

haysmacintyre

"BEST ALL-ROUND CHARITY AUDITOR" - WINNER 2006
"OVERALL AUDIT SERVICE AWARD" - WINNER 2007 & 2008
Annual *Charity Finance* survey



Independent Schools Management Survey 2009



This is the 25th edition of the annual haysmacintyre Independent Schools Management Survey. The Independent Schools sector prospers despite challenges from a number of sources such as demography and compliance issues. The sector remains a priority for haysmacintyre.

Advising charity and commercial clients from our central London office, the firm has ever-increasing resources, expertise and experience. As the head of our education unit, I am supported by haysmacintyre's charity specialists, David Sewell, Adam Halsey, Richard Weaver, Bernie Watson, Murtaza Jessa, Tracey Young and Kathryn Burton, VAT expert Graham Elliott and our tax partner Anne Gregory-Jones.

We are the financial advisers and auditors to more than 120 independent schools and act for the Independent Schools Council, The Association of Governing Bodies of Independent Schools, The Headmasters' and Headmistresses' Conference, The Girls' Schools Association, the Society of Headmasters and Headmistresses of Independent Schools and the Common Entrance Board.

The firm's international expertise is enhanced by its membership of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in 100 countries. Through MSI, we keep up-to-date with issues and surveys from all corners of the globe, enabling us to share news on developments and innovations with our schools in the UK.

The Survey is presented in two parts, firstly an overview of comments and an executive summary on the sector as a whole with relevance to the Survey statistics. I have also incorporated comments on some of the issues and concerns of the sector both presently and for the future. The second part of the Survey includes the introduction, objectives and basis of the Survey together with the Survey tables themselves. As before, the Survey tables do not deal with net surplus but the participating schools' individual Survey reports do produce information to enable comparisons to be made.

I would like to thank all of those schools who have contributed information to the Survey over the years. Their participation in the Survey has benefited the sector as a whole and I hope that they will continue to participate. The Survey information is important to the sector as it continues to be available as evidence with HM Revenue and Customs for the marginal cost of benefits in connection with the Pepper v Hart Case.

A handwritten signature in black ink, reading "Noble M Hanlon". The signature is written in a cursive style and is followed by a long horizontal line.

Noble M Hanlon
haysmacintyre
March 2009

Governors and senior management within our schools are under increasing pressure to ensure that sufficient surplus is generated to fund working capital and the forecast capital investment programme. The present economic climate makes this even more relevant.

Fees

- The average increase in fees for 2007/2008 from the Survey findings was 5.7% (5.6% in 2006/2007) with the Senior Day Schools recording the highest increase of 6.0%. For 2008/2009 reported fee increases were 5.4% on average.
- In 2003/2004 the additional imposed expenditure on teachers pension employer contributions, and increases in insurance and salaries resulted in a very high fee increase of 9.0%. The average fee increases since then have been much lower as stated above.
- Boarding schools with day pupils continue to examine the day fee relationship to the boarding fee. In the past a percentage relationship of 70-75% has been considered normal. This may now rise to 80% or higher in certain circumstances.
- The Charities Act and, in particular, the guidance provided by the Charity Commission, as assisted by the ISC, over the definition and implications surrounding the Public Benefit Test has now been published. Further consultation is now planned for education and fee charging charities.

Income

- The average increase in net fee income (i.e. gross fees less remissions) was 5.4% in 2007/2008 (6.6% in 2006/2007).
- The average increase in total income including contributions from trading activities was 5.6% in 2007/2008 (7.0% in 2006/2007).
- Many schools continue to explore ways of attracting additional income from non-school core activities, even if a marginal cost approach is adopted.

Fee Concessions

- For 2007/2008 bursaries and scholarships absorbed 9.1% (9.8% in 2006/2007) of gross fees and represented an increase of 2.1% from the year earlier.
- Present indications are that many schools continue to experience increased pressure to provide additional bursaries for parents who are unable to pay the full fee.
- Fee pressure coupled with the concerns arising from the Charities Act over "public benefit" criteria will add to the expenditure burden for this topic for many schools.
- Conversely, many schools continue to examine ways of providing more means tested scholarships and support for deserving pupils against a backdrop of increasing pressure on fee income.

Expenditure

- Teachers' salary increases for 2007/2008 are an average of 3.2% with 3.0% being reported for 2008/2009. The pupil:teacher ratio in each year remains fairly constant at 8.2:1.
- The increase in teaching costs for 2007/2008 amounted to 4.4% and those costs absorbed 51.0% of the net fee income (For 2006/2007: 4.7% and 51.5% respectively).
- Schools continue to explore ways of restricting salary cost increases for teachers, with more emphasis now being placed on providing more support for the teachers, either through less costly head-count or ICT support systems.
- Non teaching salaries in 2007/2008 increased by an average of 3.3% with 3.1% being reported for 2008/2009.

Current economic uncertainty will cause governors and senior management to take an increasing interest in the financial budgets and outturns of our schools.

Expenditure (cont.)

- The average cost of a teacher was £49,544 with wide differentials continuing to be evident. The additional costs of accommodation and travel for teachers living in London and the South East result in very competitive salaries being offered, particularly within London.
- A substantial cost for schools, and especially for boarding schools, is those related to premises, in particular those for buildings. The average increase in building costs for 2007/2008 was 5.1% and those expenses absorbed 14.0% fee income. In 2006/2007 the increase was 8.3% and absorbed 13.2% of the net fee income.
- It is clear that planned maintenance to control the level of spend for schools is essential along with a continuing emphasis being placed on levels and costs of insurance cover.

Taxation

- VAT continues to be a complex tax which requires expert advice. Non registered schools can find themselves inadvertently above the threshold for registration with consequent unforeseen liabilities.
- An increasing number of schools that are registered are having their levels of VAT recovery challenged by HMRC.
- Many VAT saving schemes have also been challenged by HMRC. Care and judgement will be required for any further schemes.
- PAYE and national insurance reviews by HMRC and others are highlighting the complexity of the legislation and the difficulties in fulfilling full compliance despite the schools' wish to do so. PAYE/Benefit

in Kind compliance visits are now frequent with particular attention being focused upon accommodation benefits.

- Separate trading companies continue to be targeted by HMRC and it is essential to ensure that they are independently financed from the charity. A loan agreement needs to be agreed detailing the terms of the loan including: interest rates, repayment basis and security.

Reserves

- The increase in total expenditure for 2007/2008 was 5.6% and compares with a net fee income increase of 5.4% and a total net income increase of 5.6%.
- The net surplus average for 2007/2008 was 8.7% but there are wide variations between the groups and types of schools. As we say later on in the report, the financial arrangements, needs and methods of operation within Independent Schools do vary widely, each having different requirements.
- We continue to believe that schools should target at least a 5% return on net fees with many requiring 10% or more to provide the working capital to fund the capital development programmes. For many schools the surplus is the prime source of funding and this should be carefully monitored.
- It is for this purpose that most schools have carefully considered their reserves policy and have documented it within their annual statutory accounts, not only to comply with the SORP requirements but also to assist in the management of the school over a long time frame. This will need to be reviewed on an annual basis!