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Post-audit Management Report

North Hampshire Educational Alliance

Year ended 31 August 2019

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Contents

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Executive summary

Purpose of the external audit

Our work was performed with a view to expressing a reasonable assurance opinion on the financial statements of North Hampshire Educational Alliance (the Academy Trust) for the year ended 31 August 2019 and to draw a limited assurance conclusion concerning regularity and propriety in the application of government funding.

Our audit work also included consideration of the internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those that were identified during the audit and that we conclude are of sufficient importance to merit being reported to those charged with governance and/or to the Education and Skills Funding Agency (ESFA) in accordance with their requirements.

We appreciate that you will already be aware of some of the matters contained in this letter. However, in accordance with the ESFA's requirements and International Standards on Auditing (UK) (ISAs) we are communicating them to you formally.

This report and its contents were submitted in draft form to Alison Foss (Chief Executive) and Jane Coleman (Director of Finance) for comment prior to finalisation.

Audit progress

We are pleased to report that the audit, from our perspective, went well and that the timetable for the overall completion of the audit has been met. We would like to take this opportunity to thank all those with whom we dealt during the audit for their assistance and co-operation, in particular Jane Coleman.

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Expected opinions

Subject to the satisfactory receipt of the outstanding items and confirmations as set out below, we intend to issue the following opinions:

Financial statements opinion: **Clean**

We expect to express our judgement that the financial statements give a true and fair view and have been properly prepared in accordance with the Academies Accounts Direction 2018 to 2019 issued by the ESFA and Companies Act requirements. There is no significant change to the form or content of our audit report

Regularity assurance conclusion: **Clean**

We intend to state that in the course of our work nothing has come to our attention which suggests that in all material aspects the expenditure disbursed and income received during the year ended 31 August 2019 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Outstanding items

At 26 November 2019, our work is complete with the exception of the following:

- Receipt of the letter of representation which asks the Trustees to confirm to us general and specific matters relating to the financial statements in line with International Standards on Auditing; and
- Confirmation immediately prior to the financial statements being signed that no significant events have taken place since the time of our audit that would impact on the financial statements.

We will require the information above before we are able to finalise our audit.

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Key audit findings

Key audit issues and outcomes

As part of our pre-audit planning process, we identified those areas where we believe there is a higher probability that a material error may appear in the financial statements as well as areas of significant interest or concern for management and those charged with governance. In the pages which follow we have provided a brief summary of the outcome of our audit work in relation to those areas.

Area	Issue and response
Accounting software	**Risk:** We note that the Academy Trust switched its accounting software package during financial year, with the new system going live on 1 April 2019. There is a risk of inaccurate transfers of account balances / migration of data from the old system to the new system. In addition, the nominal coding structure may be different between the two software packages and therefore there is a risk that transactions and balances may be misclassified in the financial statements. ***Results:*** *Our review of the trial balance showed that balances had been accurately transferred on to the new accounting package. Our work, particularly on income and expenditure did not reveal any concerns over the consistency of classification of income and expenditure with the prior year.*

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Area	Issue and response
Going concern, financial climate and reserves policy	**Risk:** The current financial climate is very challenging for the sector which is increasing the importance of carefully managing reserves and financial forecasting. The Academies Financial Handbook requires the Academy Trust to prepare a 'balanced budget' (which can draw on unspent funds brought forward from previous years). The ESFA further asks to be notified within 14 days where an in-year deficit revenue budget is set (if this cannot be addressed through brought forward reserves). The Academy Trust may feel therefore feel pressure to present a more favourable outturn. The results of the Trustees assessment of the going concern status of the Academy Trust is provided in both the Trustees' report and within the principal accounting policies. This confirms that the Trustees have given due consideration to the going concern status of the Academy Trust and that they conclude that the Academy Trust is a going concern (for at least 12 months from the approval of the financial statements). (The Trustees will be asked to confirm the same in the written letter of representations to us as auditors). ***Results:*** *The balance sheet and year end reserves position was considered in conjunction with available budgets/forecasts, our knowledge of the Academy Trust's future plans and the reserves policy determined by the trustees. We are satisfied that the trustees have given due consideration to the going concern status of the Academy Trust.*
Income recognition	**Risk:** There is an inherent risk in all organisations in relation to revenue recognition, i.e. that income may be accounted for in the wrong period or at artificially inflated or suppressed amounts. ***Results:*** *We carried out detailed analytical review against expectations based on our understanding of the Academy Trust and against the prior year. Reasonable explanations were obtained from management and significant variances identified which were substantiated as appropriate. No significant issues arose during our sample based checks including on our work on ESFA grants, other government funding and self-generated income.*

Area	Issue and response
Regularity	**Risk:** Regularity and the use of government funding continues to be a substantial focus of the ESFA and National Audit Office. Ensuring regularity within the Academy Trust is the responsibility of the Board and all of the current focus on regularity in the academy sector has only increased the level of responsibility for the Board to monitor and document management of risk including risk of irregularity. ESFA expects all academies to implement appropriate procedures and policies which mitigate the risk of irregularity in (but not limited to) the following areas: • Procedures and policies in relation to risk management and ensuring that these are regularly considered; • Procedures and policies in relation to general procurement, use of credit cards and expense claims; • Procedures and policies in relation to the appropriate remuneration of payroll staff, agency staff and consultants; and • Procedures and policies in relation to the management of conflicts of interest and related party transactions. ***Results:*** *The regularity self-assessment was provided for audit, which was completed by the Academy Trust's finance team and reviewed by the Accounting Officer. The regularity self-assessment confirms the processes in place to ensure regularity, propriety and compliance within the Academy Trust in relation to the above areas and the other requirements set out in the Academies Financial Handbook.* *The Academy Trust has not informed us of any material control weakness or irregularity. Based on our review of the self-assessment questionnaire, the work undertaken to verify the responses provided, and our consideration of the regularity and propriety of transactions selected for our sample based testing, we are satisfied that the conclusion reached in our regularity assurance report is appropriate.*

