

# Academies Annual Update

Tuesday 15 October 2024 - hosted by Larking Gowen,  
delivered by members of PrimeGlobal



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**PrimeGlobal**

*The Association of Advisory  
and Accounting Firms*



# Who we are



**Host**

**Giles Kerkham,  
Larking Gowen**



**James Gare,  
Monahans**



**Keynote speaker**

**Simon Oxenham,  
Southend High  
School for Boys**



**David Wright,  
Westcotts**



**Gilly McGill,  
Larking Gowen**

# Agenda

- Welcome
- Keynote: Simon Oxenham – New Government, new direction
- Rules. Pitfalls and some good news
- Break (10 minutes)
- Demystifying VAT
- Wellbeing; financial and non-financial
- Summary

## Keynote speaker

Simon Oxenham,  
ISBL National Lead on  
School Finance and  
Efficiency







'New Government, New Direction?'

**Simon Oxenham**

**Director of Resources**

**Southend High School for Boys**

***ISBL National Lead***



# Agenda



- Why is there an impending school financial crisis?
- Managing the financial risks and challenges
- Thoughts on the direction of the new government
- What does intervention look like



# The budget formula

- 1. *Recurrent debt* +
  - 2. *Cost pressures* +
  - 3. *Paused urgent projects*
- } = Financial need

Or put another way

- 1. *Last year's deficit* +
  - 2. *This year's cost increase* +
  - 3. *Paused urgent projects*
- } = Required funding increase

# The budget formula

- Last years deficit – say 5%
  - 5% of total income per new guidance
  - Many maintained settings in deficit [Schools Week article](#)
  - 47% of trusts used reserves in 2022/23 [Schools Week article](#)
  - 70% of the least well-funded schools expect to spend more in 2023/24 than they receive, an in-year deficit, depleting reserves. [NFER report](#)
  - If reserves have been used this year then they are not available for next year so need funding
- This years cost increase – say 7%
  - NLW going up c. 7% and NJC pay scales already compressed so c. 7% (current offer 5.77% - 2.5%)
  - Inflation is lagged so non pay likely to c. 7%
  - DfE RPA is going up by 8.6% due to cost pressures and inflation
  - Companies House confirmation statement fee has gone 260%
  - [NFER Report](#) 6.5% teachers pay rise unlikely to solve the problems – current offer 5.5%
  - TES teaching vacancies a month in at c. 4600 (1 in 5 schools)
- Paused urgent projects – say 5%
  - Cracked chimney breast +
  - Cast iron water goods +
  - Roofs from 1935 with patch repairs = c. £350k
  - Network switches over 10 years old = £166k
  - Boilers beyond expected life = £60k
  - Windows 10 October 2025 = £250k



# The budget formula

1. <i>Last year's deficit</i> +	}	= Required funding increase
2. <i>This year's cost increase</i> +		
3. <i>Paused urgent projects</i>		

1. 5% <i>Last year's deficit</i>	}	= 17% increase or 12% without projects
2. 7% <i>This year's cost increase</i>		
3. 5% <i>Paused urgent projects</i>		

# The Southend 2024/25 picture



- 45 Schools
  - 9 on Minimum Per Pupil
  - 3 got less than a 1% increase
  - 4 got 3 to 3.7%
  - 1 got 5.1%
  - 1 got 8.2% (St Marys, Prittlewell has an unusual revised allocation)
  - 36 got 1 to 3% (including the MPPFL schools)
- The MPPFL went up by 1.4% / 1.5% (depending on the amount of MSAG a school received, with a funding floor of 0.5%).
- If we exclude St Marys that gives an average increase of 2.1%.
- If cost increases are 7% a school with a 2.1% rise, would need to find savings c. 5%
  - Without worsening the deficit
  - For a standard sized secondary school cuts of about £300k-£500k in one year
  - Following on from a 10 year squeeze
- Schools getting 1.4% with recurrent deficits, the prospects for 2024/25 are very bleak



# The Southend 2024/25 picture

**Funding required = 12%**  
**Average increase = 2.1%**



# Capital Funding

## 'The lights go out when it rains' - hundreds of schools waiting on builders



BBC/ HAZEL SHEARING

The vast majority of schools on a government rebuilding programme in England are waiting for builders, according to a Freedom of Information request.

**Hazel Shearing** >

Education correspondent

@hazelshearing >

13 October 2024

Hundreds of old and leaky school buildings in England still don't have builders assigned to them - even though they're on a flagship government rebuilding programme, the BBC has found.

More than 500 schools are on the scheme, but by this summer contracts had been awarded to construction companies to rebuild just 62 of them.

## ['The lights go out when it rains' - school rebuilding plan missing targets - BBC News](#)

Schools rebuilding programme = 50 a year

- 24,400 schools in England (.gov website)
- 488 years to rebuild every school (2 questions)
- SRP on your risk register

## Environmental audit committee [Net-zero: Ministers promise to unveil schools 'roadmap' \(schoolsweek.co.uk\)](#)

- Low Carbon Skills Fund (LCSF) – grant to generate plan to decarbonise
- Public Sector Decarbonisation Scheme (PSDS) – overly complicated 'Randomised Selection'
- Named Estate and Teaching Leads
- Written plan to move to net zero
- By then end of 2025

