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About the author
Julia Harnden is the Association of School and College Leaders (ASCL) Funding Specialist. Julia worked for HSBC’s corporate banking division before moving to the education sector. Developing a working knowledge of education funding since 2001, Julia has worked with school leaders in both the primary and secondary phase and has chaired the finance committee and been vice chair of the governing body at a primary school. As a member of the school leadership team she has been responsible for strategic financial planning and monitoring, PFI contract management, academy conversion and leading capital projects.

Who is this guide for?
This guide aims to support senior leaders, business managers, governors, trustees, staff and other officers who are involved in strategic financial planning and reporting. It applies to local authority (LA) maintained schools, academies and multi-academy trusts in England.
Introduction

Why have a strategic financial plan?

The purpose of a strategic plan is to outline the direction that the school intends to take, identify issues that will need to be addressed and agree on the priorities for implementation.

A strategic plan clarifies direction and focus for governors, trustees and school leadership teams and ensures that everyone is working towards the same set of goals. It provides a roadmap for success.

Strategic financial planning will ensure that the school gets the most out of available financial resources in a sustainable and effective way and, in the current financial climate, solvency and survival.

Future-proofing

Following a review of efficiency in the schools system, the Department for Education (DfE) began to develop financial health and efficiency advice, practical tips and strategic planning resources. It emphasised the importance of establishing and maintaining a strategic view in allowing governors and leadership teams to project a range of efficiencies in the future using the best information available to them at the time.

A strategic view allows the governors and the leadership team to project a range of efficiencies in the future using the best information that is available at the time.

The process

At the beginning of the strategic planning process, it is important to “start with the end in view”. Asking and answering questions around core aims will help the leadership team and governing body or trust to set the directions of travel and embed a culture of schoolwide strategic focus. The process of strategic financial planning also ensures that key financial information is not limited to one or two people as this could present real risks.

The beginning: where are we going?

What are the core aims?

Does our school:

- have a clear financial strategy?
- evidence good value for money?
- have a clear procurement policy?

The end: a clear strategic direction

“The most effective schools are thinking continuously about how to optimise their spending decisions to achieve the best outcomes for their pupils.”

DfE Review of efficiency in the schools system 2013
A strategic view: key requirements

Roles and responsibilities

Stand-alone academy trusts (SAT) and multi-academy trusts (MAT)

Trust board
The trust board is responsible for ensuring that the academy (if SAT) or academies (if MAT) within the trust have a clear vision and strategic direction, and for overseeing the financial performance of the trust to make sure that money is well spent.

Accounting officer
The accounting officer in an academy trust is personally responsible to parliament for the resources under their control. In a SAT this should be the principal. In a MAT this should be the executive headteacher/chief executive officer (CEO) as appropriate.

Chief financial officer (CFO)
The chief financial officer in a SAT or MAT (usually the business manager/finance director) is a leadership role and takes the technical lead on financial matters.

Academy funding agreement
The academy funding agreement and the Academies financial handbook set out the specific responsibilities of the trust board. The funding agreement includes a termination clause which defines the point at which an academy is deemed insolvent and when the Secretary of State must be notified. This clause includes details of the events that may lead the Secretary of State to terminate an academy funding agreement.

Local authority (LA) maintained schools

Governing body
The governing body is responsible for ensuring that the school has a clear vision and strategic direction and for overseeing the financial performance of the school.

Headteacher
The headteacher is responsible to the LA for the resources under its control.

Local finance regulations
LA maintained schools are subject to local finance regulations which have strict rules regarding budget deficit. The governing body, headteacher and the finance lead should have detailed knowledge of these regulations, usually accessible via the LA website.
Reporting cycles

Academies

The Academies financial handbook contains specific details of the financial reporting requirements for SATs and MATs. The handbook is updated each year and is an invaluable source of information for trustees, accounting officers and chief financial officers. It identifies a number of “musts” for chairs and other trustees which the strategic financial planning process should support. These “musts” cover a range of areas of responsibility.

Key requirements

Academies should:

- have the budget approved by the board of trustees and the Education Funding Agency (EFA) – the budget forecast return – by 31 July in preparation for the new financial year. The approval of the board must be minuted
- notify the EFA within 14 days if it is formally proposing to set a deficit revenue budget that cannot be addressed after unspent funds from previous years have been taken into account
- provide information on financial performance to the board of trustees at least three times a year
- prepare the annual report and accounts, giving a true and fair view of resources, in accordance with the statement of recommended practice (SORP) for charities and have them externally audited
- submit audited financial statements to the EFA by 31 December, following the year end at 31 August
- publish financial statements to their website by 31 January
- establish a control framework that recognises public expectations about governance, standards and openness
- have in place sound internal controls, risk management and assurance processes
- manage cash flow, avoid going overdrawn and reconcile bank accounts at least monthly
- make sure they are working to the most recent version of the Academies Financial Handbook, updated yearly.

Information sharing

The Academies Accounts Direction is published every year and provides detailed guidance for academy trusts and auditors on preparing and auditing academy trusts’ annual financial statements.

