

Price Bailey

# Academy accounting survey 2016.



The treatment of properties in faith schools  
March 2016

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# Contents

- P1 Introduction
- P3 Our education experience
- P4 Methodology
- P6 - 7 Summary of findings
- P8 The results
- P9 Church of England academies
- P10 Catholic academies
- P11 - 12 Results by diocese
- P13 Conclusions
- P14 About Price Bailey
- P15 Meet the team

# Introduction

For the three years following the introduction of converter academies, Price Bailey published a survey detailing the differing accounting treatment used by academies across the country. We did not publish a survey in year four as continuing incremental improvements in successive Accounts Directions and the easy availability of information on-line meant that academies and auditors were no longer working in the dark, oblivious to the practices and policies being used by others.

It is probably fair to say that the introduction into the Academies Accounts Direction 2014 to 2015 of a section detailing the preferred treatment of land and buildings occupied by academy schools under licence from faith organisations caused more consternation between academies, auditors, the EFA and the faith bodies than virtually any other topic. We felt that it was likely that differing treatments would have been used and a consolidation of such treatments would be useful to all.

To summarise the discussion, the Accounts Direction using the FRS5 concept of substance over form stated **“...it is likely that most church academies will conclude that the asset [representing the future economic benefits that are expected to flow from the continued use of the property] should be recognised on their balance sheet”**

The Catholic Education Service and the National Society were quick to respond with a joint paper arguing that academies **“... occupy land under a mere licence terminable at will...and that the [diocesan] Trustees retain the legal title and control of**

**almost all the substantive rights associated with it.”** Therefore **“the Church’s land and buildings do not constitute an asset of the academy because it is unable to exclude the Trustees (and others) from future economic benefits relating to the land and buildings....and is, in any case, unlikely to be able to be valued with sufficient certainty to meet the recognition test.”**

Of course both papers noted that the accounts are the final responsibility of the academy board of trustees and they should take advice from their auditor, whilst at the same time many Bishops issued a notice to their schools saying that church owned land and buildings should not be included on academy balance sheets.

Although the discussions centred on Catholic and Church of England academies the concepts were also pertinent to other faith schools and even former foundation schools where the freehold is owned by a related charity.

As nearly a third of our academy trust clients were affected by this, it is something that we took very seriously. Through formal and informal auditor forums we came up with a solution which we believe satisfies all of the accounting criteria and the aims of the organisations involved in the discussions. I am not promoting that solution in this survey; it is merely noted as one of the treatments adopted.

As always, facts in this survey are the facts; opinions conclusions and errors are purely my responsibility.

