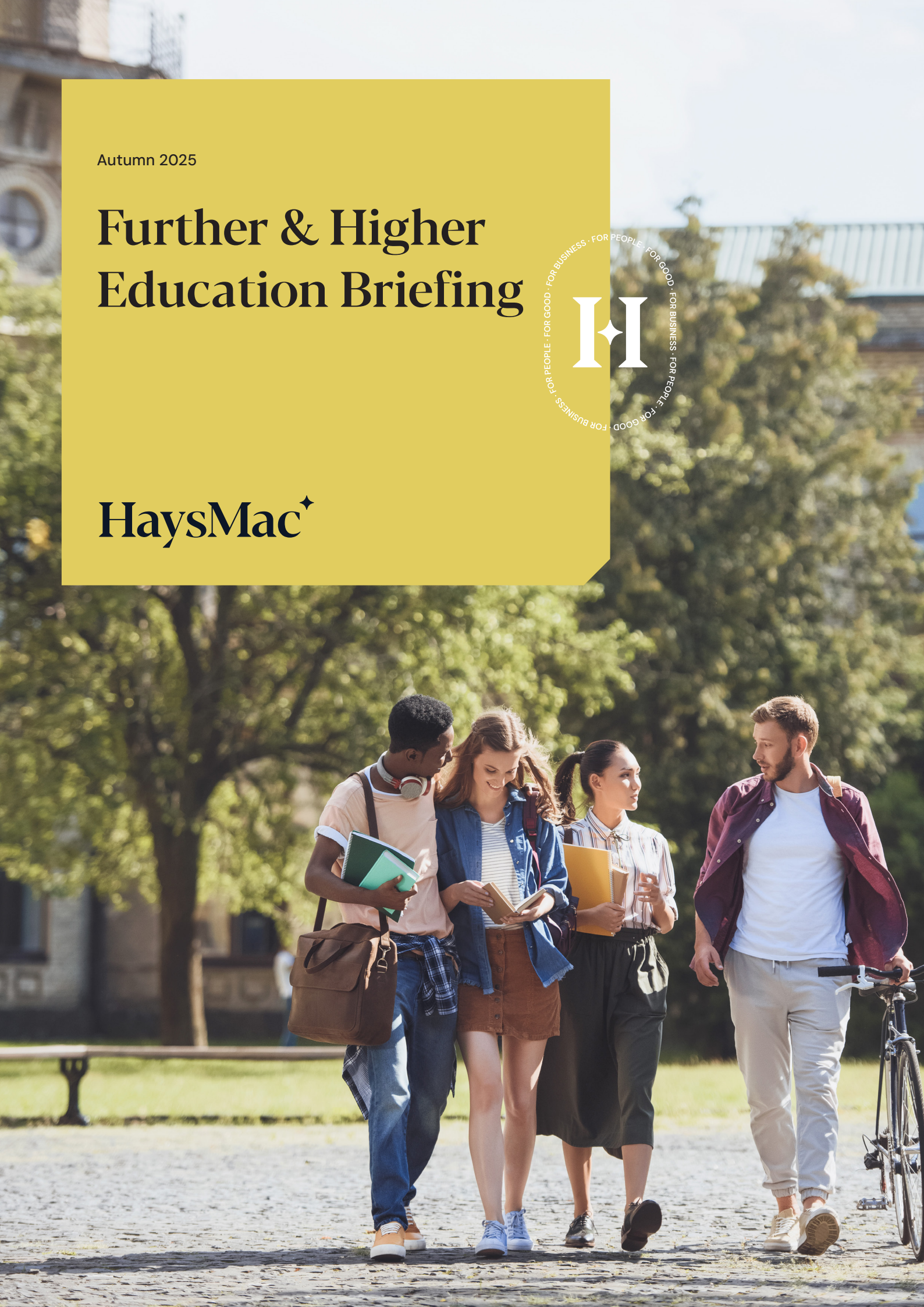


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Further & Higher Education Briefing



HaysMac[★]



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Welcome from the editor



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I am delighted to present our second Further & Higher Education briefing.

As the sector continues to operate in a period of significant financial and structural challenge, institutions must navigate a complex environment shaped by tighter public funding, demographic shifts, inflationary pressures, and increasing regulatory scrutiny.

Across Higher Education, the impact of tuition fees having been frozen for a number of years coupled with rising pension and staff costs, is placing considerable pressure on and squeezing operating margins. Equally, Further Education providers face their own set of challenges, including uncertain funding settlements and growing demand for skills, aligned with regional and national priorities. Our briefing touches on various key sector wide issues financial challenges shaping the landscape.

To begin, guest authors Laura Soley, Partner and Alice Faure Walker, Senior Counsel, from Bates Wells consider unlocking restricted and endowment funds explaining the differences between permanent endowment and restricted income funds, the common challenges institutions face when restrictions are outdated or misunderstood, and the legal mechanisms available under charity law to review, update, or release these restrictions.

In my first article, I examine the findings of the Gillies Report, highlighting how weaknesses in leadership culture, financial oversight, and institutional transparency contributed to the University's challenges. This recent report emphasises the need for robust governance, financial resilience, transparency, and a culture that supports accountability and challenge for sector leaders.

Dougie Todd, VAT Partner, considers the Colchester Institute Corporation v HMRC case, which questions whether Education and Skills Funding Agency grants should be treated as payment for a supply. Dougie urges institutions to stay alert and review their current VAT treatment.

Going concern within financial reporting is a critical topic for audits, especially within the current financial climate. My second article explores how the going concern assumption extends beyond a mere reporting requirement to serve as a fundamental stewardship responsibility.

Universities face rising costs and funding pressures, making understanding the true cost of courses, research, and operations vital. Richard Weaver, Partner, shows how detailed cost analysis enables smarter strategic decisions, ensures financial sustainability, and strengthens governance.

In our next article, Tom Beswick, Manager, considers good governance which has been an especially hot topic in the Further Education space amid recent media attention and sector developments, sharing an insight into the importance of independent structures and transparent processes.

Sharing her perspective on the changing landscape of university applications, Emma Gabe, Senior Manager, reviews the record rise in UK and international university applications in 2025, despite higher tuition fees and living costs.

