



# Technical Update for Further Education

Tuesday 11 July 2023

Virtual event





# Welcome

Mark Dawson

Host



Please **mute** your microphones now ready to begin and keep them muted



Please submit your questions in the chat and we will come to those during Q&A



Slides and the recording will be made available post-event



The session will be recorded

# Agenda

11<sup>th</sup> July 1:30pm – 3pm

Topic	Time
Welcome and Intro	1.30pm
Economic Overview	1.35pm
Skills Landscape	1.45pm
Audit & financial reporting update	1.55pm
Tax Update	2.15pm
Pensions	2.35pm
Funding assurance	2.45pm
Q&A	2.55pm
Finish	3.00pm

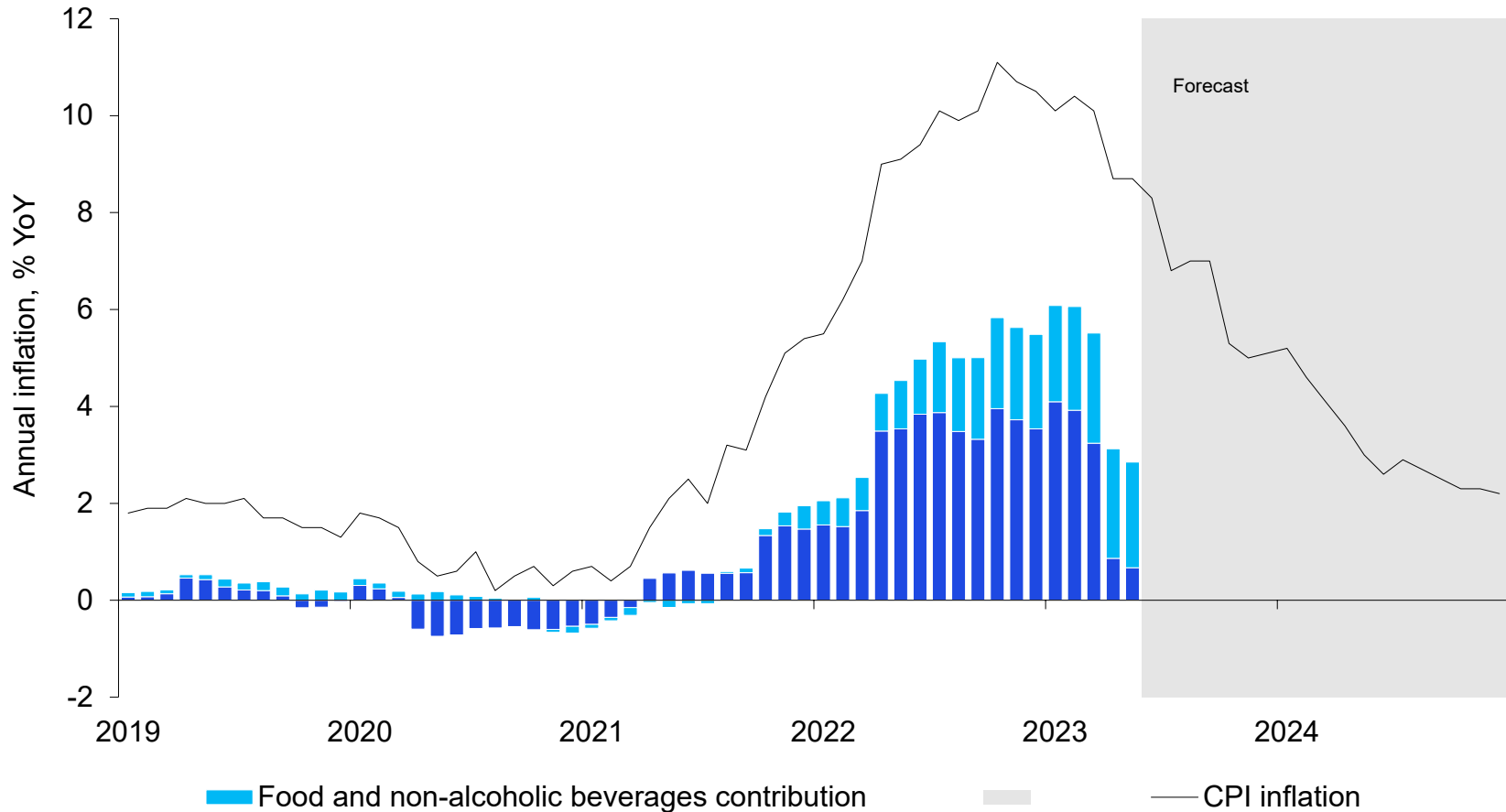


**01**

# **Economic Outlook**

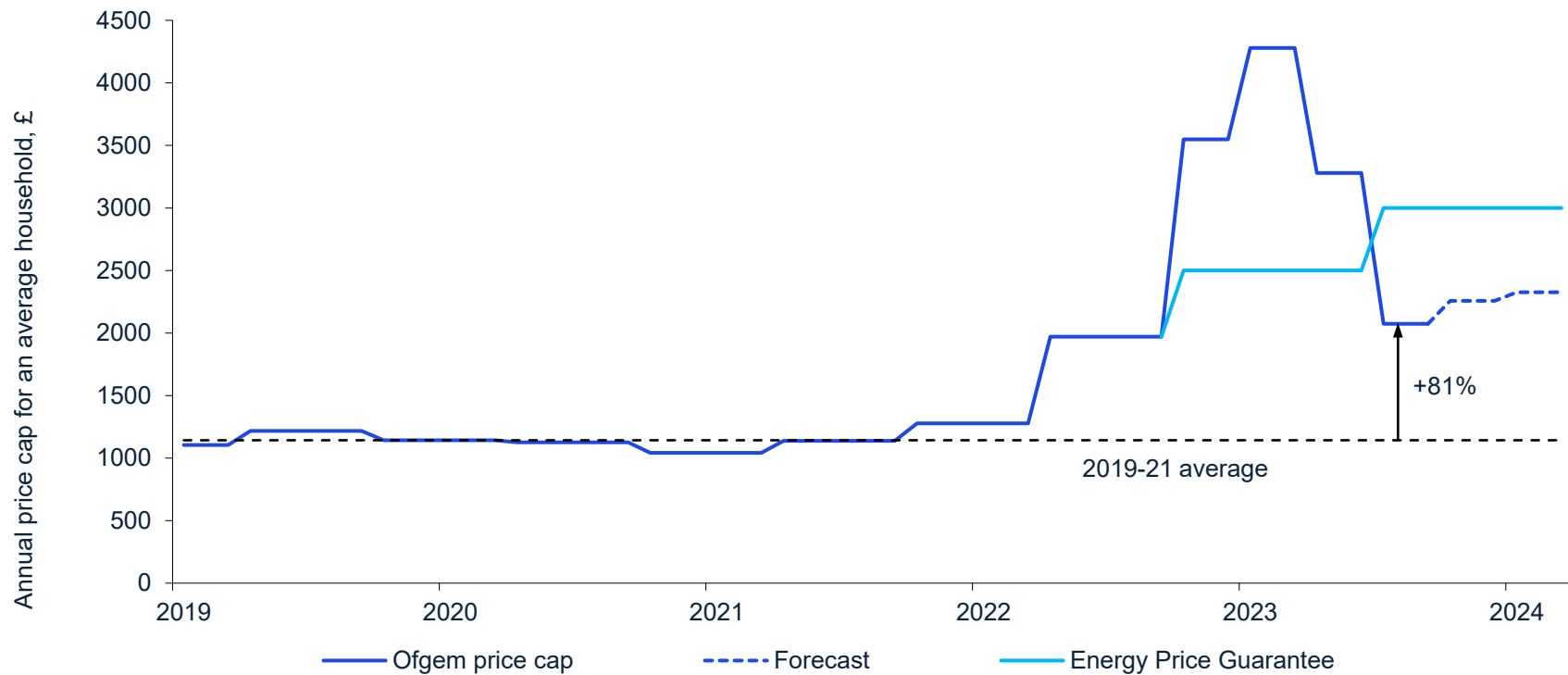
**Dennis Tatarkov**

# Inflation is set to fall through 2023 and 2024



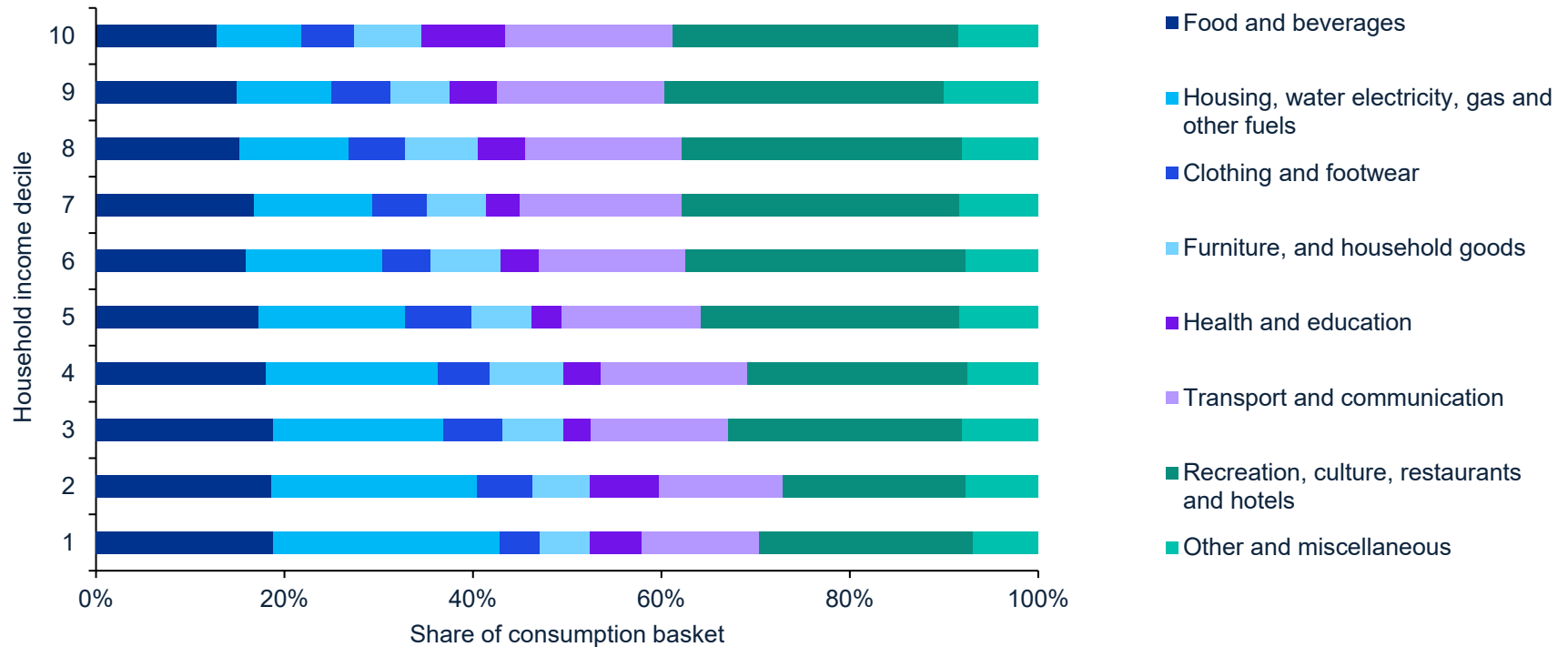
➔ Source: ONS, KPMG projections.