## The Headlines – Breaking News



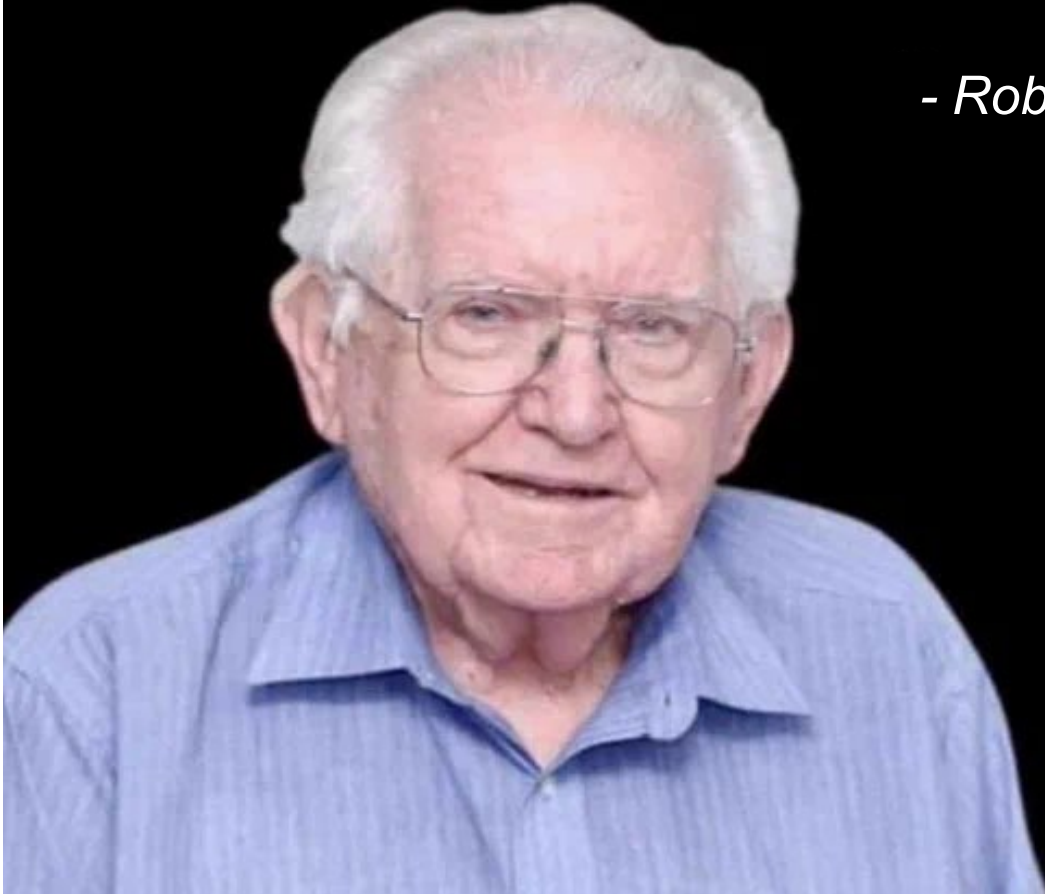
## The Daily Blurb

DfE to press ahead with plans to make all schools net zero by 2050



“Being a school business leader is not stressful”

- *Robert, age 26*



**How are  
you feeling?**

**School Business Leaders  
should have:**

Grey hairs to look experienced  
Haemorrhoids to look concerned

# Financial risks & challenges



- Teacher Workload Reduction
  - What about Support Staff?
  - Assumes extraneous tasks
  - It is class sizes, on average the largest in Western Europe
  - If workload is well manage in school there are only two options:
    - Reduce class size
    - Reduce contact time
  - Both require more teachers
  - Resultant c. 23% rise in teacher costs (over £1m for typical secondary)
  - Note the union commitment if they are thinking of increasing contact time
- Advanced British Standard
  - Filed in the round filing cabinet under the letter B
  - [Digital exams to be introduced within years - AQA - BBC News](#) has been linked with the ABS but the practical implications and associated costs would be vast.



# Financial risks & challenges



- DfE ICT Standards – 2 more added earlier in the year
- Windows 10 support ends October 2025 - *possibly*
  - RM CC4 also ends - *possibly*
  - Older devices will not work Windows 11
  - Consider broadband connection size
  - Have you got a failover
- Protective security and preparedness for education settings
  - [DfE Guidance - April 24.pdf](#)
- Cash Flow forecast
  - Separate operational cash from monies held on trust and restricted reserves
  - DfE use this for calculating support



# Financial risks & challenges



## • Internal Scrutiny guidance recently updated:

- Governance and management structures
- Estates management, health and safety
- Strategic financial planning, efficiency, funding, and budgets
- Cash and banking
- Monthly financial closedown
- Management accounts and related information
- Procurement
- Related party transactions
- Human resources
- Payroll
- Induction and training
- Safeguarding
- Whistleblowing
- Fraud and theft
- IT systems, cyber security / risk mitigations, data management and protection
- Business continuity plans / disaster recovery
- Risk protection arrangement and Insurance
- Environmental, social and governance (ESG) issues, including sustainability
- Security / Lockdown?



# Other risks & challenges

- Falling pupil numbers nationally
- TPS went up to 28.68% April 2024 – not fully funded
  - TPSECG 16-19 portion – likely to stay outside formula
  - TPECG 2024 pre 16 portion, likely to go into NFF for 2025
- The averages risk
  - 1.2% headroom - [Schools' costs 2023 to 2025 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)
  - Pay accounts for c. 80% expenditure
  - 2.0% pay rise affordable
  - Ignores outliers & prototypical schools - *'procedurally irrational'*
  - With reserves it ignores operational reserves and restricted funds
- Balancing H&S issues versus risk of claims or fines
- Beware 'the more' – more funding per pupil but we have to do more and its set to continue
  - ICT Standards – are in ATH Sept 2024
  - Sustainability – probably going into ATH in the future
    - [Sustainability leadership and climate action plans in education - GOV.UK \(www.gov.uk\)](https://www.gov.uk)
  - Security / Lockdown .....
  - Published plan for developing music offer
- Schools Budget Grants – do they solve our problem =



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# The Headlines – How bad is it?

News

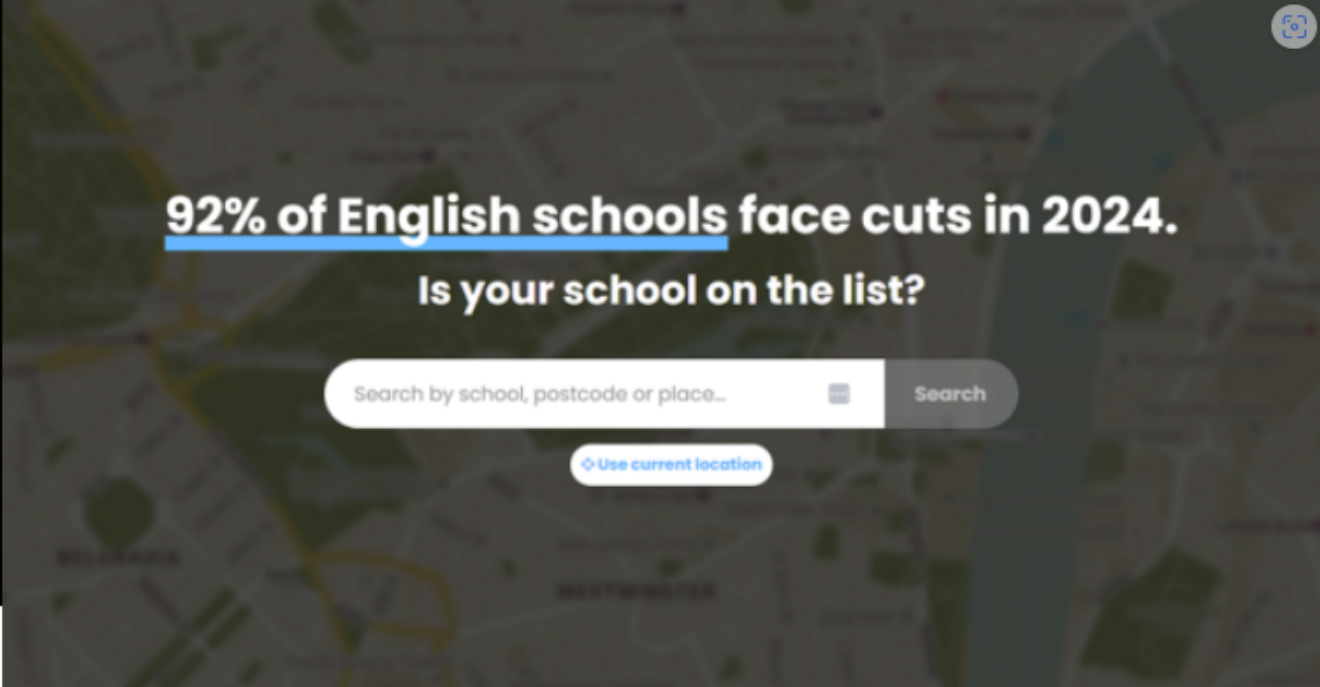
## School Cuts relaunch puts unions on collision-course with DfE again

