

SCOTTISH COLLEGES FINANCIAL MANAGEMENT NETWORK

Guide to Developing a Financial Strategy

Part 1 – Introduction And Context

1.1 Introduction

This Guide provides an overview of developing and implementing a financial strategy in a Scottish College.

Whilst all College Boards will have defined overall aims and objectives and will have determined strategies to achieve these, not every College has a formal financial strategy. This Guide is intended to be of use both to Colleges that are formalising a financial strategy for the first time and to Colleges that are reviewing existing strategies.

The Guide aims to assist Finance Managers to develop a framework that will allow a College to take a pro-active approach to managing its financial future. As such, it provides suggestions for Colleges to adapt to meet their own circumstances rather than detailed advice, as there is no “right way” to do it.

1.2 Context

The Board of Management is responsible for the overall financial health and well being of a College. A College’s financial health and well being is determined by the success of all the strategies it deploys, including the financial strategy, which is concerned with financing and resourcing a College’s corporate plan.

It is therefore recommended that to become (and remain) financially secure, a college should develop a financial strategy alongside other key strategies as, by doing so, it will then be in a position to determine the capacity created for maintaining it’s current business as well as developing itself for the future.

In preparing this guidance, the approach has been that it should consist of elements that can be applied to all Colleges (for example ensuring the College’s long-term solvency) as well as elements that may be of greater or lesser importance to individual colleges. Bringing both of these strands together will result in the overall strategy being set.

1.3 Summary

In summary, it is considered to be best practice for all colleges to develop a financial strategy. Part 2 of this document contains an outline of the key requirements of a financial strategy and Part 3 consists of guidance notes on implementing and monitoring the strategy.

The guidance can also be used by Colleges to review their financial strategy where this is already in place. There are various “checklists” or “self challenge” questions that can be used to review an existing strategy and references to these are included within Appendix B to this Guidance. In addition, examples of financial strategies already in place within the FE sector are highlighted within Appendix C.

Part 2 – Financial Strategy Development: Key Objectives And Essential / Desirable Requirements

2.1 Identifying the Key Objectives

The first thing to be considered is to determine what the College wishes to achieve from its strategy i.e. the key objectives. Once determined, these objectives should be at the very heart of the strategy and everything else should be developed around achieving these. The following five key objectives are proposed for initial consideration:

Objective 1.

To achieve long-term financial security and match resources with College strategic objectives.

Objective 2.

To develop productive capacity to meet current and future learning and resource objectives through the economic, efficient and effective deployment of resources.

Objective 3.

To plan and control the financing of college developments and ensure investment returns are optimised.

Objective 4.

To provide a consistent basis for evaluating strategic alternatives and developing effective financial planning and risk management.

Objective 5.

To integrate and harmonise financial and other college strategies.

Once a College has agreed its key objectives, the next stage is to work out how best to achieve these. Outlined below are certain areas, which are believed to be **essential** to consider in any financial strategy. There are then some “**desirable**” areas, which Colleges may or may not wish to consider depending on how applicable they are to individual College circumstances.

2.2 Essential Strategy Requirements

The following points are suggested as essential for inclusion within a financial strategy due to their associated risk profile.

2.2.1 Planned Operating Surpluses

The financial strategy should refer to the planned levels of operating surplus. This should incorporate an assessment of alternatives and risks, which could affect the financial performance of the College (this is therefore linked to a College's Risk Policy and embedding of risk management).

A College would normally determine the level of surplus to be targeted each year in the light of:

- the amount of cash needed for normal operations, backlogs, and capital investment, and what alternative forms of finance are possible or advisable
- the availability of capital funding in relation to the investment needs
- some contingency to allow for unforeseen fluctuations in financial performance, and to accommodate risks
- the impact on external stakeholders, including banks and other lenders.

The College Finance Manager can carry out a key research and advisory role in terms of the above points.

Systems and procedures require to be in place to ensure budgeted surpluses are achieved in practice by:

- ensuring that budget managers understand the need for College surpluses, accept their budgets and responsibilities, and are trained and supported appropriately
- taking steps to recover full costs wherever possible (and not subsidising commercial activities or those where the learning benefits do not justify this)
- building contingency items into the budget from the outset, so that unexpected downturns in performance do not necessarily affect the surplus
- regular in-year monitoring and forecasting and taking corrective action at an early date if this is needed to keep within the budget.

2.2.2 Discretionary Reserves

The level of general reserves (and the underlying pattern of operating surpluses) helps to show the ability of the College to manage over time and is one of the key indicators used to compare the College with peers and it will also be used as a measurement of how a College is perceived by the financial sector. Each College will form a view as to the desired level of discretionary reserves as part of its financial strategy.

2.2.3 Liquidity

Adequate cash balances are critical to survival, and cash and other liquid assets need to be carefully forecast and managed for operational purposes. Cash forecasts and projected surpluses should be sufficient to meet the needs of the College as identified in the target setting process, with an allowance for contingencies, either as cash or pre-arranged credit facilities.

Liquidity can be addressed within an overall Treasury Management framework if this is considered appropriate.

