being paid for non-employment services.

Where there is a need for improvement in the financial controls and systems within an academy, our results show that this often transcends across all areas. Many of the academies with one high priority recommendation had several.

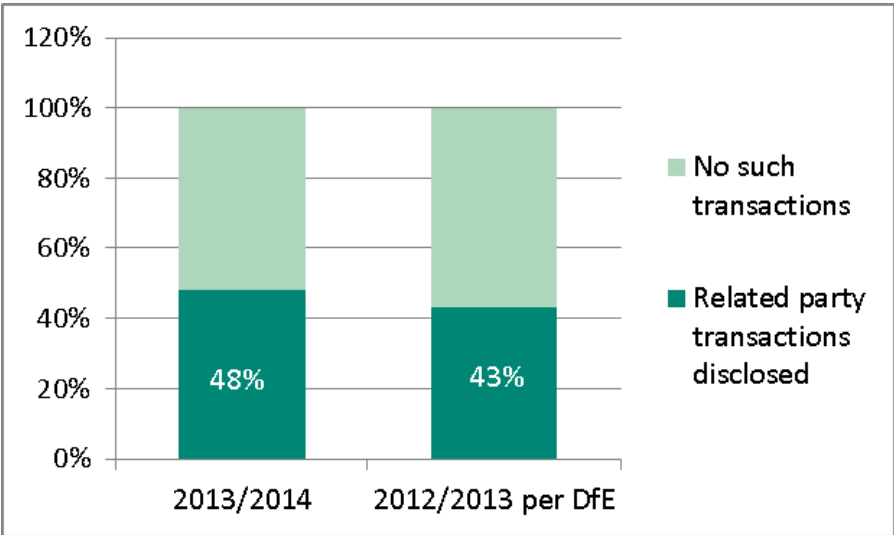


The scatterchart above reveals that one academy had 13 high risk points, rather more than the next nearest with six. The data is grouped together by our individual offices, so one factor to be considered is the approach by different audit teams and audit partners. The clusters in the graphic do seem to suggest that this is a consideration. With hundreds of different firms involved in auditing academies across the country, even before different offices are

considered, it is clear that there will be many different approaches.

Related or connected party transactions

The EFA have increasingly been concerned with connected party transactions in the academy sector, and it vital there is transparency in this area to demonstrate that trustees are not benefitting unduly from their positions, and that funding is used for the benefit of the students.



The chart above shows that in 2013/14 slightly more academy trusts reported no related party transactions in the year to 31 August 2014 than academies disclosing that they had engaged in such transactions.

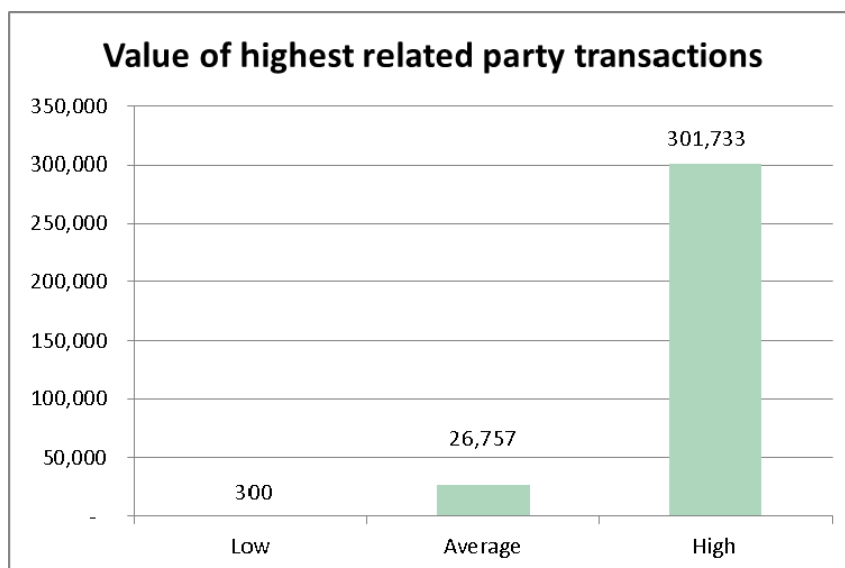
The picture for 2012/2013, based on information released by the EFA covering over 2,000 academy trusts which filed accounts that year, is similar although 5% fewer academies had related party transactions.