Area	Issue and response
Related party transactions	**Risk:** In all organisations, there is an inherent risk that transactions with related parties could be undertaken on terms that benefit those who control the entity at the expense of other stakeholders or the entity itself. For this reason, UK Accounting Standards and the ESFA Academies Accounts Direction requires transparent disclosure of all transactions and balances arising between the Academy Trust and its related parties. In addition, the ESFA Academies Handbook places restrictions on the permissibility of certain related party transactions. Since 1 April 2019, academy trusts must report all new agreements and other 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 (typically £20,000). A disclosure must be made confirming that all transactions are conducted in accordance with the requirements of the Academies Financial Handbook (AFH), including notifying the ESFA of all transactions made on or after 1 April 2019 and obtaining their approval where required as well as the existing requirement of obtaining a statement of assurance that supplies from related parties in excess of £2,500 were made at cost. ***Results:*** *The Academy Trust's procedures for identifying related parties and associated transactions were reviewed. This includes the requirement for each of the trustees and member of the Academy Trust Senior Management Team to update their declaration of interests annually, and to declare any interests they have at the commencement of business meetings. Based on the work undertaken, we have no concerns over the completeness of related party transaction disclosures. We will obtain written representations from you also, asking the Board and management to confirm their satisfaction with the completeness of the disclosures made*.
Management override of controls	**Risk:** There is an inherent risk in all organisations that management may be in a position to override controls or agreed protocol. Such actions may be taken in order to conceal or process unauthorised or inappropriate transactions, or may occur due to weaknesses in the control environment. Such actions could lead to either deliberate or inadvertent misstatement of the results portrayed by the financial statements. ***Results:*** *Journal entries were reviewed, particularly those surrounding the year end and explanations were sought for any large or unusual items. All items tested and discussed with management were deemed appropriate. The activity passing through the suspense account also appeared reasonable and did not raise any additional concern.*

Area	Issue and response
Accounting estimates	**Risk:** Certain accounting entries within the financial statements are made on the basis of an estimate and changes in the underlying assumptions could lead to a shift in the reported results. The most material estimates within the Academy Trust's financial statements include the estimate of the useful economic life of tangible fixed assets (and hence the depreciation charges), and the estimation of the pension liability made by the actuaries in respect to the Local Government Pension Scheme. ***Results:*** *We are satisfied with the estimation techniques utilised. Testing of depreciation was satisfactory with all items tested being depreciated in accordance at the approved rate.* *The year-end liability in respect of the Local Government Pension Scheme is consistent with the estimate provided by the scheme's actuary and the assumptions used appear reasonable.* *The Academy Trust received an actuarial estimate of its additional potential liability in respect of the McCloud pension ruling. The estimated additional liability was not material in the context of the financial results or position and no adjustment was required to the current year service cost.*

Accounts format and compliance

The financial statements follow the principles and format prescribed by the ESFA in the Academies Accounts Direction 2018 to 2019 (the Accounts Direction). Compliance with the Accounts Direction also ensures that the requirements of companies and charities legislation are met.

There have been only a small number of changes introduced by the 2018/19 revision of the Accounts Direction. The notable changes of relevance to the Academy Trust were as follows:

- **Tangible Fixed Assets:** Categories of tangible fixed assets within the Accounts Direction have been revised to align with the Academies Annual Return. There are now a maximum of eight categories under which tangible fixed assets may be classified within the financial statements.
- **Funds reconciliation note:** The requirement to include a 24 month table which combined the movement in funds for two financial years has been removed.
- **Related party transactions:** Explicit confirmation is required of the academy trust's compliance with requirements of the AFH, including notifying the ESFA of all transactions made on or after 1 April 2019 and obtaining approval where required.

In all respects, the Academy Trust's annual report and financial statements have complied with the new requirements.

Accounting policies, estimates, and disclosures

Our work included a review of the adequacy of disclosures included in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the Academy Trust. We believe that the disclosed accounting policies, significant accounting estimates and the overall disclosure and presentation to be appropriate for the Academy Trust and in compliance with the Accounts Direction.

Audit adjustments and unadjusted misstatements

Under Auditing Standards, we are required to provide you with details of any adjustments identified during the course of our audit work which have been made to the figures presented to us for audit.

There were no adjustments made to the figures presented to us for audit.

Potential impact of unadjusted misstatements – no impact on funds

Details of the misstatements identified during our audit which remain unadjusted are provided at Appendix 1. We will obtain written representations from you, as trustees, that these are not to be adjusted due to their lack of significance to the overall result portrayed by the financial statements.

Audit observations and recommendations

We are pleased to report that we found no significant deficiencies in the accounting and internal control systems during our audit.

The table below provides a summary of any observations made concerning weaknesses in the Academy Trust's accounting and internal control systems including those identified as part of the work performed to provide a conclusion on the regularity of the Academy Trust's transactions within the accounting period.

Observations included in the "A" grade (red) banding indicate that, in our opinion, there is a risk of significant financial impact on the business that must be addressed immediately.

"B" grade (orange) banding recommendations relate to those issues where there is a risk of moderate financial impact on the business, such as a control failure or the absence of a control in an area of moderate risk. These items should be addressed shortly.

Observations included in the "C" grade (yellow) banding indicates that the matter, although important, does not warrant urgent attention and should be addressed within an agreed timeframe.

