

Academies Trust Handbook 2024 – Staff Briefing

Each summer, we have come to expect the Education and Skills Funding Agency (ESFA) to introduce additional regulations for academies through its Academies Trust Handbook (ATH). This has been particularly evident in the area of related party transactions. Recently, however, the pace of changes in the ATH has slowed, with many updates being mere ‘clarifications’ and streamlining, along with some genuine relaxations in 2023.

ATH 2024, effective from 1 September 2024, introduces a significant and welcome relaxation concerning finance leases. This change is refreshing.

The Main Changes

Finance leases

Academies have historically been permitted to enter into operating leases, which are accounted for as rentals. However, finance leases, which are accounted for as liabilities, required prior approval from the ESFA. When asked to arbitrate on lease classification, the ESFA typically advised trusts to consult their auditors. This approach was logical, as lease classification involves the interpretation of accounting standards. Nonetheless, it was problematic that reclassifying a lease as a finance lease after it had been entered into would be deemed a regularity breach.

Effective from 1 September 2024, academies are now able to enter into finance leases without seeking prior approval from the ESFA, provided the leased asset type is included on the Department for Education’s (DfE’s) approved list. This list comprises ten main categories and encompasses most items that schools are likely to lease. The list includes, for example, minibuses and other vehicles, catering and cleaning equipment. The change applies to both new leases and those in existence before 1 September 2024. Academies must remain vigilant to ensure they do not inadvertently enter into a finance lease for an item not on the list.

Consequently, the regularity issues surrounding leases should largely be resolved, enabling trustees to make spending decisions based on value for money rather than an arbitrary accounting standard test.

The possibility of this change was initially raised by ESFA in spring of 2022 and was set to take effect from September 2022. However, the introduction was delayed and is now included in the ATH 2024.

Finally, whilst not directly related to the ATH change, the Financial Reporting Council has approved changes to how leases classified as operating leases are accounted for. The change will be mandatory for academies for their financial year ending 31 August 2027 and will result in operating lease being brought on balance sheet, being recognised as a Right to Use asset and liability.

Electric Vehicle Salary Sacrifice (EVSS) Schemes

The ATH 2023 confirmed that, under certain circumstances, trusts could establish salary sacrifice schemes for electric vehicles (EVs) without requiring approval from the ESFA. However, this provision has been reversed in the ATH 2024. In a Dear Accounting Officer letter, ESFA’s Chief Executive David Withey described this change as “a pause... while we clarify our approach and gather data on how trusts are planning to implement them.”

Effective from 1 September 2024, trusts must contact the ESFA via the customer help portal at the early stages of planning to offer a new scheme or before accepting any additional employees onto an existing scheme to discuss the position.

Prior to this change, EV schemes that did not result in any liability for the employer were permissible without prior ESFA consent. However, in practice that condition reduced the number of car schemes available and therefore many required prior ESFA approval anyway.

Internal scrutiny

Continuing a trend of additional clarifications on internal scrutiny, for those trusts with revenue greater than £50 million per year, the new handbook explains that you should have a professional internal audit function, and from 1 September 2025 this will be a requirement for such trusts. 'Professional' in this context means delivered using any combination of an in-house internal auditor or bought-in internal audit service. For larger trusts this means that the option to adopt a peer review is no longer permitted.

For all trusts, in recognition that internal scrutiny goes beyond finance, where the work is delivered by trustees and peer reviewers, the requirement is now that they have appropriate qualifications relevant to the area being reviewed, whereas previously the focus was on finance, accounting and internal audit experience.

Other changes

- Extending the trustees' requirements on reserves to include setting a clear plan for managing reserves. This clarification may seem like common sense, but should be considered in the context of increased focus on reserves by ESFA, and builds on the detailed reserves guidance they published in November 2023.
- Extending the list of examples where a Notice to Improve may be issued to include management of the school estate.
- Adding reference to DfE's digital and technology standards and explaining that trusts should take appropriate action to meet them. This recognises the increasing use of new technologies within schools and the risks this creates.

In summary

The 2024 handbook continues the trend of stability in requirements, bringing a welcome relaxation on finance leases, and emphasising the key areas of trust responsibility.

On the release of the handbook, Catherine McKinnell MP, Minister for School Standards, thanked all involved in trust governance, emphasising that "*strong financial management and governance*" equips schools to operate "*most effectively and deliver high-quality teaching and learning that prepares our children for the future.*"

Trusts are advised to review the handbook in full and consider how these changes may impact their operations in the coming academic year.

[9/2024]