Coronavirus: financial reporting issues for schools

Crowe Non Profits team

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Audit / Tax / Advisory / Risk

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This update considers the impact of the COVID-19 (coronavirus) on the yet to be published annual reports and financial statements of schools.

The Government introduced many measures to initially contain the spread of the virus, by limiting the movement of people, restricting travel, cancelling events and closing venues. These measures had begun to be lifted in recent months as the Government set out the necessary steps and measures that had to be in place to allow businesses and schools to re-open and operate safely within a socially distanced society. The current rise in infections however has resulted in a raft of further restrictions being introduced as the Government seeks to bring the current outbreak under control. Yet the risk of a further lockdown remains.

All of these developments and measures have had and are likely to continue to have a range of implications for schools, dependent on the size of their operations, level of fee income, reliance on other sources of income, level of expenditure and upkeep, staffing models, contractual relationships, the nature of the school's assets and liabilities and the school's underlying funds structure.

School Governors have had and are continuing to face many unexpected challenges to their schools and it will be important that these are reflected into the necessary decisions that have to be made when reporting on the school's activities and financial position.

Areas of focus

The key areas of focus of this update are as follows:

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Key messages

The key message is that management and Governors will need to carefully consider the impact of coronavirus on the school's Trustees' report and financial statements to ensure that these continue to reflect the financial activities and position of the school in accordance with the Charities SORP.

- While the general rules relating to entitlement, probability of receipt and measurement for income recognition remain unchanged, the impact of coronavirus may require Governors to reconsider these criteria for their different sources of income.
- Assets where the value has suffered an impairment will need to be reviewed and the impairment reflected in the financial statements.
- Schools will have to review debtors to determine if the third parties remain in a position where they will be able to settle the amounts due or whether there will be a need to write down the carrying amounts.
- Borrowings need to be considered by the School to ensure that it is not in breach of any related terms and covenants.
- A key message to be considered within the Trustees' Annual Report will be the impact of the coronavirus on the school and how the school has and is continuing to adapt going forward. Governors will need to assess how they can best explain the impact of coronavirus on the school's financial results and financial position, and what their plans are for the school to manage the financial impact going forward, including a discussion of the impact on the school's reserves and reserves policy and the level of reserves held.
- The Governors' assessment on each school's ability to continue as a going concern is already a key area of emphasis and importance and Governors will need to take particular account of the impacts from the coronavirus outbreak and ensure they have the appropriate disclosures. This may also lead to a modified audit report.
- The government has implemented a number of business support schemes, some of which have been/are available to Schools and / or their trading subsidiaries depending on their circumstances. Where a School has benefited from any of these support schemes Governors will need to determine when and how any such benefit should be reported in the financial statements.

Income recognition

Income recognition can be a key area of focus for the financial statements of both a charity and a school in any normal year. We have previously provided detailed guidance on income recognition which you can access here. The overlay of the current coronavirus implications will not only increase the focus on the normal income recognition decisions but may also add risks which the Governors will need to consider.

The general rules for income recognition remain unchanged with the requirement to meet the three criteria of Entitlement, Probability of receipt of the economic benefit and the reliable Measurement of the amount of the income. The impact of coronavirus may require Governors to reconsider these criteria for their different sources of income.

For most key categories of income it is unlikely that entitlement principle will change although cancelled or delayed activities may lead to the school not being entitled to income. The probability of receipt will need to be carefully considered as debtors and receivables may be less certain. Measurement will also be more challenging as asset values, profitability, the time taken to complete a contract etc. will be uncertain.

School fees

In response to the impact of COVID-19, many schools offered parents some form of reduction on fees for the Summer Term. We have set out below some of the different ways schools have responded and their accounting treatment.

Reduced fees

Restrictions arising from the pandemic have led to the closure of some services (e.g. boarding houses) and fundamental changes in the way others are delivered, such as the switch to remote learning. In response, some schools chose not to charge boarding fees and to reduce the day fee for affected pupils.

