

"OVERALL AUDIT SERVICE AWARD"

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Annual Charity Finance survey



schools | briefing

editorial | reflections on the annual schools conference | independent schools management survey 2010 | strategies for schools | VAT: the reverse charge | relationship banking | salary sacrifice for schools | guest article - every fluffed parent enquiry costs you at least 10k - so get it right!

editorial



Welcome to the spring 2010 edition of schools briefing which covers a broad range of topics

We start with Noble's commentary on the independent schools management survey and we include a summary of Dr Seldon's recent address on strategic issues.

Pupil recruitment should be a high priority and we have two related articles: a guest article from a marketing consultant on improving your admissions success and one on the recent changes affecting VAT on commissions to overseas recruitment agencies.

At a time when some schools are reducing the value of staff fee concessions in order to free up funds for means-tested bursaries, there is a suggestion of a way for teachers to mitigate the cost by salary sacrifice arrangements – and the school benefits too. We are also delighted to include a second guest article confirming that bankers are also human!

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

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independent schools management survey 2010

The haysmacintyre survey is now complete and available. This is the 26th year in which the survey has featured and the format for the survey largely follows the disclosure format for Charities SORP accounting.

The survey includes an executive overview, a section outlining the way in which the survey is conducted and its objectives. There are then specific detailed individual tables for seven different categories of school: senior boarding schools, senior day schools with a boarding presence, senior day schools, combined senior and junior day schools, combined senior/junior boarding/day schools, preparatory boarding with day schools and preparatory day schools.

It is evident that last year fee increases were restrained and were an average of 5.3% with additional amounts being given for fee concessions than in earlier years. The average increase in expenditure for the year was 5.1% and there continues to be growing pressure on the margins and hence the cashflow for schools, especially those that are operating at full capacity, for a variety of reasons.

After 26 years of publishing the survey, I now hand over the responsibility to David Sewell on my retirement at the end of 2010. I wish him every success.

Copies of the published survey can be purchased for £25.00

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reflections on the annual schools conference



We have just concluded the 17th Annual Schools Conference. Since 1994 I have been responsible for organising this annual event for the Firm which in recent years has become somewhat of a premier event within the sector and

regularly attracts a capacity audience of 200 delegates to attend the all day conference.

In 1993, it was apparent that there was little in the way of Governor and other training available and with the agreement of the then General Secretary of the Independent Schools Joint Council, Arthur Hearndon, I agreed and did organise the first such conference which was held at Church House, Deans Yard in Westminster. The format then in February 1994 followed a similar offering to that presently in that there was a keynote speech, and a number of relevant talks about current issues together with an update on the domestic and international economic scene. The first keynote speech was undertaken by Robin Reeve, the then Headmaster of Kings College School, Wimbledon.

It is interesting to note that the Charity Commission presented a very eloquent speaker in that year, namely Richard Cordon, who has spoken since but in a different capacity. In 1994 he came with the recently published first edition of the Charities Statement of Recommended Practice for the delegates to receive.

Keynote speakers in subsequent years included Dr Hearndon, David Woodhead from ISIS, Ian Beer, the then Deputy Chairman of ISJC and GBA and Dr Alastair Cook who was then the successor General Secretary to the ISJC.

In 1999 we had a break from normal tradition and Tony Evans and Margaret Rudland gave a presentation on the International Baccalaureate. The late Michael Maver, presented in 2000 and subsequently, Graham Able the Master of Dulwich College made keynote speeches twice, followed by the late Elizabeth Diggory and Ian Beer, together with in 2003, The Rt Hon Dame Angela Rumbold. Recent years have seen presentations from Katie Ricks, Dr Anthony Seldon and Jonathan Shephard, during his brief term as General Secretary to the ISC, and a further talk from Richard Cordon where he was then at the Home Office Charities Unit when he spoke in 2006.

My final speaker in 2010 was Dr. Anthony Seldon whose talk is covered in this publication. Over the years we have had outstanding presentations from Professor Joe Nellis of The Cranfield School of Management and excellent presentations from our legal representatives, Francesca Quint to Christopher McCall and Hubert Picardo on the Charities Act and public benefit updates.

