Ribbon Academy Trust

Audit Highlights Memorandum for the Year Ended 31 August 2022

23 November 2022

Contents

This report is provided on the basis that it is for the information of the Board only and that it will not be quoted from or referred to, in whole or in part, for any other purpose without our prior written consent. No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.

1. Executive Summary

Executive Summary

INTRODUCTION

Our audit work has been carried out in accordance with our audit plan communicated to you.

The purpose of this report is to:

- summarise our findings in respect of the audit for the period ended 31 August 2022 and to bring to the attention of the management significant points identified during the audit and to confirm how these were resolved; and
- promote effective two-way communication between you and us.

AUDIT OBJECTIVE

The objective of the statutory audit is to enable us to give an opinion as to whether the financial statements show a true and fair view of the results for the period (and that they are in compliance with the necessary reporting standards). We utilise audit tests on a sample basis to provide assurance that the financial statements are free from material error.

It is the trustees' responsibility to take necessary steps to ensure that they are aware of all information relevant to the audit and that this has been communicated to us as the auditors. The points we make in this report are matters we felt would be useful to bring to your attention, rather than a comprehensive review of the academy trust and its results.

It is also the responsibility of the trustees to ensure, as far as possible, that accurate and reliable accounting records are maintained, and that the academy trust has sufficient policies and procedures in place to prevent and detect fraud and error.

INDEPENDENCE

We considered our independence during the audit planning and continued to assess this throughout our work. We can confirm that there have been no changes or further threats identified (to our independence) arising during the audit.

MATERIALITY

We planned our procedures using a materiality of £59,500.

The threshold for reporting audit differences has remained at £2,975 being 5% of the overall materiality figure.

The basis for our assessment of materiality has remained consistent with the audit planning memorandum.

STATUS OF THE AUDIT

We have substantially completed our audit of the financial statements of the company.

Executive Summary

OUR AUDIT REPORT

Subject to satisfactory completion of the outstanding items, we do not expect to make any modifications to our audit report. However, our responsibilities in respect of the audit report extend up to the date it is signed. We will advise you of any changes to this position, if necessary.

INDEPENDENT REPORTING ACCOUNTANTS REPORT ON REGULARITY

Our work in this area did not highlight any regularity issues and therefore intend to issue a clean conclusion on regularity.

AREAS OF AUDIT FOCUS

During our audit planning we identified a number of specific areas of audit risk. This report sets out our observations and conclusions in relation to these original identified audit risks along with other matters identified during the course of the audit. These are summarised in Section 2.

ADJUSTED MISSTATEMENTS

We have discussed with management and asked them to correct certain misstatements we identified in the financial statements. We attach a schedule in Appendix 1 that records the adjusted misstatements.

UNADJUSTED MISSTATEMENTS

We attach a schedule in Appendix 2 that records the unadjusted misstatements. The schedule does not include matters we believe to be clearly trivial in the context of the financial statements. We have asked you separately to affirm in writing whether you believe the effects of the uncorrected misstatements to be immaterial individually and in aggregate to the financial statements as a whole.

OTHER MATTERS FOR FURTHER DISCUSSION

Section 3 includes other matters which we have highlighted from our audit work.

CONTROL RECOMMENDATIONS

We have identified a small number of performance improvement observations – details of which are shown in Section 4.

MANAGEMENT REPRESENTATIONS

Auditors normally seek a number of ‘management representations’ from the Board, which confirm a number of points that we have relied upon in undertaking the audit and in reaching our conclusions. Please ensure that the Management Representation Letter is read and approved prior to signing.

We would seek to draw your attention to the non-standard representations in this letter which are as follows:

1. Regularity – We confirm that we are not aware of any irregular or improper use of funds by the Academy Trust, or any non- compliance with the terms and conditions of the Academy Trust’s funding agreement and the latest version of the Academy Trust Handbook.