# Ofgem's price cap has been reduced but prices remain high



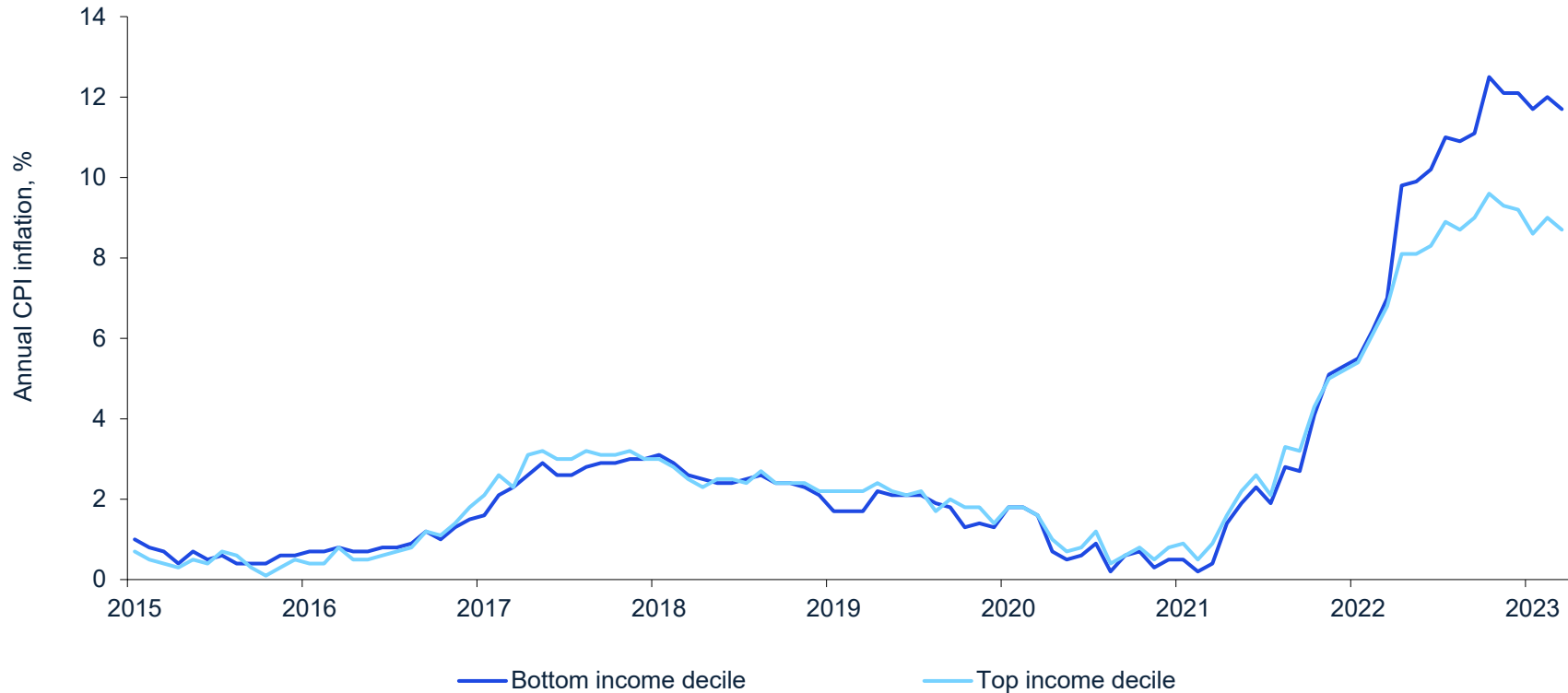
Source: ONS, Cornwall Insight, KPMG projections.

# Lower income households are more exposed to fluctuations in food and energy prices...



➔ Source: ONS, KPMG analysis.

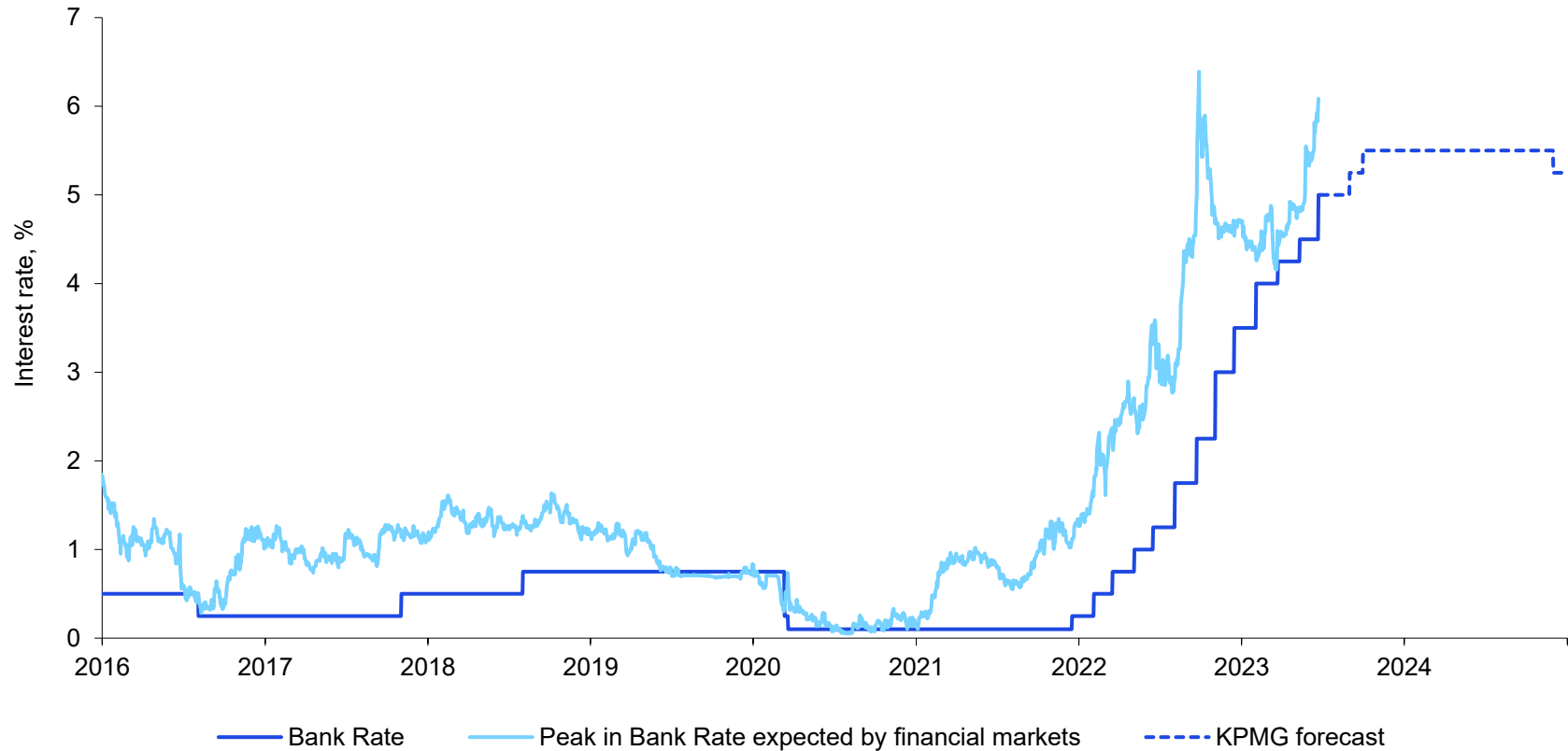
# ...and experienced greater inflation compared to higher income households



