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Schools and academies

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# Strategic financial management

National Professional Qualification for Headship (NPQH)

Thinkpiece

Resource

# Thinkpiece: Strategic financial management

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## Introduction

Scrutiny of how public sector organisations spend public finances has rarely been greater than in the current decade:

*We want to prompt schools to look at how they can secure better value for money and prompt local communities to encourage their schools to spend more efficiently.*

*DfE, 2011*

This unit explores four key themes in the strategic financial management of schools and academies:

- the strategic role of the headteacher/principal
- aligning the organisation's improvement planning and its financial planning
- value for money
- accountability for the use of public funds

One theme is not explored, but is a thread that binds the unit together. **Financial leadership is an opportunity not a burden.** It is an opportunity to use resources creatively and effectively to improve the attainment of pupils. Effective headteachers and principals understand this and spend less time discussing the size of their budget and more time on how they can best spend it to improve outcomes.

## A strategic role

McKinsey (2010) refer to the importance of protecting teachers from issues which would distract them from their work. This advice applies equally to headteachers and principals. They are responsible for the leadership of the organisation's finances and for ensuring it has appropriate systems and processes in place. Note, however, that the governing body has formal legal responsibility for finance in both schools and academies.

In this unit it is argued that headteachers and principals should leave the day-to-day management of the school's finances to a school business manager (SBM), finance director or other suitably qualified person. The last decade saw a number of studies (Southworth, 2010; National College, 2009) which illustrated the benefits of appointing an SBM, chief among which are financial savings and savings in headteacher time. The challenges faced by small schools in this regard are not underestimated, but there is growing evidence of how schools can overcome them through part-time working appointments and collaborative arrangements with other schools (Todman et al, 2009; National College Demonstration Projects, 2010).

The **level** of financial understanding required of headteachers and principals is a thorny question. They need to feel confident in their ability to understand key financial data and its significance to the strategic development of the school; they need to have a model of what a financially well-managed school looks like and its core constituents. They need to be able to ask the right questions, and they need to be able to monitor and act as a check on individuals to whom they have delegated financial responsibility. In brief, their responsibility is to **know and understand but not to do**.

## Aligning the school's strategic planning with its financial planning

The starting point for financial planning should not be money but the organisation's aspirations for its pupils; some would argue that its improvement plan should drive its financial plan. In practice the relationship between the two is less simple and involves an interplay between aspirations and financial realities. What is important however is not to view the budget as a **constraint on development but as an opportunity for development**. The latter mindset ensures leaders are continuously evaluating their priorities and spending patterns to improve the alignment between them.

Two separate reports into school financial management (Audit Commission, 2009; NAO, 2011) have been critical of development planning practice in schools. The Audit Commission found that:

*In the plans we reviewed, schools had not taken sufficient account of the financial implications of their strategic goals.*

*Audit Commission, 2009:32*

It identified significant weaknesses in how schools addressed the financial implications of improvement plans:

- Not all the plans reviewed were costed.
- Costs in plans reflected a small proportion of the overall budget.
- The financial implications of initiatives in the plan were focused on goods and services rather than the more significant workforce costs.

Working with the governing body to ensure that expenditure plans are aligned with strategic priorities is a critical task for headteachers and principals. Ineffective leadership in this area may result in the school or academy failing to meet its objectives and obtaining poor value for money.

## Value for money

The imperative on educational establishments to achieve value for money often intensifies during periods of constrained economic circumstances. Whilst this is understandable, schools and academies should always seek value for money and the ideas discussed in this unit are relevant to all economic climates.

The value for money provided by schools and academies may be analysed at a number of levels. At a macro-level the Office of National Statistics (ONS, 2010) has analysed the output<sup>1</sup> of the school system and related this to inputs over the period 1996 to 2009. It finds that over that period, outputs rose by 36.6 per cent and spending on schools rose by 36.8 per cent, ie that during this period education productivity fell marginally. One key measure of education used by the ONS is the GCSE average points score (APS) of pupils at Key Stage 4 (KS4).<sup>2</sup> Critics of this approach argue that using such measures diminishes the importance of the soft outcomes from schooling which are less easy to quantify, and express concern that too strong a focus on examination performance may result in the measurable driving out the unmeasurable.

