



Education & Skills
Funding Agency

Academies accounts direction 2020 to 2021

**For accounting periods ending 31 August
2021**

March 2021

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Introduction

Introduction to the Accounts Direction

The status of the Accounts Direction

This Accounts Direction (“the Direction”) sets out requirements, and provides guidance, for academy trusts preparing their annual report and financial statements (collectively referred to in this document as “accounts”) for accounting periods ending on 31 August 2021.

The Direction, including any supplementary bulletins published, is mandatory for all types of academy trust with a funding agreement with the Secretary of State and an open academy at any point during the accounting period. It must be used by academy trusts to produce accounts for any period to 31 August 2021, and by their auditors to audit them. In all other circumstances the expectation is that the Direction is followed.

How the Direction should be used

The Direction is for use by:

- chief financial officers
- accounting officers
- trustees
- external auditors and reporting accountants.

It deals with circumstances applicable to most academy trusts and does not seek to cover all eventualities. Academy trusts should therefore ensure they have access to adequate professional advice to ensure all relevant requirements are met. They should discuss any queries regarding its content with their external auditor in the first instance.

The Direction is kept under review and is updated to reflect changes to the reporting environment.

Structure of the Direction

This Direction is split into 3 parts:

- [Part 1](#) – sets out the financial reporting requirements for academy trusts and highlights common issues identified by the Education and Skills Funding Agency (ESFA) from its review of previous accounts.
- [Part 2](#) - explains in more detail the elements making up academy trust accounts.
- [Part 3](#) - provides more detailed and technical guidance on specific matters affecting the accounts.

In addition, [Annex A](#) provides further sources of information.

To support this Direction, a [model set of accounts for academies](#) (known commonly as the “Coketown model”) has been produced. These model accounts help academy trusts to see what the accounts should look like, and that document has the same contractual status as the Direction, as compliance with both is a requirement of an academy trust’s funding agreement.

A separate [framework and guide](#) (“Auditor Framework and Guide”) primarily aimed at academy trust external auditors and reporting accountants (but which also may be of interest to accounting officers, chief financial officers and trustees) has also been produced to accompany the Direction.

ESFA intends to publish a supplementary bulletin to the Direction and the Auditor Framework and Guide which separately covers matters relating to the reporting and auditing of COVID-19-related matters. This bulletin will be published as soon as practicable.

What has changed in this edition?

We have:

Structure of the Direction

made editorial changes to improve the structure and flow of the Direction. As part of this:

- the “Coketown” [model accounts](#) have been split out to a separate document.
- sections aimed at auditors and reporting accountants have been moved to a separate document (academy trusts may also wish to read this [framework and guide](#), for information).
- the Direction consists of three well-defined parts.
- wording in some sections has been refined to communicate points more clearly.

Links to other documents

- made greater reference to ESFA’s [good practice guides](#) and moved technical accounting definitions to footnotes.

Feedback to the sector

- included a new section which provides [feedback from ESFA to the sector](#) relating to the application of and compliance with the Direction.

Trustees' report - financial review

- provided greater clarity on the content of the [financial review](#) section of the trustees' report.
- introduced a new requirement for trusts who have had a [Financial Notice to Improve](#) in place at some point during the year to declare this and provide more information.

Auditor opinion

- added a section to aid trusts by explaining the main types of [audit opinion](#) on the financial statements and when they will be expressed by an auditor.

Staff costs disclosure

- explained that where the academy trust has entered into an “off-payroll” arrangement with someone who is not an employee, including but not limited to where ESFA has exceptionally approved the appointment of an Accounting Officer (AO) or Chief Financial Officer (CFO), the amount paid by the trust for that person's work for the trust in this role must also be included in this note as if they were an employee. The prior year figure should also be reported and restated if necessary.

Note on funding received for the academy trust's educational operations

- clarified which funding sources should be classed under each [heading](#), to align more closely with the Academies Accounts Return.

Leases

- added in a reminder for academy trusts to ensure the correct identification, classification and treatment of [finance and operating leases](#).

Long-term commitments

- clarified that [service concession commitments](#) e.g. payments made under secondary agreements with local authorities should be disclosed as part of the long-term commitments note [see model accounts note 23].

Feedback

This year we are seeking feedback on the Academies Accounts Direction, including the model accounts document. We have opened a [short survey](#) for academy trusts and auditors, which will help us to ensure that the Academies Accounts Direction continues to meet your needs.

Part 1: Financial reporting requirements

Basis for preparing accounts

1.1 Academy trusts are both exempt charities and companies limited by guarantee. This means that:

- as **exempt charities** they are exempt from registration at the Charity Commission and are instead regulated by the Secretary of State for Education, with ESFA as their agent
- as **charitable companies** they must comply with company law (set out in the [Companies Act 2006](#)) and charity law (set out in the [Charities Act 2011](#)).

1.2 There is a general hierarchy of rules and documents that supports the preparation of academy trust accounts:

- **Companies Act 2006** – sets out the statutory form, content and audit arrangements for accounts in broad terms. Subsequent related legislation adds to this
- **Financial reporting standards** – the Financial Reporting Council (FRC) converts the Companies Act's requirements into detailed accounting rules called [financial reporting standards](#). The key standard for academy trusts is FRS 102
- **Charities Statement of Recommended Practice 2019 (the SORP)** – the Charity Commission takes the accounting standards and translates them into a form relevant to the charities sector in a [SORP](#)
- **Academies Accounts Direction** – ESFA takes the SORP, along with other applicable guidance, and translates it into a form relevant to academy trusts, as this Accounts Direction. It supplements the Academies Financial Handbook (“the Handbook”) and has the same status as it derives from requirements set out in academy trusts' funding agreements with the Secretary of State for Education.

1.3 In addition, **HM Treasury** have issued guidance covering public bodies which affects academy trusts, for example Managing Public Money.

1.4 In summary, an academy trust is required to:

- prepare accounts for its financial year
- have those accounts audited by an independent registered auditor
- arrange an independent review of regularity at the academy trust and include an independent reporting accountant's report on regularity as part of the accounts

- submit the audited accounts to ESFA
- file the accounts with Companies House.

Accounting period

- 1.5 Accounts must be produced and audited for the accounting period ending on 31 August.
- 1.6 Situations where this may not apply include where academy trusts become inactive, e.g. through transfers to other trusts in the current accounting period. These trusts should prepare these documents as soon as practicable after their last academy has transferred out. These accounts should be submitted to ESFA by no later than four months after the date to which the accounts are prepared.
- 1.7 Academy trusts that become inactive early in the current accounting period may wish to shorten their period as appropriate. In any event the accounting period end date must not be later than the following 31 August and after the last academy has left the academy trust.
- 1.8 More information on the requirements for an academy trust that becomes inactive is provided in [paragraph 3.87 onwards](#).
- 1.9 More information on where an academy trust is dormant can be found at [paragraph 3.94 onwards](#).

Accounting reference dates

- 1.10 Companies House refers to the date up to which accounts are prepared as the 'accounting reference date' and this is held as part of the company's public record.
- 1.11 New academy trusts must ensure that their accounting reference date is set at Companies House to 31 August. When the academy trust is first formed, the accounting reference date will be set by Companies House to the last day of the month in which the academy trust's first anniversary falls. For example, an academy trust incorporated on 6 April 2020 has its first accounting reference date as 30 April 2021, and 30 April for every year thereafter. The academy trust must change the date to 31 August as soon as possible after incorporation as explained by Companies House [here](#).
- 1.12 Switching their accounting reference date to 31 August would also assist the academy trust in preparing its separate [academies accounts return](#), which can only accept data covering the period of 1 September and 31 August.

Timetable for submission and publication of accounts

- 1.13 The following submission and publication deadlines apply to academy trusts. More information on exceptions to these deadlines is contained in [paragraph 3.91](#).
- 1.14 Timely submission of accounts to ESFA is essential for giving assurance to Parliament that academy trusts have used public money for the purposes intended. ESFA takes compliance with the deadline seriously and may consider action against academy trusts that do not comply including issuing a [Financial Notice to Improve](#) and publicising defaulters.
- 1.15 Under section 423 of the Companies Act 2006, academy trusts must also send a copy of their accounts to every member of the company and to every person who is entitled to receive notice of general meetings.

| Deadlines | Action |
|------------------|---|
| 31 December 2021 | <p>Academy trusts must submit, using the submission guidance:</p> <ul style="list-style-type: none"> • audited accounts, including the reporting accountant’s report on regularity • the audit findings report from the external auditors presented to those charged with governance – this should contain the: <ul style="list-style-type: none"> ○ findings, including ratings of the importance/risk, e.g. high/medium/low ○ their views about significant qualitative aspects of the academy trust’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures ○ significant difficulties, if any, encountered during the audit ○ significant matters, if any, arising from the audit that were discussed, or subject to correspondence with, management and the written representations the auditor is requesting ○ other matters, if any, arising from the audit that, in the auditor’s professional judgment, are significant to the oversight of the financial reporting process • an accounts submission cover (online form) • an annual internal scrutiny report |
| 31 January 2022 | <p>Publish accounts, in full, on the trust’s website (publishing a link to the Companies House website is insufficient).</p> |

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| | <ul style="list-style-type: none"> • Constituent academies within a trust with multiple academies should include a prominent link on their website to the accounts published on the trust's website • Academy trusts should retain accounts in respect of at least the previous two years on their website. |
| 31 May 2022 | <p>File accounts with Companies House within nine months of the end of the accounting period (section 442 (2a) of the Companies Act 2006).</p> <ul style="list-style-type: none"> • For most academy trusts this will be no later than 31 May 2022 • Companies House levy a penalty of at least £150 if they are filed late. Academy trusts should consider filing their accounts with Companies House immediately after publishing on their website. |

Elements of the accounts

1.16 The accounts inform the reader of the academy trust's performance during the year and its financial position at the year end.

The annual report

1.17 The annual report must contain a number of key elements, as set out below. The approval process for each element, before publication, is also listed.

| Element | Description | Approval required by |
|---|---|---|
| <u>Trustees' report</u> | <p>The trustees' report supports the financial statements.</p> <p>There are certain elements which must be included in the report including: reference and administrative details, information on the structure governance and management of the trust, its objectives and activities, a strategic report, a financial review, information on any funds held as custodian trustee, its plans for future periods, its policies towards employees and disabled persons, streamlined</p> | <p>All trustees are jointly responsible for the preparation of the trustees' report, which must be approved by the board.</p> <p>One of the trustees (usually the chair) must also sign on behalf of the board.</p> <p>The date of approval must be stated,</p> |

| | | |
|---|---|--|
| | energy and carbon reporting and a disclosure to the auditor. | together with the name of the trustee who has signed it. |
| <u>Governance statement</u> | <p>HM Treasury requires all public bodies to prepare a governance statement.</p> <p>This includes information on the governance framework of the academy trust and confirmation that the trustees have carried out their responsibility for ensuring that effective management systems, including financial monitoring and control systems, have been put in place. It must also include a review of value for money.</p> | <p>It must be signed on behalf of the board of trustees (usually by the chair) and by the academy trust's accounting officer.</p> <p>The date of approval must be stated, together with the names of the individuals who have signed it.</p> |
| <u>Statement on regularity, propriety and compliance</u> | This is a formal declaration signed by the academy trust's accounting officer that they have met their personal responsibilities to Parliament for the resources under their control during the year. | It must be signed by the academy trust's accounting officer. |
| <u>Statement of trustees' responsibilities</u> | This sets out the trustees' responsibilities under companies' legislation, explains the financial reporting framework that has been applied and the nature of the academy trust's funding relationship with ESFA. | It is signed on behalf of the board by a trustee (usually by the chair). The date of approval must be stated, together with the name of the trustee who has signed it. |
| <u>Independent external auditor's report on the financial statements</u> | <p>The annual report and financial statements must be accompanied by an independent auditor's report in which they express an opinion on the financial statements.</p> <p>The report includes a cross-reference to the statement of trustees' responsibilities.</p> | It is signed by the auditor. |

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| | <p>There will also be a description of the basis of the auditor's opinion.</p> <p>See the Auditor Framework and Guide for more information</p> | |
| <p>Independent reporting accountant's report on regularity</p> | <p>A report providing a conclusion on regularity must be produced by a reporting accountant, who must be the same person as the external auditor.</p> <p>Where the reporting accountant modifies their conclusion, the monetary amounts of the relevant transactions, if known, should be stated.</p> <p>See the Auditor Framework and Guide for more information</p> | <p>It is signed by the reporting accountant.</p> |

1.18 The board should consider arrangements in the event of the departure or long-term absence of key signatories. If the academy trust's accounting officer leaves before the accounts are signed there should be sufficient briefing and/or information available to enable the new accounting officer to understand the key issues in the previous year, and to ensure the relevant sections comprising the accounts are signed on time. If a replacement accounting officer (principal/chief executive) has not yet been appointed the academy trust will need to appoint an interim accounting officer for example the senior leader acting as principal/chief executive.

The financial statements

1.19 The financial statements must include the following elements.

| Element | Description |
|---|--|
| <p>Statement of financial activities (SOFA)</p> | <p>This is essentially a record of income and expenditure, but has some important additional features:</p> <ul style="list-style-type: none"> • it divides the academy trust's financial activities into various classes of 'funds', dependent upon the level of restriction placed upon the income and therefore the purposes for which it can be spent • it further divides the financial activities into various activity headings (and the income and expenditure are reported on an activity basis) to show how the |

| | |
|---|---|
| | <p>resources have been used</p> <ul style="list-style-type: none"> • it records other types of transaction that do not necessarily involve an exchange of money i.e. donated services and facilities • it includes capital income from endowments and donated assets, other recognised gains and losses on assets and on defined benefit pension schemes. |
| <u>Balance sheet</u> | <p>This provides a snapshot of the academy trust's financial position at 31 August by reporting its assets and liabilities and reconciling (balancing) these to the value of the funds reported in the SOFA.</p> <p>It must be signed on behalf of the board by one of the trustees (usually the chair).</p> |
| <u>Statement of cash flows</u> | <p>This illustrates cash flows for the accounting period arising from operating, investing and financing activities.</p> |
| <u>Notes to the financial statements</u> | <p>These provide information on financially significant issues to aid the reader's understanding of the accounts.</p> |

Feedback to the sector from ESFA

- 1.20 Academy trusts are classified by the Office of National Statistics as central government public sector bodies and are subject to public standards of accountability. ESFA oversees the arrangements that provide Parliament with assurance that academy trusts operate to high standards of propriety and regularity. Each year it reviews academy trust accounts, audit management letters and internal scrutiny reports as part its role in providing that assurance.
- 1.21 This exercise has identified the following areas where compliance with the Direction could be improved. Academy trusts should consider these points when preparing their 2020/21 accounts.
- In some cases, the Coketown model accounts provide example text which, if relevant and appropriate to the trust, would meet the requirements in sufficient detail. Unless the Direction requires that this specific text must be included without exception or amendment, it should only be copied into an academy trust's accounts where it is reflective of the trust's circumstances. Academy trusts should modify such wording in the Coketown model to fairly reflect their circumstances and performance and are encouraged to do so.
 - This point is applicable throughout the accounts. An example ESFA often comes across is where an academy trust has significant governance, control or financial management issues (perhaps also raised in the external audit report), yet the

relevant sections of the annual report paint a conflicting picture of the academy's performance because the text provided in the model accounts has been copied without amendment.

- Where the Direction and/or the model accounts state points that must be covered, the trust should not omit these sections. We have identified the following requirements of the Direction where not all academy trusts produce content.

| Section of the accounts | Sub-heading/section | Requirements omitted |
|--------------------------------|--------------------------------|---|
| Governance statement | Governance | Key changes in the composition of the board of trustees. |
| Governance statement | Governance | Coverage of the board's work. |
| Governance statement | Governance reviews | Details of actions taken to review the effectiveness of the board through a governance review. |
| Governance statement | Governance reviews | Where the board have met less than 6 times in the year, details of how effective oversight has been maintained. |
| Governance statement | The risk and control framework | Details of how the internal scrutiny function has been delivered, how the system of internal control has been reviewed for its effectiveness including which areas informed their review. |
| Governance statement | The risk and control framework | Details of remedial actions taken or proposed to deal with any significant control issues identified. |

Themes arising from ESFA's assurance work

1.22 ESFA publishes statistics on the sector's performance and the [themes arising from its assurance work](#) exercise. Information relevant to the financial statements includes:

- The percentage of qualified financial statements for the 2018/19 year was 0.7% (2017/18: 1.2%). The main reasons for the qualified opinions were accounting treatment for land and buildings, land and buildings valuations and LGPS actuarial valuations.
- The percentage of modified regularity opinions in the 2018/19 year was 7.1%, which was higher than in the previous year (2017/18: 5.9%). The most common themes of modifications were internal financial reporting and no independent check of controls.