2.2.4 Capital Investment

The financial strategy would normally consider the whole-life costs and performance of assets. This includes the balance between investing to maintain a modern, well maintained, efficient infrastructure as compared with lower spending over time which may have negative effects on staff and learning outputs.

The strategy can also consider 'spend to save' capital investment in areas such as maintenance, which can create high financial rates of return with greater performance and reduced annual operating costs.

In determining the impact of capital investment, the long-term financial implications for the College would be reviewed as part of the decision on affordability. This process should result in a robust plan to generate sufficient income to cover the operating costs of the investment, and to refurbish or replace assets after an appropriate interval.

The identified College requirements can be prioritised in terms of need (urgency), potential for income-generation/development of the College, and necessity (asking what happens to the College in the long term if the investment is not made).

Following this approach should lead to a clear statement of financial requirements in terms of recurrent and capital costs for each resource, including realistic and sustainable levels of expenditure to support the productive capacity required for the College's corporate objectives.

2.3 Desirable Strategy Areas – depending on individual College circumstances

2.3.1 Borrowing

In the light of College circumstances, the management and Board will determine its capacity and its willingness to borrow or raise finance externally.

Factors taken into consideration should include:

- the College's level of reserves and assets
- the purpose of the borrowing, and how much the activity will add to future income
- how secure or risky this extra income is
- what negative consequences could flow from the reduced headroom that will result from additional borrowing
- how significant this particular opportunity is compared with others that are likely to arise over the lifetime of the proposed loan.

As part of this process, it is likely that a College will determine what proportion of the total theoretical borrowing capacity it wishes to take up. This decision will be influenced by factors such as the purpose of the borrowing, the ability to repay out of surpluses, potential future demands and the impact on the College's objectives if the cash is not made available

2.3.2 Analysis of Costs and Income

In developing its financial strategy, it is good practice for a College to review its costs and income analysis in order to identify if there are any issues that should be addressed within the financial strategy e.g. a College with a high proportion of staff costs or European income may wish to develop a strategy to address this. In key operational areas, Colleges may wish to consider setting income targets, including returns on commercial activities.

2.3.3 Costing & Pricing

Colleges may benefit from developing an appropriate costing and pricing framework. Costing to very detailed levels (such as course costing) can involve significant additional work and its merits are the subject of debate within the sector as the practical benefits of such an approach are not always clear. Many Colleges consider a more targeted approach to costing to be beneficial. Pricing should be viewed as distinct from costing although transparency of costs can aid the pricing decision.

Allocating overheads can also assist with costing and pricing (although this can be a complex exercise). The subjective element of overhead allocation can be reduced if Colleges can directly allocate as many costs as possible.

2.4 Summary

The points covered above are not exhaustive but should give an idea of the different areas that will need to be considered when developing a financial strategy. Colleges will also need to consider the extent to which the financial strategy is expressly linked to related strategies such as Value for Money or risk.

The next section of this guidance addresses the issue of how best to actually put together a financial strategy document and ensure that it remains a live document actually used to underpin the corporate plan.

Part 3 Guidance Notes: Mechanisms And Procedures For Implementing, Monitoring And Refreshing Strategies

It is recommended that whatever mechanisms and procedures a college establishes for developing and maintaining a financial strategy they should form part of the overall college planning procedures. This should ensure consistency with other strategies and operational plans whilst avoiding duplication of reviews and approvals. Colleges are at different stages in the process however it is important to take a pro-active approach whether developing or maintaining a strategy.

Possible approaches to developing and maintaining financial strategies include: -

3.1 Strategy Development

Although, as with all strategies, input will usually be sought from any interested parties, it is unlikely that approaches such as 'brain storming' or 'blank piece of paper' will be helpful in developing a financial strategy.

It is recommended that initially the senior manager responsible for finance should develop an outline College financial strategy which: -

- a) Proposes a set of essential strategies, with the linkages to current financial status.
- b) Identifies real alternatives wherever these are believed to exist.

Ideally, this outline of essential financial strategies should be reviewed in participative session(s) with college managers. Involving non-finance staff in setting and monitoring financial strategies can enable a balanced position to be developed that meets a College's overall strategic requirements.

After amendment and refinement, the proposed financial strategy should be recommended to the College executive for approval. If appropriate, Colleges may wish to consider consultation with staff representatives also.

Thereafter, approval would normally be sought from the Board of Management (following a consultation period). When this approval has been obtained, a similar process may be followed to develop the desirable financial strategies. Alternatively the essential and desirable strategies may be progressed in tandem.

3.2 Implementation

After approval of the financial strategies, an implementation plan can be developed for elements where the current status does not match the financial strategy aspirations. Such implementation plans need to be sufficiently detailed to show how the strategy will be achieved.

For example, if a college identifies and adopts a strategy of having no debt and currently operates with an overdraft, a plan to eliminate the overdraft requires to be developed. Such a plan could identify sources of cash and include individual responsibilities and specific milestone achievement dates.

3.3 Monitoring

The strategy implementation plans need to be regularly monitored. For most colleges, quarterly or bi-annual reviews of progress against the strategic plan are likely to be sufficient. These reviews could involve both Senior Management and the Board of Management.

