haysmacintyre

SCHOOLS BRIEFING

ISBA CONFERENCE 2024

Contents

Welcome from the editor

Welcome to the ISBA Conference edition of our Schools Briefing for independent schools, where we provide updates and insights on accounting, tax, reporting and governance for school bursars and Governors.

The realisation of VAT on school fees is stronger than ever, and as such, this edition of our schools briefing looks at various ways independent schools can best prepare. To begin, Tracey Young, Partner and Head of Education, shares the results of the Independent Schools Management Survey 2024. On the back of the recent challenges, some interesting figures have shown an increase in pupil numbers, an increase in pay awards for teachers, and an increase in fees.

Phil Salmon, Partner and Co-Head of VAT, highlights a number of practical steps schools should action to prepare for the likely introduction of VAT on school fees. He touches on various methods to include Capitals Goods Scheme, infiltrating a Fees In Advance scheme, and reviewing the timing of your expenditure.

Our guest author, Max King, Head of Epoch Consulting, has penned an article looking at investment policies, and what makes them fit for purpose. He shares advice on how to set objectives, best practice, and gives guidance on how to build on your existing Investment Policy or Statement of Investment Principles.

International expansion is becoming ever more prevalent across the schools sector and Louise Veragoo, Director, explores some of the options for international partners, how they can be structured, and direct tax considerations schools should think about when contemplating a new international venture.

In my article, I take a look at Key Performance Indicators (KPIs) and monitoring, and how to get it right for the challenges ahead. With the continuing pressures in the sector, it is more important than ever to monitor and assess KPIs to help ensure budgets are being managed effectively, and future forecasting is both accurate and achievable.

It was announced by HM Revenue & Customs that mandatory payrolling of benefits will take effect from April 2026, but what exactly does this mean for schools? Nick Bustin, Employment Tax Director, and Joanne Hennessey, Senior Manager share more detail on the current position and what is being proposed. Planning ahead will be key, and Nick goes on to highlight areas that schools should think about, to include taxable benefits amongst others.

Finally, there has been an increase in formalising fundraising plans in schools on the back of the current challenges. Siobhan Holmes, Director, shares some examples of how to get the most out of your fundraising activities. Schools can explore how to spend restricted donations, review their pledged income opportunities, and look at ways to maximise donations by claiming Gift Aid.

I hope you enjoy this edition and find these articles of interest. Do feel free to let the authors, me or your regular contact know if you have any questions concerning the matters discussed.

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Independent Schools Management Survey 2024

There continued to be significant challenges facing schools in 2022/23 with rising costs, as a result of high inflation, placing ongoing pressure on budgets. Schools worked hard to manage costs and control spending in the knowledge that following the next general election a Labour government will impose VAT on school fees if elected.

VAT on school fees will make independent education unaffordable for many current and potential fee payers. The impact is likely to vary from school to school, depending on their parent base, market position and capacity to absorb the VAT impact. The loss of pupils may well be a gradual process, with the impact most keenly felt at entrance and exit points which will give schools the opportunity to monitor the impact and act accordingly.

It remains essential that schools focus on their financial operating models now, making changes where necessary, to build financial resilience. Benchmarking information can be a valuable tool to both senior management and Governors when assessing their schools' financial performance and helps to inform the decision making process. This year's survey has given us and our participants some useful data and we've set out some of the key findings below.

Overall **pupil numbers** in the schools included in this year's survey increased by 2.3% overall from 2021/22 to 2023/24, with a very small fall in boarding pupils counteracted by an increase in day pupils. Growth was experienced by all school categories apart from small reductions in pupil numbers at senior boarding and senior boarding and day schools.

There continues to be significant increases and sharp declines in pupil numbers at individual schools which suggests that although the general picture for the sector remained strong, many schools continue to experience tough market conditions. Mergers and closures have continued over the last year. The ongoing cost challenges, the financial pressures on fee payers and the impact of VAT on school fees means the position is likely to become increasingly difficult for many and impossible for some.

The average **fee increase** for 2023/24 for all schools responding to our survey was 7.7%. This is up from the average in 2022/23 of 5.2%. 12% of schools applied an increase of over 10% in 2023/24. The average increases in 2022/23 and 2023/24 are the largest increase in fees since 2008/9, following a period of relatively modest increases – with the average increase from 2009/10 to 2021/22 ranging from 3.3% to 3.9%. The recent increases reflect the impact of cost inflation on schools and pay awards.

Inflationary **pay awards for teachers** have increased from an average of 1.7% in 2021/22 to 5.4% in 2022/23. High inflation, alongside state sector pay increases have put pressure on pay awards, but governing bodies have had to balance this with affordability. We have seen an increasing number of schools award one off bonuses when there is certainty over the financial outturn, to support staff through the cost of living challenges.

The average inflationary **pay awards for non-teachers** has broadly been in line with that applied for teachers over the last three years. However, many schools continue to experience challenges in filling vacancies in lower paid roles which is resulting in rising costs.

Schools in the survey provided **fee remissions** of 9.3% of gross fees on average, down from the prior year of 9.4% of gross fees. This ranges from 5.3% in preparatory day schools to 13.4% in senior and junior boarding and day schools.

Means tested bursaries (including hardship awards) averaged 4.3% of gross fees in 2022/23 compared to 4.2% in 2021/22. The level of means tested remission provided varies significantly between the school categories with preparatory day schools providing on average 2.2% of gross fees compared with 6.8% at senior boarding schools. **Scholarships** averaged 1.6% of gross fees compared to 1.7% in 2021/22, continuing the downward trend in this area. **Staff fee remissions** (not means-tested) were on average 2.1% of gross fees in 2022/23, compared to 2.0% in the prior year.

It is common in the sector for staff to be provided with discounted fees for their children, although the level of remission can vary from nothing up to, in exceptional cases, 100% (which can have benefit in kind tax implications). It is a very tax efficient benefit and is expected by many teachers and key support staff and can assist with recruitment and retention. For some, it can be a key part of their decision-making when accepting a role.

Highlights of our analysis of levels of **remission offered to teachers** across all schools in 2022/23 are:

- 47% offered a remission of 50%
- 17% offered a remission of between 61% and 70%, including 13% providing 66.7%
- Only 5% of schools offered no remission to teachers

Although the levels offered are consistent for most schools over the period, roughly 11% of schools have reviewed this benefit and reduced the discount offered from 2021/22 to 2023/24.

Over 70% of schools provide the same level of remission to both teachers and non-teachers, with the remainder providing much less, if any, remission to non-teachers.

Premises costs averaged 13.6% of net fees, compared to 12.9% in 2021/22. Inflation, high energy costs as well as challenges in sourcing materials and labour for maintenance projects are adding to costs in this area.

These costs can vary significantly between schools depending on the nature of the school estate, in particular the number and age of the buildings. As expected, boarding schools tend to have greater costs in this area.

Repairs and maintenance form a significant proportion of these costs and it is important that both these costs as well as capital projects are included in schools' strategic plans and financial forecasts. Although costs can be controlled by delaying projects, this can lead to inefficiencies, deteriorating infrastructure and higher costs in the long run. Commissioning regular condition surveys can provide much needed visibility to help schools to identify and prioritise the required works effectively and ensure they can be financed.

