haysmacintyre

"OVERALL AUDIT SERVICE AWARD" - WINNER 2009
Annual *Charity Finance* survey

not for profit | school bursary funds

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introduction

The Charities Act 2006 requires charities to demonstrate public benefit, and those which charge high fees must make access available to a sufficiently wide section of the public, including those who could not otherwise afford them. Independent Schools are using the provision of bursaries as the principal way to satisfy this requirement. This article summarises the main issues to consider if you are planning to set up a bursary fund.

constitution of fund

Bursaries are funded in three principal ways. The first is from income, by way of a discount on fees; this may be from a designated fund earmarked for the purpose. Some schools set aside a fixed percentage or amount from their annual fees. Secondly, the governors may control a restricted fund representing donations received for the specific purpose. These funds would be classified as endowed if the capital had to be retained, and only the income being used to finance those bursaries. Thirdly, the funds may be in a separate trust for the benefit of pupils, but external to the charity and outside the control of the governors.

disclosure in accounts

A separate column in the statement of financial activities is required for restricted funds and is optional for those which are designated. Expenditure on bursaries from restricted funds is also disclosed as unrestricted income of the school; this leads to a double counting of those bursaries within total income and expenditure. The school fees note to the accounts discloses gross fees and then total bursaries and other discounts as a deduction, and then adds back those bursaries financed from the restricted fund. Funding from a designated fund is instead disclosed as a transfer between funds.

Whilst designated and restricted funds are included within the school's accounts, a separately controlled trust is not consolidated in the school's accounts.

Multi-year commitments have to be accrued for in the first year (as expenditure and as a balance sheet liability) when certain requirements are met. This is not appropriate when bursaries are funded by designated and restricted funds, as the commitment is not for expenditure but is only to provide a discount from income. However, separately controlled trusts and commitments to pay third parties would be caught by this requirement. The use of effective annual means testing, which can demonstrate that the commitment will not recur, will ensure that such accruals are not required.

banking matters

The use of a separate ring-fenced bank or investment account will help to assist control. Whilst this is not required for designated and restricted funds, the accounting treatment will need to keep the receipts clearly segregated. Where these receipts have been used to reduce borrowings or to fund working capital, it may be considered appropriate to use an accounting transfer to reimburse the fund for the investment income foregone.

source of funds

In the past, bursary funds have accumulated from large bequests and appeals to parents, past pupils and grant-making bodies. Endowed investments have been purchased and the related income has been used to provide the bursaries. Many large schools set up expensive foundation/development departments to target such sources of income. St Paul's has recently announced their desire to raise £200 - £250 million for this purpose. Other schools, which cannot afford such fundraising, are increasingly looking to current parents for donations and often this is routed through friends' and parent-teacher associations.

One approach is for schools to include an optional levy on the termly fee on an opt-in or an opt-out basis. This donation could qualify for Gift Aid if it is voluntary and if a failure to contribute would not harm the education provided to the child concerned. The signing of the Gift Aid declaration would only be required on the first occasion, provided it was worded appropriately.

Another source of funds is to ask parents of leaving pupils to waive the return of their deposit; though this only qualifies for gift aid if the school refunds the parents, who then return the signed declaration together with a cheque.

Finally, funds originally earmarked for competitive scholarships are now being diverted to bursaries; the financial awards of scholarships are now lower, but may be supplemented by a means-tested bursary in case of need.

how much?

The question most frequently asked is "How much in total should schools be providing and to whom?"

The Charity Commission is currently consulting relevant bodies in order to determine appropriate yardsticks to measure the provision of public benefit. The Independent Schools Council's (ISC) 2007 Census is being used to establish the norms in the sector for the provision of bursaries. What is clear is that each school will be judged proportionately on a case-by-case basis with reference to financial, security and other relevant considerations. It may be necessary for individual bursaries offered to be larger than in the past, so as not to wholly exclude the poor. St Paul's state that it will be making its awards on a 'needs-blind' basis (e.g. academic merit determining the scholarship and personal circumstances determining the level of financial support). Sibling discounts and awards for current parents who encounter financial hardship are unlikely to count.

Some schools have considered setting the level at the value of the fiscal benefits they receive as a consequence of their charitable status. However, previous ISC research has indicated that for every £1 received (approximately £100m for ISC Schools), their schools paid irrecoverable VAT of £2, provided bursaries and access to their facilities and resources totalling £3, and of course saved the public purse a further £20 by educating pupils in these schools.

Schools will be judged on the basis of bursaries they make available, rather than on the number of those taken up. Many schools are having difficulty attracting applications from the poor – usually for understandable social reasons – and are now having to rethink how such schemes should be advertised.

the cost

The cost to the schools of providing full bursaries will depend on whether or not there is spare capacity at the time. Where the school has places available, what is relevant is the marginal cost of providing the extra resources used, which may be 5% - 15% of the fee. Where the relevant year group is at capacity, it will be the whole fee, being the opportunity cost of the fee income foregone.

means-testing

No discussions on bursaries would be complete without consideration of the assessment. Best practice includes most if not all of the following features:

- the financial circumstances form should be standardised and should require the inclusion of all income, specified outgoings, all assets and liabilities and any external contributions (e.g. from grandparents)
- measurement should be transparent and awards should be fair and justifiable
- both parents should sign
- reviews should be regular, usually annual, and vigilant
- conditions of any award should require:
    - the balance to be paid promptly
    - fees in lieu of notice and old debts to be paid gross
    - parents and pupils to behave!

Means testing can be extremely difficult, particularly when parents are self-employed. The testing for the assisted places scheme was much criticised, and there the application forms were audited! A home visit is recommended when there is doubt.

conclusion

This article covers best practice in an area which will have increasing importance for independent schools, not only to support their charitable status, but also to retain and attract more pupils in increasingly competitive and challenging times.

This article was written by David Sewell for the April 2007 issue of 'Funding for Independent Schools' haysmacintyre

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about haysmacintyre

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