

School Transactions:

Mergers, Acquisitions and Disposals

Coronavirus (COVID-19) Addendum

October 2020

A guide for school association members



School Transactions: Coronavirus (COVID-19) Update

The COVID-19 pandemic and measures taken by government to limit the public health consequences have impacted the independent school sector in unprecedented ways.

This introduction is written in October 2020 and explains the context in which we are providing updated materials to support schools in managing strategic change just two years after we last updated this information and resource pack. Even before the Covid-19 crisis, schools have been dealing with a number of pressures on their business models most notably the increase in contributions to the Teachers' Pension Scheme, which has resulted in a number of schools stepping away from the Scheme.

The pace of change since March this year, however, has been remarkable. Schools have navigated their way through lockdown: delivering remote teaching; meeting new regulatory requirements; and balancing their books to ensure enough cash to pay staff and suppliers as debts fall due - in many cases in the short term involving temporary fee discounts and making use of the furlough scheme to cover at least some of the costs of staff not needed during a period of temporary on site shut down.

For some schools the financial shock has been too great. In particular those that were struggling to balance their books before the crisis have proven to be the most vulnerable as they were least likely to have cash reserves and were least likely to be able to borrow from their usual bank or under the Coronavirus Business Interruption Loan Scheme. Sadly a number have closed permanently over the summer.

The vast majority of schools, however, opened in September and are planning the year ahead. Many uncertainties and challenges remain and schools are wary of the risk of further localised or national lockdowns later in the year.

Regardless of how well schools have managed the challenges so far experienced, wider national and international economic challenges will be with us for a long time. Some of the permanent changes may have occurred anyway but the market has changed much more quickly than anyone could have predicted. Anecdotally we hear that there are signs there will be winners as well as losers - with some parents becoming first time buyers of independent education after being disappointed by the lack of provision by some state schools. On the other hand, whether we suffer a "V" or "U" shaped recession, the likelihood is that some parents will no longer be able to afford to pay for an independent education for their children. There is the real prospect that changes to the lifestyles of parents will change the shape of the market for the longer term and there will inevitably be those who fare better than others.

Governors, proprietors and the senior leadership teams of schools have responsibilities to plan for the long term viability of their schools' business models and to keep their suitability under review. In some cases significant strategic change will be required and this note should be read in conjunction with the updated 2020 version of the resource pack "School Transactions: Mergers, Acquisitions and Disposals".

One of the key messages in the resource pack is to undertake the 'health check' and if there are warning signs, then act on them early. However, a number of additional, specific indicators have become apparent during the COVID pandemic. These are set out in an additional checklist which is set out below. We are also providing within the updated resource pack additional advice for schools on taking

decisions to close a school. This will always be a last resort, but timelines of strategic solutions will often be dictated by closure deadlines.

The decision to undertake a merger, sale or even closure, should be a strategic one and taken early. Once the pressure is on, or worse still, the Bank calls in debt, then the options become much more limited and the timescales shorten dramatically. It is possible that this may happen to several schools during the 2020/21 academic year. We therefore advise that all schools are ready to react to the September 2020 pupil roll, and its effect on finances, by:

- as soon as possible in September 2020 making projections which track cash requirements through the duration of the 2020/21 academic year;
- ensuring that Governor meetings are scheduled regularly during the 2020 Autumn Term;
- considering all strategic opportunities to strengthen the position of the school;
- understanding the timetables and deadlines which may apply if closure becomes an option.

In all this uncertainty, however, we do need to maintain a level of positivity and recognise that the sector remains strong and it is said that the sectors capable handling of remote teaching to very high standards has increased demand amongst prospective parents. In addition investors and commercial groups of schools remain keen to invest in the sector. All options should be investigated early.

If you would like to discuss any of the issues contained in this note, please contact Barney Northover or Robert Collier

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