

Securing Your Financial Future – Addressing Economic and Political Threats

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Background Context – Business Issues. . .

- Operational cost inflation pressures
- Tight labour market = support staff shortages = wage cost inflation/general upward pressure on salaries and differentials
- Recruitment issues and skills shortages
- Food costs
- Energy prices capped for 6 months then discount scheme... then what? (A scheme of little practical help!)
- Building costs: materials and labour/lead times/supply chain issues
- TPS: how much longer can schools “wait and see”?
- Arguably TPS is the only material shortish term controllable cost
- 30% employer contributions from April 2024 remain feasible
- Financial shocks around the corner... but many threats are “clear and present”
- 15% of schools to be forced to close? Speculation but...
- Winds of change (M and A/consolidation/growth of for-profit groups) – Opportunities?

- Reasonably foreseeable shocks:
 - TPS: the elephant in the room
 - 310 schools withdrawn; a further 87 in Phased Withdrawal; 280+ in APTIS
 - Loss of MBRR in England
 - Rates revaluation in 2023
 - VAT?
 - Not in this Parliament; but in the next?
 - Levies?
 - Sustainability and costs of “greening”
 - The economy! Interest rates and inflation

- Affordability remains the critical issue: 5% average fee increase
- Parental behaviours during a “cost of living” crisis? Income squeezed/factors going to parental confidence to buy
- Knowing the parent base and their price sensitivity/levels of fee increase
- Lag effect on pupil numbers after previous economic downturns
- Servicing existing borrowing/delaying Capex (again) – Cash is King/stance of the banks
- Accommodating increased fee debt levels/means tested bursaries and hardship funding to increase?
- Prudent financial and non-financial risk management and mitigation: greater precision needed
- KPI monitoring
- What-ifs/scenarios and sensitivity analyses
- A relentless focus on a future-proofing agenda

The Shadow Chancellor's Conference Speech



“Right now, private schools enjoy charitable status which makes them exempt from both business rates and from VAT at a cost to the taxpayer of £1.7bn every year.

But conference here's the truth:

Private schools are not charities.

And so we will end that exemption and put that money straight into our state schools”.

Why are 2024/2025 and 2025/2026 Crunch Years?

- Post cost of living crisis lag effect on pupil numbers
- Cost of living/affordability/parental behaviours and confidence
- TPS employer contribution increases in April 2024
- Possible timing for loss of MBRR in England
- Wage inflation continuing/continuing operational cost inflation generally
- End of energy cost support/discounts? Geopolitical uncertainties persist
- Continuing general political and economic instability before an election by January 2025 latest
- Labour victory leading to VAT/levy on school fees and loss of tax breaks between 2025 and 2027?
- Potential for rapid implementation of legislative changes
- Consolidation in the sector
- Possible scenarios:

Scenario 1: Steady as s/he Goes

- **A rabbit out of a hat: Tories win the next election/possible political stability, albeit with a small working majority?**
- **But residual economic turmoil, geopolitical fall out and some of the features of the 24/25 crunch remain**
- **Benign neglect from government towards education (and independent schools)**
- **Existential threats may disappear (VAT)**
- **But MBRR still goes and continuing impetus for partnership working remains**
- **Threat from new grammars/(freed-up?) academies? Depends on size of majority**
- **Residual impact of cost of living/energy crisis remain/affordability lag**

Scenario 2 Decline and Fall

- Labour wins a majority (or is propped up by a supportive coalition partner - SNP?)
- Manifesto commitments to end tax breaks and introduce VAT honoured
- Parental affordability collapses/Baines Cutler exodus of 130,000 pupils happens
- Leading to enforced “nationalisation”/academisation?
- Material closures of schools (those not viable as merger candidates)
- Residual sector becomes more expensive, remote, elitist and international pupil focussed?
- Albeit some well-placed schools will do very well in a contracting market/with more international expansion
- For-profit, commercial, non-charitable groups with strong governance and finances become the new normal

Scenario 3: Best of a Bad Job

- Labour threat proves to be posturing... or just too difficult to deliver in practice
- No VAT but sufficient tax breaks removed to claim a political victory (MBRR, bring in Corporation Tax?)
- An uneasy truce, possibly with more regulation and supervision, and enforced social mobility measures (quotas?)
- But attrition results in say 15 to 30% of weaker schools closing/smaller schools, preps, single sex suffer most
- Senior schools absorbing prep schools
- For-profit groups continue to grow but may not achieve a dominant position/consolidation amongst groups
- Market share gain opportunity for survivors (assuming parental confidence. USPs and affordability remain)
- But do headwinds drive declining demand?
- Emergence of a viable “Independent School Light” or no-frills model as a cost-effective halfway house
- Innovative use of technology e.g. AI/Supervised Online Learning On-Premise (SOLO) to improve teacher productivity/cost

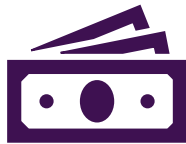
- Which scenario are we likely to face (may be an amalgam of elements of each)? Scenarios for your school?
- Does the Strategic Plan address likely outcomes? Can it be flexed in case of need? Is there a Plan B?
- Planning for the worst case: how to respond if a Labour government implemented its proposed tax changes
- Would the school pass on the full VAT rate to parents or could the school absorb some of the burden?
- What impact would the loss of other charitable reliefs have on fees? On viability?
- Charitable schools should consider potential restructuring that ahead of changes and take legal advice
- What should the high-level operational priorities be?
- Use an ISBA or AGBIS led Board presentation as a catalyst for debate
- Is the school's governance fit for purpose?

What now? How do you future proof?

Focus on ensuring your school is in as strong a position as possible ...

- Challenge costs
- Challenge your offering
- Be ready to make most of market opportunities
- Sweating your assets
- Building of reserves
- Capital projects – challenge business case
- Merger/acquisition

Financial modelling



Detailed budget for the
year ahead



Looking ahead at least 5
years



Scenario planning –
layering of scenarios
considering the what if's



Making tough decisions
now to secure financial
future

What does scenario planning tell us?

- Sufficient surpluses to:
 - service debt
 - maintain appropriate reserves to weather storm
 - fund investment
 - fund bursaries
- Bank covenants
- Going concern





Early warning signs

- Pupil numbers
- Fee debts
- Bursary and hardship awards
- Competitors
- Local demographics

What do management and Governors need?

- Timely, accurate and up to day information is essential
- Right skills and time
- Agility
- To look ahead, not back....
- A plan!



Take aways

- Not all doom and gloom
- Plan for the worst, hope for the best
- Prudent financial management
- Plan now for the what if's
- Effective monitoring and take swift action
- Ongoing risk management and strategic planning
- Make the hard decisions before it's too late



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