

Multi-academy trusts explained

Our review and insights
July 2021 update



Helping you prosper

Over the next few years, the number of academy schools will continue to accelerate rapidly and the Department for Education (DfE) are clear that the MAT is the preferred model.

Many schools will be considering joining a MAT, forming a MAT or even transferring from one MAT to another. It is vital that schools, their governors, trustees and school management teams understand the MAT structure and what this can mean for their individual academy. So let's start at the beginning.

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. Two or more schools form a single MAT, which has overarching responsibility for their governance.

The MAT is accountable for the performance of each school in the group, although each school can still have their own local governing body (LGB) which operates subject to agreed delegation of powers from the MAT.

A master funding agreement with the MAT, and supplemental funding agreements with each individual school, is signed by the Secretary of State for Education.

If your academy is part of a MAT, all staff will be employed by one employer meaning the additional reporting responsibilities required of an academy can be shared.

Why form a MAT?

There are many benefits to operating as a MAT. We asked our academy clients what the key factors in their decision making to become a MAT were. The most popular responses we received included:

- Support: the formal structure allows more school-to-school support so that weaker or smaller schools can benefit from the experience and skills evident in stronger or larger schools. This was a key element of the recent Budget, with the MAT structure facilitating access to the very best leaders to hundreds more pupils.
- Economies of scale: MATs encourage economies of scale in shared services such as finance and administration meaning the academies within the MAT can often negotiate preferable contracts and services, improving value for money. In the current difficult financial climate of the education sector any saving that can be gained through bulk buying has to be a positive.

- Jump before you are pushed: some schools join a MAT of their choice as a defensive mechanism; both local authority schools and existing single academies can be forced to join a named MAT if they have poor educational results or experience governance or financial issues. This worry can lead schools to opt to join a MAT of their choice, avoiding the risk of being placed with a MAT which they may not be as aligned with or able to work as closely with.

Examples of economies of scale in a MAT

Contracts can be negotiated at trust level

We have known MATs to save in excess of £10k from re-negotiating payroll contracts where each school used a different outsourced payroll provider. Perhaps the MAT could even take payroll in-house and reduce costs further still?

Cost savings can be made with shared finance staff

A MAT may need to employ just one finance director and school business manager, with lower paid finance officers or bursars responsible for day to day functions at local school level. If full centralisation is adopted a MAT might only need three or four finance staff where, normally across seven or eight schools, there could be three or four times that many employees.

Senior management time is freed up

The central trust function deals with the year end accounts and liaising with auditors, freeing up local heads of school to concentrate on educational matters at their school. New academy converts are often surprised at how much time their headteacher has to spend on governance matters such as this.

Knowledge and best practice can be shared

At an educational level, heads of department or year, for example, could share best practice or take it in turns creating lesson plans. The trust could employ a teacher specialising in a particular subject at trust level, and this individual could then spend time at each academy.



There must be disadvantages?

Yes, there are disadvantages, but these vary and also depend on your personal point of view.

For the local individual academy the main disadvantage is the lack of control. The trust level Board of Directors (trustees) has ultimate control over the trust, including its strategic direction. They will be responsible for making decisions such as the size of the trust, the level of centralisation, top-slicing, branding and the extent of local control.

All MATs should have a scheme of delegation which will clarify responsibilities and how much control is devolved to local level. But, and this is a very large 'but', the scheme of delegation can be altered by the MAT Board almost at any time.

A scenario can easily develop where an academy joins a MAT believing it is signing up to a certain structure, only to find that the governance arrangements change shortly afterwards.

MATs are now permitted to form LGBs which are responsible for more than one academy. It is therefore becoming more common to see a 'hub' based approach to governance. A sub-committee is responsible for several academies or a geographical cluster of academies, perhaps with an individual academy advisory board, or similar body, sitting at the very bottom of the governance pyramid.

What is the ideal size of a MAT?

This is a difficult question to answer, and perhaps the answer is that there is no ideal size. There are numerous examples of MATs running over 30 schools, with some of the very largest academy trusts in the country responsible for well over 50.

However, some of the largest trusts have perhaps grown too rapidly; some of the Education and Skills Funding Agency's (ESFA) investigation reports have been issued to the larger MATs, usually because the trust has grown so quickly that the governance structure could not keep up.

