The Financial Plan

Unlike a one-year budget, a financial plan lets you look into the future

By Steven C. Pereus

What's the difference between a budget and a financial plan? Think about maneuvering a rowboat. The energy you use to make the boat move is like the money you have to spend. You can row all day, but if you don't spend any time steering, you will never arrive at your destination. Budgeting, like rowing, provides the resources you need to keep a school district moving forward on a daily basis. Financial planning, like steering, focuses your effort on your destination. Rowing without steering or budgeting without a long-range financial plan will keep you moving – but not necessarily in the right direction.

Most school districts, I have found, spend more time rowing than steering. In fact, most school finance efforts are directed at budget development, financial compliance and reporting, and control of expenditures – important tasks but ineffective ways to chart a strategic course. Most districts spend far too little time evaluating how effectively their funds are being used, identifying future financial needs, and gauging the impact today's decisions will have on future needs or goals.

Fiscal responsibility

Board members, superintendents, and business managers have two levels of fiscal responsibility. The first level is compliance with state and federal law. Compliance ensures that the budget meets state standards and that state funds are directed to legislated accounts and programs. Compliance does not ensure that funds are being used efficiently or effectively, however.

The second higher order of responsibility is that of fiscal stewardship, which goes well beyond compliance and ensures that funds are spent on programs that make a difference and move the district toward its vision. Fiscal stewardship avoids deficit spending and the need for drastic cuts that undermine education. It requires that policy and process are in place to ensure that funds are used effectively and wisely and that deficits are avoided.

How does a board achieve effective fiscal stewardship? The answer is financial planning.

You would never build a new house only to tear down part of it because you did not budget enough to finish the entire building. Unfortunately, that is how districts often handle funds. We build our district vision for student success one year at a time and often end up spending so much on small projects that we don't have enough for the programs that would really make a difference. However, building a successful district requires a strategic plan, goals, and a financial plan to support the vision – plus the fiscal stewardship to make sure tax dollars are being directed to the most effective programs and departments.

Budget versus financial plan

Financial planning differs from budgeting in a number of key ways:

1. **Purpose – compliance versus fiscal stewardship.** Budgets are usually developed to match revenues against planned expenditures and comply with state budget development and reporting requirements. (State law rarely requires financial plans.) The purpose of financial planning is to project the long-term sources and uses of funds, evaluate the effectiveness of programs and departments, and focus financial resources on programs that help attain the district's vision for students.

2. **Process – routine versus evaluative.** The budgeting process usually involves a routine review of annual expenditures. Budget center directors are given directions on

spending limits and possible increases, and new programs are occasionally introduced. Each year, school officials spend a lot of time reviewing these budgets, when all they are really doing is approving last year's budget with a few changes. Financial planning, on the other hand, takes the district through an evaluation process that identifies areas in which district funds are being overspent or spent on ineffective programs. With financial planning, programs are renewed if they produce material results for students – not because they have become part of the way of doing things.

3. **Focus – tactical versus strategic.** The focus of a budget is on taking care of day-to-day operating needs, such as staff, supplies, utilities, and benefits. Financial planning focuses on allocating resources efficiently, making long-range plans for new funds, and ensuring that funds are directed toward goals and priorities.

4. **People involved – middle to lower-level employees versus tip administrators.** The members of the superintendent's cabinet and the people who report directly to them (including principals and department managers) are involved in financial planning, which plays a more strategic role than budgeting and places accountability on those managing budgets and departments.

5. **Information – revenue projections and budget allocations versus spending trends, performance benchmarks, district goals, and performance.** Budgets focus on the collection of minutiae, from head counts to supply use to salaries. Financial plans use this information as a foundation and build on it. Districts that use only the traditional budget document as a management tool force the board and superintendent to review information that is the proper domain of mid-level administrators. Financial plans, on the other hand, provide information on issues of fiscal stewardship, effectiveness, vision, and change – the rightful domain of the board and superintendent.

6. **Time frame – next year versus next five years.** Budgets usually provide data for the budget year and the previous year. Financial plans, in contrast, generally provide two or more years of history and a three- to five-year projection of future expenditures and revenues.

7. **Accountability – spending questions versus goals questions.** Budgets ask how is your department or program going to spend its funds next year? Financial plans ask what will you achieve with the level of funding requested for the next five years, and how does that compare to other alternatives for the same goal or service?

8. **Issues addressed – operational versus strategic.** Budgets address the immediate operating needs of the district: how much money is spent on salary versus supplies, for example, and how much is spent on each department. Financial plans address critical issues, such as when new funding will be needed, the cost of alternatives for improving academic performance, the long-range impact of reducing class size or adding a new school, and the total annual capital and operating costs to fully implement and support technology over the next five years. Most important, financial planning addresses whether the district is investing funds in programs that support district goals and vision. A financial plan pinpoints inefficiencies in a department, mandates that the department improves, and funnels the savings to education. Districts that do not use financial planning seldom learn about such inefficiencies, however. And when the adults have chosen comfort and status quo over work and change, the children will suffer in the long run. Financial planning and analysis ensure that students are put first.

9. **Ability to influence district vision – short term versus long term.** Budgets affect what happens during the coming year, while financial plans affect results for up to five years. Without the benefit of financial planning, a simple budget cannot affect the long term.

