

| | |
|---|---|
| Committee(s) | Dated: |
| Board of Governors of the City of London School Board of Governors of the City of London School for Girls Education Board Policy and Resources Committee | 30 January 2017 20 February 2017 25 May 2017 19 October 2017 |
| Subject: Proposal to Explore the Extension of City of London Schools Internationally | Public |
| Report of: Ena Harrop, Headmistress City of London School for Girls Sarah Fletcher, Head City of London School | For Decision |

Summary

The Boards of CLSG and CLS have been considering the possibilities and risks associated with international expansion. Both schools have been approached repeatedly over the last twelve months by a number of organisations. International expansion has been a strategy used by independent schools over the last ten years to secure additional funding and CLSG and CLS see this as a possible source of bursary funding at a time when fundraising is increasingly challenging. Both schools also understand the importance of international links in developing their educational provision in an increasingly globalised world. Both are interested in using an international franchise as a means of developing cross-cultural exchanges and collaborative ways of working to the benefit of staff and pupils. Positive links with other countries, through education, provide a wider vehicle for enhancing cultural understanding between continents and is seen by both schools as valuable as an end in itself. An international franchise would bring these threads together.

The two schools commissioned research from independent consultants and assisted the Town Clerk in producing a preliminary report which highlighted the potential financial and educational gains as well as further issues that would need resolving before any moves were to be made. A clear rationale for expansion that fits in with the schools' development plans, adequate resources to manage any projects and the most thorough due diligence when it comes to choosing a business partner and setting up an agreement will be of paramount importance to make any international project successful.

Unlike all other independent schools, the international expansion of CLSG and CLS carries reputational risks for the City of London Corporation as well as additional opportunities to increase its influence internationally in the post-Brexit world. Therefore, it is essential that a proper framework which gives due consideration to commercial, legal and reputational matters is produced and presented to members for approval before any expansion is considered. This paper asks for permission for further more detailed work to be carried out so that an options paper can be presented to members later in the year.

Recommendation(s)

Members are asked to:

- Note the report.
- Agree further exploration of the implications of International Expansion by City Schools. The outcome of this research to be resubmitted to the Committees for further consideration. Costs to be borne by the schools.

Main Report

Background

1. The City of London School and the City of London School for Girls both wish to increase income in order to provide funds for additional means-tested bursaries. This is in line with the aspiration of current government policy as set out in the Green Paper, to create “more good places in good schools” in particular for children from less well off backgrounds. While both schools are generously supported by the City, Livery Companies and private donors, this support has its limits and in a climate of economic and political uncertainty, it is widely recognised that fundraising is becoming increasingly difficult. It is worth noting that according to research by RSAcademics (Appendix 1), the numbers of HMC schools that currently raise in excess of £250,000 in fundraising a year is less than 10, with most schools raising up to £60,000. Other sources of additional funding, for example, increasing pupil numbers, are currently out of reach of the schools given that there is no obvious room for them to expand. Finally, there are growing concerns about the long term affordability of independent school education, given that fees have gone up in real terms by more than 40% in the last 10 years, according to research by Mungo Dunnett Associates. All of these considerations have led the schools to look at the possibilities offered by international expansion.
2. In the last twelve months, both CLSG and CLS have been repeatedly approached by organisations, including the former UKTI, looking to partner with us in a range of ways for international expansion. Both schools, with the approval of their boards, commissioned some preliminary research into the advantages and risks of international expansion. At the same time, both schools worked with Glenn Marshall as he pulled together a paper for the Town Clerk on International School Operations (Appendix 2). The paper provides a comprehensive list of issues that would need to be addressed before any expansion is considered. Both papers, however, concluded that the benefits of expansion, if the process is well managed, outweigh the potential risks.

Overview of the market

3. The market for English medium education has grown exponentially in the last few years and is predicted to continue to do so for the next 10 years at least. The

total annual fee income for this market has increased by 46% to \$39 billion between 2009 and 2014 with the expectation that by 2026, the market will reach 16,000 schools teaching 8.75 million students, generating a total fee income of \$89.3 billion. This demand for international school places, particularly those in non-English-speaking countries, is driven by two expanding groups: expatriates and local affluent parents who want to give their children a world class education that allows them to apply to UK and USA universities. It is also worth noting that the majority of this market is made up of budget operators, such as Cognita, Gems and Nord Anglia. The British Independent Schools sector, however, is in the premium sector of this market, and is therefore able to charge higher fees and command much greater profits. There are currently 43 overseas schools linked to 23 UK home schools, some of which now run a portfolio of multiple schools.