Part 2: Detailed guidance on the accounts

- 2.1 This section provides more details on what should be included in each element of the accounts. This section is also supported by the [model set of accounts](#) for academy trusts to follow which is published alongside this Direction, and references to the relevant part of that document are in [square brackets].
- 2.2 As a single company, academy trusts must produce a single set of accounts combining the results of all the academies within the trust. Where trusts with multiple academies are required to make specific additional disclosures, these are also included.
- 2.3 When drafting their accounts, academy trusts are likely to consider the impact of COVID-19 on their operations and processes. To assist academy trusts, their auditors and reporting accountants, ESFA intends to publish, as soon as practicable, a supplementary bulletin to this Direction which separately covers matters relating to COVID-19. In the meantime, trusts may wish to consider external guidance already in issue, such as:
- The Charities SORP Committee [advice on the financial reporting implications](#) that may arise from the measures being put in place to contain the impact of the COVID-19 virus
 - Guidance from the [Financial Reporting Council](#).

Trustees' report

- 2.4 This report supports the financial statements. In the context of the Direction, the trustees are the academy trust's company directors. They are responsible for drafting the trustees' report. In some academy trusts those on the board of the academy trust are actually known as 'directors' whereas in church academies the term 'trustee' is reserved for those on the board of the separate trust owning the land. The roles of trustees, as well as members, are described in the Department for Education's (DfE) [Governance Handbook](#).
- 2.5 The report must meet the requirement for a directors' report, as described in s415 – 419 of the Companies Act 2006 and the requirements of a trustees' report as set out in the SORP module 1.
- 2.6 For academy trusts, it must cover the elements in paragraphs 2.7 to 2.31 below. For trusts with multiple academies, whilst the report will give a description of the objectives set, the activities undertaken and the performance against objectives for the academy trust as a whole, it is expected that some information will be included about individual academies. The most appropriate content and format is at the trustees' discretion.

Reference and administrative details

2.7 In addition to disclosure of the names of trustees and senior managers, ESFA requires the academy trust to disclose the names of the members in office on the date the accounts are approved and any other members who served during the period.

The structure, governance and management of the academy trust

2.8 This section includes:

- a summary of the constitution
- details of members' liabilities
- details of any trustees' third-party indemnity provisions - as the trustees are directors, disclosure is required of whether there were any third-party indemnity provisions during the year or at the date of approval of the trustees' report
- methods of recruitment, induction and training of trustees
- organisational structure
- arrangements for setting pay and remuneration of key management personnel, with benchmarks, parameters or criteria used in setting their pay
- trade union facility time, where there are more than 49 full time equivalent employees throughout any 7 months within the reporting period, in accordance with The Trade Union (Facility Time Publication Requirements) Regulations 2017
- details where an academy trust is part of a wider network
- engagement with employees (if the academy trust has more than 250 employees)
- engagement with suppliers, customers and others in a business relationship with the trust such as beneficiaries, funders and the wider community (if the academy trust is 'large' as defined by the Companies Act 2006).

The objectives and activities of the academy trust

2.9 This section includes:

- the academy trust's aims, and strategies for achieving those aims
- the criteria and/or measures to assess success
- activities undertaken to further the academy trust's purposes for the public benefit.

2.10 The Charities Act 2011 highlights the requirement for charities to have charitable purposes or 'aims' that are for the public benefit, and to report specifically on the ways in which they have met this requirement.

2.11 Academy trusts are required to include in their trustees' report an explicit statement that the trustees have had regard to the Charity Commission guidance

on public benefit and a review of the significant activities undertaken by the academy trust during the relevant financial year to further its charitable purposes for the public benefit.

- 2.12 The benefit provided by an academy trust may be equated to its achievements in a particular year. The report should include a brief reference to the catchment area for the academy trust and the basis on which the pupils are admitted, i.e. explaining who the direct beneficiaries are and how they access the benefits provided by the academy trust.

A strategic report

- 2.13 All academy trusts must include a strategic report as a clearly delineated section within the trustees' report. Whilst under the Companies Act the strategic report applies to large and medium companies, all academy trusts, regardless of their size, must include it in accordance with the best practice encouraged by the SORP. This must include:

- the achievements and performance of the academy trust
- the outcome of the assessment by the trustees of whether the academy trust is a going concern. An entity is a going concern if it viewed as continuing in business for the foreseeable future. This period is defined as period of **at least** 12 months from the date that the financial statements are signed by the chair of trustees
- a statement describing how the trustees have promoted the success of the company under section 172(1) of the Companies Act 2006.

A financial review

- 2.14 The financial review should support the financial statements. Academy trusts should take the opportunity to shed light on the numbers shown in the financial statements, including why and how they have arisen, in terms that a non-accountant would understand.

The review must:

- explain the financial effect of significant events on the financial performance and financial position of the trust
- explain the academy trust's principal risks and uncertainties and its plan for managing those risks
- describe any key factors that are likely to affect the trust's financial performance or position going forward
- explain the overall financial **position** of the academy trust at the reporting date (likely to be based primarily on the balance sheet). This narrative will provide context to, and insight on, the numbers in the financial statements, focussing on material or significant balances

- identify any fund or subsidiary undertaking that is materially in deficit, explaining the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit.

The review should:

- explain the financial **performance** of the academy trust in the year (likely to be based primarily on the SOFA). It is likely to include, but not be limited to, an explanation of the causes of the trust's net income/(expenditure) balance this year
- describe the principal funding sources of the trust and explain how resources support the key objectives of the trust
- explain the academy trust's investment policy and where the trust hold material invests the extent (if any) to which it takes social, environmental, or ethical considerations into account in its investment policy
- describe the academy trust's fundraising practices.

2.15 Where a trust has received a Financial Notice to Improve (FNtI) from ESFA which has been in place at some point during the year, the financial review must also:

- state that a FNtI has been in place during the year, including which periods it was in place for
- provide a link to the FNtI on ESFA's website
- explain the key actions the academy trust is taking which it expects to lead to (or already have led to) the lifting or closure of the FNtI
- where the notice is still open at the reporting date, the report should additionally state when the academy trust expects to satisfy all of the FNtI conditions.

Reserves policy

2.16 The trustees' report must explain the academy trust's policy for holding reserves, in particular stating:

- the level of reserves identified by the trustees as being appropriate
- the reason for holding reserves.

2.17 It should also contain a review of the academy trust's reserves which:

- states the amount of total funds held at the balance sheet date
- identifies the amount of any restricted funds that are not available for the general purposes of the academy trust. The trustees may determine, as good practice, to disclose their policy in relation such reserves (e.g. restricted general funds, including GAG)

- identifies any amounts that have been designated, where material, and explains the purpose they have been designated for
- identifies the amount of any fund that can only be realised by disposing of tangible fixed assets
- provides details of funds that are materially in deficit, and the SORP requires disclosure of the circumstances giving rise to a deficit on any fund and details of the steps being taken to eliminate the deficit
- states the amount of reserves held at the balance sheet date after making allowance for any restricted and designated funds, and where plans for the future use of reserves are made, both the purpose and the likely timing of the expenditure should be explained
- compares the amount of reserves held at the balance sheet with the academy trust's reserves policy and explains any steps being taken to bring the level of reserves held into line with the level set out in the policy.

2.18 In the specific instance where, because of the accounting for the Local Government Pension Scheme (LGPS), an academy trust is recognising a significant pension fund deficit, the reserves policy should explain, as part of the academy trust's steps taken to eliminate that deficit, that it does not mean that an immediate liability for this amount crystallises. (Similarly, if there is a pension surplus included in the restricted fund it should explain that this does not create an immediately realisable asset that can be expended for the specific purposes of that fund). Additionally, this deficit should be included within restricted funds.

2.19 The academy trust should revisit its current business plans and budgets and ascertain how its pension costs might affect budgets in the future. On the basis that any increased pension contributions should generally be met from the academy trust's budgeted annual income, whilst the deficit might not be eliminated, there should be no actual cash flow deficit on the fund, or direct impact on the free reserves of the academy trust because of recognising the deficit.

For further information see the Charity Commission's publication [CC19: Charities and Reserves](#).

Funds held as custodian trustee on behalf of others

2.20 This section includes a description of:

- the assets, classes of assets or categories of assets which they hold in this capacity
- the name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within the custodian charity's objects; and
- details of the arrangements for safe custody and segregation of such assets from the charity's own assets.

Plans for future periods

2.21 The report provides a summary of the academy trust's plans for the future, including its aims and objectives and details of any activities planned to achieve them. The report should explain the trustees' perspective of the future direction of the academy trust and explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect.

Policies towards employees and disabled persons

2.22 Where the average number of employees exceeds 250 the academy trust must:

- for disabled employees – disclose its policy in respect of applications for employment from disabled persons, the treatment of employees who become disabled and the training, career development and promotion of disabled persons
- for employee consultation – include a description of the action taken during the year to introduce, maintain or develop arrangements to provide information and consult employees on matters affecting them.

Streamlined energy and carbon reporting

2.23 [The Companies \(Directors' Report\) and Limited Liability Partnerships \(Energy and Carbon Report\) Regulations 2018](#) came into force on 1 April 2019 for accounting periods commencing on or after that date. It requires large companies¹, as determined by sections 465 and 466 of the Companies Act 2006, which consume (in the UK) more than 40,000 kWh of energy in a reporting period to include in their annual reports energy and carbon information, including:

- its UK annual **energy use** (in kWh) as a minimum relating to gas, purchased electricity and transport fuel (and previous year's figures, except in the first year) and associated **greenhouse gas emissions** (in tonnes of carbon dioxide equivalent). There are the [Government conversion factors](#) to help measure energy consumption in common units.
- an emissions **intensity ratio** chosen by the company. Intensity ratios compare emissions data with an appropriate business metric or financial indicator, such as pupil numbers, to allow comparison over time or with other organisations
- **methodologies** used in calculation of disclosures.

¹ Companies that meet two or more of the following criteria: turnover (or gross income) of £36 million or more, balance sheet assets of £18 million or more, 250 employees or more.

- a **narrative of measures taken to improve energy efficiency** in the period of the report. If no measures have been taken, this should be stated.

- 2.24 For those academy trusts that meet the thresholds this information must be published in the trustees' report. ESFA also encourages large academy trusts to reproduce the energy and carbon disclosures from their accounts in a readily accessible format on their website before 31 March each year.
- 2.25 In assessing whether the 40,000 kWh threshold is met, academy trusts must consider, as a minimum, all the energy from gas, electricity and transport fuel usage in the UK, that they are responsible for.
- 2.26 Where an academy trust is large and does not consume more than 40,000 kWh of energy in a reporting period it qualifies as a low energy user and is exempt from reporting under these regulations. A statement to this effect should be included in the trustees' report.
- 2.27 Where a company is not required to report under the 2018 Regulations, because of its size and/or consumption, BEIS encourages them to do so on a voluntary basis. Academy trusts in this position that choose to report voluntarily, may do so on their website.
- 2.28 In some circumstances, an element of the required energy and carbon information may not be practical to calculate. Where this is the case, this fact should be reported, and the academy trust should explain what is omitted and what steps it is taking to acquire this information in future.
- 2.29 DEFRA and BEIS have published [guidance](#) for all sectors on these regulations and ESFA has also published further good practice [guidance](#) which may also assist academy trusts with their compliance.
- 2.30 SECR disclosures were required for the first time in the 2019/20 accounts. From 2020/21, prior year equivalent figures must be disclosed for comparison alongside the latest figures.

Disclosure to the auditor

- 2.31 Trustees are required to confirm in a statement that they have taken all practicable steps to make themselves aware of any relevant audit information and this has been shared with their auditor.

Governance statement

- 2.32 The statement includes information on the governance framework of the academy trust and describes how the activities in the framework have been undertaken during the year.

2.33 For trusts with multiple academies, the statement will give a description of the controls and governance arrangements for the academy trust as a whole, with disclosure of exceptional arrangements at individual academies as appropriate.

Scope of responsibility

2.34 This section requires the trust to describe how the responsibility for ensuring that the trust has an effective and appropriate system of control is managed.

Governance

2.35 A brief description of the governance framework of the academy trust is required, including information about the committee structure, attendance records and coverage of its work (if not covered in other sections of the annual report). This should also cover the audit and risk committee.

2.36 A further object of this section is to describe what the academy trust has done to review the effectiveness of the board, and an indication of when the next self-evaluation or external review of governance is planned. The description should include the outcomes, actions and impact of the review. For the avoidance of doubt:

- such a review must be carried out by academy trusts preparing audited accounts for the first time
- as a matter of best practice academy trusts should be carrying out this review annually in subsequent years.

2.37 If the academy trust has not carried out a review it should indicate when it intends to do so. Any particular challenges that have arisen during the year in the work of the board of trustees and any sub-committees can also be included.

Review of value for money

2.38 This section provides accounting officers with an opportunity to demonstrate to parents and the public that the academy trust's use of public assets has supported value for money during the year and, if relevant, to identify opportunities for potential improvement.

2.39 A key objective is to achieve value for money not only for the organisation but for the taxpayer more generally; whilst it involves an academy trust living within its budget and using its resources properly and with probity, value for money is primarily about how it continuously improves both the educational and wider societal outcomes for its pupils with the resources available.

2.40 The value for money section comprises two elements:

- a standard declaration acknowledging the accounting officer's responsibility for value for money, followed by
- examples illustrating how the academy trust has demonstrated value for money during the year.

2.41 Academy trusts are free to decide how to set out these examples, which should be concise and focussed on the information that is most relevant and appropriate to the academy trust, emphasising those issues that had the greatest impact on the academy trust's use of resources. Up to three brief examples should be sufficient, covering:

- the areas where the academy trust's activities have contributed to achieving value for money
- the areas of future focus.

2.42 Academy trusts may describe:

- how educational outcomes have been improved with the same resource (for example through targeted intervention or through collaboration)
- how the curriculum has been delivered in a different way to reduce costs
- how financial oversight and governance has been strengthened (for example through robust challenge of spending and other decisions)
- how purchasing has been improved (for example looking at benchmarking tools, where appropriate, or by delivering economies of scale)
- how income generation has been maximised, or
- other activities specific to the academy trust.

Purpose of the system of internal control

2.43 This section requires a description of the purpose of the system of internal control. It also requires a statement by the trustees confirming that the system of internal control has been in place for the year and up to the date of approval of the accounts.

Capacity to handle risk

2.44 This section requires the academy trust to describe the way in which leadership is given to the [risk management](#) process and in which the board of trustees have considered and reviewed the risks to which the academy trust is exposed, together with the financial and compliance controls that have been implemented to mitigate those risks.

2.45 The academy trust should also make a statement confirming the extent to which it believes that there is a formal ongoing process for identifying, evaluating and managing the academy trust's significant risks in place during the reporting period and up to the date of the approval of the trustees' report and financial statements.

Risk and control framework

2.46 This section includes a description of the key elements of the risk and control framework. This section should also include a description of the delivery of an internal scrutiny function.

Review of effectiveness

2.47 This section should include details of the extent of the review of effectiveness of the system of internal control and identify the areas that have informed the review. This section should also include an outline of actions taken or proposed to deal with any significant control issues, if applicable.

New academies in the period

2.48 Where a new academy trust has been formed, by either conversion of an existing school or creation of a new school, it may not have a fully embedded system of internal control (including risk management) in place for all of the reporting period including up to the date that the accounts were approved. The board of trustees will therefore need to carefully consider the systems that were in place and how these evolved over the reporting period and include an appropriate description of the circumstances of the creation of the academy trust and the steps that have been taken to develop and implement a system of internal controls. Such description should include the approach to developing and implementing the risk management strategy.

Statement on regularity, propriety and compliance

What is regularity and propriety?

2.49 Regularity and propriety are discussed at length in the HM Treasury publications 'Managing Public Money' [section 2.4](#) and '[Regularity, Propriety and Value for Money](#)', and are also summarised in the Handbook. Therefore, the following section serves as an overview of these concepts.

2.50 Parliament is concerned that any public money raised and subsequently distributed is used only for approved purposes. This is termed as regularity. 'Managing Public Money' defines regularity as the requirement that 'resource consumption should accord with the relevant legislation, the relevant delegated authority and this document'.

2.51 Regularity therefore requires that a financial transaction be in accordance with the relevant framework of authorities and should be woven into the academy trust's internal control procedures.

2.52 Propriety is a related concept and concerned more with standards of conduct, behaviour and corporate governance. “Managing Public Money” defines propriety as the requirement that ‘patterns of resource consumption should respect Parliament’s intentions, conventions and control procedures, including any laid down by the Public Accounts Committee’.

2.53 Propriety is less prescriptively defined but includes matters such as:

- fairness
- integrity
- the avoidance of private profit from public business
- even handedness in the appointment of staff
- open competition in the letting of contracts
- avoidance of waste and extravagance.

There are no definitive guidelines for propriety and professional judgement is required.