➔ Source: ONS, KPMG analysis

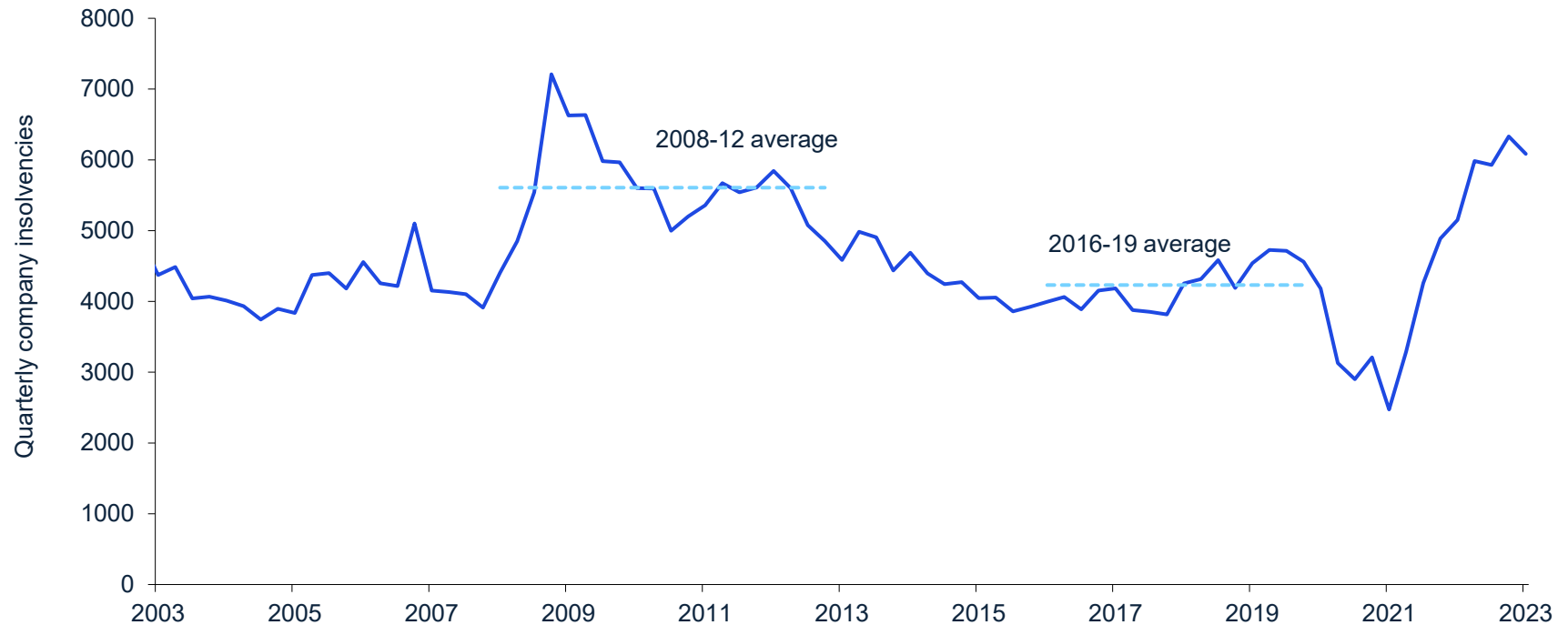


# Base interest rates are close to their peak in this cycle



➔ Source: Bank of England, BIS, KPMG analysis.

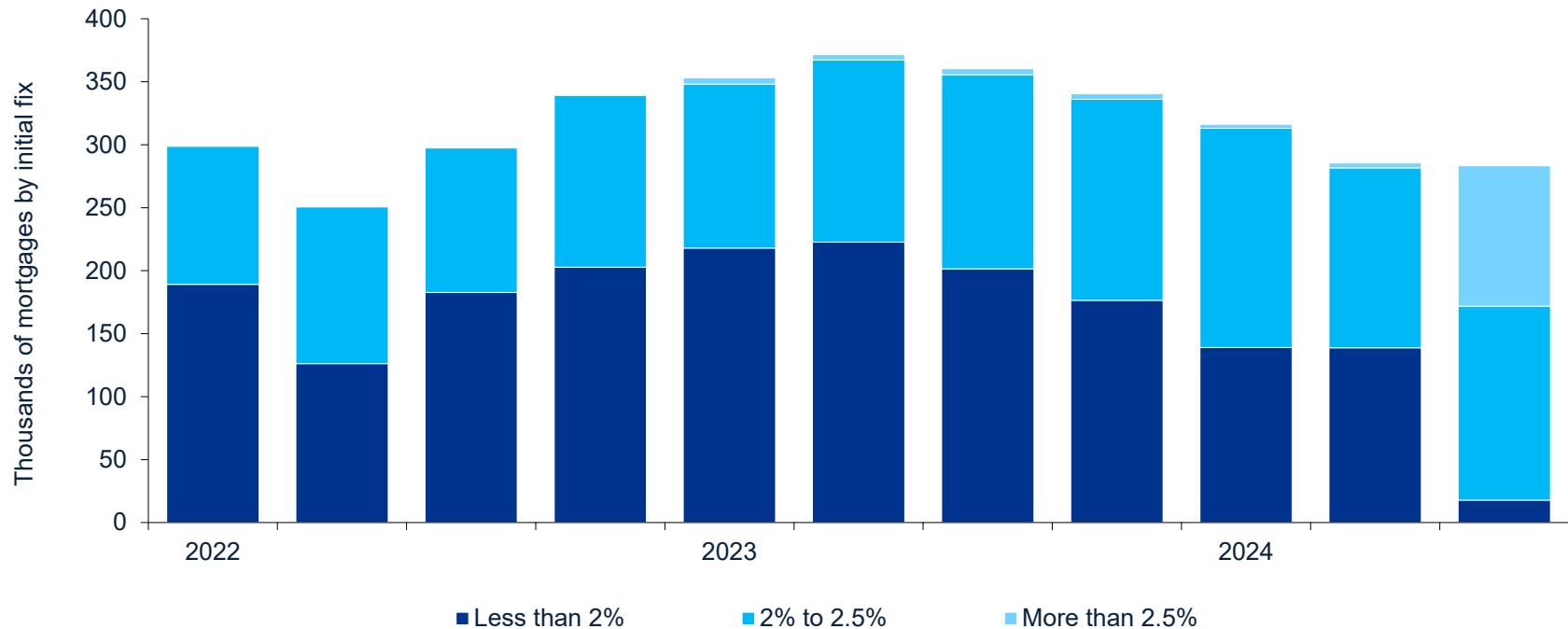
# Company insolvencies have risen above pre-pandemic averages



➔ Source: The Insolvency Service, KPMG analysis.

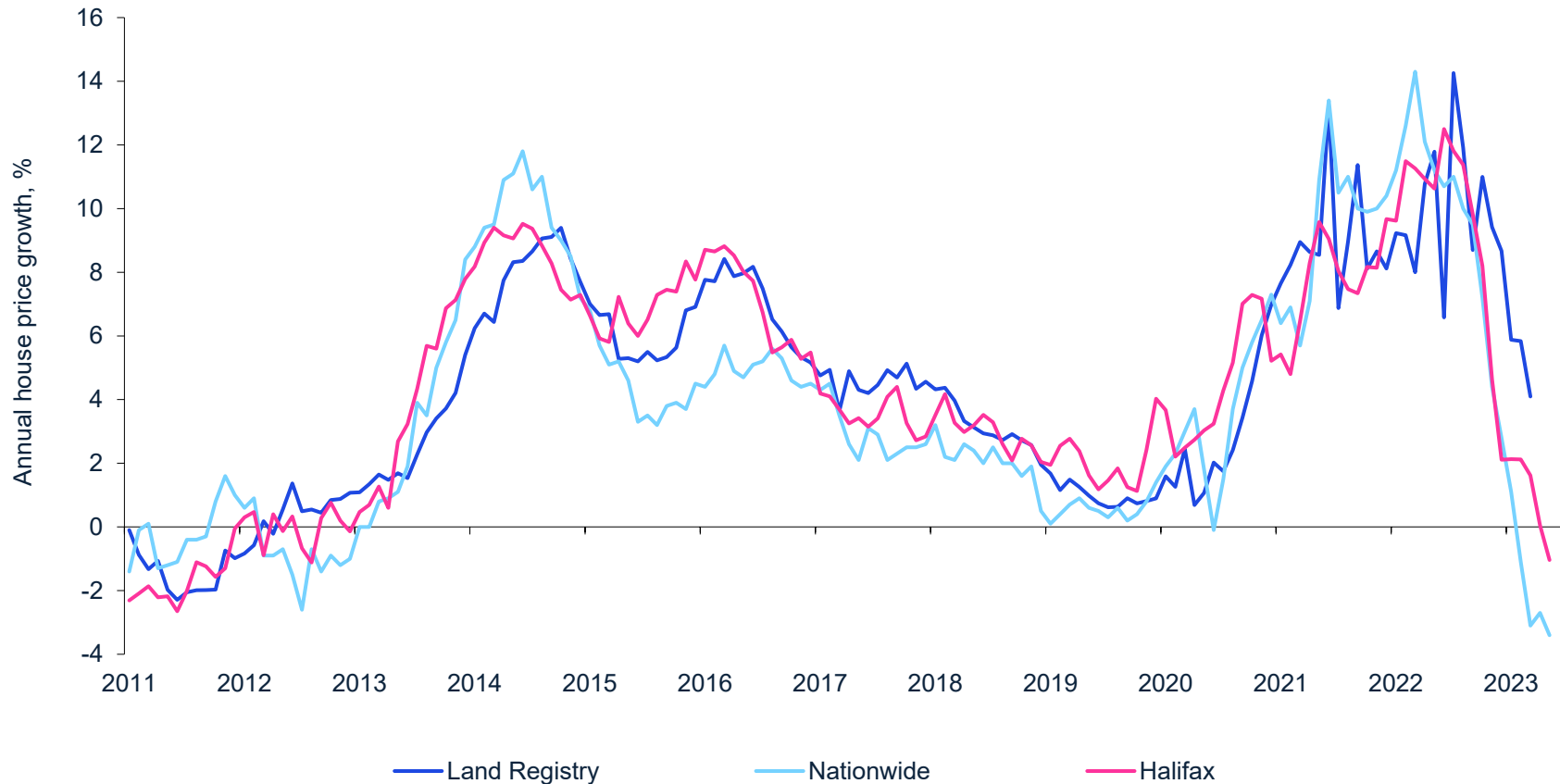
# 1.4 million households are set to reach the end of their fixed rate mortgage term during 2023