The conference has always been very well received and it is as much to do with an update on current issues as it is with networking and meeting fellow Governors, Bursars and heads to exchange information and ideas. In recent years, the conference has been held at Drapers Hall which is an outstanding venue for such a large gathering.

The haysmacintyre schools conference is now extremely well established and will no doubt continue to new heights in the future under the guidance and direction of David Sewell who will succeed me as the organiser and Chairman of the meeting on my retirement at the conclusion of 2010.

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“The conference has always been very well received and it is as much to do with an update on current issues as it is with networking”

strategies for schools



The key note speaker at our Schools Conference in February was Dr Anthony Seldon, Master of Wellington College. Dr Seldon started by reminding us of the perceived threats to the independent schools sector in 1997,

when the new Labour party promised to increase the level of Government spending on state schools to the levels enjoyed by independent schools. He then outlined where the sector is now after nearly 13 years of a Labour Government.

Back in 1997 the key threats to independent schools were:

- **cost** increases such as rises in the rate of VAT
- increased **competition** from the state sector
- **affordability** of independent schools
- an **economic downturn**
- removal of the **Assisted Places Scheme**
- **new entrants** such as GEMS
- **overseas competition**
- **cut-price** independent schools
- **discrimination by universities** of students
- increased **press bias**
- increased **bureaucracy**
- challenging **teacher recruitment**

Despite these threats the sector has continued to prosper, as evidenced by increases in the number of children attending independent schools. However, many of the points identified continue to be, and in some cases are of greater concern to the sector today.

Dr Seldon went on to highlight the negative issues currently facing the education sector, the challenges and on a more positive note, the opportunities for the independent sector.

The negatives:

- **misbehaviour** and **truancy** amongst students
- difficulties **recruiting** quality teachers
- **head** vacancies
- pressure from **targets, child protection** and maintaining **discipline**
- schools are becoming **exam factories**
- lack of trust from regulators resulting in **interference** and reduction in **autonomy**
- falls in **wellbeing of children** as a result of issues such as drugs and binge drinking
- school leavers **lacking the skills** required by employers

The challenges:

- deterioration of the **nuclear family**
- **changing expectations of mothers** with an increasing proportion working
- **lack of respect for authority** amongst children
- **erosion of values**
- **multicultural** communities
- **ICT revolution** which is changing the way our children learn
- children spending significant amounts of time in front of **computers**
- current **national examination system**

The opportunities for the independent sector:

- providing an **innovative curriculum** such as IB and Pre-U
- focus on the **wellbeing** of pupils
- celebrate **holistic education**
- utilise the opportunities **ICT** provides
- instil moral and spiritual **values**
- learn from **overseas** schools
- consider **expanding** operations overseas
- assertively **champion the sector**
- maximise **economies of scale**
- **differentiate** between senior, middle and junior schools
- active Governors and governing bodies are needed to provide **leadership** to a school
- **universities** are dependent on the sector to provide intellectual students
- utilise **active parent bodies**
- work with **local state schools**
- provide **language** courses not provided by the state sector

This illuminating address and Dr Seldon's responses to questions were well received and got the conference off to an excellent start.

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"Despite these threats the sector has continued to prosper, as evidenced by increases in the number of children attending independent schools."

VAT: the reverse charge



An issue that seems to have caused significant interest amongst schools that recruit pupils from overseas is the treatment of imported services from agents who assist in this process. The rules concerning such services changed (either really or purportedly) on 1 January 2010. This may be the first time a school has had to grapple with the so called "reverse charge", which became a reality for such services at this juncture. It may help, then, if I describe the reverse charge and explain why it rears its head at this point in time.

As the resonance with telephony suggests, the reverse charge involves the recipient of the service having to account for the VAT (on its VAT return) rather than the more familiar situation where a supplier does so. But this only arises in certain strict situations, and one of these is in regard to imported services. The reverse charge addresses a practical deficiency in VAT, which is that the supplier is sometimes more elusive in terms of paying VAT than the customer. A foreign supplier has no assets in the UK, whereas a UK customer does. Hence it is easier for the authorities to extract VAT from the customer. But to create certainty of treatment it is better to put that liability solely onto the customer at the outset rather than waiting to see if a supplier defaults. This also ensures that the customer is not tempted to shop abroad for VAT-free services. Hence the "reverse charge".