2.54 Section 9.3 of ‘Regularity, Propriety and Value for Money’ details the following tests which may be useful for the accounting officer to consider whether a transaction is regular and proper and of benefit to the academy trust:

- is the expenditure in the best interest of your organisation?
- does the expenditure comply with approved procurement rules and policies?
- will there be a valid business benefit to the organisation from the expenditure and not just personal benefit to an employee?
- is the expenditure necessary?
- is the expenditure reasonable, meaning - does it fully meet the identified and agreed needs?
- has the expenditure been properly authorised?

2.55 The accounting officer has a duty of care to inform the reporting accountant when they have received a ‘minded to’ letter or a Financial Notice to Improve. They should also inform the reporting accountant when they are being investigated following a whistleblowing or fraud allegation.

The statement

2.56 This is a formal declaration by the accounting officer that they have met their personal responsibilities to Parliament for the resources under their control during the year. The format of the statement is included within the model accounts document.

2.57 To form their conclusion the accounting officer must ensure that the academy trust is working within the boundaries of regularity and propriety. This work will be

performed throughout the year, as part of their oversight of internal control processes such as:

- review of management reporting documents
- review of trustees'/governors' minutes
- confirming compliance with the academy trust's scheme of delegation
- compliance with delegated authorities
- ensuring related party transactions have been completed in accordance with the not-for-profit principles and the relevant statements of assurance have been obtained and reviewed
- consideration of whether any personal benefit has been derived from the academy trust's transactions by staff or connected individuals
- adherence to tendering policies.

2.58 The statement covers all income received and all expenditure disbursed during the period regardless of source. Whilst some of the income may be deemed unrestricted by the academy trust, as soon as it is received into the entity it will fall under the remit of regularity.

2.59 The accounting officer can also draw comfort from the work of the internal scrutiny function, which provides a process for independent evaluation and testing of financial and non-financial controls, systems, transactions and risks.

2.60 ESFA's accounting officer writes to academy trusts' accounting officers [annually](#) to share some outcomes of ESFA work and these provide a useful aide-memoir.

2.61 It is for the academy trust accounting officer to determine if further work is necessary at year-end. However, ESFA does not anticipate that, if proper internal control processes have operated during the year, there will be a need for significant additional scrutiny.

2.62 In the statement, the accounting officer should report all areas of non-compliance split between those which affect underlying financial transactions and those which are other weaknesses and, where known, should state the monetary amounts involved.

2.63 The accounting officer should ensure that any references in their final signed statement to instances of material irregularity, impropriety or funding non-compliance are consistent with any findings from the work of the reporting accountant and, where known, should state the monetary amounts involved.

Reporting on fraud

2.64 Fraud, by its inherent nature of deception to result in financial or personal gain, means that the transaction must be irregular and improper. Section 6.10 to 6.11 of

the Handbook sets out the circumstances in which fraud should be reported to ESFA.

2.65 The accounting officer will need to include any identified fraud in their statement on regularity, propriety and compliance.

Documenting the evidence behind the statement

2.66 The accounting officer should be able to support their statement. Although specific documentation is not required, the accounting officer should retain a file that details work undertaken throughout the year to:

- provide support for the accounting officer sign off at year end
- assist with the reporting accountant's questions.

2.67 The retention of a working papers file would also assist the academy trust if there were a change of accounting officer during the reporting period, or before finalisation of the accounts.

2.68 Where the accounting officer leaves during the year or up to the date of signing the declaration, including in the run-up to trust closure, the trustees must appoint a new accounting officer (interim/short-term if appropriate). The new accounting officer must be satisfied they can support their signing of the statement. This will be achieved through:

- evidence of discussions between the new accounting officer and:
 - trustees
 - the internal auditor/scrutineer
 - the senior leadership team and, where possible
 - the previous accounting officer, or a written statement from them (based on the statement of regularity, propriety and compliance in the model accounts)
- review of all relevant minutes and reports during the period covered by the statement.

Statement of trustees' responsibilities

2.69 This sets out the trustees' responsibilities under companies' legislation for preparing the trustees' report and financial statements, maintaining adequate accounting records, safeguarding the assets of the charitable company and the requirement for the financial statements to show a true and fair view. The format of this statement is included in the model accounts.

2.70 It must also explain the financial reporting framework that has been applied, comprising FRS 102, the SORP and this Direction.

2.71 The nature of the academy trust's funding relationship with ESFA, and its receipt of public funds, confers additional responsibilities on the trustees which are also incorporated in this statement.

Independent external auditor's report on the financial statements

2.72 The financial statements must be audited in all cases by an auditor appointed under the Companies Act 2006, unless dormant accounts are produced. An annual audit is also a requirement of academy trusts' funding agreements.

2.73 The form of the auditor's report follows the requirements of "*International Standard on Auditing (UK) (ISA) 700: Forming an opinion and reporting on financial statements*" alongside requirements of other relevant ISAs and law which states that the auditor will undertake the audit in accordance with the applicable law and ISAs and comply with the FRC's Ethical Standards.

2.74 The report will either include a standard worded paragraph that describes the auditor's responsibilities for the audit of the financial statements or a link to the FRC's website where the text can be reviewed.

2.75 The most important part of their report is the audit opinion.

2.76 The opinion states:

- whether the financial statements the auditors have reviewed give a true and fair view of:
 - the state of the academy trust's affairs at 31 August 2021,
 - its incoming resources and application of resources, including its income and expenditure, for the period then ended, as well as
- whether the financial statements have been prepared in accordance with relevant legislation.

The different types of opinion an auditor may express are²:

Unqualified:

This is the opinion that academy trusts hope to receive each year. This opinion is expressed when auditors have concluded that the financial statements give a true and fair view and have been prepared in accordance with relevant legislation.

² These definitions are adapted from ISA 705.

Qualified:

Expressed when:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse:

Expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of opinion:

Given when:

- the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive, or
- in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

In each circumstance, the auditor does not give an opinion on the financial statements.

The following additions may also be made to the auditor's report:

Material Uncertainty Relating to Going Concern:

Added to the report when the financial statements have been appropriately prepared on a going concern basis, but a material uncertainty exists that is appropriately disclosed in the financial statements - the auditor's opinion is not modified in respect of this matter. An example where this may occur is when an academy trust is closing or being transferred.

Emphasis of matter:

Added to the report when a matter, appropriately disclosed or presented in the financial statements is of such importance that it is fundamental to the users' understanding of the financial statements. The auditor does not modify the opinion but adds an Emphasis of Matter paragraph to the report, and references to where disclosure fully describing the matter can be found. An example could be where there is uncertainty over the future value of a charge the academy trust is committed to pay over a number of years.

- 2.77 ESFA has produced a good practice checklist to help trusts [prepare for external audit](#). Also, the [Auditor Framework and Guide](#) provides more details of the audit process.
- 2.78 Further guidance on the auditor's management letter, which is issued separately to, but supports their audit opinion, is included in [ESFA's good practice guide](#).

Independent reporting accountant's report on regularity

- 2.79 Reporting accountants will review the trustees' statement of regularity, propriety and compliance and carry out their own testing to produce their report. More information is available in the Auditor Framework and Guide.
- 2.80 Trustees should prioritise and ensure appropriate action is taken to address any findings in the report.

Statement of financial activities

Format

- 2.81 Although the SOFA is essentially a record of income and expenditure, it does not follow the format of a conventional income and expenditure account. The SOFA is therefore covered here in some detail for the benefit of new academy trusts. Under the SORP, the SOFA can be adapted with appropriate headings and sub-totals to comply with Companies Act 2006, such that a separate summary income and expenditure account is not normally required.

Funds analysis (the columns)

- 2.82 The SOFA will generally include three columns for the current period representing funds. Funds divide the academy trust's financial activities according to the level of restriction on the income and the purpose for which it can be spent. The table below explains these columns in more detail.

| Fund Name | Column 1 – unrestricted fund | Column 2 – restricted general fund | Column 3 - restricted fixed asset fund |
|-----------------------------|---|--|--|
| Definition | This contains resources which can be spent on any purpose at the discretion of the trustees, within the objects of the academy trust as set out in its governing documents. | Revenue (running costs) resources which can only be spent for particular purposes. | Resources to be spent for particular capital purposes where the conditions of the funding state that the asset must be retained and used on an ongoing basis. |
| Include in this fund | <p>It would generally include fees from:</p> <ul style="list-style-type: none"> • hiring out facilities e.g. rooms/sporting pitches • private music tuition • private nursery provision • school meals • proceeds from other trading activities including those of consolidated subsidiaries • donations with no restrictions attached • staff absence cover insurance income. | <p>ESFA General Annual Grant (GAG), including:</p> <ul style="list-style-type: none"> • school budget share • minimum funding guarantee • education services grant • allocation protection • pre-16 high need funding • post-16 high needs funding <p>Other DfE/ESFA grants such as pupil premium.</p> <p>DfE group revenue grants</p> <p>[see model accounts note 4 for examples].</p> <p>Other government revenue grants, including local authority funding for high needs pupils.</p> | <ul style="list-style-type: none"> • DfE Group capital grants • other government capital grants • sponsorship monies received for capital projects • donated fixed assets such as academy buildings transferred from the local authority • depreciation relating to any of the above. |

| | | | |
|--|--|--|--|
| | | Donations with restrictions attached (i.e. received for specific revenue purposes). Boarding activities, if relevant. | |
|--|--|--|--|

- 2.83 The SOFA may also include an endowment fund, which should be shown as an additional column 4. This will relate to the small number of academy trusts that signed a 'deed of gift' with their sponsor several years ago.
- 2.84 The SOFA may also include any funds held by connected charities that meet the definition of paragraph 28 of Schedule 3 of the Charities Act 2011 and which have been consolidated into the financial statements. These funds should be shown separately where material.
- 2.85 The SOFA includes a further column showing the total of all funds at 31 August 2021 and a comparative column showing the total funds at 31 August 2020 (if the academy trust produced accounts for that prior year).

Income and expenditure headings (the rows)

- 2.86 The rows in the SOFA categorise income according to the activity that produces the resource, and expenditure by the nature of the activities undertaken. Categories can be omitted where there is nothing to report in the current and preceding period.

Income categories

- 2.87 Under the SORP, academy trusts are required to analyse their income according to the activity (charitable or non-charitable) that generated the income, rather than the more traditional analysis of staff, premises, supplies etc.

Non-charitable activities

Donations and capital grants

- 2.88 These include gifts, donations or sponsorship (whether in cash or in kind), such as donated goods and services made on a voluntary basis, that do not provide any significant benefit to the donor in return (they can however be restricted or unrestricted).
- 2.89 As per the SORP (paragraph 5.52), income is only to be accrued where there is a legal obligation to make this payment e.g. a deed of covenant is in place. Capital grants should also be recognised as income from donations, rather than as funding for charitable activities. A note to the financial statements provides an

analysis of the material components of donations and legacies [See model accounts note 3].

- 2.90 Where services or use of premises are donated (provided free of charge), the donated service is measured at fair value, unless it is impractical to measure this reliably, in which case the cost of the item to the donor should be used. The gain is recognised as income from donations and a corresponding amount is included in the appropriate expenditure category. Where no value can be ascertained, the nature of the donated service should be disclosed along with the fact that a value cannot be determined.
- 2.91 Capital grants should also be recognised as income from donations rather than as funding for charitable activities. Capital grants are recognised in full when there is unconditional entitlement. Unspent amounts of capital grants are reflected in the balance sheet in the restricted fixed asset fund. For the avoidance of doubt, capital grants are not deferred over the life of the asset on which they are expended.
- 2.92 The charitable activity of the academy trust is the operation of its academy(s). Whilst the operation of an academy does require a building to operate from, the acquisition or construction of the building does not form part of the supply of services for the benefit of the beneficiaries. Additionally, capital grant income does not provide the donor with a benefit in return for their payment other than the knowledge that it must be used to incur capital expenditure in accordance with the donor's requirements.

Transfers on conversion

- 2.93 Donations may include assets transferred from the local authority. Where this arises on conversion to an academy the transfer should be identified as a separate line on the face of the SOFA as described in [paragraphs 3.75-3.76](#). Transfers on conversion are recognised in the balance sheet at the point when the risks and rewards of ownership pass to the academy trust, usually on the new academy's opening date. Income equal to the net assets received is recognised as "Transfer from local authority on conversion" within "Donation and capital grant income".

Transfers of existing academies

- 2.94 Transfers of existing academies are recognised in the balance sheet at the point when the risks and rewards of ownership pass to the academy trust. Income equal to the net assets received is recognised as "transfer of existing academies into the academy trust" within "Donation and capital grant income". More detail is provided in [paragraph 3.74](#).

Other trading activities

- 2.95 These are the non-charitable trading and other activities carried out by the academy trust primarily to generate income for its charitable activities. It will include income received in exchange for goods and services, for example from fundraising events, letting of property (where not relating to charitable activities), catering income (other than from the provision of school meals to pupils) and shop income [see model accounts note 5].

Investments

- 2.96 This includes interest and dividends received on investments and rent from investment properties [see model accounts note 6].

Charitable activities

Funding for the academy trust's educational operations

- 2.97 These include grants such as ESFA General Annual Grant, other DfE/ESFA grants, DfE group grants and other government revenue grants, including local authority funding. This may also include catering income received in respect of school meals provided to students [see model accounts note 4].
- 2.98 Academy trusts should separately disclose material non-GAG DfE/ESFA grants they have received in this note. This could include Student Support Services, Rates Reclaim, Pupil Premium and Service Premium, Pupil Number Adjustment, Universal Infant Free School Meals, Insurance, Sponsor Capacity, PE and Sports Grant, Teachers Pay Grant and Year 7 Catch Up Grant.
- 2.99 The heading "other DfE Group grants" is used for funds received from other agencies and public bodies which support the DfE [see model accounts note 4 for the list of bodies to be included].

Provision of boarding activities

- 2.100 This contains income received in respect of pupil boarding, where relevant.

Expenditure categories

2.101 The expenditure section is also analysed between non-charitable activities and charitable activities. The table below sets out the analysis required.

2.102

| Definition | Row title | Include here |
|----------------------------------|---|---|
| Non-charitable activities | Expenditure on raising funds | <p>Costs of fundraising, other than through charitable trading, such as advertising and marketing.</p> <p>Costs incurred by trading for a fundraising purpose, such as costs of goods sold or services provided. In consolidated accounts this will include the costs incurred by a trading subsidiary.</p> <p>Costs of investment management (if applicable).</p> |
| Charitable activities | <p>Academy trust's educational operations</p> <p>This comprises all expenditure directly relating to the provision of education</p> <p>The [model accounts note 9] provide a conventional breakdown of this line</p> | <p>Direct costs – which are likely to include:</p> <ul style="list-style-type: none"> • teaching staff and educational support staff who are directly employed by the academy trust, for example teachers, teaching assistants, education welfare officers, cover supervisors, librarians, lab/workshop/technical assistants and exam invigilators, including staff-related insurance • depreciation of fixed assets used for the curriculum • technology costs – excluding capitalised items • educational supplies examination fees • staff expenses - recruitment costs, staff travel, subsistence and other out-of-pocket expenses, DBS checks • educational consultancy • other direct costs not included elsewhere |

| | | |
|--|--|---|
| | | <ul style="list-style-type: none"> Academy trusts could provide further analysis of any other significant direct costs not included elsewhere. |
| | | <p>Support costs - they include governance costs and the costs of central functions such as general administration, premises, finance and HR.</p> <p>Separate disclosure is required under the SORP and academy trusts should apply the following headings:</p> <ul style="list-style-type: none"> support staff costs - who are directly employed by the academy trust, including finance directors, business managers and bursars, other finance and admin staff, premises managers and caretakers, maintenance and grounds staff, security staff, catering staff, cleaners, other staff not covered elsewhere, including staff-related insurance depreciation technology costs – excluding capitalised items premises costs – including cleaning and caretaking, premise maintenance, security costs, energy costs, utilities, insurance, risk protection and operating lease rentals, excluding costs of directly employed staff other support costs not covered elsewhere such as catering costs, bought-in professional services not related to the curriculum and profit and loss on disposal of assets legal costs – costs associated with the conversion or incorporation of a new academy, or with educational operations. Legal costs are those where an opinion is sought from a legal professional. |

| | | |
|-------------------------------------|--|---|
| | | <ul style="list-style-type: none"> • governance costs – the SORP (appendix 1) defines these as ‘the costs associated with the governance arrangements of the charity’. They will include: <ul style="list-style-type: none"> ○ external audit fees for the audit of the financial statements and other audit fees ○ costs associated with the strategic, as opposed to day-to-day, management of the academy trust’s activities ○ costs associated with constitutional and statutory requirements, e.g. the cost of trustee meetings such as trustees’ expenses. |
| | <p>Provision of boarding activities</p> <p>The costs associated with pupil boarding</p> | <p>Direct costs include costs of goods and services and any other costs incremental in providing the boarding facility.</p> <p>Support costs include the costs of directly supporting that activity, e.g. staff costs, utilities, rent and rates and building maintenance etc.</p> |
| Other income and expenditure | This represents activity that cannot be reported under the other analysis headings provided within the SOFA. | |

2.103 Some academy trusts have a second charitable object in their company articles in addition to the advancement of education, typically referring to the provision of recreation and social welfare. In such instances it would be appropriate to disclose a second area of charitable activity within both income and expenditure, and in the notes to the financial statements.

