

# Education Bulletin

Spring 2019



## Introduction

Another warm welcome to the Rickard Luckin Education Bulletin, which aims to provide a useful update to Governors, school finance managers and members of the school leadership team on topical issues affecting the sector.

In this spring edition, you will find articles reflecting back on the previous years audit season for academy schools and reviewing where improvements can be made for the 2018/19 audit. We also share some recent updates relevant to all schools regarding school trips, student loan changes affecting your teaching staff and a reminder about the new data protection requirements and key areas for you to confirm you are compliant within your school environment.

We then look at school budgeting which is now, more than ever before, considered to be a delicate balancing act! Schools strive for the highest possible standards of education for their learners to reach their full potential whilst managing squeezed funding budgets for academies and pressure to avoid significant fee increases for independent schools whilst wrestling against increasing salaries, pension and premises costs. We explore how you may want to set and monitor the key performance indicators in your school to ensure you can maintain this balancing act going forward.

Our specialist VAT Director, Ian Marrow, also shares a very useful article about section 33 which is fundamental to all schools and in particular guidance about the key areas and risks that you need to be aware of with any school building projects and developments.

As ever, our education team at Rickard Luckin are always on hand to help with any queries or provide additional assistance when required. The team and their contact details are listed at the end of the bulletin – please do get in touch if you would like to talk to us about any of the points in these articles or any of our services generally.

Kate Bell

## In this issue

- Audit season round up
- Government guidance on school trips
- Student Loan changes
- School budgeting
- Regular financial oversight
- VAT - section 33 explained
- Data Protection – Is your school compliant?

# Audit Season update

With the 2018 audit season over we are already casting our minds forward to the 2019 year end.

Planning is, and will always be key to a smooth and successful audit.

Although the 'official' timetable will not present itself for a few months yet, we can still prepare based on knowledge and experience of previous years.

## Timetable for 2019

|                    |   |
|--------------------|---|
| June/July          | Interim audit visit and teachers pension review                     |
| August             | Academy financial year end  |
| Mid-late September | Final TB to be provided to audit team                               |
| 30 September       | Teacher's pension deadline  |
| Early October      | Audit team attend to commence audit fieldwork                       |
| Mid November       | Our audit team discuss accounts and audit report with finance team  |
| November           | Finance committee meeting to present accounts and audit report      |
| Early December     | Final audited accounts provided to full Governing Body for approval |
| Mid December       | Target date for completion and submission of accounts               |
| Mid January        | AAR completion and review   |

Your auditors will no doubt be in contact soon to book provisional audit dates for 2018/19. A balance needs to be struck between starting work as soon as possible after the year end while giving the finance team adequate time to finalise the year end.

We all need to be mindful of the demands of a new academic year on the team as well as completion of the previous financial year.

But the audit is not just an annual process with your auditors. There should be dialogue throughout the year, particularly if there have been any key changes, including:

- New trustees
- Change in senior leadership
- Changes in software
- Changes in finance team
- Procedural or system changes

These all should be brought to the auditors' attention as soon as possible.

The 2018 Audit Findings Report will also be key to next years planning. You will need to consider how the academy has implemented the recommendations whether you need assistance in addressing any of these points?

Auditors may only be visible to the academy for a few weeks of the year but we are always around - if you have any issues or concerns throughout the year, be it with results themselves or from a regularity perspective, then contact your auditors - we are here to help all year round.

## What else to look out for in planning the 2018/19 Audit:

Looking forward there are a few key issues and changes highlighted in the 2018 Financial Handbook that will have an impact on the 2019 audit:

- The ESFA have made it clear that expenditure on excessive gifts and any alcohol is irregular expenditure. This will continue to be a very hot topic for the 2019 audit so you can expect your auditors to be looking carefully at expenditure on gifts and hospitality. Make sure that you have reviewed your policies in these areas, communicate this to all relevant staff and keep a register of any such expenditure.
- The 2018 Financial Handbook introduced new requirements for reporting transactions with related parties from 1 April 2019. This continues to be a key audit area and your auditor will ask to see records of any reports made to the ESFA and evidence of prior approval where relevant once this reporting is implemented.
- The 2018 Handbook highlighted the importance of preparing regular management accounts for review by the board. As auditors,

we will be looking for evidence that this review is taking place. The management accounts will also prove useful in preparing the year end file, as a comprehensive set of management accounts and supporting workings will cover the majority of the information required for the statutory accounts.