In substance, the school has decided to reduce or not charge the standard fee amount as it is no longer delivering the service or delivering it in such a way that the standard fee can no longer be justified. In this instance, the reduced fee amount is considered the gross fee and should be classified as such in the supporting fee note disclosure in the financial statements. No separate disclosure of the value of any reduction of this nature will be required.

Discounts

Other schools have opted to offer discounts on fees to their pupils over periods of varied length. Where a discount has been offered to a wide group of people, for example all day fees are discounted by 20% of the original fee, this is essentially still a reduction in a school's fee. The school has across a wide population reduced the costs of their education and it should be treated as a deduction against the gross fee.

Where discounts have been selected maybe to a small cohort of pupils, the discounted amount should be treated in the same way as other forms of allowance or fee remission. The full fee amount would therefore be recognised as part of gross fees and the value of the discount deducted as part of scholarships, bursaries and other awards in the reconciliation of net fees included in the notes to the accounts.

This could also be presented as a separate line item within this note (e.g. 'other discounts') if the school wished to separately identify it from other fee deductions arising in the ordinary course of business.

Rebates

Some schools have also been offering fee rebates to parents. A common method is to give back an agreed proportion of any savings arising from measures taken in response to the pandemic which are in excess of discounts already on offer. Where this decision is communicated to parents before the year end it should be recognised as a commitment in the financial statements with the rebate included as part of the net fee disclosure under scholarships, bursaries and other awards.

As above this could also be presented as separate line item within this note (e.g. 'other discounts') if the school wished to separately identify it from other fee deductions arising in the ordinary course of business.

Hardship funds

If parents have continued to generously pay the full fee rate despite the offer of a reduction, the amounts received in excess of the value of discounted fees should be recognised as donations in the financial statements. Where these donations will be used to finance a Hardship Fund for those adversely affected by the pandemic or for another restricted purpose, these donations should be treated as restricted funds within the financial statements

Other

The coronavirus does not impact on the accounting treatment for bursaries, scholarships or fee remissions however it is likely that for many schools that the provision of bursaries and financial support will have increased in the short term.

The receipt and recognition of fees for extra-curricular activities will be largely dependent on whether that activity or service has still been provided.

Ancillary and non-ancillary income

The basic rules for recognising income from contracted supplies of goods or services remain as set out in the SORP paras 5.39 to 5.47. However, the impact of coronavirus will have resulted in either disruption in the receipt of income or in other instances the cancellation or deferring of income.

- For the sale of goods entitlement is usually at the point of supply of goods to the buyer. For most schools this will not be a material figure, as the sale of uniforms are often outsourced to a third party supplier, but where applicable the recoverability of outstanding balances will need to be considered.
- Income from the supply of services is recognised in line with the delivery of the service. Any restrictions on the ability of the school to deliver the services or changes to the level of services that are necessary may impact on the value and timing of the related income. For schools that let facilities such as summer and Easter lets, weddings or the use of sports facilities, the terms of contracts will need to be carefully considered to understand the rights of both the school and the other party and the potential impact on income streams and any non-recoverability. In certain instances this may include the issuing of credits or bookings/events being deferred into the next accounting period.
- For trips that have been cancelled, where the school is acting as principal, any refunds will also need to be accounted for gross and offset against both income and expenditure
- Where debtor balances remain outstanding, schools should pay additional focus on whether these balances continue to be recoverable and whether additional provisions are required at year end.

Grants and donations

The rules for recognising grant and donation income are set out in paras 5.10 to 5.28 of the SORP and will continue to apply.

The key requirements for recognising grant and donation income are set out in SORP para 5.10 "*Income from donations or grants is recognised when there is evidence of entitlement to the gift, receipt is probable and its amount can be measured reliably.*" For certain grants and donations the changed circumstances may potentially impact on any of these three recognition requirements.

For most schools where grants or donations are received, they are not performance related or have a requirement to be spent within a specific time period. Some however will be restricted. For restricted grants, a term or condition that simply restricts the use of a grant or donation does not affect a school's entitlement and recognition of income. In the absence of any other donor-imposed conditions or performance requirements, restricted grants are likely to continue to be recognised as before, except where it appears that the restriction cannot be met. However for grants or donations committed but not yet received, there may be opportunities for further discussions to help ensure that funds are being directed to where there is the greatest need.

