Look for opportunities

- Differentiate your school by ***enhancing its unique strengths***
- ***Understand the dynamics*** of your local market
- Current market conditions create ***a unique opportunity to*** build strong and sustainable positions

The shifting landscape of UK independent schools: challenges, survival strategies and opportunities to thrive

Arun Kanwar and *Alison Hinds* of Cairneagle, say that to act in the best interests of their children and parents, and to capitalise on opportunities to strengthen their future positions, schools and groups many need to consider bold, previously unthinkable options.

The UK independent school sector stands at a critical juncture as it faces mounting financial and demographic pressures. The introduction of VAT on school fees in January, the loss of business rates relief from April, rising National Insurance contributions, and the increase in the minimum and living wage are reshaping the market. These changes, combined with shifting demographic trends, present both significant challenges and potential opportunities for schools navigating this environment of unprecedented change.

The sector is already witnessing the impact of VAT

The addition of VAT to school fees has already had a noticeable effect on the sector. Analysis by the Independent Schools Council (ISC) suggests that 10,000 fewer children enrolled in independent schools this September compared to previous years.

Looking ahead, Cairneagle projects that enrolment could drop by between 5.5 percent and 11 percent between the academic years 2024 and 2030 as a direct result of the VAT change. When combined with demographic pressures, the decline in numbers could reach a total of seven percent to 13 percent.

However, the fallout is unlikely to be uniform. While some schools may struggle to maintain viable enrolment levels, others – particularly those with strong reputations and robust financial foundations – could emerge as 'survivors'. For these schools, reduced competition as a result of closures may lead to fuller classrooms and enhanced sustainability in the longer term.

School closures are on the rise

Independent schools have already been grappling with closures in recent years, a trend that pre-dates the introduction of VAT on school fees. Based on our own analysis, between the academic years (AY) 2018 and 2022, net closures (school openings minus closures) resulted in a 0.5 percent annual decline in the total number of independent schools (excluding special schools) in England. This equates to an average of 10 net closures per annum – although there is significant variation between years, with the pandemic driving 18 net closures from AY20 to AY21.

In the past two years, the number of closures has accelerated. Between AY22 and AY23, there were 25 net closures – resulting in a 1.4 percent decline in the number of schools – and from AY23 to AY24, net closures had risen to 35 schools, or a 2.0 percent decline in school numbers. Between January and the beginning of December 2024, 61 schools have closed their doors – a figure that underscores the growing vulnerability of the sector. Government estimates suggest 100 schools could close over the next three years, on top of normal levels of turnover. Based on our ongoing discussions with groups operators and a leading law firm in the independent schools space, there are already a significant number of active distress situations (including distress sales), and we therefore believe that the Government's estimates may be exceeded.

Key considerations to defend or strengthen your position

In this shifting landscape, the key question for schools is: 'How can we position to win'? Historic trends show that some school types are more likely to survive than others; smaller schools and prep schools are typically less able to weather financial pressures and have been worst hit so far in terms of closures. But ultimately, success will depend on a combination of factors specific to each school's unique situation, including market positioning, adaptability and financial resilience.

For schools that see an opportunity to thrive, now is the time to optimise operations, reconfigure offerings, and diversify revenue streams:

Operational levers could include making propositional improvements, improving marketing and admissions performance, rebalancing the pupil mix (e.g. changing strategy around the ratio of international pupils and boarders to domestic pupils, or targeting new international markets) and cost control – which may include a position on TPS and the mix of contractors vs. employees.

Commonly considered **reconfiguration strategies** include altering the school's phase offering, e.g. adding sixth form, or extending downwards into nursery.

Diversification can involve a variety of options, such as expanding internationally, opening summer schools and/or language centres, developing an online school, opening standalone nurseries, or catering to SEN.

Schools which are well-positioned to win in their local area should closely monitor local market conditions and be ready to attract families from competitors that may close or scale back.

