IS YOUR SCHOOL IN GOOD HEALTH?

"School's out for summer. School's out forever." These lines are, of course, from Alice Cooper's 1972 hit rather than a sign outside a local school, but sadly some schools close. Although they do so for a variety of reasons, ultimately it is the responsibility of the governing body to prevent this from happening. Therefore, the governors need to be able to recognise the signs of decline at an early stage, and then be proactive in reversing them.

So what should they look out for and how should they mitigate the damage? In the independent sector, the governing body should begin by carefully monitoring the school's financial health with the following checklist:

1 School surplus

A declining trend in the school surplus will provide the initial clue that something is amiss. Surpluses by and large decline if income goes down. So if pupil rolls fall and costs are not properly optimised for the level of income, then this will be reflected almost immediately in the fiscal surplus. Although it is incumbent on the bursar to provide this information in the school's management accounts, governors should also download historic financial statements from the Charity Commission for comparison.

2 Cashflow forecast

The governing body should also insist that a regular monthly cashflow forecast is prepared as part of the financial management of the school.

This forecast, if accurate, will identify potential difficulties quickly and failure to make them available should raise concerns.

3 School roll

Pupil numbers should be next on the list to be examined. They are the lifeblood of any school, and a decline in that figure, visible as soon as leavers outnumber entrants, should ring alarm bells. Governors will, of course, be aware that because recent fee inflation is almost three times more than earning inflation, parents are finding it more and more difficult to afford an independent education for their children and perforce they are opting out of the sector. Nevertheless, it is worth noting that if this decline is critical and the governing body is tempted to take the well-trodden route of recruiting new pupils from overseas, then this manoeuvre may prove counter-productive. Cross-cultural influences can enrich a school enormously but they can also alter the existing traditions which, in the first instance, had appealed to the local market. The registrar should therefore look for trends in pupil enrolment and report on them to the governing body.

4 Fee payment defaults

Likewise, at this time of fiscal austerity, the bursar should keep the governing body aware of the extent of default on fee payments. A regular credit control summary will swiftly identify the amount of money owed and avert the adverse effect on cashflow.

5 Discounted fees?

Fee discounts have always been an emotive issue within the sector and when school income starts to fall the issue becomes even more marked. Ideally, all governing bodies should be conversant with the discounts offered by their school.

However, many are not and, furthermore, do not appreciate the extent to which high discounts can damage a school's finances and reputation. Therefore, at the slightest hint of fiscal insecurity, a detailed analysis of the type of fee remissions offered should be prepared.

Since failing schools are anxious to maintain pupil numbers, they are inevitably eager to give high fee-discounts, arguing that it is better to get, say, 75 per cent of a fee income rather than zero.

This is a dangerous approach to take since the school's domestic standing will invariably suffer when parents paying full fees realise that they are subsidising those who aren't. Nevertheless, if the school does decide to offer concessions, then it should aim to keep the aggregate definitely below 10 per cent, but preferably below 5 per cent of the total fee income. Predictably, reducing the percentage takes time as it is rarely possible to withdraw a discount while the pupil involved is still attending the school. Therefore, the governing body's aim should be to develop a steady cutback in fee discounts.

Or, conversely, it could stimulate demand by reducing the fees for all pupils to the level that the market can afford. This is a brave call but it has been seen to work if linked to a relaunch of the school. An inspirational new head can turn a school around very quickly if prospective parents are able to share in their ethos and vision.

6 Salaries

When signs are noticed that a school is beginning to fail, the governors should immediately re-scrutinise the cost structure, and in particular the salary burden. A couple of standard KPIs that they should look for are pupil/teacher ratio and salary cost to net fee income. Increasingly schools have opted to broaden the curriculum by employing more (diversely qualified) staff while not necessarily increasing the number of pupils on the roll. The consequent reduction in class size can be seen as an extra selling point, but if the change is not carefully managed it can have a seriously negative impact on the school's finances.

7 Public profile

It is not just poor financial performance that can herald a school's potential failure. Governing bodies should always be conscious of how the school is perceived by prospective parents.

Their reaction to the inspection reports which have to be published on the school's website will, of course, be fundamental. As any deficiencies in teaching and pastoral care will be highlighted, parents will draw comparisons with the performances of neighbouring schools.

8 Staff turnover?

Excessive staff turnover is a sign of low morale, and regular advertisements for vacant teaching and support staff posts on the school website or in the local press may affect the school's reputation. So too will the presentation of the school site. Although all schools struggle with constrained maintenance budgets, peeling paintwork and unmown grass are both obvious indicators that the school is in financial difficulty.

9 Poor provisions

Less tangible, but almost more important, is the school's attitude to catering.

When times are hard, schools often find it tempting to penny-pinch on food. However, this can be counter-productive if the school gains a name for poor-quality meals.

Nobody likes to witness a school's demise. Generally speaking, a well-managed one that is in tune with its potential market is unlikely to go down. If warning signs of trouble had been detected, then their causes will have been tackled well before closure becomes unavoidable. Nevertheless, if the governing body feels that folding is the only option, then it should conscientiously examine merger options with other schools to ensure the continuity of education for its pupils (see Spring 2016 edition of Governance Insight).

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