The number of mortgages reaching the end of their fixed term



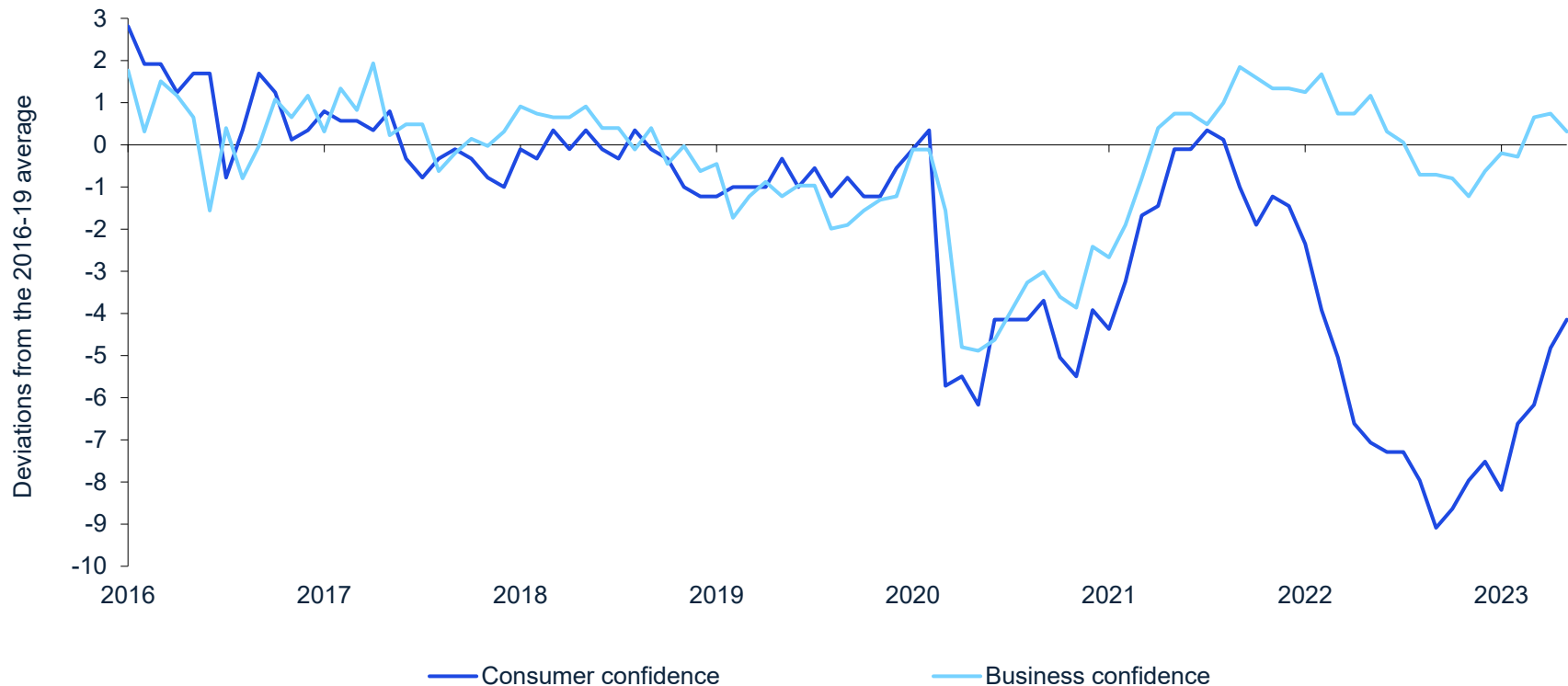
➔ Source: ONS.

# Indicators of house price growth have weakened markedly



➔ Source: HM Land Registry, Nationwide, Halifax.

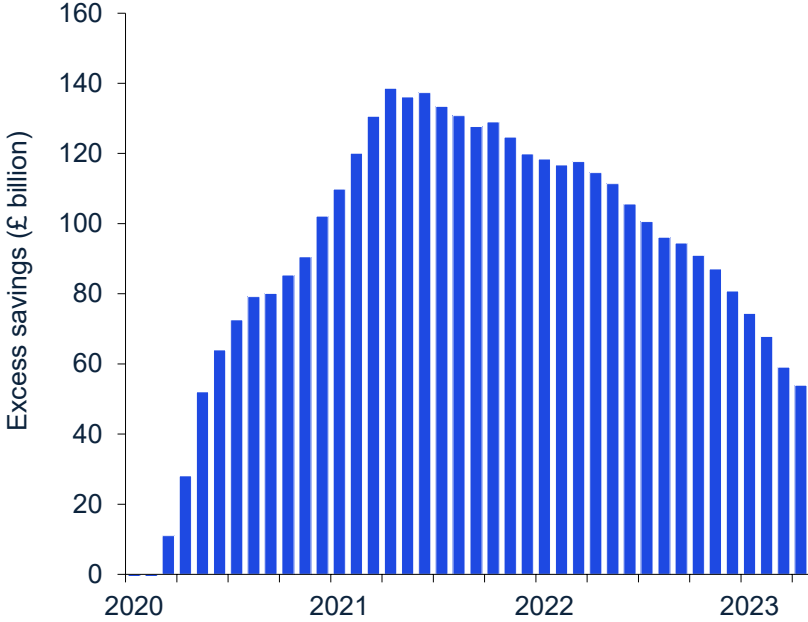
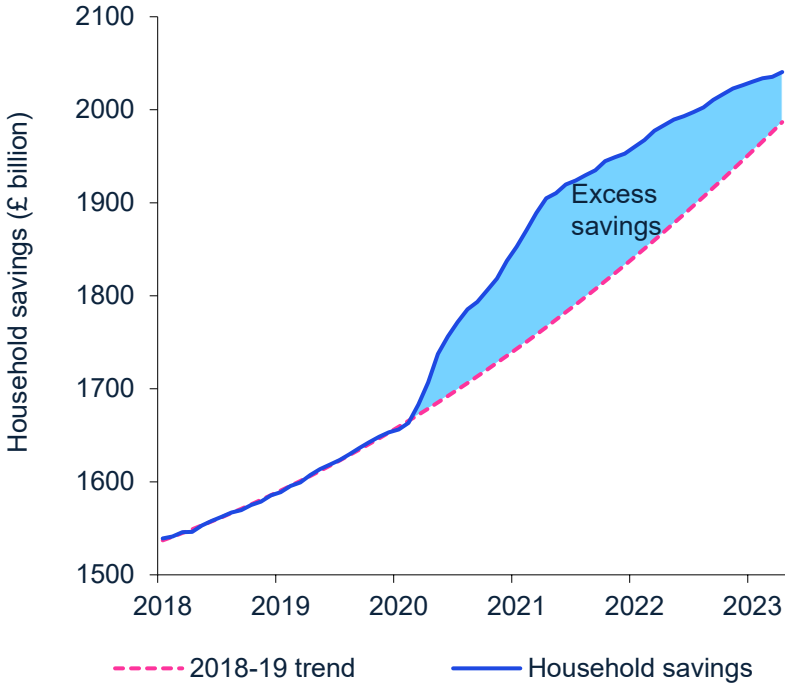
# Consumer and business confidence have been volatile



➔ Source: GfK, Lloyds Business Barometer, KPMG analysis.