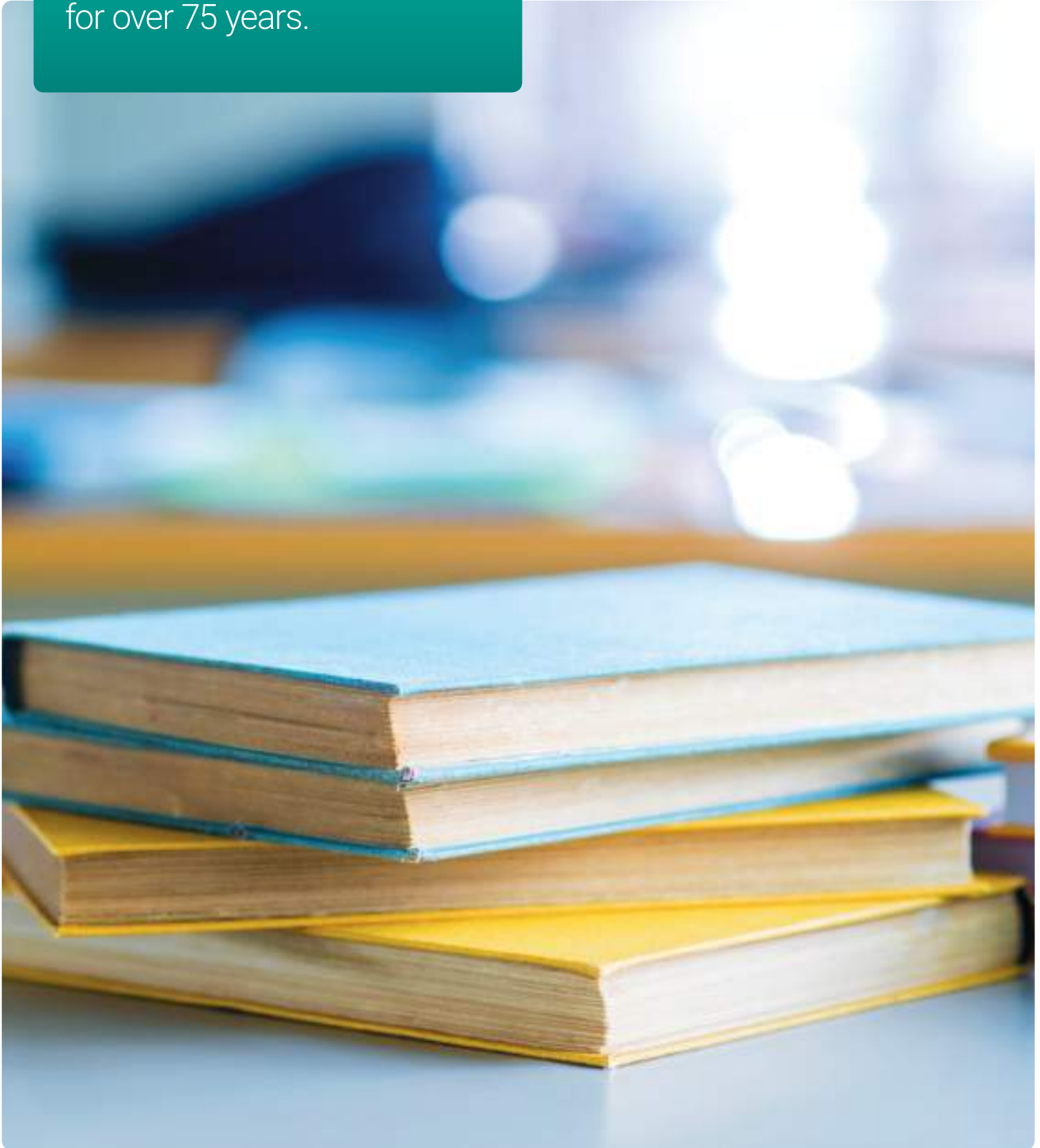
By publishing this survey of nearly 600 Catholic and Church of England academy trusts we hope that the EFA and the church bodies can come closer together in their views in 2016 and auditors have information in order to make informed judgements for their own clients.

**Gary Miller**  
Partner

Head of Academies and  
Education Team  
Price Bailey



Price Bailey - working with  
educational establishments  
for over 75 years.



# Our education experience

## Our sector experience

Our academies team is part of our charity group which has significant experience of working with over 500 charities and other not for profit organisations, meeting regularly to discuss issues facing the sector.

## Our education experience

Our academies management team consists of three partners and seven managers and we have been providing services to educational establishments for over 75 years. The majority of this team are also school governors in their own right and therefore able to empathise and understand the pressures placed upon academy trustees.

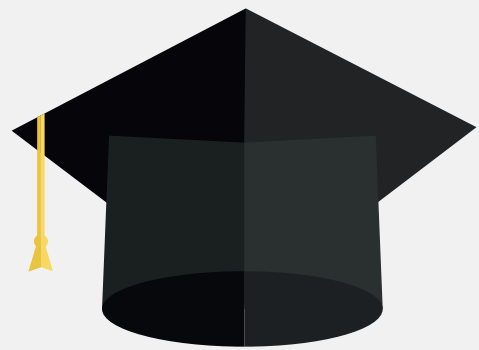
We work with schools and their governors, carrying out audits on public and private funds, and, where no conflict arises, acting as internal auditor and carry out internal control and system reviews and specialist audits for specific funding projects.

We also have a separate team operating within the HE sector where we act as auditor to a number of Cambridge colleges.

## Our academy experience

We are one of the eastern region's major providers of services to academies acting for over 80 academy trusts in every county across East Anglia, the eastern home counties as well as six London boroughs. These trusts comprise of well over 100 individual schools.

