INDEPENDENT SCHOOL BRIEFING NOTE
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INDEPENDENT SCHOOL PROPERTY BRIEFING

The challenges facing UK independent schools are all too obvious and appear daunting. School operators will have taken a financial hit in 2019/20 and most are likely to under-perform previous forecasts for 2020/21, not least if the latest government lockdown is prolonged. Revenues were impacted by fee remissions in the summer term of 2020, commonly in the region of 20-30%, and reduced income from hiring out facilities, extra curricula activities, summer schools and tutoring. Bad debts are also expected to have increased.

Whilst schools were able to recover some costs through use of the government's furlough scheme, they were required to maintain teaching personnel to provide an online service. Other running costs were increased, in particular equipment and enhanced cleaning required to maintain COVID secure environments. The Teachers Pension Scheme remains extremely costly and looks increasing unsustainable for all but a few schools. In September 2020, school fees were largely frozen at prior year levels, albeit before the latest lockdown a few planned to inflate fees from January 2021.

The backdrop is therefore, highly uncertain which makes the forecasting of future trading performance more challenging. Most operating costs are reasonably identifiable and therefore, pupil numbers is the principal factor determining performance. Economic conditions, consumer confidence, demand from international pupils, differentiation with the state sector and competitor schools will all have an important influence on future demand.

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STRATEGIES

- Target investment and minimise occupational costs as part of a robust financial plan
- Review current planned build projects, maintenance and facilities contracts, business rates and other outgoings – where can savings be made?
- Consolidate or 'sweat' assets to optimise the use of your estates
- Consider re-financing options
- Consider sale and leaseback or a ground rent structure to raise further capital
- Explore merger, joint venture or shared services opportunities to improve economies of scale, pool expertise and enhance market share in a more competitive market
- Consider securing the future of the school through the introduction of new investment via sale or other arrangement

TRENDS

- Short-term uncertainty on pupil numbers and increased pressure on budgets
- Previously challenged schools are facing merger, sale or closure
- Continued interest from groups, investors and international providers, particularly from Asia
- Access to traditional debt more closely scrutinised
- Needs based market will expect to hold up well in the medium to long term

OPPORTUNITIES

- Identify surplus assets to release capital or generate income
- Opportunity for the stronger schools and groups to expand
- Debt funding through secured lending founded on a realistic business plan
- Sale and leasebacks or ground rent disposals can raise valuable income without impacting upon trading operations

We are facing a unique set of challenges, and yet independent schools have adapted quickly to continue to provide the best education and support to their pupils and staff which will continue to be a differentiator driving future demand.

If you need guidance on any property related matters, please contact a member of our Schools Team.

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