4. A number of British independent schools are already present in the market, with the Gulf States and South East Asia being the most common destinations. It is now the case that some markets have become saturated and are worth avoiding (such as Dubai and Qatar) but the potential for growth in South East Asia remains and new markets are beginning to emerge in South America and the Indian sub continent.
5. There are different models of expansion with different financial returns, all of which are explored in the two reports attached in some detail. The level of involvement of the home school can vary, but the most common start up model is the managed franchise, which allows the home school to retain a level of control and involvement in the management of the school, and in particular the appointment and training of staff and quality assurance. It is the most reliable way to ensure that the overseas schools replicate the ethos of the home school and it combines financial and educational advantages to the home school. This model is the one most likely to deliver the kind of educational links described in the summary above. It is certainly the model that both Boards expressed a preference for in principle at initial discussions. While this model requires greater initial and ongoing input from the home school, it also minimises reputational risks through greater oversight. However, this is not the only model possible and all models should be given due consideration. Ultimately, it is the purpose of an overseas expansion that should determine the right model.

The benefits

6. Because of their academic reputation, their record in sending pupils to top universities and the strength of the London brand, both CLSG and CLS are well placed to set up branded schools that can attract premium fees from parents. The potential for considerable financial returns is significant. Initial estimates suggest that an income in the region of £300-£450,000 out of a high end school with about 500 pupils is possible. As an example, out of their school in South Korea (1000 strong) NLCS currently funds 4 full fee bursary places every year, at an expense of £560,000 over 7 years.
7. Schools need to take care in negotiating a combination of an annual management fee for their involvement as well as a 2-5% of fee income. The

financial rewards can be considerably higher as the school grows and when multiple operations are set up, with some schools (NLCS, Brighton College, Harrow) now setting up Operating Companies to oversee their international operations.

8. Aside from the potentially substantial financial gains, there are additional benefits to be considered from an educational and reputational point of view.
9. An international school would allow CLSG and CLS to enhance the global aspects of the curriculum, creating opportunities for joint curriculum work with our partner schools abroad, students and staff exchanges and joint professional development and research. In the case of both schools, international expansion would reinforce a key point of the school's 5 year strategic development plan. The opportunities for all members of the school community would be considerable, and in an increasingly globalized world, the schools would be able to enrich and make even more relevant their educational model. This is an important consideration particularly when it comes to securing the positive engagement of all school stakeholders with the process. In fact, international expansion can have the effect of strengthening the brand.
10. In addition, the City of London Corporation brand stands to benefit potentially from the wider influence to be gained from the operation of a successful model of educational excellence in emerging markets in a post Brexit world. The setting up of City of London schools abroad would send a clear message that London is "open for business" and help establish further links in overseas destinations of strategic importance.
11. Finally, there are significant advantages in not being at the vanguard of international expansion. CLSG and CLS will be able to benefit from the considerable wisdom that has been gathered by schools and specialist consultants over the last 10 years. Lessons learned and common mistakes should allow us to avoid common pitfalls.

Risks

12. International expansion carries a number of risks with it that should not be underestimated.
13. The RSAcademics paper explains in details the difference between perceived risks which rarely materialise, such as brand dilution or loss of control, and those that pose a genuine threat to the project and the organisation. The real risks are commercial or legal failure and reputational risk linked to health and safety and child protection issues. In addition, there are risks attached to protecting the Trade Mark of the schools in a given territory. These risks can be mitigated through a range of strategies, on which several specialist firms can advise. An essential part is the drafting of a contract that protects the brand, includes break and penalty clauses within a given jurisdiction, secures the right financial returns for the school and accepts no compromises on health and safety and child protection. The advice of specialist lawyers with a good understanding of the local compliance context will be crucial.

