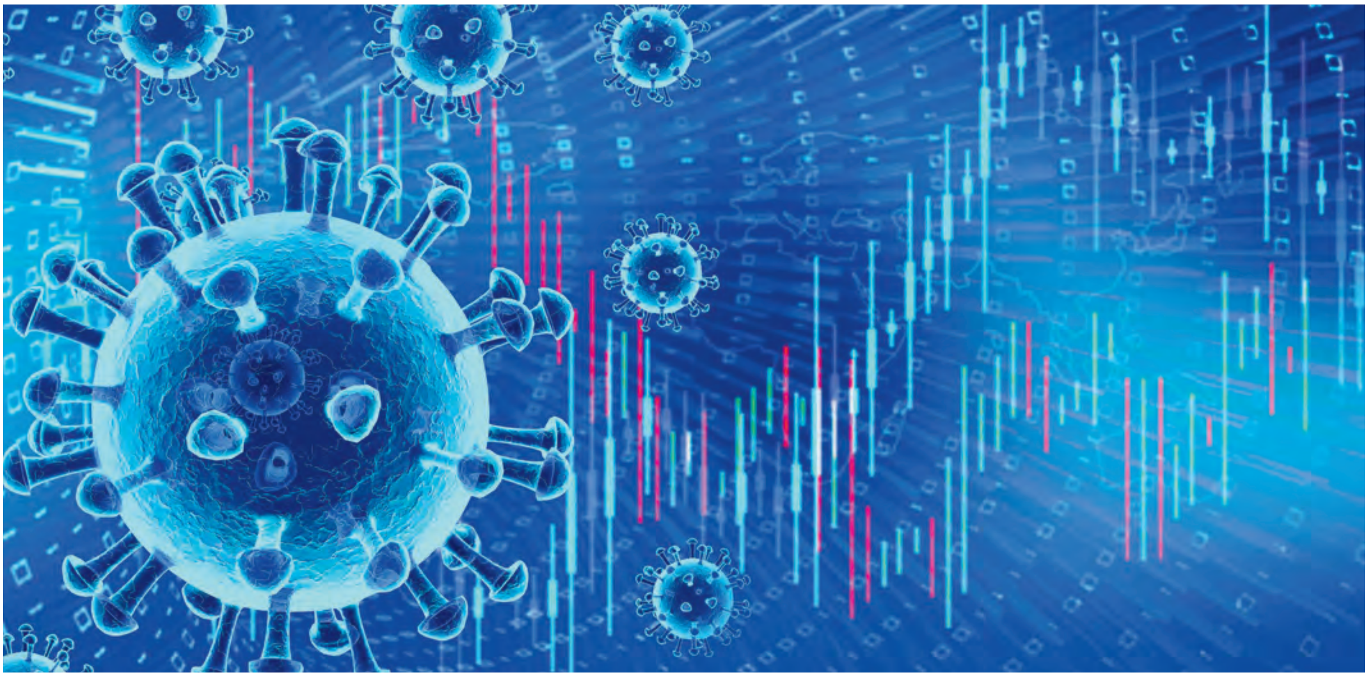

CORONAVIRUS: THE IMPLICATIONS FOR FINANCIAL FORECASTING

The unprecedented situation facing academies and maintained schools in responding to COVID-19 has led to questions about whether schools have sufficient contingency funds in place to deal with such crises. As they grapple with the fall-out from COVID-19, Will Jordan, Co-Founder of IMP Software, examines the learnings for school business professionals on contingency funding and forecast agility.

Will Jordan

Given the scale and global element of the pandemic (which was not on too many risk registers), the simple answer to 'whether schools have sufficient contingency funds in place to deal with such crises' is 'no', and nor should they. However, my challenge is whether they have been able to reset their budgeting assumptions quickly enough with an ever-changing set of circumstances and guidance (or lack of).

When considering what suitable levels of contingency funds might look like, a lengthy debate between the executive/leadership team – who wish to maximise funds being spent on resources for current pupils – versus the trustees/governors – who are looking more broadly to ensure the safeguarding of resources and the organisation into the future – can occur. Whilst I am not a fan of large unallocated contingency pots, there is no right answer here, and, if you look at the broad sector and specifically the reserves policies of multi-academy trusts (MATs), this is an area with a great deal of variation.