Where strategies are not being achieved on schedule, revised implementation plans can be developed and proposed for approval.

3.4 Refreshing Strategies

After financial strategies have been approved, they can then be incorporated in the next version of the College Strategic Plan. Similarly, implementation plans can be incorporated in the next version of the College Operational Plan.

The normal strategy and planning process will then result in the financial strategies and plans being updated or refreshed during the College's normal planning process and will ensure compatibility with other plans.

As noted in section 1.2, there are various "checklists" or "self challenge" questions that can be used to review an existing strategy and references to these are included within Appendix B to this Guidance. In addition, outline examples of financial strategies already in place within the sector are highlighted within Appendix C.

3.5 Timescales

It should be noted that the period traditionally covered by College Strategic Plans (3 years) and Operational Plans (1 year) could well be too short for Financial Strategies and Plans. Such plans should address longer periods as necessary.

The development of a 5 year view and 10 year view of each element of the financial strategy is recommended as this is likely to contribute most to College Strategic Management and Planning, given the planning horizons required when considering issues such as estates or community plans.

The short to medium term view will normally be expressed in detail in the Financial Forecasting Return as a supporting document for the Strategic Plan.

3.6 Links To Other Strategies

The links between the financial strategy and other key strategies such as Estates or Human Resources is crucial in terms of the financial strategy being concerned with financing a College's corporate plan. These medium to long-term strategies are inter-dependent e.g. the HR strategies will fail if they are not properly resourced and it is unlikely that a successful financial strategy can be delivered without effective HR strategies.

3.7 Summary

It is considered that developing an integrated College Financial Strategy will help Colleges ensure their viability by providing a framework that enables resources to be managed and prioritised effectively within the financial constraints that impact on all organisations.

It will also assist in quantifying future resource needs, including the need for investment to protect and develop productive capacity and will enable Colleges to develop an integrated response to opportunities that create long term financing implications.

APPENDIX A

FINANCIAL STRATEGY WORKING GROUP – MEMBERSHIP/CONTACT DETAILS

Gordon Weir (Chair)	Fife College / Glenrothes College	01592 268591 01592 772233	g-weir@mail.fife.ac.uk gweir@glenrothes.ac.uk
Iain Clark	Motherwell College	01698 232323	iclark@motherwell.co.uk
Malcolm Heaton	Glasgow College of Food Technology	0141 5523751	Malcolm.Heaton@gcft.ac.uk
Ben McLeish	Telford College	0131 3322491	Ben.McLeish@ed-coll.ac.uk
Niki Jenkin	Research & Development Executive	0131 315 7420	Njenkin@reidkerr.ac.uk

APPENDIX B FURTHER INFORMATION SOURCES:

- 1). <http://www.hefce.ac.uk/GoodPrac/strategy>

Guidance published by HEFCE to help institutions develop their financial strategies. It outlines some of the key principles for developing and implementing financial strategy and also has some self challenge questions to prompt along the way.

- 2). www.hefce.ac.uk/pubs/hefce/2001/01%5f23/01%5f23bde.pdf

A document outlining what HEFCE consider to be the key areas which should be considered when developing a financial strategy or forecast.

- 3). www.ascol.org.uk/pdf/section5.pdf

This section of "A Comprehensive Guide for Board Members" takes a broader look at the general principles underlying good strategic planning.

- 4). <http://www.irlgov.ie/govacc/financial.pdf>

This document gives a very basic outline of some of the main features of financial management. It is designed for non-finance minded people.

- 5). http://www.lsc.gov.uk/National/Documents/SubjectListing/ImprovingQuality/GuidanceandGoodPractice/Colleges/LSDA_GovernorsPack.htm

This is a series of modules originally published by the FEFC to help governors understand their role towards the college. Module 5 "Financial Management" contains a section looking specifically at strategic financial management.

- 6). <http://bufdg.niss.ac.uk/pub/role.doc>

This document looks at the role of the Finance Director, the contribution a director they should make to the college and some of the activities that CIPFA & BUFDG feel are important to the role.

- 7). http://www.hefce.ac.uk/Pubs/HEFCE/1996/m12_96.htm

*Treasury Management – Value for Money (£7 from HEFCE)
This report reflects the treasury management practices of 15 institutions in the HE sector. It includes examples of good practice and also where areas where practice could be improved.*

- 8). http://www.hefce.ac.uk/Pubs/HEFCE/1996/ml13_96.htm

*Treasury Management Study in the HE sector – Management Review Guide (£7 from HEFCE).
A working document to enable executive management at institutions to undertake a systematic and comprehensive review of their treasury management arrangements.*

- 9). http://www.cipfa.org.uk/panels/treasury_management/

A CIPFA website dedicated specifically to treasury management.

APPENDIX C

EXAMPLES OF STRATEGY FORMATS:

The documents contained within this Appendix are illustrative examples of formats that can be used to support the financial strategy. They are from different Colleges and are included to illustrate the variety of approaches that can be followed.

Ci Key Performance Indicators (KPI's)

6 KPI's extracted from the Financial Forecast Return and used to measure achievement of strategy. This type of format can be incorporated within a strategy document.