Finally, we hear from Alice Palmer, Senior Manager, who explores Theatre Tax Relief, and provides key updates, including permanent rate increases and the new Additional Information Form, explaining how organisations can maximise relief.

We hope you enjoy this briefing, mix of topics and find them useful to your institution. If anything sparks your interest, or you'd like to explore any of the issues further, please feel free to reach out to me directly, the article author, or your usual HaysMac contact.

Unlocking restricted and endowment funds

A glance at the balance sheet of a charitable educational institution invariably shows a list of restricted or endowment funds. These funds can't be freely spent for the institution's purposes. Our experience is that the restrictions are often misunderstood, making it difficult to spend the funds in practice. And they can be **frustrating at a time when finances are tight**.

The good news is that charity law affords some flexibility to release restricted and endowment funds, so that the institution can make better use of them. We are seeing an increase in inquiries from educational charities wishing to review and potentially lift restrictions on their funds.

What exactly are restricted and endowment funds?

The most common are:

- ◆ **Permanent endowment funds:** held on the basis that the underlying capital must be invested and only the income generated can be used for the purposes of the fund.
- ◆ **Restricted income funds:** here the whole of the fund can be spent, but must be used for particular purposes.

Often both restrictions apply. So an institution might hold a permanent endowment fund with power to spend the income (but not the capital), but only for a scholarship or prize.

Difficulties arise where the purposes of the fund are out of date or, if it is permanent endowment, where the income return is too low to achieve the purposes. The institution may be struggling financially, and would benefit from wider access to the fund.

How can the restrictions be released?

We are often asked to review the terms of restricted and endowment funds and to advise on whether the restrictions can be lifted.

Reviewing the funds

The first step is always to carry out an exercise to understand the terms on which the funds are held. This can be more difficult than it sounds. The paperwork is often patchy and difficult to find – especially where the fund has been around for a long time.

This is an important step as we often find that the restrictions have been misunderstood or even that some funds are not in fact restricted

at all. It's surprisingly common for restricted and endowment funds to be misdescribed in a charity's accounts. And this can be an easy win – sometimes a fund which has been treated as restricted for many years may in fact be unrestricted or the purposes may be wider than had been thought.

Often the initial review is the only step that's needed; once the institution has a better understanding of its restricted and endowment funds it's in a far better place to make the most of them. Otherwise, the initial review lays the essential groundwork for identifying which Charities Act powers apply to assist with restructuring the funds, and how they might be changed.



Exploring the scope to change the purposes

The next step is for the institution to think about whether the purposes of its funds are still suitable and effective. They may be out of date – or even obsolete. For instance, they might be dedicated to a field of study that is no longer provided. Or they might represent the surplus on a capital building project that's been completed.

If that's the case, there's scope to update the purposes and make them more flexible. Occasionally, the terms of the fund may include a power for the institution – which is technically "trustee" of the fund – to change its terms itself without involving the Charity Commission. If not, there is a really useful statutory power in s280A of the Charities Act 2011 to change the purposes of a restricted fund with Charity Commission consent. The institution, as trustee, must be satisfied that the change is "expedient in the interests of the fund". This will usually be easy to demonstrate where the purposes of the fund are clearly out of date.

The institution must decide on new, more suitable, purposes. The Charity Commission will need to consent – and stakeholders may need to be consulted. The institution will need to demonstrate to the Charity Commission why the change is in the interests of the fund and that the new purposes are suitable and effective in current economic circumstances, among other things. The Commission will expect the new purposes to be similar to the old ones, but only in so far as is reasonably possible.

The power – in its current form – was introduced into the Charities Act 2011 in March 2024 – and replaced a similar power which previously only applied to smaller funds. We are already seeing a range of charities use it to update and modernise their restricted funds including schools and Universities.

Exploring the scope to release permanent endowment funds

Permanent endowment funds can be a great source of income for an educational institution. The capital is tied up in perpetuity – designed to grow and produce an income which can be used for the purposes of the fund. But the restrictions can be frustrating, especially where the income level is too small to be useful, or the institution needs more funding.

There's good news here too. There are statutory powers for the institution – as trustee of its permanent endowment funds – to access the capital in a variety of different ways.

These powers include:

- ◆ Where the institution as trustee is of the view that the purposes of the fund would be better served if the capital, as well as the income, could be spent, it can resolve to release the restrictions so that the whole fund can be spent for its purposes. Where the fund is worth more than £25,000, they will need Charity Commission consent.
- ◆ There's a relatively new power to borrow up to 25% of the permanent endowment fund – provided there's a plan in place for repayment within 20 years.

There are also powers to invest permanent endowment on a "total return" basis. Where the total return approach to investment is adopted, it is possible to access both capital growth and income for spending, rather than just income, subject to the complying with conditions set out in the legislation. And permanent endowment can now be invested in "social investments" designed to achieve the fund's purposes as well as achieve a financial return – that may also be a useful way of making more use of the endowment.

The powers are subject to various conditions, so need to be explored on a case-by-case basis, but we've seen them used to great effect to free up endowment funds. They are often used side by side with the power to change the purposes of the fund described above.

And finally

Once the institution has reviewed the funds and identified what powers it has, it can consider taking steps to make any appropriate changes, making sure that they seek the Charity Commission's consent where it's needed.

The statutory powers are designed to reduce red tape and free up funds. Our experience is that they can do just that, and in doing so give a significant boost to a charity's finances.



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Lessons from the Gillies Report into the University of Dundee

In June 2025, the Scottish Funding Council (SFC) published the Gillies Report, investigating financial oversight, decision making and governance of the University of Dundee.

While external sector pressures played a role, the report concluded the failings were weak financial management, deficient governance, lack of transparency and a leadership culture that discouraged challenge.

This article explores key lessons and recommendations relevant for the HE and FE sectors.

Key findings and recommendations

While the Gillies Report itself runs to a detailed 64 page analysis, the University of Dundee's formal response outlines five thematic areas: (i) Financial Reporting & Financial Management; (ii) Governance & Oversight; (iii) Culture & Leadership; (iv) Listening to the University Community; and (v) Commitment.

Financial reporting and financial management

The first key finding of the report found that the University had failed to act on a timely basis when international student recruitment fell sharply. Despite this decline in student numbers and impact on income, the University did not make significant cost reductions, notably around staff costs.