Freddie Whittaker  
16 Nov 2023, 15:37  
[More from this author](#)

Updated analysis estimates 92 per cent of mainstream schools will be 'unable to cope' with cost increases in 2024-25

[WhatsApp](#) [Facebook](#) [Twitter](#) [LinkedIn](#) [Email](#)

[See discussion](#)



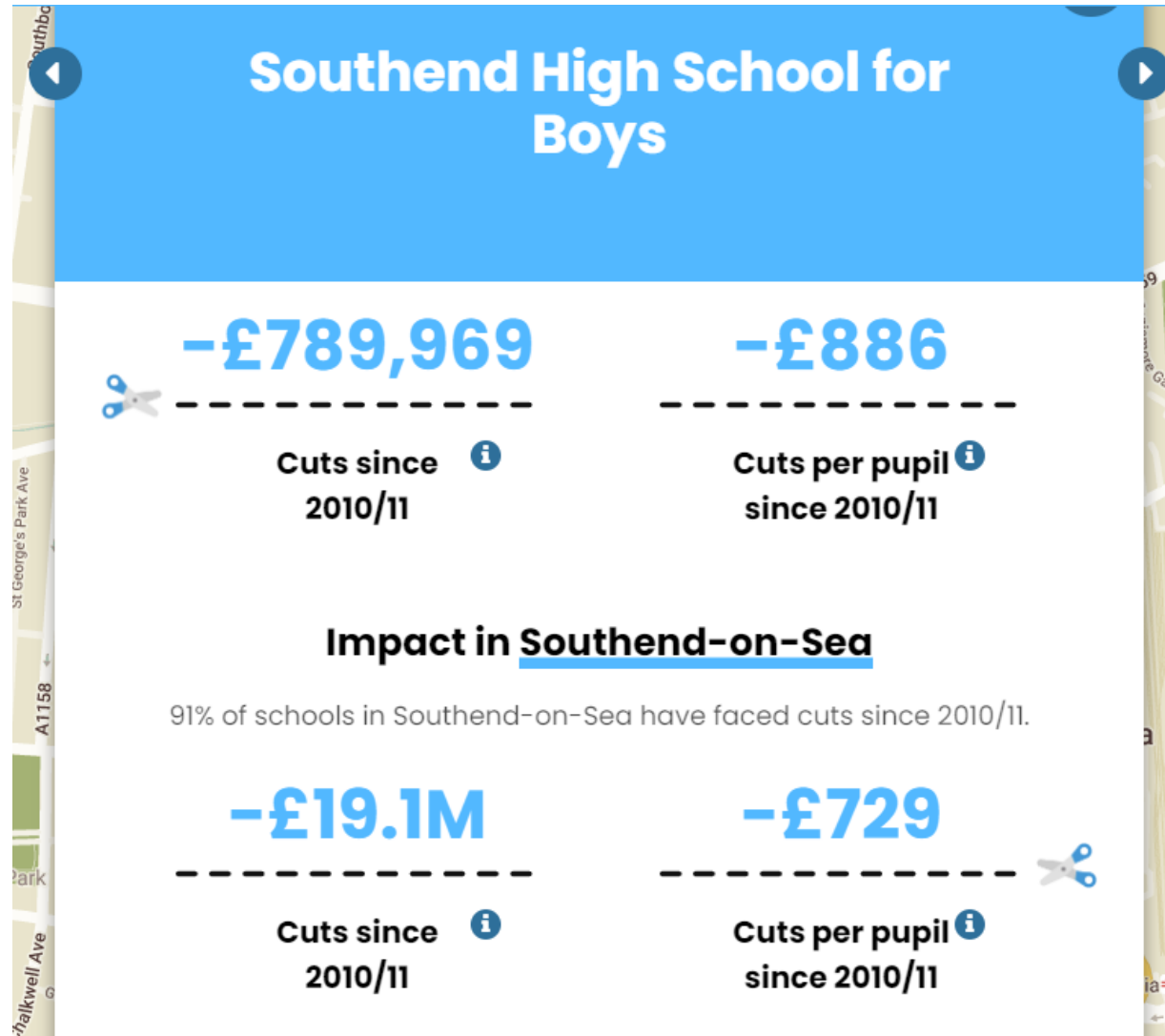
**92% of English schools face cuts in 2024.**  
Is your school on the list?

Search by school, postcode or place...  Search

[Use current location](#)

[School Cuts](#)

# The Headlines – How bad is it?



# The Headlines – How bad is it?

## Nearly half of trusts raid their reserves to meet rising costs

Doubling in trusts reporting in-year deficits as auditors warn MATs 'only one bad year from financial difficulties'



Jack Dyson

© 6 Feb 2024, 0:01

[More from this author](#)



[See discussion](#)





## The Headlines – How bad is it?

### **State schools facing 'bankruptcy' and closure over existential funding threat**

**EXCLUSIVE**

Current public spending plans mean a 'very serious risk' that some schools will 'simply cease to be viable', head teachers' leader tells i



A 'second age of austerity' is about to leave schools in 'even deeper trouble', warns heads' leader (Photos: Peter Dazeley, Getty Images, Photodisc/Liam Norris, Getty Images, Image Source)

[State schools facing 'bankruptcy' and closure over existential funding threat \(inews.co.uk\)](https://www.inews.co.uk)

March 31, 2024



# The Headlines – How bad is it?

## Majority of teachers say learning hit by poor school buildings

Two-thirds of respondents to an NEU survey also said their schools had leaks

6th April 2024, 12:01am

Jasmine Norden



More than half of teachers say school building issues are hurting learning, a survey has found.

A majority (57 per cent) of teachers responding to a NEU teaching union survey said problems with school facilities had negatively impacted their students' learning environment.

[More than half of teachers say poor school buildings hit learning | Tes](#)

# The Headlines – How bad is it?

## 3 in 4 primary schools having to cut TAs

The number of schools having to cut teachers and teaching assistants because of funding difficulties has been branded 'disgraceful'

19th April 2024, 12:01 am

Jasmine Norden



Nearly three-quarters of leaders in primary schools have had to cut teaching assistant roles amid financial struggles, a poll suggests.

In a poll by the National Foundation for Educational Research (NFER) on behalf of the Sutton Trust, 74 per cent at primary school senior leaders reported having to cut TAs this year.