Executive Summary

POST BALANCE SHEET INFORMATION & GOING CONCERN

It is the **Trustees' responsibility** to;

1. Make the auditor aware of any events occurring after the period end (and prior to signing) which could impact on the financial statements.
2. Consider 'Going Concern**'** (as the basis for preparation of the financial statements) for a period of at least 12 months from approving the financial statements. If there are any uncertainties then the Trustees are required to disclose these within the financial statements. Auditors are required to assess the Board's conclusions about Going Concern. Prior to completion we will request up to date management information, together with a cash-flow forecast (from those latest management accounts along with any further information the Board have considered in relation to Going Concern).

2. Summary of Audit Findings

Summary of Audit Findings

AUDIT RISKS IDENTIFIED AT THE AUDIT PLANNING STAGE

At the planning stage of the audit, we identified a number of audit risks where we considered the focus of our work would be aimed. Our responses and conclusions in respect of these are documented below.

Management override of controls and income recognition are included below as there is a presumption within International Standards on Auditing (UK) for all audits that these are significant risks.

Significant Audit Risks	Responses and conclusions
Management override of controls	**Audit Procedures:** We have reviewed all material items on the balance sheet and verified to supporting documentation. We have undertaken analytical procedures on the journal listing to identify and investigate any unusual journals, whether due to posting or value. Finally, we have reviewed overhead nominals for journal entries and ensured they have been processed for bona fide reasons. **Conclusion:** Following completion of our audit fieldwork, we did not identify any management bias or override that would impact on the financial statements results.
Fraud resulting from revenue recognition	**Audit Procedures:** We have compared the total value of General Annual Grant from the annual statement to the amounts recognised in the nominal ledger. We have selected a sample of remittances from the remittance file and traced to the nominal ledger and the bank receipt. Finally, we have selected a sample of cash income and traced from source documentation to the nominal ledger. **Conclusion:** Following the completion of our audit work, income appears to be free from material misstatement.

Summary of Audit Findings

AUDIT RISKS IDENTIFIED AT THE AUDIT PLANNING STAGE

At the planning stage of the audit, we identified a number of audit risks where we considered the focus of our work would be aimed. Our responses and conclusions in respect of these are documented below.

Audit Risks	Responses and conclusions
Related Party Transactions There is a risk that related party transactions are not disclosed or have not been conducted in line with the Academy Trust Handbook.	**Audit Procedures:** We have obtained the register of business interests and ensured this is complete to the best of our knowledge. We have reviewed the nominal ledger for evidence of transactions with those parties. Finally, we have obtained all relevant documentation which accompanies the related party transaction to ensure it has complied with the Academy Trust Handbook. **Conclusion:** Following completion of our audit fieldwork, related party transactions appear to be correctly disclosed and conducted in line with the Academy Trust Handbook. We have, however, raised a control recommendation to ensure completeness of declaration of interests.
Allocation of Funds There is a risk that the income and expenditure has been allocated to the incorrect fund.	**Audit Procedures:** We have selected a sample of income and expenditure and ensured that it had been allocated to the correct fund. We have also reviewed management accounts and relevant workings to ensure the funds have been properly prepared. **Conclusion:** Following completion of our audit fieldwork, income and expenditure appears to have been allocated to the correct fund.

Summary of Audit Findings

AUDIT RISKS IDENTIFIED AT THE AUDIT PLANNING STAGE

At the planning stage of the audit, we identified a number of audit risks where we considered the focus of our work would be aimed. Our responses and conclusions in respect of these are documented below.

Audit Risks	Responses and conclusions
Regularity and Propriety There is a risk that the Academy Trust has not complied with the funding agreement.	**Audit Procedures:** We have reviewed a sample of expenditure to ensure it has been disbursed in line with Parliament's intentions. We have also selected a sample of the ‘must’ requirements from the Academy Trust Handbook and ensured the Academy Trust has complied with these. **Conclusion:** Following completion of our audit fieldwork, there is no evidence that the Academy Trust has contravened the funding agreement.

3. Other Matters

Other Matters

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

During the course of our audit, we consider the qualitative aspects of the financial reporting framework, including judgements on key accounting policies, areas of significant accounting estimate and financial statement disclosures to the extent that these may have a significant impact on the relevance, reliability, comparability and clarity of the information presented in the financial statements.