<sup>1</sup> In the following discussion, we distinguish outputs and outcomes as follows: **outputs** relate to actions taken, eg hold a workshop, train teachers or teach students, and **outcomes** are the results achieved, eg better student behaviour, students' knowledge and skills, GCSE results.

<sup>2</sup> This data set uses APS at KS4 as a quality indicator of the combined results of primary and secondary schools.

**How** the outcomes of the whole system are measured is an important area for debate which cannot be covered fully here but merits further study by leaders (ONS, 2010; Davidson et al, 2008).

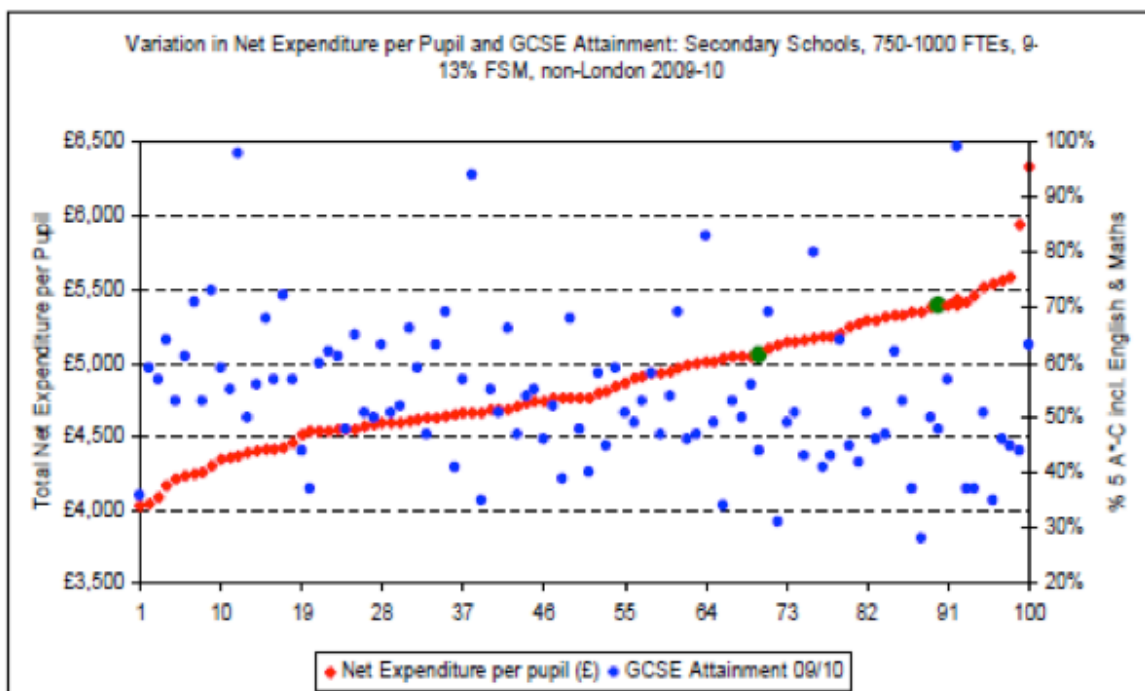
At the level of the individual institution, attention has focused on the relative efficiency of schools and academies:

*While many schools are already efficient, there are wide ranges of expenditure between similar schools with no correlation to attainment levels. Those spending more do not always do better.*

*DfE, 2011:2*

This conclusion is derived from data such as that in Figure 1 below which plots the relationship between expenditure per pupil and pupil performance at KS4 for a group of schools with similar characteristics. It is immediately apparent that there is little correlation between expenditure per pupil and the attainment of pupils.

*Figure 1: Variation in net expenditure per pupil and GCSE attainment: secondary school, 570-1,000 FTEs, 9-13 per cent FSM, non-London 2009-10*



These conclusions are extremely significant for headteachers and principals. They indicate that some schools are more efficient than others and that:

*what matters isn't the amount of money spent per pupil, but how that money is spent.*

*DfE, 2011:3*

Headteachers should spend some time analysing and critiquing the arguments in this publication and its practical implications for their financial leadership. To do this it is helpful to use a simplified model of school economics, as illustrated in Figure 2. The school receives funding which is used to purchase a mixture of resources to produce a range of pupil outcomes.