Our seven audit managers currently oversee 15 full audit teams drawn from throughout the practice, each led by a senior with experience of more than five academy audits under their belts.



## Our knowledge & experience

Most of our management team members are school governors in their own right.



# Methodology

We have tried to ensure that this survey is as comprehensive as possible and give thanks to both the National Society and the Catholic Education Service for providing us with a complete list of converter academies under their care.

There were 737 Church of England and 406 Catholic academies on the initial lists supplied to us. After grouping together those schools that were part of a multi academy trust and those not preparing accounts to August 2015, we were left with 406 Church of England and 163 Catholic academy trusts.

The survey should then have been relatively easy; a bit laborious but straightforward. We waited until 1st February when all August 2015 financial statements would be filed on the trusts' respective websites; brought in a couple of work experience students and set them the task of tracking down over 550 sets of accounts.

Perhaps we should not have been surprised, but by the end of the first week in February there were 125 academy trusts who had not published their accounts on their website. Obviously we had expected a few, but not on that scale. The thing that surprised us most however were the lengths which academies went to, whilst complying with the filing requirements, in hiding the accounts themselves deep in the back pages of their website. One trust even required interested parties to phone the school to obtain a password before being able to download the accounts.

We stopped searching on 15th March when 2 Church of England and 2 Catholic academy trusts had still not published their accounts on their website. This left us a total survey population of 565 academy trusts.

So even before starting our analysis we have two management letter recommendations.

Firstly to the schools – File your accounts on your website by 31 January. This is an Academies Financial Handbook “must” so failure to do so should be a high priority point.

Secondly to the EFA – Please can the next Accounts Direction, if not pronouncing where on the website financial statements are filed, at least specify they should be no more than [two] clicks from the home page.


Whilst we have information about the total population we have also analysed the results by diocese which will enable them to ascertain the level of compliance and consistency within their own area.

As previously we will not name names in this report but we will provide further details privately to the dioceses about the academies in their area, if requested.



## Management letterpoint

It is an Academies Financial Handbook ‘must’ to file your accounts on your website by 31 January.



A comprehensive review of the accounting treatment of land and buildings in over 550 faith school academy trusts.

# Summary findings

Over the first three years of our accounts survey we noted fewer and fewer divergent accounting treatments and disclosures as everyone became used to the requirements; although in these early years we were concentrating on the larger areas of disclosure.

With this survey concentrating on one very specific area we were surprised to see a number of other inconsistencies – disclosures which are, on the face of it, non-contentious and straightforward, yet still causing problems.

Despite being clearly stated in Coketown, 101 academy trusts did not list their members and 63 made no mention of a relationship with their diocese at all; neither on the Reference and Admin page nor in their Trustees' Report. It does rather give the impression that there may be quite a lot of work still to be done in getting everything up to the required consistent standard of disclosure.

It is probably fair to say that auditors have not welcomed being put directly in the firing line of two groups with opposing views;

trying to implement an accounts direction which had not closed out all technical loopholes. The fact that completely opposite accounting treatments have been adopted to reflect exactly the same circumstances show that something is seriously wrong and needs to be resolved before the 2016 Accounts Direction is finalised.

Our survey has analysed the accounting treatments of church properties into six main categories in two distinct sub groups.

1. Narrative discussion plus:
  - a. Land and buildings included at full value within the accounts.
  - b. Land and buildings not included in the accounts but notes explaining why the trustees have not included it.
  - c. Annual "gift" from the freeholder plus associated notional rental charge.
  - d. Annual "gift" from the freeholder plus associated notional rental charge plus an amount in the Balance Sheet to reflect the terms of the notice period required (2 or 3 years value of annual rent).
2. No narrative discussion:
  - a. Land and buildings included at full value within the accounts.
  - b. No mention of land and buildings anywhere.

## Narrative discussion (64% of total)

Narrative discussion of the treatment of land and buildings in faith school accounts is generally found in either or all of the following places:

- Accounting policy note.
- Fixed asset note.
- Related party note.