The rule has, in general, been with us since the inception of VAT, but the detail of where it applies has not remained static. Prior to 2010 only certain kinds of intangible service were generally included. Such services included consultancy, advertising, and making arrangements for a supplier and customer to transact with each other. Of these three, the last one did not apply at all unless the importer was already registered for VAT (but the first two could do, about which more below). Now, the interesting question this brings to mind is whether the agency services in question were such kinds of service, or whether the services could not be made to fit under such tags. If they could not be made to fit, then there was no reverse charge. It seems that that is how they were viewed.

However, a change in rules in 2010 has put that issue beyond debate, since any such service is now unequivocally within the reverse charge. What effect does this have (assuming for the moment that the services were validly outside the reverse charge prior to 2010)?

The most obvious change relates to VAT registered schools which purchase services from agents based elsewhere in the EU. Assuming that the reverse charge did not apply prior to 2010, these fees should have been subject to VAT chargeable in the country of the supplier. They should not have escaped a VAT charge altogether. But from 2010 they should be free of VAT charged by the supplier, and subject to VAT under the reverse charge at the UK rate of VAT. Since that rate of VAT is lower (at the time of writing) than the EU average, then the change seems beneficial, but only as long as the supplier was correctly charging VAT on the services prior to the change.

The position is much starker where the services are supplied by agents based outside the EU. The reverse charge creates a VAT liability where no VAT liability existed previously (though some non-EU states, such as Switzerland, have VAT codes that mirror the EU closely, for obvious reasons). Here, the new position creates substantial extra cost.

The impact is a little different for schools that are not registered for VAT. VAT law requires that certain reverse charge services (the majority in practice) count as taxable turnover. This means that the value of the purchases have to be taken into account when considering whether the school needs to register for VAT. This can cause schools that need not otherwise register for VAT to have to register. This not only creates a cost on the services being purchased, but also in regard to low levels of taxable supplies made by schools which otherwise would escape taxation on the basis that the registration thresholds had not been breached. On the other hand, if the value of the imported services, together with the taxable supplies made by the school, remain below the threshold, then there is no need to register. This would mean that the new rules have the potential to be favourable. The EU based supplier now need not account for VAT in his own country, as long as he can demonstrate that his customer is a business enterprise; but the importer need not account for VAT under the reverse charge because the registration thresholds are not breached. This, legitimately, gives rise to nil taxation. But that would be highly fortunate, and perhaps an exceptional situation.

For many schools the imposition of VAT on such fees is tolerable, but the requirement to register an unregistered school for VAT seems far worse (for whatever reason). Is there a solution to this problem? We think there should be. It is worth recalling that the only purpose in the reverse charge is to ensure that VAT is paid on VATable services instead of them being untaxed. It is not part of the purposes of the rule to create extra

administrative burden per se, or to seek to limit the legitimate impact of the UK's high VAT registration thresholds. It thus seems legitimate to use a company that is already registered in the UK for VAT, and have that company contract with the agencies to procure the services in question. That company must then apply the reverse charge, and must then charge at least the same value, plus the relevant VAT, to the school. That way the school pays the VAT on the true market price for the services, but does not need to register for VAT. The obvious candidate for such a company is a subsidiary of the school which is, for other reasons entirely, registered for VAT. This either will, or may, not work if the contracts with the agencies are not transferred properly to the subsidiary. The agency may decide not to agree to transfer the contracts. They are likely to want a guarantee from the school to indemnify them in the event that the trading company proves unable to pay their bills. There may be charity law and contract law issues around this to address to your solicitors.

But the solution seems relatively straightforward and does not involve avoidance schemes or anything uncomfortable like that. So, if you need to account for the reverse charge, what procedure needs to be followed? First, you need to convert the invoice into a sterling value. Then, you need to apply the current rate of UK VAT to that value to determine your liability. You then add that VAT value to box 1 of the VAT return, and that increases your VAT payable to HMRC. You might be able to reclaim a small proportion of this VAT in box 4 of the return, but that depends on your partial exemption method.

