exploring income generation in schools

Browne Jacobson
The Institute of Fiscal Studies (IFS) has estimated that public spending on education in the UK will have fallen by 3.5% per year in real terms between 2010-11 and 2014-15. According to the IFS this would represent the largest cut in education spending over any four-year period since at least the 1950s. With income levels for many schools flattening at best and infrastructure and staffing costs on the rise, schools are increasingly having to tighten their belts and seek innovative ways of generating additional income.

It was a message recently reiterated by Lord Nash, speaking at the Academies Show in April, reminding delegates to start preparing for “flat line revenues which, bearing in mind that schools are having to do so much more, means they have to start thinking out of the box in terms of their financial management.”

The trend towards actively exploring fresh income streams was also identified in Browne Jacobson’s 2013 leadership survey of academy and maintained schools which revealed that over half of school leaders surveyed (58%) at the time were less or significantly less optimistic about their financial prospects compared to six months earlier. Not surprisingly a similar number (59%) stated raising additional income would be a priority in the next 12 months. And it is this issue that we turn to in our latest thought leadership discussion.

As one of the leading education law firms in the country, our track record in working in the sector spans over ten years and we have an established client base of more than 800 education organisations. The education sector is used to change but the extent and speed with which it is currently being introduced is particularly challenging.

In order to understand and monitor the reaction of the sector to some of the major changes, Browne Jacobson has been carrying out a series of round table discussions to capture the concerns, challenges and opportunities that sector leaders have identified. The topic of income generation is the third in the series.

Browne Jacobson is very grateful to all the education leaders listed on page 11 who generously participated in the event and contributed to a stimulating discussion. Whilst this paper seeks to capture the nature of the discussions, it does not necessarily set out the views of any of these individuals or the organisations they are connected to.

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As the gap between funding allocation and school expenses grows, those responsible for delivering education in the public sector need to think more innovatively and creatively about how they might bridge the gap to ensure educational outcomes are not compromised.

The recent round table discussion hosted by Browne Jacobson generated a very interesting debate amongst influential school leaders and this subsequent white paper presents a series of exciting income generation opportunities for schools to consider but also highlights some of the significant challenges.

The commercialisation of school facilities or “the sweating of its assets” does not sit comfortably with some in the education sector. However it is clear that schools reluctant to pursue the opportunities to generate additional income may find themselves significantly disadvantaged in relation to their counterparts.

It is absolutely right that commercial endeavours should never become a distraction from the core purpose of a school; however, a well managed, well organised school leadership team should be able to identify and deploy appropriate resources to ensure that the schools benefit from the opportunities that ancillary income will afford them.

In some cases schools may need to look carefully at the current structures and capacity and may need to consider important changes in order to pursue such opportunities.

We hope this paper is both informative and thought-provoking.

**Stephen Morales**

Executive Director, National Association of School Business Management
executive summary

This report reflects on a number of themes and messages that came out of a round table discussion between a group of education leaders including school business managers, head teachers, representatives of the NGA, NASBM, the IAA and education marketing, about income generation in schools and academies.

To summarise these included:

- income generation is being actively pursued by many schools looking to offset the growing pressures on school budgets; those prepared to explore opportunities at this stage could well benefit from being early entrants into the local market

- there is a fear that income generation can be a distraction from a school’s core purpose but with effective planning and implementation, it can and does provide much needed resources to enable the school to maintain and enhance the high quality educational provision that we all hope to deliver

- projects need the full support and engagement of the school business manager, the head teacher and governing body

- the starting point for a school or group of schools is to look at the capital resources available to them. Any new venture must also be underpinned by detailed research and a robust business plan

- it is important that schools find the means of generating capacity regardless of whether they are targeting the internal or external market

- professional advice at an early stage will help with business and tax planning to ensure ventures start off on a solid foundation

- at present school business manager qualifications are not regarded as being fit for purpose by many and need to be driven by the needs of the schools themselves with a greater emphasis on commerce and business management

- private sector input and professional support in the form of business mentors who understand the sector could help with a new approach to income generation

- schools should look to link income generation with the curriculum or student and staff development, whenever possible.
Financial efficiency within schools covers two main areas of activity. Firstly generating savings through employing existing resources more effectively, for example by deploying teaching staff and learning resources more efficiently, streamlining back office functions, reducing insurance premiums and improved procurement practices. The second is through income generation - creating opportunities using existing and new resources to generate additional revenue streams that can be added to traditional funding to further a school’s objectives.

