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FURTHER EDUCATION KNOW-HOW
June 2026

Welcome to the second edition of Further Education Know-How.

As the Further Education sector continues to navigate an evolving regulatory, financial and operational landscape, staying ahead of change has never been more important. From developments in VAT and pension accounting to sector consolidation and payroll compliance, colleges are facing an increasing range of complex challenges that require careful planning and informed decision-making.

At Menzies, our commitment to delivering Brighter Thinking remains at the heart of everything we do. By combining deep sector expertise with practical, forward-looking advice, we aim to help colleges identify opportunities, manage risk and plan confidently for the future.

In this month's edition, we cover:

- **VAT, Grant Funding and the Colchester Institute Case** – examining the potential implications of the Court of Appeal's decision for VAT recovery, grant funding and charitable VAT reliefs.
- **Mind the Asset Ceiling: Pension Accounting in Education** – highlighting key pension accounting considerations and the impact of the asset ceiling on financial reporting.
- **Accounting for Change: Mergers and Acquisitions in the FE Sector** – exploring the accounting challenges and opportunities arising from sector consolidation.
- **Payroll in Education: Managing Complexity with Confidence** – practical guidance on navigating payroll compliance and operational complexities within educational institutions.

As always, if you have any questions about the issues discussed, or would like to talk through what they could mean for your college, please contact our **Head of Education, Sue Hutchinson**. You can also visit our **Education sector page** to learn more about the support and expertise we provide to Further Education institutions.

Colchester Institute Case – What FE Colleges need to know about VAT

Many organisations across the not-for-profit sector have been following the progress of Colchester Institute Corporation VAT case with interest, given the potential implications for valuable VAT reliefs.

At the heart of the case are two key questions:

Does the outcome of the case mean that grant funding is now payment for a supply of services, and thus potentially within the scope of VAT? Are the grant funded activities a form of business, meaning that the recipient loses VAT reliefs aimed at those undertaking non-business activities?

One of the fundaments of VAT is that where payment is received in return for providing goods or services to someone else, that is a payment for business purposes, and is potentially subject to VAT.

👉**Read the full article here**

Accounting for Change: Mergers and Acquisitions in the FE Sector

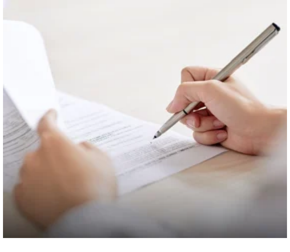
The further education sector continues to experience structural change, with mergers, group restructures and strategic collaborations becoming increasingly common. Where colleges enter into these arrangements, one of the key financial reporting considerations is determining whether the transaction should be treated as a merger or an acquisition for accounting purposes.

The accounting treatment can have a significant impact on the financial statements, disclosures and future reporting requirements of the college.

In this artice, we outline the key differences between merger accounting and acquisition accounting, the considerations colleges need to assess, and the practical steps management and boards should take.

👉 **Read more**

Mind the Asset Ceiling: Pension Accounting in Education

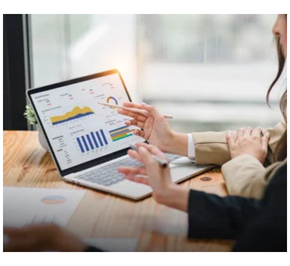


Many Colleges and Academies are already reporting Local Government Pension Scheme (LGPS) surpluses, with those positions continuing to grow in recent years. However, under FRS 102, a surplus doesn't automatically mean a pension asset can be recognised in the financial statements.

Instead, establishments must carefully assess whether the surplus is recoverable and whether an asset can be recognised under the accounting rules.

As part of the year-end process, it's important that management teams engage with their actuaries early and obtain the necessary reports, calculations and supporting evidence to help avoid delays during the audit and financial statement process.

👉 **Read the full article here**



Payroll in Education: Managing Complexity with Confidence

Educational institutions face increasingly complex payroll challenges, managing a mix of permanent staff, hourly-paid tutors, visiting lecturers and other workers, each with different pay, pension and compliance requirements.

A specialist payroll solution can help ensure accuracy, maintain HMRC compliance and reduce administrative burden, while giving organisations greater confidence that employees are paid correctly and on time.

👉 **Find out more**

Before you go...

A few quick reminders and considerations for finance teams:

- Are your cash balances working hard enough? Less than 3% interest.... it's time to review!
- Have you reviewed the implications of expanding devolved funding? Are you clear on your boundaries?
- Have you assessed the impact of the latest SORP changes, including leases and revenue recognition?
- Is your CFFR preparation underway ahead of the 31 July 2026 deadline, incorporating the SORP changes?
- Have future budgets considered the potential end of NI funding support from March 2027?

👉 ***If you would like support with any of these areas, please get in touch***

Brighter Thinking with Menzies LLP

Menzies LLP is a Top 24 UK business advisory and accountancy firm, as recognised by Accountancy Age, proudly independent and partner-led. We have over 1,100 colleagues, 80+ partners and 11 locations across the UK, supporting clients nationally and internationally across a wide range of sectors.

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