Average **capital expenditure** was £1,655k in 2022/23 which is consistent with the previous year. The levels of capital expenditure can vary significantly from school to school and by school type. 22% of schools spent less than £250k, compared with 27% in 2021/22. 42% of schools spent over £1m, up from 38% the previous year. There continues to be a small number of schools undertaking very significant projects. Just under a quarter of schools responding to our survey received fundraising income for capital projects, although the value can vary significantly with 13% receiving less than £100k. However, 2% of schools received over £1m for capital projects. The majority have funded projects at least in part by borrowing.

The average **net surplus*** was 9.0% of net fees for 2022/23 compared to 9.2% in the prior year. However, the net surplus varied significantly between schools with some achieving significantly in excess of this level and others far below.

With VAT on school fees expected to be implemented in the coming year it remains important that schools continue to carefully monitor pupil numbers, debts and bursary and hardship awards for early warning signs of future financial impact so prompt action can be taken. Continued cost control and challenge of operating models remains essential, and the business case and financial viability of potential capital projects should be thoroughly examined.

At this stage schools should have undertaken detailed scenario planning exploring the various potential implications of VAT on school fees and developed a suite of financial models which indicates the financial implications of each scenario. Schools should understand what levers they can and will pull in the event that Labour are elected and enact their plans. The current focus of all schools must be on financial sustainability and building financial resilience.

If you would like a copy of this year's publication, then please contact marketing@haysmacintyre.com.

** this excludes investment income, fundraising income and expenditure, borrowing costs or depreciation*

VAT - practical steps to consider

In the wake of the local and mayoral elections on 2 May, it looks increasingly likely that Labour will win the next General Election. If they do, then we can only assume that they will follow through with their pledge to introduce VAT on school fees. Given that an election must be held within the next nine months, this article will set out some practical steps which should be taken as soon as possible.

Capital Goods Scheme (CGS)

The first thing to do is to try and identify those items which are likely to still be within the 10 year CGS adjustment period. The CGS starts from the date of first use and runs to the end of your VAT year.

Your VAT year ends in your Spring VAT return quarter (March/April/May) depending on your VAT return stagger and unless you have prior permission from HMRC to use a non-standard VAT tear, e.g. to tie in with your financial year end.

There is an element of crystal ball gazing here but working backwards and looking at the earliest a VAT change might be introduced, would mean that Spring 2025 would be the tenth interval for CGS items brought into use from Summer 2016 onwards.

Don't waste time looking at any CGS items brought into use before 2016 but start to build up your list of items from that point onwards.

HMRC will probably be instructed by an incoming Government to look closely at any CGS claims, so try and make sure you have all of the invoices to hand evidencing you incurred input tax, and if you don't, then try and request duplicate invoices from the contractors.

If they have gone out of business, then HMRC are supposed to consider alternative evidence of input tax, so see what other evidence you might have showing that suppliers were VAT registered, and accounting records showing the amounts capitalised, etc.

If you are reliant on any key members of staff for institutional memory as to when projects were first brought into use, then start to discuss this with them now, especially if any of them are due to retire or are leaving for new jobs.

Fees in Advance (FIA)

If you have been following the discussions as to whether a FIA scheme might allow some parents paying in advance of a change in law to not pay VAT to the extent of that payment, and are contemplating introducing such a scheme if you do not already have one, then you really need to be doing this now as you are likely to only have the summer to get it rolled out prior to a general election. It is likely that only payments made prior to an election, or possibly the first fiscal event of a new Government will be secured.

If you have FIA arrangements in place, have you made sure that parents have signed them? In the past, it hasn't been much of an issue if a parent didn't return a signed agreement. However, if HMRC are instructed to look closely at schools after any change in the law, they are likely to be looking for any way to challenge you and argue there was no agreement, which might be something they could latch on to.

Also think about your ordinary Terms & Conditions, let alone Fees In Advance do they allow you to add VAT. Use the period between now and the Autumn term to get your lawyers to review them and then issue revised T&Cs for the Autumn term.

Consider what happens if parents pay by Direct Debit and VAT is introduced part way through a term when you have sent out your request for payment for a term before VAT is introduced but a monthly payment is made after it has been introduced. For example, if you sent out an invoice in August for the term starting in September 2024, but VAT is introduced in November and a Direct Debit payment is taken in December. Do you have to pay the VAT out of what you have received, or can you go back to the parent?

Accounting package

If you had to submit a VAT return next month, could you do it now that returns have to be compatible with Making Tax Digital (MTD)? MTD means there should be no manual intervention between input of income or expenditure and the submission of the return. Have you done a trial run of submitting a VAT return?

If your software is not MTD compatible, are you in the process of changing it?

Can you make any changes in house, or do you need your software suppliers to help and if so, how much lead time do they need?

If your staff have just been posting costs gross, will they be able to post on a net plus VAT basis? Can they record the costs to be able to carry out a partial exemption or a Business/Non-Business calculation?

Do they need extra training and when is that booked in for?

Have you prepared a draft Chart of Accounts showing the likely new VAT liabilities? Can you change tax codes in house?

Use of facilities by third parties

Do you allow third parties like local state schools to use your facilities free of charge? If so, that is a non-business activity and could reduce the amount of VAT you can reclaim.

If you intend to get round this by starting to charge them, have you had that conversation with them yet?

Are there other third-party users of your facilities and will they be affected? For example, if you do not charge VAT now because you are not registered but will have to register, have you mentioned this to them?

Do your agreements allow you to add VAT?

Timing of expenditure

Have you gone through your planned expenditure between say now and next April? Is there anything which could be deferred until after a change in legislation?

The CGS adjusts for changes in use, but if you were going to do some work falling within the CGS this side of a change in law then even if you could recover 90% of the VAT following a change, you have lost 10% which if you could defer the work you could have reclaimed and it could be reclaimed all in one go rather than over the next nine years in the CGS.

Could you defer non CGS work like refurbishments costing say £100k or £249,999 where the recovery is nil this side of a change in law and 100% the other side?

Going down to smaller items like IT spend, replacement laptops or even closer to an election, stationery? Have you got a plan to maximise VAT recovery?

Conclusion

It is evident that there are many things to consider should a Labour Government be put in place. These practical steps offer guidance on what to do next, and how best to approach the coming months. Should you need further advice for your school, please contact myself or our VAT team for support.