Cii College Financial Strategy – example 1

An example of a “high-level” strategy outline based on 4 themes.

Ciii College Financial Strategy – example 2

This is based on 5 Principles with supporting objectives and identified “best-practice” measures. This format can be used to assess a College’s current position compared to the identified best practice and thereafter to develop an action plan.

APPENDIX Ci

FINANCIAL STRATEGY - KEY PERFORMANCE MEASURES

1.0 Financial Performance

1.1 Operating Surplus as a % of Total Income

This indicator shows the College's "trading" performance whilst providing for the full level of depreciation.

Financial Strategy Targets

Actual 2001/02	Actual 2002/03	Forecast 2003/04	Plan 2004/05	Plan 2005/06
0.14%	0.14%	0.79%	1.29%	0.38%

There are fluctuations in the levels of budgeted operating surplus due to the pattern of savings and costs arising from the planned estates rationalisation and the forecast reduction in European income

2.0 Balance Sheet Strength

2.1 Reserves as a % of Total Income

This indicator shows the College's accumulated Income and Expenditure account reserves compared with the turnover for the College

Financial Strategy Targets

Actual 2001/02	Actual 2002/03	Forecast 2003/04	Plan 2004/05	Plan 2005/06
6.9%	8.2%	16.9%	19.9%	20.8%

Reserves are forecast to increase significantly in 2003/04 (with the planned disposal of land) and to climb steadily thereafter.

2.2 Current Assets: Current Liabilities

This is a measure of an organisations liquidity and can be used to evaluate creditworthiness. It is the ratio of current assets such as cash, stock and short term debtors to its short-term debt

APPENDIX Ci (cont.)

Financial Strategy Targets

Actual 2001/02	Actual 2002/03	Forecast 2003/04	Plan 2004/05	Plan 2005/06
1.21	1.19	1.36	1.48	1.54

Over the 5 year period to 2005/06, there is a general improvement in this ratio as the planned operating surpluses generate additional cash.

2.3 Days Cash to Total Expenditure

This ratio measures the number of days the College could trade using available cash.

Financial Strategy Targets

Actual 2001/02	Actual 2002/03	Forecast 2003/04	Plan 2004/05	Plan 2005/06
10.7	34.3	16.0	22.8	25.6

Cash peaks in 2002/03 as a result of deferred grants. The trend is then of a gradual increase to 2005/06.

2.4 Long Term Liabilities to Total Reserves

This ratio indicates the extent to which the College's asset base is funded by long-term finance and may be vulnerable to adverse fluctuations in activity and income levels. In the commercial sector this is normally referred to as "gearing". A low ratio indicates limited use of long-term finance and a high ratio indicated that the College has substantial loan finance relative to its general reserves or that the level of general reserves is low.

Financial Strategy Targets

Actual 2001/02	Actual 2002/03	Forecast 2003/04	Plan 2004/05	Plan 2005/06
0.24	0.22	0.32	0.27	0.23

Additional loan finance is scheduled for 2003/04 causing the peak. There is then a gradual downward trend as reserves increase and repayments continue on College loans.

APPENDIX Ci (cont.)

3.0 Cost And Income Analysis

3.1 European Income as a % of Total Income

This indicator shows the percentage of College income derived from European funds. Given the uncertainty around the sustainability of such funds, this is a significant financial indicator for the College.

Financial Strategy Targets

Actual 2001/02	Actual 2002/03	Forecast 2003/04	Plan 2004/05	Plan 2005/06
5.6%	5.6%	4.4%	2.5%	1.1%

Reducing reliance on European income is a key element of the College financial strategy.

APPENDIX Cii COLLEGE A

FINANCE AND INVESTMENT STRATEGY

1.0 INTRODUCTION

- 1.1** This paper outlines the College strategy for finance and investment from August 2003 to July 2005.
- 1.2** The actions and targets required to achieve this strategy are detailed within the College's Operational Plans.

2.0 VISION

The College maintains its financial health and security in order to afford a high quality service and provision for customers and provide security for staff.

3.0 RATIONALE

- 3.1** The Finance and Investment Strategy has four themes:
- Utilising our skills and experience through planning and risk management to ensure the college's financial security;
 - Ensuring resources are deployed economically, effectively and efficiently to maintain the financial health and viability of the College;
 - Investing our resources to obtain the best return for the college in the short, medium and longer term;
 - Reducing our reliance on grant-in-aid through growing our other income streams.

4.0 STRATEGY

By 2005, the College will with respect financial security:

- 4.1** Deliver operating surpluses which:
- Are in line with its business plan for the new campus;
 - Allow it to fully account for all its costs, including depreciation.

By 2005, the College will with respect financial health:

- 4.2** Adopt a responsible attitude towards delivering operating surpluses which continue to improve our financial health position.

APPENDIX Cii (cont.)

4.3 Deliver operating surpluses which (materially) increase year on year and establish its investment fund.

By 2005, the College will with respect to investment:

4.4 Deploy its resources systematically, in order to:

- Take advantage of all investment opportunities;
- Improve its underlying financial health and security.