Banking covenants were not monitored in real time, and financial reporting lacked robust forecasting, scenario planning, stress testing or integrated modelling of cashflow, income and expenditure and the balance sheet.

Recommendations included active consideration and challenge of the management accounts by the executive, with the need for an integrated income & expenditure, cashflow and balance sheet. The report also highlighted the need for transparent cash reporting and cash management, control of capital projects which is not separated from the rest of the University's financial reporting and transparent treasury management.

Further, where there are obvious sensitivities (e.g. around international student recruitment) there should be regular updates to the Finance Committee.

Governance and oversight

The governing body and committees did not consistently receive timely, full, or accurate papers; there were “inconsistencies and gaps” in information flows. Delegated decisions were sometimes taken outside formal oversight structures; executive committees operated informally when full governance should have applied.

There were also issues with the risk register and strategic oversight processes, and points arising were not escalated. For example, the risk register increased the risk of the inability to meet budgeted student growth to ‘red’ based on the international visa changes. Such a move should then trigger further analysis, i.e. early-warning signs should be escalated with a plan for appropriate further action to be taken.

The report made recommendations in relation to the conduct of meetings – for example, emphasising that papers must be provided in good time for executive, governors or committee members to read them in advance and that they should never be provided retrospectively.

Culture and leadership

The report identified a top-down and hierarchical style of leadership, with a lack of transparency and clarity of financial data. This, according to the report, led to a culture in which challenge was actively discouraged.

Therefore, recommendations included the need to develop a values-led University culture, which prioritises transparency and accountability. The report notes that such a culture “is likely to actively support evidence-based collaborative decision making, integrity and openness to challenge and debate”, showing the fundamental link between culture and the points noted above around financial management.

Culture and leadership, in turn, links very strongly to the need to listen to the University community. In its own response, the University of Dundee committed to improving its engagement with its internal community including:

- ◆ Conducting regular ‘town hall’ events, surveys and listening exercises for staff and students; providing feedback on how their input shapes decision making.
- ◆ Embedding values and behavioural standards into people systems such as appraisals and recruitment.

Commitment and embedding change

The scale of issues at the University of Dundee meant that structural, operational and cultural reforms were needed, not just short term fixes. In its own response, the institution emphasised the need for short, medium and long term action. Its own action plan included:

- ◆ Developing detailed action plans with timescales, accountabilities, monitoring and reporting of progress.
- ◆ Updating institutional standing orders, internal control frameworks and continuously monitor compliance.
- ◆ Building a new culture of governance and financial competence, transparency, accountability, and stakeholder confidence.

Learning points for Finance Directors and their institutions

While the Dundee case is a specific instance, the lessons are broadly applicable across both the Higher Education and Further Education sectors. Below is my view on the key take aways:

- ◆ **Financial resilience requires early warning systems**

The failure at the University of Dundee was not simply down to external shocks, but to a failure to respond to early indicators (e.g., sharp drop in international student numbers in 2023/24). Finance teams should ensure models include scenario analysis (e.g. best case/worst case), integrate recruitment/demand assumptions, cost pressures, and that stress testing of the cashflow and balance sheet is a standard part of financial reporting.

- ◆ **Management accounts are core governance tools**

Monthly management accounts with commentary, variances, full year forecasts and cash flow projections must be standard. It is important that reporting is integrated between the income and expenditure, balance sheet and cash flow. Governing bodies must be furnished with meaningful data and have the capacity to interrogate it.

- ◆ **The governing body must be financially literate and empowered**

Lay governors must be equipped to challenge financial assumptions, ask the right questions, and understand balance sheet implications. Training and induction are essential. Delegation frameworks must be clear and adhered to.

- ◆ **Governance is about behaviour and culture – not just structure**
Strong financial controls and governance frameworks mean little if culture discourages dissent or risk is masked by optimistic narratives. Both executive teams and governing bodies must ensure transparency, open debate, challenge culture, and ensure that warnings are escalated, not ignored.

- ◆ **Distinguish between capital windfalls and recurrent income**
One of the critical findings at University of Dundee was that a strategic windfall from the sale of shares was used to support day to day operations, thereby masking structural deficits. Finance reporting should be clear about non recurring funds with a focus on the sustainability of the recurring operating model.

- ◆ **Ensure timely escalation of covenant breaches and cash flow concerns**
The breach of banking covenants at University of Dundee should have triggered. Institutions must have protocols for early alerting of covenant risk, liquidity shortfalls and stress indicators, and ensure the governing body is informed.

- ◆ **Cost control remains fundamental**
University of Dundee's staff costs rose despite falling income, meaning costs and income were not aligned. Executive teams and governing bodies should keep a close eye on key ratios and ensure cost controls (recruitment freeze, expense controls, procurement discipline) are ready to be used.

- ◆ **Embed scenario planning, business case discipline & capital governance**

Any major investment, including academic programmes and capital works, should be subject to a business case assessing downside risks, alignment to strategy, impact on cost base, and exit scenarios.

- ◆ **People and stakeholder engagement matter for financial sustainability**

The human dimension (staff, student, union engagement) can impact both institution culture and external confidence (e.g., with funders/regulators). There should be appropriate feedback loops in place including both financial and non-financial stakeholders.

- ◆ **Action plans must have transparency, accountability and monitoring**

It is not enough to identify issues. Plans must be clear, time bound, owned by senior leads, and progress must be regularly reported to governance bodies.

- ◆ **Recognise the broader sector context**

While many institutions face common headwinds (funding, recruitment, inflation), the Gillies Report emphasises that how an institution responds internally will determine the outcome. Executives and governing bodies should maintain sector horizon scanning but focus on their institution's specific operating model and vulnerabilities and responses to sector challenges.

Recommendations

In light of the Gillies Report, institutions should consider the following:

1. Commission a short "health check" of your financial governance ecosystem
2. Build a dashboard of early warning indicators
3. Embed and test governance processes
4. Strengthen cost discipline and ensure there is clarity on key capital investment and one-off lines, including both one-off income and expenditure
5. Promote a culture of openness, challenge and accountability

The Gillies Report is a stark reminder that even well established universities are vulnerable to financial failure if governance, leadership, reporting and culture are not aligned with the realities of their operating environment. For sector leaders, the key takeaway is that governance, financial management and institutional culture must be proactive, rigorous and continuously monitored, especially in a sector facing increasing complexity, volatility and cost pressures.