Other information contained in the SOFA

2.104 Where applicable, the SOFA also includes the following:

| Row title | Description |
|--|---|
| Net gains and losses on investment assets | This is likely to apply to academy trusts holding investments in an endowment fund, although it can apply to other academy trusts with capital investments. It is not illustrated in the Coketown model, but would be shown in between the 'other expenditure' and "net income/(expenditure)" lines. |
| Transfers between funds | There may be many reasons to make a transfer between funds (see the SORP paragraphs 2.26 and 4.61) but for an academy trust it will often be to reflect the purchase of fixed assets from GAG. For more info see 3.57 to 3.61 . |
| Other recognised gains and losses | Actuarial gains or losses on defined benefit pension schemes - this will apply to all academy trusts' local government pension scheme funds. |

Balance sheet

2.105 The balance sheet provides a snapshot of the financial position at 31 August. An explanation of the balance sheet elements is given below.

Assets

Intangible fixed assets [see model accounts note 14]

2.106 The most common form of intangible fixed assets³ held by academy trusts are computer software licences. These should exclude software required for the computers to operate such as a Windows operating system, as these items are not 'separable' and should be capitalised with the relevant hardware. Where

³ Intangible fixed assets do not have physical substance but are identifiable and are controlled by an academy trust through custody or legal rights and which provide ongoing economic benefit

material, other software such as word processing or finance packages should be treated as an intangible fixed asset in line with the academy trust's accounting policy. The SORP provides more details (paragraphs 10.18 to 10.24).

Tangible fixed assets [see model accounts note 15]

2.107 Tangible fixed assets⁴ may include fixed assets acquired since the academy trust was established and fixed assets inherited from a predecessor school at the time of academy conversion. Examples include land and buildings, furniture and equipment.

Investments

2.108 Investments will be shown as either fixed or current assets. Generally, only investments which the trustees intend to realise without re-investment will be current assets. All investment assets other than certain social investments should be included at fair value unless this cannot be measured reliably.

Stock [see model accounts note 16]

2.109 This may include stocks of school uniform, if relevant.

Debtors [see model accounts note 17]

2.110 All amounts owing to the academy trust or prepaid by the academy trust should be included under this balance sheet heading at their recoverable amounts (being the amount the academy trust expects to receive from the debt). If any debts are due after more than one year they must be separately disclosed in a note to the financial statements and where material in the context of total net current assets they should also be shown separately on the face of the balance sheet.

Cash at bank and in hand

2.111 Include the balances held in all academy trust bank accounts plus any miscellaneous cash holdings, e.g. petty cash balances. This will also include cash equivalents, being short-term highly liquid investments with a short maturity of, for example, three months or less from the date of acquisition, e.g. short-term money market deposits.

⁴ are those assets that have physical substance and are used to provide an economic benefit to the academy trust on a continuing basis (i.e. for more than one reporting period)

Liabilities

Creditors

2.112 All amounts owed, accrued or deferred by the academy trust should be included under this balance sheet heading at their settlement amount (being the amount the academy trust expects to pay to settle the debt). The amount owed must be split between amounts falling due within one year [see model accounts note 18] and amounts falling due after more than one year [see model accounts note 19].

Amounts falling due after more than one year may include:

- loans from ESFA under the Conditions Improvement Fund (CIF). As part of an academy trust's CIF bid it may elect to take some of their award as a loan
- loans inherited from the former local authority-maintained school on conversion
- Salix loans – these are concessionary loans under the SORP (paragraph 21.19), being loans received to further a charity's purposes where interest is charged at below market rates. There is an accounting policy choice set out in the SORP (paragraph 21.26) of either to recognise such loans at 'fair value' or, more simply, to recognise them at the amount received less any repayments. Details of the additional disclosures required in respect of concessionary loans are set out in the SORP (paragraph 21.43).

2.113 If loans are deemed to meet the definition of 'basic financial instruments' under FRS 102 (sections 11.8 and 11.9) they should be measured at the amount of the principal advanced.

Defined benefit pension scheme asset/liability

2.114 Any asset or liability derived from a defined benefit pension scheme (calculated in accordance with FRS 102 section 28) must be disclosed on the face of the balance sheet [see model accounts note 32].

Funds

Restricted fixed asset fund

2.115 This represents the cumulative amount carried forward in respect of restricted funding received for fixed assets required to be used on an ongoing basis. It will predominately be government funds received but may include other funds from a sponsor or other donations. This fund can represent unexpended cash received for capital purposes or the carrying value of a funded fixed asset.

Restricted general fund

2.116 The amount included in this fund represents the cumulative amount carried forward in respect of funding received for the specific purpose of the academy trust's running costs excluding fixed assets. It would predominantly be government funds but may include other funds from sponsors/other donors.

Pension reserve

2.117 This reserve will relate to restricted funds, on the basis that the income funding the activity is restricted. When there is a surplus or a deficit on a defined benefit pension scheme that results in an asset or a liability being recognised, the recognition of the pension asset or liability will result in the creation of a pension reserve. This reserve will be negative in the case of a liability.

Unrestricted fund

2.118 Include in this fund any amounts not included in the above funds and which are available for general use at the discretion of the trustees to further the charity's purpose.

Statement of cash flows

2.119 FRS 102 (section 7) requires a statement of cash flows to be presented in the financial statements. Cash flows for the period should be classified under the following standard headings, if arising:

- operating activities
- investing activities
- financing activities

the net effect of which should equal the increase/decrease in cash and cash equivalents in the year.

2.120 Notes analyse each of the cash flow headings.

[Note 24]: operating activities – this reconciles the 'net income/(expenditure)' shown on the SOFA to the 'net cash provided by/used in operating activities', showing how the operating activities have generated or consumed cash

[Note 25]: financing activities – this shows cash flows relating to borrowing and gifts of permanent or expendable endowment funds and so would not be applicable to most academy trusts

[Note 26]: investing activities – this includes acquisitions or disposals of investments and the cash generated from holding investments. It also includes the acquisition or disposal of tangible fixed assets including property, plant and equipment

[Note 27]: cash and cash equivalents– this sets out an analysis of cash and cash equivalents from the statement of cash flows

[Note 28]: net debt – this comprises a reconciliation of net debt (borrowings (such as Salix loans) less cash and cash equivalents). There is no requirement to show this reconciliation for the prior period.

- 2.121 Where there are investing and financing transactions that do not involve the use of cash or cash equivalents, these should be excluded from the statement of cash flows and disclosed in the notes.
- 2.122 Additionally, where the academy trust holds significant cash and cash equivalents which are not available for use (for example if held in endowment funds) the amount must be disclosed along with an explanation of why it is unavailable for use.

Notes to the financial statements

- 2.123 This section provides detail and guidance on specific notes to the financial statements, including those unique to academy trusts. The model accounts list and illustrates the format of all of the required notes.

Accounting policies

- 2.124 As accounting policies⁵ apply at the reporting entity level, trusts with multiple academies should ensure their accounting policies are being applied consistently across their constituent academies.
- 2.125 Trustees should regularly review accounting policies and approve any new policies. New policies should only be implemented:
- if required by FRS 102 or
 - where the trust judges that they provide more reliable, appropriate and relevant information about the effect of transactions, other events or conditions on the financial position, performance or cash flows of the academy trust.
- 2.126 Where a material change in accounting policy occurs, the comparative figures in the primary statements and notes are restated and the opening balance of reserves is restated for the cumulative effect of the change. This is done by

⁵ Accounting policies are the principles, bases, conventions and rules by which transactions and items are recognised, measured and presented in the accounts. They are supplemented by estimation techniques where judgement is required in recording the value of income and expenditure and of assets and liabilities. These should be the most appropriate in the circumstances for each academy trust for the purpose of giving a true and fair view. Where FRS 102 or the SORP permit a choice, it should be made against the objectives of relevance, reliability, comparability and understandability.

applying the new accounting policy to comparative information for all prior periods to the earliest date that is practicable as if the new policy had always applied (except where an accounting standard requires or permits an alternative treatment on its first adoption). Additional disclosure would be required in this instance.

2.127 The accounting policies note [see model accounts note 1] for the academy trust should cover the following areas, where applicable. Those listed are not intended to be exhaustive and may need to be amended to reflect the individual circumstances of each academy trust.

| Accounting policy | Description | Further details |
|-----------------------------|---|---|
| Basis of preparation | This is a statement regarding the convention adopted - which for academy trusts will be the historical cost convention. | An exception is where an academy trust has investment assets it would be required to adopt an historical cost convention as modified by the inclusion of investments at market value. |
| | It also includes a statement by the trustees that the accounts have been prepared in accordance with: <ul style="list-style-type: none"> • applicable charity and company law • FRS 102 • the SORP and the requirements of this Direction. | |
| Going concern | Accounts should be prepared on the basis that the academy trust is a 'going concern' unless this is not the case. Trustees should explain in sufficient detail the basis of their conclusion with respect to the going concern basis of accounting at the date of | The SORP (paragraph 3.38) requires that academy trusts must explain if there are material uncertainties that cast doubt on the academy trust's ability to continue as a going concern. Where there are no material uncertainties about the charity's ability to continue, they should disclose this fact. |

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| | approval of the financial statements. | <p>Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks, issued by the FRC, should be considered by trustees of academy trusts as good practice.</p> <p>In addition, ESFA's updated good practice guide discusses going concern assessments and how trustees can ensure that they are based on appropriate evidence.</p> |
| Recognition of income | This should include the policy for including each type of material source of income, normally on a receivable basis | <p>Include policies for the following:</p> <ul style="list-style-type: none"> • The basis of recognition of GAG and other grants including those for fixed assets and how the grants are analysed between the different types of incoming resources • If ESFA is constructing an asset under the Free Schools or Priority School Building Programme for the academy trust, see 3.11. |
| Donated assets/services/facilities | This should indicate the basis of valuation used. | <p>The SORP (paragraphs 5.10 - 5.12 and module 6) provides guidance on principles for accounting for donations. However, of particular relevance to academies:</p> <p>Fixed assets donated by third parties are recognised as income at their fair value in the period in which the academy trust has entitlement to the incoming resources, where the benefit to the academy trust can be reliably measured and where any performance related conditions have been fully met. An equivalent amount should be recognised in the appropriate fixed asset</p> |

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| | | <p>category and the asset depreciated over its expected useful economic life on a basis consistent with the depreciation policy for that asset category.</p> <p>Services in kind such as time provided by a sponsor should only be included in the SOFA where the benefit to the academy trust is reasonably quantifiable and measurable. The value of these services should be the estimated value to the academy trust of the service; this will be the price the academy trust estimates it would pay in the open market for the service. An equivalent amount would be included in expenditure under the appropriate heading in the SOFA.</p> |
| <p>Expenditure</p> | <p>The policy should cover the following areas:</p> <p>recognition of liabilities including constructive obligations</p> <p>categorisation of expenditure – this should include the policy for including items within the relevant activity categories, in particular differentiating between charitable activities (the direct provision of education), and costs of raising funds</p> <p>allocation and apportionment of costs – Costs must be analysed by activity on a full cost basis, where full cost is made up of</p> | <p>This must be analysed on a full cost basis, where full cost is made up of the total of direct and shared costs (including support costs).</p> <p>Some items of expenditure may relate to more than one activity. For example, some staff may divide their time between day-to-day academy business (charitable</p> |

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| | <p>the total of direct costs and shared costs (including support costs) involved in undertaking each reported activity.</p> <p>the methods adopted to allocate or apportion costs between reported activities - It should reflect the principles applied for allocation of costs between direct, shared and support costs. The method of apportionment, where costs contribute directly to more than one activity or are not attributable to a single activity, should also be included.</p> | <p>activities) and other activities. Where this is the case the cost must be apportioned on a reasonable and consistent basis – for example per capita (number of people involved), time basis, floor area occupied (potentially for some types of cost) or some other suitable basis. The degree to which items need to be apportioned will depend on the materiality of the amounts involved.</p> <p>The bases for apportionment may, for example, be based on staff time, salaries, space occupied or another reasonable basis.</p> |
| Accounting for intangible assets | <p>The policy should include:</p> <ul style="list-style-type: none"> • the basis for inclusion of intangible fixed assets • the value, if any, below which items are not capitalised • the rates of amortisation (in accordance FRS 102, section 18) • the policy with respect to impairment reviews. | |
| Accounting for tangible fixed assets | <p>The policy should include:</p> <ul style="list-style-type: none"> • the basis for inclusion of tangible fixed assets, | <p>In applying a ‘capitalisation limit’ academy trusts should have regard to the potential for misstating the</p> |

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| | <p>which is expected to be cost</p> <ul style="list-style-type: none"> • the value, if any, below which items are not capitalised as fixed assets • the policy for buildings under construction • accounting for assets funded by grants • the rates of depreciation • policy with respect to impairment reviews. | <p>financial statements if individually low value assets that are collectively of a material value are not capitalised. As best practice, therefore, assets bought together as a set (e.g. a batch of network computers) should be capitalised as a group.</p> |
| Provisions⁶ | <p>They should be recognised in the balance sheet, but only when:</p> <ul style="list-style-type: none"> • the academy trust has an obligation (legal or constructive) as a result of a past event • it is probable (more likely than not) that a transfer of economic benefit will be required to settle the obligation • a reliable estimate can be made of the amount of the obligation. | <p>For example, where an employment tribunal has taken place and a legal settlement is pending.</p> |
| Leasing | <p>Rentals under an operating lease should be charged on a straight-line basis over the lease term unless another</p> | <p>As an exception, where academies occupy premises which are owned by other bodies for which no annual or only a nominal rental payment is made, see paragraph</p> |

⁶ These are liabilities of uncertain timing and/or amount that will be settled by the transfer of economic benefits (e.g. payment).

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| | more systematic basis is more appropriate. | 3.23 for the accounting treatment of such matters. |
| Investment assets (excluding certain social investments) | <p>In accordance with the SORP (paragraphs 10.41 to 10.56), fixed asset investments (excluding certain social investments) should be carried at fair value at the balance sheet date unless this cannot be measured reliably. Where fair value cannot be measured reliably, fixed asset investments should be carried at cost less impairment.</p> <p>Current asset investments should also be carried at fair value.</p> | <p>All changes in value in the period, whether or not realised, should be reported in the 'gains/losses on investments' section of the SOFA. Fixed asset investments should be classified as a separate category within fixed assets.</p> <p>They include cash on deposit and cash equivalents with a maturity of less than one year held for investment purposes (rather than to meet short-term cash commitments as they fall due).</p> |
| Stock | Stock should be brought into account at the lower of cost or net realisable value. | |
| Pension benefits | <p>Both LGPS and TPS are multi-employer schemes.</p> <p>The academy trust has sufficient information available to identify its share of assets and liabilities within the LGPS and therefore should recognise a surplus or deficit on the scheme within the financial statements.</p> | <p>To obtain this information for the LGPS scheme the trust will need to liaise with their local pension scheme contact. The trust will receive a report written by the scheme actuary with the information to support its disclosures in the financial statements. This information should reflect the latest known position at the time in respect of the trust's assets and liabilities, including reflecting insofar as possible the effects of the McCloud</p> |

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| | As it is an unfunded scheme, the TPS is accounted for as a defined contribution scheme with contributions being recognised on a payable basis [see model accounts note 32]. | judgement. Information on this judgement can be found here . |
| Contingent liabilities⁷ and/or contingent assets⁸ | If applicable, the trust may include its policy on the recognition of contingent liabilities and/or contingent assets. | It is important to remember that contingent liabilities (including obligations that are not probable) do not result in the recognition of an amount on the balance sheet and instead are disclosed as a narrative note to the financial statements [see model accounts note 30]. |
| Funds | A brief description should be given of the different types of funds held by the academy trust, including the policy for any transfers between funds and allocations to or from designated funds. | |

⁷ Unlike provisions, contingent liabilities are not recognised in the balance sheet but instead are disclosed in a note to the accounts. Contingent liabilities are one of the following:

- a possible but uncertain obligation that arises from past events
- a present obligation that arises from past events but is not recognised because:
 - it is not probable that a transfer of economic benefits will be required to settle the obligation
 - the amount of the obligation cannot be estimated with sufficient reliability

As a rule of thumb, 'probable' means more than 50% likely. An example of a matter that may result in a contingent liability is where a staff member has made a claim for wrongful dismissal against the academy trust and this may result in an employment tribunal case.

⁸ This is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the academy trust's control. An example of a matter that may result in a contingent asset is where the academy trust has made an insurance claim, where the outcome is still to be determined.