However successful income generation can mean different things to different schools. To some the benefit is measured in terms of improved educational outcomes. Alternatively, there will be instances where the benefit is purely financial and the additional monies generated can be measured in terms of the cost of a teacher’s salary or similar.

In pure revenue terms the best income generation was identified as being ‘passive’ income which is income that once set up, will continue to be generated without significant further effort; an excellent example being feed in tariffs from solar panels. This is the sort of income that is clearly different from the traditional fundraising activities for a specific purpose.

**Case Study:**
**St Teath CP School, Cornwall**

St Teath CP Trust School in Cornwall has 75 children on roll. The school would like to expand their capacity through an additional classroom but have been told by their local authority that there is no funding available for this sort of capital investment.

Ironically, because the school has featured positively in its latest Ofsted report, there is no pressing concern about the current arrangements although it is recognised by all concerned that the situation is less than ideal.

In order to take matters into their own hands the school has been making enquiries about borrowing money against the anticipated income from solar panels. The Carbon Trust report held by the school suggests that the school would raise £176,000 in FIT and RHI over a 20 year period. The commercial finance company Siemens are in principle happy to proceed along this route and the Trust has confirmed that it is within its powers to enter into the arrangements on the schools behalf.

By proceeding this way, the school’s finances are separate from those of the Trust and the two are separate legal entities. The risk of the borrowing is consequently removed from the school.
School budgets are coming under increasing pressure year on year and regardless of whether they are a maintained school or an academy, schools are unlikely to be able to rely wholly on government funding in order to achieve the plans they have for growth, either in the short or long term.

The generation of additional income is no longer a question of choice - it is increasingly becoming a necessity and is perceived by many sector leaders as being an essential tool with which to ‘oil the wheels’ and sustain excellence and ongoing improvements in learning.

According to the IFS around 65% of primary schools and 80% of secondary schools will see a real-term cut in their budget between 2010-11 and 2014-15. Therefore, schools are under growing pressure to adopt a more entrepreneurial ethos by improving links with employers and increasing commercial income from these links.

For many publicly funded schools, income generation is a ‘private sector’ approach and it goes against the grain to be ‘commercialising’ education in this way. Some are reluctant, in times of increasing fiscal scrutiny and accountability, to be seen to be taking entrepreneurial risks with monies from the public purse.

Whilst it is accepted that the sector’s attitude to risk needs to be reconsidered, there is also a cultural change that needs to take place for this to happen - an acceptance that business can be an engine that drives school improvement coupled with the desire to find the means by which it can be effected successfully. It can also be used as an opportunity for schools to develop employability skills in their students by actively involving them in entrepreneurial and enterprising opportunities. The local community could also stand to gain from increased and better facilities on its doorstep.

The shrinking role of the local authority in this arena is also an opportunity for schools to promote greater collaboration, pool resources and utilise available capital. The need for schools to work together has never been more important and being part of a partnership is preferable to being a single, potentially isolated school. Teaching schools are an excellent example of genuine collaboration for self-improvement.

**A structured approach...**

Whatever strategy a school decides to adopt it is important that a structured and consistent approach is followed so that the most effective and risk free activities and initiatives are followed. This should include a four stage process of identifying those assets and resources to be used for generating income, assessing the opportunities, putting in place robust policies and procedures to manage any activity and evaluating the activity against pre-agreed objectives.

A school will need to consider how much financial benefit needs to be realised from income generation to make the effort worthwhile. The figure will be different for every school and cannot be identified as a national or regional benchmark.
One of the major consequences of the revolution that has been taking place in schools over recent years has been the growth of the school business management function.

The role of the school business manager is more vital to schools than ever before and encompasses a range of responsibilities and competences including the planning, implementation and management of innovative and effective income generation activities.

Whilst business management is seen as separate to teaching and learning, it is critical that the two work in unison if the ethos of income generation is to be successfully embraced within a school or group of schools. The attitude, roles and inter-relationship between the school business manager, the head teacher and the governing body respectively is therefore crucial.