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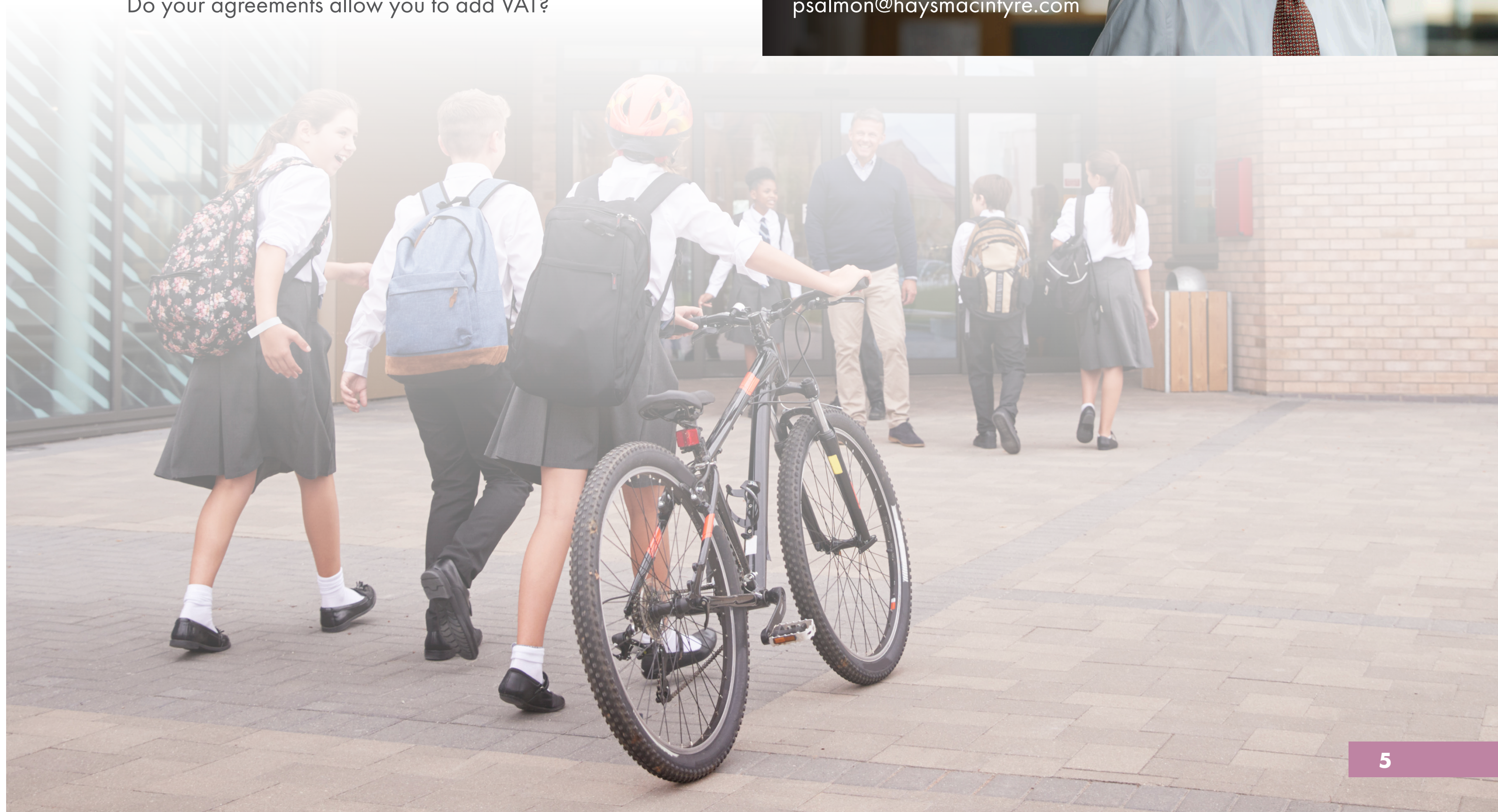


Risk management

Effective risk management is a critical area for the governance and operation of any school. Schools face a variety of risks, which range from the day-to-day, to those having a fundamental impact on the school and its operation, not least those connected with potential political changes. The risks faced will vary enormously depending on the size, nature, complexity, and market conditions of each school. It is therefore critical that risk management is tailored to the circumstances of each school. In this article, I will share some thoughts on risk management for schools and how it can be embedded with the operations.

Where should we start?
The starting point should be to identify the different risks the school faces. A good place to start is to think about what could stop the school meeting its strategy and objectives. The Charity Commission suggest reviewing the risks under the following headings:

- Governance
- External
- Regulatory
- Financial
- Operational

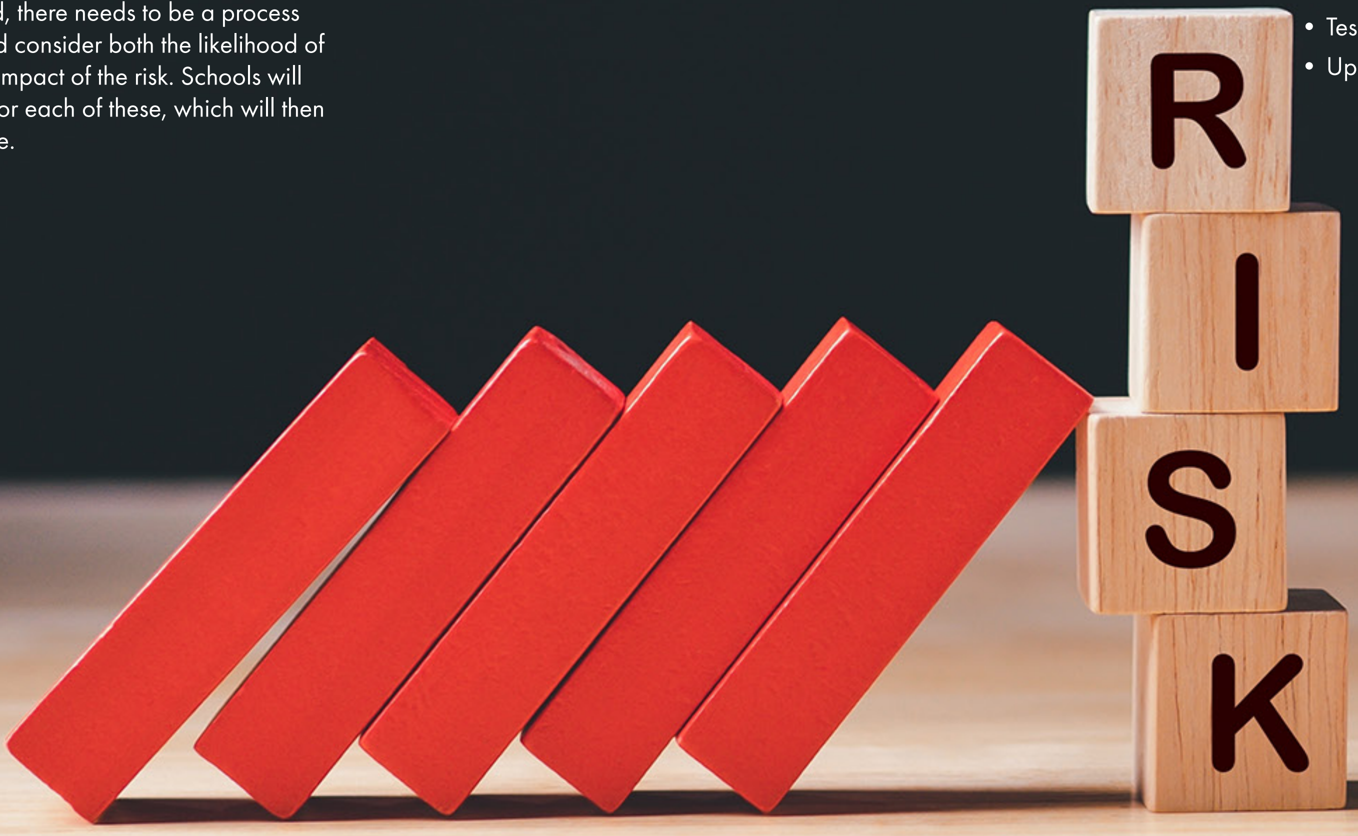
These headings can be a good structure to think about risk. In identifying risks, it is important to get a range of perspectives. For example, if the risk identification only involves members of the finance team, it might not capture important operational risks.