By 2005, the College will with respect reducing our reliance on grant-in-aid:

4.5 Develop business opportunities which allow us to grow our other income streams.

5.0 RESPONSIBILITIES

Principalship

5.1 The Director of Finance is responsible for achieving the strategy.

Senior Management Team

5.2 The Senior Management Team is collectively responsible for the successful implementation of the strategy.

College Teams

5.3 The Finance Team is responsible for reporting the College's financial security and health position.

5.4 All College Teams which manage resources are responsible for delivering services and meeting targets within budgeted resources.

6.0 MONITORING AND REVIEW

6.1 The Principalship will monitor and review progress through monthly operational reports from the Director of Finance.

6.2 The Principalship will review and adjust the strategy, if required, on an annual basis.

6.3 The Board of Management Finance Committee will receive a monthly progress report.

APPENDIX Ciii
COLLEGE B
FINANCIAL STRATEGY

PRINCIPLE 1 – LONG TERM VIABILITY AND MATCHING RESOURCES WITH OBJECTIVES

The College will set the financial performance objectives for a viable level of lifelong learning and other activity – in line with the strategic plan and its strategic positioning – while matching resources and objectives in the long term

Objective	Best Practice
<p>1.1 The College will have a viable corporate strategy.</p>	<ul style="list-style-type: none"> • The corporate strategy integrates the key strategies of the College and is fully informed by financial analysis and objectives (see Principle 5). • The financial strategy considers the forward projection of income, expenditure, liabilities, cash and capital requirements (including allowance for renewing and upgrading assets and capability) on a long-term basis (see Principle 3). • The cash forecasts and projected surpluses are sufficient to meet the needs of the College and have been reviewed against the targets in the strategy. • The financial strategy includes an assessment of alternatives and risks which could affect the financial performance of the College (see Principle 4).
<p>1.2 The financial implications of the College’s current academic positioning are included within the planning process.</p>	<ul style="list-style-type: none"> • The corporate plan includes forecasts of levels of activity (student numbers, commercial income, and so on) for all academic units. • These forecasts have been informed by market analysis and the recent performance of the units concerned, and have been examined and challenged for realism, balance and achievability. <p>Where growth or other change is forecast, any costs associated with this (such as investment in marketing or new facilities) are included in the plan.</p>
<p>1.3 The College's objectives, resources and infrastructure are in an appropriate balance</p>	<ul style="list-style-type: none"> • Board Members and senior managers have reviewed the overall balance of the College's activities and priorities, reflecting its current strategic positioning. • They have considered the College's future strategic positioning in relation to its resources and infrastructure, markets and competition, and past performance, and made a realistic assessment of future potential.
<p>1.4 The College generates an adequate surplus</p>	<ul style="list-style-type: none"> • The College determines the level of surplus to be targeted each year in the light of: <ul style="list-style-type: none"> – the amount of cash needed for normal operations, backlogs, and capital investment, and what alternative forms of finance are possible or advisable (see Principle 4) – the availability of capital funding in relation to the investment needs – some contingency to allow for unforeseen fluctuations in financial performance, and to accommodate risks – the impact on external stakeholders, including banks and other lenders. • The College ensures that budgeted surpluses are achieved in practice by: <ul style="list-style-type: none"> – ensuring that budget managers understand the need for College surpluses, accept their budgets and responsibilities, and are trained and supported appropriately – taking steps to recover full costs wherever possible (and not subsidising 'commercial activities' or those where the academic benefits do not justify this) – building contingency items into the budget from the outset, so that unexpected downturns in performance do not necessarily affect the surplus – monitoring forecast out-turns regularly in-year, and taking corrective action at an early date if this is needed to keep within the budget.

