

## SECTION 10

# FINANCIAL AND RESOURCE MANAGEMENT

Studying Section 10 should take you about 13 hours.

Section 10 mainly addresses key question 2 on the nature of organizational effectiveness.

After studying this section you should:

- have gained a better understanding of the criteria for judging the effectiveness with which an educational organization manages its resources and its budget;
- be able to assess your own resource management practice and that of your organization in relation to efficiency and effectiveness;
- appreciate the extent to which a rational approach to budgeting and resource management is appropriate to your organizational culture and environment.

The readings for this section are in Reader 4, Introduction and Part 2.

### 10.1 INTRODUCTION

The main theme running through Section 10 is the relationship between resource management and budgeting on the one hand, and the aims, objectives and outputs of the educational organization on the other. Thus there is a strong link to Section 6's concern with organizational effectiveness. This coupling of resource management and educational effectiveness assumes a particular perspective - that of rational decision making. Its adherents maintain that a rational approach to resource management promotes organizational effectiveness through clearly linking the use of resources to the achievement of educational purposes. From a rational perspective, as discussed in Section 8, resource management must be an integral element of strategic management. The rational approach is a normative perspective rather than one that describes or explains what happens in actual practice, where rationality may not prevail at all or may be misapplied.

This section is called 'Financial *and* Resource Management' because the two are closely linked, particularly now that educational organizations in an increasing number of countries have been required to manage their own finances.

Budgeting in educational organizations is concerned with making and implementing decisions on using financial resources (such as money, claims on bank account transfers, savings accounts, vouchers, etc.) to acquire real resources such as staff, books, equipment and materials, utilities and maintenance, and, for organizations with capital expenditure budgets, plant and buildings also.

Section 10 does not attempt to cover all aspects of financial and resource management in education. It concentrates largely on the allocation of finance in order to acquire and deploy the real resources needed to provide educational experiences for students. This approach gives particular consideration to how financial management contributes to the other functional areas of management.

## 10.2 WHY YOU NEED TO KNOW ABOUT FINANCIAL AND RESOURCE MANAGEMENT

How much you think you need to know about financial and resource management in order to perform well in your job depends on the extent to which your organization has responsibility for managing its own finances and on the position you hold. In schools and colleges that have delegated budgets, rather than having their budgets managed by their education authority, financial and resource management naturally looms large as a responsibility for governors and senior staff. Typically the management of the whole budget is undertaken by senior management and, at a less detailed level, by governors. Other staff, while they usually value being well informed about the overall budgetary position, tend to feel that they have neither the time nor the expertise for active involvement in budget decision making for the organization (Levačić, 1995).

However, many staff in educational organizations will have responsibility for or access to a budget for their unit, such as a department or course/year group team. In secondary schools departments have budgets for books, stationery, minor equipment and materials, and possibly other resources as well (Sutton, Reader 4, Chapter 14). In primary schools curriculum co-ordinators often have a budget for purchasing books and materials to support their subject. In some primary schools each teacher or team of teachers has a budget for curriculum support materials. Colleges now typically have cost-centres, which need to account for how their budgets are obtained and spent. At unit level, there is often team decision making about the deployment of the unit-level budget, even though only one person may have formal responsibility for the budget. So it is likely you either currently have or, in a future post, will have responsibility for or involvement in managing a budget.

Even if you work in an educational organization without its own budget, or in one where budget management is centralized and remote, you will still be involved in the management of resources. Timetabling, staff deployment and the use of existing equipment and materials are all resource management activities. Even if you are not at a senior level, understanding the broad principles of financial and resource management is important in order to:

- appreciate how the organization's budget and its management affects your work and to make you better informed for participating in any consultations or decision making about the overall budget;
- enable you to manage a unit budget more effectively and to be better informed for participating in team decision making about the unit's budget.

## 10.3 LINKING BUDGETING AND RESOURCE MANAGEMENT TO EDUCATIONAL OBJECTIVES: AN OVERVIEW

Before you study the more detailed aspects of budgeting at organizational and departmental level, it is important to understand budgeting in the wider context of the resource management of the educational organization as a whole.