Once risks have been identified, there needs to be a process to analyse them. Schools should consider both the likelihood of a risk occurring, as well as the impact of the risk. Schools will usually have a scoring system for each of these, which will then be used to calculate a risk score.

But how much risk is too much risk?
There's no easy answer to this question. For example, a school with a high level of reserves and strong pupil demand is likely to have a very different view on risk than one which doesn't. Understanding the context is critical.

School Governors should have an agreed approach to risk appetite. Broadly, risk appetite is the amount of risk that an organisation is willing to take to meet its strategic objectives. Having a clear understanding of the board's view of risk appetite supports effective management of risk.

Schools should have a clear statement of risk appetite, as this informs discussions and decisions around risk. This statement is likely to be nuanced with a different level of risk appetite for different risks. For example, you would expect a school to be very risk averse to matters relating to safeguarding and health and safety. On the other hand, a school with expansion plans is likely to have a greater risk appetite for those plans.



Managing risk rather than eliminating risk
Whilst risk must be managed, it often cannot be eliminated. It is not enough to simply record and identify the risks, but Governors and management teams should focus on the mitigations. There are a range of strategies that can be put in place to manage and mitigate risk, including transfer of risk (such as insurance) to stopping activities. Especially where risk cannot be transferred or avoided, the focus should be on mitigation.

Key considerations are:

- What are the mitigations in place?
- How effective are the mitigations?
- Do the mitigations manage the risk down to an acceptable level?
- Who owns the mitigations?

It is also important to consider what assurances the Governors and management team need to ensure the mitigations are effective and working. Few schools have an internal audit function and it is therefore a case of considering what is needed to confirm that the mitigations are operating. This could include internal checks, or external assurance.

Planning for serious events
When considering risk management, schools should consider what they would do if a serious issue arose. Many schools and other charities will have a business recovery plan in place to deal with any serious issues or incidents that could occur.

A good plan should be:

- Tailored to the school and reflect its range of risks.
- Clear – what would need to be resumed (in what order) and who will the key individuals be.
- Tested – with feedback used to refine the plan.
- Updated regularly.

Regular review
There are a few suggested steps listed to include: identifying the risks, assessing them, considering your appetite for risk, and then reviewing the mitigations in place. Whilst all of this is important, it is vital that risk is kept under regular review. The risk landscape faced by a school will change over time, and it is therefore key that you keep risk management under review. It is important that Governors and management are clear as to how risk will be reviewed and how frequently.

Depending on the size and complexity of the school, there may need to be different levels of review. In a smaller school, there may be a single risk register reviewed by management and Governors. On the other hand, a larger school may have focused reviews of particular risk areas at different committees with the full governing body being provided information in a more summarised form.

Conclusion
There cannot be a one size fits all approach to risk management. The risks will naturally vary between different schools, but also the way they are managed should be proportionate to the circumstances of the school. Any risk register should be a living document which is a useful tool to support the financial governance of the school. It should be regularly revisited to ensure the understanding remains current.

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Is your investment policy fit for purpose?

Trustees are required to formulate an investment policy that is in the best interest of the charity and its charitable aims. There is an expectation that trustees will adopt an investment policy that they believe is representative of the charity's best interests.

A written policy provides a framework for making investment decisions, helping trustees to manage the organisation's resources effectively and demonstrate good governance. Regardless of size, having a written investment policy is important for all organisations with investment assets. It may also be important to be able to articulate this policy to appropriate stakeholders (e.g. Governors, staff, or even pupils) certain aspects of the policy such as approach to ethical investing.

Most organisations we come across have an Investment Policy or a Statement of Investment Principles. However, in most cases, the documents are either out of date or need refreshing. In many cases it can be both.

In some scenarios we also find that the document was created by decision makers that are no longer with the organisation. Naturally, as your organisation evolves, so does the need to maintain and improve your investment governance. This is increasingly important with a fast-changing macro-economic background and an increased focus on many trustees looking to invest with an environmental, social and governance consideration.

Without a robust set of documents, it can be very difficult to observe how your investment manager(s) is/are doing. Not only should there be aspirational performance objectives, your policy should also include appropriate benchmarks, any income requirements, tolerances to risk, ethical criteria, and diversification expectations.

Unsurprisingly, many decision makers within an organisation have their own opinions on how this should look and therefore need help facilitating and documenting the objectives of the collective. Maintaining and reviewing the policy regularly is then paramount to ensuring the quality of your ongoing governance.

When working with organisations, we assess whether their objectives are:

- Clear
- Prioritised
- Realistic
- Measurable

In our experience, whenever we are presented with a policy document, almost every single one fails our CPR(M) test on one criterion. More than half fail on all four.

The success of anything can only be measured when you are clear on what you are trying to achieve.

Leaving significant amounts of monies in cash that you don't need or can't use - for example, permanently endowed funds may be considered as no longer appropriate. Inflation is eroding capital, and many banks continue to pay paltry rates of interest despite the rate being higher. Couple this with the uncertain economic background, both at home and overseas, and the need for sound governance has never been greater.

The burden of ensuring that your investment portfolios are appropriately invested and can continue to deliver your objectives falls to governors, bursars and often other members of the senior management team.

Where time is an issue, or governors only meet a few times a year, we have seen many organisations employing professional advisers to help. This can remove an element of risk and ensure there is a constant eye on the portfolio. They can also help provide a valuable insight to help your organisation achieve your objectives and ensure that the investment solutions are appropriate, suitable and the strategy is repeatable.

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The value of investments, and any income from them, can fall and you may get back less than you invested. Information is provided only as an example and is not a recommendation to pursue a particular strategy. We will only be bound by specific investment restrictions which have been requested by you and agreed by us. The opinions expressed in this document are not necessarily the views held throughout RBC Brewin Dolphin Ltd.

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Doing business internationally

Across the schools' sector, international expansion is becoming ever more prevalent. The opportunities to explore business partnerships worldwide are vast and many schools are exploring ways to further grow their brand and income streams internationally. This article explores some of the options for international partnerships and how they can be structured, together with some of the direct tax considerations needed when contemplating new international ventures.

The most common scenarios for overseas operations of a UK based company include:

- Trading/service provision from the UK, with no local presence in the overseas jurisdiction;
- Operating a branch or 'permanent establishment' (PE) of the UK company, in the overseas jurisdiction;
- Establishing a separate legal entity in the form of a subsidiary company, registered in the overseas jurisdiction, or
- Joint venture arrangements with third parties.

For a school, the above options can apply to either the school itself, as a charitable company, or a subsidiary of the school. In addition, any overseas subsidiary could be owned by the charity (if local laws allow), or might be partly owned by local overseas shareholders as a 'joint venture'.

The exact nature of operations overseas will impact the considerations required by the school from both a commercial and a tax point of view. Therefore, it is important to consider what the nature of the international presence will be and the implications of that, as part of the initial due diligence.

How does the company intend to do business?
Simply 'doing business' with customers in another country, without a presence there is unlikely to lead to a UK company having a taxable presence in the other country. For example, providing consultancy or advisory services from the UK into an overseas jurisdiction, is unlikely to create any local tax presence there.

As such, where the school is entering into arrangements to deliver consultancy services from the UK, it is more likely that UK tax considerations (rather than overseas) will be in play. This might include the requirement for the overseas partner to deduct withholding tax from payments made to the UK, meaning that UK receipts could be reduced. Double tax agreements between the UK and the specific overseas jurisdiction will help to establish the requirements for such a deduction.