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Priority	No of points	Relating to
A	0	N/A
B	0	N/A
C	2	• Transaction listing detail • Aged debtors & aged creditors listings

Further details in respect of the observations made and our associated recommendations are provided at Appendix 2 to this report.

We are pleased to report that the following observations made last year have been satisfactorily dealt with:

Priority	Relating to
C	• Retaining latest salary information on employee files • Scheme of delegation and authorisation limits

Financial performance and position

Audited results

Based on the audited financial statements, the Academy Trust's total reserves decreased by an amount of £2,604,000 (2018: increase of £16,743,000 primarily due to the conversion to an Academy Trust) during the year, providing net assets of £14,139,000 at the balance sheet date (2018: £16,743,000). Its revenue reserves excluding the fixed asset and pension funds increased by £249,000 (2018: £237,000).

Excluding movements on tangible fixed assets, the defined benefit pension liability, and other non-recurring items, the Academy Trust's "operational" surplus for the year was £249,000 (2018: £237,000), as reconciled below.

	2019 £'000	2018 £'000
Overall net movement in funds	(2,604)	16,743
Add: net expenditure / (income) attributable to the fixed assets fund (note 1)	1,128	(18,329)
Add: accumulated surpluses and pension deficits inherited (note 2)	-	2,791
Add: LGPS and EPP actuarial loss / (gain) (note 3)	1,930	(951)
Add: LGPS service cost adjustment (note 3)	130	157
Add: LGPS McCloud service cost adjustment (note 3)	-	-
Add: LGPS interest cost adjustment (note 3)	70	81
Operational surplus for the year excluding fixed asset purchases	654	492
Less: fixed asset purchases from revenue funds (note 4)	(405)	(255)
Operational surplus for the year	249	237

	2019 £'000	2018 £'000
Reconciliation of revenue reserves		
Revenue reserves brought forward (note 5)	1,002	-
Operational surplus for the year	249	237
Add: Revenue reserves transferred in to the Trust (note 2)	-	743
Add: EPP actuarial loss	-	22
Revenue reserves carried forward	1,251	1,002

Note 1: Movement on fixed assets fund

For the purposes of determining the "operational" surplus, the net expenditure / income in respect of the fixed assets fund has been disregarded on the basis that the principal movements within this fund relate to depreciation applied on assets, and in the prior year assets transferred into the Trust on conversion.

Note 2: Accumulated surpluses and pension deficits inherited

For the basis of calculating the operational result, these transfers are disregarded because they relate to one off transfers of reserves to the Trust and are not part of the day-to-day operational activity.

Note 3: LGPS (Local Government Pension Scheme) and EPP (Enhanced Pension Provision) adjustments

The Academy Trust is one of several employing bodies included within the Hampshire Pension Fund. The scheme's actuaries, Aon, have prepared a valuation of the assets and liabilities which are specific to North Hampshire Educational Alliance so that the net liability may be included on the balance sheet. For the purposes of determining the "operational" surplus, the non-cash adjustments necessary in accounting for the change in the liability since 1 September 2018 have been excluded. The same rationale is applied for excluding any EPP adjustment.

The McCloud adjustment has been required due to a legal case which has concluded in 2018/19. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges and firefighters schemes, as part of the reforms, amounted to unlawful discrimination. The principle established in this scheme extends to academy Local Government Pension Schemes. As noted above, no adjustment was required to the pension liability of the Academy Trust.

Note 4: Fixed asset purchases from the revenue fund

The purchase of fixed assets from revenue (operational) funds is shown in the accounts as a transfer from restricted general funds to the restricted fixed asset fund.

Note 5: Revenue reserves

The revenue reserves of the Academy Trust exclude the tangible fixed asset fund and Local Government Pension Scheme reserve. The revenue reserves therefore represent the funds available for the day-to-day operation of the Academy Trust and consist of both the restricted income fund and the unrestricted general fund.

Comparison of key financial ratios

For your information, we have included at Appendix 3 to this report a comparison of the Academy Trust's key financial ratios for 2017, 2018 and 2019 and also against the sector averages for 2017 and 2018.

Note that the ratios presented in the Appendix may differ from your own ratios where a slightly different formula is used. In addition, the sector averages are drawn from data on approximately 100 academies based in the South East of England and Greater London and whilst they may provide a guide as to how the Academy Trust compares to the sector, there is a substantial amount of diversity across the sector depending on the individual circumstances of each academy.

Other information

Integrity, objectivity and independence

In accordance with our profession's ethical guidance and further to the External Audit Strategy document issued to you as part of the pre-audit planning process, we wish to bring the following matters to your attention in relation to our integrity, objectivity and independence as auditors:

For the purposes of receiving non-audit services from us and making independent decisions based on information and opinions which we may provide, the new Director of Finance, Jane Coleman, replaces her predecessor Irfan Khan as the individual treated as "informed management" of the Academy Trust.

Other work undertaken as part of the 2018/19 audit cycle

As set out in our External Audit Strategy to you we have also been engaged to provide you with the following services:

- **Teachers' Pension End of Year Certificate (EOYC) assurance**
  We can confirm that we have concluded our work on this area. Our assurance report was issued to Teachers' Pensions along with the final End of Year Certificate. Our work did not raise any significant concerns which need to be drawn to your attention.

- **ESFA Accounts Return assurance**
  Our work on the Accounts Return assurance will begin in December. We do not have any concerns at this stage and we will work with management to ensure that the Accounts Return together with our assurance report is filed ahead of the 20 January 2020 deadline.