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The Colchester Institute Corporation (CIC) v HMRC case

The Colchester Institute Corporation (CIC) v HMRC case continues to rumble on – considering the VAT treatment of government-funded education in the UK. The Upper Tribunal’s decision at the end of 2024, means that the issue of whether funding from the Education and Skills Funding Agency (ESFA) constitutes consideration for a supply, and thus falls within the scope of VAT, **will now be considered by the Court of Appeal.**

Under UK VAT law, education provided by eligible bodies is generally exempt. However, the exemption applies only to supplies made in return for consideration. Where funding is deemed a subsidy – not linked to a specific supply – it falls outside the scope of VAT.

Historically, ESFA funding for further education colleges has been treated as non-business income, outside the scope of VAT. This treatment allowed colleges to avoid charging VAT on education provided by them, while also limiting their ability to recover input VAT on related costs.

CIC believed that ESFA funding was a business activity and constituted VAT exempt consideration for a supply of education. This was upheld by the Upper Tribunal in 2020. As a result, no deemed output tax was due in respect of CIC’s non-business use of education buildings, whilst some input tax recovered in the course of construction of those buildings should be repaid to HMRC.

In a case concerning the amount of VAT to be adjusted, the First Tier Tribunal referred back to the original decision in 2020 that the funding constituted exempt consideration for supplies. Given this, there could be no deemed output tax charge but with a corresponding input tax repayment due to HMRC.

In 2020, the Upper Tribunal examined whether the ESFA funding had a “direct and immediate link” to the supply of education. Drawing on EU VAT principles it concluded that funding was linked to the provision of education services. The funding was calculated based on student numbers and course delivery, suggesting a transactional relationship.

The tribunal’s analysis hinged on several technical VAT principles:

- ◆ For VAT purposes, a supply must be made in return for consideration: The tribunal found that ESFA funding was not a general subsidy but was conditional on CIC delivering education to specific students. This created a direct link between funding and supply.
- ◆ The tribunal rejected the notion that ESFA-funded education was a non-business activity: it held that CIC was engaged in an economic activity – providing education in return for funding – and therefore operating within the scope of VAT.



The tribunal's reasoning has significant implications for colleges and other further education institutions:

- ◆ If ESFA funding is considered consideration for a supply, colleges should treat such income as exempt.
- ◆ Institutions that incorrectly treat ESFA funding as taxable may face output VAT liabilities. Those treating it as outside the scope may lose input VAT recovery rights.
- ◆ The case highlights the importance of consistent VAT treatment. Colleges must ensure that their VAT accounting correctly treats supplies as exempt, taxable, or non-business.

Following the 2020 decision, HMRC issued Revenue and Customs Brief 8 (2021), stating that it would not enforce the tribunal's interpretation until further litigation clarified the issue.

The 2024 Upper Tribunal case did not consider any of these points. Very unusually, HMRC asked the Tribunal to dismiss its appeal but allow leave for it to appeal this dismissal to the Court of Appeal. This is as HMRC accept the rationale that if the funding is exempt consideration for taxable, business activities, the VAT payments and repayments are a natural consequence of that ruling.

However, HMRC clearly still consider the 2020 Upper Tribunal decision was wrongly decided. They want the opportunity to argue this in front of the Court of Appeal. Accordingly, five or six years after the original decision, we are still waiting on final confirmation as to whether ESFA funding constitutes consideration for a supply.

In light of the legal uncertainty, further and higher education providers should consider the following actions:

- ◆ Institutions should assess whether their current VAT treatment of ESFA and other public funding aligns with legal principles and tribunal findings.
- ◆ Colleges may need to revisit their partial exemption methods and input VAT recovery calculations, especially if funding is reclassified as exempt income.
- ◆ The outcome of the Court of Appeal hearing could prompt HMRC to revise its guidance. Institutions should be ready to adapt their VAT accounting and reporting systems accordingly.
- ◆ Collaboration with sector associations and VAT advisors can help institutions stay informed and influence policy development.

The Colchester Institute case has exposed a critical fault line in the VAT treatment of education funding. Further education providers must remain vigilant, technically informed, and prepared to respond to evolving legal interpretations that could reshape their financial and operational landscape.



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Going concern within financial reporting

The concept of going concern is a critical one within financial reporting. Whilst most often considered as a financial reporting obligation, the importance of going concern is much wider. It is fundamentally a stewardship obligation to ensure the Institution is resilient and sustainable.



Within the Higher Education (HE) sector, this has been a prominent issue in recent years. The combined impact of funding pressures, changes in student demographics, competition for research income, pension liabilities, and the evolving regulatory landscape all contribute to risk and uncertainty. Whilst concerns have been more prominent within HE, going concern is similarly relevant for Further Education (FE) colleges who face many similar challenges.

The going concern assumption means that an institution will continue in operational existence for the foreseeable future — typically at least 12 months from the date of approval of the financial statements — and has neither the intention nor the necessity to liquidate or significantly curtail operations. For FE colleges and HE Institutions, this is not a mere formality; it requires a robust, documented assessment supported by credible evidence.

Responsibilities

The Board (i.e. the Corporation/ Governing Body) is ultimately responsible for approving the financial statements, which includes the use of the going concern assumption. This means that whilst the day-to-day preparation of the financial statements will be prepared by the executive, the Board need to understand the basis of the going concern assumption, and challenge underlying assumptions. To do so, they require a properly documented going concern assessment which they can understand and challenge. This challenge should be clearly documented within the meeting minutes.

The timing of the review is critical. This cannot be a simple tick box exercise at the sign off meeting, but it is something which should be considered at the relevant Committee meetings in the lead up to accounts sign off. Where there are particular challenges which may impact on the going concern sign off, such as issues around bank covenant compliance, this requires early engagement from both management and the Board to put in place mitigating actions.