[Many schools cut teaching assistants amid funding struggles | Tes](#)

*'We are seeing support staff redundancies locally and recruitment freezes'*

# The Headlines – How bad is it?

## ‘Nearly all’ schools rely on donations for classroom essentials

Only 1 per cent of school leaders say they get enough funding to meet all their pupils’ needs, according to an NAHT poll revealing schools’ reliance on additional money

30th April 2024, 12:01am

Tes reporter



The vast majority of school leaders are having to rely on community fundraising and parent donations to plug funding gaps for classroom essentials, a union has warned.

[‘Most schools’ rely on donations to plug funding gaps | Tes](#)

# The Headlines – How bad is it?

## Revealed: 42% jump in MAT reserves falling below DfE threshold

Figures analysed for Tes show the 'difficult choices' facing trusts and schools owing to 'government underfunding'

17th May 2024, 5:00am

Jasmine Norden



There has been a 42 per cent jump in the number of multi-academy trusts with reserves at levels seen as suggestive of "financial vulnerability", Tes can reveal.

[Revealed: 42% jump in MAT reserves below DfE threshold | Tes](#)

# The Headlines – How bad is it?

## Just '1 in 3 trusts' could afford 3% teacher pay rise

Most trust finance chiefs say their organisations are vulnerable and eating into their reserves to cover costs

11th July 2024, 12:01am

Jasmine Norden, John Roberts



EXCLUSIVE

Only a third of academy trust finance chiefs say a 3 per cent teacher pay rise will be affordable next year on current funding levels, according to survey findings seen by *Tes*.

When trust finance bosses were asked how big a pay rise would be affordable, just 5 per cent of those polled said a 4 per cent increase would be affordable. But more than one in five said that even a 2 per cent rise would not be.

- More than  $\frac{3}{4}$  of trusts using reserves now
- 62% forecasting 2023/24 deficit
- 88% say funding for 2024/25 not enough
- 1 in 5 say 2% pay rise not affordable
- Many say their financial situation will be worse in 2024/25

[Most academy trusts 'could not afford 3% teacher pay rise' | Tes](#)



# ISBL Survey – How bad is it?



- Nearly a 1 in 5 of respondents say they will run out of cash this year which is greater than the straw polls we did in the autumn suggesting a declining position.
- More than another 1 in 10 run out of cash next year and a staggering 1 in 2 in 2025/26.
- That leaves less than a 1 in 5 schools operating in 2026/27.



# Other things to be aware of



- RPT, Leasing & Man Acs good practice guides update coming - including a rolling 12 month cashflow
- ICFP and bench marking– caution on thresholds – how many want an average school?
- Procurement changes February (TPP)
- RPA cover requires NCSC training annually at the start of September
- DAO Letter and ATH published 1<sup>st</sup> August
  - Finance Leases – caution
  - Internal Scrutiny - £50m = professional auditor
  - EV Salary Sacrifice Schemes – paused
  - ICT standards – ‘should’ be taking appropriate action
  - Estates Management now subject to NTI
  - Clear plan for managing reserves



# Government Direction



- Labour Party conference PM said the words 'schools' and 'education' once
- Education is currently polling bottom with the public on governments 5 stated priorities
- Public spending pressures:
  - Social Housing
  - Prisons
  - Courts backlog
  - NHS waiting times
  - Pot holes
  - Mental Health
  - Food poverty
  - Eating disorders
- Could be 0% / flat in real terms or inflation + 1.5% based on Blair/Brown government
- Early signs = the new ministerial team are aware; 'severe financial pressures' + Sir Kevan Collins
- No major structural changes to the NFF for 2025/26
  - [Pre-16 schools funding: local authority guidance for 2025 to 2026 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/pre-16-schools-funding-local-authority-guidance-for-2025-to-2026)
  - Use 'historic trends' for funding increase assumptions
  - No departmental budgets until 30th October
  - Expect values November, DSG allocations December
- Every survey and sector body report that leaders top priority is financial viability / managing deficits
  - Sector bodies are planning national funding campaign in response if the Budget Statement does not address the crisis as members want action taken – its time to make some noise
- Ofsted Report Card - inclusion, attendance, safeguarding grace period
- Curriculum review – both likely to be less dramatic than we hope (or fear) due to funding



# Government Direction



- [Additional support for schools in financial difficulty in 2023 to 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk) (withdrawn and not replaced)
- Lots of employment law changes coming E.G., unfair dismissal day 1 right
- The Employment Rights Bill laid on Thursday
  - School Support Staff Negotiating Body (SSSNB) likely for 2026/27
    - FE Pay Cap
    - Concern and joy that it appears not to cover central staff
    - Concern that it appears to force trusts to comply with the Green Book pay and conditions
- STRB – ambition to sort teachers pay rise in time for budgets and flex TLRs
- School structures – ‘agnostic’ & ‘smooth the differences’
  - Do believe school partnerships are the route to improvement
  - LAs likely to be able to open new schools
  - Failing schools may be able to go into an LA federation not automatically into a MAT
  - LA MATs?
  - Do they have the capacity?
- DfE Consultative Group – Finland model
- Some LA’s allowed to go under the MPPFL [SEND: DfE lets councils skirt minimum funding rule \(schoolsweek.co.uk\)](https://schoolsweek.co.uk)
- Big is best, bigger is better, biggest is best of all – Birmingham Diocese 236 schools into 5 MATS



# The Reality Direction

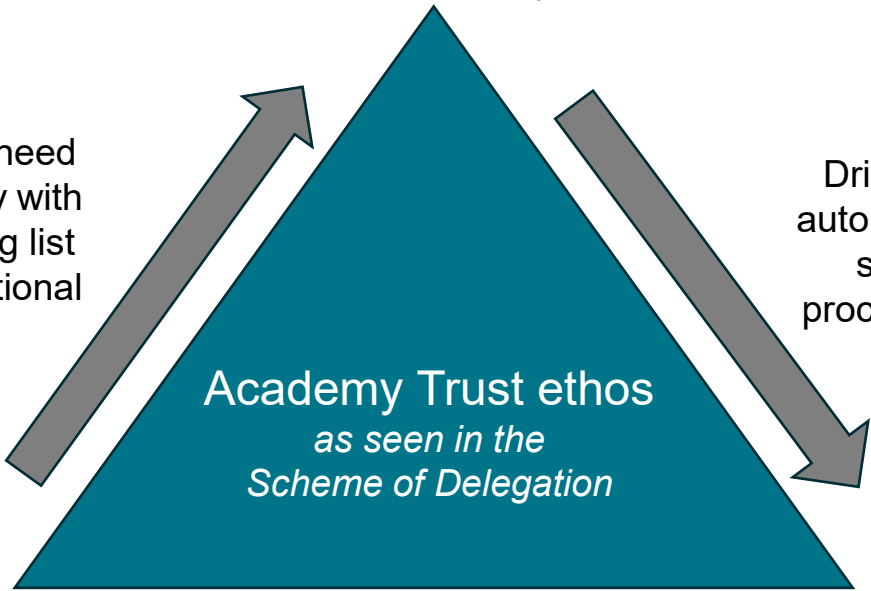
Budget deficits

Forcing the need to find efficiencies

Efficiency

Operational Excellence in Education — ISBL

Driving the need for efficiency with ever growing list and no additional funding



Driving down on autonomy E.G. one system, one process, trust wide

Time or cash released to be reinvested or ease budget pressures

Compliance

Autonomy

Educational Excellence

Pushing against autonomy E.G. compliant with DfE ICT Standards with ten networks versus one trust wide