Figure 2: Model of school economics



In Figure 2, the school or academy receives funding which it uses to purchase a mixture of resources to produce a range of pupil outcomes. The challenge for headteachers and principals is how best to configure inputs to maximise outcomes and achieve value for money.

The Audit Commission (2009) suggest this can be best achieved through a focus on the 3Es of economy, efficiency and effectiveness:

- **Economy:** Minimising the costs of resources used by the school, but having regard to quality; for example can the school gain economies by switching its energy supplier?
- **Efficiency:** The relationship between outcomes, in terms of for example results, and the resources used to produce them; for example is it more efficient to use teaching assistants for in-class support or to withdraw pupils from lessons?
- **Effectiveness:** The extent to which objectives have been achieved; for example has the development of a virtual learning environment improved student attainment?

Evaluating performance against the 3Es has to be based on **evidence not assertion**. Gathering evidence of economy is easiest as this will often relate to the price paid for goods and services. Evaluating efficiency and effectiveness is more complex, as the Sutton Trust (2011) observes:

*The challenge to establish a clear link between educational expenditure and pupils' learning is harder than you would think.*

*Sutton Trust, 2011:3*

In its Toolkit of strategies to improve learning, the Sutton Trust argues that whilst we may not be able to establish with absolute certainty the causal relationship between inputs and outcomes there is sufficient **evidence** to indicate which improvement strategies may be a better bet than others. This short publication offers a way forward for leaders seeking more robust models for analysing the effectiveness of alternative educational inputs, and its approach and conclusions merit serious consideration. In particular, it draws attention to the need for headteachers and principals to develop their own evidence-gathering processes so that their judgements on efficiency and effectiveness can properly inform their strategic financial decision-taking.

Developing a culture sharply focused on the 3Es is a leadership responsibility but achieving value for money is a whole-staff responsibility and should permeate all financial decision-taking and may require professional development for some staff. Schools and academies can gain increased value for money through:

- developing of better procurement practices (Audit Commission, 2009; DfE, 2011)
- working in collaboration with others (Hill, 2010; Todman et al, 2009)
- rigorously reviewing expenditure on staffing

Approximately 80 per cent of expenditure is on staffing and the Audit Commission (2011a) asserts that:

*School leaders and governing bodies need to understand the costs and benefits of different models of staff deployment... and should:*

- *discuss resource allocation, staff deployment and reviews of staffing structures;*
- *understand the costs of different workforce strategies;*
- *assess how their workforce costs compare with national distributions and similar schools; and*
- *identify what they can change to improve efficiency.*

*Audit Commission, 2011a:5*

To understand the potential benefits and costs of different strategies and inform their staffing judgements, headteachers and principals should draw from research into:

- efficiency in the schools system (see DfE, 2013, Review of efficiency in the schools system)
- teacher staffing (see Blatchford et al, 2008 for a discussion on the relationship between class size and pupil attainment)
- education support staff (see Audit Commission, 2011b, Hattie's meta-analysis (2009) and Blatchford et al, 2009 for a discussion of the effectiveness of education support staff)

## Activity: Analyse and critique the key messages from this research

### Accountability for the use of public funds

The shifting autonomy accountability nexus within which schools and academies operate was discussed earlier and has particular relevance to the management of school finances. With increased autonomy came the need to strengthen mechanisms for accountability. Headteachers and principals are accountable to their governing bodies for the safeguarding and proper use of public funds and for the establishment of appropriate financial systems and processes. Since 2011 parents and the general public have also been able to access information on schools' spending from the DfE performance tables and to use this data to compare schools.

Headteachers and principals must be able to justify their school's spending to their public, and it is proper that this is so. Those with a clear vision for the strategic direction of their establishment and how its financial plans are contributing to the achievement of its goals, as well as providing value for money, will be well-placed to respond with enthusiasm to any questions the public might ask.