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Use of this report

This report has been prepared for the Academy Trust's private use only. It has been prepared on the understanding that it will not be shared to any third party, other than the ESFA, or quoted or referred to, without our prior written consent and we can therefore assume no responsibility to any other party.

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Date:

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Appendix 1: Audit adjustments and unadjusted items

Unadjusted items

		Statement of financial activities		Balance sheet	
	Description	**Debits (£'000s)**	**Credits (£'000s)**	**Debits (£'000s)**	**Credits (£'000s)**
1	DR – Creditors: amounts falling due after more than one year			155	
	CR – Creditors: amounts falling due within one year				155
	Being reclassification of the portion of the loan due to be repaid in 2019/20.				

The above items, if they were to be adjusted, would have no effect upon the Academy Trust's overall reserve balances.

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Appendix 2: Audit observations and recommendations

	Observation and Implication	Recommendation	Management comment
C	**Transaction listing detail**		
	During our audit work, the finance team were able to generate from the accounting software a list of transactions which occurred during the year. It was noted however that the report provides very little detail beyond dates and amounts, making it difficult for activity passing through nominal codes to be reviewed.	We recommend that a discussion should be held with the accountancy software provider to determine whether a more suitable report can be produced.	We have recently implemented a new finance system (Civica Financials Live). We have logged this issue with the Implementation team, who are reviewing the transaction reporting functionality. We anticipate that this will lead to improvements with our ability to generate reports. Person Responsible: Jane Coleman Date for implementation: 31st March 2020
C	**Aged debtors & aged creditors listings**		
	We noted that the accounting software is able to generate a debtors and a creditors control account listing, but that these reports do not provide a clear breakdown of how long items have been outstanding. This makes it more difficult to monitor ageing of trade debtors and creditors.	We recommend that a discussion should be held with the accountancy software provider to determine whether a more suitable report can be produced.	We have the facility to run detailed aged DR and CR reports with effect from the current day. We cannot however, backdate any of these reports eg to 31st August 19. We have logged this issue with financial system Implementation team, who are reviewing the reporting functionality. We anticipate that this will lead to improvements with our ability to generate reports. Person Responsible: Jane Coleman Date for implementation: 31st March 2020

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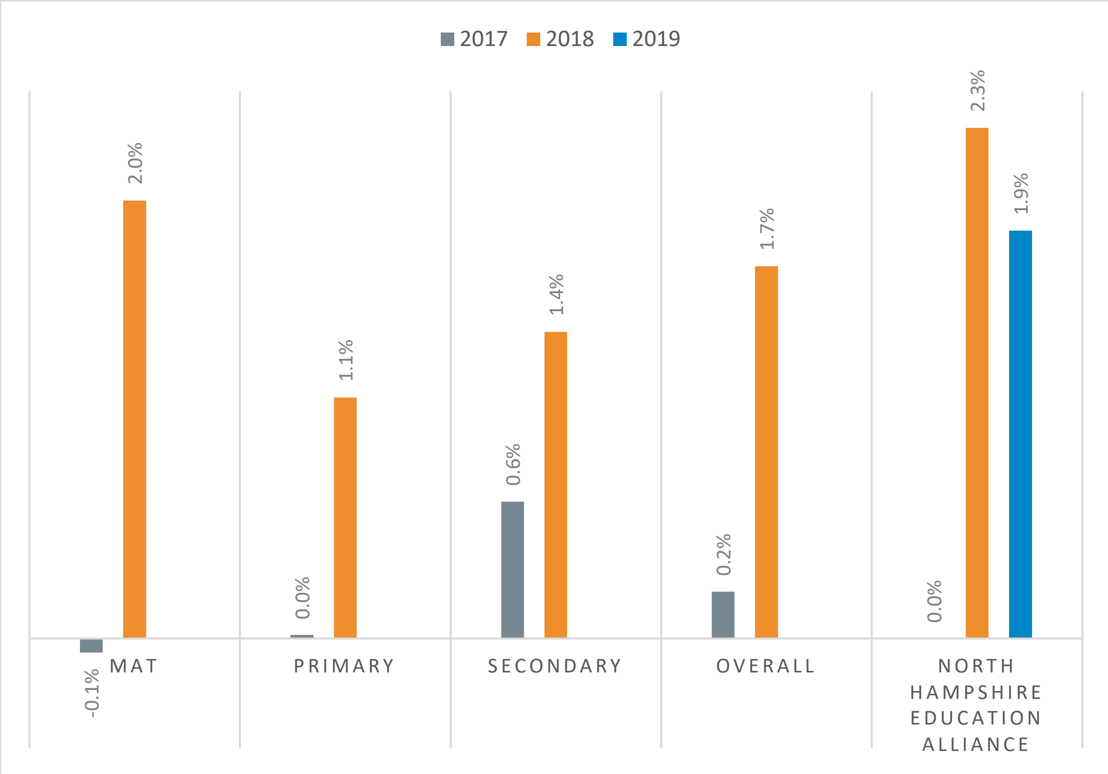
Appendix 3: Comparison of financial ratios