Funding for the academy trust's educational operations

2.128 This note [note 4] discloses funding received from:

The DfE, including its arm's length bodies

2.129 This includes:

- The DfE and ESFA: The majority of funding for the academy sector comes from these funding providers, with the largest amount being GAG. GAG must be disclosed separately in this note. Any other material amounts must also be listed in the note, with any remaining sources of funding from these providers grouped together. This would include, but not be limited to, Pupil Premium, Universal Infant Free School Meals, etc.
- Any other bodies within the group: This includes, for example, the Student Loans Company and the Standards and Testing Agency. A full list of bodies can be found on the DfE [website](#).

2.130 To align more closely with the Academies Accounts Return, the headings in this note have been revised, as described above. Some academy trusts may now find that grants they receive, which they previously reported under the heading "Other DfE Group grants" no longer meet this definition. A disclosure to this effect should be provided below the note, and an example is included in the model accounts document.

Other government grants

2.131 These may be received from local authorities, for special educational projects, or other projects.

Staff costs

2.132 This note [note 10] discloses information comprising:

Total costs

2.133 Total costs for all employees, analysed as follows:

- wages and salaries
- social security costs (which includes the apprenticeship levy charge)
- operating costs of defined benefit pension schemes (this will include employer contributions to the TPS and the LGPS will included full service costs but will exclude pension finance costs/income)
- agency staff costs
- staff restructuring costs including redundancy payments (i.e. where redundancy pay is payable), severance payments (excluding payments in lieu

of notice, and to include payments made in all other circumstances where a staff member is leaving) and other costs for departing staff (including payments into the pension fund).

Non-statutory/non-contractual severance payments

2.134 The individual values of any non-statutory/non-contractual severance payments. Confidentiality cannot be used as a reason for non-disclosure of these amounts, although the names of the recipients do not need to be disclosed.

The average number of employees in the financial period (by headcount)

2.135 This is analysed between teaching, administration and support and management headings. Management should include senior leadership team members who do not have day-to-day teaching duties. The head of school should always be considered to be management irrespective of any teaching duties. The administrative and support heading includes all other staff who do not have day-to-day teaching duties.

2.136 The average number of full-time equivalent employees in the financial period, analysed as above, may also be provided.

The number of employees whose employee benefits during the period exceeded £60,000

2.137 This information should be presented in £10,000 bandings (employee benefits for the purposes of this banding disclosure include salary and other taxable benefits in cash or in kind and termination payments, but not the academy trust's own pension costs).

2.138 Where the academy trust has entered into an "off-payroll" arrangement with someone who is not an employee, including but not limited to where ESFA has exceptionally approved the appointment of an Accounting Officer (AO) or Chief Financial Officer (CFO), the amount paid by the trust for that person's work for the trust in this role must also be included in this note as if they were an employee. The prior year figure should also be reported and restated if necessary.

2.139 If there are no employees with the employee benefits listed above which exceed £60,000, this fact should be stated.

Total employee benefits paid to key management personnel⁹

⁹ Defined as the trustees and the senior management team

2.140 Employee benefits include salary and other taxable benefits in cash or in kind, termination payments, plus employer pension and national insurance contributions. Where the academy trust has entered into an “off-payroll” arrangement with someone who is not an employee, including but not limited to where ESFA has exceptionally approved the appointment of an AO or CFO, the amount paid by the trust for that person’s work for the trust in this role must also be included in this note as if they were an employee. The prior year figure should also be reported and restated if necessary.

Disclosure of central services

2.141 Trusts with multiple academies (only) must include an additional note to their financial statements detailing any central charges that the academy trust made to its constituent academies during the year [see model accounts note 11]. The note must describe:

- the types of central services provided to the academies by the academy trust during the year
- the academy trust’s policy for charging for those central services. For example, this might be based on a flat percentage of each academy’s income, or on pupil numbers, or time-apportionment or some other suitable basis
- the actual charges placed on each academy for the services during the year.

2.142 If a trust with multiple academies did not have a central management/services function and/or no central charges arose, these facts must be disclosed.

Related party transactions including trustees’ remuneration

2.143 [See model accounts note 12 for trustees’ remuneration and note 33 for other related party transactions].

2.144 FRS 102 requires all transactions with related parties to be disclosed in the accounts so that users can gain a full understanding of them and of issues that might have influenced them. Disclosure provides accountability and transparency to the public and demonstrates that potential conflicts of interest are being identified and reported.

2.145 The SORP (paragraph 9.13) states that the disclosure of related party transactions is an important element of transparency in financial reporting because:

- related parties may enter into transactions that unrelated parties would not
- transactions between related parties may not be made at the same amounts or on the same terms as those between unrelated parties
- the existence of the relationship may be sufficient to affect the transactions of the charity with other parties.

2.146 The SORP (paragraph 23.4) states that related party transactions between a parent charity and its subsidiaries, associates and joint ventures must be disclosed. Academy trusts must therefore disclose all intra-group transactions¹⁰.

Types of related party

2.147 Under FRS 102 related parties include:

- parties with control over, or controlled by, the entity, e.g. **parent and subsidiary companies**
- parties having **significant influence** over the entity, such as members
- **key management personnel** of the entity, including any **director**, whether executive or otherwise
- **close family members**¹¹ of any of the above
- others **subject to control or significant influence** by any individual referred to above.

2.148 Related party transactions, as identified per the Handbook, also need to be included in this note, together with connected charities that meets the definition of section 28 of schedule 3 of the Charities Act 2011.

2.149 As stated above, related parties include a company's directors which, in the case of an incorporated charity such as an academy trust, would be its trustees. Further information can be found in the SORP (paragraphs 9.2 to 9.22 and appendix 1).

2.150 ESFA is not deemed to be a related party simply by virtue of the funding it provides to the academy trust.

Types of related party transaction

2.151 Related party transactions can be categorised as two types: incoming and outgoing. Academy trusts should disclose these separately.

2.152 Examples of incoming related party transactions in the academy sector include the donation of goods, services, property or money by a related party defined above.

¹⁰ and so cannot take up the exemption afforded in paragraph 33.1a of FRS 102

¹¹ FRS 102 defines a close family member as: "Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including: (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner".

2.153 Common examples of outgoing related party transactions in the academy sector include the purchase of goods, services such as training, the use of tradespeople, IT, consultancy or HR services or property by a related party defined above.

Information on related parties to be disclosed

2.154 All transactions undertaken by an academy trust with related parties must be regarded as material regardless of their size and must be disclosed. Under the SORP [paragraph 9.20] disclosure must include:

- the names of the related parties
- a description of the relationship between the parties
- a description of the transactions
- the amounts involved
- the amounts due to or from related parties at the balance sheet date, and any provisions for doubtful debts or amounts written off
- details of any guarantees given/received
- terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement
- any other elements of the transactions which are necessary for the understanding of the accounts.

2.155 Under the Direction, the academy trust must **also** make a disclosure confirming whether related party transactions were conducted in accordance with requirements of the Handbook and with their financial regulations and procurement procedures [see model accounts note 33]. In line with the SORP (paragraph 9.21) this statement should not be made unless this can be substantiated.

2.156 Academy trusts must **also** include a statement that, where contracts for goods or services exceeding £2,500 cumulatively in the year, the element above £2,500 has been provided at no more than cost. This must be supported by a statement of assurance from the related party to the academy trust confirming this.

2.157 ESFA brought in new requirements for all transactions made on or after 1 April 2019. Academy trusts must report all transactions with related parties to ESFA in advance of the transaction taking place. Academy trusts must also obtain ESFA approval for contracts for the supply of goods or services to the trust by a related party where certain limits apply. A disclosure confirming that all transactions are conducted in accordance with the requirements of the Handbook, including notifying ESFA of all transactions made on or after 1 April 2019 and obtaining their approval where required, **must** be made.

2.158 If no related party transactions arose in the period, the note must still disclose this.

Disclosure of related party transactions with academy staff and trustees

2.159 The SORP (paragraphs 9.5 to 9.8) requires remuneration and other benefits received by a trustee for their role as a trustee to be disclosed separately from remuneration and other benefits received for other employment with the academy trust. This is because, unlike directors of commercial companies, it is not normal practice for charity trustees to receive remuneration from the charities for which they are responsible.

2.160 Related party disclosures must include the following types of payment:

- salary and benefits (for example termination/severance payments) paid to the principal and/or chief executive in their capacity as staff where, as is usual, they are an ex-officio governor and hence a director and trustee
- salary and benefits (for example termination/severance payments) paid to other staff, in their capacity as staff, where they are also trustees and hence directors.

2.161 The disclosure must clearly state that the individuals received the remuneration in respect of their employment as staff, not in respect of their work as academy trustees.

2.162 DfE's model articles of association for academy trusts prevent the payment of academy trustees for their services as a trustee without the approval of the Charity Commission, who may give such approval only in the most exceptional cases. If exceptionally the Charity Commission has agreed that an academy trust can pay a trustee for their services as a trustee, as opposed to their services as staff, this fact must be stated in the financial statements [see model accounts note 12] and the payment must be disclosed as a related party transaction.

2.163 Under the SORP (paragraph 9.7), disclosure must include the name of each trustee in receipt of remuneration and other benefits, and details of the amounts involved. Under the Direction, ESFA is content for academy trusts to present the amounts in £5,000 bandings.

2.164 Confidentiality cannot be used as a reason for non-disclosure of principals' and other trustees' remuneration in related party disclosures.

2.165 In addition to disclosure of trustees' remuneration, the financial statements must also disclose:

- the amount of employer pension contributions paid in respect of trustees
- the number of trustees who have had their expenses reimbursed and the total amount of expenses reimbursed

- any other related party transactions with trustees including payments for services under commercial contracts (for example payments for goods and services to a company owned by a trustee).

Funds

2.166 Two notes must analyse the structure and position of the academy trust's funds. The first funds note [see model accounts note 20] should:

- provide the opening balance of each fund, the movement in the period (including any transfers between funds) and the closing balance
- differentiate between restricted general funds, restricted fixed asset funds, unrestricted funds and any endowment funds as well as identifying any material individual funds contained within
- include a description of how each fund has arisen, the purpose of each fund and any restrictions imposed. An indication should be given of whether sufficient resources are held in an appropriate form for the fund to be applied in accordance with any restrictions. An explanation of the nature and reason for any transfers should also be given
- ensure any funds in deficit are separately disclosed. The circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit should also be disclosed.

2.167 Trusts with multiple academies must also make additional disclosures at the foot of this funds note. Where they do not have a nil balance, these disclosures must:

- identify the share of funds attributable to each academy at the end of the current and comparative 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
 - educational supplies
 - other costs.

In line with other notes, where all balances are zero in both this period and the prior period, this note is not required. However, a line should still be added to state that a funds note has not been included because all reserve balances are zero.

2.168 [Note 21] should disclose the types of assets and liabilities representing each fund and the amounts of those assets and liabilities at the end of the period.

Events after the end of the reporting period

2.169 A note is required disclosing any events arising after the balance sheet date¹², as set out in section 32 of FRS 102 [see model accounts note 39]. There are two types of events:

- those that provide evidence of conditions that existed at the balance sheet date. These are adjusting events and would require the amounts in the financial statements to be adjusted to reflect them – for example, the settlement of a court case that confirms the entity had a present obligation at the balance sheet date
- those that are indicative of conditions that arose after the balance sheet date. These are non-adjusting events – for example, a decline in market value of investments between the balance sheet date and the date when the financial statements are authorised for issue. Where non-adjusting events are material and non-disclosure would influence the readers of the financial statements, then disclosure should be given of each material category of non-adjusting event after the balance sheet date.

Accounting records

2.170 To facilitate the preparation of their financial statements, academy trusts should ensure that their accounting records:

- adequately identify the nature of income and the associated expenditure (i.e. unrestricted, restricted, capital, endowment) arising during the year
- provide adequate schedules of debtors, prepayments and accrued income to support the entries on the balance sheet
- provide adequate schedules of creditors, accruals and deferred income to support the entries in the balance sheet. This should include a liability for any outstanding paid annual leave, if material, which might occur when the academy trust's holiday year for employees does not coincide with the accounting year
- include a fixed asset register, as required by the Handbook, which should facilitate the correct accounting and disclosure of fixed assets in the balance sheet.

¹² These are events, favourable or unfavourable, that occur between the balance sheet date and the date the financial statements are authorised for issue. Comparatives are also to be included.

Part 3: How to account for specific topics

This section provides further guidance on the accounting treatments, recognition and disclosure of more complex or technical scenarios which will be relevant to most academy trusts.

Government grants¹³

- 3.1 Some grants may contain conditions to be met before entitlement arises. Time-related conditions may also be implied. Such conditions would mean that the grant (or the relevant part thereof) is not recognised until a future period.

Different types of grant include:

Grants receivable on an academic year basis

- 3.2 GAG and other grants receivable for the period ending 31 August would be recognised in full in that period, with any unspent amount at 31 August reflected as a balance in restricted general funds.

Grants receivable over differing periods

- 3.3 Pupil Premium and other grants paid in respect of expenditure for the period ending 31 March would be recognised in full in that period and this may result in apportionment of the grant over two accounting periods.

Capital grants

- 3.4 Grants received for capital purposes include Devolved Formula Capital Grant, Schools Condition Allocations and the Conditions Improvement Fund (CIF).
- 3.5 The SORP (paragraph 5.27) states that capital grants should not be deferred over the life of the asset. Capital grants should also be recognised as income from donations rather than as funding for charitable activities.

¹³ The SORP (paragraphs 5.8 and 5.11) explains that income should be recognised in the accounts when all the following criteria are met:

- **entitlement** – control over the rights or other access to the economic benefit has passed to the academy trust
- **probable** – when it is more likely than not that the economic benefit associated with the transaction or gift will flow to the academy trust
- **measurement** – the monetary value or amount of the income can be measured reliably, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably

- 3.6 Capital grants are recognised in full when there is unconditional entitlement, receipt is probable, and its amount can be measured reliably. Unspent amounts of capital grants are reflected in the balance sheet in the restricted fixed asset fund.
- 3.7 Evidence of entitlement will usually exist when the formal offer of funding is communicated in writing to the trust. However, some grants will contain terms or conditions that must be met before the trust has entitlement to the resources. The SORP (paragraphs 5.13 - 5.28) provides more detail of the accounting treatment under these circumstances.
- 3.8 Capital grants must be spent on capital projects in line with the terms and conditions of the grant. DfE may request to see evidence to ensure appropriate spending.
- 3.9 Where church academy trusts do not recognise the related land and buildings, capital grants should still be recognised when received. Where the expenditure is incurred by the church body, the grant received should be recognised as a donation - not as income from charitable activities - and matched to the corresponding grant expenditure of the church body that holds the land and buildings.
- 3.10 In cases where the expenditure is instead incurred by the academy then it may be appropriate for the academy trust to recognise a site improvement asset funded by capital grants even if the site is not recognised as land and buildings in their academy trust's own financial statements. A suitable asset class may be entitled "site improvements" and would be analogous to leasehold improvements for a lessee. Alternatively, the grant would be included as expenditure in the SOFA and a note included explaining the grant was applied to improvements to diocesan property occupied by the academy trust. In both instances, we would expect academy trusts to provide sufficient narrative disclosures to explain the situation to readers of their accounts.

ESFA Free School programme or Priority Schools Building Programme

- 3.11 If ESFA is constructing an asset under the Free Schools or Priority School Building Programme for the academy trust and it recognises an asset, then the academy trust's accounting policies should cover how the asset and associated income are being accounted for; they should not be accrued on the basis of the funding letter, as that does not give rise to an unconditional entitlement.

Donations

General donations in cash

- 3.12 Cash donations given by supporters and the public would be treated as income from donations in the SOFA and either recognised in the unrestricted fund (if received for use at the discretion of the academy trust), in the restricted fixed asset fund (if received for capital purposes with a requirement for on-going use of the asset) or otherwise in the restricted general fund.

Donations in kind

- 3.13 An academy trust may occasionally receive donations in kind, as opposed to cash. In accordance with [paragraph 2.127](#), donations of fixed assets should be measured at fair value.
- 3.14 Donations of sponsors' services are expected to be reasonably quantifiable and must be included as income with a matching amount of notional expenditure.

Donations into an endowment fund

- 3.15 Historically some academy trusts entered into a 'deed of gift' where the sponsor pledged money to be invested on a permanent basis to generate a return which could be spent by the academy. This money was placed into an endowment fund held by a separate unincorporated charity, usually a 'special trust' of which the academy trust was the sole corporate trustee. In view of this relationship, an endowment fund is treated as part of the academy trust and must be aggregated rather than consolidated within the academy trust's financial statements.
- 3.16 As per [paragraph 2.83](#), the endowment fund must be shown as a separate column on the face of the SOFA. It is only in the years when new endowment capital is received that there will be income shown within the endowment fund column. However, note that:
- if a part of the endowment fund is held in investments, the gains or losses arising on the value of the investments must be shown in the endowment fund column
 - any income generated from the endowment fund (e.g. bank interest, investment returns) as well as any corresponding expenditure should not be shown in the endowment fund but should instead be shown in either the academy trust's restricted or unrestricted funds depending on the terms set out in the deed of trust
 - where the endowment fund is held as investments, any investment management costs should be charged to the endowment fund column.