14. The point about financial returns is particularly important. Of 43 overseas schools linked to independent schools in the UK only about half are currently returning significant financial contributions to its home schools (in the hundreds of thousands of pounds).
15. It is also worth noting that in the case of some independent schools who have seen some of their overseas operations fail (Dulwich, Mount Kelly), there has been no significant impact (if any at all) on the home schools. It would appear that geographical distance has the ability to protect the home schools from any issues abroad that may affect their reputation.
16. Unlike most other independent schools, in the case of CLSG and CLS there will be additional reputation risks beyond the schools themselves to the City of London Corporation that will need to be explored very carefully. These risks, however, will be no different to (and one could argue less significant than) the ones that are already being incurred through the City of London MAT. The model of risk limitation for the MAT involved the creation of a separate company. This possibility would be worth exploring for international expansion. It may be appropriate, for example, to set up City of London Schools International as a registered company and brand, where members are represented but which is separate from the City of London Corporation. This would also allow CLSG and CLS to either work in overseas projects as joint ventures or separately, depending on the circumstances of each individual project, yet within a common agreed operational framework. This model further allows for any other City school to enter the international market when they feel ready, almost acting as an international MAT.
17. The most important factor to limit reputational damage to the City of London Corporation however is likely to be the choice and vetting of potential business partner by the schools. At the same time, and unlike other schools, the City of London schools are well placed to take advantage of local knowledge available through the City of London Corporation's contacts to gain an insight into potential business partners.

Current Position

18. We are at the stage where we would like to commission some work by consultants with experience in helping UK independent schools develop their international presence. This work would enable us to address the points raised in Glenn Marshall's recent paper for the Town Clerk that have to be considered before any venture into the international market.
19. The aim of this further research would be to devise a framework for international expansion that would be robust from a commercial and legal point of view and that would address the particular reputational risks that the City of London Corporation brand would incur. We believe that provided we take a measured

approach to international expansion informed by specialist advice, there is no reason why the risks could not be mitigated to a more than acceptable level.

20. We would look to work closely with the Town Clerk to make sure that the framework devised is in line with current and future policy to strengthen the profile of the City of London Corporation in the international Post Brexit scene. The international expansion of the schools should in equal measure aim to secure financial and educational gains for the schools and strengthen the overall City of London Corporation brand.

Proposal

21. CLS and CLSG would work together with a select group of consultants, with costs shared by the two schools, in order to submit a paper with a proposed framework and options for consideration by City Committees and members before the end of 2017. None of this work would commit the schools or the City of London Corporation to starting international operations but it is clear that there needs to be more groundwork done to ensure that any eventual overseas expansion is properly resourced, understood and legally protected.

Corporate & Strategic Implications

22. International expansion would allow the schools to find an additional source of income for their bursary funding at a time when fundraising is proving increasingly challenging and where there are growing financial pressures on schools. This will allow CLSG and CLS to continue to stay true to their founding ethos by providing access to world class independent education to those who cannot afford it otherwise. At a time when social mobility is high on the government agenda, it allows the schools to show that they are committed to the priorities that the Green Paper has outlined for the independent sector. Research at CLSG this year demonstrated that our bursary students significantly out-perform their peers at CLSG at A level which demonstrates that bursary funding is money well spent. This is an excellent story for the City of London Corporation and one that should be fully exploited for its potential benefits.
23. It is also worth making explicit that international expansion would not detract from the outreach work that both schools are currently engaged in nor from their contribution to the MAT. International expansion would indirectly benefit all the schools on the family of City School through developing a richer educational offer at CLSG and CLS.

Implications

24. CLSG and CLS will need to commission and pay for professional advice to inform an options paper for consideration by members in due course. This is likely to cost between £10k and £15k at the most. The schools would cover this from within their existing budgets.
25. There are no risks at this stage from just commissioning the research.

Conclusion

26. Permission is sought to commission research to help inform an options paper for consideration by members regarding possible future international operations for City's Independent Schools.

Appendices

- Appendix 1 – RS Academics paper for CLSG
- Appendix 2 – Glenn Marshall's Discussion paper on CoL Schools Overseas Expansion – Non-Public

Alan Bubbear

Bursar, City of London School for Girls

T: 020 7847 5524

E: bursar@clsg.org.uk