A middle ground to satisfy both 'camps', which I arrived at during my time serving as a trustee, was to establish a difference between committed and uncommitted budget lines. With this approach, the uncommitted spend items could be optional and based upon other factors that would come true (or not) as the year progressed. This approach provides agility to react to evolving circumstances and gives the leadership team the ability to outline their priorities for education delivery and the trustees/governors more comfort about having less funds ring-fenced as 'contingency/surplus'.

> *"MATs and schools will be rightly reviewing the agility of their financial processes to ensure that beyond COVID-19, the lessons learnt can benefit them in the future."*

Lessons learnt

As with any crisis, there are always things that can be learnt for next time, especially in terms of preparing for the unexpected and making sure that institutions can change course when the goalposts move. Whilst this crisis is unprecedented and has caused significant challenges for all, MATs and schools will be rightly reviewing the agility of their financial processes to ensure that beyond COVID-19, the lessons learnt can benefit them in the future.

Extra caution, attention and scenario-planning is required – which is what MAT chief finance officers (CFOs) and school business professionals (SBPs) are extremely good at. However, one element that can help leaders make tough decisions is having up-to-date, prudent financial forecasts at their fingertips. It could have been easy to get caught up in the current crisis and decide that with so many unknowns, financial forecasts will be lacking accuracy and, therefore, any sense of reliability.

However, forecasting and budget agility remains achievable in the current climate and, when done right, can make a huge contribution to enable, and give confidence in, decision-making. The issue is that the quality and frequency of in-year forecasting can vary greatly between MATs, academies and maintained schools. Some have well-established processes that are deeply ingrained and followed as a matter of course each month, but many still struggle to create a forecast, other than for the budget forecast return out-turn.

Having worked in the academy sector area for nearly ten years, I would say that most trusts are somewhere in the middle, with a combination of culture, lack of resource and limitations of technology (in that order) being barriers to achieving the vision of a monthly re-forecasting cycle, which is much more 'the norm' for standalone academies and maintained schools.

MATs can struggle because there are several schools to consider, with growth meaning that new schools have to be onboarded[1] and brought up to speed with trust processes. Where trusts have implemented a monthly cycle of reporting, it was often not perfect on day one, but the beauty of a good process is that each month, the accuracy and efficiency of production will improve. By keeping on top of a monthly cycle, you not only reduce the effort for each forecast but are only ever a month away from your next set of financial data, therefore ensuring that decision-making is always based upon the most up-to-date information.

Long-term effects

While the current situation remains fluid and fraught with uncertainty, it still has the potential to be a perfect storm for MAT and school finances. Some will have received an initial positive effect through lower operating costs, but, for many, budgets are likely to be hit hard if there is a reliance on self-generated income from extended services and use of facilities; that's in addition to the more recent costs that have arisen as part of the COVID-19 response and the preparation for the broader school reopenings, such as PPE, signage, increased travel provisions, and potential further costs that might be required to keep groups separate.

However, MAT CFOs and SBPs are used to operating within a moving landscape and having to make difficult choices. They know the importance of robust financial planning – continuing with in-year forecasting and formulating strategic budget plans when information, assumptions and reporting deadlines are uncertain. Whilst there will always be an argument that there is simply not enough funding in the system to allow for a good contingency fund or uncommitted budget lines, it is abundantly clear that making preparations for these and embedding this resilience into the finance processes will be even more important going forward. ■

TOP TIPS:

1. Ensure continuous forecasting draws on a combination of finance actuals, payroll actuals and forward-looking budgets, by month.
2. Focus on agility (and potential automation) of the forecasting process; streamline processes so more time can be spent on analysis rather than the administration.
3. From the outset, identify committed and non-committed budget lines that are earmarked for review as the year unfolds.
4. Minimise unallocated contingency funds.
5. When presenting finance data throughout the year, focus on performance against the approved budget and comparison between the last two forecasts: what has changed?

IMP Software (www.impsoftware.co.uk) provides budgeting software for MATs. However, there are other providers in the market, so please research the market thoroughly before committing to any change.

INFO

1 Onboarding, also known as organisational socialisation, refers to the mechanism through which new employees acquire the necessary knowledge, skills, and behaviours to become effective organisational members and insiders.