Managing school finances – how to get support

The challenge facing schools

The financial circumstances facing schools have become increasingly challenging in recent years and the Covid crisis put new pressures on financial planning.

Even before the Covid pandemic, schools had to balance competing priorities when setting financial strategy. Investing in teaching staff, the curriculum or facilities will maintain the quality of the school's offer but at the same time there is competing pressure to ensure fees remain affordable. Rising fees over the last decade have meant many middle-income parents can no longer afford independent education for their children.

Faced with these challenges many schools have already begun taking steps to reduce their costs – both to provide some financial headroom and to future proof themselves against shocks. This paper provides an overview of the cost management measures schools can take and where they can turn for more detailed financial support.

Where to get support

There is a large amount of information already available for schools seeking financial guidance. You may be looking for more general advice on managing your costs or be in a position of greater financial distress.

Whatever your situation, associations should be your first port of call for more detailed advice. This could be your school/heads association, ISBA or AGBIS.

All associations provide courses/webinars, training sessions and guidance notes on financial issues. If you need help, please pick-up the phone to your association. Starting the conversation early increases the chance of a good solution being found.

Future risks – the changing environment

Covid-19 has thrown into sharp focus the need for agility in financial planning and a proactive stance from Bursars, Heads and Governors. There is a need to bring together knowledge, experience and foresight into a workable financial plan. This plan should be kept under constant review based on changing circumstances and an assessment of current and future risks

Some of the known risks – both Covid and non-Covid related – are set out below:

	Risk Factors
Short term	• Covid peaks and subsequent local or national lockdowns • Additional school running costs related to the pandemic • Need to provide increased hardship support to parents • Viability concerns restricting access to conventional bank lending • Breaches of bank covenants • Proving going concern • Falls in non-fee income (e.g. lettings) • End of government support schemes (e.g. furlough)

Medium term /Longer term	• Impact of recession on parental incomes/job security • Overseas pupils not returning during or after pandemic • Competition from high performing state schools • Attractiveness to parents if school reduces investment in teaching/facilities • Impact of Brexit (e.g. higher costs for food or medicine) • Further increases in TPS employer contributions • Higher teacher salaries in state sector • Low interest rates affecting value of school reserves • General tax rises to help reduce government debt • New measures on independent schools by current or future government to tackle disadvantage -e.g. loss of mandatory business rates relief or imposition of VAT on school fees

While schools should be aware of these multiple risks, there are always potential opportunities. For example, independent schools were able to offer remote learning during lockdown and have worked hard to maintain both curricular and co-curricular activities. This may have a positive impact on current or future parental decisions. Some schools have taken a fresh look at long term planning and moved towards mergers to achieve economies of scale.

Spotting the warning signs

As part of monitoring the ongoing financial health of the school, there are a number of indicators schools should be watching. If these start to turn negative, then schools may need to take action:

- Pupil numbers trends and local competition
- Present and projected fee income
- Income from other sources
- Level of financial reserves
- Has school needed to access government's Covid support schemes – CJRS or CBILS?
- Capacity of school under Covid constraints
- Additional costs of keeping school open during pandemic
- Likelihood of further local/national lockdown and impact on school operations
- Economic situation and how this might impact parents

Re-assessing financial plans

A school may decide it needs to re-assess its financial strategy in response to more immediate difficulties, or it may take a pro-active approach to securing the school's longer-term future.

Whatever the driver it is sensible for schools to review their USP's and offer to parents and ask: Is it what parents still want? Can parents still afford the school offer? Does the school need to market itself differently?

If a school decides it needs to manage its costs more effectively either to cut outgoings or as part of recalibrating the school offer, there are a number of steps that could be taken (all of which require more detailed advice and consideration):

- **Class sizes & pupil: teacher ratios:** The pupil-teacher ratio at ISC schools is around 9:1 (ISC Census 2020), compared to around 19:1 across all state funded schools. While lower class sizes and more teacher attention is considered a differentiator for the sector, it is an issue that merits further attention.
- **Subjects with small class sizes:** Is it an effective use of resources to continue teaching A Level subjects or offer clubs with low take-up? A school can be very successful by offering a more limited range of teaching and doing it well.
- **Teacher remuneration:** Many schools may still use incremental pay scales, with pay progression being largely automatic. There are alternatives including linking pay to more performance related measures. A linked issue will be pensions, and whether the school remains in TPS or looks to offer staff other terms and conditions packages.
- **Timetable:** Reviewing the staff timetable and the level of remissions. Are staff deployed as effectively as possible?
- **Support costs:** Schools should review expenditure on non-teaching costs and re-tender contracts (e.g. catering, transport, energy) when possible.
- **Control capital expenditure:** Re-evaluate proposed capital projects, and costs in terms of building and future maintenance. However, while it may be relatively easy to pause capital spend, projects may be necessary to maintain the fabric of the estate or to stay attractive to new parents.

Schools can also look at other means of raising income including fundraising (often linked to bursary provision) or considering other sources of trading income (e.g. from lettings or sporting facilities).

Whatever course of action you decide upon as a school, please contact member associations if you need more detailed support.

Links to further information

ISC member associations

Financial support for schools (ISC website – with links to further resources)

ISBA

ISBA reference library (member login-required – links to guidance documents)

ISBA webinar programme (member log in required)

AGBIS

AGBIS events calendar

School Transactions: Mergers, Acquisitions and Disposals as well as a short addendum on COVID-related issues (guidance produced with legal firm VWV)

December 2020