From our experience, if we had to suggest an 'ideal' size, we would perhaps recommend that a MAT be responsible for 5 - 15 academies, which in the future may become 10 - 20. This gives sufficient numbers to maximise the benefits from economies of scale, but keeps the trust at a level where governance can be managed and the trustees do not lose oversight.

This is not to say that smaller MATs cannot work. We know of, and work with, some larger schools that successfully continue alone as single academy trusts. However, given the Government's new push in this area, it is likely that the number of smaller MATs and single academies will reduce.

A typical MAT structure

MATs can adopt various structures. They often work well when headed by one strong lead school. A common structure would be a secondary school leading a MAT which includes its local feeder primary schools.

The Board of Directors, or Trustees, will sit at the top, with ultimate responsibility for the governance of the trust. Commonly this Board will comprise key individuals from the larger academies within the trust, however, this does not necessarily have to be the case. One academy, perhaps the largest or best performing, will often be deemed to be the MAT sponsor, and may be granted the right to appoint the majority of directors. This will be decided at the point the MAT is formed and your solicitors will be able to provide advice and draw up suitable articles.

The directors are accountable to the members, who have certain rights under company law. Subject to the articles, the members generally have powers to appoint directors to the Board. Trust members should be individuals, or corporate sponsors, who intend to be involved for the long term. It would be commonplace for an executive headteacher, or chief executive, to be appointed as one of the directors.

The Board may then choose to establish various committees, such as:

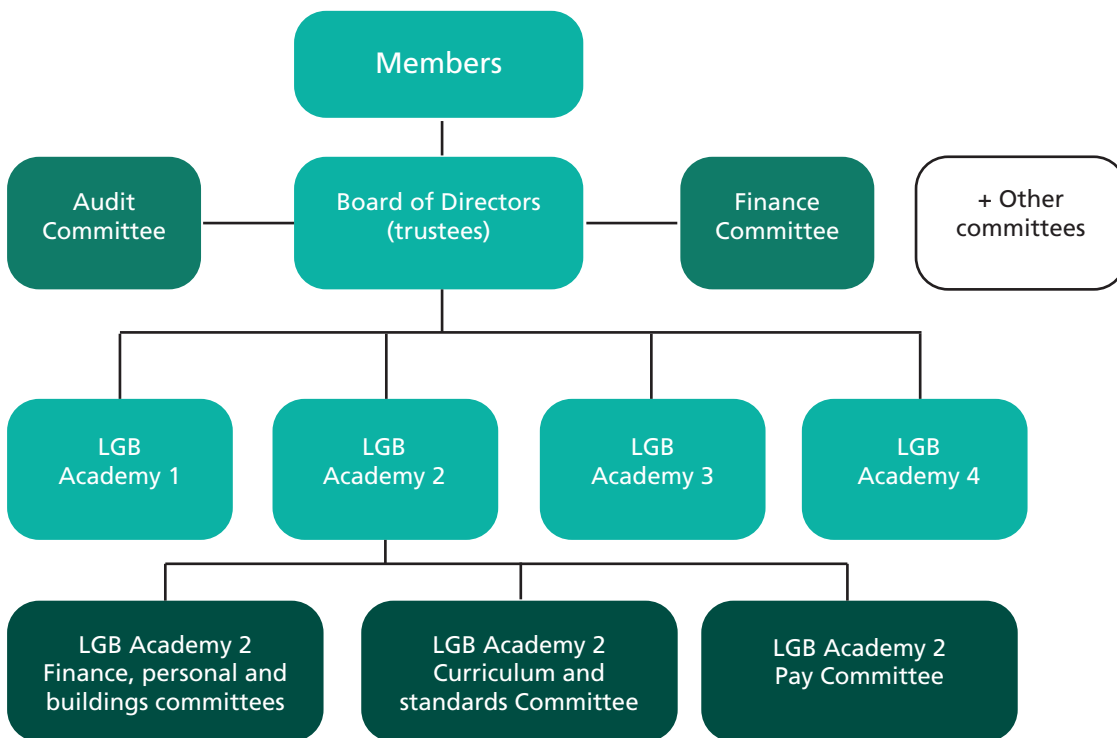
- Audit committee: most MATs, other than those consisting of a low number of small primary schools, will find they are obliged to have an audit committee to comply with the Financial Handbook;
- Finance committee: perhaps incorporating personnel, pay and performance; and
- Education standards committee.