Conversely, schools that recognise that their challenges may outweigh their strengths need to act decisively. **If survival as an independent entity seems unlikely, what are the alternatives?**

Considering bolder options

For many schools facing financial or operational challenges, the first and most pragmatic step is to explore the potential for a merger or acquisition (M&A). These could take two forms:

- a merger 'where two become one' (usually in a local market but also sometimes between two schools serving domestic or international boarders); or
- where a school joins a group, or a smaller group becomes part of a larger group ('consolidation').

Partnering with a local school that has a complementary phase offering and a well-aligned proposition to your school is often seen as the ideal solution, such arrangements offer numerous advantages including a fuller proposition, operational synergies, shared resources and the ability to weather economic pressures collectively. In some cases, consolidating local schools' offerings – for example, mergers between boys' and girls' schools or combining the enrolment of two schools onto one site – might even unlock new market opportunities. Stronger schools will lead the M&A charge and act as consolidators and smaller schools must accept that the merger may not allow them to maintain all of their brand and legacy, or the level of autonomy and control they currently enjoy.

In terms of consolidation, larger groups can bring additional expertise, enhanced balance sheets and access to funds for future investment. They can also offer procurement economies of scale, shared best practices, centralised functions, such as best-in-class marketing and admissions and support with regulatory navigation, which can strengthen a school's position in the market.

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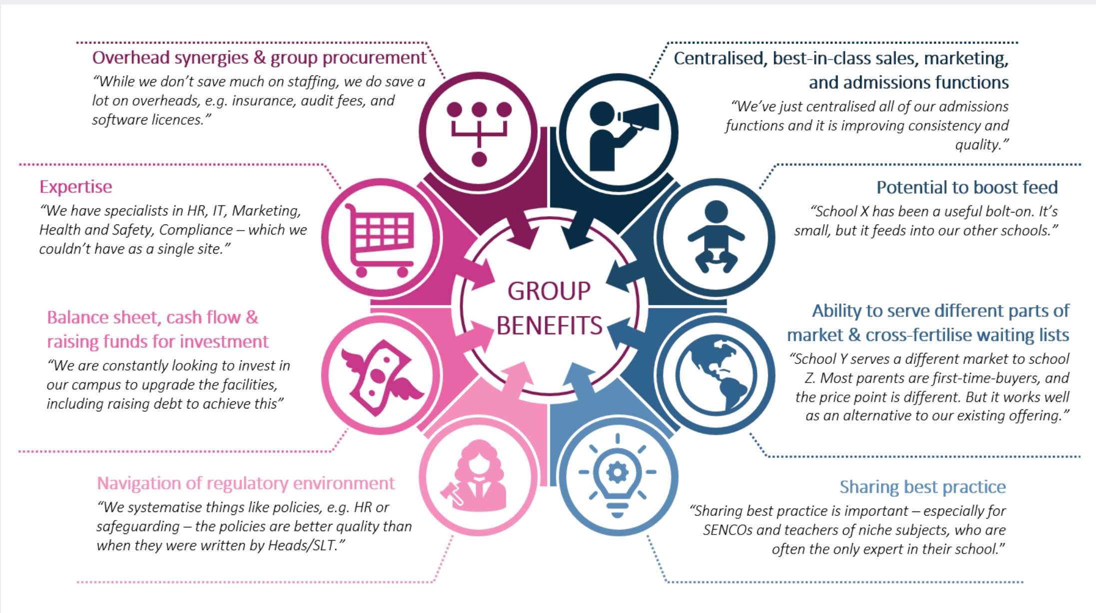