If you would like to discuss any of the above points or the audit process in general then please get in contact with our Education team.



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# 2019 to 2020 GAG Allocation

The ESFA announced that they would issue GAG allocation statements for 2019 to 2020 at the end of February 2019 and the allocations for all existing academies should be complete by the end of March 2019.

For any academies that opened in February or March 2019, the allocations are expected to be issued by mid-April 2019.

You will be able to access your statement via the Document Exchange in the 'revenue funding folder'. It is important that you check your statement as soon as possible and make sure that any impact on your budgets is considered.

There is further information on the funding allocations and accessing the Document Exchange available on the ESFA website.



# Government guidance on school trips

On 26 November 2018, the government published guidance to academies, free schools, maintained schools, independent schools, local authorities and non-maintained schools relating to health and safety on school trips.

The guidance is concise and structured using clear headings, so acts as a useful starting point for those planning educational trips.

It begins by setting out two main types of trips, those described as routine and those that need a risk assessment and extra planning. The guidance makes clear some trips will need "risk assessments, detailed planning and informed approval of head teachers or governing boards". The person given the job of dealing with the aforementioned should "have the skills, status and competence needed, understand the risks involved and be familiar with the activity". Plans for trips should be "proportionate and sensible, focusing on how to manage genuine risks".

The guidance also covers:

- When consent should be requested from parents for a school trip;
- Outside organisations that are used for school trips, including what standards are required to be met by third party organisations and details of insurance that should be in force and benefitting the outside organisation before the trip;
- Adventure activity trips;
- Trips outside the UK;
- What should be done in an emergency if an incident occurs during a school trip;
- Evaluation of school trips after the trip has concluded; and
- The appointment, role and responsibilities of an educational visits co-ordinator.

I would highlight, in particular, the evaluation section of the guidance. By following a clear process to evaluate trips (from planning to the visit itself), those in charge of school trips will be able to learn lessons from any mistakes made and can work to ensure that they are not repeated in the future.

If you would like to discuss the guidance or any other matter relating to education law, please do not hesitate to contact Thomas Emmett at Birkett Long LLP.

You can also find out more about how we help schools here: [www.birkettlong.co.uk/education.html](http://www.birkettlong.co.uk/education.html)



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# Student Loan changes

## Are you aware of the changes from 6 April 2019?

Student loans (SLs) continue to be part of the government's financial support package for students in higher education in the UK. HMRC is responsible for collecting repayments of income-contingent student loans in cases where the borrower is within the UK tax system and is no longer in higher education.

The tax system will see the first repayments begin for a new loan type from 6 April 2019: the Postgraduate Loan (PGL).

### Postgraduate Loans

There are two types of income-contingent student loan for postgraduate study in England and Wales.

- Postgraduate Master's Loans were introduced in the 2016-17 academic year for taught master's courses. The total loan for the duration of the course was initially £10,000 but has increased since and varies in Wales.
- Postgraduate Doctoral Loans of up to £25,000 were introduced for the 2018-19 academic year for taught and/or research-based courses. They are available for courses beginning on or after 1 August 2018.

The repayment rate for postgraduate loans is to be 6%, which is applied to income above a £21,000 threshold. They are repaid concurrently with other undergraduate student loans (Plan 1 or Plan 2). If an individual has more than one postgraduate loan, only one amount of 6% is taken that covers both loans.

### Student loan threshold changes for 2019-20

The Department for Education (DfE) confirmed earlier in the year what the increases will be to the thresholds for income-contingent student loans for Undergraduate Loans (UGL) for the 2019-2020 tax year.

The current threshold for 2018-19 for Plan 1 is £18,330, which will rise to £18,935 from April 2019. Earnings above £18,935 will be calculated at 9%.