On the other hand, where the school or its subsidiary is doing business in the overseas jurisdiction, via either a branch or a PE, this activity will generally create a taxable presence in that overseas jurisdiction.

The latter is much more complex to navigate and is likely to result in the operations/activities relating to the PE/branch becoming tax resident in the overseas jurisdiction whilst also remaining taxable as part of the UK operations. This can result in the same profits being taxed twice.

Alternatively, where a decision is made to incorporate an overseas registered company, that company will be subject to the legal and tax framework of the overseas jurisdiction (rather than the UK) and local advice will need to be sought to understand the obligations required of it. In most cases however, the overseas company will not be captured by the UK tax net. There may, however, be UK tax considerations in the form of recharges and transfer pricing to navigate here.

A PE is generally a **dependent** office of the UK company, which acts as an extension of the UK operations. It does not, in itself, create a separate legal entity in the overseas jurisdiction, however it may still be required to register as a PE in the overseas jurisdiction depending on the requirements of the particular jurisdiction. The PE will be subject to tax and other filing obligations in the overseas jurisdiction.

A branch is more akin to an **independent** office of the UK company, though for tax purposes still falls within the definition of a PE (see overleaf). A branch tends to have its own management structure and the ability to have its own employees and carry out business in that jurisdiction. It also remains an extension of the UK company, with the results reported as part of the UK operations in the UK financial statements.

Although both the branch and PE might be operationally quite different, in both cases, the profits arising from the branch or PE may be subject to taxes in the overseas jurisdiction and in the UK. Double tax agreements may allow relief in some cases.

A PE is created where there is:

- A fixed place of business through which the business of an enterprise is wholly or partly carried on. This can include:
    - A place of management,;
    - A branch (detailed above); or
    - An office.

  But only where the activities are not preparatory or auxiliary in nature.
- An agent acting on behalf of the company that has and habitually exercises authority to do business on behalf of the company (as long as that agent is not of independent status acting in the ordinary course of his business).

Given the above definitions, it will be crucial to understand exactly how the company intends to operate in respect of its overseas operations, who will be involved, and their responsibilities. Once these facts are determined, the UK company will be able to establish whether or not it will create a PE/branch.

UK (direct tax) considerations
Once there is an understanding of how the UK company will do business, there are other tax points to consider, including:

- Are there any local tax filing obligations?
- How do we protect the UK charitable direct tax exemptions?
- Do we need to contract with overseas jurisdictions via a subsidiary rather than the charitable school?
- Will the overseas operations be profitable from the outset?
- Is there a double tax treaty between the overseas jurisdiction and the UK?
    - If so, what arrangements do we need in place between the UK companies?
- Are any applications required to tax authorities to benefit from the double tax treaty?
- How do we ensure risk is managed?
- How do we protect the brand?
- How do we fund the overseas operations?
- Will any income streams received from overseas be subject to withholding taxes?
    - If so, can we claim tax relief for overseas taxes withheld?
- For overseas payments, is there a UK requirement to withhold tax?

Conclusion
As you can see, when expanding into an overseas jurisdiction, understanding the tax implications is crucial. Each jurisdiction will have its own requirements, and some will be more administratively burdensome than others. The rewards of a successful international partnership can be vast, but the risk also needs to be managed with thorough due diligence and tax advice at an early stage. If you are considering international expansion, in whatever form, please do reach out to your contacts at haysmacintyre for specific and practical advice.

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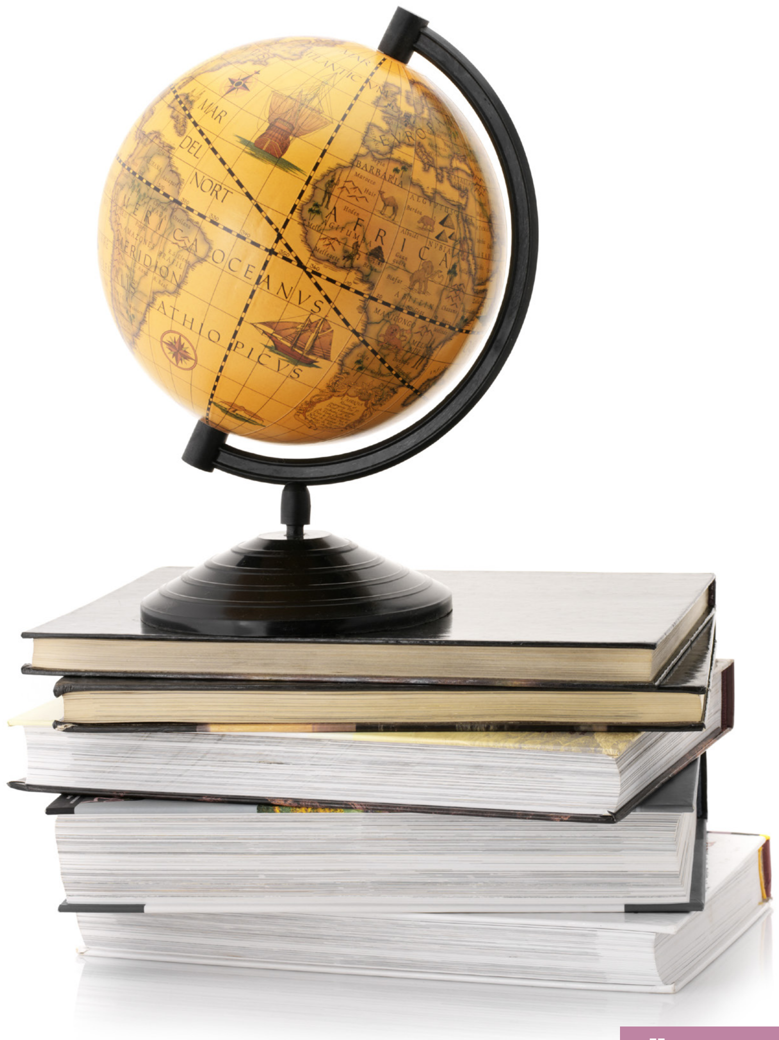


KPIs and monitoring – getting it right for the challenges ahead

In the current economic environment and uncertainty on the horizon, independent schools need to ensure that their financial model is robust and sustainable. With the potential challenges facing the sector such as VAT on school fees and loss of business rates relief, it is increasingly important to regularly monitor key performance indicators (KPIs) to ensure budgets are managed effectively and future forecasts are achievable.

Management accounts

All schools will have some form of management accounts that are presented to Governors to enable them to consider and make decisions. What form the management accounts will take will depend on each individual school's financial model and the requirements of your Governors. A school will only be able to meet its aims if it manages its money and other resources properly. To do this, you will need to monitor your financial data so that your school can meet its short, medium and long term goals.

Management information should be presented on a timely basis and in a way that all Governors can understand to enable informed decisions to be made, help manage risks, and identify opportunities. Standardised reporting will facilitate the review by Governors by providing information in a clear format that has been previously agreed.

Your financial model will need to be robust. However, the robustness of your financial model may be challenged by the introduction of VAT on school fees, in the event that Labour form the next Government at the General Election. There are some key considerations that all independent schools are currently contemplating which include:

- What will happen to your model if VAT on fees is introduced?
- How will demand for places at your school be affected?
- How much of the VAT charge do you think you can pass onto parents?