We have nothing to note on this area.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

There were no significant difficulties encountered during the audit which we need to report to you. All relevant representations which we have asked you to confirm are included in the letter of representation.

Other Matters

LOCAL GOVERNMENT PENSION SCHEME ('LGPS')

The Trust is required to report its pension obligations in relation to the LGPS under FRS 102. The balance sheet position is calculated as the net of the scheme assets and the defined benefit obligations. The actuary determines the defined benefit obligations under prescribed calculation principles. The accounting assumptions used represent the actuary's best estimate of the cost of providing the promised benefits, with the calculations based on market conditions at the balance sheet date.

The Trust should be comfortable with the appropriateness of the assumptions which were adopted in relation the calculation as at 31 August 2022. We do consider this is important as there is potential volatility and increased liabilities on the balance sheet.

As you may be aware deferred pensioner and pensioner obligations in the LGPS are increased each April in line with the previous September rate of CPI, and therefore we would expect the high level of inflation to lead to a high Pension Increase Order being applied in April 2023. This had not been included in the original calculation of the scheme deficit as calculated by the LGPS actuary.

The sector and actuaries have become under pressure to revise calculations to reflect the Pension Increase Order and as a result we requested that the Trust requested that the actuary recalculated the balance sheet position based upon a revised CPI.

Although not yet confirmed by government, the annual increase is due to be based on the level of CPI increases between September 2021 and September 2022, which is estimated to be 10.00%. As a result, within the standard CPI assumption derivation, the actuary will allow for a year one CPI figure of approximately 10.00%.

As a result, at the balance sheet date, the position of the scheme has improved when compared to the previous year.

The main reason for the improvement in the FRS 102 position is reflective of the change in assumptions. In particular, the increased discount rate used follows the rise in corporate bond rates over the year and this has significantly decreased the defined benefit obligation.

As part of our audit, we have compared the key assumptions to 3rd party data at quarter end 30 September 2022 to confirm that they are within an expected range.

We have gained audit comfort that both 2022 and 2021 were comparable to the median range of our benchmark. It should be noted that the actuarial opinion had changed following auditor and sector challenge.

4. Internal Control Observations

Internal Control Observations

As part of the audit process, we consider the overall control environment and key controls that are observed or tested as part of the audit. During the audit, we identified some areas where the internal controls require to be strengthened. These areas are categorised as follows:

Status	Classification
Red	Fundamental issues which require the consideration of the Trustees
Amber	Significant matters which should reviewed by management
Green	These observations merit attention within an agreed timescale

Whilst these points are based on observations noted by our team during the audit fieldwork, they are merely recommendations for discussion with you. As recommendations they are therefore not a criticism of your current procedures.

In addition, we identified that no points which arose in the previous period still need to be actioned and confirmation on this is included in Appendix 3.

The audit does not involve a comprehensive review of all controls operating within the Academy Trust and as such, the following comments should not be assumed to be a complete statement of all weaknesses that may exist in the Academy Trust's control environment or within the detailed systems of internal control.

We would respectively reiterate the point that, it is the director's responsibility to ensure that systems, controls, practices and procedures are suitable for your organisation, having delegated the day-to-day control to a management team.

Internal Control Observations

Register of Trustee interests	
Area	Register of Trustee interests on website
Observation	We compared the interests listed on the Trust’s website to Companies House for any common directorships. We noted additional directorships were listed on Companies House which had not been declared by Trustee’s.
Implication	There could be additional related parties which management are not aware of.
Recommendation	Ensure all interests are declared by Trustees, regardless of whether they are relevant to the organization.
Benefit of control	A complete register of interests and mitigated risk of entering into related party transactions.

Internal Control Observations

Post year end management accounts	
Area	September management accounts
Observation	Due to the change of finance system on 1st September 2022, there have been delays in finalising post year end management accounts.
Implication	Non timely management accounts reporting.
Recommendation	Accounts are prepared on a timely basis and submitted to the board for review.
Benefit of control	Accurate monthly reporting and compliance with the Academy Trust Handbook.