The current threshold for Plan 2 (post-2012 loans in England and Wales) is £25,000, which will rise to £25,725 from April 2019. Earnings above £25,725 will also be calculated at 9%.

The student loan deductions are calculated using earnings above the relevant earnings threshold, calculated on a pay period basis on earnings that are subject to National Insurance contributions.

### Operating off-payroll (IR35)

Public sector employers processing the pay of workers engaged through their own companies may receive a generic notification relating to student loan repayments for these workers. Ignore these messages as the worker is not an employee and they will repay their student loan, either via self assessment or from employment earnings paid to them by their company.

### Direct instruction by HMRC

HMRC will issue an SL1 start notice to tell an employer to start operating a Student Loan (Plan 1 or Plan 2). The SL1 will contain the Plan Type that must be operated.

HMRC will issue a PGL1 start notice to tell an employer to start operating a Postgraduate Loan.

HMRC will automatically issue SL1 and PGL1 start notices when a new employment is notified, even if deductions have already started

### Instruction from a P45 with the Continue Student Loan box completed

The employer should ask the new employee what types of loan are being repaid, and set up a Student Loan (Plan 1 or Plan 2) and/or a Postgraduate Loan as appropriate. The Starter Checklist can support this.

If the new employee does not know the type of loan the employer must operate a Student Loan Plan 1 (this only applies where the employee has student loans). The employee should contact the Student Loan Company to confirm their correct loan types.

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# School budgeting

In our previous issue, we looked at the issue of managing your school's finance in regards to academies but the matter is equally important for other educational establishments whether they are privately owned or have charitable status and the principles of good governance still apply.

As charity trustees or directors of limited companies, there are duties imposed upon you by statute. The charity commission guidance (CC25) provides further information and requires trustees to manage their resources responsibly by managing risks and implementing financial controls. These include

- Setting an annual budget identifying the aims/objectives and how to achieve them including the cost of the activities and how they will be resourced.
- Monitor financial performance by comparing on a regular basis actual income and expenditure against the annual budget.

## Budgeting for 2019/20

With the spring term approaching and the first two term's management accounts prepared, schools will be starting to look at their budgets for 2019/20 in order to give parents the required amount of notice for increases in school fees. The starting point for most when producing a budget, rightly or wrongly, is to look at past performance and therefore if looking at management account information, this needs to be accurate and reliable.

Fortunately for those in the private sector, the chancellor's budget in late 2018 has not imposed VAT on tuition fees and therefore any significant increase from this has been avoided.

However, there are other cost increases that are unavoidable. The biggest of these is the 43% increase in teachers' pension contributions which are increasing from 16.48% to 23.6% in September. Looking at a few examples amongst the sector, this is the equivalent to around 2.5% of school fees. The only other option would be for private schools to pull out of the scheme but this has a negative impact on teacher recruitment.

The largest cost for any school is salaries. Last year, the government didn't announce the teacher's pay increases until late July 2018. The rise last year was between 1.5% for leaders and 3.5% for those on the main pay scale. This is again equivalent to around 2% of school fees.

With inflation still in excess of 2% and other costs expected to rise including interest rates, it is difficult to see that school fees won't rise by at least 5% for the forthcoming academic year compared to the average increase calculated by ISC from 2017 to 2018 of 3.4% and 3.5% in the previous year.

## Financial support available from our specialist education team

At Rickard Luckin our experienced education team are able to complement and support your existing finance department with both management accounts and budgeting/forecasting.

Our services will be tailored to your specific needs, whether it is a one-off project such as a critical review of your current systems or ongoing support such as producing management accounts.