One last point may be worth making. As can be seen from the above description, an issue that surrounds this point is that, arguably, an agency's supplies could be classified in more than one way, and might arguably have been subject to the reverse charge all along. Another aspect of that point is that certain supplies in the world of education are exempt from VAT (such as your own supply to the pupil). It is not entirely inconceivable that a certain kind of agency supply may fall into that category, but to achieve that, at the very least, the agent would have to be responsible for testing candidates and selecting them by applying standard setting techniques. That subject might even be one for a separate article, and merits further consideration and discussion between schools that are interested in this whole area.

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relationship banking



When I was a young I was forever getting my heart broken in relationships that were 'doomed from the start'. Beautiful eyes or a stunning smile were great but unless that deepened to know the things that mattered to that person, what made them laugh or cry, what were their hopes or fears, it was inevitably going to end in tears. Relationships I grew to know are complex and require understanding to essentially getting beyond the packaging to the real person.

It's interesting in this context when banks use this word 'relationship' in their dealings with schools and institutions. We are a 'relationship bank' is one of the most used phrases and considered to be a unique selling features to the sector. One that is often expressed as a requirement by many bursars. Is your experience of banking a meaningful relationship or has your heart been broken after discovering it's merely packaging after that annual review that increased your lending margin without notice?

It must be acknowledged that banking is going through a torrid time and the last two years have been shaking the very foundations of the financial system bringing fears that we were on the brink of 'meltdown'. Did we ever expect to see government having to inject unprecedented capital into global financial institutions and well-known high street banks? This crisis has not been reserved for the banks but has had the knock-on effect upon society, manifesting itself in schools being unable to access credit, facing changes in policy and the rising costs of funds.

So what happened to that relationship?

It died.

The relationship model was merely packaging.

The next generation of banking for the schools sector, following this meltdown, has to have the integrity and tenacity to go back to the 'old-days' when banks did what they did well, being safe and cautious, being sensible and risk-adverse, basing judgements not just on the mathematics of the balance sheet but upon a profound understanding of your school and the sector. Its hopes, its vision, its people. It has to regain the trust that is essential in any long-term meaningful relationship.

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Relationship banks are open to the schools sector. For the right school that wants to base their banking relationship on these foundations. To move away from transactional banking to a customer focus that has a sector knowledge, that has an appreciation of the pressures from the Charity Commission, pupil numbers, fee levels while continually striving the drive to quality and excellence. A relationship that understands your pressure to maximise the return on your investment for the school.

Today it is an excellent opportunity to maximise your return for financial investment. Long-term rates are at historic low levels

and many schools are empowered to borrow and to enter into hedging and secure funding. Or to consider the equipping of that new IT suite with state of the art equipment, or that sector leading gym that needs facilities or replacing that tired tractor that has been chugging around the sports field for the last ten years.

I would go as far as to say that with what the last few years has taught us it's a good time to be looking for a true relationship bank. A bank that knows what you want and helps you achieve it.

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salary sacrifice for schools



Schools are facing difficult economic times and effective, cost saving plans are worth considering. Salary sacrifice schemes are well established and accepted by HMRC, but schools do need to consider certain aspects specific to teachers.

A salary sacrifice occurs when an employee gives up the right to receive part of the cash pay due under their contract of employment. Usually the sacrifice is made in return for the employer's agreement to provide the employee with some form of non-cash exempt benefit. The 'sacrifice' is achieved by varying the employee's terms and conditions of employment relating to pay. The usual exempt benefits included in such schemes are childcare vouchers, bike to work schemes, work related training and work place parking. By extension, salary sacrifice is just as tax effective for discounted school fees, because the benefit in kind charge is limited to the marginal cost.

Independent schools are not obliged to comply with the Conditions of Service for School Teachers in England and Wales (The Burgundy Book) so may have the scope to implement salary sacrifice arrangements.

Many schools offer discounted or free places for the children of their employees. HMRC accept that the benefit in kind charge arising is limited to the marginal cost to the school of providing the place, this is typically 15% of the full fee.

Salary sacrifice can affect pensions and consideration must be given to what will still count towards pensionable earnings. The Teacher's Pension Scheme permits teachers to participate in

salary sacrifice in relation to childcare vouchers, bicycles and mobile phones without the sacrifice reducing the pensionable salary. (Source: Teacher's Pensions News Issue 20 Summer 2006). Participating in salary sacrifice for other benefits is still possible but may affect pensionable earnings. Having said that, the final pension is determined from the last 10 years of service, and so a reduced salary may not affect those a way off retirement; although death in service and other pension linked benefits may be affected.

example

A teacher currently enjoys a 50% fee remission on annual fees of £15,000. The balance of fees due is £7,500 and this is paid by the teacher, assuming the teacher is a basic rate taxpayer, from taxed income of £10,869. No P11D report is required as the employee is paying more than the marginal cost.