KPIs

KPIs are an important tool in analysing management information and forecasts. You will therefore need to consider what KPIs are most relevant for your school.

Whenever considering what KPIs to use, they should be exactly that – the key financial indicators and not a list of every potential KPI or financial metric. Too much information can be confusing and time can be wasted discussing and debating information that is not key or significant. In light of the current environment and the uncertainty ahead,, now may be the time to revisit how your management information and forecasts are presented and consider if they are still fit for purpose.

KPIs are particularly useful to highlight trends over time or to compare against benchmarking data or peer group averages. As with all financial analysis and modelling, there is a need to understand the journey your school has been on to plan where you want to get to. But you need to consider whether some KPIs will be more important than others in the coming months given the challenges that lie ahead.

Monitoring of cashflows

Firstly, there have been some significant challenges since the emergence of the pandemic and the cost of living crisis. There has been more focus on monitoring of cash flows in recent years and we have seen that most schools have escalated their debt chasing to try and mitigate the risk of any cash flow difficulties. We have also seen that some finance committees have met more regularly where the cash position has been more challenging.

Management reporting has also included some form of scenario planning to look at best case, worst case and most likely case scenarios which has been an important tool for Governors when making decisions. Close monitoring of cash may become more critical again for schools in the coming months.

Pupil numbers

All schools will monitor pupil numbers and future pipeline but it is just as important to look at individual year groups and where pressure points may arise over time. It is important to consider this both looking back at recent trends but also your expectations for the future which will include assessing external factors such as a fall in birth rates.

As always, it is important to understand the reasons behind a decrease of pupil numbers or if the current pipeline is lower than anticipated. Schools and Heads can be bullish about numbers, but if the school is paying for half their fees, then this could be presenting a misleading picture to Governors.

Fee remissions

The level of fee remissions is another KPI that most schools will monitor. In the past it may have been a business decision taken by schools on what level of remissions can be provided which has helped to demonstrate that the public benefit requirement under Charity Law has been met.

However, with the financial pressures potentially facing schools in the near future, are current levels of fee remissions sustainable? We are starting to see more schools ask these questions and debate them at finance committee meetings in order to ensure their financial model is sustainable and believe this will continue to be high on agendas in the near future.

Capital projects

A school embarking on a significant capital project will need to measure progress against pre-determined milestones and carefully monitor its cash flow over the life of the project.

It might be useful in this instance to have a graph displaying the high and low points of a school's projected cashflow position during the capital build, displaying the level of headroom that is available at any point in time.

If the project is financed by bank loans or other external finance, this analysis should be supported by providing projections against bank loan covenants that the school has to comply with.

Repairs and maintenance

We are seeing that some schools are re-embarking on repairs and maintenance plans, catching up after a period of putting things on hold. The timing of the project is the key thing to consider though. As we saw during the pandemic with capital builds being put on hold until there was more clarity about the impact on the economy, is timing of the maintenance work essential? It may be that some or all of the work is necessary, but could it be staggered over a period of time?

It will be important to consider what information will be key to managing the work, how this is carefully monitored, and some of the KPIs for capital projects will also be relevant here such as cash flow and key milestones in completion.

Other KPIs

Other areas that generate revenue to the school may be important to monitor, to ensure you are maximising income from all sources.

The contribution made by any trading activities should be carefully monitored to ensure that targets are being met and in line with forecasts. You may want to therefore establish KPIs for your trading subsidiaries or other income streams if you have not done so already, such as gross and net profit margins.

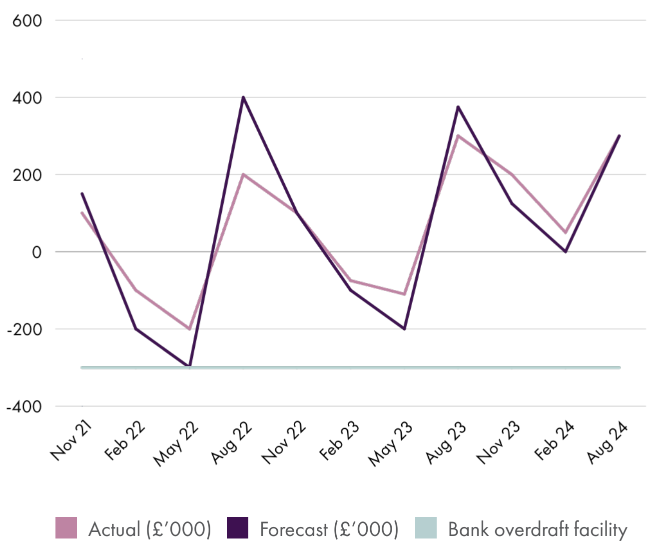
We are also seeing more schools focus on fundraising initiatives by investing in fundraisers or even new structures to help raise funds. Whilst this may take time to return the desired level of contributions, there should be key milestones and targets set to assess the impact of the investment and if it is achieving what you had hoped for.

Dashboards

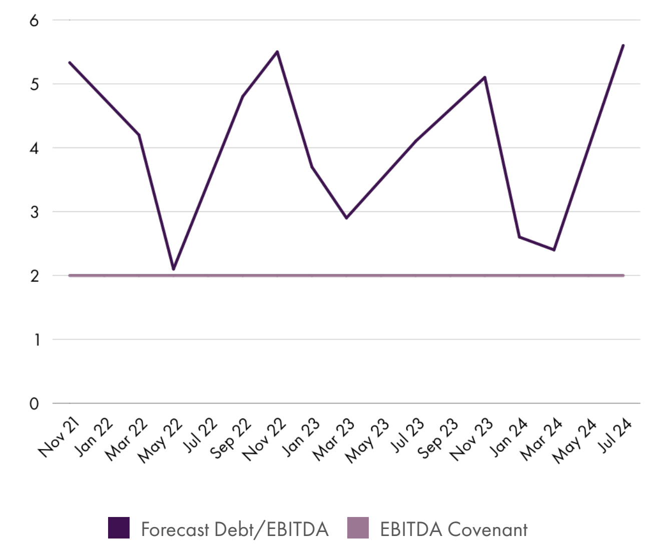
Governing bodies can comprise individuals with vastly different skill sets and dashboards can be very useful in summarising detailed reports for those that don't have financial expertise or experience. Some Governors may be comfortable in interpreting detailed spreadsheets as they have a financial background, or may just have an interest in seeing the detail behind the summary information but this may not be the case for everyone.

Dashboards can provide an at a glance view of the key performance indicators that are relevant to the school's objectives or will help to facilitate decisions. One of the key benefits is the ability to identify trends by presenting financial information visually. Some financial information such as adjusted surplus as a percentage of net fees or fee remissions as a percentage of gross fees will be relevant for all schools, but individual schools will need to assess what KPIs are relevant to them and what information Governors would like to see. The full pack of management information should be reviewed in detail by the finance committee but only made available for those Governors that wish to see it.