Appendices

Appendix 1a: Adjusted Misstatements

	Profit and loss	Balance sheet	Comments
	Debit/(credit) £	**Debit/(credit) £**	
Expenditure- staff costs	234,000		LGPS adjustment for the period
Expenditure- finance cost	45,000		
Actuarial (gains)/losses	(2,141,000)		
Pension		1,862,000	
Trade debtors		12,684	Reallocation of trade debtors
Accrued income		(12,684)	
Total	**(1,862,000)**	**1,862,000**	

Appendix 1b: Revenue Surplus/(Deficit) Reconciliation

		Comments
	£	
Net income/(expenditure) per financial statements	**1,832,000**	
Add back: Net movement in capital funds	16,000	
Add back: LGPS adjustment shown in income		As per Appendix 1a
Add back: LGPS adjustment shown in expenditure	279,000	As per Appendix 1a
Add back: LGPS adjustment shown in gains & losses	(2,141,000)	As per Appendix 1a
Rounding		
Revenue surplus/(deficit) in the period	**(14,000)**	

Appendix 1c: Closing Revenue Balances Reconciliation

	£	Comments
Opening restricted reserve per financial statements	**0**	
Opening unrestricted reserve per financial statements	**448,000**	
Revenue surplus/(deficit) in the period	26,000	
Transfer	(40,000)	
Closing revenue balance	**434,000**	

	£	Comments
Closing restricted reserve per financial statements	**0**	
Closing unrestricted reserve per financial statements	**434,000**	
Closing revenue balance	**434,000**	

Appendix 2: Unadjusted Misstatements

There were no unadjusted misstatements noted during the audit.

Appendix 3: Prior Year Internal Control Observations

We did not identify any internal control observations in the prior period which have not been resolved to be brought to your attention.

Appendix 4: Sector Highlights

ACADEMY ACCOUNTS DIRECTION 2021/22 CHANGES

- Updated feedback on non-compliance with the Direction (paragraph 1.21) and updated the themes arising from ESFA's assurance work (paragraph 1.22)
- Clarified that an academy trust should, in line with the SORP, describe the organisational structure of any subsidiaries within their trustees' report ESFA also requires them to describe the organisational structure of any joint ventures or associates (paragraph 2.8)
- Added a new section to the governance statement which requires academy trusts to explain how conflicts of interest are managed (paragraph 2.36)
- Introduced a new disclosure requirement on severance payments to reflect changes in guidance published by HM Treasury (paragraph 2.135). This does not change the existing disclosure on special staff severance payments
- Updated the guidance on service concession arrangements (paragraph 3.46)
- Included new guidance on accounting for buildings whose construction was overseen by Department for Education (DfE) or a local authority and transferred to the academy trust on completion (paragraphs 3.50 and 3.51)
- Included a new section to provide guidance on the accounting treatment for business rates (paragraph 3.66)
- Removed the previous requirement to submit dormant accounts to ESFA (paragraph 3.102)
- Removed the requirement to produce trading accounts for teaching school (hubs) as separate notes to the financial statements. We have also clarified where and how transactions relating to such activities should be shown in the rest of the financial statements. We have also extended the guidance to cover other types of hub which academy trusts may operate (paragraph 3.141)

Appendix 4: Sector Highlights

ACADEMY TRUST HANDBOOK 2022/23 CHANGES

- Financial Reporting: Confirming withdrawal of the Budget Forecast Return Outturn [paragraph 2.15].
- Special Payments: Clarifying in paragraph 5.12 that prior approval of staff severance payments in accordance with HM Treasury's Guidance on Public Sector Exit Payments applies only to 'special' (non-statutory/non-contractual) payments.
- Indemnities: Confirming that trusts will be able to enter into indemnities which are in the normal course of business without seeking approval [paragraph 5.19].
- Religious Character: Extending the scope of [paragraph 5.57] from dioceses to all religious authorities, confirming when the 'at cost' requirement is met.

