

# 2011 ACADEMIES UPDATE

February 2011

*This newsletter is targeted at new Academies and those schools seeking to convert to Academy status. It brings together a number of important issues to consider when weighing up the opportunity that the new status could provide.*

## Did you know?

### Health and Safety

With Academy status comes a number of new responsibilities. One to watch out for is Health and Safety which will no longer be the remit of the Local Authority.

Health and Safety legislation is a maze and an empowered academy will not only have to be fully aware of all of the requirements which the law requests, but also have a specified competent person to assist in all health and safety matters.

Williams Giles has access to a number of specialist training and consulting organisations with whom you can discuss the specific requirements of your school and get the best training and advice on how to pick your way through everything from risk assessment to teacher behaviour.

Call us and we can make an introduction.



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## Gove Clarifies Academy Funding

The end of 2010 brought significant change in the Government's rules on the funding of Academies. In a letter just before Christmas to all Academy sponsors and Principals, the Secretary of State, Michael Gove outlined the steps the Government is taking to smooth out turbulence in funding following the Spending Review.

### Minimum Funding Guarantee Sets Level Playing Field

Two fundamental elements are being put in place to simplify the policies and make sure that there is a level playing field across all Academies in the future:

1. A Minimum Funding Guarantee will be introduced to ensure that no school will suffer a reduction in budget of more than 1.5% per pupil, before the Pupil Premium is taken into account.
2. Whereas initial converters to Academy status received their funding on a gross basis, including any income the Local Authority may have earned or

spent, all Academies will be brought in line and move to a net calculation for all budget lines.

### Pupil Premium Set At £430pp

The Pupil Premium which in 2011-12 will amount to £430 per pupil will apply to all those who are eligible for Free School Meals and will also be extended to include Looked After Children.

From 2012-13 the Pupil Premium will include those children who have been eligible for free meals in the past. A Special Premium will also be introduced for Service children, providing £200 per pupil in the first year.

The 2011 school census will determine the number of pupils eligible and the scheme will be administered by the YPLA.

Further consultation will continue to develop policy for distribution of the Premium and on reform to ensure support for all deprived children, in particular bringing those in low funded areas in line with the national norm.

### LACSEG Reform In 2012

Academy funding via LACSEG is vastly complex and needs reform. A consultation exercise in Spring 2011 will help develop more transparent methods of funding with the intention to move to a new and better system in 2012.

In 2011/12, LACSEG will continue to be based on Local Authority 2010/11 budgets, but adjusted to:

- move all Academies on to the net basis of calculation
- recognise that all budgets are reducing due to overall fiscal pressure and ask Academies to reflect necessary cost savings
- exclude Local Authority improvement grants from the budget calculations, recognising that many are ending this year

To reduce the impact of the changes, there will be a protection put in place which limits the reduction in grant between new and old formulae so that no academy's LACSEG in 2011/12 is less than 90% of the level that it would have been without the changes being made.

## SIXTH FORM FUNDING CHANGES

Changes in sixth form funding are a real concern for schools right now. Sixth-form colleges had long lobbied to be treated on the same funding basis as schools, but, rather than finding convergence somewhere in the middle between the two, school budgets are being cut down to college levels. The saving of £280m leaves many schools seriously concerned about how to bridge this unexpected funding gap.

Larger classes and fewer subjects must be on the horizon. At the same time the withdrawal of entitlement funding for 16-19 year olds whilst replacing it with £150m only for those in the most deprived areas only, saves a further £500m and compounds the overall dilemma. A small increase in funding relating to demographic changes will not make any real contribution to this huge hole in the

figures. These changes are to be inflicted on all schools with Sixth-forms and not just Academies, so what bearing might they have on the conversion decision? If redundancies are going to be needed, one could understand why some schools would feel happier if those costs remain with the LEA, and not their new Academy, and thus delay their conversion date until it is a little clearer.

## Who are Williams Giles?

Whatever your needs in running your Academy school thinking about, or carrying out the process of conversion to Academy status, we can help.