<p>1.5 College ensures that it's teaching strategy is financially viable</p>	<ul style="list-style-type: none"> • The potential for each of the main teaching businesses is evaluated, including a review of the market and the scope for growth or diversification, and consideration of the financial implications. • Cost data are used to understand the financial contribution from different types of teaching in different departments, with more detailed analysis, such as course costing or benchmarking, used on a periodic basis as appropriate. • The College sets targets for its performance – in terms of recruitment, retention and completion rates, employability, quality assessment, student:staff ratios, or cost per student. • The College considers the impact of changes in programmes offered, student mix, and delivery mechanisms (for example, more ICT-based learning).
<p>1.6 Financial objectives are set for income generation</p>	<ul style="list-style-type: none"> • As part of an enterprise strategy, the College is aware of the reasons for doing different types of commercial activity and their overall impact on the College. • Pricing is market based, informed by knowledge of the full costs and the value being delivered to the customer. • Higher returns are expected for more risky ventures. • Commercial activities are expected to at least cover their costs. • The College recognises that costs associated with culture change and staff training, and investment needs, could significantly reduce returns. • Where commercial income is channelled through subsidiary companies or other vehicles, these are reviewed as part of the financial strategy, which addresses the consolidated position of the whole College.
<p>1.7 Efficiency measures to improve the financial performance of the existing activity do not damage academic objectives.</p>	<p>Efficiency is the relationship between inputs (such as staff time, space and supplies) to College outputs, such as student progression and research outputs</p> <ul style="list-style-type: none"> • Externally, opportunities are considered for repositioning to bring the College into a better financial balance – for example through growth, rationalisation, merger, acquisition, disposal, strategic alliance, collaboration, or sharing of resources or services. • Internally, issues might include considering the advantages and disadvantages of internal restructuring, such as 'delayering'; replacement of small academic departments by fewer larger business units different relationships between academic units and the centre; and new resource allocation and budgeting models. • The College has considered the following options: <ul style="list-style-type: none"> – zero-based or priority-based financial planning rather than incremental planning – the scope for business process re-engineering or other similar fundamental reviews of processes and systems – alternative delivery methods, such as outsourcing, and market testing, within a procurement strategy – the balance of direct and indirect (support) costs; for example, how much academic staff time is spent on support activities. • The College benchmarks itself against and shares good practice with appropriate peer Colleges.
<p>1.8 The financial policies and processes support the financial strategy.</p>	<ul style="list-style-type: none"> • Our policies, processes and culture support the strategy in terms of: <ul style="list-style-type: none"> – management structure, culture, incentives and rewards – resource allocation policies – delegation, authorisation limits – ability to retain surpluses and invest – management information systems – support and training to all budget holders – option and investment appraisal to support decision making. • How well does our practice on pricing and costing support the strategy <ul style="list-style-type: none"> – There is a strategy for costing and pricing. – The College is using the data produced through a transparent approach to costing to support management decision-making. – Steps have been taken to ensure that heads of academic and other units understand and apply the principles of costing and pricing, and the College's strategy for this.

PRINCIPLE 2 MAINTAINING PRODUCTIVE CAPACITY TO MEET CURRENT OBJECTIVES

The College will address the investment needs of the College to maintain the value and contribution of human resources, physical assets, intellectual assets and information and systems, and to deliver the various resource strategies which support the mission and current academic objectives

Objective	Best Practice
<p>2.1 The College will maintain the right level of productive capacity in each key resource</p>	<ul style="list-style-type: none"> • The human resources strategy considers the total cost of staff and their role in delivering the corporate plan (see below). • The amount and type of physical infrastructure and resources are appropriate to maximise opportunities and performance:
<p>2.2 The College invests at an adequate level to maintain physical capacity</p>	<ul style="list-style-type: none"> • The strategy considers the whole-life costs and performance of assets. This includes the balance between investing to maintain a modern, well maintained, efficient infrastructure as compared with lower spending over time which may have negative effects on staff and academic outputs. • The strategy considers 'spend to save' capital investment in areas such as maintenance, which can create high financial rates of return with greater performance and reduced annual operating costs. • The long-term financial implications for the College are reviewed as part of the decision on affordability. • There is a robust plan to generate sufficient income to cover the operating costs of the investment, and to refurbish or replace assets after an appropriate interval (usually 15 to 20 years for buildings, less for equipment). • The strategy leads to a clear statement of financial requirements in terms of recurrent and capital costs for each resource, including realistic and sustainable levels of expenditure to support the productive capacity required for the College's corporate objectives.
<p>2.3 The College has the right staff, and policies which enable staff to maximise their contribution</p>	<p>This is a major area which will be addressed primarily through other strategies.</p> <ul style="list-style-type: none"> • The human resources strategy provides an assessment of the numbers and mix of staff, and of needs and opportunities to maximise contributions from staff. • The finance strategy reviews the proportion of total costs made up by staff and considers this against benchmarks for similar Colleges. • Investment in staff is addressed as part of the finance and human resources strategies.
<p>2.4 The College exploits and manages physical and intellectual assets appropriately</p>	<ul style="list-style-type: none"> • The College considers the potential to generate income or support academic activity through better exploitation of physical assets. • The College has considered its policy on the management of intellectual property and consultancy.
<p>2.5 The College ensures that the returns on assets and contributions of resources are adequate</p>	<ul style="list-style-type: none"> • A proper option appraisal is carried out before making significant new investments, and there is a business plan that considers benefits and costs over the asset's lifetime. • There is a periodic review of assets, covering their use, their condition, and the running costs associated with them, with consideration given to disposal or redeployment where appropriate. • High-cost areas of infrastructure are examined critically for their contribution to the College. • The levels of assets and surpluses and the use of assets are benchmarked against comparator College.