Appendix 5: Taxation

CORPORATION TAX EXEMPTIONS FOR ACADEMIES

Academies are “exempt” charities by virtue of the Charities Act 2011, Schedule 3. This means that they can benefit from charitable exemptions from Corporation Tax provided the income is applied for charitable purposes. Examples of exempt income streams include:

- Primary purpose (PP) trading – trading performed in the course of carrying out the primary purpose of the charity
- Trading mainly carried out by the beneficiaries e.g. a restaurant operated by students as part of a catering course at a further education college
- Ancillary trading – trading ancillary to a primary purpose e.g. the sale of relevant goods or provision of services, for the benefit of students by a school or college (e.g. textbooks).
- Non primary purpose (NPP) trading where total income is less than the small trading exemption limit (normally £80k)
- Investment income – for example bank interest
- Property rental income – where there is a landlord/tenant relationship

Note that, strictly, to obtain these tax reliefs the Academy must be recognised as a charity by HMRC. If you require assistance with this please let us know.

NON PRIMARY PURPOSE TRADING

What is considered to be a NPP activity will depend upon the Academy’s primary purpose as set out in its Articles of Association. However, examples of income arising from NPP trading can include:

- Letting of sports facilities e.g. gym, football pitches.
- Car parking
- External catering
- Non educational service delivery e.g. consultancy, ground or IT maintenance

The risk from NPP trading increases for multi academy trusts as different school can have different pockets of income, whilst individually small, can add up to more than the small trading threshold (usually £80k). Where NPP income is in excess of £80k an Academy must cost of the relevant activities. Should the activities generate a profit, then this profit will be taxable.

Under the Self Assessment rules, it is the Academy’s responsibility to monitor its NPP income streams. Even if HMRC have not requested that a Corporation Tax return is completed for a period, an Academy must still review their income streams and be happy that no Corporation Tax arises.

If you would like to discuss this further please let us know.

Appendix 5: Taxation

GIFT AID PAYMENT FROM TRADING SUBSIDIARY TO ACADEMY TRUST

The subsidiary trading company can continue to relieve its taxable profits, by making a Gift Aid payment (within 9 months of the year end) to its parent Academy Trust ONLY to the extent it has retained profits. This is unchanged from prior years.

The latest SORP Bulletin 2 update, has changed the accounting treatment of Gift Aid relief payments from subsidiary companies to their parent Academy Trust.

With effect for accounting periods commencing 1 January 2019 Gift Aid will NOT be shown as a charge in the Subsidiary's Profit and Loss Account*.

Instead it will be accounted for as a movement of reserves below profit. This has the benefit of leaving the subsidiary's reported result for the year intact.

Furthermore, unless there is a 'deed of covenant' between the subsidiary and the Academy Trust, then accounting for the Gift Aid distribution will always be in the year payment of Gift Aid is made i.e. in the following year, meaning that the trading subsidiary will present some reserves each year versus clearing them to £nil.

*This is not considered to be a prior year adjustment but it is recommended that additional narrative is added to explain the change in comparative Profit and Loss figures.

Appendix 5: Taxation

INDIRECT TAX - VAT

Whilst there is a ‘trading exemption’ available to charities in terms of corporation tax, there is no such exemption from charities needing to consider VAT.

VAT in the education sector is often complex. Academies are generally considered to be “eligible bodies” for the purpose of the VAT education exemption, providing all relevant conditions are met. The exemption does not however apply to all activities of an academy. Academies typically have a range of business and non-business activities, as well as exempt and taxable supplies for VAT purposes.

It is therefore vital that you continue to assess and appraise all income streams (and particularly any new sources that arise) in the year to ensure that the academy registers for VAT at the right time (to the extent that it is not already VAT registered), the correct VAT treatment is applied to income and the resulting impact on VAT recovery on associated expenditure is understood.

