



## An overview of Cheam's Pre-Paid Fees Scheme

### Purpose

Cheam (the "School") has operated a Pre-Paid Fees Scheme (PPFS) for many years<sup>1</sup>. This document provides an overview of that scheme. Full terms and conditions are available on request. Any reference to taxation does not constitute advice by the School and participants should seek their own independently.

### Background & Objectives

- 1) Cheam's PPFS is an arrangement where an advance lump sum payment to the School can be used to cover some of the termly tuition fees for part, or all, of a pupil's time at the School. Funds are held in a dedicated Pre-Paid Fees Account (PPFA) with transfers made into the School's main bank account for the relevant pupil on a termly basis to settle part of the termly fees. The fee payer (referred to here as the "parent", though this may be someone else such as a grandparent) settles any remaining termly balance (and any extras etc.) in the normal manner pursuant to the terms of the Parent / School Contract.

### Contractual Position & Ownership

- 2) The general principle of the PPFS is that it is a long-term commercial contract under which parents make financial payments which create a liability for the School to provide future education. As such, funds paid into the PPFS are prepayments for the purchase of education. Therefore, funds are owned by the School (rather than the parent) and become unrestricted assets of the School. This prevents the School being characterised as providing banking or deposit-taking services which require regulation. The PPFS is not an investment scheme or a fixed fee scheme. It is possible for fees to be pre-paid in advance of a pupil's entry to the School, but this does not reserve or guarantee a pupil's place at the School.

### Structure

- 3) The capital sum to be prepaid is calculated using termly tuition fees over the agreed period (including an estimate of annual fees increases) and a saving based on the [Commutation Rate](#) in force at that time. This saving is a financing cost to the School (and a fixed absolute discount for parents which, at the time of writing, is not subject to taxation). The example in the table (right) is for a pupil joining Year 7 in September 2024 using a commutation rate of 2.00% and presumed fees increases of 5.00% per annum<sup>2</sup> (leaving a residual value of £1,540).

Date credit applied	School term	School year	Termly credit	Value of termly fee discount	Residual value after termly credit	
<b>Capital sum prepaid</b>					<b>£55,000</b>	
01-Sep-24	Autumn	1	7	£8,899	£59	£46,160
02-Jan-25	Spring	2		£8,899	£117	£37,379
15-Apr-25	Summer	3	8	£8,899	£176	£28,656
01-Sep-25	Autumn	4		£9,344	£245	£19,557
02-Jan-26	Spring	5		£9,344	£305	£10,519
15-Apr-26	Summer	6		£9,344	£365	£1,540
<b>Totals</b>				<b>£54,727</b>	<b>£1,268</b>	
				<b>Fees</b>	<b>Saving</b>	

<sup>1</sup> Records indicate at least 50 years. Today, Cheam operates its PPFS scheme in line with the only model endorsed by the Independent Schools' Bursars Association (ISBA).

<sup>2</sup> These are assumptions only and the School does not guarantee that fees will not be higher (or lower).

- 4) Should a pupil not start at the school or leave earlier than planned, the unused lump sum balance will be transferred to another school or returned to an account agreed with the parent.

### **The Commutation Rate**

- 5) Since funds are typically held as cash or cash-equivalent deposits in a ring-fenced PPFA, Cheam sets its commutation factor with reference to the prevailing returns available on such deposits (i.e. the return rate available less an administration margin).
- 6) At the time the lump sum is calculated and deposited Cheam uses the rate of commutation applicable at the date of pupil entry. However, to reduce the risk of financial exposure from interest rate movements over the deposit period, the School's Finance Committee will review the commutation rate on a termly basis and reserves the right to vary it as required. Scheme participants will be kept informed of any changes to the commutation rate arising from such reviews.

### **Limits**

- 7) Cheam's Board of Governors reserve the right to cap the aggregate size of the scheme or limit the total amount or number of years of the deposit related to any one pupil or family.

### **Use of Funds**

- 8) Cheam adopts a cautious and prudent approach to funds held in its PPFA. Generally, these are held as short-term cash or cash-equivalent deposits within the ring-fenced PPFA account.

### **Taxation**

- 9) School fees are currently exempt from VAT. A future government may enact legislation to remove this exemption. Should this be the case, any lump sum payments paid into the PPFS after the effective date would be subject to VAT. It is also possible such changes could have retrospective effect.

### **Other**

- 10) Prepaid fees often involve the School receiving large lump sum payments from parents or non-parents. The School will complete required 'Know Your Customer' (KYC) checks on the identity of the payer and the source of funds.

### **Further Information**

- 11) Please contact Lloyd Jenkins, Director of Finance & Operations on [JenkinsL@cheamschool.co.uk](mailto:JenkinsL@cheamschool.co.uk)