

# Education Services Newsletter

Issue 1 – Summer 2011

## VAT AND ACADEMY SCHOOLS

The proposed changes to VAT rules for Academy Schools are one of the hot topics of the moment. The confusion surrounding the future of VAT treatment for Academies has not been helped by the lack of guidance and firm decisions from H M Revenue & Customs to date.

The provision of education is not regarded as a business activity for VAT purposes and therefore under normal circumstances input tax incurred would not be recoverable. However, Academy Schools have been added to the list of Section 33 organisations to allow VAT to be claimed back on the provision of educational services.

Academies need to beware, as with most VAT scenarios, that the final position may not be as straight forward as it may first seem. Many Academy Schools will need to consider the following when accounting for VAT when the changes are implemented.

- VAT registration requires Academy Schools to identify all sources of income other than state funding for education in order to identify the VAT treatment of that income and the ability to reclaim any input tax associated with that income stream
- It is likely that many Academy Schools will have forms of income other than the provision of educational services such as hiring of sports facilities and rooms, car parking, service provision to other schools, sponsor or donated income, catering services etc. These income streams will need to be correctly identified and allocated between standard rated, zero rated and exempt outputs and Partial Exemption rules may apply which could affect the overall recoverability of input VAT incurred by the school
- Not all Academy Schools will need to register for VAT. If the school either makes no taxable supplies or only infrequent or minimal taxable supplies then a form VAT126 can be used to reclaim input tax incurred
- Any Academy Schools planning major construction works on new buildings will need to carefully consider the VAT implications in connection with such works as this is a very complex area of VAT and careful planning will be required prior to the work commencing to ensure the VAT treatment is correct and beneficial to the school

## ACADEMY CONVERSION: A CHAIR OF GOVERNORS EXPERIENCE

At Evolution we are fortunate not only to have professional technical expertise in-house but can also call upon the experience and expertise of a Chair of Governors who is involved in taking a school through the Academy conversion process.

Ray Priestman, Client Partner at Evolution LLP, is Chair of Governors at a local Primary School classified as Outstanding by Ofsted. He and his fellow governors have embarked upon the process of Academy conversion and his experience in dealing with fellow professionals, advisors and the Department for Employment has proved invaluable in developing our unique offering to Academy Schools.

From a very early stage Ray identified the need for a support structure to be put in place to help schools, particularly smaller schools with no Business Manager in place, through the conversion process. At Evolution we have developed close links with legal teams and a team of conversion specialists to provide a 'one stop shop' solution to Headteachers and Governing bodies to ease the conversion process.

Working through the conversion process with the school has also given Ray an insight into the whole process, not just the financial aspects of conversion, and as such we believe Evolution is best placed to help and advise schools who are embarking or looking to embark on a change to Academy status.

If you are a school considering Academy status or have recently started the process and you would like a no obligation meeting or you need more information, please contact us.

### Contact Us

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## ACCOUNTING AND REPORTING – CURRENT AND FUTURE DEVELOPMENTS

There are a number of developments which may have a significant impact on Academies:

- The current Academies Financial Handbook was issued in 2006, including the “Darlingbridge Academy” model financial statements. Both the handbook and the model statements are in the process of being updated, with the latter becoming “Coketown Academy” and due for issue this month, June 2011. The updated model financial statements will reflect relevant changes to accounting standards
- The new Academies Financial Handbook will address a number of concerns raised by the Public Accounts Committee. It is expected that this will be shorter than the 2006 version, but with additional core requirements supplemented by detailed annexes
- YPLA are looking to reduce the number of financial returns delivered by Academies without compromising the proper oversight of their financial activities. Current GAG returns will be replaced by a Forward Financial Plan covering a four year period. This is due for completion by August 2011. In addition Academies are required to complete a self assessment return on financial management and governance, with a deadline of 31 December – new Academies must submit this within three months of opening
- Onerous Whole of Government Accounts (WGA) reporting packs to 31 March each year will be replaced by Clear Line of Site reporting from 2012. YPLA and the Treasury are consulting on this in order to assess the likely impact on Academies
- The Responsible Officer role may change in order to provide a regime which is more appropriate to the size and nature of the Academy. This could potentially include the requirement for an internal audit service, or commissioning additional assurance work from the external auditor
- External auditors may also be required to report on regularity, this has been in place in the FE sector for a number of years and requires a process of self assessment and additional audit procedures as specified in the YPLA/SFA Joint Code of Practice
- The YPLA is expected to be replaced by the Education Funding Agency in 2012
- There are likely to be changes to the way that Academies are funded from 2012/2013. A consultation process has just been concluded with an announcement on the preferred option to be made in due course
- Financial reporting requirements are likely to change with the introduction of a new Charities SORP and new Financial Reporting Standards applicable to Academies

### WHAT CAN YOUR ACCOUNTANT DO FOR YOUR ACADEMY?

In our experience, early appointment of advisors is essential. Your accountant or auditor will understand areas such as VAT and external reporting requirements; therefore they will be able to assist you in setting up your systems to deliver the relevant reports to meet all purposes. Key areas where your accountant can help are:

- Helping you select your software package
- Helping you design your accounts structure to ensure it meets your internal and external requirements
- Assisting in reviewing and designing internal financial procedures and controls
- Providing training to your finance team
- VAT advice and assisting with returns
- Preparation of monthly management accounts
- Assisting with WGA returns
- Helping you set up and administer your payroll function, or provide a fully outsourced payroll bureau service
- Compliance relating to company secretarial matters
- Helping you with your financial planning and budgeting
- Ongoing support.

These are all areas you need to consider when selecting an accountancy firm – your accountants will need to provide the Responsible Officer expertise, be able to prepare your year end accounts and carry out the year end audit, but it is just as important that you choose a firm who can help and support you from the start with all of these important functions.