Each academy may then have its own LGB which is responsible for making day-to-day decisions at their academy, of course with support from the academy's headteacher and senior leadership team. The amount of responsibility delegated to the LGB and the senior leadership team can vary and would normally be set out in terms of reference.

It is key to establish and agree a balance between central direction and local autonomy whilst ensuring that across the trust there are common systems and procedures, where required.

A typical MAT structure, based on this approach, can be seen depicted overleaf.

A typical MAT structure



Could we set up our own MAT?

If you wish to be in full control of your destiny then forming and leading your own MAT could be the option for you.

If you are initially forming a MAT with a few other local schools, an obvious structure would be to appoint the Chair of Governors, and perhaps one other governor, from each of the schools to the MAT Board. Politically, this is often the easiest structure to achieve since each school maintains an interest in the overall control. Do remember, however, that trustees should be appointed on the basis of the skills they can bring and not just by virtue of their role.

At the same time, think about what will happen if, or when, the MAT grows; a five school MAT could easily have representatives from each constituent academy on the Board, but will this work for a larger MAT? Perhaps up to ten schools, but beyond this the numbers will become unwieldy. The ideal number of trustees is probably around seven. We would also always recommend an odd number to avoid a deadlock situation arising on any major decisions.

What are the practicalities of forming a MAT?

These depend on whether or not your school is already an academy. Either way, there are many issues to consider and management will need to invest a significant amount of time setting up the trust. The following are just a few of the issues to address:

- Does your school currently have a history of strong governance, with governors who are committed for the long term?
- Who will be the Accounting Officer? Perhaps the headteacher of the lead school is the driving force behind the decision to become a MAT, but is this individual the right person to take on this role?
- What functions will be centralised? Financial support is usually provided by a central finance team, but this can range from full centralisation (where all accounting records are held centrally) to support from a trust level finance director, with one business manager in each school or responsible for a cluster of schools. Other typical services which are often centralised include legal and HR support, payroll, facilities management, procurement, governance and marketing/PR.
- How will the central trust function be financed? The most common approach is the top-slicing model, where each constituent academy pays a percentage of its income to the trust. It is also possible to pool all resources together into one shared budget. However, whilst pooling can assist in ironing out short term fluctuations in income or cash flow for individual academies, it does mean that part of the budget that has in principle been allocated to one academy, could be used to support another academy within the MAT.
- Due diligence of each school is a vital part of the process; educational, legal and financial due diligence should be undertaken so that you fully understand the implications of taking on any individual academy.

Educational: what impact would there be on the MAT if one of the constituent academies received an adverse Ofsted inspection? Are you clear on the current educational standards across all MAT schools; it may take some time to implement improvement plans across the trust.

Legal: your legal advisers will need to review contracts and ensure that agreements are properly prepared and that any potential liabilities arising from historical claims are minimised.

Financial: you need to review past financial performance and future budgets to ensure that you understand the financial position of schools joining the trust. Audit firms are often involved in this work to analyse the information and ensure nothing is missed. 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? Maybe a school wishes to join a MAT because its financial future is uncertain; the DfE are unlikely to provide financial assistance to an academy within a MAT if the trust has cash elsewhere at other academies.

Accounting issues

Financial statements are prepared at trust level. It is therefore important that someone within the trust takes responsibility for overseeing finance at this level. Most MATs, certainly larger ones, will employ a finance director for this role, leaving the individual school business managers to concentrate on day-to-day matters at their own academies.

The accounts focus on the MAT as a whole, so include very little information about individual academies. The ESFA therefore introduced additional disclosures to add some transparency over finances in individual schools.

These required disclosures are to:

- identify the share of funds attributable to each academy at the end of the current period (other than pension reserve, fixed assets and endowment funds if present);

- provide a narrative describing the action being taken by any academy in respect of which the total of these funds is a deficit;
- identify the amounts spent during the period by each academy on teaching and educational support staff, other support staff and educational supplies; and
- provide details of any central charges that the trust made to its constituent academies during the year, describing the types of central services provided to the academies by the trust during the year, the policy for charging for those central services and the actual charges placed on each academy for the services during the year.

It is also important to remember that the trust level accounts should only include external income and expenditure. Where there are any charges or transactions taking place between schools, these need to be eliminated.

What should we be thinking about if we are proposing to join a MAT?

Many of the considerations are the same as those that arise on forming a MAT.