All academy schools must ensure that they can access the ESFA Information Exchange. This is a secure online system that provides all ESFA-funded organisations with detailed guidance on the annual business cycle, including an annual timetable for reporting. The information exchange portal is the vehicle for sharing information with the ESFA and accessing funding information for your academy or MAT.

Maintained schools

The DfE guidance on Consistent Financial Reporting (CFR), the CFR framework and Schools Financial Value Standard (SVFS) are updated annually and provide detailed guidance for school leaders and governing bodies on the financial reporting requirements for maintained schools. The guidance identifies a list of the “musts” and some best practice suggestions (“shoulds”) that will provide assurance to the LA that robust financial management is in place.

Key requirements

Maintained schools:

- must complete the SFVS assessment annually and submit it to the LA
- must set an annual budget in line with the CFR framework by 1 April
- must submit to the LA annually a financial statement based on the CFR framework and in accordance with LA accounting practice; including a summary of the school’s financial position at the end of the financial year
- should profile the annual budget across the year
- should provide monthly monitoring reports to school leaders/governors for comparison of actual income and expenditure against budget profile
- should manage cash flow, avoid going overdrawn and reconcile bank accounts monthly.
Variable factors

Effective strategic planning gives governors and school leaders the opportunity to consider the best, most difficult and more likely scenarios resulting from changes to variable factors. Schools and academies will have to determine which factors constitute variables, but almost always the following will be included:

- pupil numbers
- average teacher cost
- average cost of all other staff
- funding
- inflationary factors including employer contributions to pensions and National Insurance.

Internal controls

A robust internal controls framework will evidence that value for money and rigorous financial procedures are integral to the day-to-day operations of the school. The internal controls framework provides a standard for all school staff and a benchmark for both internal audit and independent checking of financial controls.

The internal controls framework must include:

- coordinating the planning and budgeting processes
- disciplined financial management procedures including banking, cash flow and debt management with clearly defined segregation of duties
- preparation of monthly budget-monitoring reports
- the scheme of financial delegation
- procurement policy
- planning and oversight of capital projects
- asset management
- propriety and regularity of financial transactions
- oversight of related party transactions
- systems for reducing the risk of fraud and theft.

The internal controls framework can be included in the organisation’s financial procedures manual. The financial procedures manual guides operations and sets out how the organisation manages its money.

Areas of expenditure

A strategic view requires knowledge of the different areas of expenditure of the budget. Key performance indicators (KPIs) are quantifiable measures used to indicate an organisation’s success. KPIs for the different areas of expenditure should be agreed. Planned and actual expenditure can be measured against KPIs regularly throughout the annual budget cycle and the longer term strategic plan.

The chart below provides some suggested KPIs. It is generally accepted that total staffing costs should not exceed 80% of available funding. Budget proposals that indicate staffing costs above this level may be questioned by the relevant funding authority. In a static funding situation where costs are rising, the maintenance of these KPI levels will be a detailed and ongoing task.
Decisions to make

Keeping the curriculum at the heart of the budget planning process

The strategic financial decisions that schools must make are many and varied but there are three that are common in every case:

1. What must be included in the curriculum?
2. What do we want the school’s curriculum to look like?
3. What resources do we need to support the curriculum and can we afford them?

The reality is that funding levels and realistic projections must inform staffing and curriculum planning decisions.

What are the characteristics of curriculum-led planning?

- Pupil attainment and progress data is used to identify what the curriculum needs to deliver. This will include additional support.
- The leadership team should discuss how this can be achieved within the available funding. Decisions will reflect the interaction between a basket of metrics that might include some or all of the following list:
  - pupil-to-teacher ratio (PTR)
  - income per pupil
  - average cost of employing a teacher
  - how much time a teacher spends teaching
  - the proportion of budget available to spend on teaching
  - average class size.

Here are some examples of questions that the leadership team might want to consider as part of the curriculum-led planning approach:

1. What is our school’s affordable PTR?
2. Is our leadership structure “top heavy”/sustainable?
3. Is there any scope for economies in the way we deliver and timetable?
4. Is there any duplication of effort?
5. What are our projected pupil numbers for next 3–5 years?
6. Have any/all collaboration opportunities been explored?
7. Is there a robust procurement strategy for all expenditure?
8. Do we have a fully costed short-to-medium and medium-to-long term maintenance plan?
9. What does benchmarking with similar schools tell us?
10. Is there potential to generate more income?

Assessing options

An options appraisal process develops a business case for changes in a strategic direction that is systematic and risk-based, allowing the evaluation of several potential ideas. It weighs up and documents the costs, benefits, risks and uncertainties of a potential option before a decision is made. Options appraisal translates strategic goals into practical action plans.
Discussing and evaluating decisions

The meeting cycle

Arrange the annual meeting schedule around the financial, staffing and curriculum deadlines, giving plenty of time for different scenarios to be evaluated and discussed. It is counter-productive to present a draft budget to the leadership team and governors for the first time one week before the final budget needs to be submitted to the LA/EFA.

Facilitating the discussion

Communication is key. Discussing expenditure on staff and resources needs to be in a common language at an appropriate level of detail. It should be a discussion with a “What we are going to do” conclusion and not a discussion that results in splitting the team, or seeks to apportion blame. In particularly difficult situations it can be helpful to bring in an independent third party to deliver the message.