We set out below some of the common VAT issues currently faced by academies as well as the VAT reliefs available to them. **As there is NO blanket exemption which prevents charities needing to consider VAT it is important that you continue to monitor the activities of the academy to ensure that its VAT position is effectively monitored and managed. If you would like the comfort of undertaking a VAT health-check, or indeed advice on a specific project being contemplated, then please speak to us about taking this forward.**

Appendix 5: Taxation

Type	Details
Non-business income	Education provided for no charge is a non-business activity. Where education is wholly funded by grants, in general, direct funding by local or central government is not consideration for a supply of education, or a business activity, and is outside the scope of VAT. Any closely related goods or services provided, at or below cost, are also generally outside the scope of VAT. Closely related refers only to goods and services that are: • for the direct use of the pupil, student or trainee • necessary for delivering the education to that person An eligible body should be capable of treating the following supplies as closely related: • accommodation • catering • transport • school trips • field trips The supply of other goods or services (i.e. not closely related to education) should be taxed in the normal way.
VAT Refund Scheme for Academies	Ordinarily VAT cannot be recovered on purchases or imports made in relation to non-business activities. The Section 33B VAT refund scheme permits academies to reclaim VAT incurred on purchases and imports which relate to their non-business activities i.e. the provision of free education and VAT incurred on goods and services closely related to the provision of education where it is for the direct use of the pupil. VAT claimed under the scheme is included in Box 4 on the VAT return for VAT registered academies. Academies that are not VAT registered can submit refund claims to HMRC using a VAT126 form. The benefit of the refund scheme is it puts academies largely in the same VAT position they were in when under local authority control. **Should you require any assistance with a Section 33B VAT refund claim, please contact us.**

Appendix 5: Taxation

Type	Details
Business income	The supply of goods and services not closely related to the supply of education for a charge will generally be regarded as business supplies for VAT purposes e.g. the sale of school uniforms, non-student catering, certain supplies of school photographs, ticket sales for events, letting out of premises, provision of sporting facilities etc. Depending on the specific nature of the supplies made, they may be subject to VAT at the standard rate, zero rate or be exempt. **Should you require any assistance with determining the VAT treatment of supplies the academy makes, please contact us.**
VAT registration	An academy is required to register for VAT when the value of its taxable supplies (standard-rated and zero-rated supplies) exceeds the UK VAT registration threshold (currently £85,000). VAT registration is compulsory if (i) at the end of any month, the value of the taxable supplies made in the previous 12 months or less have exceeded the VAT registration threshold or (ii) at any time, if the academy expects the value of taxable supplies made in the next 30 days alone will exceed the VAT registration threshold. Once VAT registered, an academy will be required to submit quarterly VAT returns and account for VAT at the appropriate rate on taxable supplies made. It will also be entitled to recover VAT incurred on costs directly attributable to the taxable supplies made.

Appendix 5: Taxation

Type	Details
Determining VAT recovery	Registering for VAT does not necessarily mean that an academy can recover all of the VAT it incurs on expenditure. VAT is only recoverable to the extent that the VAT incurred relates to the making of taxable supplies, or intended taxable supplies, made in the course of furtherance of a business (i.e. supplies which are subject to VAT at the 20%, 5% or 0% rates). VAT incurred which relates to exempt supplies, or intended exempt supplies, is irrecoverable (subject to de minimis limits). VAT incurred which relates to non-business supplies, or intended non-business supplies, is generally irrecoverable subject to some limited exceptions and reliefs (the Section 33B VAT refund scheme above refers). Where VAT is incurred on purchases that relate to both non-business and taxable business activities, academies can only recover the VAT incurred to the extent that the purchases are used to make taxable business supplies i.e. the academy can only reclaim VAT on the proportion of the costs that are used for taxable business purposes. Calculating how much VAT is recoverable in these circumstances is a two-stage process and can often be complex. • Stage 1- Business/Non business apportionment • Stage 2- Taxable/Exempt apportionment ("Partial Exemption" calculation) **Should you require any assistance in reviewing the appropriateness of the academy's business/non-business and partial exemption methodology used to determine VAT recovery, please contact us.**
Zero-rated reliefs	As a charity, an academy should be entitled to obtain qualifying supplies of advertising services at the zero rate.
Reduced–rated reliefs	If supplies of fuel and power made to the academy is used 60% or more for non-business use, it should be entitled to receive all of the supply at the reduced rate of VAT (5%). **Should you require any assistance in reviewing whether the above reliefs are available to the academy, please contact us.**