### Value for money, values and vision

Each generation of headteachers and principals faces its own unique set of challenges. For the next generation the major challenges for the foreseeable future will be how to use the increased financial freedom to:

- achieve more for less with reduced financial resources
- plan for changes in funding formulas for schools
- deliver a reshaped national curriculum and other curriculum reforms
- focus on narrowing gaps in achievement and attainment
- use the pupil premium effectively

In practice this may mean headteachers and principals determining with their school community how they will respond to financial pressures on their funding. Faced with a 5 per cent reduction, what will we do? How will we approach the problem? What things will we protect at all costs? What things are we prepared to change? For example, is class size a fundamental given, or is it something we would consider changing? What initiatives will we see through, whatever happens? Should all groups, types and ages of children bear the effects of any efficiencies equally, or will we protect some groups more than others? What evidence do we need to inform our decision-making? What lessons can we learn from research evidence? The list could go on, and the questions would be equally challenging.

Some leaders find shifts of this magnitude disconcerting and unsettling whilst others see them as the very stuff of leadership: a positive challenge to their professional capability, an opportunity to reshape and improve their organisation, a stimulus for reflection on the nature of their role and an occasion to engage the whole school community in revisiting its vision.

In *Efficiencies: helping schools balance the budget* (PwC, 2010) the authors argue that in the current climate:

*Schools should seek to establish a joint vision between headteachers, [school business managers] and governors to establish the financial and moral imperative for responding to future financial pressures and priorities for moving forward.*

PwC, 2010:5

### Activity: Vision

This activity should underpin your approach to this unit and your response to it. It is essential that you give deep consideration to the issues it raises. You may find it useful to revisit the activity when you have completed the module.

For this activity you should focus on your home or placement school.

Which areas of your school or academy life, if any, would you regard as untouchable, ie to diminish its provision would pose a fundamental threat to the school's moral purpose and achievements? You may find it helpful to consider this question in the light of the school or academy's vision and mission statements. Think deeply about the issues the question raises and avoid generalised responses such as 'protecting the curriculum'.

You may find it useful to consider the following generic headings to stimulate your thinking:

- curriculum provision: range of subjects offered, time allocated to subjects, specific subjects, use of technology for learning, library
- pupil grouping: setting, mixed-ability classes, mixed-age classes, class-sizes
- equity: resourcing of different age groups
- special needs provision: pupil teacher or teaching assistant ratios, specialist facilities
- pastoral care: size of tutorial groups, provision of personal, social and health education (PSHE), behaviour management systems, faith-based activities, educational welfare officer support
- extracurricular provision

By affirming which activities contribute most to achieving the school's moral purpose, school leaders provide beacons the school community can use when steering through turbulent waters, but this is not sufficient. Headteachers and principals also need to develop practical strategies which will allow them to steer towards their beacons.

Faced with the need for efficiencies may involve developing strategies for:

- reducing expenditure through the more efficient use of physical resources
- generating additional income and developing an entrepreneurial outlook or culture
- gaining efficiencies through collaboration
- reducing expenditure on human resources

There is now a wealth of advice available to headteachers and principals on **how** their organisations can achieve efficiencies, but a challenge for the current generation may be to convince all members of their school community **why** they should make these efficiencies and how to develop a **culture** in which value for money features more prominently in decision-taking. Establishing this may take time but the investment will be worth it, as one headteacher observed:

*[E]quipping staff for a more flexible and changeable future was key to navigating change successfully. That included investment in capacity-building in individuals, sometimes in partnership with other schools on a reciprocal basis, and the use of performance management to support growth and development.*

*National College, 2012*



Schools and academies have, to a lesser or greater extent, always generated income, though these activities were often directed at providing additional resources to supplement core provision. However, the boundaries are becoming blurred as organisations become more entrepreneurial in their outlook and use funds they have generated to finance what previously might have been regarded as core provision.

In such scenarios there is a premium on the capacity for creativity and innovation in the use of resources and this is something headteachers and principals will wish to foster in themselves and their leadership teams. It will involve leaders taking a fresh look at their assets, both physical and human, to determine the opportunities for them to become revenue earners, from increased lettings of facilities to the sale of curriculum expertise or materials to other organisations. At the same time, headteachers and principals will wish to consider how they can **actively** engage parents, governors and the local community in these ventures and to rethink the nature of their relationship with some of these groups. These strategies apply equally to large and small schools, and urban and rural schools, for each has its own unique set of assets with the potential to be used more creatively.

