

Academies Due Diligence Guide



A hand is shown in the foreground, reaching upwards with fingers spread. The background is a solid green color. The hand is positioned on the left side of the frame, with the palm facing towards the right. The lighting is soft, highlighting the texture of the skin.

What is due diligence?

Due diligence is an investigation into the background, financial condition, business operations and contractual obligations of a person, charitable trust or company. Due diligence is undertaken to establish a complete, accurate and reliable vision of the subject so that realistic, fact-based decisions can be made by the investigating entity when considering any potential transaction or relationship.

Due diligence contributes significantly to informed decision making by enhancing the amount and quality of information available to decision makers.

Specifically applied to academies, it means ensuring that you fully understand all of the risks, assets, liabilities and relevant information to make an informed decision about whether entering into a Multi Academy Trust with a particular academy is the right decision for your own organisation.

It is essential that due diligence is carried out before any decisions are formally made. It should be clearly documented that all Trustees have been made aware of this information, and that the findings are minuted in case of the need for referral at a later date.

What should be investigated under due diligence?

Due diligence is relevant to the following scenarios:

- an existing Multi Academy Trust (MAT) considering taking a new establishment into the MAT;
- an existing single Academy Trust considering joining a MAT;
- a Local Authority maintained school considering Academy conversion and joining an existing MAT.

Depending on the level of risk of the proposed merger, due diligence work could involve obtaining an understanding of:

- income and expenditure profile over a number of historic periods;
- historic budget position and any future changes that are known;
- predicted budgetary position (assuming business as usual) for a number of forthcoming years;
- student forecast numbers on roll and any housing developments or population decline in the area;
- scrutiny of all board meeting minutes for at least the most recent years;
- review of all legal contracts including suppliers, leases and consultants and potential contingent liabilities (e.g. grant conditions);
- analysis of all HR contracts including any existing TUPE requirements and special conditions/clauses relating to that particular Academy;
- inspection of the physical assets of the Academy including the condition of the buildings and facilities;
- scrutiny of all legal documents, insurance, H&S audits, Audit outcomes, 'Near miss' reports and potential liability claims;
- scrutiny of safeguarding complaints;
- scrutiny of Freedom of Information requests received (and responses);
- details of any fraud or financial irregularity; and
- review of all Internal processes and controls including checks as to whether practice reflects policies.

Who should carry out due diligence?

You will need a multi-disciplinary team to carry out due diligence, which may include:

- accounting and auditing advisors;
- legal advisors;
- building surveyors/ property specialists;
- health and safety specialists;
- human resources advisors; and
- any other specialist deemed necessary depending on initial findings.

The professional fees associated with due diligence will vary depending on the scope of the exercise. Whilst these sums may appear high, they are necessary and can help avoid much higher costs at a later date, and in some cases could result in additional income from the government.

As an existing Academy Trust/MAT, you may also have the skills and resources “in-house” to carry out many aspects of a due diligence review, mitigating some of the associated costs.

Our Approach

Given the varied nature of each potential Academy Merger, we suggest undertaking a Pre-Merger Review in a two part process.

Part 1 would cover an initial review of financial forecasts, with comparison to prior year results and sector benchmarking data, a review of the balance sheet and reserves position, and consideration of a work plan to be undertaken in Part 2.

Part 2 would consist of detailed and focused review into any key issues or risks highlighted during Part 1. It may be at this stage you decide that no further work is required, or that you wish to undertake further investigations internally. We will discuss this with you prior to commencing work.

Our aim is to provide a flexible, focused and cost effective review, in order to help you make the right decision for your Academy.

Recent projects and outcomes

Our specialist team at Bishop Fleming has undertaken a number of due diligence assignments in relation to Academy mergers. We outline a few recent case studies below:

Proposed Merger A

Merger between a Secondary School Academy and a MAT with Secondary and Primary Schools

Acting on behalf of the Secondary School Academy, we undertook a full scope due diligence exercise. As the result of a number of concerns relating to financial governance and forward looking budgets, along with differing Academy cultures and concerns raised by parents, the merger did not go ahead.

Merger B

Merger between a MAT with Secondary and Primary Schools and a Secondary School Academy

Acting on behalf of the MAT, we undertook a full scope due diligence exercise. A number of concerns were raised regarding the budgets and ongoing operations of the proposed partner. As a result, a memorandum of understanding was reached with the EFA restricting the use of existing MAT funds to support the new partner, allowing for the merger to go ahead at a later date.

Merger C

Merger between a MAT consisting of Primary Schools only and a Local Authority Primary Academy Converter

Acting on behalf of the MAT, we undertook a limited scope due diligence exercise. The low risk nature of the assignment and lack of any significant issues identified by the due diligence process, resulted in completion of the merger on the planned timescales.

Merger D

Merger between a MAT consisting of Primary Schools only and a Secondary School Academy

Acting on behalf of the MAT, we undertook a limited scope due diligence exercise focussed on staffing costs and forward looking budgets. No significant issues were identified as a result of the due diligence exercise and the merger completed as planned.

Proposed Merger E

Merger between a MAT consisting of Primary Schools only and a Primary Academy Converter specialising in High Needs Education

Acting on behalf of the MAT, we undertook a limited scope due diligence exercise. The due diligence exercise did not identify any financial issues with the proposed partner school, but owing to differing cultures at the two entities the merger was eventually scrapped.

How Bishop Fleming can help

If you are contemplating any form of Academy merger, Bishop Fleming's Academy Team, along with our Corporate Finance specialists, can provide valuable assistance to help drive the merger process.

We have undertaken due diligence assignments for a number of Academy mergers and not-for-profit transactions. We can improve the chances of achieving the right outcome for your Academy.

No obligation initial meeting

If you believe that you require professional advice or due diligence services, and would like to work with Bishop Fleming, we would be happy to arrange a no obligation meeting with you.

Contacts

For more information or to arrange for an initial exploratory meeting, please contact a member of the Academies team at your nearest office:

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