### Land and buildings included at full value (38% of total)

These trusts noted the nature of the short term licences granted by the appropriate freeholder but concluded that “substance over form” justified including the asset as though it was a long term lease and depreciated accordingly.

### No land and buildings included (20% of total)

Many of these trusts had virtually identical narrative notes to the category above but then concluded that as the school had no long term rights to occupy the trustees had taken a conscious decision not to include a value of land and buildings in the accounts.

It was interesting to note that some trusts in both categories made positive statements that their treatment was in accordance with EFA’s Accounts Direction.

### Annual gift plus notional rental charge (3% of total)

Similar to the category ‘no land and buildings included’ above but with the addition of an annual gift from the freeholder and a notional rental charge.

### Annual gift and notional charge plus short term asset (3% of total)

These trusts noted that as licences to occupy were subject to 2 years notice (or 3 if notice had not been given by 31 August) then there is a rolling gift outstanding at any one time of 2 (or 3) years with amounts being carried in both long and short term debtors and a separate reserve fund. These assets are noted as representing the “right to occupy”. In addition there was an annual gift and charge for the current year.

### No narrative discussion (36% of total)

Certain academy trusts carried no narrative whatsoever in their financial statements.

### Land and buildings included at full value (33% of total)

40 academy trusts carried full values for freehold land and buildings including 24 multi academy trusts that carried both freeholds and leaseholds. There is no indication to believe that this is anything other than the appropriate treatment.

Apart from the one trust which rather confusingly noted “included in long leasehold property is freehold land” and the one which just noted “land and buildings” the remainder included the full value of their properties in the accounts under long term leaseholds. If these were not church schools, the accounting treatment of their properties would not be open to question.

As we have already discovered, there are still many improvements to be made in filing (and finding) information on academy trust websites. We were able, on a sample basis, to track down a number of church supplemental agreements indicating that some schools in this category were in fact occupying diocese properties.

For these examples we would have expected to see some recognition of the facts either in accounting policies or related party transactions.

In the absence of any additional narrative in the respective sets of accounts it is not possible to ascertain how many trusts in this group actually occupy premises held under formal long term leases and which are therefore appropriately disclosed.

### No mention of land and buildings (3% of total)

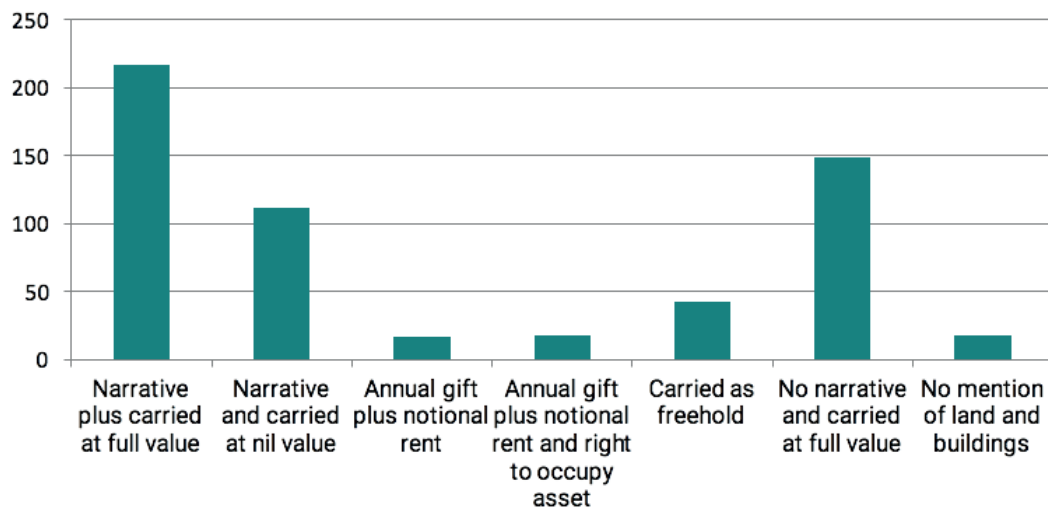
These trusts ignore land and buildings entirely. There is nothing within fixed assets neither are there any explanatory notes as to why not.