- 3.17 The endowment fund must be shown as a separate line in the 'funds' section in the bottom half of the balance sheet.
- 3.18 Movements in endowment funds should be treated as increases or decreases in the 'financing activities' section of the cash flow statement. Cash donations to the endowment funds should be treated as additions to the endowment fund in the 'financing activities' section, by inclusion of a line 'Additions to endowment funds'.
- 3.19 Receipts and payments from the acquisition and disposal of endowment assets (being the conversion of an endowment from one form of investment to another) should be shown gross in the 'investing activities' section.
- 3.20 Within the 'fund accounting' section in the accounting policies note, an explanation should be added to set out the nature of the endowment fund i.e. whether it is a permanent endowment fund (as is generally the case for academies) or an expendable endowment fund, and how the income generated from the fund is treated, i.e. whether the income generated from the fund is restricted or unrestricted. An explanation should be included setting out how the endowment fund has been incorporated into the financial statements i.e. aggregated rather than consolidated.
- 3.21 **Movement on funds note 20** – a similar note to that required for other funds should also be prepared, showing the movement from the opening funds position to the closing position.
- 3.22 **Analysis of assets note 21** – should also show the proportion of the net assets at the year-end which are included with the endowment fund.

Land and buildings

- 3.23 This section describes the main circumstances under which an academy trust holds land and buildings (premises) and explains how these should be accounted for. It is not exhaustive, and other circumstances may apply.

Long term leasehold, or other arrangements for the occupation of premises

- 3.24 Most schools that convert to academy status continue to occupy the premises occupied by the predecessor school on a long-term basis, but do not acquire the freehold. There are two common arrangements:

1) Premises leased from the local authority or other organisation

- 3.25 Academies that convert from a former local authority maintained school, where the freehold is owned by the local authority, generally occupy the predecessor school's premises under a lease from the local authority, normally for 125 years at nil rental. Some academies may lease their premises from other organisations.

- 3.26 The asset should, in these cases, be recognised in the academy trust's financial statements, representing the 'right to use' the property. The fair value of the asset (being the right to use the property rather than the freehold) should be recognised as a leasehold tangible fixed asset with a corresponding amount of 'income from donations' recognised within the restricted fixed asset fund. The amount recognised in fixed assets would then be depreciated over the useful economic life of the asset with depreciation being charged against the amount included in restricted fixed asset funds.
- 3.27 Where an academy trust occupies its premises under a leasehold it will need to determine an appropriate fair value for the asset for initial recognition. The academy trust must determine a reasonable and reliable estimate of the current value with supporting assumptions, and it may conclude that it can only do this by obtaining an independent valuation. The academy trust could therefore instruct a chartered surveyor or obtain assistance from the relevant local authority. Insurance valuations are unlikely to be appropriate if they simply represent the rebuilding cost of the asset rather than its fair value.

2) Premises occupied under a licence by church academies

- 3.28 Academies that convert from a former voluntary (church) school and continue to occupy the site of the predecessor school usually have different occupancy arrangements to other former maintained schools:
- 3.29 **Basis of occupancy** - The different basis of occupancy for church academy trusts is because the freehold will generally be owned by a diocese or other religious body, or by independent trustees. On conversion, such an academy trust will usually have a mere licence to occupy whereby the premises are made available for its use, normally with no rental payable. (Less commonly, the academy trust may be granted a lease, in which case the guidance on leasing (above) should be followed).

A licence in this context means a special permission to do something on, or with, somebody else's property which, if not for the licence, could be legally prevented or give rise to legal action.

In relation to church academy trust premises, such an arrangement is usually evidenced in a supplemental agreement between the academy trust, the church trustees and the Secretary of State. This normally follows the model agreements published by the Department for Education. It sets out the church's undertaking to the Secretary of State to make the premises available to the academy trust and the notice period which the church needs to give in order to terminate the arrangement (generally two years).

Where non-standard supplemental agreements are used consideration will need to be given as to whether this affects the required accounting treatment.

- 3.30 **Basis of recognition** - The key issue that a church academy trust must consider under a licence to occupy is whether it should recognise a fixed asset on its balance sheet. Recognition would depend on whether the academy trust's rights over the premises meet the definition of an asset. FRS 102 defines an asset as 'a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow'. For church academy trusts:
- 3.31 **Future economic benefits** are expected to flow to the academy trust as it will avoid the cost that it would otherwise have incurred in obtaining premises.
- 3.32 A **past event** will have arisen in the form of conversion to academy status and the signing of a supplementary agreement permitting continued occupancy of the premises.
- 3.33 **Control** means the ability to determine who is, and who is not, able to use the asset and therefore obtain economic benefits from it. Issues that the academy trust will need to consider include:

Control over **access**. This relates to whether the church's arrangements with the academy trust for management of the premises have the effect of excluding the church's ultimate right to determine access to the premises. These factors should help academy trusts to evidence whether the church has delegated management of the premises to the academy trust or has ceded control of the premises:

- First, whilst the church allows the academy trust access in accordance with its undertaking to the Secretary of State, the church may revoke this at any time, subject to the agreed notice period.
- Second, the church is required under charity law to ensure that the use of the premises is compatible with the terms of any charitable (often historic) trust documents which cover them.
- Third, the church may set out other parameters governing the use of the land which are compatible with the charitable trusts and the church's undertaking to the Secretary of State. For example, this may restrict use of the premises for certain activities which are incompatible with the charitable trusts or other restrictions laid down by the church.
- In practical day-to-day terms the church may often delegate the management of the premises to the academy trust whilst retaining the right to set, and change, the overall parameters for the use of, and access to, the premises. The church may use its role on the academy trust's board, or other means, to monitor the use of the premises.

Control over **works**. This is about the extent to which the church has given up rights to consent to works, including capital works, on the premises. Here standard clauses in the model supplementary agreement should be considered which will usually confirm that church consent to capital work will be required where it is to

be funded from capital grants. Any other documents setting parameters for the use of the premises should also be considered.

- 3.34 Where the academy trust concludes that it does not have control over the premises, either because of the church's ultimate right to determine access, or because of the church's right to consent to works, including capital works, or for other reasons, the premises would not meet the definition of an asset of the academy trust. In this circumstance, the academy trust would not recognise the premises as a fixed asset on its balance sheet - only if the academy trust has control would it recognise the premises as a fixed asset.
- 3.35 If the academy trust concludes that it should not recognise the premises as a fixed asset, the church's undertaking to the Secretary of State set out in the supplementary agreement will nonetheless permit it to use the premises on a rolling basis for the (generally) two-year notice period set out in that agreement. This could be considered similar to a situation where rent is paid in advance to secure the use of premises for two years. The academy trust's occupation for this period may therefore be recognisable by the academy trust with income and expenditure being matched in the SOFA as:
- a notional donation for the current year (since it pays no actual rent)
 - a notional rental expense for its use of the premises for the current year.
- 3.36 If the academy trust wishes to recognise the use of premises for the remaining notice period it should reflect the future notional donation as a debtor in the balance sheet with a corresponding entry for the future notional rental expense as a creditor thereby complying with the matching principle.
- 3.37 The value of the donation is the amount that the academy trust would otherwise have had to pay to secure premises sufficient for its operations for the period (in effect, to rent them). Under the SORP a donation is to be recognised if it can be reliably measured.

Disclosures

- 3.38 The academy trust's financial statements must disclose the accounting policy for donated premises and the basis of valuation.
- 3.39 In addition, they must disclose amounts included in income and expenditure in respect of the donated premises and a description of the arrangements under which it occupies the premises, including disclosure of the legal owner.

Short-term lease held by the academy trust

- 3.40 Where an academy trust is leasing existing premises on a short-term basis the nature of the leasing arrangement should again be reviewed to determine the

appropriate treatment in accordance with FRS 102 (section 20) or the SORP (module 6), depending on the value of rental payable. It is likely that the arrangement will be an operating lease, and therefore the asset is not to be capitalised. Disclosure should be given in the notes to the financial statements to explain the accounting arrangements for the assets.

- 3.41 If the assets are occupied under an operating lease any rental cost will simply be accounted for as expenditure. If no rent, or below-market rent, is charged the academy trust needs to determine the market value of the rent, which should be recognised as an expense in the SOFA with a corresponding incoming resource

Premises held under service concession arrangements

- 3.42 Some academy trusts occupy premises which are subject to a private finance initiative (PFI) contract with a third party, private sector contractor. DfE expects that in the majority of these cases the main signatory of the PFI contract and the owner of the freehold site will be the local authority, making the local authority the grantor of the PFI contract, not the academy trust.
- 3.43 Where academy trusts occupy sites that are managed under a PFI held by the local authority, a useful indicator in whether to recognise the site as an asset on an academy trust's balance sheet is to confirm with the local authority whether the local authority recognises the site as its asset. Where the local authority recognises the PFI site, at least for the duration of the agreement, consideration should be given as to whether it is reasonable for an academy trust to also recognise it as an asset applying the controls tests set out in FRS 102. Where a local authority has recognised the site as an asset, and the academy trust has not, on completion of the PFI agreement we would expect the local authority to donate the site to the academy trust under the existing long-term lease.
- 3.44 Academy trusts are often not party to the service concession contracts themselves but do enter into supporting agreements with their local authorities. Under the terms of such secondary agreements, academy trusts may be required to support their main PFI contract holder (their local authority) through making contributions to their costs – such as facilities maintenance. Such costs should be expensed as incurred since there is no lease and/or asset recognised. However, since the secondary agreement signed by the academy trust covers the same twenty-five year period as the PFI agreement, these are long-term commitments and should be disclosed as part of the academy trust's long-term commitments [see model accounts note 23] in the financial statements.

Freehold held by the academy trust

- 3.45 Some academy trusts own the freehold of their premises. This generally, but not only, applies to the first academies that opened.

New freehold buildings constructed with capital grant paid direct to the academy trust by the DfE

- 3.46 Such buildings are recognised as freehold tangible fixed assets within the academy trust's financial statements (provided the academy trust also holds the freehold to the land) and depreciated over their expected useful life. The capital grant received from DfE is recognised as income within the restricted fixed asset fund and the fund is reduced over the life of the asset on a basis consistent with the depreciation policy.
- 3.47 During the period that buildings are still under construction they are accounted for as tangible fixed assets (in the assets under construction asset class) at cost within the academy trust's financial statements. The assets are not depreciated whilst they are recognised as assets under construction since the assets are not operational. Once operational the assets will be reclassified to freehold land and buildings, at which point depreciation will begin. During this construction phase, the fixed asset cost should comprise only those costs that are directly attributable to bringing the asset into working condition for its intended use.

Existing freehold premises transferred from a predecessor organisation

- 3.48 Where freehold title of land and buildings being used has been acquired by the academy trust, these premises should be accounted for, and the academy trust's accounting policy should be set, in accordance with FRS 102 (section 17) or the SORP (module 6) depending on whether any consideration was payable.
- 3.49 The premises would be initially recognised in the academy trust's financial statements at their fair value (being the value the trustees would expect to pay in the open market for an equivalent item, though in practice land will normally be valued on an 'existing use' basis with buildings valued at 'depreciated replacement cost') as freehold tangible fixed assets.
- 3.50 A corresponding amount of 'income from donations' would be recognised in the restricted fixed asset fund. If this arises on conversion to an academy, then this should be presented as "Transfer on conversion" income. If this is on transfer from another academy trust of an existing academy, then this should be presented as "Transfer of existing academy joining the academy trust".

Fixed assets

Carrying values, impairments and depreciation

- 3.51 Where a fixed asset has been gifted or donated, at nil value or an undervalue, the initial carrying amount should be the fair (open market) value at the date of receipt

i.e. the price that the academy trust estimates it would pay in the open market for the item.

- 3.52 At each reporting date, the academy trust must assess whether there is any indication that an asset may be **impaired**. Where circumstances indicate that the carrying value of an asset may not be recoverable then FRS 102 (section 27) requires that the entity estimates the recoverable amount of the asset, which is the higher of the asset's value in use and fair value less costs to sell.
- 3.53 Where the recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. To determine the recoverable amount, FRS 102 should be referred to but any assessment of "value in use" in charities can take account of service potential as well as cash flow generation (see the SORP paragraph 12.12).
- 3.54 **Depreciation** should be provided for in accordance with FRS 102 (section 17) and the basis used should be disclosed in the financial statements. Academy trusts should determine appropriate depreciation rates, based on the assessment of the useful economic life and expected residual value since the most recent annual reporting date. Where an asset comprises of two or more components which have substantially different useful lives, for example roof, boilers and lifts, each component must be depreciated separately over its useful economic life. Freehold land generally has an unlimited useful life and therefore is not usually depreciated.
- 3.55 It is unlikely that an academy trust will follow a policy of **revaluation** of tangible fixed assets. However, if an individual fixed asset is revalued, all other fixed assets in that class (e.g. all buildings) will need to be revalued at the same time and revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.
- 3.56 Where capital grants are received for the specific purpose of acquiring and retaining a fixed asset for the academy trust's charitable purposes, they should be credited to the restricted fixed asset fund in the SOFA. The asset should be depreciated over its expected useful economic life on a basis consistent with the depreciation policy.

Using GAG to acquire fixed assets

- 3.57 GAG is provided to cover the academy trust's normal running costs. However, it can be used for the acquisition of fixed ('capital') assets, for example computer equipment, other equipment and building work, subject to the terms of the funding agreement.
- 3.58 The method of accounting for fixed assets purchased from GAG is to show the purchase as a fixed asset on the balance sheet and transfer an amount equal to the

purchase price of the fixed assets from the restricted general fund to the restricted fixed asset fund. An annual depreciation charge for the asset will then be allocated against the restricted fixed asset fund column. This would result in the fixed assets being reflected in the restricted fixed asset fund.

- 3.59 Transfers to the restricted fixed asset fund from GAG should only take place once the individual assets represented by the transfer have been purchased by the academy trust.
- 3.60 Where unrestricted resources are spent for capital purposes this would not require a transfer of the resources from the unrestricted fund to the restricted fixed asset fund.
- 3.61 Transfers between funds may arise for other reasons. For example, transfers could be made from unrestricted funds to restricted funds to support a deficit on restricted funds. However, transfers from restricted funds to unrestricted funds would not generally arise unless the restriction has been released by the donor.

New converters

Accounting for assets and liabilities

- 3.62 The assets and liabilities transferred will include any buildings and may also include other assets (such as cash) and liabilities (such as pension deficit). Accounting for assets and liabilities transferred on conversion is based on FRS 102 (section 34.77) and treated in substance as a gift received for nil consideration. The accounting treatment is set out in the SORP (paragraph 24.30). If the fair value of the assets received exceeds the fair value of the liabilities assumed, a gain is recognised. If the fair value of the liabilities assumed exceeds the fair value of the assets acquired, then a net loss is recognised.
- 3.63 The net gain or loss must be recognised on the face of the SOFA and should be analysed between restricted funds, restricted fixed assets funds and unrestricted funds. This means that:
- where assets exceed liabilities, the net gain (a donation) must be recognised in the SOFA under a separate heading of 'Donations – transfer from local authority on conversion', as illustrated in [paragraph 3.74](#) below
 - where liabilities exceed assets, the net loss must be recognised in the SOFA separately under 'charitable expenditure – transfer from local authority on conversion'.
- 3.64 The accounting treatment for the consideration of fair valuing buildings is covered in [paragraphs 3.23 onwards](#). and further guidance is set out below on other specific assets and liabilities that may arise.

Other fixed assets

- 3.65 Fixtures, fittings, computer equipment and other tangible fixed assets will be transferred to the academy trust on conversion for its continued use. The assets transferred should be initially measured at their fair value. Some assets may have negligible value. Where the fair value can be reliably measured, the assets must be recognised in the balance sheet at that value within the restricted fixed asset fund, with a corresponding gain being recognised as income from donations. The assets are depreciated in accordance with the academy trust's accounting policies.
- 3.66 The academy trust will need to identify any inherited equipment that is subject to leasing arrangements and determine whether those leasing arrangements are finance or operating leases, as defined in FRS 102 (section 20). Where they are determined to be operating leases then neither the lease liability nor the relevant asset will be recognised on their balance sheet. The operating lease costs will be accounted for as expenditure on an ongoing basis in the SOFA, but there will be amounts recognised at the date of conversion.
- 3.67 Where an outstanding finance lease is transferred/novated to the academy trust, with the relevant assets, it too should be recognised to the extent the academy trust has taken on the obligation with a corresponding loss in the SOFA. The finance lease obligation is included in the balance sheet and accounted for as a finance lease in accordance with FRS 102 (section 20).