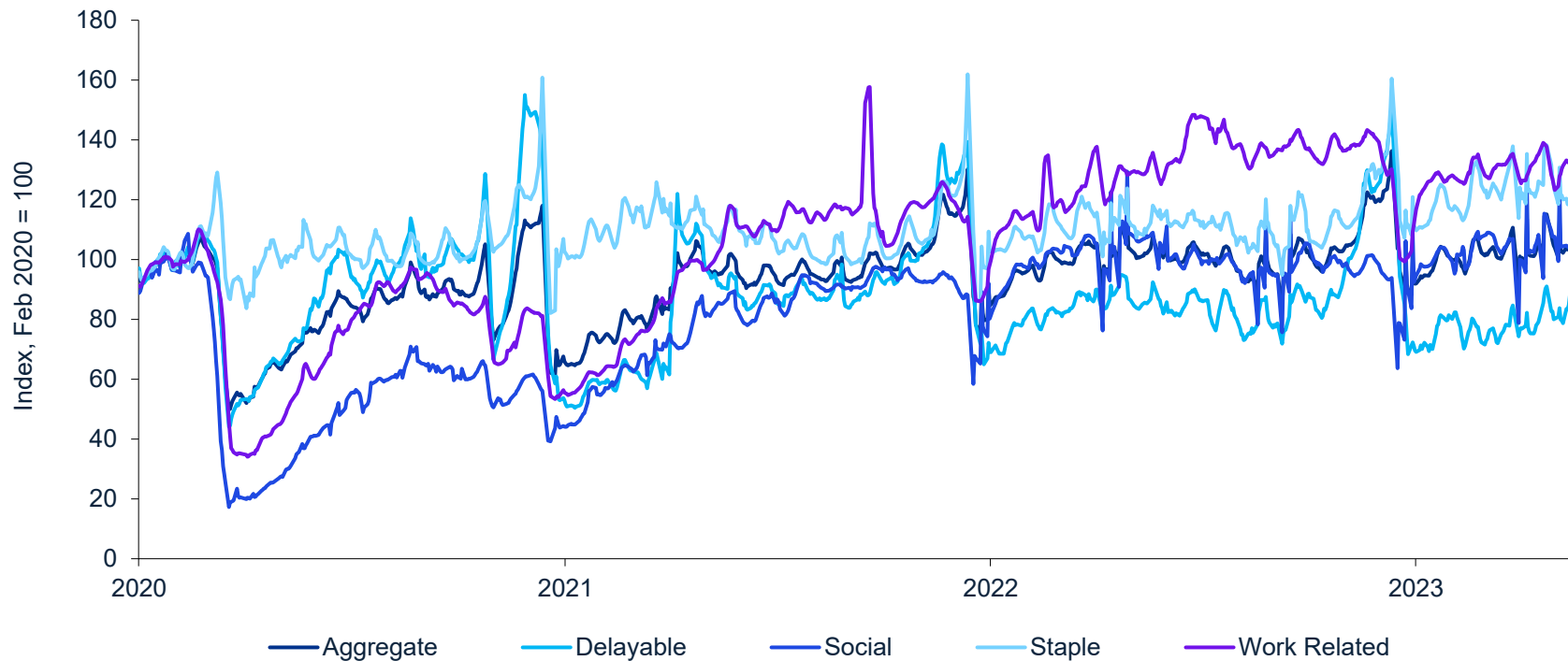


# Households have used up around 60% of their excess savings



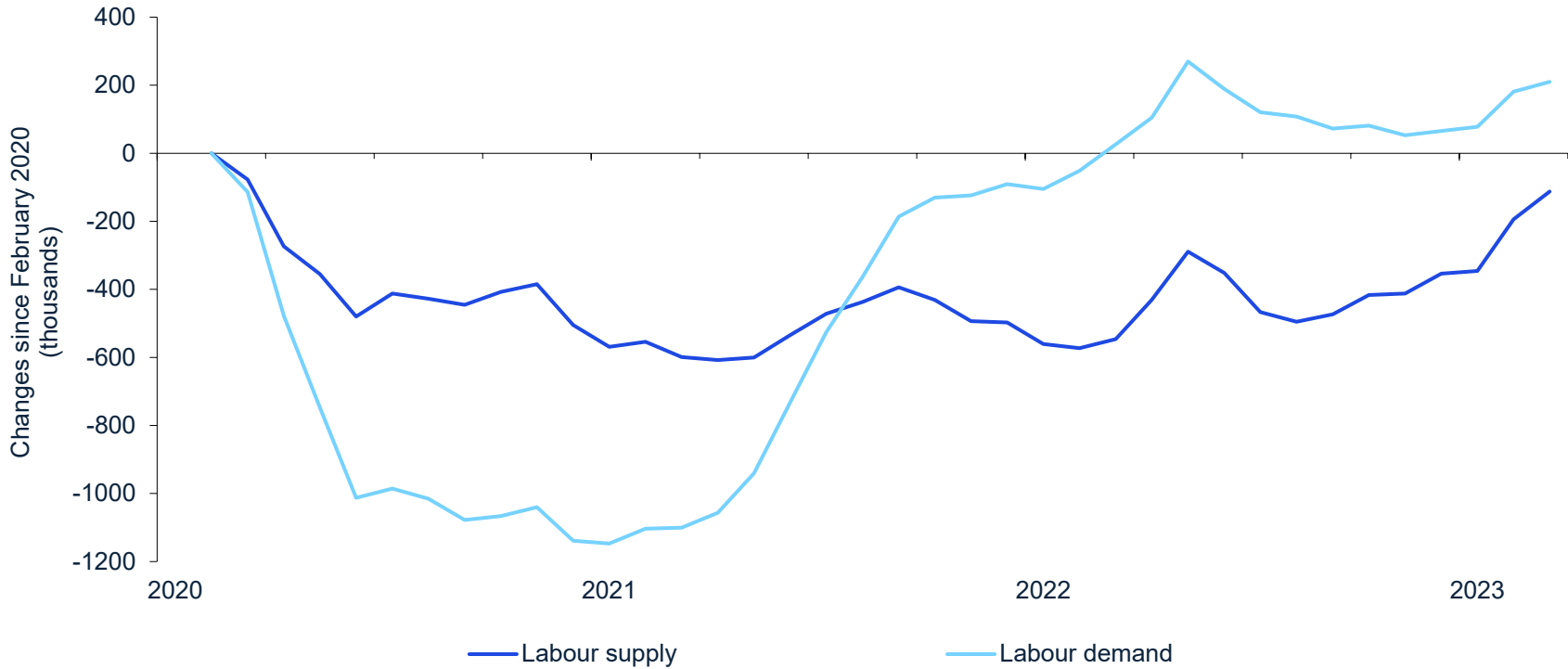
➔ Source: Bank of England, KPMG analysis.

# Credit card purchases down on delayable and up on work-related spending



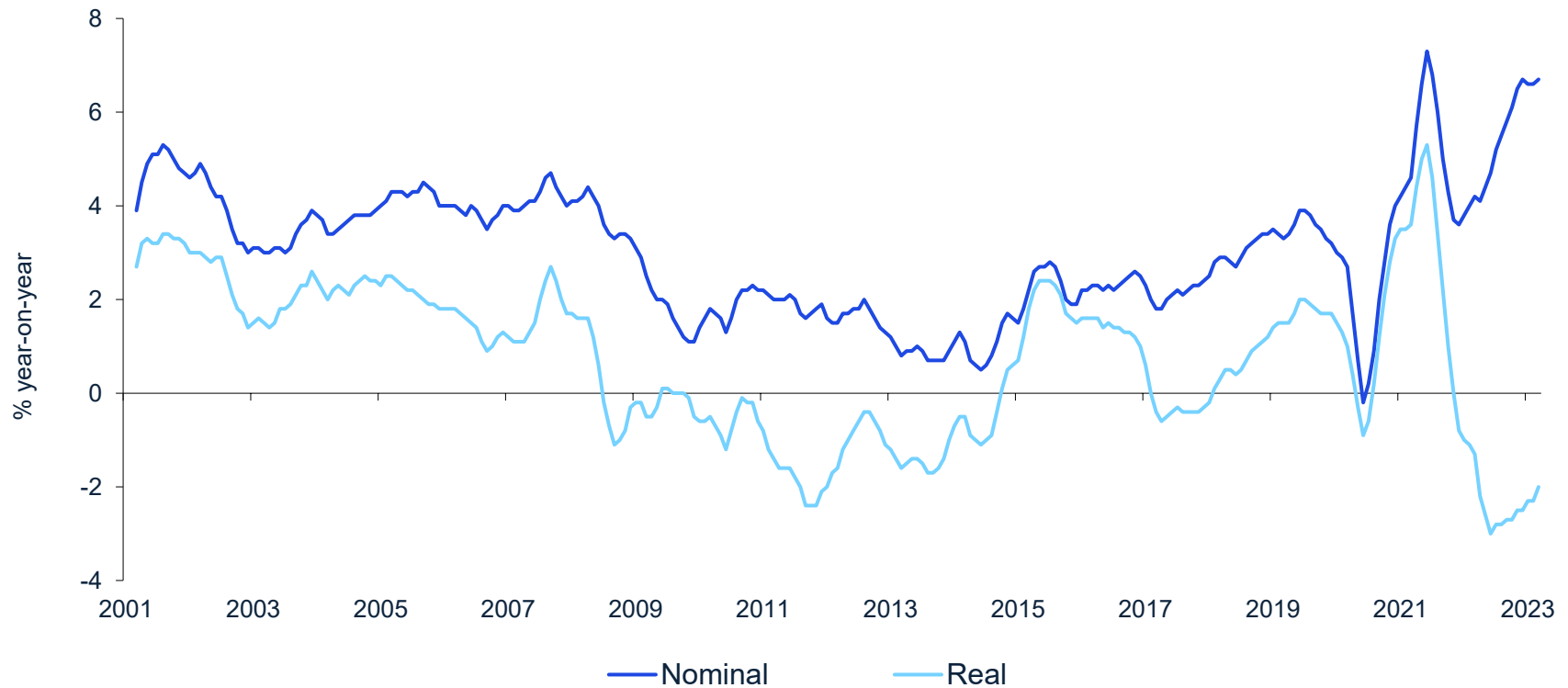
➔ Source: Bank of England's 'UK spending on credit and debit cards' experimental data series and ONS calculations.

# Labour supply has not kept up with labour demand



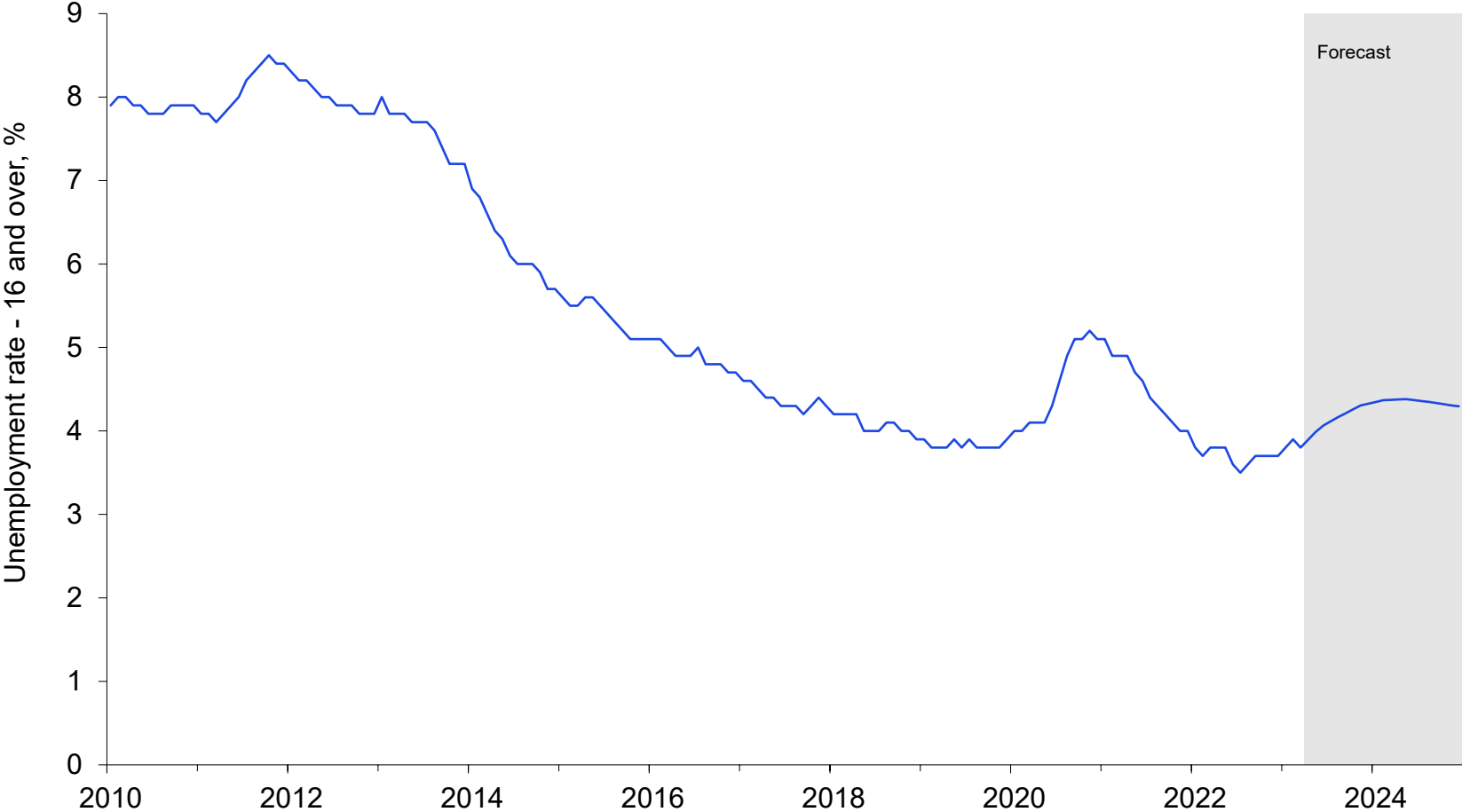
➔ Source: ONS, KPMG analysis. Supply is total workforce participation. Demand is the sum of employment and vacancies.