Operational margin

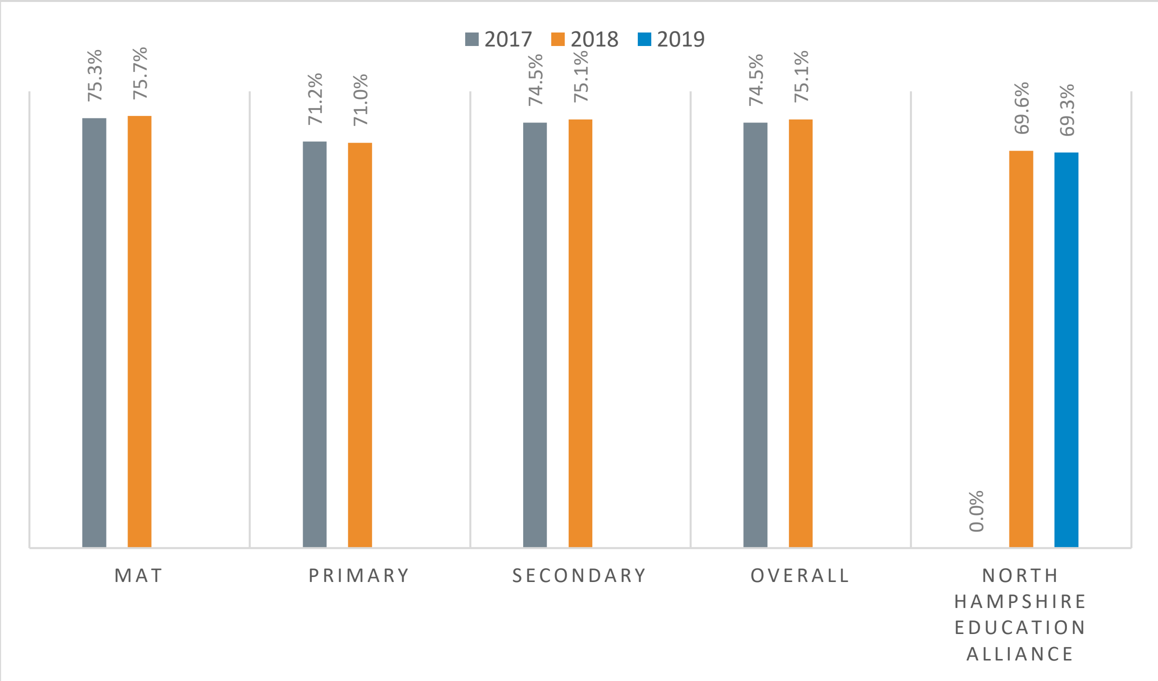


Formula: Surplus (deficit) for the year excluding fixed asset fund, LGPS adjustments and amounts donated on conversion ÷ Total income excluding fixed asset fund income and amounts donated on conversion.

Unlike commercial organisations, the aim of an academy trust is not to generate profits on trading or capital gains, but to provide quality education and fully utilise its resources in so doing.

Academies have needed to respond to significant funding pressures in recent years. As a result, many academies have reported in-year financial deficits. However, the position did stabilise overall in 2017/18, partially as a result of the cuts that academies have made and the need to protect remaining reserves.

Payroll as a % of operational income



Formula: Total payroll costs (including defined benefit pension scheme adjustments and agency costs, but excluding severance payments) ÷ Total income (excluding capital grants, conversion balances, sponsorship and start up grants)

Staff costs represent the most significant area of expenditure for all academies and are viewed by third parties as a critical indicator of financial and operational efficiency. Typically, staff costs make up 65% - 80% of both total costs and total income. As an average, across most Academy Trust we have seen an increase in payroll costs. The rise of pension and National Insurance contribution rates have clearly been felt across the sector.

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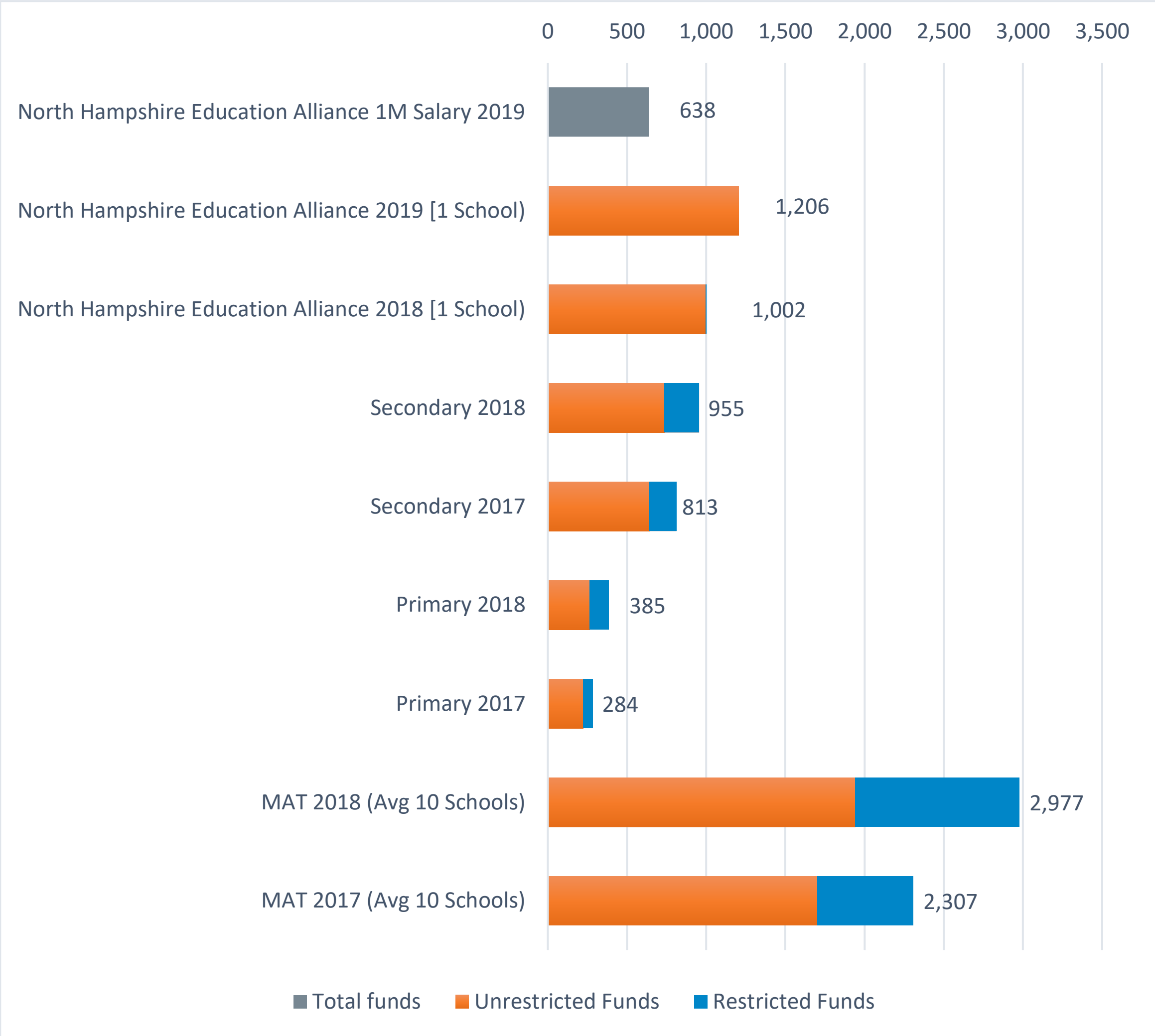
Reserves



