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# CONVERTING TO AN ACADEMY: A FINANCIAL GUIDE



**Academies were originally introduced to improve schools that were failing, but the focus has now shifted to schools that are performing well and are able to spread their good practices to others. Academy numbers have increased rapidly in recent years and are likely to continue to do so.**

**This factsheet provides a summary of the key issues for Academies, including information to help you decide whether converting would benefit your school, as well as some of the financial implications.**

## WHAT IS AN ACADEMY?

An Academy is a state-funded school that runs independently, free from the regulation of the local authority. Rather, it receives its funding from the Education Funding Agency (EFA), and therefore has more freedom when deciding how to spend its money.

Schools that convert to Academy status often do so voluntarily, but there are a number of schools that are legally 'eligible for intervention' and these schools may be required to become Academies by the Secretary of State for Education.

## SHOULD MY SCHOOL CONVERT TO AN ACADEMY?

Before making a decision about whether converting to Academy status would suit your school, there are some important things to consider. You may wish to undertake a due diligence review before applying, which would assess the financial, governance and funding implications you would be likely to face if you decided to convert. This will enable you to make an informed decision about whether an Academy would be the best option for you.

New Academies receive an initial grant of £25,000 towards conversion costs, but aside from this grant, they are funded on an equivalent basis to a maintained school. They can, however, decide how to spend the parts of their funding that would otherwise be used by the local authority to fund central services.

Actual amounts differ depending on the local authority, but if you think you could obtain services at a lower cost from somewhere else, or could make better use of the 'top-sliced' funding, this should be considered, as it would free up some of your budget to channel into other areas.

Legislation dictates that a process of consultation must be completed before a school can submit an application to the Department for Education (DfE) to convert to an Academy. This consultation is usually carried out by the school's governing body and normally involves discussion with other interested parties including parents, teachers and other members of staff.

If you do decide to convert, you will need to register your Academy's charitable company with Companies House. To receive funding you will also need to set up a new bank account, and make arrangements as necessary for new contracts, service level agreements, licences and insurance. Please contact us for advice.

## WHAT FREEDOM WILL YOU GAIN FROM BECOMING AN ACADEMY?

- **Set your own pay structure.** Academies do not have to adhere to the School Teachers' Pay and Conditions Document (STPCD), so pay can be adjusted. Attractive salaries can help you to recruit or retain exceptional teachers or those specialising in innovative subjects, which can in turn improve the overall success of the school. However, this added freedom could complicate pay structures, so it is important to think through any changes before implementing them.
- **Teach your own curriculum.** Academies do not have to adhere to the National Curriculum, which means their curricula have the potential to be more varied, as long as they are deemed to be 'broad and balanced'.
- **Choose when you teach.** You can be flexible when it comes to term times, as long as you fulfil the statutory minimum teaching hours that apply to state schools. It would be advisable to consult parents before changing term times, to avoid any potential disruption this may cause.

## ACADEMY ACCOUNTABILITY

There are some important financial implications to consider before converting to an Academy.

- Academies are subject to a funding agreement with the Secretary of State. This contract sets out the operational framework within which the Academy must operate. Requirements covering the way that Academies are governed and operate are also contained within the Academies Financial Handbook
- Academies are required to prepare accounts in the form requested by the EFA and that comply with company and charity reporting requirements.

Academies are of course still bound by a number of other rules and regulations:

- They must adhere to laws regarding equality, special educational needs and employment
- Academies are still subject to inspections from Ofsted
- The DfE will still publish exam results and other data as they do with state-run schools
- Admissions rules apply, however the Academy can set its own criteria for offering places if applications exceed the number of places available, which are similar to the rules governing faith schools
- Academies that run nurseries as part of their school must comply with the Early Years Foundation Stage profile, while primary school Academies must adhere to key stage one and two National Curriculum assessment provisions if this is an obligation of their Funding Agreement.

## THE FUNDING AGREEMENT

The Funding Agreement establishes a framework within which the Academy must operate. It is signed with the DfE and is a seven-year contract with no clause for retracting from it, should the school wish to revert to its previous status.

## TRUST AND SPONSORSHIP

Schools that convert to an Academy voluntarily can either set up a trust themselves and therefore gain autonomy from other organisations, or join a trust that is already in existence. Those schools that are obliged to convert to Academy status must choose from a list of sponsors (provided by the DfE). This choice is important as the level of support the trust or sponsor can provide often varies.

## ACADEMY CHAINS AND COLLABORATIONS

Academy chains are becoming increasingly popular, and if you become an Academy it is expected – although not enforceable – that you partner with another school in the area in order to help maintain standards and provide mutual support. There are a number of possible organisational structures which collaborating Academies might adopt. These are: Collaborative Partnerships; Umbrella Trusts; and Multi-Academy Trusts.

## Collaborative Partnerships

In a Collaborative Partnership each Academy is run as a separate entity, but they join together under a management agreement in an informal chain for particular purposes. This is the least rigid structure and the easiest to exit.

## Umbrella Trusts

Under an Umbrella Trust, individual Academies can retain their autonomy but they benefit from stronger procurement powers and access to the skills and services of other local schools in the group. An Umbrella Trust is not itself an Academy so it does not need to report to the EFA – instead, it is a separate legal trust that acts as a sponsor, offering shared governance for its member Academies.

## Multi-Academy Trust

A Multi-Academy Trust is a single legal entity where the individual schools are governed by a central board in what is effectively a chain. The central board has a single master funding agreement and takes responsibility for the operations and performance of its member Academies. This structure gives individual schools the least autonomy but they enjoy the benefits of cost-sharing and central support.

Each of these organisational structures has its pros and cons, and choosing the right collaborative model for your Academy will depend on several factors, such as the level of autonomy you wish to retain, together with local educational needs and demographics.

Academies that are considering collaboration should seek specialist acquisition planning advice from qualified experts.

## THE FINANCIAL IMPLICATIONS: HOW WE CAN HELP

Academies have more financial responsibilities than state-run schools. Some additional considerations in this respect may include:

- setting budgets and reporting to the EFA
- managing new financial systems and procedures
- audit and assurance requirements
- managing potential pension deficits
- HR, payroll and admissions
- managing the Academy Trust's property.

Converting to an Academy can involve a significant amount of work, and without the right knowledge it is easy to get confused. We can help you to make sense of your new obligations and reduce the strain, assisting you in preparing your accounts, including in-year and year end returns, and ensuring you are using the most suitable systems to manage your new finances.

Converting to Academy status also means making your own claims when it comes to VAT. VAT on costs associated with educational activity can be recovered if your 'business activities' exceed the VAT threshold – currently £79,000. You will need to register for VAT, but there are other options available to you that allow VAT reclaims to be made where business activities are less than this amount.

We can provide you with professional advice to help you deal with these complex areas of VAT, and assist with completing VAT returns and VAT planning if required.

**For more information on our services, or advice on any other financial or tax matters, please contact us.**

**Converting a school to Academy status brings a range of financial challenges – and we can provide the expert help and advice you need. Please contact us for further information and advice on how we can assist your organisation.**