Coronavirus Job Retention Scheme

Many schools have applied and will be in receipt of government funding from the Coronavirus Job Retention Scheme. Under the scheme the staff are being furloughed, but are still employees of the school with their salaries or a proportion of the payment of their salaries being funded by the government.

Under FRS102, funds received under these schemes fall into the definition of a government grant and the income recognition criteria set out above will apply. Provided the three criteria are met then the income must be accrued to the reporting period to which the income relates and so a claim straddling a financial year-end would be apportioned between the two financial years using an appropriate methodology. In practice this means the school should recognise income in the same period salaries are recognised as an expense. The grant should not be netted off against the expense.

As a government grant, the income would ordinarily be recognised under donations and legacies. However given the exceptional nature of the grant, which the government has made available to all charities and companies who apply to the scheme, it may be seen as more appropriate to show the grant under other income. As the claims will be substantial in some instances, we expect many schools will disclose the grant separately on the face of the Statement of Financial Activities with further details being provided, if needed, in the notes to the accounts.

Legacy income

The SORP explains that "*For accounting purposes, evidence of entitlement to a legacy exists when the charity has sufficient evidence that a gift has been left to them and the executor is satisfied that the property in question will not be required to satisfy claims in the estate.*

"Of itself, establishing entitlement is insufficient to recognise legacy income. The recognition of the gift is also affected by the probability of receipt and the ability to estimate with sufficient accuracy the amount receivable".

The first test is does the charity/school have entitlement. At present there are different approaches being adopted by charities on the recognition of income. With regard to entitlement there are essentially two policies being operated;

i. entitlement is when probate is filed

ii. entitlement is when estate accounts are settled / there is notification of a distribution.

We have explained more about these two options and their impact in the FAQs on income recognition here.

Legacies will be received, but there will have been some disruption, at least in the shorter term, in the processing of wills and estates which may increase the time needed for charities to receive adequate assurance of the probability of receipt. Additionally, the disruption evident in the investment markets and other markets such as housing may make it difficult for executors to establish a sufficiently accurate value for the estate assets. In addition, difficult financial circumstances might mean that more are contested by next of kin and others that feel that they have "lost out" by bequests to charities. There is some evidence to show this happened after the last economic downturn in 2009.

Governors need to ensure that their accounting policy for recognising legacy income appropriately reflects the likely uncertainties going forward. In addition, they may also need to review any legacy amounts recognised as income but not yet received to ensure that the measurement of the amount receivable remains reasonable and realistic in the new environment. This will also impact on the disclosures regarding the legacy pipeline.

Commitments and liabilities

The general rule for recognising liabilities is set out in SORP para 7.5 and requires that "*a liability and the related expenditure must be recognised when all of the following criteria are met:*

- *Obligation – a present legal or constructive obligation exists at the reporting date as a result of a past event.*
- *Probable – it is more likely than not that a transfer of economic benefits, often cash, will be required in settlement.*
- *Measurement – the amount of the obligation can be measured or estimated reliably."*

A legal obligation arises when a school enters into a binding contract or there is a statutory requirement to make a payment and the expenditure is normally recognised once the supplier of the goods or services has performed their part of the contract. A constructive obligation arises as a result of a school's actions when it indicates to other parties that it accepts particular responsibilities and thereby creates a valid expectation on their part that the school will meet them.

Financial instruments

The accounting for financial instruments can be complex even in normal times, but the impact of coronavirus is likely to add an additional level of complexity for Governors in reviewing the financial position and impact on the school from both basic and non-basic financial instruments.