The graph to the left shows the split of the Academy Trust's reserves between unrestricted funds (including designated funds) and restricted funds (excluding the fixed assets fund and pension reserve).

The government recommend that the amount an academy trust set aside is based on the type and size of the academy trust as well as the particular risks that it faces (for instance, if they are locked into a PFI contract). They encourage academy trusts to ensure that they keep at least one-month's salary cost as a revenue reserve.

When considering a reserves policy, academy trusts should consider wider financial risks and future plans to determine the appropriate level of reserves in the academy trust's own context. MATs should also consider how the reserves policy applied across constituent schools and to what extent risk can be spread across the trust.

LGPS liability as a percentage of GAG income

As for all academy trusts, North Hampshire Educational Alliance's support staff are eligible to participate in a relevant Local Government Pension Scheme, a multi-employer defined benefit scheme. In accordance with the requirements of the reporting standards, the Academy Trust has included its share of the liability in the scheme on its balance sheet, as estimated by the scheme actuary. As slight changes in the actuarial assumptions used can have a substantial impact on the overall net pension liability, we have provided in the table below a comparison of the Academy Trust's 2018/19 LGPS retirement benefit assumptions against those of other educational organisations.

	Sector Average %	North Hampshire Educational Alliance %
Assumptions		
Price increases	2.2%	2.1%
Salary increases	3.1%	2.0%
Pension increases	2.3%	2.1%
Discount rate	1.9%	1.8%
Increase in LGPS liability from 01/09/18 to 31/08/19	63.6%	74.9%
Value of LGPS liability at 31 August 2019 (£000s)	N/A	4,973
LGPS liability as a percentage of GAG income	41.9%	57.2%

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Appendix 4: Sector developments

Compliance

Academies Financial Handbook 2019

The ESFA published the latest update to the Academies Financial Handbook (AFH 2019) on 2 September 2019. All Academy Trusts must comply with the handbook as part of the conditions of their funding agreements. The major changes in AFH 2019 relate to:

- **Internal scrutiny**: Academies have always been required to have an effective process of internal assurance, but the new requirements give more detail on the process by which trustees decide which areas of their financial and other systems require internal scrutiny. Emphasis is placed on taking a risk-based approach and all Academy Trusts are now required to maintain a risk register.
- **Annual summary reports**: All Trusts will be required to submit an annual summary report on their internal assurance programme to the ESFA for the year ending 31 August 2020. For the year ended 31 August 2019, all Academy Trusts are required to submit a copy of their latest internal assurance report to the ESFA by 31 December 2019.
- **Audit committee**: AFH 2019 includes more detail on the role of audit committees, which must be formed when a Trust's annual income exceeds £50 million (or combined with another committee in smaller trusts). The audit committee should meet at least three times a year and agree an annual programme of internal scrutiny, driven by its assessment of risk. They should also review the results of the programme of work and ensure recommendations made in reports are addressed.
- **Management accounts:** AFH 2019 expands on the required format of management accounts, clarifying that they should include an income and expenditure account, variation to budget report, cash flows and balance sheet.
- **Governance:** All trusts must now appoint a clerk to support the Board of Trustees.

The full list of changes in AFH 2019 can be found on page 8 of the document, which is available here: https://www.gov.uk/guidance/academies-financial-handbook .

A short summary of the changes with practical guidance is available from Buzzacott here: https://www.buzzacott.co.uk/insights/academies-financial-handbook-2019-what-you-need-to-know

Financial management good practice guides

In March 2019, the ESFA began publishing a series of short "good practice" guides to assist academy trusts in topical areas of financial management. These guides are designed to provide an insight into the ESFA's expectations of trusts and there are currently ten available:

- Operating an academy trust as a going concern;
- Choosing an external auditor for an academy trust;
- Academy trust deficit recover;
- Academy trust risk management;
- Leasing guidance for academy trusts;
- Academy trust management accounting;
- Internal scrutiny in academy trusts;
- Academy trust management letters; and
- External audit preparation checklist for academy trusts.

