

Changes to the Academies Financial Handbook 2018

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Introduction

The ESFA has published the Academies Financial Handbook 2018 (AFH) – effective from 1 September 2018. The handbook outlines a number of new and updated requirements, including strengthened expectations about the process for setting executive pay and an explanation of new requirements for related party transactions.

We’re here to keep you up-to-date with the changes, including what’s new, what’s been removed and what’s been emphasised or clarified.

Changes to Part 1: Roles and responsibilities

[Clarified] Trustees and managers must have the skills knowledge and experience to run the academy trust.

[Clarified] The document clarifies that the ESFA exercises the rights, powers and remedies in the handbook on behalf of the Secretary of State – if the ESFA fails to use, or there are delays in using, any of these, this does not mean that they cannot do so later.

[Clarified] A Financial Notice to Improve (FNtI) sets out what a trust must do to address concerns about financial management or governance.

[Emphasised] The irregular use of public funds has been emphasised as an example of where an FNtI may be issued by stating it as its own example rather than example of ‘other financial concerns’ as it was in the AFH 2017.

[New] Subject to the relevant provisions being present in a trust’s funding agreement, the Secretary of State can require the trust to remove a member or trustee. They can also make directions under section 128 of the Education and Skills Act 2008 prohibiting individuals from participating in the management of an academy trust.

[New] The ESFA may refer trusts to the Charity Commission where there is a concern – the Commission may use its regulatory powers as described in its [Memorandum of Understanding](#) with the DfE.

[Updated] The ESFA's approach to academy resource management, previously called the approach to academy financial health and efficiency, has been updated. Where the ESFA is concerned about the financial management of a trust, it may prescribe working with an expert in school resource management, such as a School Resource Management Advisor (SRMA). Trusts should make reasonable efforts to implement any improvements suggested by an SRMA; failure to do so may result in an FNtI being issued. Working with an SRMA may also be prescribed as a condition of an FNtI.

[Clarified] In some academy trusts, such as church academies, those on the board of trustees are known as 'directors'. In church academies, the term 'trustee' is reserved for those on the board of a separate trust that owns the land.

[Clarified] One of the three core functions of governance trustees should focus on is overseeing and ensuring effective financial performance.

[Emphasised] Greater emphasis is placed on trustees applying the highest standards of governance and taking full ownership of their duties.

[Emphasised] The role of the chair of trustees is emphasised as being responsible for the effective functioning of the board and setting professional standards of governance – the ESFA will help the chairs of governors and their boards to do this if needed.

[Updated] The description of the role of members has been updated to align with the [Governance handbook](#).

[Clarified] The board of trustees must appoint, in writing, a senior executive leader who may be appointed as a trustee. In single academy trusts, this should be the principal. In MATs, it should be the chief executive or equivalent.

[Clarified] The board must also appoint, in writing, a named individual as its accounting officer – this should be the senior executive leader. The individual must be a fit and suitable person for the role. The roles of senior executive leader and accounting officer must not rotate.

[Emphasised] The appointment of an accounting officer does not remove the responsibility of trustees for the proper conduct and financial operation of the trust.

[Structural change] The definitions for regularity, propriety and value for money have been moved to Annex A.

[Clarified] Upon listening to the accounting officer's advice regarding non-compliance with the trust's articles, funding agreement or the AFH, where the board is minded to proceed, the accounting officer must notify the ESFA's accounting officer immediately in writing.

[Updated] The Institute of School Business Leadership's [Professional Standards](#) indicate the main disciplines that the chief financial officer (CFO) role may cover.

Changes to Part 2: Main financial and governance requirements

[New] Trusts must take full responsibility for their financial affairs and use resources efficiently to maximise outcomes for pupils.

[Removed] The term 'ex-officio' has been removed to avoid suggesting a trust's senior executive leader would automatically act as a trustee.

[New] If the board meets less than six times a year, it must describe in its governance statement how it maintained effective oversight of fund with fewer meetings.

[Clarified] Trusts must establish a robust control framework that includes ensuring delegated financial authorities are complied with.

[Clarified] Trusts must submit to the ESFA a budget forecast return outturn by 21 May and a three-year budget forecast return by 30 July. These must be approved by the trustees before submission – the ESFA has produced [guidance](#) on both returns.

[Clarified/New] Clear requirements relating to budgeting are set out:

- The board must ensure that budget forecasts are compiled accurately and are based on realistic assumptions.
- The board should refer to the DfE's material on [improving resource management](#), including the [top ten planning checks for governors](#).
- The trusts must prepare management accounts every month, setting out their financial performance and position in relation to their budget – managers must take appropriate action to ensure ongoing viability.
- Management accounts must be shared with the chair of trustees every month and with the other trustees six times a year – the board must consider these when it meets.
- The board must ensure appropriate action is being taken to maintain financial viability.
- The trusts must select key financial performance indicators and measure performance against them regularly.
- Where a board has concerns regarding financial performance, they should consider whether additional financial reporting would be appropriate.

