

# For whom the bell tolls! – Financial distress in the education sector

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The new school year is upon us and once again the education sector (and particularly funding for institutions from primary school right through to further education) is in the spotlight at a time when growth continues to stagnate.

Education providers are continuing to encounter financial risk as a result of increase in investment requirements outstripping growth. These factors coupled with substantial cutbacks in government funding is creating a perfect storm for the failure of education providers and the government has tried to address the detrimental implications for students by passing legislation to deal with the insolvency of education providers.



## Financial distress in the sector

According to an analysis undertaken by Begbies Traynor, 962 companies (2 in 5 companies in the sector) that provide adult training and education facilities show signs of financial distress<sup>[1]</sup> – a 20% increase since 2016. Various reasons have been cited, although funding cuts at the Department of Education and a lack of coherent government policy on financing education seem to be at the top of the list.

Reductions in central government funding have been under the spotlight this summer following a scathing Ofsted report published on Learn Direct. Following publication of the report, the Department for Education confirmed that they would be withdrawing funding to Learn Direct, whose response was that over the past 5 years they had in any event had to deal with a 50% reduction in adult skills funding. Such funding cuts from the Department of Education will no doubt lead to many education providers relying more heavily on bank finance to ensure their survival. Banks will be careful to lend only to organisations with competent management and prudent fiscal control and some institutions are likely to fall by the wayside.

According to a report published by Deloitte in 2016, “Uncertainty on funding and government policy implications is further exacerbated by reducing student numbers which together are putting both financial and operational pressure on institutions. At best, these changes will require a shift in management skills and adjustment in operations but could result in some institutions being no longer viable” . The continued trend of reduced central funding in education is likely to result in more education providers buckling under the strain.

## Insolvency of Further Education Providers

One positive move for students faced with an insolvent learning institution has arrived in the form of the [Technical and Further Education Act 2017](#) (“TFEA”). The TFEA was passed in April 2017 and introduces a new insolvency regime that applies to further education providers. The TFEA facilitates the use of special administrations to manage the affairs of further education providers in the event of insolvency, aiming to ensure that disruption to students is avoided or at the very least minimised. However, whilst the statute was given Royal Assent in May it is not yet in force.

## Summary

The education sector continues to experience major turbulence which will only be exacerbated by the report of the fast-diminishing number of EU students coming to the UK for further education. The viability of many education providers may be called into question by their funders if student numbers continue to drop, with the resultant detrimental impact upon income. The regime to be introduced by TFEA will help to protect continuity of provision of education once in force, but a more fundamental review of how education institutions are to be funded is necessary to avoid the failure of many of the UK’s education establishments.

[1] Begbies Traynor’s Red Flag Alert statistics