The higher numbers for 2013/14 may well be as a result of the additional guidance provided by the EFA on their expectations for related party transactions.

It is worth noting that the DfE released information last year confirming that in 95% of cases the disclosures made by trusts were sufficient, and that their follow up work on the other 5% (just 54 academy trusts) revealed that the vast majority of

these trusts were compliant with the EFA's accountability framework. Only 17 trusts (1.7%) were found to be irregular and/or improper. Therefore, whilst the EFA will continue to monitor related party transactions carefully, and it is right that they do so, this does not appear to be a problem for the vast majority of academy trusts.

Within our client base, and we suspect this is consistent with other academies across the country, most of the disclosed related party transactions were concerned with matters such as transactions with a connected PTA charity or teaching school alliance, with few transactions taking place with trustees' commercial companies. This is perhaps unsurprising; following the introduction of the not-for-profit requirements in the Academies Financial Handbook many of our academies decided to avoid such relationships altogether.



The chart above shows that where related party transactions were disclosed, the average value was £26k. One trust reported a transaction of over £300k, but this was a special school paying a related company with common directors, which provides social care services to young people with complex needs.

Are you disclosing your business interest register?

You should, by now, be disclosing your register of business interests on your website(s), this was a requirement of the Financial Handbook from 1 September 2014.

In addition to maintaining an up to date register, you must publish the 'relevant' business interests of members and trustees on your website. Unfortunately, the EFA's guidance is not as clear on

what is 'relevant' as it could be. Relevant may have a different definition to each trust, but as a minimum the following should be disclosed:

- all directorships, partnerships and employments with businesses that provide goods or services to the trust; and
- trusteeships and governorships including at other educational institutions and charities irrespective of whether there is a trading relationship with the trust.

This did seem like a strange development when it was introduced. Where goods or services are provided these are disclosed in the financial statements anyway, albeit with a time delay until these are published, and it seems unlikely the trustees would be personally benefitting from relationships their academy has with other schools or

charities. For full transparency the EFA could have requested that all relationships are disclosed, regardless of whether transactions were actually taking place, and perhaps we will see this introduced in future Financial Handbooks.

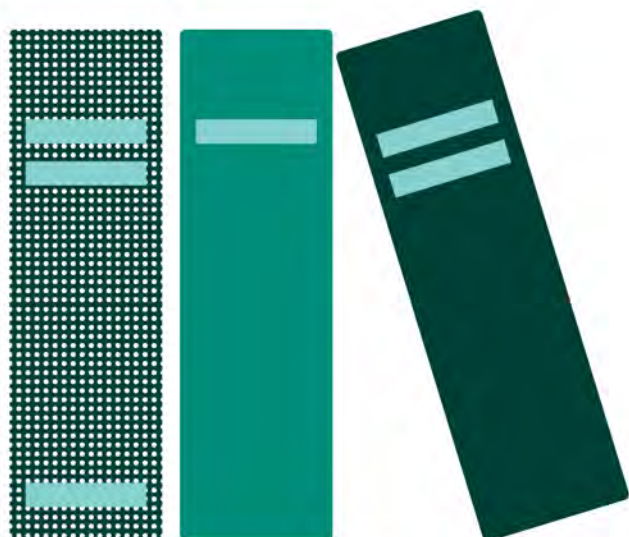
The internal unpublished register should, of course, extend beyond trustees and members, and should capture individuals on Local Governing Bodies in MATs, members of the senior management team, and close family of anyone deemed to be a connected party. It is vital that your chief finance officer maintains a complete and up to date register so that he/she can identify any potential issues.

UHY's final thoughts

We hope you have enjoyed reading our commentary and that our benchmarking report has helped you to see how your academy compares to others. Please do use the average data sheet on pages 30-31, and ask us if you would like us to plot your data onto graphs.

Benchmarking is most useful, of course, when you are comparing like for like, so please do remember to look at the DfE benchmarking data for 2013/14 when this is released later in the year. This will allow you to search for other local academies, or schools of a similar size to your own and then compare these to your own school.

