



"COMMITMENT TO THE VOLUNTARY SECTOR"

WINNER 2010
Annual Charity Finance Survey

schools | briefing

haysmacintyre independent schools management survey 2011 | take care with caretaker accommodation leadership: thinking creatively, being strategic and providing excellence | restriction on pensions tax relief fundraising do's and don'ts

editorial



Welcome to the Spring 2011 edition of the schools briefing which covers a broad range of topics, my first as Editor!

We start with David's commentary on the

results of our 2011 independent schools management survey and we include a summary of Vicky Tuck's excellent address on school leadership at our Schools Conference in February.

Accommodation benefits are always a troublesome area and we have included a brief article on changes which impact caretaker accommodation. We share some good news on iXBRL (for some of you at least) and an unfortunate change to auditing standards which will impact your audits in the coming year.

Finally, for those of you involved in fundraising or considering such a venture in the future, Tim Edge, Development Director of King's College School, Wimbledon kindly gives us some do's and don'ts.

I hope you enjoy this edition and please do contact us if you have any questions or suggestions for future publications.

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independent schools management survey 2011



The annual haysmacintyre independent schools management survey has been completed and participating schools received their customised benchmarking reports at the end of February, in sufficient time for consideration before the approval of budgets and fees for the next academic year.

One of the key findings in this year's survey was that the combined total number of pupils of the schools included has remained at a similar level over the last three years, but it is apparent that there has been some polarisation with successful schools benefiting at the expense of their less successful competitors. Overall this indicates that much of the expected impact of the recession and economic uncertainty has not yet been felt by the sector. It appears that the usual time lag may be longer and there are now concerns for the pupil intake in September 2011.

Fee increases averaged 3.5% in both 2010/11 and 2009/10 and salary awards have been approximately 2% in line with the maintained sector. When budgeting for next year, schools will be taking account of the planned public sector pay freeze, inflationary pressures on fuel and food costs and the impact of higher tax rates affecting both the schools' costs and parents' ability to pay.

The trend continues of more bursary support being given (average of 4.2% of gross fees for 2009/10) at the expense of scholarships and staff fee concessions. Some schools are implementing salary sacrifice schemes so as to reduce the cost of payroll taxes and pensions. Copies of the survey (free to participating schools) can be purchased at a price of £25.

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in brief...



related parties

Since your school's last audit a number of changes to auditing standards have come into effect and will impact on your future audits. One of the major changes to our approach which will require

more work is our audit of related parties.

Under International Standard on Auditing (ISA) 550 auditors are now required to focus on the following three areas surrounding related parties:

- identification of previously unidentified or undisclosed related parties or transactions;
- significant related party transactions outside the normal course of business;
- assertions that related party transactions are at arm's length.

In order to comply with the standard auditors must have knowledge of:

- all related parties (even those with no transactions);
- the nature of the relationship;
- the type and purpose of any transactions with related parties.

This standard is much broader than the previous standard. In order to keep additional audit time to a minimum schools are advised to ask all relevant individuals to complete an annual return with the information required above in advance of each audit.

At haysmacintyre we will be discussing this new requirement as part of our audit planning process well in advance of this year's audit.

iXBRL – some good news

From April 2011, as detailed in our Autumn 2010 newsletter, HMRC is making it compulsory for all businesses to file both company accounts and tax returns in an electronic format called iXBRL – inline eXtensible Business Reporting Language.

Thankfully an exemption has now been granted for small incorporated charities (defined as a charity, together with any wholly owned subsidiaries whose combined income does not exceed £6.5 million for the period). We understand this exemption is likely to be in place for approximately two years, and so for now these charities can continue to file their accounts as a PDF.

Unfortunately, this exemption does not extend to trading subsidiaries and so they are required to file tax computations and accounts in iXBRL format.

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take care with caretaker accommodation



It is important to periodically review the accommodation provision for staff. Tax rules change and changes to other legislation can also impact on tax law interpretation.

job related accommodation

Where the relevant conditions are met accommodation may be an exempt benefit. There are several situations in which this can apply:

- Accommodation provided for the proper performance of the duties. The employee lives on site to enable the duties to be performed, for example caretakers who are on call outside normal working hours.
- Accommodation provided for the better performance of duties and where it is customary to do so, to enable the employee to do their work better; for example, pub managers, veterinary surgeons.
- A threat to the employee's security and they must live in the accommodation provided as part of the security arrangements.
- Where the role has representative occupier status.