Key factors to consider

Key areas for the Board to address include:

Financial forecasting and budgets

- ◆ Forecasts incorporating realistic income, cost, and cash flow assumptions. For groups, each group entity should be considered separately with the complexity of the forecasts proportionate to the complexity and risk of the entity.
- ◆ Sensitivity analysis — particularly around student recruitment, tuition fee income, grant funding, and cost inflation.
- ◆ Understanding pension liabilities and other long term obligations — i.e. understanding the timing and effect of actuarial reviews and potential increases in funding obligations.
- ◆ Considering key plans such as capital projects.
- ◆ Downside scenarios and stress testing.

Liquidity and funding

- ◆ Adequacy of cash reserves and available facilities.
- ◆ Renewal dates of overdrafts or loans.
- ◆ Covenant compliance and headroom. It is critical that this is something which is monitored regularly through the year and that lenders are engaged early where there is a forecast breach.
- ◆ Intercompany debt and recoverability.

External environment

- ◆ Policy changes from the Department for Education (DfE), Office for Students (OfS), Medr or devolved authorities.
- ◆ Sector trends — demographic shifts, competition, apprenticeship uptake.

Regulatory engagement

- ◆ Early communication with the relevant regulator (i.e. DfE, OfS, Medr) if financial pressures emerge.

Contingency planning

- ◆ Identifying mitigations for adverse scenarios (e.g., expenditure reduction, asset sales).
- ◆ Assessing practicality and timelines for implementing such actions.

Impact on the financial statements

- ◆ The disclosure in the financial statements should be tailored to the specific circumstances of an institution.
- ◆ Any material uncertainties are transparently disclosed in the financial statements, in compliance with FRS 102 and relevant sector guidance.

Boards should ensure that the going concern paper has an appropriate level of detail. The paper should also be timely and aligned with the reporting cycle – i.e. there should be sufficient scope for scrutiny before the proposed approval of the financial statements.

Whilst considering whether the Institution is a going concern, Boards also need to consider whether there is a material uncertainty. A material uncertainty refers to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. Identification of a material uncertainty doesn't say that the Institution isn't a going concern, but it suggests significant doubt. Where there are significant doubts, this requires disclosure within the report and accounts with the mitigations and why the Board consider that the situation is manageable.

The external auditor's perspective

Auditor's responsibilities

Under ISA (UK) 570 Going Concern, auditors must:

- ◆ Obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis.
- ◆ Conclude whether a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.
- ◆ Report appropriately in the auditor's report.

Audit procedures in the FE/HE context

It's impossible to give a one sized fits all approach to the audit of going concern, and this applies across the FE and HE sectors. Before completing work over going concern, an auditor will determine their risk assessment. In my experience, risk assessments across the sectors continue to vary significantly depending on the financial position and outlook of a particular institution. However, as a guide, key elements auditors will typically examine:

- ◆ **Forecasts and cash flow models:** reviewing accuracy of prior forecasts as a reliability check.
- ◆ **Understanding the specific risks of the sector and Institution:** it is important that the approach is properly tailored. For example, within Higher Education the exposure to international student numbers has been a key factor recently.

- ◆ **Assumption testing:** challenging student number forecasts, grant commitments, and major expenditure assumptions. This will also include understanding key sensitivities used (e.g. if student numbers decrease by X%, what is the impact on the Institution).
- ◆ **Loan covenants:** assessing compliance and covenant testing dates post-year end.
- ◆ **Post-balance sheet events:** Identifying significant events that could affect the going concern assessment.
- ◆ **Internal evidence of key considerations:** in addition to the budgets and cash flow forecasts, this will include meeting minutes and strategic plans.
- ◆ **Third-party evidence:** for example, signed loan agreements, correspondence from regulators, funding letters, or correspondence with lenders.
- ◆ **Review of the disclosure:** auditors will check that the use of the going concern assumption has been appropriately disclosed within the financial statements. Across the sectors, disclosure in this area has typically improved in recent years and is now much more tailored to the specific circumstances of the Institution. This is a positive trend for financial reporting which we expect to continue.

Material uncertainty and disclosure

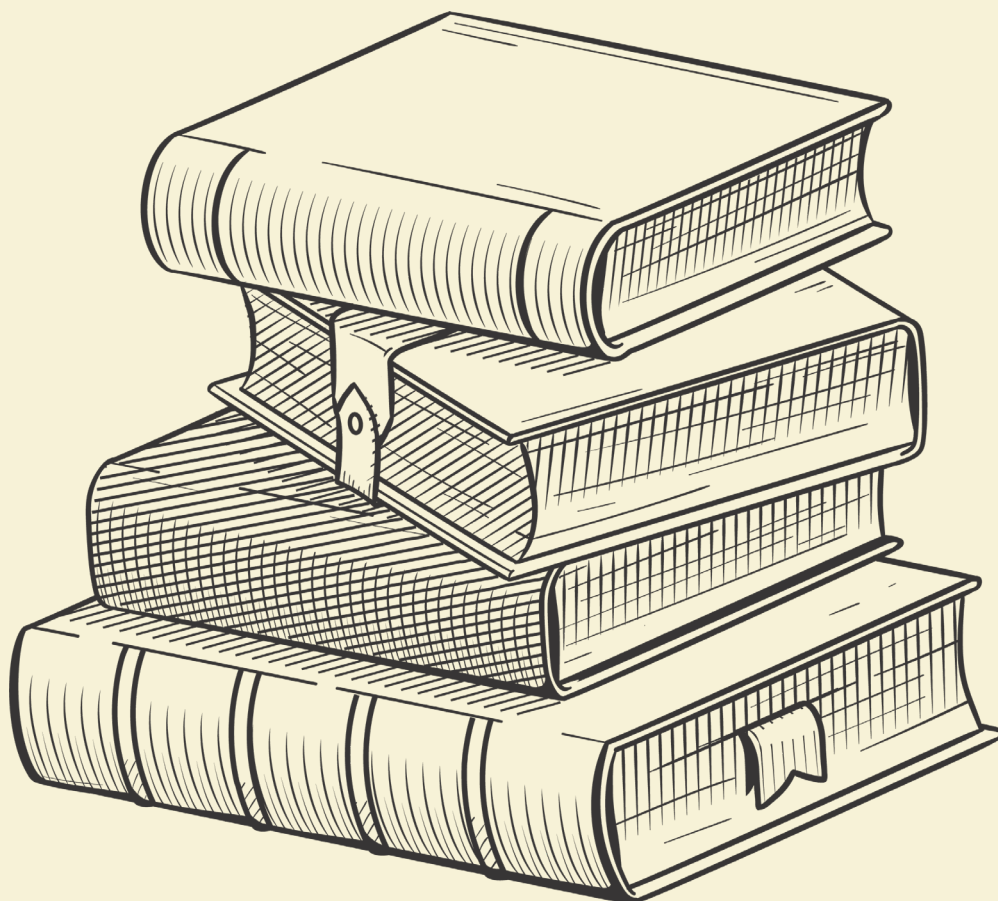
As noted above, Boards also need to consider if there is a material uncertainty. Auditors also need to assess whether a material uncertainty exists. If it does, auditors need to ensure it is adequately disclosed in the financial statements and consider the impact on their report (e.g., inclusion of a “material uncertainty related to going concern” paragraph which makes reference to the Institution’s own disclosure within the accounting policy note).