10. **Communication with taxpayers – dollars and cents versus results.** Budgets show categorical spending; financial plans show whether the funds are being used effectively. They also tell taxpayers that you are open about the district's financial condition and that you are responsible and care how taxpayers' money is being used.

In short, financial plans are the most effective tool school officials have for achieving results and establishing accountability. Time spent in a good financial planning process will produce far greater benefits than the time many board members now spend on budget hearings.

Responding to critics

If financial planning is so superior to single-year budgeting, why don't more districts try it? In the school world, financial planning is an innovation, which means it is likely to meet some resistance at first. Some people in a position to implement financial planning don't have enough time or access to the right information. Others aren't sure how to get started. Still, others just don't want to be bothered.

Critics might say, "We can't forecast revenues because they are too uncertain." If that's the case, it is all the more vital to develop a financial plan. Lack of certainty doesn't reduce the need for a financial plan – it increases it. Some firms, such as oil companies, can experience revenue changes of as much as 35 percent below plan, yet these firms are often leaders in long-range financial planning.

Another common criticism is, "We don't have time." This is the "ready, shoot, aim" syndrome. District leaders must realize they have a fiscal responsibility to do the best they can with taxpayer money. Effective investment in students requires spending time up front. In addition, time spent making the right decisions is far more effective than time spent attempting to undo bad decisions.

Some critics might argue that the unions will use the district's financial forecast against management during negotiations. The proper response to that argument is that financial forecast does not imply any commitment whatsoever to labor negotiations. The district can budget a number that it thinks is fair and appropriate.

Alternatively, critics might say, "We don't have that kind of information." Nevertheless, if you don't have information on performance, then the district is probably not really managing the department or program. Management is about performance. A strategic performance audit will provide information that highlights waste, inefficiency, and areas of potential cost savings that will not affect students. It will show a district how to free up funds that can be directed into new programs that benefit students.

The critics' clincher argument is that all programs that benefit children are good, so the district shouldn't cut back on any of them. However, what about the new programs that might be better than the current ones? How can you support a program that might benefit 30 students at a cost of $5,000 per student versus one that could have more impact at $500 per student for 300 students?

If your board members and administrators are truly dedicated to doing the best for students, you owe it to students (and taxpayers) to begin to change the way you plan for the use of money.

Getting started

If your board members and administrators are truly dedicated to doing the best for students, you owe it to students (and taxpayers) to begin to change the way you plan for the use of money. Step 1 is to agree that change is needed. Once you have reached consensus, take these steps to get started in solid financial planning:

1. Establish a board policy on financial planning and a planning process.
2. Review your strategic plan, which should include goals and costs. Develop a table of all strategic initiatives and a projection of their costs over the next five years.
3. Establish basic financial assumptions on inflation and other factors affecting your budget and develop a forecast to determine whether new money will be needed and when.
4. Add in the cost of strategic initiatives or other projects that your district would like to undertake.
5. Compare your revenues against your costs. You are likely to project a funding gap at some point in the future, so now is the time to look for ways to reduce costs or shift funding.
6. Conduct a performance audit of all business and support services to identify areas of potential cost savings and performance improvement. Use benchmarks to identify where these can be improved, and estimate the potential cost savings.
7. Evaluate all discretionary programs. Compare these to new initiatives that you do not have funds for. Which ones have the biggest potential impact? Cut the least effective discretionary programs to fund the new initiatives.
8. Now compare the potential cost savings to the eliminated programs. Develop a plan for moving funds from these programs into new programs, or use these funds to reduce your spending.
9. Begin to use this to steer the district's spending. Move funds away from programs that are not effective into those that are. Insist that all non-instructional programs operate at the highest level of efficiency.
10. Let your taxpayers know you are embarking on an effort to make the best use of their resources for students. The financial plan will allow you to prepare for new levy campaigns well before approval is required.
11. Translate the first year of the plan into a budget. View the budget as the first year of the implementation of your long-range plan, and update the plan each year.

You can now begin to steer, rather than row. I predict you will see real results.

Where does your district stand?

If you are still wondering whether financial planning is right for your district, a useful exercise is to consider where you are, compared to where you should be in terms of the level of fiscal stewardship your district provides:

Level 1: Basic budget. A one-year budget includes a summary of spending by line item, or expenditure type. It does not discuss district goals, nor does it address how the budget is related to a strategic plan or goal. At this level, your district might not have a formal strategic plan.

Level 2: Multiyear budget, with goals. At this level, the budget might include expenditures beyond a single year but does not include an assessment of programs or measures of efficiency.

Level 3: Multiyear forecast, strategic goals, and projections of the cost of initiatives. The long-range forecast calls for setting up a regular process for assessing the efficiency and effectiveness of programs and departments.

Level 4: Strategic plan with goals; financial plan outlining the costs of the goals and existing operations; performance targets that are based on a performance audit and benchmarking. This also includes an evaluation of program efficiency and effectiveness and states targets for each area to reach.

Level 5: The same as Level 4, plus a financial planning process that includes the consideration of alternatives, cost of alternatives, and elimination of low-performing programs to fund new initiatives. This also includes a complete projection of the cost and trade-0ffs of new initiatives. - SCP

Steven C. Pereus (scpereus@enlit10.com), former Business Manager and Chief Operating Officer of the Toledo Public Schools, is now President of Enlīt, LLC, Toledo.