Schools should be clear on the financial strength of the MAT they are joining. If the MAT is well established you should obtain a copy of the MAT's last audited financial statements and review these to gain an understanding of the financial strength of the MAT itself, but also the individual academies. Does one academy appear to have serious financial problems – usually evidenced by disclosures in the notes to the accounts, highlighting in-year deficits or very low levels of reserves? If you are unsure, or would like help in analysing the financials, we are happy to assist. Does the culture of the MAT fit with your school? Relationships work much better where member academies have similar philosophies and cultures.

Do you understand the MAT's approach to top-slicing, both immediately and any future plans? Remember that, as explained earlier, the trust Board can change this plan and your academy could find that the top-slice percentage increases in the future.

A MAT must have an appeals mechanism in place to give constituent academies a way of raising concerns if they are unhappy with the way the trust is operating and, ultimately, an academy could appeal to the Secretary of State.

What about becoming a sponsor?

Sponsor organisations generally support under-performing schools. Some organisations choose to become academy sponsors; these are often successful academies wishing to formally support one or more of their local schools, or other organisations which become involved because they have a commitment or interest in school improvement and/or pupil outcomes.

Current sponsors include existing academy trusts, universities, commercial businesses, independent schools, diocesan bodies and charities.

The sponsor appoints all, or the majority of, the members and some of the directors of the academy trust which will run the academy school, giving the sponsor a large degree of control in setting and implementing the strategic vision. Some sponsors also support their academies financially, although this is not a requirement.

Existing academies looking to amalgamate with other academies

or set up a MAT must comply with DfE guidance on making significant changes. This requires the academy trust to consult with key stakeholders, including the local authority, for a minimum period of eight weeks before submitting a business case to the ESFA.

If you are applying to become a sponsor, permission to become a MAT will be dealt with as part of the sponsor application process so you do not need to submit a separate business case in this instance.

Top-slicing

Top-slicing is the most common method of financing a MAT, with each constituent academy contributing some of its income. There are numerous ways of approaching this, with some trusts applying a flat rate across all academies, and others linking the top slice percentage to Ofsted rating or a needs assessment. The top-slice percentage can be based on various factors. We have seen total income, total grant income, pupil numbers and many other bases used. The percentage rate can then also vary and, although this will depend initially on the income on which the top-slice is based, typically top-slicing percentages will be between 2-6% of GAG funding.

GAG pooling

To date general annual grant (GAG) pooling remains rare, but this is something we are likely to see much more of in the coming years. Pooling means that GAG income can be applied across any academy within the MAT. The advantage of pooling is that it can help to alleviate financial pressures in an individual academy, ironing out between periods of fluctuating income and expenditure.

Pooling does require the agreement of the member schools, since it has the potential to be contentious. Trusts adopting a pooling approach must have due regard to the funding needs and allocations of each individual academy and they must have an appeals mechanism in place.



Other considerations

Accounting software – there are various software providers in the academy sector, and it is important that all academies within a MAT operate the same system. This facilitates easy preparation of monthly consolidated management accounts and the consolidated information required for ESFA returns. The systems need to work for you; PS Financials, SIMS, Access (HCSS), Civica, Xero and Sage 200 are the main software platforms that we see. The cloud-based nature of much of the software available makes it easy for MAT finance staff, potentially in different locations, or sometimes working from home, to collaborate with each other.

VAT – a larger MAT is likely to encounter VAT issues and may need to consider registering formally for VAT to ensure that the trust does not experience VAT problems. Like any company, an academy trust is obliged to register for VAT if its level of taxable supplies exceeds the VAT registration threshold (currently £85k at the time of publication in June 2021). In a MAT, this threshold applies at trust level, collectively across all academies.

Trading activities – as long as the articles of association allow it, small scale trading can be carried out by an academy trust. Tax complications are more likely to arise in a MAT when doing this, so it may be necessary to form a trading subsidiary to avoid creating a tax liability from the trading activities.

Capital funding – larger MATs receive their capital funding in a different, usually beneficial, way. Trusts with five or more academies and over 3,000 pupils receive School Condition Allocation directly from the DfE. This avoids the need to apply for funding for specific projects via the usual Conditional Improvement Fund system. The MAT then has a guaranteed capital funding pot, avoiding the whim of the ESFA and their rating of project priority. This system provides greater flexibility and helps to improve cash flow, as the MAT is free to allocate the funding in the way it sees fit.