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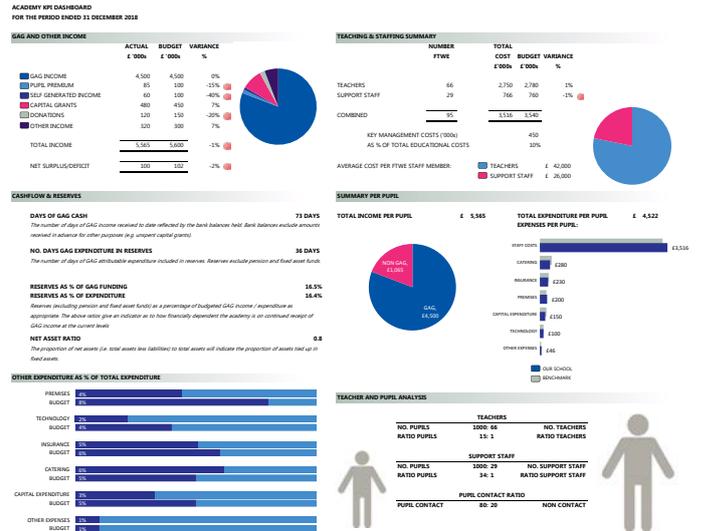
# Regular financial oversight

As academies approach the half-year point and local authority schools coming to the end of their financial year, how has it been for you?

With the squeeze on funding and increasing pressures on costs (some of which are being “funded” and others are not), it is vitally important to ensure you are receiving timely and relevant management information. This is important to ensure that you are fulfilling your duties as governors and also to ensure that the information is in an engaging format that all of your Trustees can understand.

Just like any organisation, Governors need to have management accounts which enable them to pro-actively manage resources and make financial decisions to have confidence that the school is financially stable and sustainable and will be able to deliver the education standards for the current and future generations of learners. Academies have to be compliant with the Academies Financial Handbook 2018 (effective 1 September 2018) and requires them to (inter alia):

- Produce management accounts on a monthly basis which are shared with the chair of trustees on a monthly basis; with other trustees 6 times a year; and considered by the Board each time they meet (at least 3 times a year);
- Ensure its cash position is managed robustly to avoid an overdrawn position;
- Establish a robust internal control framework that covers key financial areas;



At Rickard Luckin, we recognise the demands that management accounting and internal control procedures place on your finance team. We are pleased to advise that here at Rickard Luckin, we have created a bespoke management information tool incorporating a dashboard which reports on key performance indicators across both individual schools and at Multi Academy Trust level. The management information tool can be used with most accounting packages and is tailored to your specific requirements. Due to the degree of automation built into the tool, this may help to reduce the time demands on your finance department whilst improving the quality of financial information issued.

Whether you are a SAT, a MAT, local authority school, independent school or federation school, please feel free to contact us if you would like a review of your current management reporting system or if you would like to see a demonstration of our management information tool. Please contact Paul Sedgwick for more information.

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# VAT

## Everything you wanted to know about section 33 but were too afraid to ask!

What you may want to know about section 33 may not amount to much, but understanding what section 33 allows (and more importantly, what it does not), establishes correct VAT recovery on expenditure, including capital projects. This gives greater clarity on the true cost of an asset.

Without section 33, most establishments providing state or grant funded education would not be able to reclaim the VAT incurred on costs relating to the provision of that education.

The reason is that the provision of such funded education is usually seen as a “non-business” activity (i.e. it is a legal requirement to be provided). VAT is not recoverable when incurred in undertaking non-business activities. This is where section 33 steps in. Section 33 enables non-business activities to be treated as taxable activities for the purposes of recovering VAT. Originally, it was for local authorities and other such bodies to recover VAT on costs relating to the activities which they were legally required to provide

(although how the BBC ended up in there as well is odd to say the least).

When academies came into existence the issue was how to create an even playing field with local authority funded schools. This was done by creating section 33B (33A was created in 2001 to deal with museums and galleries which had their admission charges removed). This enables academies to recover the VAT on costs incurred in making the provision of state funded education. But it’s not a carte blanche to give academies full VAT recovery.

In VAT, as well as non-business and taxable supplies, there are exempt supplies. These are non-taxable for VAT purposes. Similar to the non-business rule above, VAT on costs incurred in making exempt supplies is not reclaimable.

What’s exempt for VAT is set out in Schedule 9 of the VAT Act 1994. Group headings in that schedule include, “land”, “education” and “sport”. An education provider can make supplies that fall within all three groups.