### Reading 1

First, please turn to Chapter 1 by Preedy *et al.* in Reader 4 and read the section 'Resources' and the overview of chapters in Part 2. This will give you a general overview of the main issues covered in Section 10 and how the readings for this section relate to these.

Now read Chapter 11 by Levačić in Reader 4, where the open systems model (Hanna, Reader 3, Chapter 2), with its relationships between inputs, processes and outputs, is used to analyse the role of financial and resource management in an educational organization. Within this framework a number of concepts that relate to key question 2 are defined and explained. Of particular salience here is the question of what is effective and 'efficient' resource management. Scott (Reader 3, Chapter 10), in analysing criteria for organizational effectiveness, notes that the efficiency criterion requires clear standards and relatively complete beliefs about cause-effect relationships between inputs and outputs. Scott also distinguishes between input, process and output indicators of effectiveness.

As you read, make notes on:

- the difference between educational outputs and outcomes and the problems of measuring school and college outputs (think back to Section 6);
- the distinction between 'operating services' and 'the core technology';
- the concepts of productivity and efficiency (can you think of an example where efficiency may appear to have increased but productivity has not?);
- the distinction between technical efficiency and cost-efficiency;
- effectiveness (can one be effective and not efficient or efficient but not effective?).

### Activity 1

It would be useful to apply Figure 11.1 in Chapter 11 to your own organization and job. What is your own involvement in each of the stages, from acquiring and allocating money and inputs, to creating the intermediate outputs or operating services, through to educational activities and outputs? What aspects of decision making are you involved in with respect to each of these stages? In what ways do you get involved in making decisions about the effectiveness and efficiency of resource use? What key roles do other post holders in your organization have with respect to each of the stages in the model?

## 10.4 RATIONAL DECISION MAKING AND BUDGETING

The characteristic features of a rational approach to decision making in relation to financial and real resources can be explained in terms of Figure 11.1 in Chapter 11. The sequence of connections now goes from right to left; it starts with setting organizational aims and objectives concerning educational outputs and outcomes, which are then translated into specific objectives for teaching and learning. These have resource requirements in terms of direct inputs of staff and materials and indirect inputs of operational services, such as administration, heating and cleaning, all of which must be funded from the organization's budget.

A rational approach to decision making is defined in relation to three characteristic steps:

- 1 Aims, objectives and priorities are agreed for the organization.
- 2 Alternative courses of action are evaluated against the aims and objectives.
- 3 The alternative that is judged best in relation to organizational priorities for the aims and objectives is selected.

There are a number of crucial problems with respect to the rational approach, which explain why it is not straightforward to implement. First, it is difficult to define aims and objectives when the service provided has intangible and contested features. Also, the very conception of an organizational objective is open to the criticism that, since reality is subjectively created, only individuals can have objectives, not organizations (Greenfield and Ribbins, 1993). Even if one does not accept the subjectivist view of reality, it is still the case that the

larger the organization the less likely it is for organizational objectives to be mutually understood and shared by all members, rather than be the province of senior management. A culture of integration (Meyerson and Martin's paradigm 1, Reader 3, Chapter 4) creates shared meanings about organizational objectives and the values that underpin them.

Another attack on the rational assumption that a common set of organizational objectives exists comes from the micropolitical perspective in which each interest group within the organization has its own objectives and competes with other interest groups for organizational resources and hence power (Hales, Reader 3, Chapter 3).

A further problem with the rational decision making model is that step 2 assumes availability of all the information needed to assess the different choices facing the organization. However, information is expensive to acquire. It is also difficult to make sense of large quantities of information when human intellectual capacity is inevitably limited.

Bear these difficulties in mind as you study the next reading, which considers evidence on the application of the rational approach to resource management in schools. The ideas are applicable to other educational organizations.