The head teacher has to have the vision that enables this development and needs to drive a more entrepreneurial ethos within the school. The support of the head teacher is critical if the school business function is to be performed successfully, especially when it comes to income generation.

The same can be said for the governing body. The governance structure of schools is key to success in terms of vision, efficiency and delivery. Governors are responsible for the strategic direction of the school and should have a significant role in making the decision as to whether or not income generation is important for their school’s future. The governors also have a pivotal role in interrogating proposed plans and proposals. The governing body’s skills set and commercial expertise should also be utilised as a positive contribution; in this regard school governors are the leaders of change.

An evolving role

The modern day school business manager’s role includes many strategic and managerial elements, for which a wide range of competencies are necessary. Whilst the role has changed dramatically over the last five or so years, particularly within the academy arena with its strong requirement for entrepreneurial strategy as part of the job description, many see external training and professional development as an area for improvement. This reinforces the need to design and develop a suite of training programmes that meet current demands and the demands that school business managers foresee being placed upon them going forward. Greater professional endorsement should also underpin the change in relationship between head teachers and school business managers.
One crucial element in embracing income generation, assuming that the vision and governance support exists, is that of capacity. The issue of the right people doing the right jobs was raised repeatedly at the round table. It was felt that successful schools generally could make capacity and these were the ones that were likely to be successful when it came to income generation.

If a head teacher is spending 30% of their time on their core activities and 70% of their time on administration/finance or crisis management then the capacity is there but not being used effectively. Efficiency matrices are available from the Department for Education, enabling schools to look at comparative data, providing benchmarking information and enabling schools to measure efficiencies against each other.

It is also essential that schools work together to make best use of their resources. Through a co-operative approach schools can off-set any individual capacity issues by pooling resources to enable management of a range of activities. This might be managed through a specific trading company set up for this purpose, ring fencing liability and enabling a separate manager to be employed, possibly linking a percentage of their income to turnover generated.

Whilst a number of schools have trading companies it would seem that not all of them are actively using them or perhaps using them to best advantage. Schools that choose to run business operations in this way need to make sure they can show clear audit trails with the income going back into school improvement and having a beneficial effect on pupil outcomes. However where a school does not have its existing financial house in order this may be a challenge too far.

Two distinct markets - internal and external - are identified for generating additional income.

**Internal market**
The internal market involves selling services to other schools. This is where schools are generally more comfortable but raises the issue of chasing the same market which is inevitably limiting although it has the advantage of shared best practice and up-skilling within the sector. For the internal market to remain profitable, it is essential that new ideas and products need to be developed. This can be time consuming even though it is a natural and acceptable part of any commercial product life cycle. Where trading in this market is not financially lucrative, a cost and a value will need to be identified at the outset.

**External market**
The external market is the area of trading that benefits the school, a group of schools or possibly the whole sector by bringing outside money into the system. This requires an understanding of the market being targeted but, in common with the internal market, the school first needs an understanding of what it is looking to achieve.

By developing a vision in a particular area it wants to maximise, (for example where the school has state of the art catering facilities) the question of identifying the USP that drives innovation and development becomes clear and the school becomes visible to the market.
sweating your assets

Whichever markets a school decides to target, either in the short or long term, it is important they ‘sweat their assets’. Which assets and resources are eventually leveraged to generate additional income will very much depend on each individual school but these fall in to three main categories:

Physical
Can the estate and infrastructure be used to generate income? These could include the letting of school facilities such as sports halls, classrooms, sports pitches, theatres and catering facilities for local community clubs, businesses and private individuals. It is estimated that schools are being utilised for only approximately 55% of the time.

Any commercial letting or residential letting of such a building would not be sustainable in these circumstances. Income generation projects could therefore take place throughout the year or alternatively during the summer holidays only, thus dealing with some of the concerns that might be raised around core purpose. For some this might seem a half measure but for those wishing to bring about a gradual shift in approach towards income generation this could be a way of gradually introducing such activities.

Knowledge Capital
Does the school have particular expertise or skills in areas such as IT or financial management that it could maximise?

Trading
Is there overcapacity that could be better utilised? This could encompass grounds maintenance services, catering, caretaking and payroll services.

Remember, schools are businesses. It will be the entrepreneur in us that will prove just how much extra revenue can be generated to assist in enhancing dwindling budgets!

