

Restructuring in the independent education sector:

What does the future hold?

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The UK's education landscape is evolving – posing particular challenges for independent schools. For those at the top end of the market and in prosperous areas, waiting lists are full. But some providers are having to deal with headwinds from both inside and outside their sector.

Philip Watkins

Restructuring Advisory

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Synopsis

The UK's 2,500 independent schools educate approximately 630,000 children, playing an important part in the country's education system.

So far, the sector has shown great resilience in the face of the coronavirus pandemic. Schools have been quick to adapt to new, online, teaching channels, and have retained and in some instances increased students as a result.

However, new shifts in the way we live and work, ongoing economic headwinds and increased competition from public sector offerings could pose further hurdles for schools in the months and years ahead.

Here, we explore the specific challenges the sector is facing, and how the sector can adapt in the immediate and long-term.



Andrew Sheridan

Partner
Restructuring Advisory
Bristol

+44(0)117 203 3670
andrew.sheridan@frpadvisory.com



Philip Watkins

Partner
Restructuring Advisory
London

+44(0)20 3005 4232
philip.watkins@frpadvisory.com

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frpadvisory.com

What is the current state of play?

The UK's education landscape is continuing to evolve – posing particular challenges for independent schools in certain areas. For those at the upper end of the market and those situated in busy thriving local economies, enrolment is strong. But some providers are having to deal with headwinds from both inside and outside their sector.

Increased government funding is narrowing the quality differential between public and private schools, particularly at the primary level. This is making it harder for independent schools to stand out from the crowd, with parents putting the value of independent schools under ever closer scrutiny.

At the same time, the ongoing success of many of the largest schools with commercial enterprises and large endowments means that they can often afford to subsidise their fees and offer larger bursary programmes to promote academic excellence. Without a demonstrable competitive edge when it comes to the quality of their services or facilities, smaller providers are limited in what they can charge – in turn limiting their revenue and the amount they can re-invest in their own offering. Against this backdrop, schools are also having to continually consider their fee structures, which have vastly outstripped middle-class incomes – outpricing many parents who would consider independent education.

Meanwhile, the coronavirus pandemic has prompted wider economic and societal changes that could create both opportunities and challenges for independent education providers in the months ahead. As families move away from major urban centres amid a growing trend in remote or flexible working, many of the country's regional providers could be faced with an opportunity to recruit students from city centre schools.

However, by the same token, rural schools that boasted a large population of boarding students, driven by families living and working in cities at home and overseas, could now see demand for boarding offerings fall.

With more and more families looking to live in more rural locations themselves, an increasing number of parents may now choose to educate their children on a day basis only, leaving schools that relied on boarder income with the challenge of finding new boarding students to help maintain their revenue.

How has the COVID-19 pandemic impacted the sector?

Overall, the independent education sector has been relatively resilient in the face of coronavirus. At the start of the pandemic, two particular areas of concern from schools were student role numbers and the continued payment of fees by fee payers. Both areas have held up well so far.

Student retention has been supported by the sector's ability to quickly roll-out high-quality online learning platforms. In fact, for some, this adaptation has helped to grow their student roster – attracting new parents seeking continuity for their children's education in volatile times.

However, schools have also faced headwinds. Many providers have had to offer fee discounts to reflect a shift to remote learning, while making additional investment in their facilities to make them COVID-secure and functional – both factors that have put pressure on their cashflow, although the worst case scenario of schools having to close for a second time has been alleviated so far.

What are the risks schools could face?

Poor intake and conversion rates at reception and years seven, nine and twelve are a key warning sign of a school in difficulty. Where leadership teams identify this happening, it is essential that they take early and proactive action. Ultimately, schools may need to re-assess how they position themselves in the marketplace in order to attract students that are more likely to progress to senior levels.

There is a risk that schools struggling to fill numbers next year over-offer bursaries to attract pupils. Bursaries will often need to be maintained on a long-term basis, and schools will need to consider the additional cashflow impact that this will have. They'll also need to keep the suitability of bursaries in review, and re-assess should parents' circumstances positively change.

What does the future landscape look like?

We expect the pressures of COVID-19 to accelerate consolidation in the independent school market in the months to come. For schools under pressure, a merger and acquisition (M&A) can be an effective way of breathing new life into their operation.

When it comes to M&As, timely action is key. It's important that schools looking to pursue M&A activity do it on their own terms in good time, rather than in distress. The process could take some time, and schools will need to ensure they have the financial runway to continue operating throughout and to reduce the likelihood of closure.

To help assess whether action is necessary and what runway they have, schools should ensure they have developed and maintained a thorough cashflow and revenue forecast. Here, the support of a professional adviser could be valuable. A thorough forecast will take into account overheads and expected revenue for the next year, along with projections of pupil numbers and corresponding revenue for the years ahead.

If a school's leadership team decides to proceed with an M&A, it should remember to keep the importance of cultural fit front of mind when assessing prospects. An alignment of values and outlook between schools can not only help support the success of the M&A process in the short-term, but help protect and maximise what each school brings to the consolidated structure over years to come.

The importance on timing when it comes to M&As cannot be overemphasised, in a school with ongoing viability issues; in the event a sale or merger cannot be achieved the time to close a school will be at the end of a school year. However, leadership teams must be mindful that they will need to give staff ample consultation time ahead of any closure and M&A deals must be in place early in the calendar year so the school can ensure its viability for the next school year.

2,500
Number of
independent
schools in the UK

630,000
Children in
independent
education in the UK

61,500
Teachers working
in independent
schools in the UK

What does the future hold?

Conclusion

Throughout the disruption of 2020, the independent education sector has learnt, and implemented, valuable lessons in adaptation and resilience.

While their flexibility has helped keep many in a strong position, schools cannot afford to be complacent. Ongoing economic headwinds and a likely recession will probably continue to put pressure on providers, and it's important that schools continue to monitor the health of their operations and take quick action at the first sign of difficulty.

For some, these pressures will prompt them to consider solutions to preserve value, such as M&A activity. Here, forward planning coupled with rich management information will be essential. Those who can look ahead to this point and give themselves ample time to complete the process on their own terms will be in the best position to protect their interests – and those of their staff, pupils and local community.

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For businesses to remain in control and ensure a sustainable future in this rapidly transforming sector, it is vital to manage cashflow and scenario plan.

Andrew Sheridan
Restructuring Advisory

FRP Advisory Trading Limited

110 Cannon Street
London EC4N 6EU

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