# Real pay growth has been negative for a while



➔ Source: ONS, KPMG analysis.

# Outlook for UK unemployment



➔ Source: ONS, KPMG projections.



# KPMG forecasts

	2021	2022	2023	2024
Real GDP	7.6	4.1	0.3	1.1
Consumer spending	6.3	5.3	0.2	0.6
Investment	6.1	8.6	1.0	0.9
Unemployment rate	4.5	3.7	4.1	4.4
Inflation	2.6	9.1	7.7	3.2
Base interest rate	0.25	3.50	5.50	5.25

➔ Source: ONS, KPMG forecasts. Average % change on previous calendar year except for unemployment rate, which is average annual rate, while interest rate represents level at the end of calendar year. Investment represents Gross Fixed Capital Formation and inflation measure used is the CPI and the unemployment measure is LFS.

**02**

# **Skills Landscape**

Claire Warnes

**03**

# **Audit and financial reporting**

**Chris Paisley**

# Areas of auditor focus



# ONS reclassification of colleges



- Colleges are now subject to the framework for financial management set out in **managing public money**, guidance on **senior pay** and other central government guidance.
- Colleges retain many of the flexibilities they previously had, for example the ability to keep and spend any surpluses.
- Day-to-day operations continue with minimal changes.
- Key areas to consider:
  - Existing debt
  - New private sector borrowing
  - Payment profiles
  - Asset disposals
  - Novel, contentious, or repercussive transactions
  - Senior pay controls
  - Additional year end information from 2024 or 2025?





# College Accounts Direction




## Key changes for 2023

- **Statement of Corporate Governance and Internal Control** must now specifically address whether policies, procedures and approval processes were updated to ensure compliance with the new MPM requirements following reclassification
- Reference has now been made in the model **Statement of Responsibilities of the Members of the Corporation** to the delegated authorities in the “Dear accounting officer” letter of 29 November 2022 and ESFA’s bite size guides
- **Statement of Regularity, Propriety and Compliance** must specifically address compliance with the expanded framework of authorities, including those elements outlined in the “Dear accounting officer” letter of 29 November 2022 and ESFA’s bite size guides.
- Clarification points have been added to the section on **‘Payments for loss of office’**
- Colleges/college groups are now required to disclose the number of severance **payments** they made by band during the period of the financial statements, as well as the individual value of any special severance payments
- New sections have been added to Annex D covering: ‘Write-offs and losses’ (Annex D, (viii)); ‘Guarantees, Letters of Comfort, and Indemnities’ (Annex D, (ix)); and ‘Compensation Payments and Ex gratia payments’ (Annex D, (x))



# Pension reminders

## Significant estimate – Valuation of Pension Assets and Liabilities

	LGPS	TPS
 <b>Liabilities</b>	High degree of estimation uncertainty regarding actuarial assumptions and valuation	Not applicable
 <b>Assets</b>	Level of estimation uncertainty depends on nature of assets held by the scheme plus rate of return on assets (Actual vs estimated); valuation of assets	Not applicable
 <b>Audit focus area</b>	Application of assumptions; recognition of surplus?  Disclosures	Cash contributions

# Pension reminders

## Preparing for audit

- Early engagement across all stakeholders – including with actuaries and Pension Fund
- Ensure relevant judgements considered
- Assumptions – reflect your entity / current market / inflation
- Consider recognition if scheme in surplus
- Disclosures – include sensitivity analysis
- Triennial valuation 31 March 2022 LGPS in England and Wales

# Changes in auditing standards



# Accounting and financial reporting update

## 01 FRED 82 – Draft amendments to FRS102

- Revenue accounting - a new Section 23, based on the IFRS 15 five-step model for revenue recognition.
- Lease accounting requirements - a new Section 20, based on the IFRS 16 on-balance sheet model.
- Proposed implementation date for periods beginning on or after 1 January 2025 – first impacting financial years ending 31 March 2026.

## 02 FRC areas of focus

- **Reporting in uncertain times**
  - Strategic Report
  - Discount rates
  - Material assumptions
  - Pension schemes
- **Cash flow statements**
- **Financial instruments**
- **Provisions and contingencies**
- **Judgements and estimates**

ACCOUNT<sup>7</sup> principles of corporate reporting:

Accurate

Connected and consistent

Complete

On-time

Unbiased

Navigable

Transparent

## 03 Climate reporting

- Existing company and listed company requirements
- ESG

# Audit and Corporate Governance reform

In May 2022, the Government released its response to the former department of Business, Energy and Industrial Strategy (BEIS) white paper on Restoring Trust in Audit and Corporate Governance.

The King's Speech will take place in Autumn 2023; if the Audit Bill is included, primary legislation for the creation the Audit Reporting Governance Authority (ARGA) will be introduced in 2024. If not included, finalisation of primary legislation will take place after the next election.

In the absence of primary legislation, the Financial Reporting Council (FRC) and the Department of Business and Trade (DBT) have progressed measures which can be implemented via Code changes or secondary legislation. See opposite for more detail.

## Ongoing and upcoming developments

### FTSE 350 entities

- The FRC released their minimum standard for Audit Committees in May 2023.
- It focuses on the Audit Committee's responsibility to oversee and appoint the statutory auditor only. Voluntary adoption anticipated for 2023 year ends. Supervision against the standard will commence once the FRC becomes ARGA.

### Premium listed entities and voluntary adopters of the UK Corporate Governance Code

- The FRC released a consultation on revisions to the UK Corporate Governance Code in May 2023.
- Includes provisions for a statement of effectiveness on the internal controls over financial reporting throughout the reporting period, as well as changes to malus and clawback provisions and references to the new resilience statement (as opposed to viability statements).
- Effective from 1 January 2025.

### 750:750 companies

- New reporting requirements will be applicable for companies with more than 750 employees and more than £750 million turnover have been drafted to be introduced within the Companies Act, covering:
  - the fraud statement
  - the resilience statement
  - the audit and assurance policy
  - new capital maintenance disclosures

### Audit firms

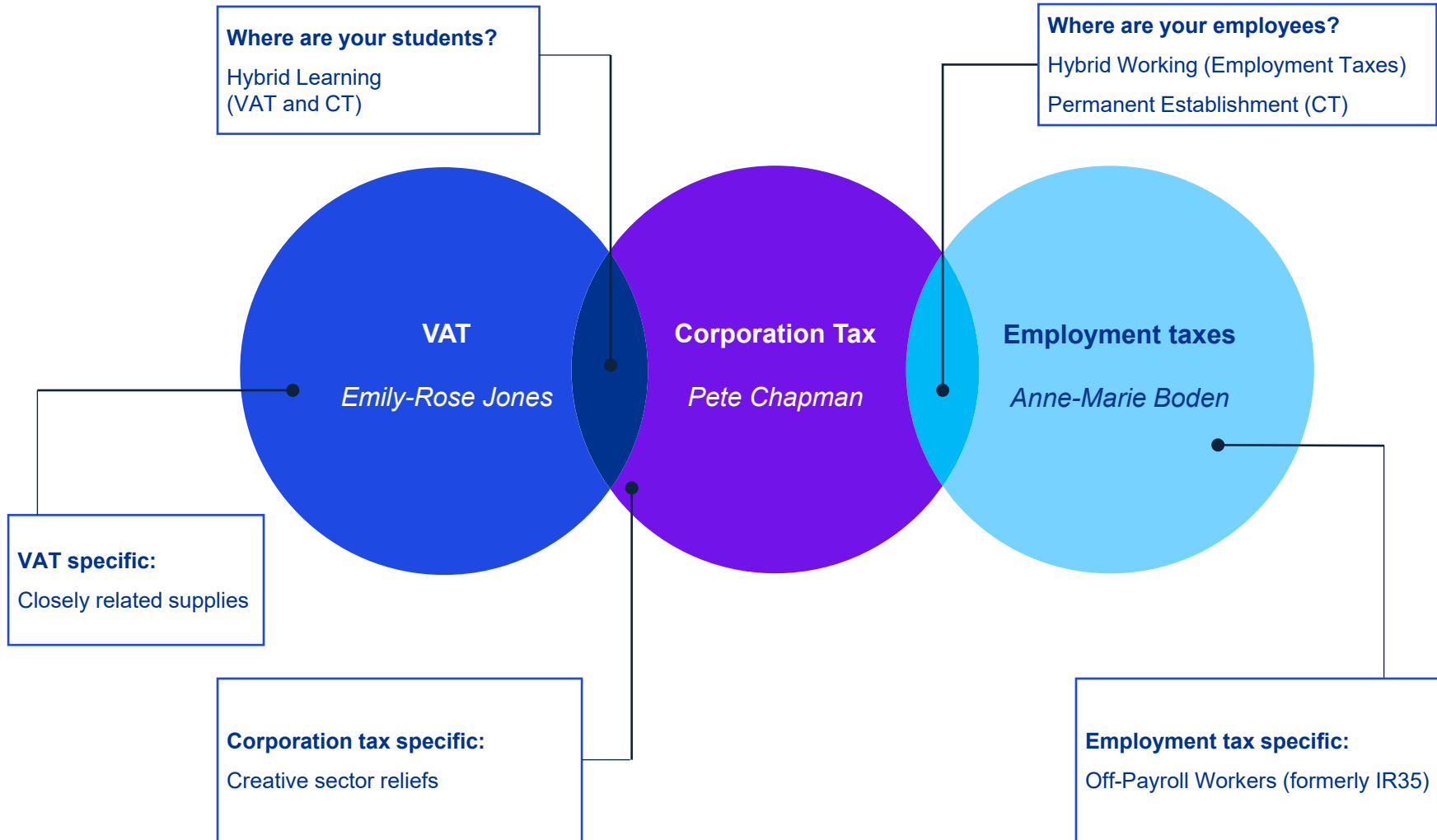
- During 2022, it became mandatory for all public interest entity (PIE) audit firms, as well as the responsible individuals (RIs), to register with the FRC before undertaking any audit work. KPMG LLP and relevant RIs have been registered.
- KPMG LLP has voluntarily implemented operational separation ahead of the 2024 deadline set by the FRC.
- The FRC will be consulting on revisions to the Ethical Standard during 2023.