Cash flow forecast



Bank loan covenants

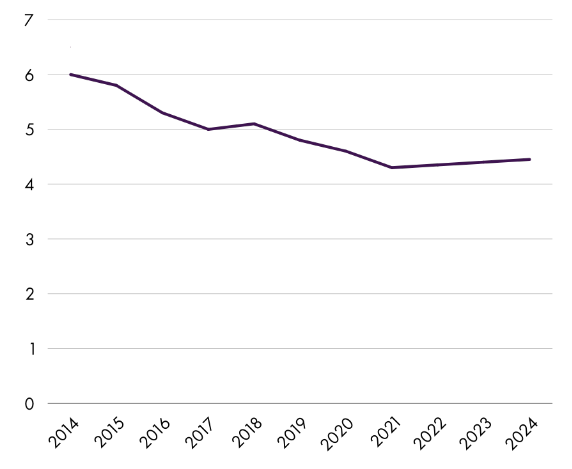


Overview of the month	
Total income YTD	£3,000,000
Total expenditure YTD	£2,710,000
YTD gross fee income	£2,500,000
Fee remissions	£300,000

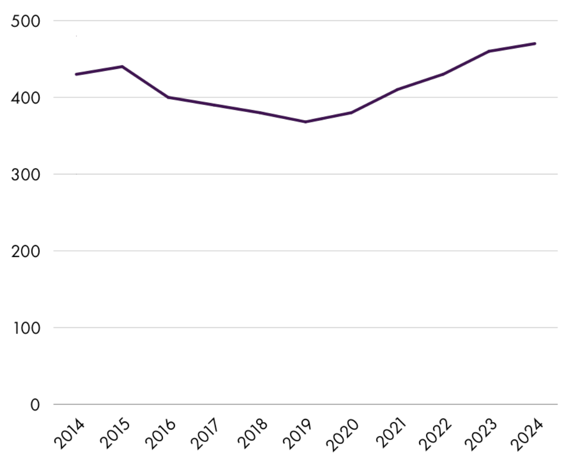
As with all key performance indicators, care must be taken in deciding which information should be presented. Many schools already use KPIs or undertake some form of benchmarking, such as analysing fee increases or the level of surpluses achieved compared to other local or similar schools, which can be presented in a dashboard format. Dashboards can also be used to highlight trends over time, showcasing the impact of when significant decisions were made such as a staff restructuring or the impact of a new boarding house.

If time is not invested in designing an appropriate dashboard that is relevant to the needs of your Governors, its use will be limited. Too little information can be misleading as the full financial picture may not be presented; however too much information can be confusing and difficult to interpret.

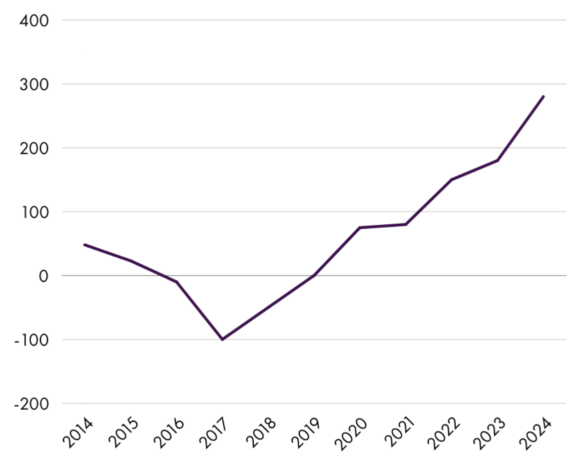
Unrestricted reserves over the last 10 years



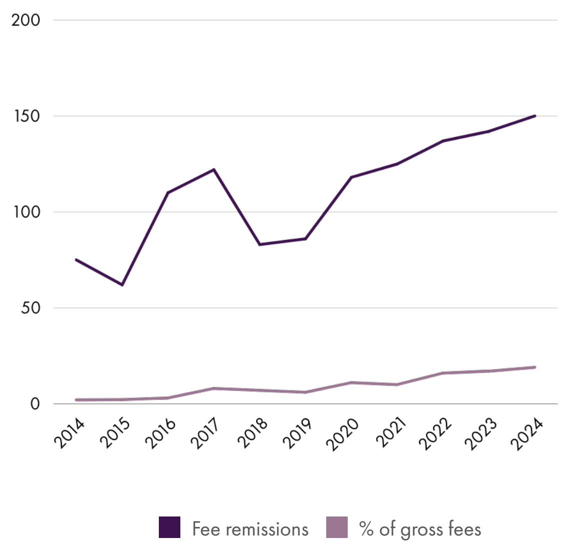
Total pupil numbers



Adjusted surpluses



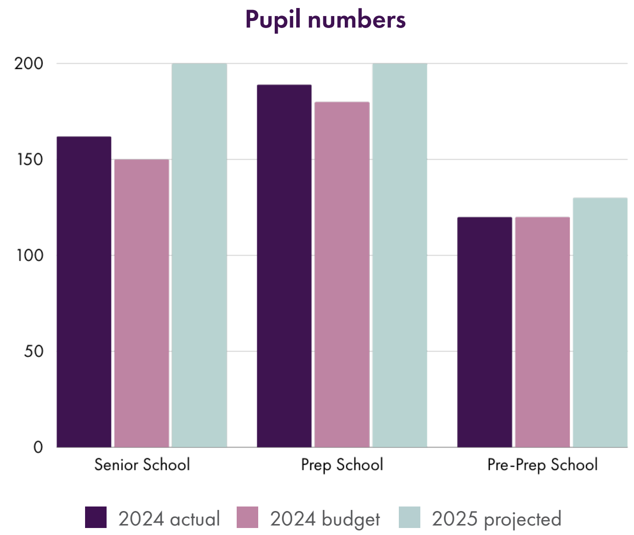
Fee remissions



Dashboards are perceived by many to focus mainly financial information but that doesn't have to be the case. They can also be used to monitor non-financial information such as number of pupil applications for the following year or retention rates for pupils moving between the prep school and senior school. In addition to the financial information, these can be key indicators for Governors to consider when understanding pressure points and evaluating how robust your financial model is.

Dashboards are becoming increasingly popular as a way of presenting financial information in a succinct way at a point in time. Every school is different and has its own challenges and it is therefore key to understand what information is required to enable Governors to make informed decisions for your school.

The most important part of the process is therefore deciding what information to measure and what targets the information should be measured against. Once this has been established, a dashboard can be designed to present that information visually in an appropriate format to monitor your school's performance against financial targets and its strategic plan. This can also help to ensure all Governors are engaged in the decision-making process and not just those that have financial expertise which may be important given the challenges that lie ahead.



Selected KPIs
Pupil/teacher ratio - 45%
Average no of staff 92 (57 teachers)
Debtor days - 12.92 days

Other information
Investment return - 3.2%
Bursaries awarded - £350k
19/20 pupil applications - 125

Payrolling of benefits – what does it mean for independent schools?

Earlier this year (January 2024) HM Revenue & Customs (HMRC) announced the mandatory payrolling of benefits with effect from April 2026. Whilst the announcement provided a two-year period for employers to implement the new requirements, we are still awaiting more details, including a formal consultation process.

The change is badged as a tax simplification, as it will remove the obligation to file forms P11D on an annual basis. However, it will accelerate the payment of Class 1A National Insurance from an annual to a monthly payment to be made to HMRC.

Current position

Currently, employers are required to prepare forms P11D which include the value of the taxable benefits provided to each employee. Whilst this can be relatively simple, there are various steps which need to be considered including:

- Whether the benefit provided is taxable?
- The value to be attributed to the benefit?
- When was the benefit made available to the employee?
- Is it a new benefit which was provided to the employee?
- Is the benefit shared across two or more employees?