Williams Giles is a firm of Chartered Accountants in Sittingbourne, which has formed a specialist team to work with schools across the South East who are considering their future status, and to provide audit and other services to those who have become Academies

Our people ensure the highest quality of service and we offer our advice at cost-effective rates. We are also very approachable and look for a relationship that works both with you and for you, and at your pace.

To talk to one of our specialists about your school's needs, call our academy hotline on:

**01795 478044**

Or email to:

[Alyson.Howard@williamsgiles.co.uk](mailto:Alyson.Howard@williamsgiles.co.uk)



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### Disclaimer

This newsletter is intended as an overview of current issues in a fast evolving legislative environment. It does not constitute professional advice and should not be relied upon as such by any party. For full professional advice please contact Williams Giles direct at the telephone number or e mails as set out above.

## VAT and Profit in the Charitable Academy

One factor which many schools have been asking as part of the academy process is how any business activities they may run are impacted post conversion by VAT.

There are two answers. First, business VAT applies to schools already, and is not different post conversion.

If you have a business activity in the school- this usually involves something like hiring out the school buildings or sports facilities- and the income derived from this (not the profit!) exceeds the VAT turnover limit of £70,000 per annum, the school needs to register for VAT.

This then means that any expenses attributed to the business activities and on which VAT has been charged, can be reclaimed via that registration.

If your business involves activities that are not subject to VAT, or only partially so, the rules are a bit more complicated, and you would be best placed in taking professional advice to assist with the resulting *partial exemption*

*calculations.*

Our experience suggests that such cases are unusual, as indeed are schools currently who have commercial activities exceeding the turnover limits.

The other risk area is the carrying on of commercial activities within a charitable company which is how a new Academy is defined.

Essentially if it is a material activity, (one form of guidance has been if it uses more than 5% of the overall school area, but this is a difficult test to apply in reality!) and certainly in our view if it is large enough to be VAT registered, it would be wiser to transfer operations into a wholly owned commercial subsidiary company.

Then any profits can be gifted up into the Academy at the end of each year to avoid corporation tax, but the charitable status of the school is not put at any risk.

### **VAT recovery as a new Academy**

The special dispensation via which schools have been able to

recover the input VAT incurred on relevant supplies from the LEA is to be extended to new Academies.

The announcement in the autumn budget will comprise part of the Finance Bill 2011, and we expect the effect to take place from 1<sup>st</sup> April 2011.

For those Academies not expecting to convert until then, there should be little impact. For schools who have already converted and who have had a VAT based grant added to their other Academy funding, if you have any large repair or building work coming up before 31st March which had not been anticipated by your VAT grant you could find yourselves out of pocket, temporarily at least.

Rather than putting the school in the position of having to make separate applications (to the YPLA or HM Revenue & Customs - it is not yet clear) to cover this expenditure, unless it has already been taken into account, you might find it easier to wait until after 1<sup>st</sup> April for any material unforeseen expense.

## NURSERY SCHOOLS IN ACADEMIES

A fall in nursery school and play group places has been attributed to the costs of compliance with Early Years Foundation Stage (EYFS) which have made the financial returns poor. In that environment one might hope that the Academy decision making process for primary schools who run an in house nursery would have been made easier. But, unfortunately there do seem to be a number of issues that are causing confusion, which may add to the administrative burden post conversion, and about which very limited information seems to be available.

A maintained nursery would seem to be part of the school for funding and operational purposes, as since it is being supported it is not run for a financial return, or profit. In that case one would

not seem to run the risk of breaking any rules on mixing 'charitable' and non-charitable activities.

If the nursery is run on a commercial basis, in anticipation of at least some profit, then it would need to be operated through a separate Limited Company from the Academy so as to not fall foul of the Charities Act as discussed above. But, as an exempt business for VAT purposes, the nursery would not be able to register for VAT and thus could not recover input VAT on any relevant expenditure.



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