Budget surpluses and deficits inherited from local authority funds

- 3.68 Where a surplus is transferred, as a cash balance it will form part of the single "net gain/loss on conversion" presented on the SOFA. The cash balance will be unrestricted if there is no specific purpose attached to it and the trustees are free to use the cash at their discretion in furtherance of the academy trust's charitable objects.
- 3.69 Where a deficit is transferred it will either be shown under restricted or unrestricted funds, depending on which funds will be used to repay the deficit to ESFA.
- 3.70 Some predecessor schools, including former independent schools, may have other assets and liabilities outside of the local authority accounts including commercial activities, school funds and donations. The trustees should consider who controls these funds upon conversion and, if it is the academy trust, they should be recognised in the academy trust's financial statements and consideration given as to whether they should be treated as restricted funds.

Defined benefit pension schemes

- 3.71 Upon conversion from a maintained school the academy trust will take on the existing defined benefit pension obligations for staff transferring under the LGPS.
- 3.72 LGPS administrative units may have deficits. On creation of a new academy, its trust takes on the deficit attributable to the service of transferring employees up to the date of transfer and this should be recognised as a liability of the academy trust, with an equivalent cost element included in the single “net gain/loss” recognised in the SOFA within restricted funds. This should be measured at the transfer date, in accordance with FRS 102 (section 28) on an “accounting” basis, rather than on a “buy-out” basis, using the valuation provided by the relevant LGPS fund.

Disclosures for assets and liabilities transferred

- 3.73 An additional note must be included in the financial statements of an academy trust with a newly converted academy, summarising the value of all classes of assets and liabilities transferred on conversion. A model format is illustrated below.

3.74 Model extracts from the SOFA for an academy trust with a newly converted academy

Statement of Financial Activities for the Year Ended 31 August 2021

Scenario 1: The academy converts with net assets comprising

| | £000 |
|--|--------------|
| Fixed assets | 10,000 |
| Cash – representing budget surplus on LA funds | 90 |
| Other current assets | 10 |
| Defined benefit pension scheme deficit | (300) |
| Net assets | 9,800 |

These would appear on the SOFA as follows (other items omitted for clarity):

| | | Unrestricted Funds | Restricted General Funds | Restricted Fixed Asset Funds | 2020/21 Total |
|---|------|-----------------------|--------------------------------|------------------------------------|--------------------------|
| | Note | £000 | £000 | £000 | £000 |
| Income and endowments from | | | | | |
| Donations and capital grants | x | - | - | - | - |
| Transfer from local authority on conversion | x | 100 | (300) | 10,000 | 9,800 |
| Total | | 100 | (300) | 10,000 | 9,800 |

Scenario 2: The academy converts with net assets comprising:

| | £000 |
|--|---------------|
| Fixed assets | 10,000 |
| Other current assets | 10 |
| Budget deficit on LA funds (to be funded from GAG) | (100) |
| Defined benefit pension scheme surplus | 300 |
| Net assets | 10,210 |

These would appear on the SOFA as follows (other items omitted for clarity):

| | | Unrestricted Funds £000 | Restricted General Funds £000 | Restricted Fixed Asset Funds £000 | 2020/21 Total £000 |
|---|---|-------------------------------|--|--|-----------------------------------|
| Income and endowments from: | | | | | |
| Donations and capital grants | x | - | - | - | - |
| Transfer from local authority on conversion | x | 10 | 200 | 10,000 | 10,210 |
| Total | | 10 | 200 | 10,000 | 10,210 |

3.75 Model format of the additional note for an academy trust with a newly converted academy

This illustrates **scenario 1 above**.

x Conversion to an Academy Trust

On **[date]** the **[name of predecessor school]** converted to academy status under the Academies Act 2010 and all the operations and assets and liabilities were transferred to Coketown Academy Trust from the **[name]** Local Authority for £nil consideration.

The transfer has been accounted for as a combination that is in substance a gift. The assets and liabilities transferred were valued at their fair value and recognised in the balance sheet under the appropriate headings with a corresponding net amount recognised as a net **[gain/loss]** in the Statement of Financial Activities as **[Donations – transfer from local authority on conversion/ Charitable activities – transfer from local authority on conversion]**.

The following table sets out the fair values of the identifiable assets and liabilities transferred and an analysis of their recognition in the SOFA.

| | Unrestricted Funds £000 | Restricted General Funds £000 | Restricted Fixed Asset Funds £000 | Total £000 |
|---|-------------------------------|--|--|-----------------------|
| Tangible fixed assets | | | | |
| Freehold land and buildings | - | - | - | - |
| Leasehold land and buildings | - | - | 9,500 | 9,500 |
| Other tangible fixed assets | - | - | 500 | 500 |
| Current assets | | | | |
| Asset type [expand if necessary] | | | | |
| Cash/loan - representing budget surplus / (deficit) on LA funds | 100 | - | - | 100 |

| | | | | |
|---|------------|--------------|---------------|--------------|
| Cash/loan – representing budget surplus / (deficit) on other school funds | - | - | - | - |
| Current liabilities | | | | |
| Liability type [expand if necessary] | | | | |
| Non-current liabilities | | | | |
| LGPS pension surplus / (deficit) | - | (300) | - | (300) |
| Net [assets / liabilities] | 100 | (300) | 10,000 | 9,800 |

Include any relevant additional details of the nature and terms of the transfer agreement, e.g. lease terms including the period of the lease.

A separate table should be included for each academy that converted during the period.

Additional disclosures

3.76 Further disclosures required in the first set of statutory financial statements for an academy trust with a newly converted academy are:

- **Trustees' report** - include discussion about the conversion at appropriate points, including relevant timings of incorporation and transfer
- **Statement of financial activities** - where transferred assets exceed transferred liabilities, the section headed 'Donations' should include an additional line for 'Donations – transfer from local authority on conversion'. Where transferred liabilities exceed transferred assets, the expenditure section 'Charitable activities' should include an additional line for 'Charitable activities – transfer from local authority on conversion'
- **Statement of cash flows** - include an additional heading: 'Cash transferred on conversion to an academy trust'
- **Note 1: Accounting policies** - an additional accounting policy is required on conversion to an academy trust:

Conversion to an Academy Trust

'The conversion from a state maintained school to an academy trust involved the transfer of identifiable assets and liabilities and the operation of the school for £nil consideration. The substance of the transfer is that of a gift and it has been accounted for on that basis as set out below.

'The assets and liabilities transferred on conversion from [name of predecessor school] to the academy trust have been valued at their fair value. The fair value has been derived based on that of equivalent items. The amounts have been recognised under the appropriate balance sheet categories, with a corresponding amount recognised in [(for net gain) Donations – transfer from local authority on conversion/ (for net loss) Charitable activities – transfer from local authority on conversion] in the Statement of Financial Activities and analysed under unrestricted funds, restricted general funds and restricted fixed

asset funds. [Include specific details of nature and valuation of fixed assets including the allocation between Land and Buildings and Other Fixed Assets, pension and other assets and liabilities transferred as appropriate]. Further details of the transaction are set out in note xx.'

- **Note 15: Tangible fixed assets** - include an additional heading: 'Transfer on conversion' within the 'Cost' section.
- **Note 32: Pensions and similar obligations** - include the following additional paragraph (as paragraph 2):

'As described in note xx the LGPS obligation relates to the employees of the academy trust, who were the employees transferred as part of the conversion from the maintained school and new employees who were eligible to, and did, join the Scheme in the year/period. The obligation in respect of employees who transferred on conversion represents their cumulative service at both the predecessor school and the academy trust at the balance sheet date.'

- **Note [x]: Conversion to an academy trust** - include the additional note illustrated at [paragraph 3.75](#).

Transfers, combinations and inactivity¹⁴

3.77 Some business combinations by public benefit entities, which otherwise exhibit the characteristics of an acquisition by transferring control from one party to the other, may involve no payment for the business acquired. Such combinations are in substance a gift. Business combinations of this nature are increasingly prevalent in the academies sector, particularly as trusts with multiple academies expand and contract the number of constituent academies that they operate.

¹⁴ A business combination is the bringing together of separate businesses into one reporting entity. A combination can be either a:

- **Acquisitions** - The result of most business combinations is that one entity obtains control of one or more other businesses. This may involve the purchase of the equity or some or all of the assets, and the assumption of some or all of the liabilities, of the other party by the acquirer.
- **Mergers** - A merger, on the other hand, treats two or more parties as combining on an equal footing, to share mutual risks and benefits, resulting in the creation of a new reporting entity. No party to the combination obtains control over any other.

Dissolution describes the winding up of a business resulting in striking off the company from the national register of companies. Dissolution is only available when the company is inactive or dormant.

3.78 Business combinations are covered in FRS 102 (sections 19 and 34) and the SORP (modules 24 and 27). The accounting and reporting treatment for the main scenarios affecting academy trusts is considered below.

An existing academy trust acquiring an additional academy¹⁵

3.79 On the basis that the assets, liabilities and operations of the individual academy are transferred at nil consideration, it will be accounted for as a gift. From the date of acquisition:

- the assets and liabilities of the incoming academy should be valued at their fair value
- these amounts are recognised by the academy trust that is gaining control of the academy under the appropriate balance sheet headings
- if net assets are transferred a corresponding amount should be recognised as donated income in the SOFA
- if net liabilities are transferred a corresponding amount should be recognised as a loss under 'expenditure on charitable activities' in the SOFA
- amounts should be analysed between unrestricted funds, restricted general funds and restricted fixed asset funds dependent upon the conditions attached, if any.

3.80 Academy trusts receiving an existing academy from another academy trust are required to present a table setting out the acquired assets and liabilities, and any fair value adjustments the receiving academy trust may make. The table below presents a template disclosure note (row labelling is an example, to be used as appropriate):

| | Value reported by transferring trust £000 | Fair value adjustments £000 | Transfer in recognised £000 |
|------------------------------------|---|-----------------------------------|-----------------------------------|
| Intangible assets | | | |
| <i>[Disclose rows as reported]</i> | | | |
| Tangible fixed assets | | | |
| Freehold land and buildings | | | |
| Leasehold land and buildings | | | |
| Leasehold improvements | | | |
| Plant and machinery | | | |
| Furniture and equipment | | | |
| Computer equipment | | | |

¹⁵ For example when a maintained school converting to an academy and joining a trust with multiple academies or when a constituent academy in a trust moves to another academy trust.

Motor vehicles
Assets under construction

Non-current financial assets

[Disclose rows as reported]

Current assets

Stock
Debtors due after one year
Current financial assets
[Disclose rows as reported]
Debtors due in less than one year
Cash in bank and in hand

Liabilities

Creditors due in less than one year
Creditors due in more than one year
Provisions

Pensions

Pensions – pension scheme assets
Pensions – pension scheme liabilities

Net assets / (liabilities)

- 3.81 As both sides of any transfer of an existing academy are required to present similar disclosures setting out the assets and liabilities transferred, it is expected that both academy trusts involved in the academy transfer should formally agree the value of transferred balances. A printout of the academy's final trial balance might suffice to identify and confirm the transferred balances.
- 3.82 The transferring and receiving academy trusts should both account for the transfer in the same accounting period. Academy trusts should formally agree the same transfer date to apply in the financial statements. It is important for parliamentary accountability purposes for transfers to be reported in the same periods by transferring and receiving academy trusts to prevent mismatches on consolidation.

Academy leaving an existing academy trust

- 3.83 This section describes how an academy trust should account for a constituent academy leaving its control.
- 3.84 From the date of transfer:
- a net value for the transfer should be calculated as the difference between the proceeds of disposal (generally a gift, and hence nil) and the carrying value of the assets and liabilities transferred
 - the amounts should be removed from the appropriate balance sheet headings
 - a corresponding amount for the net loss should be recognised under 'expenditure on charitable activities' in the SOFA, analysed between unrestricted funds, restricted general funds and restricted fixed asset funds

- if there is a net gain this should be shown as a donation and split between the funds accordingly.

3.85 Academy trusts that transfer out academies should include a summary of the assets and liabilities that have been derecognised, reflecting the assets transfer agreed with the receiving academy trust. The table below presents a template for such disclosures (row labelling is an example, to be used as appropriate):

**Transfer out on academies
leaving the academy trust
£000**

Intangible assets

[Disclose rows as reported]

Tangible fixed assets

Freehold land and buildings
Leasehold land and buildings
Leasehold improvements
Plant and machinery
Furniture and equipment
Computer equipment
Motor vehicles
Assets under construction

Non-current financial assets

[Disclose rows as reported]

Current assets

Stock
Debtors due after one year
Current financial assets
[Disclose rows as reported]
Debtors due in less than one year
Cash in bank and in hand

Liabilities

Creditors due in less than one year
Creditors due in more than one year
Provisions

Pensions

Pensions – pension scheme assets
Pensions – pension scheme liabilities

Net assets / (liabilities)

3.86 Such a transfer would not be accounted for as a discontinued operation as long as the trust with multiple academies is not wholly ceasing a separate business activity. If the academy trust is a single academy trust, or a trust with multiple academies disposing of its last academy, the disposal will be classified as discontinued operations since the academy trust will become inactive following the transfer.

An existing academy trust becoming inactive

- 3.87 This may happen for example when an academy in a single academy trust moves to an existing trust with multiple academies, resulting in the single academy trust becoming inactive, triggering the termination of the academy trust's last/only active funding agreement.
- 3.88 Becoming inactive does not of itself trigger any specific accounting and/or reporting issues for academy trusts since the company continues to exist, other than the transfer out requirements described above.
- 3.89 Following inactivity an academy trust may voluntarily opt to wind itself up and formally dissolve as a legal entity. However, becoming inactive does not in itself trigger formal dissolution of the company. Trustees have the responsibility of considering if or when an academy trust should be dissolved or whether there is an ongoing need for the company to exist, subject to the points below.
- 3.90 Academy trusts that expect to become inactive in the year to 31 August must discuss the accounting and reporting requirements with ESFA and their professional advisors at an early stage. They must continue to prepare accounts to the period end date the academy trust had open academies and a signed funding agreement for any time.
- 3.91 Inactive academy trusts are still required to produce and submit their accounts and accounts return for the year in which the academy trust became inactive and we would expect both academy trusts to work together to produce them. These should be prepared as soon as practicable after the last academy has transferred out. Accounts should be submitted to ESFA no later than four months after the date to which they are prepared.
- 3.92 Academy trusts that become inactive early in the current accounting period may wish to shorten their accounting reference period as appropriate. In any event the accounting period end date must be no later than the following 31 August and audited accounts must be submitted to ESFA by 31 December. Since the trustees remain company directors after the final accounts required by ESFA they have the responsibility to continue to follow company law requirements.
- 3.93 Once an inactive academy trust has submitted its accounts, and accounts return, covering the period to the date it became inactive it has fulfilled its reporting obligations to ESFA. The absence of an active funding agreement as at the start of an academic year removes the company from compliance with the Direction. Such companies are no longer deemed to be academy trusts and their directors may now seek dissolution if they wish. Companies that continue to exist but are inactive may be able to adopt the reduced reporting requirements available to dormant companies. Companies House publish [guidance](#) for directors on how to dissolve their companies and the dormant company reporting regime.

Dormant accounts

- 3.94 If an academy trust has been inactive for the full period between its incorporation date and 31 August 2021 it is termed 'dormant' and it can apply section 480 of the Companies Act 2006 and prepare dormant accounts. In this context 'dormant' means the academy trust has made no transactions in the period. In a similar manner, an academy trust that transferred its last academy to another academy trust before the previous year end may also produce dormant accounts if it had no transactions for the year. This is different to a trust which is winding down to closure but still has transactions in the period; this trust would need to produce full, not dormant, accounts.
- 3.95 Dormant accounts are simpler than full accounts. They must contain a balance sheet and a signed statement by a trustee (director) to the effect that the company was dormant during the period, but they do not need to include a statement of income and expenditure or a trustees' (directors') report. Dormant accounts do not usually need to be audited and a pro-forma is included in [CC: Company accounts guidance](#).
- 3.96 If an academy trust prepares dormant accounts, they must report to a period end date of 31 August 2021. Academy trusts that are dormant for only a portion of the period up to 31 August 2021 will instead need to produce full audited accounts.
- 3.97 Submission and publication of dormant accounts is subject to the same deadlines as full accounts, as covered in [paragraph 1.13](#).

Subsidiary companies and group accounts

- 3.98 Consolidated 'group' accounts are prepared by a parent entity and include all of the resources controlled by the parent entity, where 'control' is the power to direct the financial and operating policies of an entity in order to obtain economic benefits from its activities. This may include subsidiary undertakings, special purpose entities and other controlled entities and the following should be considered with all of these types of entities in mind.
- 3.99 The articles of association of academy trusts generally allow the formation of subsidiary companies. Often these will be formed to run trading activities, with their profits distributed to the academy trust for the benefit of the company. The SORP (section 27.13) explains that the transfer of activities to a wholly owned subsidiary should be accounted for as a merger.
- 3.100 The SORP (paragraph 24.5) explains that a charity must prepare group accounts where it is a requirement of company law, generally either by exceeding the 'small companies regime' size criteria in the Companies Act 2006 or where the gross income of the group exceeds the threshold set by regulations under the Charities

Act (where the aggregate gross income of the group exceeds £1m after consolidation adjustments).