### Reading 2

Read Chapter 12 by Glover in Reader 4, which examines the way in which schools link budgeting to educational objectives. Glover discusses in detail what this rational approach involves and how it is differently interpreted by two schools, both of which were judged educationally very effective by inspectors.

As you read, make notes on:

- the key elements of the model of rational planning;
- the differences between the 'tight' and 'loose' versions of the rational approach;
- the practical issues of implementing a rational approach;
- the wider context in which resource management occurs - the school's external environment, its culture and the leadership style of the headteacher.

Glover's concluding observations are worth careful consideration because they underline the interdependencies between all the functional areas. The overall effectiveness of an educational organization depends on a complex interlinkage of appropriate responses to the external environment, school culture, leadership style and management processes.

Once you have read the chapter it would be useful to apply the ideas by assessing your organization against the different characteristics of the 'tight' and 'loose' models of rational resource management outlined by Glover. You may think that one of the models is more applicable, or alternatively it could be a hybrid approach, as reported in Glover *et al.* (1996a, b), where some aspects are 'tight' and others 'loose'.

## 10.5 STRATEGIC MANAGEMENT AND BUDGETING

The rational approach to the setting of budgets to deliver educational objectives requires annual budgeting to be conducted within a longer-term framework of strategic management that encompasses organizational development planning. An example of this approach is given in Chapter 17 of Reader 4, which you read in Section 8. It would be useful to reread this chapter at this point since it gives clear advice on how to integrate budgeting with strategic management. Before you do this you may find the general overview of budgeting given below helpful.

### *The main functions of an organization's budget*

A budget is a framework within which the decisions on the inflow of finance into the organization and its outflow as expenditure on real resources are planned, implemented, recorded and reported. A budget is related to a specific period of time, usually the financial year. The organization's budget performs three major functions:

- planning;
- financial control;
- accountability or stewardship.

### *Planning*

The budget is a key instrument by which an organization decides what it is going to do in the future and how it is going to finance the resources required. The budget as a plan is forward looking. In preparing a budget for the following financial year the figures being examined are hypothetical or conjectural. The income and expenditures they represent have not actually occurred but are projections of a likely future scenario. Section 10 focuses mostly on the planning function of the budget.

### *Financial control*

Financial control refers to the processes by which the receipt of revenues and outflow of expenditures are recorded, monitored and adjusted to ensure that the budget is managed honestly, efficiently and effectively. The minimum requirement is financial probity, followed by good housekeeping. More demanding than these is using financial control to help ensure efficiency and effectiveness in relation to educational objectives. Using a budget for financial control means recording all revenue inflows and payment outflows. In contrast to the budget as a plan, the budget as the record and report of past financial transactions is backward looking.

Table 6 shows a simplified example of a budget in order to illustrate the differences between the forward-looking budget plan and the backward-looking budget for financial control and how both are used for monitoring. A budget is divided into a number of headings, typically for different kinds of expenditure. The first column of figures shows the expenditures and revenues initially planned for the financial year, the second column the actual expenditures and revenues, called the 'outturn', and the last column the variance, which is the difference between the planned and actual budget headings. (Note the convention that the variance is negative if the outturn is less than the planned amount.)

During the course of the year, financial reports should be produced at regular intervals. The variances should be calculated to include committed expenditure as well as actual payments. If income or expenditure is observed to be out of line with the amounts planned then budget managers are alerted to the possible need for action. The records are checked for accuracy and explanations sought. The explanation may be satisfactory so that no further action is deemed necessary. On other occasions action is called for. If money is taken from one budget heading (i.e. expenditure item) which is underspent to finance an overspent budget heading, this is referred to as virement. Underspending requires correction as much as overspending, since it indicates that the money is lying idle and not being used to provide real educational resources.

Anyone who has day-to-day responsibility for financial control should either have specific training in financial recording and reporting or be able to rely on the services of support staff with this expertise.