We are nearly halfway through the academic year already, and before you know it, the year end will be upon you and it will be audit season once again. Maybe by then many more of you will be UHY clients, we would be delighted to have the chance to talk with you if we haven't met with you already.



Benchmark your academy

Use this sheet to compare your own school's data with the averages from our sample. Alternatively, contact your local UHY academies contact who can plot this information on your behalf from your annual accounts.

Your academy	All academies	Secondary academies	Primary academies
Non financial data	Average	Average	Average
Number of teachers	46	66	16
Number of admin and support staff	39	52	21
Number of management staff	6	7	4
Number of pupils (from website)	724	982	336
Pupil to teacher ratio	18	15	23
Income			
Total Recurring Income	4,512,864	6,246,772	1,912,002
% of total income	100%	100%	100%
Grant income	3,760,675	5,213,929	1,580,795
Grant income % of total income	85%	84%	86%
GAG income	3,690,459	5,233,997	1,375,153
GAG % of total income	80%	82%	76%
Other income	249,437	354,645	91,626
Other income % of total income	5%	5%	5%
Capital grant funding	203,188	302,379	56,882
Capital grant funding % of total income	8%	12%	3%
Capital grant funding per pupil	577	920	158
Expenditure			
Total expenditure	4,416,613	6,212,194	1,723,243
% of total expenditure	100%	100%	100%
Staff costs	3,153,226	4,424,467	1,246,365
Staff costs % of total expenditure	71%	70%	72%
Teaching and educational support staff costs	2,671,201	3,748,709	1,054,938
Teach & ed support staff % of total staff costs	84%	83%	84%
Support/Non-teaching staff costs	530,232	731,776	227,916
Non-teaching staff costs % of total staff costs	18%	17%	18%
Supply teacher costs	72,215	88,696	47,494
Supply teacher costs % of staff costs	3%	2%	0
GAG expenditure	3,737,833	5,142,487	1,269,049
GAG % of total expenditure	70%	76%	61%
GAG surplus	289,031	262,926	328,187
Total surplus	146,599	118,492	188,759
Total surplus ratio (% of total income)			
Occupancy costs	108,200	152,134	45,842
Occupancy % of total expenditure	2%	2%	2%
Light and heat costs	58,980	86,127	20,296
Light and heat % of total expenditure	1%	1%	1%
Buildings and grounds maintenance	125,275	176,420	48,557

Maintenance % of total expenditure		3%	3%	3%
Cleaning and refuse		39,838	58,328	13,028
Cleaning and refuse % of total expenditure		1%	1%	1%
Educational supplies and services		153,803	219,502	55,253
Educational supplies and services % of total		3%	4%	3%
Examination fees		56,119	93,205	14
Examination fees % of total costs		1%	1%	0
Staff development		19,431	24,732	11,275
% Staff Development of total costs		0%	0%	1%
Governance costs		71,405	75,871	64,817
% governance costs of total		3%	1%	6%
Technology costs		48,693	71,650	15,729
% technology costs as % of income		1%	1%	1%
Income per pupil		5,987	6,062	5,880
Balance Sheet				
Fixed assets		9,264,523	13,220,565	3,330,461
Net assets		9,062,801	12,986,559	3,177,164
LGPS deficit as at 31 August 2014		918,730	1,254,217	415,500
LGPS deficit as % of Balance Sheet net assets		25%	153%	-166%
Movement in LGPS in the year (+ is increase)		233,253	228,345	240,000
Capital expenditure in the year or period		292,236	378,882	162,266
Capital expenditure per pupil		793	1,003	478
Cash and bank balances held		733,273	1,053,337	253,177
LGPS employers contributions		122,253	162,369	62,080

What our clients say



UHY Hacker Young are focused on, and flexible to, our needs. They listen to our concerns and provide an excellent quality of service and technical understanding in response.



Judy Hunt, James Brindley School



Academies need a strong working relationship with their accountants if they are to succeed, and we have achieved this with UHY Hacker Young.



Linda White, Warren Road Primary School



We have worked with UHY since we were first established in 2010. UHY continues to provide a top rated service for us as a large academy Trust as it did during our infancy. The technical support the team have provided me, as a newly established Finance Director, has been invaluable. At all times answers to any questions have been given without delay and UHY take time to provide regular updates to aid my requirements before I even know I have them.