By the end of this decade the overwhelming majority of schools and academies will be part of a partnership and/or cluster(s) of establishments. The drivers for clustering may be diverse but once established, clusters provide significant opportunities for economies of scale through joint procurement, sharing of services and so on. These benefits may appear to be common sense, but in practice not all schools embrace cluster arrangements and not all clusters are equally effective at gaining financial efficiencies. These failings may be ascribed less to economics and more to leadership style and skills.

Coleman (2009) explores how successful collaborative arrangements are formed and sustained. He concludes that trust is fundamentally critical in the leadership of collaborations and that notions of added-value and collaborative advantage can only properly be achieved through a culture of mutual reliance and collective buy-in. Thus headteachers and principals must do more than simply **join** a collaborative; they must **share its leadership**. However, leadership within a collaborative model requires them to use a different mix of skills, qualities and attributes than those necessary for leading a single institution.

*Every kind of peaceful co-operation among men is primarily based on mutual trust and only secondarily on institutions.*

*Albert Einstein*

The fourth potential area for efficiencies is through a reduction in staffing costs. Reducing staffing costs is different from reducing expenditure on physical resources for several reasons: clearly there is a human dimension and an impact on the individual(s) affected. There are legal processes which must be observed to ensure that employee rights are not contravened, and there may be a negative impact on both the curriculum and the morale of other staff. For these reasons, and because headteachers themselves may find the process personally stressful, school leaders may adopt a strategy of making efficiencies in many other areas of school spending to avoid staffing efficiencies.

This may be a challenging subject, but headteachers and principals with a clear sense of moral purpose will find themselves better placed to make the right decision for their organisation, hence the earlier discussion about revisiting the school's vision and aims and establishing the financial and moral imperative for responding to future financial pressures and priorities for moving forward **before** determining which combination of the four efficiency strategies will best meet the circumstances. They will find themselves feeling more secure in making these decisions if they draw upon a body of **evidence**. There is now a growing body of **external** research evidence to guide them, whilst many leaders are increasingly gathering their own **internal** evidence on what works in their context.

## Activity: Values

### Reading

To deepen your understanding of some of the arguments in this final section read:

Coleman, 2009, *Trust in collaborative working: the importance of trust for leaders in school-based partnerships*, Nottingham, National College for School Leadership

National College, 2012, *Funding the future*, Nottingham, National College for School Leadership

PwC, 2010, *Efficiencies: helping schools balance the budget: case studies*, Nottingham, National College for School Leadership

As you read, critically evaluate the arguments put forward by the authors, the evidence-base they draw on and the implications of their conclusions for headteachers and principals. Identify key implications for your own leadership.

### Personal reflection

The final section of this think piece argues that in the future, school and academy leaders will need to:

- foster a value-for-money culture in their organisations
- be creative and innovative in their strategic financial planning
- be entrepreneurial in outlook
- possess the skills necessary for sharing the leadership of collaborative arrangements
- be able to take challenging, evidence-based decisions on staffing issues

Consider each of these five statements and reflect on the current practice in your present school, academy or placement against each of them using a RAG rating (see below) and noting down the **evidence** for your judgement.

**Red:** in need of development

**Orange:** some good practice, but patchy

**Green:** a strong feature which pervades the whole organisation

The think piece also refers to the need for leaders to establish a moral imperative which will underpin difficult financial decisions they may have to take. How would you go about establishing this moral imperative in an establishment you led? How would you ensure that all financial decision-making was based on the organisation's vision for itself and evidence of impact, and put the interests of children first?

## Summary

The resources allocated to schools are scarce and precious. Headteachers must have a strategic understanding of how they can deploy those resources most efficiently in order to obtain the maximum value for money for their pupils. Strategic financial leadership provides an opportunity for headteachers and principals to focus resources on the school's priorities but it should not distract them from their core purpose. Effective headteachers ensure their school has good processes and systems in place for the organisation and safeguarding of the school's finances, and delegate the management of these tasks to others.

In this new landscape, many schools and academies will increasingly need to be more creative, innovative and entrepreneurial in how they use their resources and how they work together. A clear sense of their moral purpose and an understanding of the imperative for financial decision-making to be based solely on the needs of the children are essential prerequisites of headteachers and principals who would lead in turbulent times.

### Reflection

- What processes and systems might you put in place to establish a value-for-money culture in a school you led?
- What challenges do you see in measuring the value for money provided by individual schools?

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