Benchmarking

Benchmarking is a strategy that allows comparison of spending patterns with other similar schools. It can be useful to get in touch with a school that appears to demonstrate a radically different spending profile and ask them how they have achieved this.

3–5 year plan

Medium- and long-term scenario planning allows an organisation to be proactive and in control rather than being reactive. Suppressing the symptoms of poor financial planning is time consuming and can result in the senior leaders in school being diverted away from teaching and learning. A reputable budget management software package which has forecasting capability can be used, or spreadsheets set up.

A medium- or long-term strategic plan is not set in stone. It will be a live document which must have flexibility and be regularly referred to and updated to reflect actual changes. It will establish a direction of travel for the school and boundaries for effective decision making.
Risk management

Risk and reward

Risk management underpins strategic financial planning. Very often risk management is considered only in terms of limiting the chances of something bad happening and putting contingencies in place, when in fact effective risk management should be the basis for opportunity and for increasing the likelihood of positive outcomes.

“Risk management is the process whereby organisations methodically address the risks attaching their activities with the goal of achieving sustained benefit within each activity.”

Institute of Risk Management

The risk management process

The process of risk management can be broken down into five steps.

1. Identify the risks surrounding your school’s activities.
2. Assess the likelihood of an event occurring.
3. Understand the response to these events.
4. Put systems in place to deal with the consequences.
5. Monitor the effectiveness of the systems and controls.

Schools that have effective risk management processes in place can expect to:

- improve decision making, financial planning and prioritisation
- allocate resources more efficiently
- anticipate what could go wrong and minimise the need for implementation of any damage limitation activities
- exploit opportunities
- significantly improve the probability of achieving strategic objectives.
Horizon scanning: Risk registers

School leaders and governors should understand and assess the risks that their school faces termly or at least three times a year – the risk profile – and nurture the concept of “horizon scanning”. Horizon scanning describes the idea of analysing the future.

In Jon Day’s *Review of cross-government horizon scanning* (2013) he defines it as:

> A systematic examination of information to identify potential threats, risks, emerging issues and opportunities, allowing better preparedness.

It can be helpful to consider these as business risks, where education is the business, and findings are summarised in a risk register. The key areas of business risk in schools are outlined below.

<table>
<thead>
<tr>
<th>Area of risk</th>
<th>Aspects to consider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic and reputational</td>
<td>Governance, loss of key staff, recruitment, results, pupil numbers</td>
</tr>
<tr>
<td>Operational</td>
<td>Infrastructure, insurance, staff absence, contract risk</td>
</tr>
<tr>
<td>Financial</td>
<td>Cash flow, fraud, leasing, variable income streams</td>
</tr>
<tr>
<td>Compliance</td>
<td>Health and safety, employment law and payroll, data protection, financial regulation</td>
</tr>
<tr>
<td>External</td>
<td>Demographic trends, government policy, employer cost pressures, new provision, mergers</td>
</tr>
</tbody>
</table>

Keeping a risk register that is reviewed termly or at least three times a year will ensure that the school’s risk profile can be effectively managed in a proactive way.

Risk register: examplar

**Area of risk: Strategic and reputational**

<table>
<thead>
<tr>
<th>Identified risk</th>
<th>Analysis/impact of risk</th>
<th>Evaluation (1=high, 3=low)</th>
<th>Treatment to mitigate risk</th>
<th>Actions required</th>
<th>Review date</th>
<th>Responsible person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of key staff</td>
<td>Experience or skills lost</td>
<td>Succession planning</td>
<td>CPD</td>
<td>Review staffing structure</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Conclusion

A roadmap for success

The key elements of creating a strategic financial plan, as explored in this guide, are pulled together in the diagram below. A strategic financial plan should incorporate:

- the core aims and strategic direction for the school
- the three- to five-year budget plan
- the financial procedures manual (internal controls framework)
- the risk register.

The strategic financial plan will be dynamic and provide the basis for discussion and decision making at leadership, governing body and trust board level. Most importantly, it will provide a roadmap for financial sustainability and success.
Further reading

Useful resources

DfE, School resource management
Information, tools, training and guidance to help schools improve their financial management and effective resource management.

A framework to help maintained schools collect information about their income and expenditure.

DfE, Schools financial value standard and assurance
The SFVS helps maintained schools to manage their finances and to provide assurance to the local authority that they have secure financial management in place.

Schools financial benchmarking
https://schools-financial-benchmarking.service.gov.uk/
This benchmarking tool enables schools to compare their expenditure with that of similar schools.

Endnotes


Oxford University Press resources

School Improvement Pathways

School Improvement Pathways provides the structure, the research and the resources to drive improvement forward in your school – in an easy-to-use online system. There are over 20 Pathways, each guiding you through four key steps to address a different school improvement issue.

Find out more about School Improvement Pathways

About the Association of School and College Leaders (ASCL)

ASCL aims to be the first choice professional association and union for all school, college and system leaders. It works to shape national education policy, provide advice and support to members and deliver first class professional development. Find out more about how ASCL supports primary school leaders here.