# Sufficiency



- Sufficiency common word in the sector now
- Two arguments – do not conflate them
  - Distribution = NFF
    - GAG pooling proves its not right
    - Pupil Premium sitting outside the formula confirms it
  - Quantum
    - Nearly half of trusts used reserves to get through 2022/23
    - Nearly two thirds expecting to use reserves to get through 2023/24
    - Every survey and straw poll says half the schools are running out of cash this year
    - Pushing schools in MATs is like rearranging the deck chairs on the Titanic
- Conclusion
  - The sector needs more funding – Quantum
  - The NFF needs updating – Distribution
  - High needs is being considered
    - [Special schools: DfE mulls reforms to £10k place funding \(schoolsweek.co.uk\)](https://www.schoolsweek.co.uk/news/special-schools-dfe-mulls-reforms-to-10k-place-funding)
    - But there is a £2bn hole that is growing



# Pillars for Future Funding

1. Sufficiency - 5% of GDP
2. Future confidence – link to CPI
3. Capital - 25/75



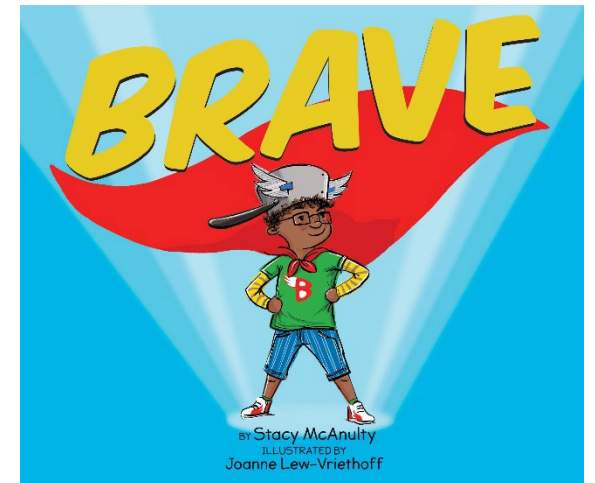
# Being Brave



**Establish the  
red lines**

# What intervention looks like

- Show of hands = 10% run out of cash last academic year, another 50% this year
- Going concern issue – ATH 14 days from budget setting so July / August
- Budget assumptions evidenced and realistic
- DfE may need pressing to resolve ahead of accounts being signed
- Consider any conditions carefully, push back may be required
- Expect to lose some good people during the battle
- 3 probable options:
  - Agree to a MAT move
    - Note MATs are not bound to give the MPPFL
    - Scheme of delegation at whim of trust board
  - Will issue an NTI and force a MAT move
  - Come up with a balanced budget for the year after next
    - Income assumptions should be based on historic trends
    - Monitoring and reporting almost a full-time job!
- Qualifying floating charge **still** likely (remortgage the buildings)
- Will MATs stop taking schools with deficits?
- Legal challenge issues



# What intervention looks like

- Trust Financial Plan – 14 tabs to work through
- Link Tab 10 into budgeting software
- Link Tab 7 to establishment list
- Tab 5 is the Recovery Actions and likely to need supporting paper with details and milestones
  - Consider ownership of the actions
- Plan will require updating as things change I.E. teacher pay rise, restructuring et c
- Will be reviewed quarterly & when milestones fall due
- Cashflow Tab 12 should be duplicated
  - Operational Cashflow
  - Restricted Funds & Monies Held on Trust Cashflow
  - Add a reconciliation between BS Cash at Bank and in Hand and the individual bank accounts + petty cash tins account codes
  - Designate them Operational, Monies Held on Trust or Restricted
  - Add a Cash Analysis for the 3 categories
  - Add a reconciliation for Monies Held on trust and the individual account codes
  - Pull through the balance of the Funds Report including Agency such as 16-19 Bursary
  - Is there sufficient cash to cover the monies held & the restricted?
  - The DfE will focus on the operational cashflow beginning of every month with:
    - Latest management accounts
    - Both cashflow forecasts updated monthly
    - All bank statements for prior month
    - Aged creditors & debtors for prior month
- Trust Financial Plan Spreadsheet – Service like BFR & AAR?





# Intervention – Tab 12



Monthly Cashflow Forecast	Replace with actual month/year - starting with September and opening cash balance matching audited financial statements (where available)													
Income & Expenditure	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12	M13	M14
<b>Staffing</b>														
Teaching staff														
Supply/Agency teaching staff														
Educational support														
Other staff														
Indirect employee expenses														
Staff development														
Recruitment														
<b>Facilities Management</b>														
Rent														
Rates														
Maintenance and services														
Cleaning														
PFI charge														
Other Premises														
<b>Business Services</b>														
Printers, Copiers and Multi-functional Devices														
Risk Protection Arrangement														
Insurance														
Auditors remuneration														
Legal & Professional														
Interest repayment of loans														
Supplies & Services - Educational (other than IT)														
Supplies & Services - Non Educational														
Other Support costs														
Bank interest and charges														
<b>Information Communication Technology</b>														
Hardwares														
Softwares														
Supplies & Network Solutions														
Software Licences														
Cloud support and related services														
<b>Utilities</b>														
Water														
Electricity														



# Intervention – Tab 10

<b>Staffing</b>							
Teaching staff							
Supply/Agency teaching staff							
Educational support							
Indirect employee expenses							
Staff development							
Recruitment							
Other staff							
<b>Staffing Total</b>	£0	£0	£0	£0	£0	£0	£0
<b>% Expenditure spent on staffing</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Facilities Management</b>							
Rent							
Rates							
Maintenance and services							
Cleaning							
PFI charge							
Other Premises							
<b>Facilities Management Total</b>	£0	£0	£0	£0	£0	£0	£0
<b>% Expenditure spent on facilities</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Business Services</b>							
Printers, Copiers and Multi-functional Devices							
Risk Protection Arrangement							
Insurance							
Auditors remuneration							
Legal & Professional							
Interest repayment of loans							
Supplies & Services - Educational (other than IT)							
Supplies & Services - Non Educational							
Other Support costs							
Bank interest and charges							
<b>Business Services Total</b>	£0	£0	£0	£0	£0	£0	£0
<b>% Expenditure spent on business services</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Information Communication Technology</b>							
Hardwares							
Softwares							
Supplies & Network Solutions							
Software Licences							
Other							
Cloud support and related services							