# The results

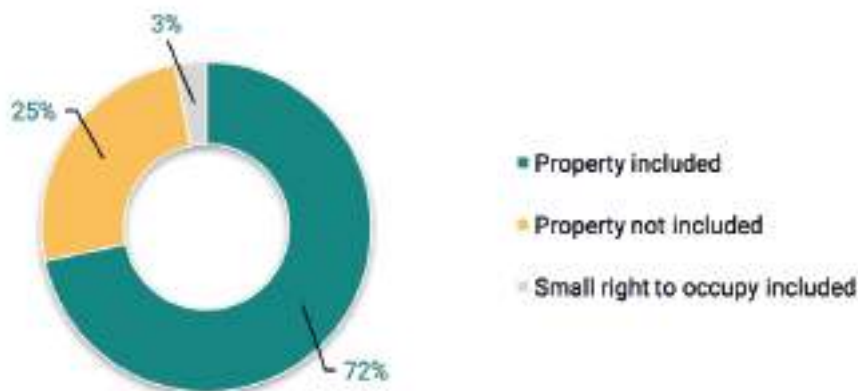
## In total

	Trusts	%
<b>Narrative plus</b>		
Carried at full value.	216	38
Carried at nil value.	110	20
Annual gift and notional rental charge.	16	3
Annual gift and rental charge plus right to occupy asset.	17	3
<b>No narrative and</b>		
Carried as freehold <i>(including freehold and leasehold)</i>	40	7
Carried at full value.	149	26
No mention of land and buildings.	17	3
<b>Total</b>	<b>565</b>	<b>100</b>

## In total by number



## In total by percentage

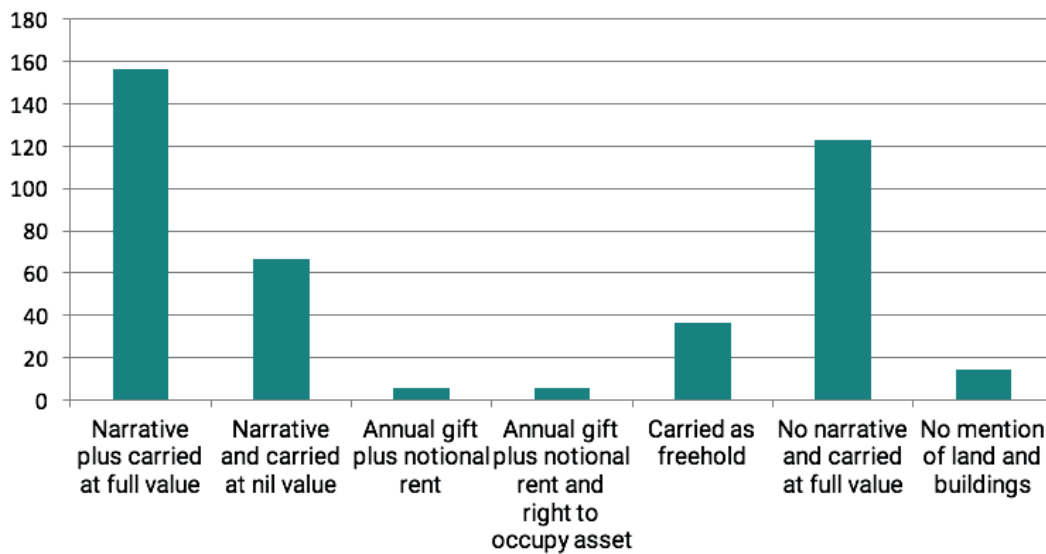


# Church of England academies

## Results of Church of England academies

	Trusts	%
<b>Narrative plus</b>		
Carried at full value.	156	39
Carried at nil value.	66	17
Annual gift and notional rental charge.	5	1
Annual gift and rental charge plus right to occupy asset.	5	1
<b>No narrative and</b>		
Carried as freehold ( <i>including freehold and leasehold</i> )	36	9
Carried at full value.	122	30
No mention of land and buildings.	14	3
<b>Total</b>	<b>404</b>	<b>100</b>