For most schools, their financial instruments are likely to fall within the common basic financial instruments as set out in the SORP Section 11 Table 7:

Financial instrument	Measurement on initial recognition
Cash	Cash held
Debtors – including trade debtors and loans receivable (trade accounts and notes receivable)	Settlement amount after any trade discounts (provided normal credit terms apply) or amount advanced by the charity
Creditors – including trade creditors and loans payable (trade accounts and notes payable)	Settlement amount after any trade discounts (provided normal credit terms apply) or amount advanced by the charity
Overdraft (loan payable on demand)	Amount of the overdraft facility drawn down
Qualifying long-term loans (that meet the debt instrument criteria in FRS 102)	Amount on principal advanced less material arrangement or similar fees
Bank deposit	Cash amount of deposit
Investment in non-puttable (i.e. without an option to sell the shares at a later date at an agreed price) ordinary and preference shares or non-convertible preference shares	Transaction price (cost)
Loans advanced by the charity on market terms (that meet the debt instrument criteria in FRS 102)	Amount of principal advanced

The valuation of these basic financial instruments is not generally complex, but Governors may need to review the values in reporting the financial position of the school.

- Debtors and loans advanced by the school. Governors will need to review the recoverability of debtor / loan amounts to ascertain whether a provision is required. This will be particularly apply to school fees where additional financial support or provisions may be necessary.
- Bank overdrafts and loans. As well as reviewing borrowing to ensure that the school is not in breach of any related terms and covenants, schools who have been able to take advantage of the government support schemes detailed below will need to review the impact of this on the balances reported and related disclosures

Schools with other financial instruments, including hedging arrangements through forward foreign currency contracts, will need to carry out a more detailed review to understand and identify the implications to them and their reporting from the movements in foreign currency exchange rates, the reduction in base interest rates and any other relevant factors which may potentially impact on the fair values of these financial instruments.

Pension liabilities

The financial statements requirements for DB scheme accounting and disclosures by charities which continue to have defined benefit liabilities remain unchanged and are set out in Section 28 of FRS 102. These require the charity to report the net defined benefit liability (being the present value of the scheme obligations less the fair value at the reporting date of the scheme assets) and the change in this liability during the period.

There are many areas to consider and the estimates and judgements made in the assumptions used can have a large impact on the final result. Care will be taken to consider matters such as whether current bond rates and yields properly reflect the nature of the scheme. For example, liabilities are often assumed to be of the same term as the maturity of the bond index. The reality is that most pension schemes are normally of a much longer term nature.

There is already much comment on the impact of coronavirus on pension schemes, and in particular for employers who continue to be the sponsors of defined benefit (DB) schemes. The key short-term issue is likely to be the increase in the net liability, mainly due to a fall in the investment values, and how this is presented and explained in the Trustees' report and the financial statements. In the longer-term actuaries may need to reassess other assumptions in their actuarial valuations including overall life expectancy and these assumptions are likely to become an area that will need increased focus for the Governors both in the valuations for financial reporting and in assessing the required future contribution rates.

Also, a pension scheme deficit calculated on the basis of FRS102 may lead to a negative balance sheet but will not, of itself, impact on the cash flows of the sponsoring charity into a defined benefit pension scheme. The cash contributions required by the employer are arrived at through negotiations with trustees and / or through statutory requirements, either of which may involve measuring surpluses or deficits on a different basis to that required by FRS102.

In this regards the Charity Commission published guidance some time ago and said, "*Where, under FRS102, a charity discloses a significant pension fund deficit, this does not mean that an immediate liability for this amount crystallises. Similarly, where a pension surplus is disclosed this does not create an immediately realisable asset that can be released straight away and expended on the purposes of the charity. In particular, the disclosure of a pension liability does not mean that the equivalent amount is already committed and is no longer available to the trustees to further the charity's objectives*".

For any schools for which cash flows are an immediate issue, initial guidance has already been published by the Pensions Regulator including Guidance for DB scheme Trustees whose sponsoring employers are in corporate distress. The guidance is currently brief but includes short comments on areas such as the deferral of deficit repair contribution (DRC) payments.

Asset values/impairment

Initially one of the more immediate financial impacts of coronavirus had been the fall in value of the financial markets and although to date there has been a recovery in value, the markets have not as yet returned to the levels seen prior to COVID-19. However, there may also be other assets where the value has suffered an impairment and it will therefore be important that Governors review the assets of their school to identify if any such impairment has occurred and ensure that this is reflected in the financial statements.