**Table 6** An example of a school budget: planned income and expenditure compared with outturn

<i>BUDGET HEADING</i>	<i>PLANNED</i>	<i>OUTTURN</i>	<i>VARIANCE</i>
Teachers	451,935	464,760	12,825
Cover for staff absence	13,970	14,670	700
Support staff	46,948	46,102	-846
Staff development	3,630	3,500	-130
Repairs & maintenance	7,480	8,890	1,410
Grounds maintenance	5,940	5,799	-141
Utilities	14,850	15,138	288
Cleaning	16,940	17,674	734
Books, materials, equipment, etc.	19,800	18,978	-822
<b>GROSS EXPENDITURE</b>	<b>581,493</b>	<b>595,511</b>	<b>14,018</b>
Contingency	15,000	2,156	-12,844
<b>INCOME</b>			
Rent of premises	1,430	1,200	-230
Sale of services	1,540	1,367	-173
Budget from funding agency	595,100	595,100	0
<b>TOTAL REVENUE</b>	<b>598,070</b>	<b>597,667</b>	<b>-403</b>
Balance to allocate	1,577	0	
Carry forward from preceding financial year	3,457	3,457	

*Accountability or stewardship*

The financial records are also the means of ensuring and demonstrating that money has been spent for the purposes intended. Probity is satisfied so long as the money has not been spent fraudulently or wastefully. The traditional financial audit aims to ensure this and to check that systems are in place to prevent fraud and waste. However, whether money has been spent efficiently and to achieve maximum effectiveness within the amount available is much more difficult to assess. Auditing for value for money is a more recent development in accounting.

**10.6 THE BUDGET CYCLE**

The planning, financial control and stewardship functions of the budget are sequentially related through four main stages of the budget cycle: acquisition, allocation, implementation and evaluation.

*Acquisition*

Most of the budget for state-funded schools and colleges is usually announced just before the beginning of the financial year, and additional income may flow in throughout the year. As the open systems model stresses, an organization's income is dependent on its flow of information and output into the task environment. In this sense all the activities of an organization affect its income

flow. This is particularly marked when income depends on the number of students and there is competition between organizations for students, as in the UK and also in other countries, such as Ireland, Sweden and the Netherlands.

### *Allocation*

This is the budget planning or preparation phase, and is the stage we have been largely considering so far in examining how to link budgeting to educational objectives. This aspect of budgeting is developed further in Readings 3 to 5.

### *Implementation*

At the beginning of the financial year, the budget planned for that year becomes the anticipated flow of income and expenditure for the forthcoming year. As the year unfolds, the actual flows of income and expenditure are compared with the anticipated ones. These comparisons are used to monitor and confirm the budget. The financial data recorded during implementation are used for auditing and budget evaluation.

### *Evaluation*

This involves looking back over the previous year's income and expenditure and judging how effectively, efficiently and equitably resources were used. Evaluation is an essential part of a rational approach since step 3, the selection of the best alternative, cannot be undertaken without such evidence. Both Glover and Knight refer to a growing body of evidence that educational organizations find this the most difficult stage. Value-added measurement of organizational effectiveness is one way of providing data for evaluation. Other methods rely more on the qualitative and intimate knowledge of the organization and its environment acquired by effective managers and on which they base their assessments of appropriate action.

### **Reading 3**

Now read Chapter 13 by Knight in Reader 4 on budget analysis and construction –the budget planning stage. (The book from which this reading is taken also explains other aspects of the budget cycle.)

You should study Figure 13.1 carefully since it shows the different stages of the budget cycle, indicating how an organization will be working on several years' budgets simultaneously.

As you read, note the different approaches to planning that Knight discusses and their relative strengths and weaknesses. Consider the example on the improvement of writing and reading in the section on 'Alternatives and priorities', together with Table 13.1, since this is an excellent example of how planned expenditure can be evaluated against educational objectives.

### **Activity 2**

Which of Knight's approaches to budget construction in Reading 3 are used in your organization? Would any other approaches be more suitable? If so, why?

How well do you think the budgeting system in your department or organization performs against the Simkins and Lancaster criteria (cited in the reading) for evaluating a budgeting system?

Knight also offers some useful advice on budget formats and layouts, which you might like to compare with those used in your own organization.