Where employees qualify for exempt accommodation there is no benefit reporting required. Also, no benefit arises if the employer covers the cost of council tax and water rates although all other utilities or services paid by the employer remain taxable.

resident caretakers and resident wardens

The Working Time Regulations (WTR) limit the number of hours an individual can work and the National Minimum Wage (NMW) legislation affects the hours an employee must be paid for whilst on duty. The result of these two pieces of legislation is that resident wardens and caretakers are often no longer required to be on call for 24 hours a day. HMRC had previously accepted that caretakers and wardens living on site with genuine full time caretaking duties met the conditions for exemption; now they will not automatically accept that the exemption applies. HMRC states that the change in interpretation applied to wardens from 2006-07 and from 2010-11 for caretakers.

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leadership: thinking creatively, being strategic and providing excellence



The key note speaker at our annual independent schools' conference in February was Vicky Tuck, Principal of Cheltenham Ladies' College, who gave her views and experiences of leadership in independent schools.

In deciding on the 'vision' for our schools she said we needed to ask some key questions:

- What does the future hold? What will our children need to know?
- What does the market want?
- What do we believe in? What can we excel at?
- What are the economic factors affecting us?

Schools should focus on what they are good at – their core activities, while staying alert to the market place and what competitors are offering. This is particularly important in the current economic climate.

To achieve your 'vision' you must have the right team to support you. Investing time to employ the right staff and ensuring they are in the right roles will pay dividends. Staff should have integrity, be stable, capable and energetic and have the values and qualities the school wants to nurture in its pupils. It is also important to deal with any shortfall in performance. Teachers are good at tackling poor performance of students but can shy away from addressing under performance of their colleagues.

Investment in structures, procedures and policies is important in enabling a school to achieve its aims and be compliant. However, these can be restraining and at times it may be useful to step back and consider if that Dog Policy is really necessary! Cheltenham Ladies' College has a comprehensive one which Vicky is willing to share!

"Staff should have the values and qualities the school wants to nurture in its pupils."

The Senior Management Team (SMT) should develop strategic plans to achieve the 'vision', which should be approved by the Governors. As part of this the SMT should take responsibility for the financial implications of their plans. In most cases the bursar would be the only member of the SMT with a financial background and so is integral to this process. Good working relationships between the bursar, the Head, and the rest of the SMT are essential.

The SMT are also responsible for assessing the risks to which the school is exposed and ensuring that action is taken to mitigate risks appropriately and planned for effectively. These should be reported to Governors and discussed at Board level. It is important to remember you can't prepare for everything, but you can endeavour to be calm and resourceful under pressure.

For the many Governors in the audience, Vicky stressed that they should have understanding of the needs of the Head. The role of Head is a rather lonely existence and the support of the Governors is vital. A good and honest relationship will enable the Head and school to flourish.

Finally, Vicky gave us her thoughts for UK independent schools:

- Hold your nerve in the current economic climate and don't offer scholarships to fill your school.
- Be confident – learning English and a UK education is highly regarded overseas.
- Remember your ambitions and focus on achieving them.
- Schools should encourage breadth of knowledge in our students and thinking, not rote learning.
- We shouldn't get too caught up on grades.
- We should take risks.
- Preserve what we do well and don't compromise on values.

This enlightening address, illustrated with some amusing slides, was very well received and got the conference off to an excellent start. We wish Vicky all the best in her new role as Director General of the International School of Geneva in September.

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restriction on pensions tax relief



background

“Simplified” rules for restricting tax relief on pension contributions took effect from 6 April 2011. Pension savings (as defined) in excess of £50,000 pa will create an Annual Allowance Charge (AAC) for the

individual concerned as an additional income tax payment, calculated by reference to his/her marginal income tax rate.

pension savings

For defined contribution (or money purchase) pensions, pension savings are the aggregate of contributions, inclusive of any basic rate relief (20%) at source and employer contributions.

For defined benefit (DB) schemes, pension savings are the difference between the “value” of benefits at the beginning and end of the tax year, comprising:

- the accrued pension element, found by applying a multiple of 16, plus
- the accrued tax free cash (TFC).

example

Members of the Teacher’s Pension Scheme (TPS) accrue defined benefits of 1/80th of salary for each year of service plus TFC on retirement of 3/80ths. A member with pensionable salary of say £42,000 and 32 years’ service at the beginning of the tax year and salary of £49,000 at the end would be deemed to have pension savings of £64,829 and an AAC of £5,932, as indicated in the box below.