Whilst section 33 may enable recovery of VAT relating to non-business activities, there is no corresponding legislation for exempt supplies. Therefore, an asset used by a section 33 body for both non-business and exempt supplies can still suffer a restriction on the VAT recovery.

## Section 33 in action

A classic example is a sports hall. Use by the funded pupils during school hours is non-business so section 33 enables VAT recovery. However, letting local clubs and associations use the facility outside of school hours (often a condition of funding for sports facilities) is usually exempt and can give rise to a restriction in VAT recovery.

Methodologies of establishing the proportion of exempt to non-business use, such as hours available, are often not helpful due to the relatively, short school day, especially if the facility is used at weekends.

There are ways to maximise recoveries but care has to be taken to ensure that the method satisfies HMRC. I know of instances where Victorian facilities are supplied to non-pupils to enable full VAT recovery on the new facilities built. Such measures may have to be in place for ten years, so it's important that there is written guidance should there be a change of staff.

Some facility providers look to make the supplies taxable but most clubs and associations hiring are unlikely to be able to recover VAT so this may affect the take-up.

My intervention once resulted in the marketing team of an academy pulling a planned advertising campaign for the hiring of newly constructed classrooms for out-of-school, third party hire due to the impact on the VAT recovery of the construction.

Equally, there are examples where the use of an asset by the academy's pupils is valid for VAT recovery where none was thought possible. For example; flood lighting for sports pitches may be seen as relating to wholly exempt supplies (it's only dark outside school hours when third parties use the facilities). Yet those short cold days of December and January sees the lighting needed for pupil use so the cost becomes one of mixed exempt and non-business use, enabling a proportion to be recovered.

Essentially, like most areas of VAT, when you're thinking of spending money on an asset for use by pupils as part of their education and other users, it would pay to get VAT advice on what the true VAT costs could be.

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## VAT

It may only be three letters long but the word "VAT" strikes fear into many people but fear not Rickard Luckin has a team of VAT experts with a vast depth of knowledge who can assist with everything and anything to do with VAT. This can range from helping you to confirm you are using the appropriate scheme for your school.

You also need to ensure you have specialist VAT advice when you are embarking on any large construction projects for your school with the complicated VAT legislation that applies here.

Please contact our VAT Director, Ian Marrow for specialist VAT advice.



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# Data Protection – Is your school compliant?

The General Data Protection Regulation and the data Protection Act 2018 have now been law for 9 months and like Safeguarding, should be treated as a major issue for all schools.

Whilst the scaremongering threats of huge fines may have been exaggerated the risk of civil cases by disgruntled parents or ex-employees is very real.

In my opinion, the biggest major change is proving accountability with the law. No longer can you simply say that policies and procedures are in place to protect data; now you must be able to demonstrate it.

Here are some key points that your school should undertake to be compliant with the law.

- Demonstrate compliance: you need to document every system used to process personal data. You should also map how this data is transferred to other systems or any third parties.
- Appoint Data Protection Officer (DPO): legally you must appoint a DPO to ensure that the school is fully compliant to the new regulations. This can be an internal or external appointment but cannot be someone whose duties as a DPO could lead to a conflict of interests of their own role. eg Headteacher, Business Manager, Safeguarding Lead. Their details must be sent to the ICO and be available on your Privacy Notice.
- Processor agreements: for any third-party processors or outside contractors, you must have contracts in place stipulating that personal data is handled in compliance with the GDPR.
- Staff training: make sure staff are trained and ensure that there is a culture of data compliance. Proof of their understanding of such things as Data Breaches and Subject Access Requests is vital. New time scales for responding to instances also increases the need for awareness.
- Data Protection Impact Assessments: DPIAs should be carried out prior to the implementation of any new process or software by the school, where personal data is impacted.

Data protection is not going away. Data breaches are in the news daily and individuals are still learning of their new rights. Non-compliance is not only unlawful but also a financial and reputational risk to your school.

If you have any questions regarding your current compliance status, please contact your professional advisers.

Andy Crow | Director - Chorus Business Advisers

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