Appendix 5: Taxation

Type	Details
Capital projects, property projects and the introduction of the construction industry domestic reverse charge (“DRC”) with effect from 1 March 2021	Any capital projects e.g. new builds, property extensions and property refurbishments/ redevelopments should be carefully considered from a VAT perspective to ensure (i) the correct rate of VAT is applied to the works and any available zero-rating relief is maximised where the relevant conditions are met for the building to qualify as a “relevant charitable purpose” building for VAT purposes; and (ii) the VAT recovery position of any VAT incurred on the works is understood, based on its intended use. Where an academy undertakes works that constitute a “capital item” for the purpose of the VAT Capital Goods Scheme, the use of the asset is required to be monitored over a ten-year period and an appropriate adjustment included in the academy’s VAT return on annual basis to reflect any change in taxable use. **With effect from 1 March 2021** the VAT DRC must be used for supplies of construction services within the scope of CIS which are subject to VAT at 20% or 5%, where they are made between VAT registered and CIS registered businesses. The DRC is not applicable to supplies of construction services that qualify for zero rating. Where an academy is receiving construction services due consideration should be given to its obligations under the DRC rules. We would however generally expect an academy to be classified as an “End User” for the purposes of the DRC legislation (i.e. it will not make any onward supply of construction services), such that normal VAT rules should apply. **Should you require any assistance in reviewing any proposed capital projects to ensure the VAT position is fully understood, please contact us.**
Structures involving trading subsidiaries	Where an academy's corporate structure includes a trading subsidiary, care should be taken to understand whether the trading subsidiary has an obligation to register for VAT. Furthermore, the VAT treatment and VAT recovery position of any cross charges between an academy and a trading subsidiary need to be considered as this may create an additional irrecoverable VAT cost. VAT grouping may be a possible way of mitigating an irrecoverable VAT charge however, the most appropriate structure for the organisation as a whole should be considered.

Appendix 5: Taxation

Type	Details
Acquisition of additional academies into the multi academy trust	There are a number of VAT considerations that should be borne in mind if the academy trust is contemplating acquiring an additional academy(s). This includes but is not limited to: - The form of the transfer; - The VAT treatment of the transfer and the VAT recovery position of associated costs; - VAT registration status and any impact on VAT grouping, business/non-business and partial exemption methodologies currently used and agreed by HMRC and any changes required to ensure there is a fair and reasonable method in place. **Should you require any advice in relation to the structure of the academy group or any contemplated acquisitions, please contact us.**
Making Tax Digital ("MTD") digital links requirements with effect from April 2021	For VAT return periods starting on or after 1 April 2021, VAT registered businesses who make taxable supplies above the VAT registration threshold and who submit their VAT returns using MTD need to ensure digital links are in place within their VAT records. HMRC define a 'digital link' as a transfer or exchange of data which is made, or can be made, electronically between software programs, products or applications. Practically this means HMRC requires a digital audit trail starting from your accounting systems all the way through to the figures on your VAT return. Each piece of software must be digitally linked to other pieces of software to create an acceptable audit trail. With effect from 1 April 2022, all VAT registered businesses must sign up to MTD, irrespective of their turnover. **Should you require any assistance in ensuring the academy's VAT return process is MTD compliant, please contact us.**

Appendix 5: Taxation

AUTOMATIC ENROLMENT PENSIONS AND OPPORTUNITIES TO SAVE

The current minimum Employee and Employer contribution rates for Auto Enrolment pensions are:

From	Employer Contribution	Employee Contribution	Total
April 2019	3%	5%	8%

Increase to National Insurance contributions

From 1 April 2022 there will be an increase of 1.25% in class 1 (employee) NIC contributions. There will also be an increase of 1.25% in secondary class 1 NIC paid by employers. This means that both the academy and its employees will pay increased NIC on wages.