Tangible fixed assets in use

The SORP recognises that charities including schools often hold tangible fixed assets primarily to provide services to their beneficiaries rather than for generating cash flows and that it would therefore be inappropriate to measure value in use by reference to the charity's cash flow. In such circumstances, it is often more appropriate to regard value in use as the present value of the asset's service potential.

SORP para 12.16 then specifically recognises that "*The demand or need for the services provided by a charity using an asset may fluctuate over time and a temporary reduction in demand is not necessarily an indication of its impairment. Similarly, an asset's service potential may not always be fully utilised and surplus capacity at certain periods will not always indicate impairment*."

The current pandemic has meant that schools have been operating very differently with the provision of education offsite and changes to how supporting activities are being undertaken. Although schools have since reopened, a number of restrictions remain in place, as social distancing is maintained. Consequently, the school may be holding assets which become less used.

Governors are required to consider at least annually when preparing the school's financial statements whether there is an indication that the carrying value of any of the school's assets have been impaired. They will therefore need to consider whether any reduction in use of the school's assets is temporary or longer-term and, if longer-term, whether an impairment provision should be made to reduce the carrying value of the relevant assets in the school's financial statements.

Investment assets

The financial investment markets have been significantly impacted by the measures introduced by governments globally and this will be reflected in the value of the net assets and reserves of schools who hold significant financial investment assets.

Possibly more subjective, other investment assets including property investments and unlisted financial investments have also fallen in value, potentially by more than the financial assets. In preparing their financial statements Governors are required to determine and agree the values of the investment assets. However for assets such as property the challenge in obtaining comparable data at year end, makes it harder to attribute a value with any degree of certainty.

The RICS in May 2020 published a Valuation Practice Alert giving specific guidance for their members on the impact of COVID-19. This included guidance where RICS regulated members conclude there is material uncertainty in a valuation and provided a suggested 'material valuation uncertainty' wording which can be used by their members when reporting.

In our experience, property valuers following the RICS guidelines have been including this material uncertainty paragraph in their valuations. Governors will therefore need to consider how the material uncertainty will reflect their reporting and what additional disclosure will be necessary in the notes to the accounts. It may also have implications for the wording in the audit report.

Insurance/contingent assets

Schools that hold insurance policies may be able to claim for certain costs or losses and may have either a contingent asset for these claims if not agreed with the insurer or an actual asset which may be recognised if agreed by the insurer. For accounting purposes FRS 102 para 2.38 requires that "*An entity shall not recognise a contingent asset as an asset. However, when the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate*."

Going concern

The Governors' assessment on the school's ability to continue as a going concern is already a key area of emphasis and importance and will necessarily in Trustees' reports and financial statements published going forward need to take account of the impacts from the coronavirus outbreak. The Financial Reporting Council thinks it is likely that more companies will disclose 'material uncertainties' to going concern in current circumstances.

SORP para 1.23 has a specific requirement for the Trustees' Annual Report that "*If, at the date of approving the report and accounts, there are uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties should be explained.*"

Additionally, SORP para 3.38 requires that *"All charities must explain if there are **material uncertainties** related to events or conditions that cast significant doubt on the charity's ability to continue as a going concern. In making their explanation, charities should provide:*

- *a brief explanation as to those factors that support the conclusion that the charity is a going concern; and*
- *a balanced, proportionate and clear disclosure of any uncertainties that makes the going concern assumption doubtful; or*
- *if the accounts are not prepared on a going concern basis, this fact must be disclosed, together with the basis on which the Trustees prepared the accounts and the reason why the charity is not regarded as a going concern."*

The impact of the coronavirus outbreak will require all entities, including schools to reassess their financial position and their ability to continue to operate as a going concern. This may require considering a number of factors but probably key will be to update the school's budgets and forecasts and also to consider whether the school might fail to comply with any external covenants.

Put simply, where boards identify possible events or scenarios, other than those with a remote probability of occurring, that could lead to failure, then these should be disclosed. Boards may take account of realistically possible mitigating responses open to them, considering both the uncertainty and the likely success of any realistically possible response to mitigate this uncertainty.

Budgets and forecasts

For financial reporting purposes FRS 102 para 3.8 requires that Trustees, when preparing financial statements, make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless the Governors intend that the school will cease its activities, or has no realistic alternative but to do so.