Case Study:
St James School Exeter

St James School in Exeter is a PFI secondary school, one of five in the city. As a PFI school it means that whilst the school can be used for lettings and income generation during out of school hours, the school has no control over or direct benefit from the activities.

In March 2014 Browne Jacobson wanted to run its first education conference in Exeter and was looking for a venue. One of the topics of the conference was income generation from school assets and therefore St James was proposed as a suitable venue.

St James runs a Catering GCSE and a group of 18 year nine students were tasked with organising and running the event as part of the curriculum delivery of the GCSE, splitting themselves into ‘task groups’ and identifying key areas of responsibility from catering and quality assurance to customer care and logistics.

The event has enabled the students to see the practical implementation of what they are studying and has enabled them to see the business side of the catering course.
Pershore High School is a Worcestershire based co-educational academy school, with a sixth form. Nine years ago it generated £9,000 from alternative income streams. Today the school’s ‘Trading Arm’ is well on the way to generating over £1,000,000. Russell Dalton, the school’s Finance and Business Director, explains how schools can use the facilities and resources, including knowledge capital to generate income:

- schools must accept that to be successful there has to be an element of risk taking and investment
- any new venture must be underpinned by a robust business plan allowing the head and school business manager to analyse whether the ideas will bring the rewards expected and as a prerequisite to secure governor approval
- use existing resources and facilities cleverly. Find out what other venues charge for use of indoor facilities and see if you can be competitive. There are a multitude of clubs and associations who struggle to find venues
- open discussions with a local college about being an ‘outreach’ or an extension of the college for night school, or summer school sessions
- if you are privileged enough to have school kitchens consider taking the catering provision ‘in house’. However, realistically you will only start to realise profits if you begin to provide meals for other schools
- use your highly qualified, multi-skilled and extremely practical workforce by introducing Service Level Agreements (SLA’s) for local schools to provide them with business management, IT support, careers guidance, caretaking provision, marketing support, prospectus photography and design or training. There may need to be some extra investment in up skilling and even enlarging the workforce
- avoid the one-offs such as car boot sales. These should be left to the PTA to organise as they can justify the time spent against the reward received
- establish an alumni division within the school so as to ask former students to donate funds to the school, even better if this is done via direct debit. Set up a charity to receive it so that you can gain gift aid. By setting up a charitable trust you will stand a better chance of being successful with grant applications.

About Browne Jacobson

We are a national law firm offering a unique collection of specialisms across the commercial, public, health and insurance sectors with more than 700 people, and offices in Birmingham, Exeter, London, Manchester and Nottingham.

Our expert specialist team offer a unique range of education advisory services including HR & employment, pastoral, health & safety, governance, company secretarial, property and construction, tax and project management, all underpinned by our reputation as independently recognised legal experts.

Browne Jacobson was the winner of ‘Legal Advisors of the Year’ at the Education Investor Awards 2011 and 2013.
key figures at the discussion group...

Gillian Allcroft, Deputy CEO at National Governors Association
David Brewer, General Manager and Company Secretary at Millais School
Nick Brosnan, Director at Proactive Education
Graham Carne, Director of Finance & Support services at West Somerset Community College
Gareth Dawkins, Executive Academy at Bradford Academy and Joint Vice Chair at the IAA
Andrew Dodd, Vice Principal at Cambourne Science & International Academy
Dai Durbridge, Partner at Browne Jacobson
Jane Durkin, Financial Director at Lordswood Girls School
Jon Fearon, Finance Director of Corporate Services at Diverse Academies Learning Partnership
Andrew Fielder, CEO Cornwall Academy Trust

Samantha Fitzgerald, Director at Proactive Education
Julia Green, Partner at Browne Jacobson
Tim Hooper, Business Manager at The Cornwall Academy Trust
Graeme Hornsby, Consultant - School Business Management and Governance
Stephen Morales, Executive Director of the National Association of School Business Management
Graham Newberry, Business Manager, Broadclyst Community Primary School
Jamie Otter, Associate at Browne Jacobson
Simon Oxenham, Director of Resources at Southend High School for Boys
Charles Turville, School Business Manager at Benfield School
Dave Walker, Director at Perfect Circle