

CASTLE IN THE SKY

Scenario

A school is struggling financially. The new head believes that the situation can be resolved by building a state-of-the-art academic centre which will attract more pupils. However, the bursar is resisting this proposal.

Does the bursar have cause for concern?

It is understandable that a new head will want to make changes to the school that s/he has inherited, particularly if it appears to be on a downward trajectory. Their aim will be to leave the school in a better shape than they found it and hopefully ensure that they leave a powerful legacy. However, the bursar needs reassurance that an expensive construction programme is not just a vanity project and that there is a genuine need for a new building.

Is the bursar right to be so cautious?

Yes, because s/he will have the strongest hand on the school finances. They will know:

- The forecast surplus.
- The annual cashflow forecasts.
- They should have a rolling five-year income/expenditure plan.
- They will know the condition of the estate and whether there are any significant costs coming down the line, such as a major boiler upgrade.

Crucially, the bursar's top priority will be the improvement of the school's financial position. They will be conscious that within the independent sector a competitive "arms' race" of new building ventures has developed and will be cautious about joining it. The bursar will be aware that, in the past, school governors have



tended to fund such projects through borrowing without much thought about how the debt would be repaid. Inevitably, the burden has resulted in a raid on school income and school fees have been forced upwards.

A wise governing body should listen to the bursar's assessment of the school's fiscal situation. During the past ten years, partly due to new build costs, the school fee inflation rate has almost doubled that of salary inflation and so "affordability" is now high on most prospective parents' agendas.

Nevertheless, having appointed the new head, the governing body will also be anxious to show support for them. If the head argues that a new academic building would attract new customers and bring in a much-needed increase in fee income, then the governors have an obligation to listen. However, it is prudent, when evaluating the "need" for a new academic centre, to undertake a space audit of

academic classrooms to ensure that the usage is maximised. Governors should not be surprised to learn that some classrooms have an occupancy rate of less than 50 per cent. If this is the case, then the question of whether the existing facilities could be used more efficiently should be discussed. The extent to which funding for the new building could be diverted away from repairs to the remainder of the estate should also be considered. Furthermore, it should also be remembered that if a major project relies on the fee income of the incremental pupil numbers to help finance it, then there are likely to be implications on, for instance, staffing levels, academic set sizes, and dining and sport facilities.

While the project is under debate, consult the school's senior leadership team for its views on the viability of a new academic centre. Moreover, the governing body should review which factors influence prospective parents to choose their school.

Most parents are not, in fact, seduced by state-of-the-art facilities but are more concerned about the school's record on pastoral care, academic excellence and fostering social responsibility (often, a look at mumsnet.com will highlight what parents are saying about the school).

Nevertheless, if the governors, having listened to both sides of the argument, decide to go ahead with the new development then it is imperative that they formulate a fully costed strategic plan. Failure to do so could saddle generations of heads and bursars with debts that have to be honoured before any new capital expenditure is envisaged. The termly finance committee meetings should provide a monitoring service to the governing body and ensure that the school's financial position is kept tightly under control. However, because the school plans to embark on the project from a weak fiscal position the method of financing it would be crucial.

What should governors do?

Assuming that a school surplus could not fund the project, the governing body should deliberate over two options to raise the money.

Option 1:

The school might decide to depend on the promise of additional fee income to pay for the work, although clearly bank borrowing would be needed to cover the first couple of years' shortfall. If this choice is taken, then the governors should ensure that there is sufficient flexibility within the proposal to maintain the cashflow if the anticipated increase in pupils fails to materialise.

Option 2:

The school could plan a programme of fundraising. Provided the scheme is successful, this would have the benefit of greater financial security. However, governors should be mindful that historically fundraising has proved difficult to realise for academic projects as benefactors tend to prefer supporting sports or music projects or underwriting bursaries. So before any decision is made, a feasibility study to assess the appetite of potential donors should be undertaken. Either way, the project should not be started until a clear financial strategy is in place.

David Williams is a consultant bursar and founder of BursarSearch.

David can be contacted on david@bursarsearch.com, or 07713 091657