In assessing whether the going concern assumption is appropriate, the Governors are required to take into account all available information about the future, *which is at least, but is not limited to*, twelve months from the date when the financial statements are authorised for issue.

For most schools, budgets and forecasts will, at least initially, have been prepared based on the previous normal and will not reflect the most recent developments. Clearly schools will need to update their forecasts in light of the changed circumstances, but this may be difficult given the current level of uncertainties in relation to what actions and restrictions will be necessary going forward and the possible impact of these on the school's future income and operations. Careful consideration should be given to extending the preparation of budgets or forecasts to a period exceeding one year from the sign off of the financial statements, to properly reflect the on-going challenges arising from addressing the pandemic challenges.

Hopefully clarity will continue to emerge as time progresses, but it will be important that Governors continue to review and update their financial forecasts as developments occur and the impacts on the school become clearer.

Covenants

Many schools will have taken out loan finance to help fund capital projects. Where there are loan covenants, the drop in financial performance and change to asset values may inadvertently result in the school being in breach of its covenant requirements. It is therefore imperative that the school monitors this carefully to ensure potential breaches can be identified early and the ‘school can enter into dialogue with the lender to seek a covenant waiver. In the event this is not granted, the loan may need to be reclassified as amounts due within one year, in line with the requirements of FRS102 para 11.47.This should be considered carefully as part of the going concern review.

Use of restricted funds

The Charity Commission has published some initial guidance on whether charities can use restricted funds to help them through the crisis. The guidance currently reiterates the legal position – “*If they are restricted funds, meaning they cannot be spent at your (Trustees) discretion, then they may only be used for a particular and defined purpose*.”

The guidance does go on to say “*If there are restrictions, in some instances there may be ways to amend these restrictions, but accessing or releasing restricted funds should only be considered if other options such as reserves are not possible. The Commission encourages you to also carefully consider the wider and longer-term impacts of making such a decision on your financial resilience and donor relationships*.”

It will be important that Governors consider their overall funds structure in any overall going concern review, but from the current Charity Commission guidance they do not consider that the use of restricted funds to support the financial position of the school is a default option.

Having said that, we have seen cases where funders have reacted positively to request by the recipient charity relating to restrictions and other conditions.

Other financial statements disclosures

Accounting policies

To comply with the requirements of FRS 102 the SORP para 3.37 requires that Governors set out in the school's financial statements the accounting policies used that are relevant to an understanding of the financial statements and the measurement bases used in preparing them.

Governors are required to reassess their accounting policies each year as part of the financial reporting. While most accounting policies are likely to remain appropriate, to take account to the coronavirus outbreak certain specific areas have been identified for potential review above.

The Governors should also review the other policies used by the school to confirm that these continue to remain appropriate.

Key judgements and estimates

SORP para 3.40 requires that charities must also state in their financial statements

- *"the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the accounts;*
- *the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period; and*
- *in respect of those assets and liabilities where there is a significant risk of material adjustment within the next reporting period, the notes must include details of their nature and their carrying amount as at the end of the reporting period."*

In the current environment of uncertainty, it will be necessary for Governors to make a number of specific judgements, assumptions and estimates concerning the future in relation to various issues including potentially asset values, liabilities and income receivable. Governors will need to consider the extent that disclosure of these is necessary to comply with the above SORP requirement. The Financial Reporting Council is encouraging *"companies to provide as much context as possible for the assumptions and predictions underlying the amounts recognised in the financial statements, irrespective of any narrow interpretation of the requirements. Such information will help users to understand the amounts presented."* In their guidance issued recently they explain:

"Relevant judgements and assumptions might include the:

- *availability and extent of support through government support measures that have been announced;*
- *availability, extent and timing of sources of cash, including compliance with banking covenants or reliance on those covenants being waived;*
- *duration of social distancing measures and their potential impacts.*

In the absence of any consensus view of the future path of the COVID-19 pandemic and its impact on the economy, users cannot expect all companies to apply consistent assumptions when there is such uncertainty. This lack of consistency makes the need for full disclosure of judgements, assumptions and sensitive estimates significantly more important than usual."