# Intervention – Management Accounts Cashflow



Name of account	P10 value	Use	Notes
Investments	£ -	Not used	N/A
Bank - Bank Current Account	£ 110,507.73	Monies held on trust	Funds get moved into here to pay invoices relating to trips, music services, replacement lock keys et c keeping it completely separate from the operational cash
Deposit Bank Account	£ -	Not used	N/A
Parent Pay Bank Account	£ 123,536.27	Monies held on trust	This is where the parents make payments for trips, locker rentals et c
Covenant Bank Account	£ 35,623.31	Restricted	Restricted donations such as the £15k from PA for a new minibus
Development Appeal 1 Bank Account	£ -	Not used	N/A
Development Appeal 2 Bank Account	£ -	Not used	N/A
Trust Fund Bank Account	£ 760.14	Restricted	Needs to be taken back to £31,010. Donated to the school many years ago to provide scholarships for those going to university
Academy Trust Bank Account	-£ 45,264.00	Unrestricted	The operational bank account
Petty Cash Control Account	£ 4,762.91	Unrestricted	We have £3850 in euros for some trips taking place so technically most at this point in time would be monies held on trust
	£ 229,926.36		
<b>Total Cash at Bank and in Hand</b>	<b>£ 229,926.36</b>	Agrees to balance sheet	
<b>Cash Analysis</b>			
Operational Cash	-£ 40,501.09		
Monies held on trust	£ 234,044.00		
Restricted	£ 36,383.45		
	£ 229,926.36		
Fund Report value	-£ 138,261.57		
Transfer required	<b>-£ 101,878.12</b>		This is the amount required to bring the restricted and agency cash back to the correct level It is likely that a small transfer is done periodically so that the cash moves as the value of the funds move
<b>Monies Held On Trust Analysis</b>			
Deferred Income	-£ 256,208.97		
Deferred Income - Not Trips	£ 28,581.25		
Lockers Liability	-£ 1,935.00		
Music Levy Liability	-£ 2,490.00		
Stationery Liability	-£ 2,610.80		
	-£ 234,663.52		



# The Headlines



## The Daily Blurb

Images have emerged from a pre-election meeting where ministers and officials discussed the schools financial crisis and the crumbling estate

## The Headlines

How did it  
end up like  
this?

We used  
national  
averages  
dear



## The Daily Blurb

**The ticking time bomb of the  
impending schools financial  
crisis:**

What will the next generation do when  
they realise what we have done, and we  
are in a care home?



Thank you  
Questions?



# Rules. Pitfalls and some good news

Giles Kerkham

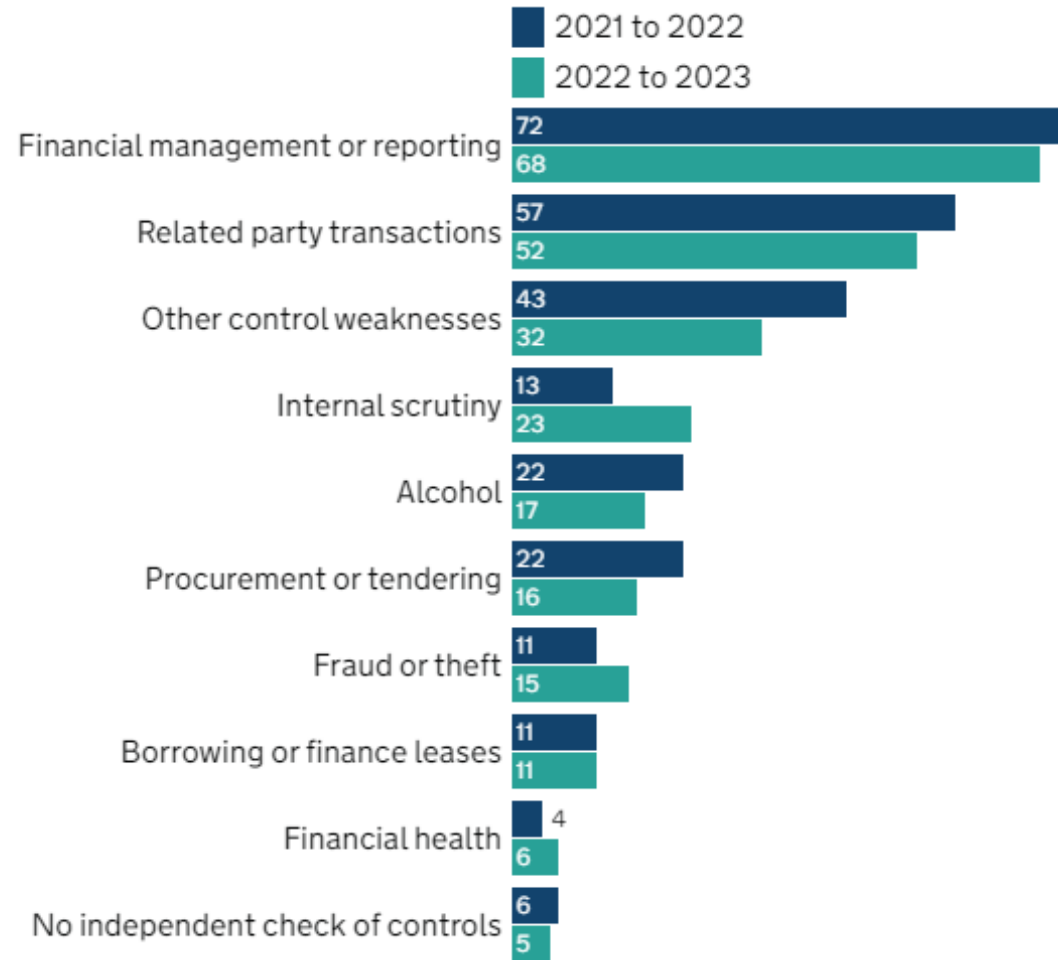


David Wright



# Regularity report modifications – Top 10 last year

[source: ESFA]



## (reminder) 23/24 RPT changes

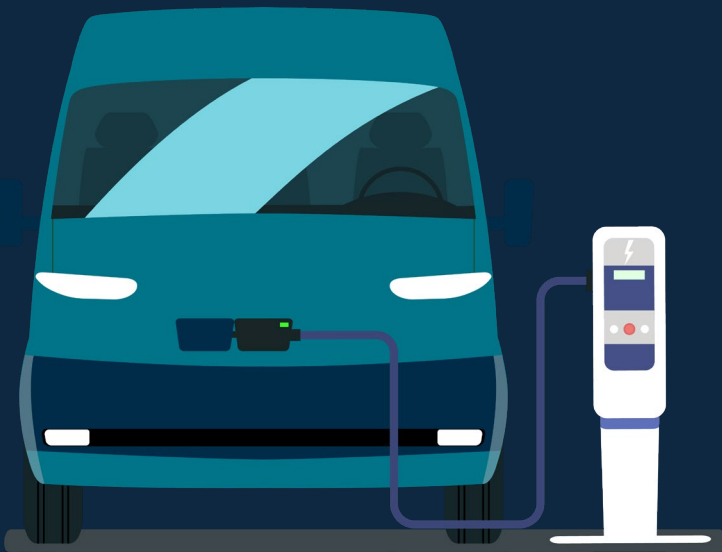


- ESFA prior approval threshold doubled to £40k (individual contracts)
- Prior permission and “at cost” requirements removed for purchases from sponsor schools/colleges/unis, any state school/college,
- Prior permission rule removed for certain purchases from religious trusts

### But...

- No such exemption for purchases from subsidiaries
- Must report to ESFA all prior RP purchases

# Academy Trust Handbook 24/25 changes



- Electric Vehicle Salary Sacrifice Schemes
- Internal Audit
- Managing reserves
- Leases – relaxation!