## Church of England academies by number



## Church of England academies by percentage

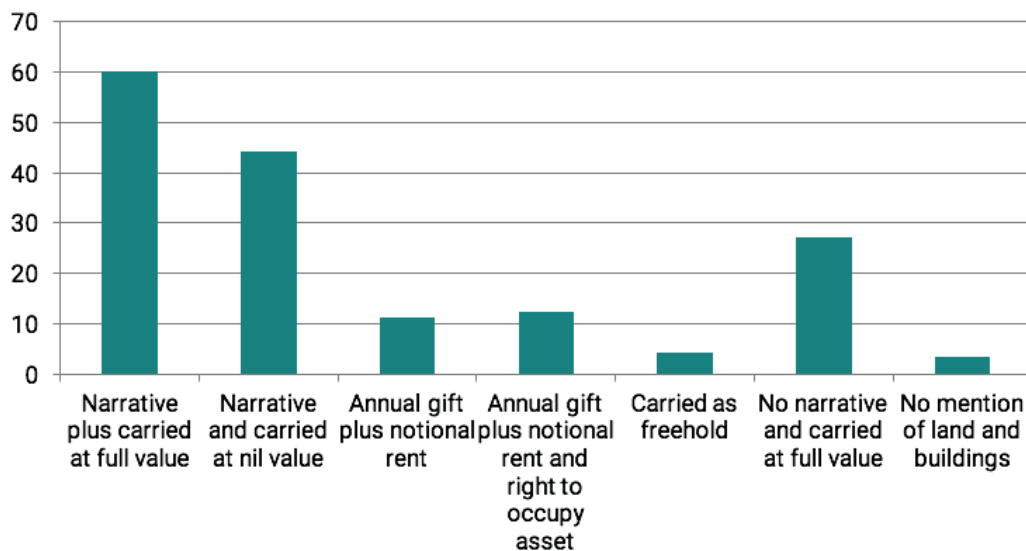


# Catholic academies

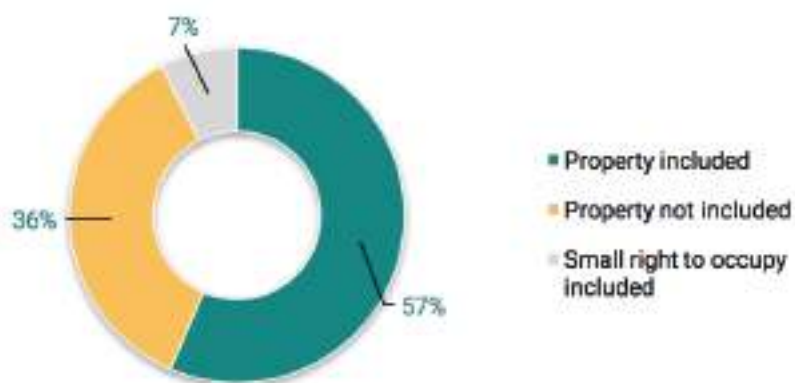
## Results of Catholic academies

	Trusts	%
<b>Narrative plus</b>		
Carried at full value.	60	37
Carried at nil value.	44	27
Annual gift and notional rental charge.	11	7
Annual gift and rental charge plus right to occupy asset.	12	7
<b>No narrative and</b>		
Carried as freehold ( <i>including freehold and leasehold</i> )	4	3
Carried at full value.	27	17
No mention of land and buildings.	3	2
<b>Total</b>	<b>161</b>	<b>100</b>