The teacher instead, decides to enter into a salary sacrifice arrangement to sacrifice an amount of £7,500 to cover the balance of fees.

A basic rate taxpayer would achieve a saving of £1,875 and the employer saves employer's NIC of £672, giving a total saving of £2,547.

A higher rate taxpayer would achieve a saving of £2,174 and the employer saves NIC of £675 giving a total saving of £2,849.

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guest article: every fluffed parent enquiry costs you at least £10k – so get it right!



A few years ago, I wrote an article in the sector press with this headline and, in the intervening period, my consultancy has been asked to improve the admissions operations at a number of schools, Yet I continue to be amazed – as I read my colleagues’

reports and recommendations going out to clients – how little attention is being given to reviewing and enhancing this most vital contributor to a school’s commercial success.

Many a Bursar will be saying ‘*Sounds like marketing hype to me – tell me where that figure comes from.*’ Well, it isn’t hype. Suppose staffing issues mean that **six** parental enquiries are not entered into the enquirer database properly and so are not followed up. If your school normally converts one-in-three enquirers into visitors, and registers half those visitors, this flawed performance means your school has, in effect, said goodbye to one new pupil. That lost recruit will, very conservatively, represent a minimum revenue loss of £60k – probably much more. Divide that figure by those six original enquiries and that’s a loss of £10,000 for each fluffed enquiry. Not handling your admissions to best advantage day in, day out, is very costly.

So, what to do? This term is a great time for the strengths and weaknesses of your school’s admissions to be reviewed, allowing indicated changes to be implemented before the start of the busy autumn term. So here are three thoughts – and an invitation to clients and friends of haysmacintyre – to help you start the process.

1. look again at your web site. Is the clear focus of your site **ADMISSIONS**? Whilst current parents are also important, it is **new visitors** that must be the site’s unrelenting focus. Put yourself into the role of a parent prospect (or ask an external expert to do it for you). Is it easy for a first-time visitor to navigate? Is it obvious how to quickly identify open events – within two clicks? Can they – not you, who know your way round the site – readily find all the key school dates in one place? These are a few starters that will help you see your site as does the first time visitor.

2. reconsider PiP. Pricing in Proportion is the Royal Mail’s way of rewarding those majoring on C5 (roughly speaking, half A4 size) envelopes and smaller – and punishing those still mailing out bigger C4 envelopes. We are currently working with a group of prep schools that now have their prospectuses in A5 format, each copy digitally colour printed. When they need another 100, they have them run off. Less cashflow is tied up in boxes of printed material (that may end up ‘lost’) and the size means significant postage cost-savings every time a prospectus is sent out.

3. look at how you promote your Open Mornings. Can visitors print off a webposter® so they have an attendance aide memoire for their mantelpiece or hall table? The best webposters® are simply your full-colour open event newspaper ad offered to website visitors as a download in PDF format. Very little cost; good impression; increased attendance.

Finally, as you look into the detail of your admissions management, **are there issues that you are not too sure how best to resolve?** Is your follow-up system sufficiently robust? (SMP Admissions Reviews find that very few are.) Are the tasks allocated to your available human resources to the best advantage? Do you know what is now acceptable in terms of your ‘sales’ approach? Note down the three aspects most worthy of further enquiry in your school’s admissions operation, then call me to talk them through. There’s no charge for the advice, and I would be happy to help you.

Stephen Martin-Scott

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"This term is a great time for the strengths and weaknesses of your school's admissions to be reviewed..."

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future events

- catholic charities conference 19 May 2010
- employer compliance seminar for schools 27 May 2010
- accounting and legal update seminar series for charities Summer 2010
- bursar and governor seminars 15 September 2010
20 September 2010
22 September 2010
- training courses for charity trustees Autumn and Winter 2010/2011

For further information on these events please contact Samantha Cottle on 020 7969 5668, scottle@haysmacintyre.com or visit www.haysmacintyre.com

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