[Update] Trusts must manage their cash position robustly. They must avoid becoming overdrawn – this was only referred to as something trusts should do in the AFH 2017.

[Removed] Regarding what the board should consider in relation to investments, the requirement to ensure decisions command broad public support has been removed.

[New] The document provides a [link](#) to deals for schools that make buying simpler and quicker, as strongly recommended by the DfE.

[New] The AFH strengthens expectations about the process for setting executive pay. No individual can be involved in deciding their remuneration. The board must ensure its approach to pay is transparent, proportionate and justifiable – the document includes requirements for how this must be done.

[New] Trusts are reminded of their requirements under the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017 to publish information on their website about the gender pay gap in their organisation.

[Structural change] Information about insurance has been incorporated into the 'Risk management section' (2.6.1 to 2.6.4).

[Emphasised] Trusts must ensure all concerns raised by whistleblowers are responded to properly and fairly – the ESFA has published guidance regarding complaints about academies [here](#).

[Emphasised] Annual accounts must be audited.

[Clarified] The AFH clarifies the dates on which audited accounts must be published on trusts' websites (31 January) and when they must be filed with Companies House (31 May).

[Clarified] Clarified that delivering assurance through independent challenge refers to internal audits.

[Updated] Alongside audit committees being appointed to provide assurance over the suitability of, and compliance with, financial systems and operational controls, the document now also specifies that committees provide assurance that risks are being adequately identified and managed.

[New] In relation to internal scrutiny, trusts must confirm in their governance statement which option or options of internal scrutiny they have used and why. The outcome of internal scrutiny work should inform the accounting officer's statement of regularity in the annual accounts.

[New] The findings from internal scrutiny must be made available to all trustees promptly, and to the ESFA should they request this information.

[New] Trusts must provide details of their governance arrangements within the governance statement published with their annual account.

Changes to Part 3: Delegated authorities

[Updated] Approval for individual transactions above £5,000 will be given by the ESFA rather than Secretary of State.

[Clarified] The handbook clarifies what is meant by 'special payments' – these include staff severance payments, compensation payments and ex gratia payments.

[Updated] The handbook now uses the term 'related party transactions' rather than 'trading with connected parties'.

[New] From 1 April 2019, trusts must report all related party transactions to the ESFA in advance of the transaction taking place, using the ESFA's online form.

[New] From 1 April 2019, trusts must obtain the ESFA's prior approval using their online form for contracts for the supply of goods or services to the trust by a related party where any of the following apply:

- The contract exceeds £20,000
- The contract, regardless of the value, would exceed £20,000 in the same financial year ending 31 August
- The contract, regardless of the value, would exceed £20,000 individually or cumulatively with the related party in the same financial year ending 31 August

[New] For the purpose of reporting to and obtaining the approval of the ESFA, transactions with related parties do not include salaries or other payments made by the trust to a person under a contract of employment through the trust's payroll.

[Update] Trusts should keep their register of interests up-to-date; however, the AFH 2018 does not state that this needs to be done through regular reviews as it specifies in the AFH 2017.

[New] In relation to dioceses, the contributions made by an academy trust to its diocese for services it receives associated with securing the academy trust's religious character and ethos, which only the diocese can provide, are regarded as meeting the 'at cost' requirement.

Changes to Part 4: Audit requirements

[Clarified] Clarified that this section refers to external audits.

[Updated] The National Audit Office (NAO) no longer audits accounts returns on behalf of the Comptroller and Auditor General (C&AG). The NAO must reach an opinion on regularity for the ESFA's own accounts, not the C&AG.

[Updated] Regarding the accounting officers statement, the auditor's conclusions on the statement must be addressed jointly to the trust and the ESFA – the AFH 2017 specified that it must be addressed to the Secretary of State through the ESFA.

[New] The board of trustees must ensure there is an appropriate, reasonable and timely response by the trust to any findings given by auditors, taking opportunities to strengthen the trust's systems of financial management and control.

[Removed] The ESFA may also request information that the trust gathers to meet its own needs.

[Updated] Any references made to Edubase have been changed to Get information about schools (GIAS).

[Clarified] Where a trust does not provide the ESFA with requested information by a specified deadline, the ESFA may conduct investigations to collect this information. – the cost of the investigation may be deducted from the trust's recurrent funding. The ESFA may take further actions it deems necessary to enforce compliance.

Changes to Annex C: Schedule of requirements (the 'musts')

[Update] Annex C, which brings together the requirements from the full handbook, has been updated to reflect the new and updated requirements throughout the AFH 2018, as outlined above.

What's next?

You will need to update your relevant financial policies in line with the AFH 2018 – we will be releasing revised versions of our related policies in due course. Make sure you read and understand all of the information above, and that any amendments are reflected in your procedures.

The key thing to be aware of is the new requirements regarding related party transactions. From 1 April 2019, you must report all related party transactions to the ESFA in advance of the transaction taking place – for some transactions you will also need the ESFA's prior approval.

Bibliography

ESFA (2018) 'Academies financial handbook 2018'