I would argue that the distinction between maintenance and development activities lies at the heart of the difficulty that educational organizations have in linking their budget with their development plan. Most of the budget finances maintenance activities, whereas an organizational development plan is about new developments, which account for a relatively small proportion of the budget. School development planning has largely advocated focusing on a few key priorities for development. This is different from a corporate plan, which is a plan for all the activities of the organization - both maintenance and development. Whether the time and effort involved in corporate planning is worthwhile for organizations with ambiguous means-ends relationships and uncertain environments is questionable. (This is discussed further in Levačić, 1995.)

## 10.7 RESOURCE ALLOCATION WITHIN SCHOOLS AND COLLEGES

As schools and colleges have become responsible for managing most or all of the resources they use, so the issue of how responsibility for resource management is delegated has become more prominent. There is more pressure to undertake department-level and subject-level planning and to couple this with planning processes for the organization as a whole. In the following two readings Sutton and Carr develop this theme in different ways. Sutton assesses different approaches to allocating budgets for curriculum support and Carr explains how unit costing is done and how it may be used for resource allocation and management control purposes.

### Reading 4

Please read Chapter 14 by Sutton in Reader 4. You should note Sutton's application of rational, collegial and political models and their different implications, in particular for the centralization or decentralization of budget decision making.

### Activity 3

Describe the method of allocating curriculum support funding in your school or college. How much do you actually know about it? What more can you find out? How centralized or decentralized is it? If a formula is used, how was that arrived at? What changes would you like to see?

### Reading 5

Read Chapter 15 by Carr in Reader 4. Since unit costing seeks to cost the outputs of an organization it is germane to the main theme running through Section 10. Carr explains unit costing in the context of further education colleges, where it is far more prevalent than in schools. A crucial reason for this is that further education colleges can choose which courses they run whereas many schools have to teach to a national curriculum. However, even in schools it may be useful to cost sixth-form provision and compare it with the cash allocation for sixth-form students. Similarly, decisions about whether to run General National Vocational Qualifications (GNVQs) and optional General Certificate of Secondary Education (GCSE) subjects may benefit from unit costing.

As you read, you should work through the numerical case example to make sure you understand the principles, in particular the terms *direct costs*, *(apportioned) indirect costs*, *cost centre*, *cost absorption*, *activity based costing*. It is important to appreciate that which method of cost apportionment to choose depends on your evaluation of the consequent incentive and disincentive effects on staff and students.

Given the different functions of budgeting, unit costing can serve different purposes. If your department or course has unit costs worked out for it, it would be useful to consider what the purpose of this is and on what assumptions the unit cost allocations are based.



## 10.8 CONCLUSION

I conclude with a health warning! Given space limitations, the treatment of resource management in this section gives considerable emphasis to the rational approach since this approach makes logical links between resource management and organizational effectiveness. In this the rational approach differs from the traditional or incremental approach to budgeting, in which each year's budget plan is last year's expenditure with some minor adjustments, and in which financial accounting in educational organizations is only loosely coupled to educational considerations.

However, there are practical limitations to implementing a rational approach. In particular, collecting and analysing information is time consuming and requires human and material resources, which limits how much evaluation of alternative possibilities can be done. Other organizational perspectives than that of rational decision making, which are referred to in subsection 10.4, are helpful for understanding how resource management actually takes place in organizations. Factors such as the distribution of power, organizational culture, differing subjective interpretations and ambiguity about means-end relationships, are all important considerations.

Within the rational approach there are many variants, depending on the particular organizational context, and not all require a tight bureaucratic model that relies on quantitative data (see Glover, Reader 4, Chapter 12). In deciding on the most appropriate approach, issues of culture and leadership are crucial. These, together with the characteristics of the external environment, will influence the approach to strategic management and organizational development planning that underpins and informs budgeting. Seen in this light, how the budget is managed is an important element, but not the only one, in influencing the quality of educational provision. Thus resource management and budgeting together form the vital link between strategy and quality.