Conclusion

When making the going concern assumption, Boards must balance optimism about future plans with a realistic assessment of the financial landscape and the key assumptions made. It is critical that the initial assessment is scrutinised by the Board, and that the Board has sufficient information to do so. External auditors can then provide independent scrutiny of this assessment, challenging key assumptions and disclosures.



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University financial stability – Do you understand your cost base?

The recent uplift in university fees was a long awaited and helpful move for many universities in addressing the financial challenges that many are facing. It was a shame that at the same time the increases in National Insurance and the rising cost of pension provisions more than wiped out that uplift, and so the challenges still remain, and arguably are even more acute. A [recent study](#) suggests that the **tuition income only covers two thirds of the true cost of delivery.**

National statistics appear to suggest a recent increase in the return of foreign students to UK universities where fees are higher, and this too will help, but is there a more fundamental review of the university's costs base that is needed to fully understand the intricacies of the financial model, not just for the universities themselves but also the Government? In particular, what aspects of its operations make a contribution and what level of indirect costs do those contributions need to absorb on an annual basis to be financially stable?

Understanding your university's cost base and its implication for decision making and broader financial management are vital functions which your finance departments should be identifying, and then preparing in a format so that Executive teams can make conscious decisions about future priorities and longer term strategies.

The Executive team, reporting through to the Governing bodies are ultimately responsible for the financial control of a university and they need appropriate, accurate and reliable financial information on which to make decisions about the university's financial health, strategy and direction. Properly understanding a university's cost base and reacting appropriately is therefore a vital component of sound financial governance.

Distinguishing direct and indirect costs

The first question to ask is what is the university's cost base? This will be made up of two components, direct cost and indirect costs.

- i. **Direct costs** – these are the costs of delivery, principally academic staff costs, research project costs, specialist facility costs and consumables for course delivery.
- ii. **Indirect costs** – these are the costs of operating the university that you must cover every year from the contribution from operations/courses/research or other income generating activities. These will include estates maintenance, student services, admin functions, IT and infrastructure costs.



Most are happy with the concept that commercial organisations ensure that the selling price of their goods includes a contribution towards IT, HR, finance and other overhead costs, the quantum of which will vary depending on how, and how many, products or services are delivered. The same should hold true for any University, although it is constrained by a fixed income cap for undergraduate courses. So with this constraint, there is a second fundamental question – how much does each course cost to run and what level of contribution do you make from each course that contributes to core cost recovery?

Impact for management reporting

Access to this level of detail may be time consuming at first, but it will give invaluable information on:

1. The true cost of running each course, programme or research project
2. The number of graduates needed to break even
3. The contribution a course makes to indirect costs

Only then can you decide whether it is more economic to run the course, scale the course (to increase it to maximise contribution, or scale back to protect margin) or decide that the course is actually a drain on resource which could be applied to greater benefit elsewhere in the university. That drain could be staff costs, space utilisation or the draw on other functions in the university.

This is a very commercially led approach to delivery, but recent news reports show that an inability to maintain financial sustainability has much wider consequences throughout a university. The other elephant in the room is banking arrangements.

As part of any financial plan, the university will have to operate within the constraints of its funding, and where universities operate banking or other lending facilities, ensuring that the university operates within any lending covenants will need to be monitored throughout the life cycle of the lending period. Management reporting, both performance to date and projected outturn and future budgets, should always include a section providing the calculations to show compliance against lending covenants so the Executive and university governance can monitor the financial performance regularly and have the foresight to take strategic decisions to ensure the university continues to meet the covenants.

Non-course fee income

The majority of a university's utilisation of its assets is during term time so it is not unusual for the assets to 'sweat' out of term time for other educational provision, hires and lets or summer activities.

These is often vital additional revenue sources for educational bodies, but the same principles apply in terms of understanding the true costs of 'hosting' or 'servicing' such additional income generating activities. Management information should 'absorb' the costs of providing access to the facilities and supporting the events as it does with course activity.

Research has been a key area for many universities. Being able to budget accurately for the direct costs can be challenging enough in a market where costs are rising rapidly, but how much contribution do you include in your applications to cover indirect costs? This should be discussed with the finance teams before applying for funding and discussed/agreed at Executive. Research, like other forms of income, will draw on indirect costs and possibly more so than course delivery so the funding bid should absorb a fair proportion of those indirect costs like any other income generating activity.

Building your budget

Every year the university will need to go through a planning and budgeting process. That is, they need to agree a high level strategic focus and from this formulate a series of annual plans and annual budgets.

While formulating the budget certain questions must be asked around overheads:

- ◆ **What is the level of indirect costs to direct costs?** Knowing what the overhead costs are, involves understanding the framework of the university, the various departments and the activities that are conducted.
- ◆ **How and why are costs changing?** Is the university transparent about managing its service delivery costs as well as overheads and does it understand the relationship between the two? Do departments understand the need to make a contribution?
- ◆ **How are core costs funded?** Are overheads being appropriately funded from course fees alone or is the university funding these from other income generation or reserves. The last thing a university wants is to accept a programme or course which doesn't recover direct costs or depletes reserves – unless there are key strategic motivations for doing so.
- ◆ **Other factors to consider.** There are a number of other financial and non-financial items that must be considered. Items such as cash flow and quality of course will affect not only how a university meets its objectives but also the impact on strategic direction, aims, objectives and financial reserves.

