

Briefing: VAT and Sixth Form Colleges

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Background

Sixth Form Colleges are required to pay VAT on their purchases. Schools and academies are also required to pay VAT on their purchases, but are subsequently reimbursed for these costs. In the case of maintained schools, VAT costs are recovered through the local authority VAT refund scheme. The 2011 Finance Bill introduced Section 33b of the VAT Act 1994, which enacted a VAT refund scheme for academies (and variants including free schools).

The Sixth Form Colleges' Association believe a similar refund scheme should be introduced for the 93 designated Sixth Form Colleges in England.

The case for change

The Government's historic defence for the absence of a VAT refund scheme for Sixth Form Colleges has been that the VAT costs of Sixth Form Colleges are taken into account as part of their up-front funding allocation. But with the introduction of the new 16-19 funding formula, all 16-19 providers (including school and academy sixth forms, free schools and Sixth Form Colleges) are now funded in the same way, using the same methodology. We welcome the steps that have been taken to equalise the funding arrangements between different types of providers. Yet schools, academies and free schools continue to benefit from a mechanism to recover their VAT costs, while Sixth Form Colleges do not.

This is incompatible with the Government's commitment to end the historic unfairness in 16-19 funding. It also runs counter to the desire to introduce competition amongst 16-19 providers in order to drive up standards, as for this to happen, providers must be able to compete on a level playing field. Part of the rationale for introducing the VAT refund scheme for academies was to ensure that institutions leaving local authority control (to become academies) were not put at a financial disadvantage. But if we accept the principle that providers funded by the Department of Education should not be put at a financial disadvantage because of their VAT treatment, this principle must apply to Sixth Form Colleges.

Sixth Form Colleges are increasingly competing for students with newly created or converted 16-19 academies and free schools. For example, London Academy of Excellence in Newham is a brand new free school sixth form. It is two miles away from Newham Sixth Form College (NewVic). Both are providers of sixth form education and both receive their funding from the Department for Education via the Education Funding Agency. But one institution can recover its VAT costs while the other cannot.

In a recent letter to one of our Sixth Form Colleges from HM Treasury, they were told that *"many providers of public services are expected to cover their VAT costs from their funding allocations – this is not unique to Sixth Form Colleges"*. But Sixth Form Colleges are in the business of providing free education to 16-19 year olds. Other providers of free education to 16-19 year olds are reimbursed for

their VAT costs, while Sixth Form Colleges are not - this is a fundamental inequality. It also distorts competition in the increasingly crowded education market that Sixth Form Colleges inhabit.

Our 2014 Funding Impact Survey identified that the average Sixth Form College pays £334,944 per year in VAT – around 4% of average turnover. Under the current arrangements, this money is redirected away from the front line education of students to pay VAT, in a way that it is not in schools and academies. It would cost around £31million each year to refund the VAT costs of Sixth Form Colleges. This is a fraction of the funding the sector has lost as result of cuts imposed over the past four years. In 2011, entitlement funding (used to provide tutorials, enrichment activities, additional courses etc.) was reduced from 114 hours per year to 30 hours. Sixth Form Colleges experienced, on average, a 10% reduction in their programme funding as a result. The new 16-19 funding formula introduced in September 2013 saw the average Sixth Form College lose 6% of its funding, and the recent reduction in funding for 18 year olds will leave Sixth Form Colleges, on average, a further 1.2% worse off. These averages mask the plight of some Sixth Form Colleges that will have lost a third of their funding by the end of this parliament. The choice of subjects and support available to students has already diminished and is beginning to impede the ability of Sixth Form Colleges to support their students to progress to higher education or employment.

As 16-19 specialists, Sixth Form Colleges cannot cross subsidise from more generous pre-16 funding streams (as many schools and academies do) or from significant adult and employer-based funding (as Further Education colleges do). Sixth Form Colleges are entrepreneurial - increasing numbers are delivering higher education courses for example - but suffer disproportionately from reductions to 16-19 funding. This means that the inequality in relation to VAT is felt particularly acutely by Sixth Form Colleges. We do not believe that there would be significant repercussive effects to providing a VAT refund scheme for Sixth Form Colleges. Unlike the rest of the Further Education sector, Sixth Form Colleges are sponsored by the Department for Education rather than the Department for Business, Innovation and Skills. In a range of ways (including accountability and intervention measures, and access to improvement support) Sixth Form Colleges are treated differently to the rest of the FE sector. They have distinct Governance arrangements and a distinct legal identity by virtue of being 'designated' through the Apprenticeships, Skills, Children and Learning Act of 2009.

Making the change

It is important to understand that Sixth Form Colleges, as evidenced by the National Audit Office in 2011 and London Economics in 2014, are extremely lean and efficient institutions. They have a good track record of making a small amount of funding go a long way. The return on the investment in a VAT refund scheme for Sixth Form Colleges would therefore be considerable. As we noted earlier, funding would be redirected to invest in the frontline education of students. While 68% of Sixth Form Colleges have had to drop courses as a result of the funding cuts, a VAT refund could help to rescue strategically important but less popular courses such as modern foreign languages and further maths. It would also free up funds to enable exactly the sort of partnership activities (sponsoring academies, becoming a teaching school, leading clusters of schools without a sixth form) that the Government is keen for Sixth Form Colleges to pursue. The Sixth Form Colleges' Association would be happy to work with the sector to evidence the return on investment made in a VAT refund scheme on an annual basis.

Introducing a VAT refund scheme for Sixth Form Colleges would be a significant step towards levelling the playing field in 16-19 education. It would ensure the market in 16-19 education worked more effectively and would result in a significant return on the investment made by Government. Most importantly, it would improve outcomes for learners and help to unleash the potential of Sixth Form Colleges (the most effective and efficient providers of 16-19 education) to act as leaders of excellence in the education system.