LGPS and TPS pooling – there is a move towards pooling pensions together, with only one monthly return and one end of year return required at trust level, since this reduces time and administration for the Local Authority and Teachers' Pensions. However, to be able to complete a consolidated return of this nature, a trust must have appropriate systems.

Bank accounts – should each academy keep its own bank account? Indeed, do they need to? Some MATs operate a system where all funding is paid into one combined account (it is still accounted for separately in the accounting system and allocated to the individual schools) since this reduces the administrative burden and creates a more efficient system. For example, instead of each school performing weekly or monthly bank reconciliations with a combined account, this is done just once.

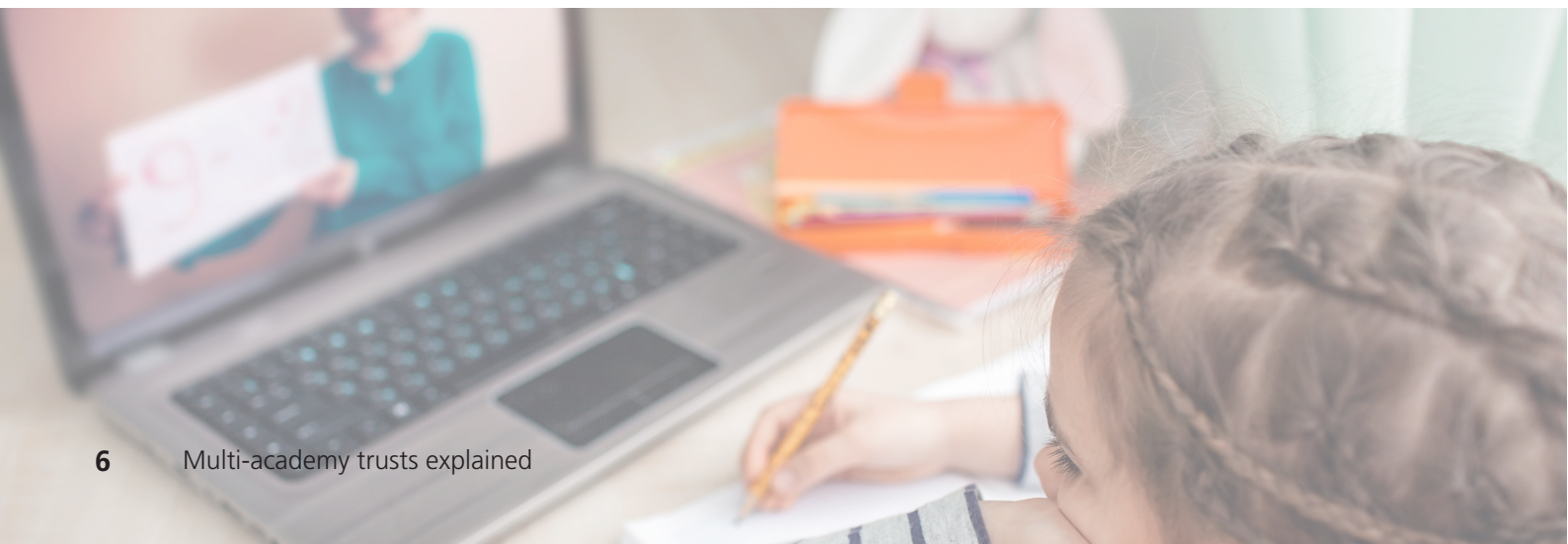
The next step

Whether or not your school is already part of a MAT, or indeed even an academy yet, it is clear that the academy sector is changing and you need to know what the options are for your future and what impacts these will have on your school. Given the DfE favouring the MAT model, it seems that forming or joining a MAT, or introducing new schools to your existing MAT, is perhaps likely.

This white paper aims to provide guidance on MATs and assist you with your decision making, however, your school's individual circumstances need to be taken into account and we, therefore, recommend you also seek professional advice before taking action.

Nationally, we are one of the leading advisers to academy and free schools. We are currently working with more than 500 schools across the UK, including a range of MATs of varying sizes. As such, we understand the issues facing the sector and the impacts these can have on your school. We are happy to speak with your Board to answer any questions they may have regarding your school's future development and can carry out financial due diligence work to provide you with assurance that the academy joining your MAT, or the trust that you are joining, is financially sound.

For further advice or to arrange a meeting to discuss your specific circumstances, please contact one of our academy specialists at your nearest location using our contact form on our website at www.uhy-uk.com/contact-us.



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