As costs of employment continue to increase, you can use **salary sacrifice arrangements to lower employment costs**. If you do not currently have salary sacrifice arrangements in place, we can help you to lower your employment costs to ensure that you are operating from a lower cost base in line with your peer and competitor organisations who have introduced salary sacrifice schemes.

NATIONAL MINIMUM WAGE

From **April 2021**, all workers over the age of 23 are legally entitled to at least £8.91 per hour.

Year	23+	21-22	18-20	<18	Apprentice
2021	£8.91	£8.36	£6.56	£4.62	£4.30

There have been a number of rulings which are considered to impact upon NMW, including:

Travel time between work locations is counted for the purpose of assessing NMW.

Where staff are required to be on standby and at or near the workplace, they are entitled to be paid for this time, including sleep overs.

Regular overtime is now counted towards **holiday pay** calculations

Extra care needs to be taken when paying apprentices. The minimum wage apprentice rate will apply if the apprentice is employed under a statutory apprenticeship agreement or a contract of apprenticeship, and

a) the apprentice is under the age of 19, or

b) the apprentice is aged 19 or over and in the first year of their apprenticeship with their current employer

When an apprentice is 19 or has completed the first year of their apprenticeship**, they must be paid the relevant NMW rate for their age group**.

Appendix 5: Taxation

IR35 & SELF-EMPLOYED CONTRACTORS

The IR35 rules ensure that off-payroll workers ("contractors") who are working in the same way as employees are treated in the same way as employees for tax purposes. The responsibility for determining employment status lies with the organisation receiving the contractor's services – i.e. the academy.

The IR35 rules result in the recipient of services having additional employer obligations.

If your academy is "not small" and receives services from individuals who engage via an "intermediary" (usually a personal service company) and the individual is not paid via the academy's payroll then the IR35 rules may apply .

Your school / academy will be "small" if it satisfies two or more of the following requirements:

- its annual turnover is not more than £10.2 million
- its balance sheet total is not more than £5.1 million
- it has not more than 50 employees

If your academy is part of a group of academies the small business test must be applied to the group as a whole.

If you fall within the IR35 rules then the academy must conduct a "status determination" of the contractors and, depending on the results, the academy (or another entity in the contractual chain), may be required to withhold employment taxes from payments made to these individuals and pay employers' NICs.

The IR35 rules do not apply where an agency employs the contractor and operates PAYE on earnings paid to the contractor. However, the academy is required to undertake appropriate due diligence where workers are provided in this way to ensure that the tax obligations are being met.

Employment Status

The IR35 rules are similar to the existing employment status rules where an organisation engages with an individual directly for their services.

IR35 and employment status are highly complex areas. If you engage for any personal services outside of the payroll, we recommend you take appropriate action to assess your obligations and take specialist advice as required. This is one area that could get very expensive if you fail to take action where required.

Appendix 5: Taxation

APPRENTICESHIP LEVY

The Apprenticeship Levy was introduced back in 2017.

As an employer, you have to pay Apprenticeship Levy each month if you:

- have an annual pay bill of more than £3 million
- are connected to any companies or charities for Employment Allowance purposes and have a combined annual pay bill of more than £3 million

If you are not connected to any other employer and your pay bill is not over £3 million you will not need to pay the levy.

For voluntary-aided schools, foundation schools, free schools and academies, the governing body is the employer. Each governing body will be entitled to an allowance of £15,000.

For other maintained schools, the local authority is the employer. The local authority remains legally responsible for payment of the Apprenticeship Levy for schools under their control, even if they've delegated responsibility for payroll including payment of Class 1 secondary National Insurance contributions. Each local authority has an annual allowance of £15,000.

The employer for faith schools will be the local authority if the school is voluntary-controlled, otherwise it will be the governing body.

Multi-academy trusts will get a single annual allowance of £15,000.

If a school becomes a voluntary-aided school, foundation school, free school or academy part way through a tax year, the academy's governing body will be responsible for the Apprenticeship Levy from this point and get a full allowance of £15,000.

Apprenticeship Levy Allowance

Employers not connected to another company or charity will have an Apprenticeship Levy allowance of £15,000 each year.

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