The ESFA's good practice guides can be found here: https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides

School Resource Management Self-assessment tool

During 2018/19, Lord Agnew asked ESFA officials to develop an annual self-assessment questionnaire for trusts to complete on governance and finance. Rather than introducing a new return, the existing School Resource Management Self-assessment tool will be modified and made mandatory for completion on an annual basis. All academy trusts must submit a completed checklist to the ESFA by 14 November 2019. As yet, there is no requirement for academy trusts to obtain a statement of assurance from an external auditor on this return.

The form can be found here: https://www.gov.uk/government/publications/school-resource-management-self-assessment-tool

Academy Accounts Direction 2019/20

The Academy Accounts Direction 2019/20 is likely to be published early in 2020. This is a result of the Agency's intention to publish future iterations of the document in advance of the start of the financial year to which it relates.

Keeping Children Safe in Education update

The government published a revised version of the Keeping Children Safe in Education (KCSIE) guidance on 26 June 2019. The document is clear that safeguarding is the responsibility of everybody who comes into contact with children and all staff must therefore read Section 1 of the document at the very least. The latest version contains relatively few additions compared with the 2018 edition but has been expanded to include clarifications on serious violence, the criminal offence of upskirting and honour-based violence (including female genital mutilation and forced marriages). The new Ofsted framework is also referenced.

The full document can be downloaded from the Government's website here:
https://www.gov.uk/government/publications/keeping-children-safe-in-education--2

Land and Buildings Collection Tool 2019

On 1 October 2019, the ESFA completed updates to the 2019 Land and Buildings Collection Tool (LBCT), the annual form academies are required to complete in order to allow the consolidation of data on land and buildings into the Academies Sector Annual Report and Accounts (SARA) and from there, the Whole of Government Accounts.

The key updates relate to improved guidance and functionality to assist users in completing the form. There is also a new dashboard for Diocesan users of the form, since a Diocesan review is required for academies with land and buildings owned by the church prior to submission.

Detailed guidance on the 2019 LBCT can be found here:
https://www.gov.uk/government/publications/academies-land-and-buildings-collection-tool/land-and-buildings-collection-tool-summary-guidance-for-academies

The tool itself can be found on the government's website, here:
https://www.gov.uk/government/publications/academies-land-and-buildings-collection-tool

Funding and finance

Exit payment cap for public sector workers

The government is introducing a £95,000 cap on exit payments for public sector workers when they leave their jobs. The cap is intended to cover redundancy lump sums and pension top-up payments and a public consultation was launched earlier this year as an informing mechanism for the planned legislative changes. This consultation ended on 3 July 2019 and the results are to be published in due course.

https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector

Teachers' Pay Grant

The government has approved a £321 million grant to Schools to fund the 2.75% teachers' pay award approved by the Secretary of State for Education in July 2019 for the 2019/20 academic year. The funding made available has been based on 7/12ths of the funding for 2018/19, as it is only intended to cover the period from 1 September 2019 to 31 March 2020. The overall fund was allocated between primary, secondary and special schools based on the relative magnitude of the pay bills in each sector, adjusted for differing costs of employment in certain geographical areas and will be distributed amongst schools based on pupil numbers. No further funding for future pay increases has been confirmed.

More information on the detailed allocation of funding can be found here: https://www.gov.uk/government/publications/teachers-pay-grant-methodology/teachers-pay-grant-methodology

Teachers' Pension Employer Contribution Grant (TPECG)

Teachers' pension contributions for employers have increased from 16.48% to 23.68% as of 1 September 2019. The government has agreed to provide fund to cover the initial impact of the additional cost to employers between 1 September 2019 and 31 March 2020, which it has calculated at £848 million. £22 million of this amount will be set aside for a Supplementary Fund to which schools can apply if their allocation falls short of the actual pension cost increase. The remaining fund has been allocated between primary schools, secondary schools (including sixth forms), special schools and local authority centrally employed teachers based on the relative magnitude of the pay bills in each sector, adjusted for differing costs of employment in certain geographical areas and will be distributed amongst schools based on pupil numbers. No further funding beyond 31 March 2020 has been confirmed.

Local Government Pension Schemes

The last triennial valuation of the Local Government Pension Schemes (LGPS) was carried out as at 31 March 2016, at which point the total liability across all LGPS schemes was estimated to be approximately £254 billion. These equated to an overall funding level of 85%. The next triennial valuation is currently underway and is will reflect the financial position of the schemes as at 31 March 2019. The LGPS Advisory Board notes that it has been active in developing methods for reducing the funding shortfall, however if the triennial valuation indicates an increase in the unfunded liability, it is likely that participating employers will see an increase in their monthly contributions to the scheme.

More details about the current state of the schemes can be found on the LGPS Advisory Board's website:
http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report

ESFA correspondence

Lord Agnew's Brexit letter to academy trust accounting officers

Parliamentary Under-Secretary of State for the School System, Lord Agnew, wrote to all Academy Trust Accounting Officers on 17 September 2019 to draw their attention to the Department for Education's advice for Schools regarding the United Kingdom's departure from the European Union. This letter encourages Trusts to take part in a preparedness survey and highlights some of the suggested actions which schools should take with regard to food, medical products and data protection.

The government guidance referred to in the letter can be found here: https://www.gov.uk/government/publications/eu-exit-no-deal-preparations-for-schools-in-england/eu-exit-no-deal-preparations-for-schools-in-england

Policy and Governance

Disqualification rules for charity executives

The Charity Commission has published guidance on changes to the automatic disqualification rules which mean there are tougher restrictions on who can run a charity or hold senior management roles, plus details of how individuals can apply for a waiver from the new regulations, which came into effect on 1 August 2018. Whilst this guidance was published by the Charity Commission as opposed to the ESFA, it is still applicable to executives in Academy Trusts, which are exempt charities.