3.101 A subsidiary may be excluded from consolidation if its inclusion is not material for the purposes of giving a true and fair view in the context of the group, but two or more subsidiaries must only be excluded if they are not material when taken together. Further guidance can be found in the SORP (module 24).

3.102 Where an academy trust has a subsidiary and prepares consolidated financial statements:

- the academy trust's financial statements must include a consolidated SOFA for the group (parent plus subsidiaries)
- the academy trust's financial statements must include a consolidated balance sheet for the group (parent plus subsidiaries) in addition to a balance sheet for the parent
- the notes to the financial statements should give the position of the group as well as the parent
- the annual report must be expanded to include relevant information about their subsidiary undertakings (for example its trading performance)
- in the group accounting policies, the academy trust's financial statements must include a statement that the financial statements are consolidated
- the notes to the financial statements (in relation to each material subsidiary) must specify in accordance with the SORP (paragraph 24.36): the name of the subsidiary, company number, particulars of the academy trust's shareholding or other means of control, the aggregate amount of the subsidiaries' assets, liabilities and funds, a summary of turnover (or gross income) and expenditure and its profit or loss for the year. The notes should also explain how the activities of the subsidiary relate to those of the academy trust.

3.103 Guidance on consolidation procedures can be found in FRS 102 (section 9), but in particular, academy trusts must ensure that:

- the consolidation is undertaken on a line-by-line basis
- balances and transactions between the academy trust and consolidated subsidiaries are eliminated
- the accounts of the academy trust and its subsidiaries have the same reporting date
- uniform accounting policies are adopted across the group by the academy trust and its subsidiaries.

3.104 The SORP (paragraph 24.11) states that consolidated accounts must also include any special purpose entity (SPE) that is controlled by a parent charity and created to undertake an activity for the benefit of the parent charity. A SPE is a term

referring to a corporation, academy trust, partnership or unincorporated entity established by the academy trust or on its behalf to achieve a narrow, well-defined objective. A feature of an SPE is that it is, in substance, controlled by the academy trust. For more information about what constitutes a SPE and the criteria for its consolidation, refer to FRS 102 (section 9).

3.105 Where an academy trust has a subsidiary and consolidated accounts are not prepared:

- the notes to the accounts (unless the subsidiary is not material) must specify: the name of the subsidiary
- the company number
- particulars of the academy trust's shareholding
- how the activities of the subsidiary relate to those of the academy trust
- the aggregate amount of the subsidiaries' assets, liabilities and funds
- a summary of turnover (or gross income) and expenditure, and its profit or loss for the year
- a statement must be included in the notes disclosing the grounds on which the academy trust is not preparing group financial statements.

3.106 The academy trust will need to consider the nature of the subsidiary's activities to determine which fund they should fall under within the consolidated accounts. Generally, however the results of trading activities through an academy trust's subsidiary would be part of unrestricted funds.

Connected charities

3.107 An academy trust may be connected to another charity under paragraph 28(1) of schedule 3 of the Charities Act, where 'connection' means:

- the charity is administered by or on behalf of the academy trust; and
- the charity is established for the general purposes of, or any special purpose of or in connection with, the academy trust.

3.108 A connected charity can be incorporated or unincorporated, and the Charity Commission has provided case studies on examples of [connected charities](#).

3.109 If an academy trust's connected charity is incorporated, and meets the definition of a subsidiary, it will be consolidated into the academy trust's accounts in accordance with the criteria in the SORP and [paragraph 3.102](#), unless exemptions are applied.

3.110 If the connected charity is incorporated but is not consolidated due to available exemptions, disclosures are required in the academy trust's accounts as set out in [paragraph 3.105](#).

- 3.111 If the academy trust's connection is with an unincorporated special trust (defined as 'property which is held and administered by or on behalf of the charity for any special purposes of the charity and is so held and administered on separate trusts relating to only that property') this will not be consolidated but will be reflected in the academy trust's accounts under branch accounting as part of restricted funds. Endowment funds held by some academy trusts under DfE's former sponsorship model are special trusts.
- 3.112 If the connected charity does not fall under any of these categories the academy trust should provide the following details about it in a note to the accounts:
- the name of the connected charity
 - how its activities relate to those of the academy trust
 - the aggregate amount of the entity's assets, liabilities and funds
 - a summary of turnover (or gross income) and expenditure and
 - its profit or loss for the year.
- 3.113 In all cases, the presence of a connected charity should also be disclosed in the trustees' report.

Abatement of GAG

- 3.114 Abatement is used to describe the repayment of GAG by an academy trust to ESFA by making a deduction from a subsequent GAG instalment. It can arise:
- where an academy trust's funding agreement provides for the payment of GAG based on estimated pupil numbers and for the recovery of an excess in the event that actual pupil numbers are less than the estimate
 - where a converter academy inherits a budget deficit from its predecessor school which is to be repaid to ESFA.
- 3.115 Academy trusts should consider carefully how and when abatements should be reflected in their financial statements:
- where the amount and timing of the abatement has been agreed at 31 August, the academy the value of the grant abated should be reduced by the agreed amount and a creditor recognised. The abatement should also be disclosed as a separate line in the creditors note supporting the financial statements
 - where the abatement is not agreed at 31 August, the academy trust should consider whether a provision for it should be made within the balance sheet in that year in accordance with FRS 102 (section 21). See paragraph 2.127 [provisions](#) and [contingent liabilities](#). If a provision is made it should also be disclosed in a note to the financial statements and the grant income balance reduced accordingly.

GAG carried forward

3.116 Some older academy trusts remain subject to limits on GAG carried forward until such time as the relevant clauses are changed in their funding agreements, by agreement with DfE.

Academy trusts subject to GAG carry forward limits

3.117 For such academy trusts a note is required [see model accounts note 2] confirming whether the limits have been exceeded.

3.118 The maximum amount that can be carried forward is an amount equal to 12% of the GAG awarded for the year just ended unless agreement has been given by DfE to vary this limit. ESFA may require any unspent GAG in excess of the 12% threshold to be surrendered. Academy trusts with an excess of GAG should consider whether this requires a provision or a contingent liability in the notes to the financial statements.

Assessment of GAG carried forward against funding agreement limits

3.119 The following illustrative table to be included in the note will assist academy trusts in assessing whether their GAG limits have been exceeded:

Note 2: General Annual Grant (GAG)

Under the funding agreement with the Secretary of State, the academy trust was subject to limits at 31 August 2021 on the amount of GAG that could be carried forward from one year to the next. An amount equal to 12% of GAG could be carried forward, of which up to 2% could be used for general recurrent purposes, with any balance being available for premises/capital purposes.

The academy trust **[has/has not]** exceeded these limits during the year ended 31 August 2021.

| | |
|---|-------------------|
| Results and carry forward for the year | £000 |
| GAG brought forward from previous year | 66 |
| GAG allocation for current year | <u>4,257</u> |
| Total GAG available to spend | 4,323 |
| Recurrent expenditure from GAG | (4,148) |
| Fixed assets purchased from GAG | <u>(10)</u> |
| GAG carried forward to next year | <u>165</u> |

b. Excess GAG

The academy trusts funding agreement allows 12% of GAG to be carried forward from one year to the next. The following calculation shows whether the 12% limit has been exceeded

| | |
|--|--------------|
| GAG carried forward to next year | 165 |
| Less maximum permitted GAG to c/f (12% of current year allocation) | <u>(511)</u> |
| GAG carried forward beyond limit, if positive result | (346) |
| (i.e. 12% limit exceeded if result is positive) | not exceeded |

c. Use of GAG brought forward from previous year for recurrent purposes

The academy trust's funding agreement allows 2% of GAG carried forward to be used for recurrent purposes with any balance up to 12% to be used for capital purposes. The following calculation shows whether the 2% limit has been exceeded.

| | |
|--|---------------------|
| Recurrent expenditure from GAG in current year | 4,148 |
| GAG allocation for current year | (4,257) |
| GAG allocation for previous year x 2% | (81) |
| GAG b/f from previous year in excess of 2%, used on recurrent expenditure in current year | <u>(190)</u> |
| (2% limit exceeded if result is positive) | <u>not exceeded</u> |

Academy trusts not subject to GAG carry forward limits

3.120 These trusts are not required to include a separate GAG carry forward note in their financial statements. Instead, they should make a declaration that the limits do not apply in the funds note [see model accounts note 20].

Leases

3.121 Academy trusts should pay close attention to the identification of leases and classify and account for them in accordance with FRS102. They should be particularly aware of the possibility of embedded leases being present as part of larger contracts, such as catering contracts.

Comparative information

3.122 FRS 102 and the SORP (paragraphs 3.49 and 4.2) require that comparative information must be provided for all amounts presented in the financial statements including the notes.

3.123 For the SOFA, comparative information for the total funds of the trust must be presented on its face. Comparative information for each separate fund may be presented either on the face of the SOFA or in the notes. In practice there are a number of options for presenting this comparative information. ESFA does not mandate one particular approach but has set out the main options below:

- additional columns may be added to the face of the SOFA
- the prior year SOFA may be replicated as a separate note to the financial statements
- disclosure within each of the relevant notes to the financial statements (illustrated below)

Example note with narrative disclosure of comparatives

3 Donations and capital grants

| | Unrestricted Fund £000 | Restricted Funds £000 | 2020/21 £000 | 2019/20 Total £000 |
|----------------------|------------------------------|-----------------------------|-----------------|--------------------------|
| Capital grants | - | 544 | 544 | 1,224 |
| Donated fixed assets | - | - | - | - |
| Other donations | 123 | 297 | 420 | 501 |
| | <u>123</u> | <u>841</u> | <u>964</u> | <u>1,725</u> |

The income from donations and capital grants was £964,000 (2019/20: £1,725,000) of which £123,000 was unrestricted (2019/20: £157,000), £297,000 restricted (2019/20: £nil) and £544,000 restricted fixed assets (2019/20: £1,568,000).

Example note with alternative disclosure of comparatives

3 Donations and capital grants

| | Unrestricted Funds £000 | Restricted General Funds £000 | Restricted Fixed Asset Funds £000 | 2020/21 Total £000 | 2019/20 Total £000 |
|----------------------|-------------------------------|--|---|--------------------------|--------------------------|
| Capital grants | - | - | 544 | 544 | 1,224 |
| Donated fixed assets | - | - | - | - | - |
| Other donations | 123 | 297 | - | 420 | 501 |
| | <u>123</u> | <u>297</u> | <u>544</u> | <u>964</u> | <u>1,725</u> |
| 2019/20 total | <u>157</u> | <u>-</u> | <u>1,568</u> | <u>1,725</u> | |

Agency arrangements

3.124 Some income may not belong to the academy trust receiving it, for instance where it is acting as an agent with no discretion about the use to which the funds received are put and where the academy trust acts only in accordance with the instructions or directions of the funder. Where this is the case, the funds received are not recognised as an asset in the financial statements because the funds are not within its control and the distribution of the income is not recognised as academy trust's expenditure (SORP module 19). However, any fee receivable by the academy trust for acting as agent is recognised as income with any costs incurred by the academy trust in the administration of the agency arrangement are recognised as expenditure in the financial statements, for example resources for 16-19 bursaries and ITT bursaries.

3.125 Agency arrangements must be disclosed in the note to the financial statements including an accounting policy note. Illustrative text for 16-19 bursary fund notes is as follows:

- **Note 1: Statement of Accounting Policies - Agency Arrangements**

The academy trust acts as an agent in distributing 16-19 bursary funds from ESFA. Payments received from ESFA and subsequent disbursements to students are excluded from the statement of financial activities as the academy trust does not have control over the charitable application of the funds. The academy trust can use up to x% of the allocation towards its own administration costs and this is recognised in the statement of financial activities. The funds received and paid, and any balances held are disclosed in note 34.

- **Note 34: Agency Arrangements**

The academy trust distributes 16-19 bursary funds to students as an agent for ESFA. In the accounting period ending 31 August 2021 the academy trust received £x and disbursed £y from the fund. An amount of £x is included in other creditors relating to undistributed funds that is repayable to ESFA. Comparatives for the accounting period ending 31 August 2020 are £x received, £y disbursed and £x included in other creditors.

3.126 Where an academy trust is acting as an intermediary agent but nonetheless has a beneficial interest in the funds and controls their use (for example where an academy trust passes the funds to a supplier to pay for student-related items) there is a contract between the academy trust therefore the supplier and the income and expenditure would be recognised in the SOFA.

3.127 Catering income or school trip income may also need to be considered in the context of agency arrangements to determine whether or not the academy trust is acting as an agent or a principal. If the academy trust has control over the funds, has a beneficial interest (for example by having a liability with a travel agent), and has the associated risks (for example the risk of incurring a loss if funds are not received from a parent for a confirmed trip) the arrangement would be accounted for through the SOFA.

3.128 Agency arrangements are also discussed in the SORP (module 19).

Risk protection arrangement (RPA)

3.129 The risk protection arrangement for academy trusts is an alternative to insurance where losses that arise are covered by UK government funds. Academy trusts that opt to join the RPA will have an amount deducted at source from their GAG funding. To account for this in their financial statements, academy trusts will need to gross up the GAG figure and include a matching expense for the RPA.

3.130 RPA also encompasses trustees' insurance and as such the trustees' insurance note [see model accounts note 13] will need to state:

The academy trust has opted into the Department for Education's risk protection arrangement (RPA), an alternative to insurance where UK government funds

cover losses that arise. This scheme protects trustees and officers from claims arising from negligent acts, errors or omissions occurring whilst on academy trust business, and provides cover up to £10,000,000. It is not possible to quantify the trustees' and officers' indemnity element from the overall cost of the RPA scheme membership.

Apprenticeship levy

- 3.131 The apprenticeship levy applies to all employers. The levy is 0.5% of pay bills over £3 million, subject to a £15,000 allowance. It is collected via HM Revenue and Customs through employers' PAYE scheme. The funds are held by the government and the academy trust can use funds in their account to pay for training and assessment of apprentices. If the funds are not used within 24 months, the academy trust loses access to the funds.
- 3.132 The levy payments are disclosed within social security expenditure through the SOFA in staff costs [note 10] and combined with other social security costs for an aggregated disclosure.
- 3.133 Levy funded training received in the year is recognised as notional income and notional expenditure in the SOFA. The 10% top up funding provided by government is also recognised in this way.

Teaching schools and School-Centred Initial Teacher Training (SCITT)

- 3.134 The academy trust must determine the status of the teaching school or SCITT in order to consider if it has separate legal identity or is part of the academy trust. Where the former, it will be necessary to consider what control exists in order to determine if or how the entity should be recognised in the academy trust's financial statements.
- 3.135 Where an academy trust has teaching school status and receives a separate annual grant known as core funding it should record this as restricted funds. GAG should not be used to support the work of the teaching school principles.
- 3.136 An illustrative note to capture financial activity relating to activities as a teaching school to include in the financial statements can be found in the model accounts [note 38].

Annex A: Further sources of information

GOV.UK

Charity Commission

- [CC3: The Essential Trustee: What You Need to Know](#)
- [CC26: Charities and Risk Management](#)
- [Charities and Public Benefit](#)
- [Charity Reserves and Defined Benefit Pension Schemes](#)
- [Charity reporting and accounting: the essentials \(CC15b\)](#)
- [Charity fundraising: a guide to trustee duties \(CC20\)](#)
- [Prepare a charity trustees' annual report](#)
- [Charity Commission: Detailed Guidance Home Page](#)
- [Matters of material significance and reporting by auditors and independent examiners to the Charity Commission](#)

Companies House

- [Incorporation and Names](#)
- [Life of a Company - Annual Requirements](#)
- [Late Filing Penalties](#)
- [Closing a limited company](#)

Education and Skills Funding Agency

- [Academies financial management and governance reviews](#)
- [Academies Financial Handbook](#)
- [Academies investigation reports](#)
- [Academies severance payments](#)
- [‘Dear Accounting Officer’ Letters](#)
- [ESFA weekly updates](#)
- [Financial Notice to Improve](#)
- [Good practice guides](#)
- [Risk protection arrangements](#)

HM Revenue and Customs

- [Apprenticeship levy](#)
- [Accessing funds to pay for apprenticeship training](#)

HM Treasury

- [Audit Committee Handbook](#)
- [Management of Risk - Principles and Concepts](#)
- [Managing Public Money](#)
- [Regularity, Propriety and Value for Money](#)

Other links

Charities SORP

- [Accounting and Reporting by Charities: Statement of Recommended Practice \(the 'Charities SORP'\)](#)

Financial Reporting Council

- [Accounting Standards \(UK\)](#)
- [Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks](#)
- [ISA 705](#)

Legislation

- [Academies Act 2010](#)
- [Companies Act 2006](#)

National Audit Office

- [Communication with Academy Auditors](#)

Institute School Business Leadership

- [ISBL good practice library](#)

Annex B: Acknowledgements

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