Trustees' Annual Report

The primary purpose of the Trustees' annual report (the report) is to ensure that the school is publicly accountable to its stakeholders for the stewardship and management of the funds it holds on trust. Good reporting will set out clearly the school's objects – what is it set up to do, its strategies - how it is going about it, and performance – how has the school performed and what has been achieved as a result of its work.

The report should assist the user to make economic decisions in relation to the school and to assess the school's progress against its objectives and to understand its plans in relation to its purposes. A key message within this will be reflecting on the impact coronavirus has had on the school during the year, the plans put in place and the school's response, how the school has been adapting and the changes put in place going forward.

The effects of the pandemic will require comment in a number of different areas of the Trustees Report – fundraising, grant making – where additional bursary support for those in financial difficulty has been provided and specific hardship funds may have been set up, financial performance and achievements in the year. Schools should also be commenting in the Trustees Report on the additional public benefit that may have been provided in support of the local community and key workers as part of their response to the pandemic such as school departments making PPE equipment and the response and achievements of individuals or groups of individuals within the school. To provide clarity and ease of reference for the user of the accounts, schools may wish to include these in one place within the Trustees Report, as a sub heading within achievements and performance in the year

As well as summarising the general impact on the school there are specific areas within the report which will require additional focus by the Governors and specific commentary under those headings.

Financial review and risks

SORP para 1.46 requires Trustees to "*comment on the significant events that have affected the financial performance and financial position of the charity during the reporting period*" and this should include:

- *"a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity Trustees, together with a summary of their plans and strategies for managing those risks; and*
- *any factors that are likely to affect the financial performance or position going forward"*

Coronavirus will feature high on all school risk registers at present. Governors will need to determine how they can best explain the impact of coronavirus on the school's financial results and financial position and the plans in place to mitigate and manage the financial impact going forward.

For schools with material DB pension liabilities and/or investment assets, the effects and uncertainty on the investments markets arising from coronavirus are likely to be felt for some time. Governors will need to report on market performance in the year, the implications for the school of any significant change in investment values and changes in investment strategy or policy and any impact from turbulence in the investments market subsequent to the year end.

Reserves policy

Governors must explain any policy the school has for holding reserves and state the amount of those reserves and why they are held.

Charity reserves are likely to be impacted in various ways, including changing sources of income, changes to the charity's liabilities and the impact on the value of charity assets. The Charity Commission guidance in CC19 recommends that "*The level of reserves should be monitored throughout the year as part of the normal monitoring and budgetary reporting processes*." The guidance further states that Trustees should

- ensure that the reserves policy continues to be relevant as the charity develops or changes its strategy and activities
- review the statement on reserves in the Trustees' annual report where there have been significant

changes in the reserves policy or level of reserves held.

In preparing the Trustees' Annual Report, Governors will need to consider any impact of the coronavirus on the school's reserves policy and the level of reserves held. They may also need to consider any changes to designated funds set aside for future commitments.

In the independent schools sector, it is common for a school to hold minimal or no free reserves, as funds are reinvested into the land and buildings and operational running of the school. The upfront receipt of fees also enables a school to meet its working capital needs as they fall due and under normal circumstances maintain a healthy cash-flow. Nevertheless, a school should still maintain a reserves policy which underpins its strategy and activities. Commentary should be provided on how this has been impacted by coronavirus and in the absence of any reserves how the school is still able to fund its activities.

Where the school does have designated funds set aside, for example for future capital spend or maintenance, Governors may wish to consider whether these needs remain. In the more immediate future in light of other operational needs and any delays to medium and longer term plans as a result of coronavirus. Any changes will require a full explanation.

Where schools have DB pension schemes there is likely to be an increase in the liability on the pension reserve. Whilst this will reduce the overall level of reserves and funds held by the school, it is important to note that this is a long term liability and will not crystallize in the near future. As such as long as the immediate commitments can be met as they fall due and an appropriate explanation is provided within the Trustees Report this will not directly impact on the level of available reserves held by the school.