The link to strategy

The overall long-term aim of any university must be to maximise the impact it has in line with its objectives, and this will only be achieved with a clear strategic plan which is flexible to changing circumstances and covers more than one year ahead.

Such a strategy needs to be both operational and financial. Operational in terms of delivering quality courses and research, and financial in terms of delivering the courses and research in the most cost effective and efficient way possible.

Final thoughts

Understanding your cost base is not an end in itself, but it enables decision makers to make strategic choices. It is also not a one time exercise. Regular monitoring through management information and forward planning and budgeting will all be elements of the cycle that aide effective financial governance.

Building financial models will take time, but the rewards of fully understanding a university's cost base will provide vital information for the Executive team and should lead to better decision making aligned with strategy and longer term financial stability. Warren Buffett is quoted as saying "Risk comes from not knowing what you're doing" and in the current climate, information about your true underlying costs has to be the critical starting point in that knowledge.



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Good governance in colleges

Governance is the backbone of trust, accountability, and strategic leadership in colleges. When governance fails, the consequences can be severe, not only financially, but also reputationally and ethically, placing an **increased burden on what is already a challenging and incredibly important responsibility.**

College governors play a pivotal role in shaping the strategic direction, accountability, and integrity of the institution. Whilst being a regulatory requirement, it's also a framework for excellence, resilience, and public trust, but we understand that balancing these multiple responsibilities can be a challenge.

In this article, we explore key aspects of good governance within the college sector that can sometimes be challenging with limited time and resources available

Oversight must be active, not passive

Given the regulatory environment that the sector operates in, colleges have strong and robust procedures in place. Despite this, governors must not assume that procedures in place at the college are being followed. These must in some way be verified and any areas for improvement tracked and followed up in a timely fashion. It is also critical that, whilst colleges need to ensure they have robust policies and procedures in the first instance, these also need to be renewed and updated regularly, and that the next date for renewal is logged in an easily accessible way for governors to refer to.

Suggested ways of verifying procedures include considering potential risk areas as part of the college's annual internal audit programme and ensuring the scope of the work meets that particular consideration, and also via tracking recommendations picked up by the college's external auditors. Assurance mapping can also be an effective tool for colleges, which can be used to enhance governance, risk management, and compliance by aligning sources of assurance (i.e. internal, internal audit and external audit) against key risks and objectives. This can allow colleges to identify gaps, overlaps, and potentially areas of over-reliance.

Furthermore, it may also be useful to look at various ways transparency and communication could potentially be enhanced between the college's various committees and Board, particularly when it comes to sensitive areas such as senior post-holders remuneration and benefits.

Governance structures must be independent, and Board composition and renewal are critical

Recruiting governors can be challenging and a time extensive process, but nonetheless it's important to ensure independence is maintained between the different governance structures at the college, and that these are reviewed and renewed where necessary.

Appointing a clerk or governance advisor who reports directly to the board is an effective way of helping with independence. Whilst we understand that declarations of interests are often a standing item at committee and board meetings, we would also encourage those charged with governance and senior management to ensure declarations of interests are updated in a timely fashion, such as the start of each academic year to ensure any potential conflicts are as transparent as possible and picked up as necessary.

The AoC Code of Good Governance also outlines its expectations for independent external board reviews to be conducted every three years, with an annual governance self-assessment also carried out in other years, as well as its recommended terms of office for those charged with governance.

Conclusion

The governors play a considerable role in helping to instill trust within the public sector, but at times this can be challenging.

It is important to ensure that effective oversight, transparency, communication and independence are at the forefront of governors' minds when it comes to ensuring that governance is as effective as possible.



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The changing landscape of university applications

2025 has been challenging for many of us. The continued rise in the cost of living, teamed with stagnant wages, higher interest rates and higher inflation has meant that most UK households are **feeling the pinch**.



Following the November 2024 Government announcement, which increased the undergraduate annual fee cap for the first time in eight years, many of us expected university applications to fall in 2025. Yet the data tells a different story. The Universities and Colleges Admissions Service (UCAS) has published their admissions data for 2025. It shows a 'record high' of UK 18-year-old applicants to UK undergraduate courses, up by 2.2% from 2024. UCAS also has reported a similar 2.2% increase in applicants from international undergraduate applications. But what can we learn from this data, and what does it mean for the university sector?

If we dig deeper into the data, the picture is not so simple. The top universities are seeing increases in applications, whilst the lower ranked institutions have seen a decline in applicants. What UCAS classifies as the 'higher tariff' institutions have seen a 5% increase in UK applications and 6% of international applications from the previous year. This is comparable to the 'medium tariff' institutions having no change in UK applicants but experienced a fall of 7% in international applicants, whilst the 'lower tariff' institutions saw a drop in both the UK and International applicants: 2% and 4% respectively.

With rising tuition costs and living costs, it appears that applicants want to maximise their return on investment by gravitating towards the more elite institutions for their reputation, global recognition and graduate outcomes. Furthermore, in August 2025, many higher tariff universities saw a record-breaking surge in clearing activity.

The top universities increased their undergraduate intakes by 8.6% following A-Level results day; the highest percentage increase since 2019. The reason for this surge in clearing offers, according to 'The Times Higher Education', is that the elite universities are consciously trying to increase their domestic student intakes as they are seen to be more financially reliable than international applicants. Each higher education institution is trying to increase their student numbers in the midst of the challenging and ever-changing landscape. With the higher tariff institutions receiving more applicants and issuing record-breaking offers through clearing, this has had a negative impact on medium tariff institutions as they have felt the impact of these students going to the higher tariff institutions who would have ordinarily gone to their own.

The rise in applicants is also not uniform across the types of undergraduate courses. The STEM (Science, Technology, Engineering and Mathematics) subjects have seen the largest increase of applicants. Engineering and Technology increased by 13% from 2024, and Mathematical Science increased by 6% across the UK. This reflects the growing global popularity of courses related to the fast-growing careers in areas such as Artificial Intelligence (AI), cybersecurity, renewable energy engineers and app development. The high earning potential and employability of these fields has generated a global demand for STEM courses which the UK is evidently experiencing.