The rules had previously only covered trustees and protected charities from being run by people who meet certain criteria or have specific unspent convictions (for example crimes involving dishonesty or deception), and who are not authorised by a Charity Commission waiver to serve as a trustee.

The updated rules will stop disqualified people from being able to act in some charity senior manager positions, including those of chief executive or chief finance officer (or equivalent). Further, the reasons for disqualification will be more widespread and will include being on the sex offences register and other unspent convictions such as terrorism or money laundering. Further guidance on the new disqualification rules can be found at:

www.gov.uk/guidance/automatic-disqualification-rules-for-charity-trustees-and-charity-senior-positions.

From 1 February 2018, anyone who would normally be disqualified under the new regime has been able to apply for a waiver of the disqualification – the Charity Commission looks at factors such as the seriousness of the conduct, circumstances that led to the disqualification, how long ago it occurred, and whether the conduct that led to disqualification damaged a charity. Detailed guidance on the waiver process has been published at:

www.gov.uk/government/publications/how-the-charity-commission-assesses-waiver-applications-and-makes-a-decision/automatic-disqualification-waiver-decision-process-and-appeals.

UK Charity Digital Code of Practice

The UK's first charity-specific Digital Code of Practice, created after consultation from representatives across the sector including those from the Charity Commission, ACEVO and the Charity Finance Group, was published in November 2018. Whilst this is not academy-specific, many of the principles and ideas contained within the document may be of use to academies looking to expand their use of digital technology. The free to access and voluntary Code aims to help organisations improve their digital skills and increase their take-up and usage of digital activity. The Code identifies seven principles for charities on which to base their operations:

1. Leadership: charity leaders need to be able to know how digital technology can help them realise their vision for their charity and help them build networks to offer opportunities for collaboration;
2. User-led behaviour: the needs of beneficiaries need to come first and must be the starting point for any digital activity;
3. Culture: the values and ethos of the charity need to create the right environment for digital success;
4. Strategy: thinking creatively and being ambitious about the prospect of digital operations can help in creating impact and sustainability;
5. Skills: all levels of the organisation need be represented by digital skills and training and confidence is therefore paramount;
6. Managing risks and ethics: charities need to consider how digital issues fit with organisation values and ethics and manage these issues appropriately; and
7. Adaptability: charities need to adapt to survive as going digital inevitably changes how everyone lives and works, for example through the use of social media.

Following the above principles of the Code will help charities benchmark their progress in the digital medium and help inform key decisions in the area. To this end, the Code suggests making digital a standing agenda item at Board meetings (depending on the size and scale of the charity).

The Code can be read in full at: https://doit.life/charity-digital-code

HR and Personnel

Employment Case Law

Some important employment law principles continue to go through the courts, in particular decisions concerning employment status and the rights of workers, and the definition of holiday pay to include regular overtime.

There has been much publicity in recent months about harassment in the work-place and how it has often been ignored in the past, or accepted as part of business culture. Figures show that the number of complaints about harassment has increased in recent months, leading to changes in policies on harassment. There will continue to be consultations on harassment policies, linked to work on changing the culture within a business. It is important to review your policies on harassment as well as the training of managers on how to manage harassment issues at work.

Buzzacott

Itemised pay statements

Changes to the Employment Rights Act 1996 from April 2019 will provide all workers (not just employees) with the right to receive an itemised pay statements. Failure to provide itemised pay statements to the correct people could lead to an employment tribunal claim, so it will be important to assess an individual's working status correctly. Charities will need to be clear on the employment status of those working in the charity. There are three categories of employment status.

- Employee – is subject to an employment contract, is required to work a minimum number of hours, cannot send someone else to do their work, is subject to the business' disciplinary and grievance procedures, and is entitled to paid holiday and statutory payments, or
- Worker – has a contract to do work or services but has a limited right to send someone else to do the work, has basic employment rights such as being entitled to the National Minimum Wage, statutory minimum level of holiday pay, but is not able to claim unfair dismissal, request flexible working, or be paid statutory redundancy pay, or
- Self-employed – run their own business, can choose how and when they work, are able to send someone else to do the work, provide their own tools and equipment, can agree a price for the work, and can work for more than one client.

It is important you review the working relationship and contractual arrangements with any self-employed contractors to ensure they are given the correct employment status. As organisations have found over the last 12 months, there have been a number of high profile cases where individuals, considered as self-employed, have now been designated as workers by the Courts and therefore entitled to greater rights under employment legislation.

Taxation

Employment rules

HMRC continues to review the employment status of individuals, with a view to ensuring that all individuals working for an organisation are correctly classified as an employee or self-employed for tax purposes and thus that the appropriate type and amount of tax has been paid by individuals and employers.

In particular, HMRC have been investigating schools using peripatetic music teachers that are not paid through the payroll with a view to imposing fines and recouping tax owed if the teacher should have been treated as employed for tax purposes.

Small trading exemption

The small trading exemption for charities (and by extension, academy trusts as exempt charities) will rise from £50,000 to £80,000 for accounting periods beginning on or after 1 April 2019. Academies will therefore be able to generate taxable income of up to £80,000 before potential direct tax charges apply for the accounting period ending 31 August 2020.

Buzzacott

VAT

HMRC is looking closely at Academies and their VAT obligations and have recently issued letters to a number of trusts clarifying their responsibilities. This letter reminds academy trusts which are not registered for VAT that they cannot use the VAT126 form to claim VAT on purchases related to business supplies. HMRC cites cycle to work schemes and childcare vouchers as specific examples of business supplies on which academies have incorrectly reclaimed VAT in this correspondence.

The letter also reminds trusts that they must be registered for VAT if their annual taxable turnover exceeds £85,000.