PRINCIPLE 3 FINANCING DEVELOPMENT AND INVESTMENT

The College will provide for the appropriate levels of financing for capital development and other investments, including the use of borrowing and other external sources of finance. Such developments should be supported by business cases, considering a range of options

Objective	Best Practice
3.1 The financial base of the College is periodically evaluated	<p>The following are considered:</p> <ul style="list-style-type: none"> - the College's asset base, and any disposable assets - the level of general reserves, and pattern of operating surpluses, which help to show the ability of the College to manage over time - how the College compares with peers and is perceived by the financial sector - the level and nature of future income streams - the risks, diversity and vulnerability of income.
3.2 The total cash and capital needs of the College are identified	<p>As noted under Principle 1, adequate cash balances are critical to survival, and cash needs to be carefully forecast and managed for operational purposes.</p> <ul style="list-style-type: none"> • All the resource strategies identify investment requirements. • There is a plan which includes: <ul style="list-style-type: none"> - a view of prospects and capital needs over the next 5-10 years, in terms of replacement and renewal, investment in new areas of work, strategic moves to achieve mission, or technological or legislative developments - a resulting capital investment plan (with priorities and broad phasing) - sources of financing. - All these requirements are prioritised in terms of need (urgency), potential for income-generation/development of the College, and necessity – (asking what happens to the College) in the long term if the investment is not made.
3.3 The proportion of these needs that can and should be met from College resources is identified	<ul style="list-style-type: none"> • Cash-flow forecasts identify the amounts expected to be generated from operations and identify the gap to be met from other sources. • The College has evaluated the relative contributions and risks of the alternative sources and the return that could be expected for a given investment in teaching, research or commercial activity. • The potential for cost savings (which can be an equally productive source of funds) has been considered, along with the potential for fundraising.
3.4 The amount to be raised from external sources is identified	<ul style="list-style-type: none"> • In the light of College circumstances, the College has determined its capacity and its willingness to borrow or raise finance externally. • The level (if any) of such external financing is decided as a part of the total financing of the College.

<p>3.5 Borrowing requirements are identified</p>	<ul style="list-style-type: none"> • The strategy evaluates the total financial base of the College (see 3.1 above) and enables a consideration of the total borrowing capacity. • The financial forecasts show the forward plans for cash and surpluses and the capital requirements (see 1.1, 1.4 and 2.2 above). • The financial forecasts show the current levels of borrowing and gearing, and indicate restrictions imposed through the financial covenants for existing borrowings. • The senior management team and Board Members have taken a view about the College's stance on borrowing, gearing and its impact on credit ratings. Factors to be taken into account in this consideration will include: <ul style="list-style-type: none"> – the College's level of reserves and assets – the purpose of the borrowing, and how much the activity will add to future income – how secure or risky this extra income is – what negative consequences could flow from the reduced headroom that will result from additional borrowing – how significant this particular opportunity is compared with others that are likely to arise over the lifetime of the proposed loan. • The College considers what proportion of the total theoretical borrowing capacity it wishes to take up, bearing in mind: <ul style="list-style-type: none"> – the purpose of the borrowing – ability to repay out of surpluses – ability to service the debt – potential future demands <p>impact on the College's objectives the cash is not made available.</p>
<p>3.6 The College determines whether it makes appropriate use of external financing</p>	<ul style="list-style-type: none"> • The College is aware of the range of financial instruments available. • Expert advice is obtained to ensure that needs are fully specified, particularly in terms of risks and timing. • Both financial and non-financial criteria are considered before selecting which financial instrument(s) are to be used for a particular investment. Criteria include security, covenants, exposure to risk such as interest rate fluctuations, valuations, redemption terms, accounting and tax implications, and maintaining flexibility. • Before any major external financing, an option appraisal is undertaken, which: <ul style="list-style-type: none"> – includes detailed financial modelling of the alternative financial instruments – covers the full life of each instrument and considers its impact on the balance sheet, income and expenditure account, and cash flow – includes sensitivity analysis. • Competitive tendering is used when financial instruments are purchased. • A periodic review of all borrowing and exposure is carried out, including market testing. • The review considers whether the instruments used are still appropriate to the requirements, and the scope for obtaining better terms or flexibility through refinancing.
<p>3.7 The College has a framework for deciding whether to bid for publicly-funded special initiatives and projects</p>	<ul style="list-style-type: none"> • There is an agreed set of strategic priorities so that if opportunities arise unexpectedly, or with a short timescale, the College is ready to bid. Points to be considered include: <ul style="list-style-type: none"> – the fit of any new opportunity with existing strategies and priorities (diversion from current plans can have other costs) – the cost of bidding and likely success rate – the need to provide capital contributions, or recurrent income to service a capital investment – the impact that providing matching funds will have on other areas of investment – the impact on recurrent costs in future years.

PRINCIPLE 4 EVALUATING STRATEGIC ALTERNATIVES AND MANAGING RISK

The College will provide a framework to help assess the implications and consequences of potential strategic developments and decision, and to evaluate and manage risks that threaten delivery of the strategic plan