# Assets granted finance lease consent 1/9/2024:



- Groundskeeping equipment (for example lawn mowers, string trimmers, leaf blowers and salt spreaders)
- LED lighting systems or to support renewable activity (for example lightbulbs, control mechanisms and control panels) - consent is granted where the product has been sourced with support from the Department for Education through Get help buying for schools or from a recommended route on our Find a framework website
- Minibuses and other vehicles for the use of the school
- Temporary classrooms and equivalent structures (but not land leases they sit on, which may require separate consent)
- IT equipment (for example laptops, tablets, desktop computers, printers, photocopiers, servers, door entry security systems, CCTV Systems, whiteboards and touch screen boards)
- Telephony (for example mobile phones, landline phones and telephone systems)
- Catering and cleaning equipment (for example tills, water coolers, vending machines, dishwashers, washing machines, ovens, fridges, freezers, water boilers, small kitchen appliances, crockery and cutlery)
- Furniture (for example desks, tables and chairs)
- Bathroom and sanitary items (for example hand dryers, towel dispensers, sanitary bins)
- Gym equipment (for example treadmills, free weights and weight machines, rowing machines and exercise bikes)

#### NB not on list:

- Taking leases of L+B longer than 7 years
- Granting leases of L+B any length

# VAT issues for Academies

Gilly McGill



# Introduction...

Gillian heads up the VAT team, which is part of the Business Tax Advisory team.

Working closely with colleagues and clients, with a particular focus on education and not-for-profit organisations, Gillian provides VAT advice on a range of issues.



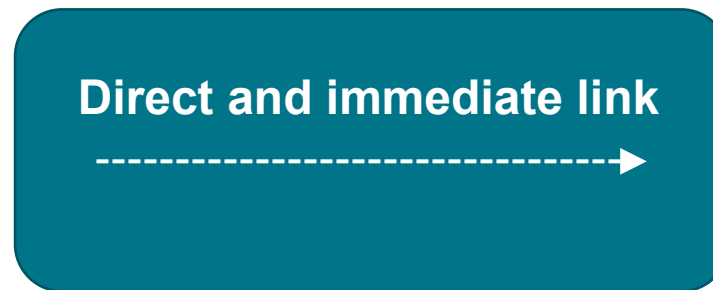
Gillian McGill

[Gillian.mcgill@larking-gowen.co.uk](mailto:Gillian.mcgill@larking-gowen.co.uk)

# How VAT works for Academies

## Inputs

Costs incurred as a component of your supplies



## Outputs

- Non-business ✓
- 20%, 5 %, 0% ✗
- Exempt ✗

# VAT 126

## For Academies that are not VAT registered

- Submit monthly, where possible
- Ensure that VAT invoices/receipts are held and are addressed to the Academy
- Consider what “business” activities are undertaken that will require a restriction to VAT recovery



## Typical business activities

- Lettings to third parties
- Commissions from sales eg photography
- Sales of uniform as principal
- Consultancy/resource provided to third parties
- Catering to non-pupils



# VAT recovery – business/non-business

## Overhead/residual

- Examples of expenditure which could be “overheads” and therefore bear residual VAT includes:
  - property costs,
  - accountancy fees,
  - stationery,
  - phone bills, etc.
- No prescribed methodology for calculating how much overhead VAT can be recovered
- Typically use income values taking eg GAG as a percentage of total income eg GAG plus all business income
- That percentage is applied to overhead VAT incurred and the non-business proportion is recovered
- The remaining residual VAT is then subjected to partial exemption calculations if VAT registered, otherwise it is not recoverable

## Example:

Value of educational grants - £200,000

Total value of business supplies in the period  
(excluding VAT) – £10,000

Percentage calculation –  $200,000/210,000 \times 100 = 95\%$



# VAT registration

## Threshold currently £90,000

*(NB a MAT is one entity for VAT purposes, so all schools need to be considered together)*

- Exceeded in the preceding 12 months
  - Notify HMRC within 30 days of the month end and registered from 1<sup>st</sup> day of following month
- Will exceed in the next 30 days (ie very large sale)
  - Notify HMRC within 30 days and registered from beginning of the 30 days
- On purchase of a business under TOGC rules
  - Notify HMRC within 30 days of transfer and registered from date of transfer

### Example:

December 2023 – cumulative taxable turnover for 12 months  
£97,500

When do we have to notify HMRC?

When is the organisation registered from?



# VAT registration

## Threshold currently £90,000

*(NB a MAT is one entity for VAT purposes, so all schools need to be considered together)*

- Exceeded in the preceding 12 months
  - Notify HMRC within 30 days of the month end and registered from 1<sup>st</sup> day of following month
- Will exceed in the next 30 days (ie very large sale)
  - Notify HMRC within 30 days and registered from beginning of the 30 days
- On purchase of a business under TOGC rules
  - Notify HMRC within 30 days of transfer and registered from date of transfer

**Failure to register at the correct time can result in penalties**

**If you are getting close, might want to pre-empt and register in advance of breach**

## Example:

December 2023 – cumulative taxable turnover for 12 months  
£87,500

### When do we have to notify HMRC?

*By 31 January 2024*

### When is the organisation registered from?

*Effective date of registration 1 February 2024*

# VAT registration

## Implications of registration

- VAT returns must be submitted to HMRC rather than forms VAT126. Can choose to submit monthly but needs to be requested, ideally at registration.
- If any exempt income is received, partial exemption calculations need to be undertaken to establish how much VAT can be recovered.
- VAT on purchases will need to be coded in order to support correct VAT recovery.
- Start issuing VAT invoices to customers where VAT is being charged.



## Things you might need to think about

1. Let customers know you will be charging VAT
2. Updating systems to charge VAT, code purchases, and produce VAT reports for returns
3. Staff training needed?
4. Add VAT services to Government Gateway account, ensure access is available to necessary staff but also controlled
5. Purchase an API to submit returns under Making Tax Digital (MTD) if finance system does not have this capability
6. Review data flow to ensure MTD compliant

## IT licence provided by a US supplier for £500

Box 1 – output VAT £100

Box 4 – recoverable input VAT  
(needs calculation)

Box 6 – sale £500

box 7 – purchase £500

## Non-UK suppliers of services

- Typically, these are within the UK VAT regime under the “reverse charge” rules.
- That treats the costs of services purchased from outside the UK as both a **supply** and a **purchase**
- The impact is that UK VAT gets accounted for on the value of the cost as though it were UK income
- That means these purchases count towards the VAT registration threshold and can cause you to breach!