All of the above needs to be considered before the forms are completed ,and remember P11D forms need to be submitted to HMRC by 6 July.

Employees will also pay the income tax due on the benefits provided either as an adjustment to their PAYE code number or as part of their self-assessment tax payments.

Finally, the benefits reported on the employee P11D also determines the basis upon which the Class 1A National Insurance liability is calculated, which is then due for payment to HMRC by 19 July (extended to 22 July where payment is made via BACS).

Alternatively, the school may already be familiar with the payrolling of benefits process, this is on the basis that employers can voluntarily register to payroll benefits in kind with HMRC. However, prior agreement in taking this approach needs to be obtained from HMRC. At present, it is not possible to payroll either employee loans, or more importantly any taxable living accommodation.

What is being proposed?

Under the proposals made by the Government, taxable benefits in kind will be subject to income tax in real time through the payroll. The employee will pay income tax, via PAYE, on their salary, typically monthly, weekly, or four-weekly. In addition, they will pay tax on the value of the benefits provided by the school for the same period.

Employers will also be required to pay the Class 1A National Insurance liabilities in ‘real time’ and at the same time PAYE and Class 1 payments are remitted to HMRC; a move away from paying the liability annually.

This will see a change in the school’s payroll procedures, as there will be the need to ensure your systems can collate the data required, in particular:

- Determine which employees are provided with any taxable benefits. This is particularly important where new taxable benefits are being provided.
- Ensure the value of the benefits are ascertained and kept under regular review. This is particularly important where there is a variation in the value of the benefit, for example, an annual uplift in medical insurance premiums.
- Communicate the changes to employees, as the payrolling of benefits will have an impact on their net salary.

Schools will need to plan ahead as April 2026 is not that far away. Consideration needs to be given to the following:

- Determine what taxable benefits are going to be provided after April 2026.
- Speak with your payroll provider on how they are proposing to manage the payrolling of benefits.
    - For example, agree any changes which need to be made to your data export files.
- Contact your benefit providers to ensure they can provide data in an acceptable format.
- Where in-house benefits are provided, such as, taxable living accommodation, you can determine the value of the benefit throughout the tax year.

We are, however, still waiting for the Government consultation documents which will no doubt raise many points which need to be considered in more detail, in particular how they propose to address:

- Changes which need to be made to the payroll.
- How to value benefits which are paid annually by the school.
- How to manage joiners and leavers.
- Whether employers will be required to provide supplementary reports to HMRC and/or employees in respect of the value of the benefits provided each year.

Whilst there is much which still needs to be clarified, schools need to be taking steps in advance of April 2026.

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Fundraising in schools

With the very real threat of VAT on school fees, along with the cost-of-living crisis and increasing costs in general, over the past year a number of schools have embarked on implementing or formalising a fundraising or development department for their school for the first time.

A fundraising campaign can tap into not only current parents and school alumni to grow this income stream for the school, but also build direct relationships with donors.

Fundraising can take many forms, from major capital campaigns, general annual campaigns such as asking exiting pupils to donate their deposit to the school, to smaller one off events such as student led events.

Restricted donations

When starting to fundraise for the first time in particular, schools may find themselves receiving restricted income. This is where the donor has stipulated that the donation must be spent in a certain way, for example a restricted donation for a minibus can only be used to purchase a minibus. Failure to spend the donation in accordance with the terms will be a breach of trust.

Such restricted donations will need to be separately presented in the financial statements on not only the Statement of Financial Activities but also throughout the notes to the financial statements.

As many accounting systems do not have the complexity required to appropriately track restricted donations, maintaining good and separate accounting records (for example in excel) of donated income and corresponding expenditure will be essential.

Other complexities can come about when restricted funds in excess of the required fundraising amount are received, or there are failed fundraising campaigns. As restricted funds should only be spent on the conditions stipulated by the donor, the school needs to ensure that this money is not repurposed without the written permission from the donor. Whilst there has been a change with the threshold to do this as a result of the Charities Act 2022, this only applies to small donations.

Schools should carefully consider the wording of any fundraising campaign to ensure that it enables any donations to be spent on a wider remit or general purpose of the school. This is particularly important for capital campaigns such as replacing a sports hall roof.

Pledged income

As fundraising initiatives grow in a school, and as with well-established alumni fundraising or for larger campaigns, pledged donations can become more commonplace. This is where a donor will commit to donating a certain amount to the school but has not yet physically paid the donation.

It is important that all pledged donations are clearly documented to provide a pipeline of income for the school. This is important not only from a management perspective when considering budgets and cashflow forecasts, but within the statutory financial statements there is a possibility that pledged income could be treated as accrued income, especially where amounts have been received post year end or there is a clear history that the donor has fulfilled previous pledges.

Maximise your donations by claiming Gift Aid

The Gift Aid scheme in the UK allows charities to claim an extra 25p for every £1 donation received. The donor must be a UK taxpayer and must complete a Gift Aid declaration form to enable the school to claim the Gift Aid. If you want to claim Gift Aid you need to be registered with HMRC, and the school must complete the relevant return to HMRC within four years after the accounting year end in which the donation was received.

There are some specific rules regarding record keeping, and what can and cannot be included in a Gift Aid claim, for example payments for goods or services such as a ticket for a school performance. Therefore, we recommend having regular Gift Aid reviews to ensure it is not only being claimed correctly, but the school is maximising this opportunity.

Disclosure in the financial statements

As a registered charity, the school will need to comply with Charity Commission guidance “Charity fundraising: a guide to trustee duties (CC20)”. The guidance contains useful information for the governors of the school in relation to setting an approach for fundraising, following correct practice and maintaining public trust. All Governors, as trustees, should review this if the school is undertaking fundraising activities.

The school should also consider whether it signs up to the Fundraising Regulator which has a Code of Fundraising Practice setting out standards and recommendations to apply to fundraising.

In the annual financial statements, some additional disclosures will also be required in the Governors’ Report to cover details (but not limited to) of the fundraising approach taken by the school, whether any third party fundraising is undertaken, the number of complaints made, and the steps taken to protect vulnerable people.

Summary

Fundraising can bring in a new stream of income for schools, but there are a number of complexities to consider. If in any doubt, we recommend taking legal, accounting, or tax advice.

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Upcoming events programme

We have one of the largest charity and not for profit teams in the country: we act for over 800 clients, accounting for approximately 30% of our annual turnover. Our team of specialists host topical seminar updates and speak at other organisations' events presenting the latest developments within the not for profit sector.

Quarterly Charities Update
4 June 2024
Online

Bi-annual Schools Update
September 2024
Online

Quarterly Charities Update
5 September 2024
Online

AGBIS: Finance for non financial Governors
24 September 2024
Online

NFP VAT and Tax Update
October 2024
Online

Quarterly Charities Update
5 December 2024
Online

ABGIS: Finance for non financial Governors
4 March 2025
haysmacintrye office

AGBIS Conference
March 2025
Queen Elizabeth II Centre

To book your place at any of our events, please visit haysmacintyre.com/events

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If you need guidance on any audit and accounting, financial reporting, statutory obligations, funding, VAT, employment tax or direct tax matter you can contact any member of our Schools team as detailed below.

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