**04**

# **Tax Update**

**Pete Chapman**

# Agenda





# Employment Tax Specific Issues

Anne-Marie Boden

# Off-Payroll Workers (IR35)

Since April 2017, you have been required to apply the OPW regulations when engaging workers outside of the payroll presenting challenges and complexity in the labour supply chain.

We have already seen the eye watering amounts paid/owed by government departments and agencies, around £263m due to incorrect employment status determinations.

- HMRC enforcement activity has begun in the sector with several bodies currently being reviewed

## What are the some of the key risks?

- Not identifying all relevant workers to be assessed
- Incorrectly assessing employees using HMRC's or another assessment tool
- Working practices not reflecting the contractual position used to make the assessment
- Contracts being amended or extended without being reassessed
- Basic requirements of the scheme not being maintained
- Not considering employment agencies and longer labour supply chains
- Not considering outsourced services correctly
- Not considering the employment status of other workers engaged outside of the payroll e.g. self-employed workers.



# Off-Payroll Workers (IR35) (cont.)



## What do FE's need to do?

- Review processes and controls and ensure they remain fit for purpose in light of the issues identified by HMRC in other reviews
- Increase awareness throughout the organisation to help maintain compliance
- Ensure changes from April 2021 were incorporated in current processes
- Consider wider 'Off-payroll' workforce
  - Self-employed workers
  - Bursaries, Stipends, Honoraria, etc.
  - Visiting Fellows
  - Volunteers



# Where are your employees?

Pete Chapman

Anne-Marie Boden

# Hybrid Working

## Hybrid working

- Changes in working practices have multiple tax implications that need to be considered including:
  - Travel expenses
  - Home office equipment and costs
  - National minimum wage
- FE's are reviewing the employee remuneration and benefit offerings to ensure fit for purpose and aid in employee retention and recruitment





# Corporation Tax – Permanent Establishment risk

Are your overseas staff potentially creating a permanent establishment?

## Assessing level of risk to allow overall management of risk

- Alignment with tax strategy?
- Tax risk register?
- Accounts provisioning?

## Why does a PE matter?

- Potential reporting requirements
- Potential corporate tax liability in country
- Implications can extend to wider taxes (e.g. VAT/ GST or withholding obligations for personal income tax)
- No credit relief likely to be available for taxes incurred due to the absence of a UK CT liability



# Where are your students?

Emily-Rose Jones

Pete Chapman

# Hybrid and Distance Learning update



## Platform Providers

- Who is providing what to whom?
- Clear agreement
- Partnership status



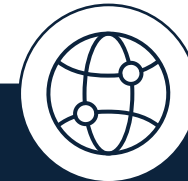
## Agency

- Who engages with the student?
- Establish value of income



## Eligible Body status

- *SAE Education* application
- Impact on profit share/viability
- Common understanding



## International Obligations

- Indirect Tax registrations (and associated admin)
- Risk of penalties for errors
- Jurisdictional changes



Hybrid and  
Distance  
Learning  
Arrangements



# Some recent jurisdictional changes

## European Union

- “**Minimal human intervention**” will be removed with effect from 2025
- Supplies of distance learning into the EU will be treated as taxable where the student is based
- Some countries don’t recognise UK universities as eligible bodies for the purposes of the education VAT exemption.

## China

- China removed the Covid exemption in 2021 and based on our discussions with the Beijing tax authorities now consider that where student access course material from China, this is within the scope of Chinese VAT.
- In addition to the VAT, there are daily penalties which accrue

## India

- India have started to expand the applicability of OIDAR (indirect tax) to any services provided online, regardless of human intervention (which previously prevented capture under OIDAR). Not signed into law yet, but bill has been approved.
- Indian tax authorities continue to raise awareness on the applicability of the Equalisation Levy – likely increase in focus on this as time goes on?

## Singapore

- Broadening of scope from “digital services” to “remote services” provided into Singapore (distinction being the level of human interaction involved).
- Tax authorities sent a letter earlier this year to a number of UK universities, suggesting the need to register.

# VAT Specific Issues

Emily-Rose Jones

# Closely Related Supplies



## “Supply” of education

- Needs to be a supply made to the student for the closely related exemption to apply
- Generally no supplies to U-19 provision



## Essential for the supply

- Is it necessary for the provision of education?
- Realistic working environment

## Closely Related Supplies



## Additional Income

- Specifically excluded if for purpose of generating additional income
- Look at pricing, opening hours



## Direct Competition

- Expectations of consumer
- Comparison with commercial entities

# Corporation Tax Specific Issues

Pete Chapman

# Creative Sector tax relief



## Museums & Galleries Exhibition Tax Relief



## Orchestra Tax Relief



## Theatre Tax Relief

01

### Core expenditure

Tax deductible expenditure on:

- Producing
- Closing

02

### Additional deduction

Additional deduction in tax computation of up **80% of core expenditure**.

03

### Tax credit

Loss-making trade can surrender deduction for tax credit at **20% 50%**.

# Pensions Update

Further Education  
Summer 2023

**isio.**



# Agenda

1. Overview of Further Education pension schemes
2. Current market conditions and broader landscape
3. Local Government Pension Scheme vs Teachers' Pension Scheme
4. Opportunities and challenges
5. Questions



Sophie Ash

Pensions Actuary and Education  
lead, Isio

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[sophie.ash@isio.com](mailto:sophie.ash@isio.com)

# Overview of pension schemes

## Academics

Teachers' Pension Scheme (TPS)

Fully defined benefit - unfunded

## Non-academics

Local Government Pension Scheme  
(LGPS)

Fully defined benefit - funded

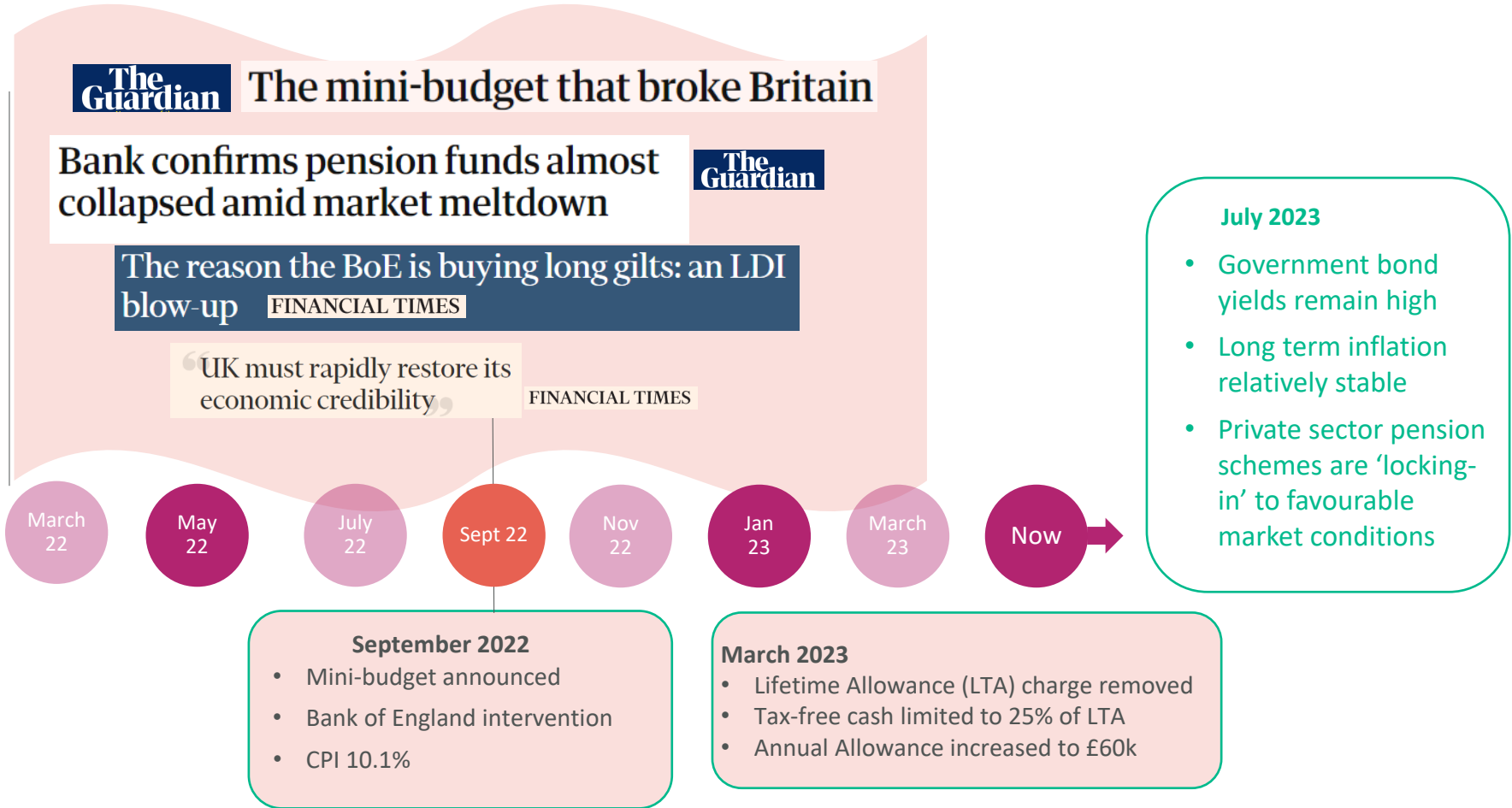
*Note: some staff may be in Defined Contribution schemes, if employed in a subsidiary*

:



# Since 31 March 2022: (date of latest LGPS (E&W) valuation date)

31 March 2022  
LGPS (E&W)  
valuation date



# Interest rates driving an increase in government bond yields



Illustration of impact on liabilities

31 March 2022

**£300m**  
liability

↓

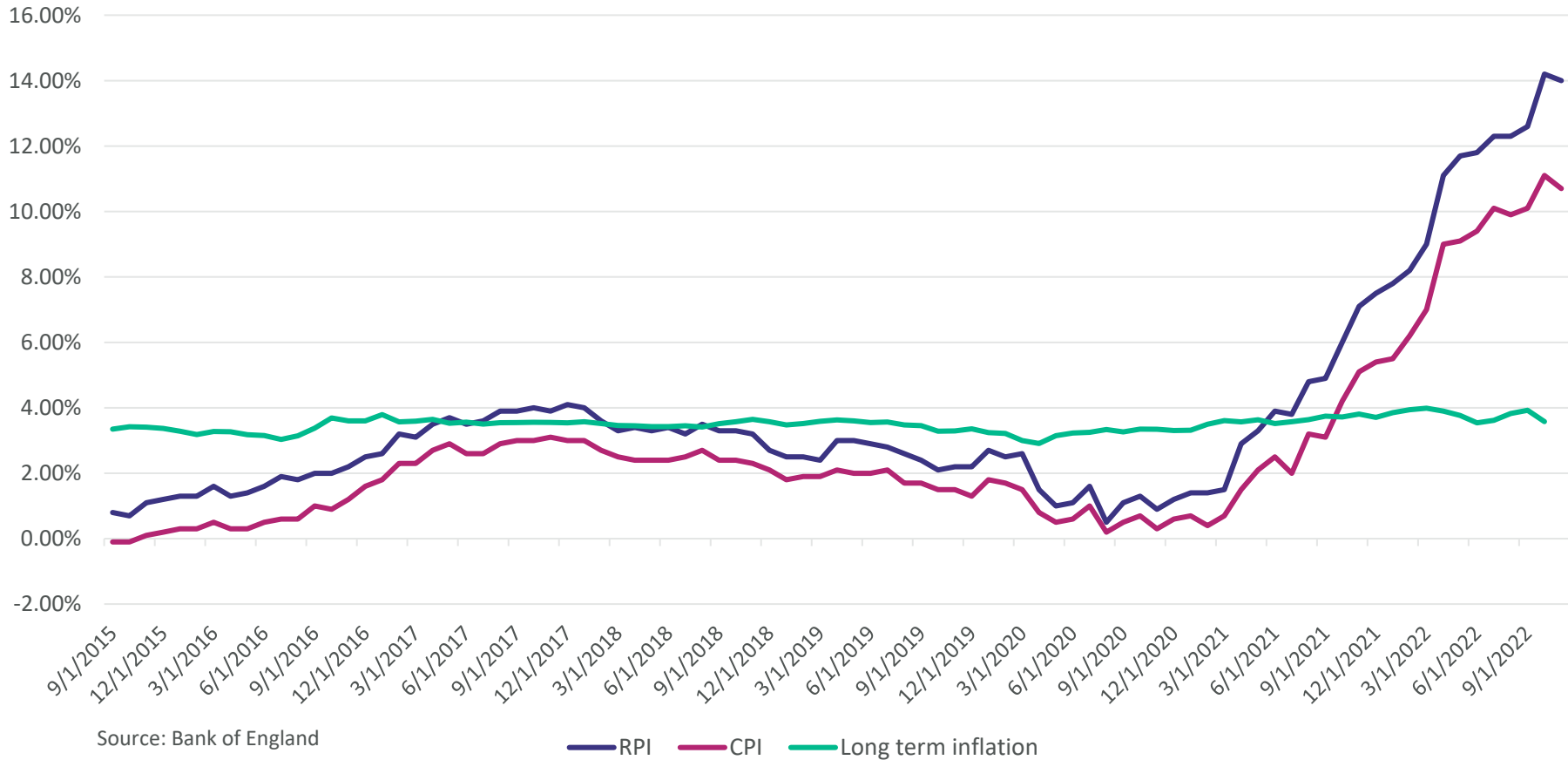
2 May 2023

**£190m**  
liability

Reduced by more than a third

*Isio analysis for a scheme with a 20 year duration*

# Inflation

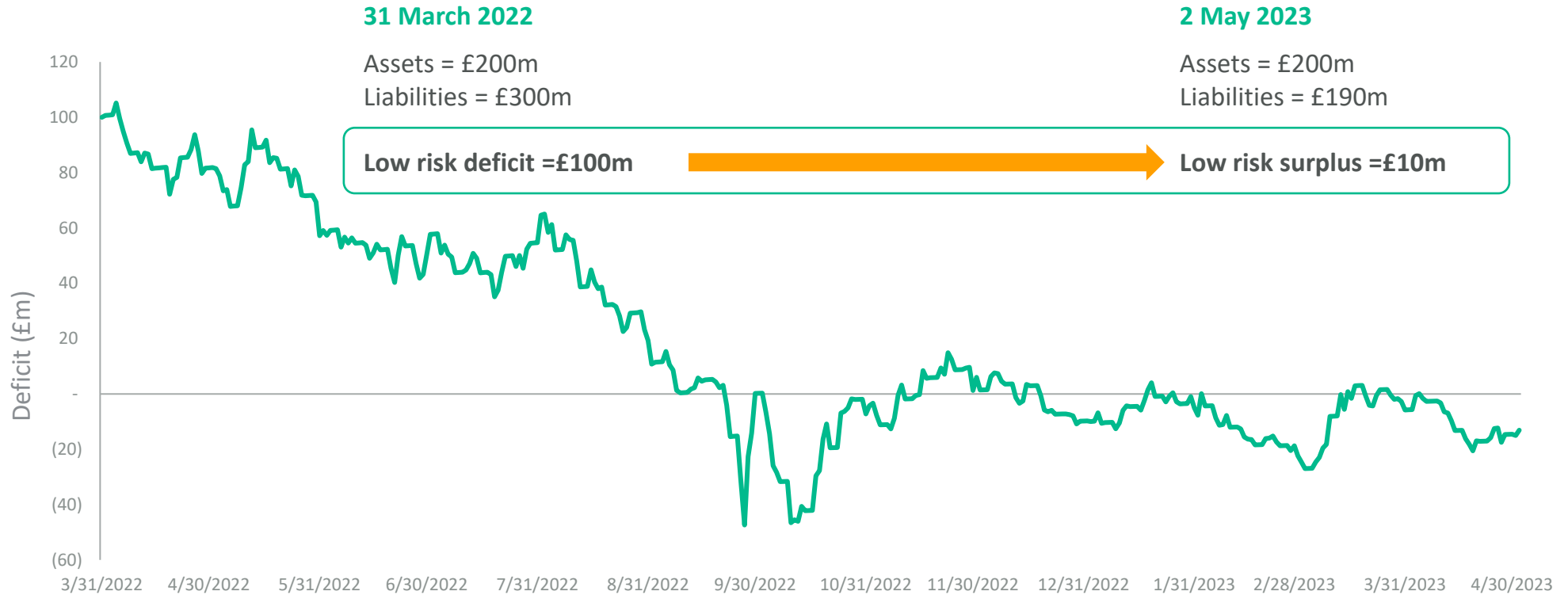


Source: Bank of England

— RPI — CPI — Long term inflation

# LGPS 'low risk' deficits are disappearing

Illustration of how the 'low risk' position on for an employer in an example LGPS fund has moved since 31 March 2022



Source: Isio analysis

Based on an illustrative LGPS employer with £200m assets invested 80% in equity, 12% bonds and 8% cash and other, on a government bond based discount rate

# Teachers' Pension Scheme – 31 March 2020 valuation

Current TPS employer rate is **23.68%**

Valuation underway as at 31 March 2020 (every 4 years)

30 March 2023 statement:

*"The government concluded that a methodology based on **long-term future GDP growth** expectations, as set by the OBR, best met the balance of objectives."*

CPI+1.7% is the new SCAPE\* rate, **reduced** from CPI + 2.4%

**...what might this mean? A rate of 5 - 7% more? close to 30%...from April 2024**

Short term: Lobbying DfE to finance the additional cost

Medium term: Explore options to mitigate impact

- proportionate participation?
- utilising subsidiaries?
- preference for sector-wide solution?

\* *SCAPE: Superannuation Contributions Adjusted for Past Experience*

# Opportunities and challenges



McCloud (TPS, LGPS)



Cost of living crisis – impact on employees and options



Financial well-being including life assurance benefits

# Employee financial well-being and communications

← Money Health Check

Your score

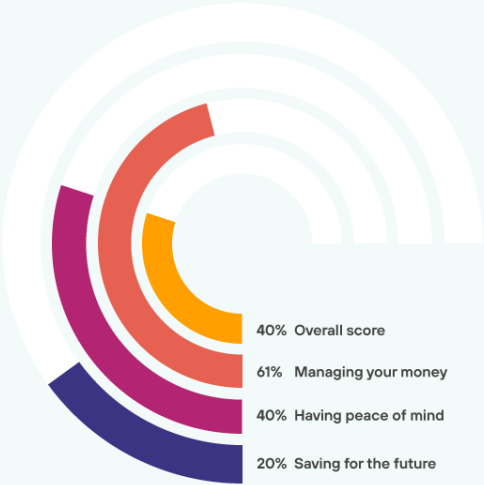
## Thank you for completing your Money Health Check

Based on your answers we have selected the following key areas for you to think about. [Download the PDF document](#) to find out more.

- Managing your money
- Life insurance
- Wills & nomination forms
- Pensions overview
- Retirement planning

← Back to the home page

### YOUR FINANCIAL WELLBEING SCORE



↓ Download your summary

# Any questions?





**06**

# **Funding Assurance**

Andrew Foley

# ESFA Funding Assurance Reviews

## Scope

- Targeting Pre R14
- Learner sampling / sizes
  - ✓ 16-19 study programmes
  - ✓ Adult Education Budget
  - ✓ Apprenticeships
  - ✓ Advanced Learner Loans
- PDSAT review

## Timing

- ILR
- Fieldwork
- Data corrections
- Reconciliation
- Deadline: 31 December 2023

## Outputs

- Final R14 ILR
- Audit Opinion
- Management Letter

## Implications

- Funding clawback / correction
- Partial/full qualifications
- Prior year testing
- Delay on the Financial Statements
- ESFA scrutiny

# Funding Assurance



**ESFA Subcontracting Standard 22-23**

- 31 July 2023



**Tailored review work**

- Mock audits / substantive
- Controls
- PDSATs



**Post-16 Code of Practice**

Link to funding assurance?



**Investigations**

scope



**Funding Assurance**

**Q&A**



# Closing remarks

Thank you



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