# Collaborative working

## Collaborative working with organisations outside the MAT needs to be carefully considered

### Where charges are raised for the provision of staff, this can be:

- subject to VAT at the standard rate (default position),
- exempt (if teaching staff provided to another eligible body), or
- outside the scope of VAT (where the person is only involved in non-business activities in both organisations)

*(NB The cost sharing exemption is not available to Academies due to their favourable VAT status)*



# Lettings

- Generally, this is a VAT exempt activity, with exceptions
- Sports facilities can be exempt – need to consider the user and potentially the block bookings rules, likely that income from commercial lets will be standard rated
- Storage facilities will always be standard rated
- Meeting rooms can be exempt – need to consider the level of services and equipment being provided
- Residential dwellings will always be exempt



# VAT relief on costs

- Advertising – in third party media can be zero rated where a certificate is provided to the supplier
- Fuel and power – capable of being at reduced rate (currently 5%) where a certificate of non-business use is provided
- Capital expenditure – capable of being zero rated where a new building is constructed and will be used for at least 95% non-business use



# How VAT works once registered

## Inputs

Costs incurred as a component of your supplies



**Direct and immediate link**



## Outputs

Non-business ✓

20%, 5 %, 0% ✓

Exempt ✗



# Business/non-business and Partial Exemption

Where you make non-business, taxable and exempt supplies and incur input tax relating to all these activities you are required to calculate the VAT you can recover.



- **Non-business** – VAT on expenditure which relates wholly and directly to non-business activities is **fully recoverable** – this would be your core provision of education
- **Taxable** – VAT on expenditure which relates wholly and directly to your taxable sales is **fully recoverable** – this could be commissions received
- **Exempt** – VAT on expenditure relating wholly and directly to exempt supplies is **not recoverable** unless very small – this could be letting of sports facilities
- **Overheads/residual** - VAT on expenditure which relates to all your activities gets **apportioned**



# VAT recovery - partial exemption

## Overhead/residual

- Partial exemption percentage is calculated using a standard method
- This percentage is the recoverable percentage of residual input tax
- Value of taxable supplies in the period (excluding VAT) divided by Total value of supplies in the period (excluding VAT) x 100 = **Recoverable percentage of residual input tax**
- The percentage must be rounded up to the nearest whole number
- This percentage is then applied to the value of your residual input tax, the value which is then produced is the amount of residual input tax that can be recovered.

## Example:

Value of taxable supplies in the period (excluding VAT) - £10,000

Total value of business supplies in the period (excluding VAT) – £17,000

Percentage calculation –  $10,000/17,000 \times 100 = 58.82\%$

Rounded = 59%

# Disclaimer

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# Financial and non-financial wellbeing

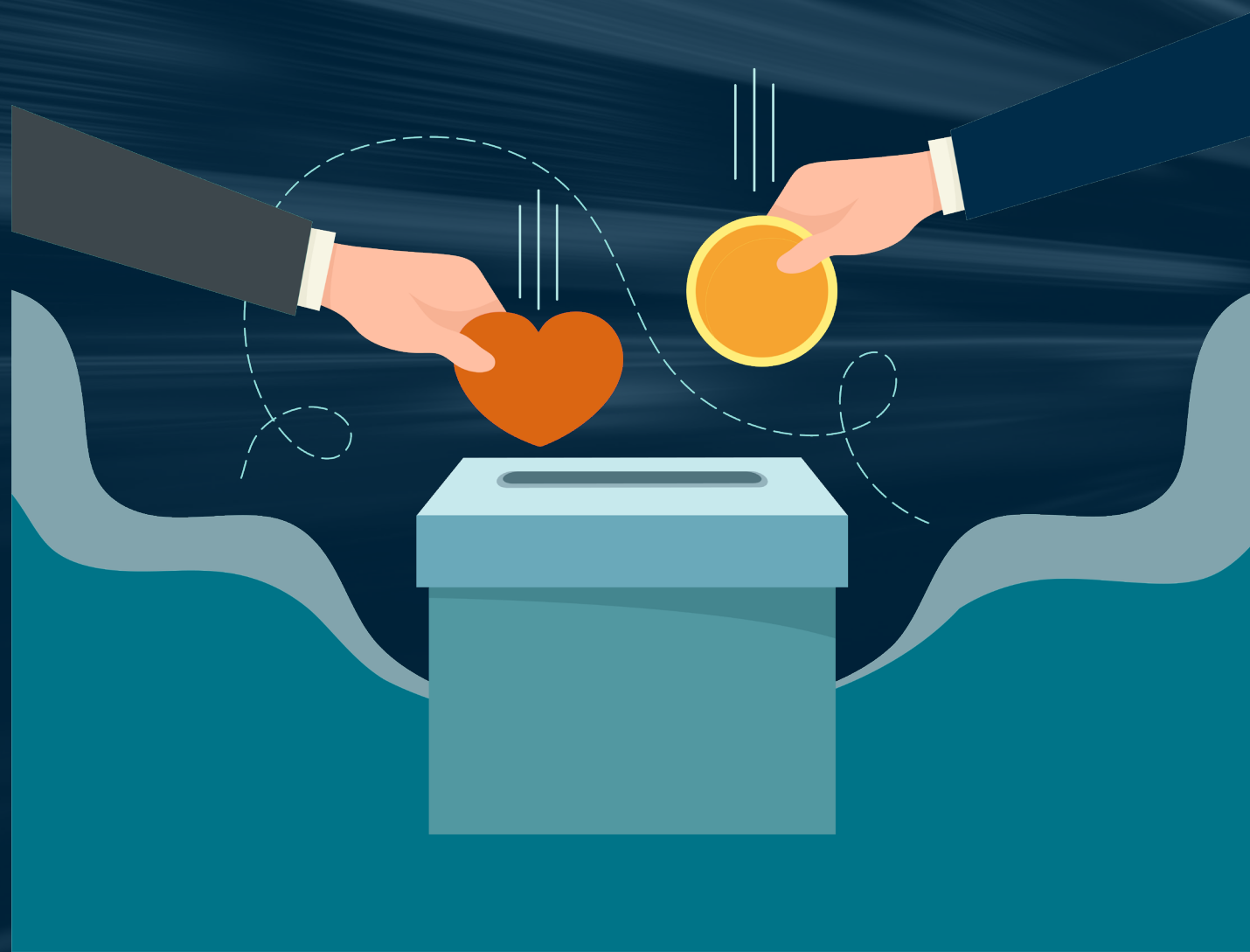
James Gare



Giles Kerkham



# Financial and non-financial wellbeing



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