Another interesting insight from the UCAS data is the notable increase in international applicants, particularly from the USA and China, showing a 14% and 10% increase respectively from 2024. We have seen Donald Trump's return to presidency present significant challenges to U.S. universities including the restriction on international student visas. Could UK universities reap the benefits from this and collect further international students that would have otherwise gone to the USA? Potentially, yet the UK has also imposed additional restrictions on international student visas which present additional challenges.

The pace of change in the global political and economic environment does not seem to be slowing. With the UCAS applications for September 2026 now open, we will just need to watch and wait to see whether these trends will continue.



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Theatre Tax Relief for higher education institutions

Theatre Tax Relief (TTR) is a valuable relief that works in a similar way to the historic R&D tax relief scheme for SMEs, however TTR generates additional deductions or repayable cash credits for producing theatrical productions, **rather than delivering advances to science or technology.**

Introduced in 2014, TTR has seen numerous regulatory and guidance updates since the pandemic. These have mostly been beneficial, including permanently higher rates (around double pre-pandemic rates), but some rules have also been tightened.

The claims process has recently become more complex with the introduction of mandatory Additional Information Forms (AIF) from April 2024. Here we cover some of the basics of TTR, together with a summary of the most relevant recent changes.

Who, what, how?

To claim TTR, an entity must be within the charge to Corporation Tax (CT). However, this does not necessarily mean that your organisation needs to pay CT, nor does it need to be registered with Companies House, so don't assume you cannot qualify if you have an unusual constitution.

It is also worth noting that the TTR is not only available to professional theatre companies – educational institutions with performing arts courses often have productions that qualify, though the rules have become more restrictive, as discussed later.

In addition, for each claim made, the entity must be a 'Production Company' – that is it must be responsible for enough aspects of the theatrical production (hereon referred to as a 'trade' or 'Production').

The Production must also be qualifying. Broadly, to be qualifying, a 'high proportion' of the performances must be either to paying members of the public, or educational for the audience, and must be performed live.

Tax credits are largely proportional to the 'core' expenditure. Broadly, costs on creating the production before its first performance, or on closing the production after its last. Running costs, speculative development costs, marketing and storage costs (not exhaustive) are all non-core, but should still be identified.

The claim is made via the organisation's CT return and submission of an AIF online.

Updates

If you are already claiming TTR relief, here are the main updates that will be relevant to you:

Rates for non-touring/touring productions:

- ◆ 20%/25% – original rates
- ◆ 45%/50% – Temporary increase 27 October 2021 to 31 March 2025
- ◆ 40%/45% – Permanent rates from 1 April 2025

These rates apply to up to 80% of core expenditure, so as a % of core expenditure, claims are worth up to:

- ◆ 16%/20% before 27 October 2021
- ◆ 36%/40% until 31 March 2025
- ◆ 32%/36% from 1 April 2025

As you can see, for every £1 spent on core activities of a qualifying touring production today, institutions could reclaim 36p back from HMRC.



Additional Information Form

From 1 April 2024, a new online Additional Information Form (AIF) must be submitted *in advance* (or on the same day) of the claim in the CT return.

Whilst mostly straightforward, the AIF form requires detailed information, including workings and breakdowns of expenditure for each trade, details of connected party transactions and touring schedules.

HMRC is reviewing the information in these forms closely and this has recently led to noticeably longer processing times.

We hope this will improve as the AIF process becomes embedded, but it also highlights the importance of providing high quality and easy-to-follow information to HMRC.

Dramatic productions

The definition of a dramatic production has been tightened. Unless the production is a ballet, the production must tell a story or a number of unrelated stories, told by means of performers playing roles.

Also, the main purpose of the audience must be to observe the performance. For example, HMRC states that an escape room with actors in character, would not qualify, however a pantomime, where there is limited audience participation, would.

Other changes

There are other changes relating to:

- ◆ The EEA/UK expenditure condition
- ◆ Related party transactions
- ◆ Separate ticketing
- ◆ Companies going into liquidation
- ◆ Other clarifications to definitions.

We have not gone into more detail about the above changes here, as these are less likely to impact this sector. However, please do reach out to discuss them, if you think your organisation will be affected.

The educational angle

Training productions

In relation to educational productions, HMRC has now clarified that these must be educational *for the audience*, not for the cast.

Furthermore, since 1 April 2022, productions “produced for training purposes” are specifically excluded.

Initially, it was feared this could exclude all productions overseen by educational bodies. However, the legislation clearly did not intend this, as it explicitly allows expenditure by educational bodies on training or teaching the participants as core (qualifying expenditure), where it takes place as part of a rehearsal for an eligible production.

Whilst this does rule out productions specifically for the students to be graded, or purely to teach students, it does not exclude all productions from Higher Education institutions with dramatic arts offerings. Many of these are put on to showcase the talents of students on the cusp of their professional careers, to both outside agents and the general public in a highly professional fashion, and to put into practice training already received. These should continue to qualify.

Productions near the end of a student’s journey are far more likely to qualify than those at the start, but every production is unique so please speak to a member of the HaysMac team if you are unsure.

The audience

Commonly, some tickets may be held back for agents, or friends/family of the participants, but we are aware that unless the ‘vast majority’ of tickets are reasonably made available to the general public, the production would not qualify, unless it is performed for educational purposes (e.g. to unconnected schools). Holding back a small number of tickets (say up to 10%) should not be an issue, but be prepared for challenge on this point.

Conclusion

Despite many changes in recent years, TTR has reached a ‘steady state’ and is worth far more in cash terms than before the pandemic.

However, with tighter eligibility criteria, and increasing scrutiny from HMRC, providing the right information and disclosures to HMRC is now more important than ever. Whether you have claimed for years, or are new to TTR, now is a good time to take professional advice.

We can work with you to identify whether a valid claim can be made, to review your existing methodology to ensure that TTR is legitimately maximised, or to advise you on specific areas of complexity. We can help you every step of the way – please get in touch with us to discuss your needs.



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If you need guidance on any audit and accounting, financial reporting, statutory obligations, funding, employment tax or direct tax matters you can contact any member of our **Further and Higher Education team** as detailed below.



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