### Catholic academies by number



### Catholic academies by percentage



# Results by diocese

## Church of England

Diocese	Narrative				No narrative		
	Carried at full value	Carried at nil value	Annual gift and notional rent	Annual gift, rent and right to occupy	Carried as freehold	Carried at full value	No mention of land and buildings
Bath & Wells	3	3			4	8	2
Birmingham	9	2			1	6	
Blackburn	6					3	
Bristol	4					4	
Canterbury	11					1	
Carlisle	4	4			1		
Chelmsford	1	2		5		1	
Chester	3		1		1	2	
Chichester	1					1	1
Coventry	1	1				1	
Derby	2						
Durham	4	2				3	
East Anglia		1				1	
Ely	1				1		1
Exeter	6					5	
Gloucester	3				2	5	
Guildford	3	1					
Hereford	1				1	4	1
Leicester	4	7				8	5
Litchfield	1	7			1	7	
Lincoln	9	5			3	3	
Liverpool	1	1			1	4	
London	2	7				4	
Manchester	3	1			1	7	
Newcastle						1	
Norwich	2						
Oxford	14	1			1	5	1
Peterborough	3	9			2	3	
Portsmouth						1	
Rochester	6	1				1	
Salisbury	14	2				8	1
Sheffield	1	1	1		2	2	
Southwark	1	2			2		
Southwell	6				1	2	
St Albans	8	5				4	1
St Edmundsbury	2					1	
Truro	3		1		1	3	
West Yorkshire	7		1		2	9	
Winchester	3				1	1	
Worcester			1		2	5	
York	2				1	1	1
Multiple Diocese		1				1	
Diocese not stated	1						
TOTAL	156	66	5	5	36	122	14



# Results by diocese (continued)

## Catholic

Diocese	Narrative				No narrative		
	Carried at full value	Carried at nil value	Annual gift and notional rent	Annual gift, rent and right to occupy	Carried as freehold	Carried at full value	No mention of land and buildings
Birmingham	6	1				7	
Brentwood	3	2		12	1		
Clifton	15					1	
East Anglia	2	1			1		
Hallam	4	7	10				
Hexham/Newcastle	8	7					
Lancashire		1					
Leeds	1	1				1	
Liverpool	1				1	4	
Middlesbrough	2					1	
Northampton		2					
Nottingham	4	7			1	2	
Plymouth	1						
Portsmouth	3					4	
Shrewsbury	4	2	1			3	
Southwark	5	7				4	2
Westminster	1	6					1
<b>TOTAL</b>	<b>60</b>	<b>44</b>	<b>11</b>	<b>12</b>	<b>4</b>	<b>27</b>	<b>3</b>

# Conclusions

Every academy trust should, dependant on their specific circumstances, decide on the most appropriate accounting policies to adhere to, within the framework of charity law and the sector guidance set out in the Academies Account Directives.

Our research shows that when it comes to the treatment of land and buildings there is a lack of consistency of approach from trusts faced with near identical circumstances. This has led to the adoption of significantly different accounting treatments and highlights a major weakness in the current guidelines.

Perhaps even more worrying for the general reader of accounts who is trying to gain an appreciation of the issues is that nearly one third of academy trusts give little or no narrative explanation at all of their treatment of land and buildings. If you include the other simple omissions, as noted in our Summary of findings, it does lead us to believe that there are still improvements to be made in consistent reporting across the sector.

Hopefully the 2016 Accounts Direction will give further guidance on the accounting treatment of properties occupied by academy trusts under licences, and give more guidance over how to account for, and report, on such assets. This is not helped by the formatting of the Accounts Return which does not accommodate properties which are neither freehold nor leasehold.

Finally we would like to thank the EFA, the National Society and the Catholic Education Service for their support in ensuring we had a complete sample to study and not forgetting India Payne from Price Bailey who took it upon herself, in order to ensure consistency, to review and catalogue all 565 sets of accounts.



## Our view

There is still a great deal of work to be done to ensure consistency of reporting by academy trusts.

# About Price Bailey

Price Bailey specialises in providing accountancy and financial advice to individuals and businesses. In addition to traditional accounting services, the firm has a range of specialists in many areas which combine to provide a complete, integrated offering. These include tax consultancy, corporate finance, strategic planning, private wealth management, insolvency and recovery, and employment law.

Founded in 1938, Price Bailey has grown to become a top 30 firm of chartered accountants and business advisers. With 28 partners and over 350 professional and support staff the firm has two offices in London and others in Bishop's Stortford, Cambridge, Ely, Norwich, Guernsey and the Caribbean.

In the last few years the firm has won many British Accountancy Award accolades, including in 2013 our academies audit team being awarded Auditor of the Year.

At Price Bailey our focus is on providing academies and their trustees with the answers before anyone thinks to ask the question.

Gary Miller  
Head of Academies and Education Team  
Price Bailey

# Meet the team

## Academies management team

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