Lee Miller, Thinking Schools Academy Trust



We have worked with UHY over many years and have never regretted that decision. They have always been friendly, helpful and extremely efficient, and we would not have wanted to convert to an Academy with anyone else.



Caroline Pearce, Queens' School Bushey

“

We have been working with UHY since our conversion to academy status and are very happy with our relationship with the company and the support that we have received.

”

Bill Tindale, Onslow St Audrey's Academy Trust

“

We have an excellent relationship with our UHY team of high quality staff, who are always helpful and come back with the answer to any queries asap, which adds real value for us.

”

Marie Black, St Francis Xavier's College

“

There was mutual respect between the UHY team and members of the school which was enhanced by the knowledge, understanding and manner of the team members. Their consideration of the daily needs of the children, staff and the school as a whole were noticeable and very pleasing.

”

Marjorie Bell, Webster Primary School

“

UHY have provided an extremely good quality of service, supported by a great technical knowledge. Everyone I have met within my UHY team has been very approachable, helpful and always responds quickly. I really value being able to ask them any question openly across areas that I don't understand. The team's monthly visits have been an immense help and my knowledge and understanding has greatly improved as a result.

”

Jacqui Williams, St John's Primary Academy

About UHY Hacker Young

We work with numerous clients in the education sector, including academy schools, free schools and independent schools. Our education specialists have years of experience in the sector and have a particular expertise in academy schools - our offices around the UK now act for **195** academies and free schools, including the first special needs school to convert to an academy. As such, we understand that independence from your LA is likely to require improved internal controls for your school's finances.

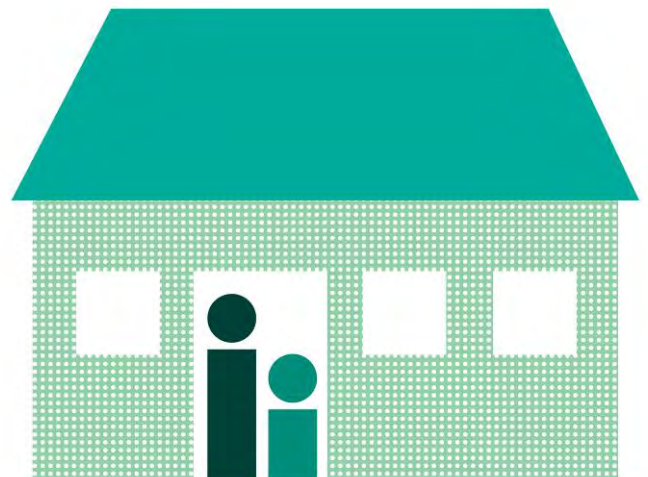
UHY are a Top 15* firm of accountants and auditors. Our academy client base includes old style sponsored academies, new converter academies, and MATs. As the expansion of the academies programme continues our number of clients in this rapidly changing sector has increased significantly.

Our experts enjoy the challenge of this exciting and rapidly changing sector. We keep ourselves up to date with all the EFA's requirements so that we can keep our clients abreast of regulatory and other changes. We also prepare regular Academy Schools Updates on topical issues that affect academies.

Our services to academy schools and free schools include:

- information to be considered in the academy conversion process;
- year end statutory audit and Academy Return completion;
- preparation of your accounts in line with the EFA Accounts Direction;
- Teachers Pension End of Year Certificate (EOYC) audits;
- advice in connection with the Academies Financial Handbook;
- internal audit and monitoring visits to provide assurance on systems and controls;
- VAT reviews and advice on the best method for academies to reclaim VAT;
- advice on the best structure for commercial trading activities; and
- payroll and employment tax issues.

Our demonstration of our experience to date within the education sector, and specifically with academies, has led a number of established academies to leave their previous adviser to benefit from our breadth of specialist knowledge and support.



* Latest Accountancy Magazine league table

Where does your academy fit within the results?

If you would like more information about this report, or would like to understand more about how your school fits within these results, please speak to your local academies expert, below:



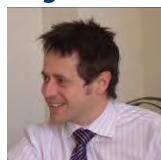
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