Objective	Best Practice
<p>4.1 The financial strategy helps to support and prioritise strategic opportunities</p>	<ul style="list-style-type: none"> • The investment plan (Principle 3) provides a framework against which to assess the costs and benefits of new ideas and opportunities. • These are evaluated using the same techniques as capital projects: that is, full lifetime costs are identified, not just marginal costs or initial capital costs; realistic income and cost projections are included; and risks are considered. • The risk assessment attempts to quantify risk and the impact of controls that might alleviate the risk, and provides a framework to consider levels of acceptable exposure. • The strategic planning process includes a 'balanced scorecard' approach, which identifies key performance indicators across the whole range of College activity. • The planned surplus makes enough resources available to support the implementation of these decisions.
<p>4.2 The College plans headroom for growth and change</p>	<ul style="list-style-type: none"> • The College creates headroom for positive change and development by: <ul style="list-style-type: none"> – targeting a level of surplus that exceeds immediate requirements (which may mean making hard decisions about activities that are in decline or not undertaking some activities) – keeping a small reserve, perhaps in the form of unused borrowing capacity or disposable assets, which can be called upon if an outstanding opportunity occurs – identifying the resources needed for development (which may be space or management time, as well as finance), and ensuring that these are not a constraint because they are being taken up by relatively low priorities – if this is a problem, considering short-term investments (such as renting space or using consultants) to free up resources for strategic developments – collaborating with other College, or partners, in areas where this is not a competitive threat, to take advantage of opportunities which the College cannot manage alone.
<p>4.3 The College manages key financial risks</p>	<ul style="list-style-type: none"> • Key financial risks are identified as part of the strategic planning process (these will depend on the circumstances of the College, and will change over time). • For each key financial risk, the College identifies the potential impact, actions that can be taken to mitigate that impact, the level of exposure which is acceptable, early warning indicators, and fall-back plans or contingencies which can be used if the acceptable level of exposure is exceeded. • The finance committee or other appropriate group monitors the key risks on a regular basis (probably two or three times a year). • Each time a new financial strategy is produced, the appropriate set of key financial risks may change. These are then redefined along with the mitigating actions.

<p>4.4 The impact of unexpected downturns is minimised</p>	<ul style="list-style-type: none"> • To minimise the unforeseen, the College undertakes scenario planning, examining a wide range of consequences, and quantifying these within reasonable assumptions. • Early warning or leading indicators are used, related to the key financial and non-financial targets, with plans to take remedial action at the first signs of problems, rather than after these have become embedded. • The College undertakes critical reviews of non-contributing activity and of high-cost activity which makes a relatively low contribution, has high demands on scarce resources, or is relatively vulnerable to uncontrollable external events. Early action to reduce such losses can greatly improve resilience, rather than waiting until they threaten College viability. • Where possible, adequate contingencies are built into budgets for cash, income and surplus, so that when unexpected downturns do occur there is still financial headroom to allow for recovery.
<p>4.5 The College maximises the potential contribution of strategic alliances and collaboration</p>	<ul style="list-style-type: none"> • Board Members and senior managers have considered the potential benefits of the following (which are neither mutually exclusive nor comprehensive): <ul style="list-style-type: none"> – collaboration on services and infrastructure (such as sharing facilities or buildings, and consortium arrangements) – strategic alliances between other Colleges (for example, shared or rationalised provision, or joint marketing) – strategic alliances with higher education Colleges (such as franchising and assured progression routes) – strategic alliances with commercial organisations (for example in facilities management) – structural relationships between Colleges, which can include federal relationships and merger. • If any options appear worth pursuing, then a more systematic option appraisal or feasibility study is undertaken.

PRINCIPLE 5 INTEGRATING FINANCIAL AND OTHER CORPORATE STRATEGIES

The College's financial strategy will be integrated with the output and other resource strategies, understood and owned by those involved in the management of activities and resources, based on a realistic strategic analysis, and supported by a process of monitoring and review

Objective	Best Practice
<p>5.1 The strategy is based on rigorous and objective analysis</p>	<ul style="list-style-type: none"> • Managers directly responsible for academic units are involved in the strategic discussions and decision-making of the College. • The process of developing the strategic plan involves objective analysis of the environment, markets, and potential performance of the College.
<p>5.2 The College ensures that the financial strategy is properly integrated with the output strategies (academic and enterprise) and other resource strategies of the College</p>	<ul style="list-style-type: none"> • The resource strategies consider the health of assets and resources and the sustainability of their contribution to academic objectives. • The draft academic, finance, and resources strategies are all reviewed and approved by the same group, which includes heads of key academic and other departments. This is not a one-off process and it may take a number of iterations to bring all these strategies into alignment and within the available resources. This is the critical process of balancing the objectives, resources and infrastructure of the College. • A 'balanced scorecard' approach is taken, which considers a broad range of key indicators for the College so that investment and resources can be balanced across all strategies. • The financial strategy summarises the main financial and other assumptions behind all the College's strategies, and provides the opportunity to identify inconsistencies between them. • There is a consistency (in assumptions and methods) behind faculties and sections' business plans and strategies.
<p>5.3 Senior academic and other managers understand and accept the consequences of the financial strategy</p>	<ul style="list-style-type: none"> • Managers directly responsible for academic units are involved in the strategic discussions and decision-making of the College. • Managers responsible for academic and other units have appropriate training, information and support to enable them to understand the implications of the financial strategy for the planning and management of their units. • The process of developing the strategic plan involves strategy away days or similar sessions, which include Board Members and all relevant managers. The strategy and key objectives are communicated effectively within the College. • The process of monitoring and review involves all the relevant managers.
<p>5.4 The strategy is implemented and reviewed, and variations are detected at an early stage</p>	<ul style="list-style-type: none"> • There is a formal process for monitoring and review, with reports to key College committees at pre-determined intervals. • Managers directly responsible for academic units are involved in this process.