This is a significant additional tax charge for the teacher.

look back 3 years

However this may not be the final answer. If, by performing the above calculation for each of the previous 3 years,

pension savings are less than £50,000, the unused annual allowances from these years will increase the annual allowance for the current year above £50,000 by a corresponding amount. Thus, in the above example, unused allowances brought forward of £14,829 (or more) would eliminate the AAC.

who pays?

If the AAC exceeds £2,000, the individual will be able to elect for this to be settled by the pension fund (as and when due) instead of personally. However, the scheme will be entitled to modify benefits ultimately payable.

If the AAC is £2,000 or less, and so remains payable by the employee, its collection can normally be spread via amendment to next year’s PAYE tax code.

other considerations

- The higher that any of:
 - the number of years accrued pensionable service,
 - the cash increase in pensionable salary and
 - (to a lesser extent) the current salary level
 may be, the more likely it is that an AAC will arise.
- If a major salary increase is contemplated for DB employees, could this be staggered over more than one tax year so as to stay within the £50,000 annual limit.

Certain anti-avoidance rules expected are beyond the scope of this article. The above is thus only a summary of the main rules and detailed professional advice will usually be required for individual situations.

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	Salary		Accrued Pension		Tax Free Cash	Combined
	£		£		£	£
Opening:	42,000	x 32/80	16,800		x 32 x 3/80	50,400
Closing:	49,000	x 33/80	<u>20,212</u>		x 33 x 3/80	<u>60,637</u>
Uplift			<u>3,412</u>			<u>10,237</u>
Multiple			16			1
			54,592		10,237	64,829
						(50,000)
						14,829
						£5,932
Annual Allowance Charge (AAC) – assumed marginal income tax rate 40%						

fundraising do's and don'ts



Tim Edge, Development Director of King's College School, Wimbledon, gives some best practice tips on how to establish and maintain a successful fundraising operation at your school.

invest properly for medium to long-term results

The Head, Governors and Bursar must be in full agreement that the appointment of a development team to raise capital funds and sustainable income is an essential component in the future growth and prosperity of the school. The next stage is to provide the development team with the budget, resources and breathing space necessary to design strategies and plans that will bear fruit over the medium to long-term.

recruit wisely and offer a soft landing

'Previous fundraising experience in an educational environment is essential'. Many misguided development job advertisements are phrased in this way. Far more important than recruiting a skill-set is to attract the kind of personality who will thrive in your working environment. Who will relate positively at all levels and who will have a flair for building the essential relationships that are the life-blood of any successful fundraising operation? Having attracted the right personality, ensure that they stay by offering proper training, support and induction. Schools can be alien landscapes, particularly for those transferring from a corporate environment, and a soft (rather than bumpy) landing should be facilitated.

"Unless you get the relationship building right you will get the fundraising wrong."

sustainable income flows from enduring relationships

Unless you get the relationship building right you will get the fundraising wrong. It's as simple as that. Nurture your existing donors; never miss an opportunity to keep them in touch with the value of their philanthropy to your school. Identify your major gift prospects. Brief them on your plans for the future of the school, discover their main area of interest, involve them in aspects of your work. Turn these prospects into donors, not by an inappropriate or badly timed ask, but through a mutually beneficial relationship that prompts them to make the first move; "I think it's time that I supported your plans for the renewal of the theatre" etc.

set the lead from the top

Having agreed to the establishment of a development team, it's amazing how many schools give them lukewarm backing once they are in place! Heads, Governors and Bursars should be outspoken in their support of development work whenever the opportunity arises. Access to the Head by the development team is crucial and their reporting to anyone else is not only operationally dysfunctional but can send negative messages about the standing of development within the school.

manage expectations

Make sure your Governing Body is liberally sprinkled with those of a commercial background who understand that development work should be measured over the medium to long-haul. Heads and Bursars often feature on the Boards of schools which aspire to raise significant funds but how often are Development Directors represented? Finally, ensure that development appraisal targets represent a mixture of financial and relationship building goals that are realistic, easy to measure and ranged over an appropriate time period.

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future events

- catholic charity conference 18 May 2011
- VAT seminar for schools June 2011
- bursar and governor seminars 15 September 2011
19 September 2011
21 September 2011
- trustee training event series Autumn and Winter 2011/2012
- haysmacintyre annual schools conference 1 February 2012

For further information on these events please contact our events team on 020 7969 5698, events@haysmacintyre.com or visit www.haysmacintyre.com

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