◀ Fig. 1: Benefits of being part of a school group

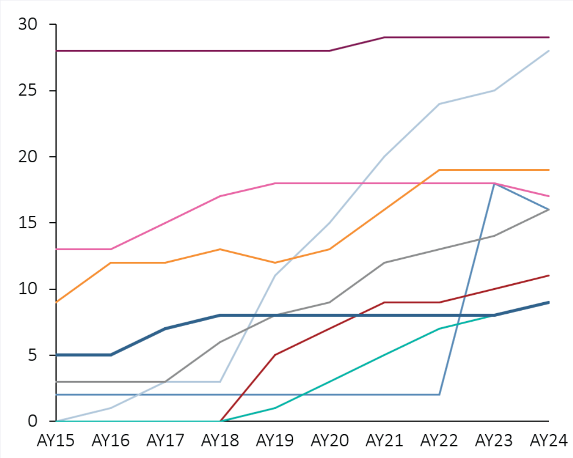
Mergers between not-for-profits and acquisitions by for-profit groups have different considerations. In terms of the latter, there are a number of groups which have successfully consolidated over the years including Dukes, Forfar, Wishford, Cognita, and Inspired Learning Group. There are also a few not-for-profit groups making strides in consolidation including The Mill Hill School Foundation and The Dean Close Foundation.

While M&A may have previously been unthinkable, in the current climate, considering being acquired before it is too late may be the only way for some schools to preserve their core mission and ensure continuity for pupils and staff. For schools in strong positions, it is important to consider taking advantage of that strength now to secure the future.

Beyond M&A, schools in distress may need to consider more radical measures – decisions that may require leaders to challenge traditional legacies and governance norms. These options might include downsizing by selling underutilised land to reduce the cost base or, in extreme cases, relocating entirely to a more favourable catchment area or to escape the financial burden of legacy estate maintenance. Similarly, cutting year groups or entire phases of education may be necessary to focus resources more effectively.

Rebranding and repositioning, while drastic, may also prove essential for schools requiring significant transformation. This could involve pivoting to a new educational focus, altering fee structures, or targeting different market segments. While these strategies can be difficult, they often represent the best chance to preserve the school's mission and ensure its long-term viability.

If none of these strategies are viable, schools may need to confront the most difficult option: closure. While undeniably a last resort, preparing for an orderly wind-down can help minimize disruption to families and staff. In some cases, assets can be liquidated to support bursaries or scholarships, enabling the school's charitable mission to endure in a different form.



For-profit Group	Line Colour	No. schools, AY24
Cognita		29
Dukes		28
Alpha Schools		19
Bellevue		17
ILG		16
Inspired		14
Chatsworth		11
Wishford		9
Forfar		9

Estimated number of UK schools under management by for-profit groups, AY14-24

Key actions for schools

To navigate this period of uncertainty, independent schools must be both realistic and proactive. The critical areas to consider are:

Financial planning: Assess cash reserves, develop realistic enrolment forecasts and identify areas for cost-saving without compromising educational quality.

Strengthening propositions: Differentiate your school by enhancing its unique strengths, whether in academics, extracurriculars or pastoral care.

Market analysis: Understand the dynamics of your local market. Are competitors closing? Are there opportunities to attract new families?

Communication: Build trust with parents by clearly explaining the value your school provides, particularly in light of higher fees due to VAT.

Scenario planning: Develop contingency plans for potential enrolment declines or other challenges, consider starting to have conversations about M&A before it is too late.

Understanding your M&A opportunities: Consider external support with commercial due diligence (understanding the viability of the acquisition or merger in the context of the target school's market/catchment, competitive position and capabilities).

Looking ahead

The UK independent school sector is undoubtedly entering a period of significant upheaval. However, with challenge comes opportunity. Schools and groups that are able to adapt to new financial realities, refine their offerings and position themselves as indispensable pillars of their communities will not only survive but may also emerge stronger – in that sense, the current market conditions create a unique opportunity to build strong and sustainable positions.

For those unable to compete in this evolving market, swift and strategic action will be essential to minimise disruption and ensure a legacy of quality education.

The next few years will be a defining moment for independent schools across the UK. Whether this period is remembered as a time of consolidation, innovation and renewal, or of decline and closure will depend on the actions schools take today.

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