RATHBONES

INVESTING ADVANCED FEE PAYMENTS

As the threat of VAT being added to independent school fees becomes more realistic, we understand that there has been a surge in interest in advanced fee payment schemes. For those independent schools in receipt of funds from such schemes, we look at the options to earn a monetary return on the cash before the associated expenditure falls due.

Bank deposits

One may think that the safest approach is to keep any monies in the bank. This, though, comes with two principal drawbacks. Firstly, a recent search[1] through available interest rates suggests that schools and charities in general are ineligible for many of the best rates available. Indeed, even where more attractive rates are on offer, they tend to be offered by provincial building societies or foreign/challenger banks that either don't have a credit rating or whose rating would fall below a typical risk tolerance threshold.

Secondly, many commentators are predicting that the Bank of England will begin reducing interest rates this year with some economists expecting rates to fall as low as 3% by the end of next year. As such, schools are likely to face decreasing interest rates unless they use fixed term deposits which often don't have maturities to match when expenditure may fall due.

Investments

Another option, especially for those schools who hold existing long-term investments, is to add any advanced fee payments to their portfolios. While this holds the potential to generate stronger returns than leaving the money in the bank, there is an obvious risk that the value could be lower at the point when the funds are required, especially for shorter-term time periods.

Treasury management

So what to do? We believe that the best solution is to build a tailored portfolio of lower-risk, debt securities such as UK government gilts and/or corporate bonds. These can be selected to mature at various dates in the future, either to mimic the termly receipt of fees or tailored to meet your anticipated cashflow needs. They can also be selected to match your tolerance for risk - UK government gilts for more cautious investors or corporate bonds for those seeking stronger returns and with a greater appetite for risk.

Such a portfolio could provide a certainty of return (if the securities are held until maturity) which may help to reduce the risk of interest rate declines, and which may be useful for cashflow modelling purposes or if advanced fee discounts are being negotiated. It can also offer some degree of flexibility as securities can be bought and sold prior to the maturity date[2] if your requirements change or if refunds are requested.

The drawbacks? Nothing is entirely without risk and there is a chance that you could lose money if either the issuer defaults, although highly unlikely for the UK government, or if you choose to sell prior to maturity. There is also a small fee for our services, albeit this is heavily discounted when compared to our standard investment fees. Fee quotations are available on request.

If you would like to find out more about our services, please don't hesitate to contact **Natalie Yapp,** Head of Business Development, Charities on **020 7399 0128** or **natalie.yapp@rathbones.com.**

[1] Search conducted on the 5 April 2024 using various bank and building society websites.

[2] The Maturity Date marks the end of a financial instrument's term, when the principal amount, along with accrued interest, is repaid to the investor. These dates outline the duration of investments and can impact interest rates and the risk level tied to the associated products.