Future plans and activities

SORP para 1.49 requires the Trustees to "*provide a summary of the charity's plans for the future, including its aims and objectives and details of any activities planned to achieve them*". The Governors will therefore need to consider and report not only the impact of the measures that the school has put in place to respond to the virus during the year but also form a judgement on the likely duration of the measures and how this will impact on the school's provision of education, engagement with pupils and parents, fees and other income streams as well as planned expenditure both in the immediate and longer term. This should also tie into and reflect any revisions to longer term strategic plans.

Government support

The government has implemented a number of business support schemes, many of which are available to schools and/or their trading subsidiaries depending on their circumstances. These measures have included:

- Coronavirus Job Retention Scheme
- Deferring VAT and Income Tax payments
- A Statutory Sick Pay relief package for small and medium sized businesses (SMEs)
- Small business grant funding of £10,000 for all business in receipt of small business rate relief or rural rate relief
- The Coronavirus Business Interruption Loan Scheme offering loans of up to £5 million for SMEs through the British Business Bank
- The Coronavirus Large Business Interruption Loan Scheme offering loans of up to 25% of turnover for large businesses (turnover in excess of £45m) up to a maximum of £200m (with additional restrictions in place for loans over £50m).
- A new lending facility from the Bank of England to help support liquidity among larger firms, helping them bridge coronavirus disruption to their cash flows through loans
- The HMRC Time To Pay Scheme

We have provided information on a number of these initiatives here.

As we have moved out of the lockdown, further measures have been introduced including the Job Retention Bonus, payable to employers for each furloughed employee who is continuously employed to 31 January 2021. At the time of writing, a new job support scheme has been announced. Whilst details are still being finalised and there are therefore a number of unknowns, the scheme will commence after the existing job retention scheme ends on 31 October 2020 and will operate at present for six months. The scheme is targeted at protecting viable jobs and staff working a minimum of 33% of their usual hours and who are not on notice of redundancy will be eligible. For the remaining hours not worked the employer and Government will pay on third of the wages each. All small and medium sized businesses and large businesses which can demonstrate that their business has been adversely affected by COVID-19, can make a claim and claims can be made even if the claimant did not make a claim under the previous job retention scheme.

Information on the support available continues to evolve and change as the Government responds to the ongoing challenge. However, if a school believes that it can still benefit from any of these support schemes Governors will need to determine when and how any such benefit should be reported in the financial statements.

Gift Aid payments from trading subsidiaries

It is now well recognised that the Companies Act requires that a payment from a company to its member(s) can only be made if there are sufficient distributable profits. Whether or not a distribution may be made within the terms of the Companies Act is determined by reference to a company's 'relevant accounts'. For most school subsidiaries these would be the last audited accounts.

However, as well as the statutory rules about distributions in the Companies Act, directors need to bear in mind that certain aspects of the common law apply to distributions. The most important rule here is that a company cannot lawfully make a distribution out of capital and must consider this both at the time of proposing the distribution and at the time it is made.

Directors should consider whether distributable profits have been eroded by subsequent losses after the date at which the relevant accounts were prepared. This means that directors must also consider whether the company will still be solvent following the proposed distribution. They should consider both the immediate cash flow implications of the distribution and the continuing ability of the company to pay its debts as they fall due. So if they know that asset values have eroded – for example because a debt has to be written off - they would need to consider this.

With the loss of income from Easter and summer lettings and hiring of facilities to external parties this will be an area that many schools will need to pay additional focus to when considering distributable profits and potential tax implications.

Start the conversation

Tina Allison
Partner, Head of Education
tina.allison@crowe.co.uk
+44 (0)207 842 7276

Guy Biggin
Cheltenham
guy.biggin@crowe.co.uk
+44 (0)1242 234 421

Ian Weekes
Kent
ian.weekes@crowe.co.uk
+44 (0)1622 767676

Vicky Szulist
Manchester
vicky.szulist@crowe.co.uk
+44 (0)161 214 7531

Helen Drew
Midlands
helen.drew@crowe.co.uk
+44 (0)121 543 1903

Alastair Lyon
Thames Valley
alastair.lyon@crowe.co.uk
+44 (0)118 959 7222

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