

Advanced Material

This Advanced Material contains a pre-seen case study provided to students prior to the exam date. Students should familiarise themselves with the Advanced Material before they sit the exam.

The Advanced Material provides key information and forms the basis of the requirements set out in the exam day materials.

Exam: Strategic Case Study

Exam Sitting: December 2023

The country of Kusanda

Kusanda is an island country in the northern hemisphere. It has a population of around 5 million. About one third of the citizens live in the capital city, Wilstone, and its surrounding suburban towns.

Kusanda is a high-income country. Its 2022 per capita gross domestic product was £40,800. It is a fertile country, and the economy relies on the export of a wide range of agricultural products.

The government has a good reputation for managing the economy. Inflation has been between 1.5% and 2% every year in the last decade, including during the coronavirus pandemic year of 2020. The bank base rate is 5% and forecast to remain there for the next couple of years.

The national parliament is unicameral with a single legislative chamber. The chamber is called the House of Representatives and has 120 members, elected every five years using proportional representation. The executive branch of the government is headed by the Prime Minister, who is elected to the post by the House of Representatives from among their number. Effectively, this means the leader of the largest party in the House of Representatives will be the Prime Minister. The Prime Minister has the power to appoint ministers to the 14 government ministries. The Prime Minister plus the 14 ministers comprise the Cabinet and they work together to discuss and formulate government policies. The Cabinet is collectively accountable to the House of Representatives for their actions and decisions.

Local government is structured into 13 regional authorities and 65 district councils. Each of the various authorities are controlled by elected representatives. The regional authorities are responsible for the delivery of the following major public services: education up to the age of 18, highways, local public transport (buses, trams, and commuter railways) and regional economic development. They are financed by a combination of general grants from the national government and local income tax receipts.

The district councils are responsible for services such as local planning decisions, social housing, water, sewage and waste management. Their main sources of income are the rents from their housing units, a property tax levied on every domestic and non-domestic property, and an occupation tax, levied on the owners of housing that is occupied for less than 185 days per year (in effect, a tax levied on people who own second homes).

District councils have smaller geographic areas than regional councils. They are formally separate organisations with their own powers and duties, and are not subordinate to their regional council. However, district councils work in partnership with their relevant regional council because they are serving the same population.

The primary language spoken in Kusanda is English and the currency is the Kusanda pound.

Education policy in Kusanda

The Ministry of Education has overall responsibility for the compulsory education of all Kusanda's children between the ages of five and 18. The culmination of these 13 years of education is the National Leaving Certificate (NLC) examinations. Typically, students spend the final two years of their schooling studying between six and eight subjects (including English and mathematics). Their performance in the examinations for each subject is expressed as a single grade letter, from A (highest) to H (lowest). Applications to universities are based on a student's best six grades, converted into points (A = 100, B = 88, down to H = 0). The maximum points score is therefore 600, and university courses with the highest demand will require applicants to have close to 600 points in their NLC grades. Post-18 education in colleges and universities is the responsibility of the Ministry of Employment and Skills.

The Ministry of Education sets high-level government policies including the contents of the curriculum. It also dictates that the school year runs from 1 September to 31 August and is divided into three terms of 13 weeks.

However, the operational delivery of education is the responsibility of the regional authorities. They plan education services in their area, ensuring that there is sufficient provision for all children to receive an adequate education.

All primary education (that is, children up to the age of 10) and most secondary education (to age 18) is delivered by community schools directly owned and funded by the island's regional authorities. The regional authorities must ensure that their community schools (that is, the ones within their geographical borders) meet all the relevant standards in terms of educational performance.

Each school has a catchment area. This is the geographical area around the school from where it will usually take its pupils. Catchment areas are drawn up by regional authorities as part of their planning work to decide whether they have enough schools to serve the population of each town or neighbourhood. Families are free to apply for admission to schools outside of the catchment area they live in, but they are not guaranteed to receive a place at a school outside their area.

The regional authorities do not have 100% control of their community schools. The national School Governance Regulations require each community school to have a board of governors that is responsible for the strategic management of the school. These duties include approving the school's annual operating budget and holding the headteacher to account for the school's performance.

The board of governors of a community school must have between 7 and 11 members. The headteacher is always a member of the board of governors and there must be at least two parent governors (that is, governors who are parents of pupils at the school and elected to the post by parents), one staff governor (elected by school employees) and one regional authority governor (appointed by the regional authority). Boards of governors may co-opt governors who do not fall into one of these three classes. All governors, except the headteacher, serve for terms of three years.

Regional authorities receive grants from the Ministry of Education to help them finance the delivery of education in their region. The grant amounts reflect both the available resources from local income tax and the relative need to spend based on pupil numbers and other factors.

In turn, the regional authorities fund the community schools in their area using data-driven formulas. Each region has created its own formulas, but they are all similar. They tend to use factors such as:

- age-weighted pupil numbers (older pupils have a higher unit cost than younger ones because, on average, they are taught in smaller classes);
- number of pupils with additional educational needs. Additional educational needs covers a wide range of challenges or difficulties that some pupils have including
 - physical disabilities
 - conditions that make reading and writing difficult
 - problems with concentrating
 - difficulties in socialising with/understanding other people
 - behavioural problems;
- number of pupils whose first language is not English;
- number of pupils entitled to free school meals because they come from low-income families;
- internal area of school buildings;
- age of school buildings (affects maintenance costs); and
- number of sites used by a school.

A growing percentage of secondary school pupils attend federal schools instead of community schools. The concept of a federal school was created in 2017 as part of a national government policy intended to improve the performance of secondary schools, and the first federal schools were opened in 2018.

Federal schools are independent from regional authorities, and are directly financed by the Ministry of Education. This means they receive their core grant funding directly from the Ministry of Education into their own bank account rather than a grant allocation calculated and paid by the regional authority.

The Ministry of Education's argument for creating federal schools was to free up secondary schools from the bureaucracy of regional authorities and encourage them to be more entrepreneurial and competitive. The national government's hopes for the policy included enabling the federal schools to be innovative. They could, for example, enter partnerships with other education providers in their area or with major local employers. Indeed, the law permits federal schools to receive up to 20% of their total income as sponsorship from individuals or businesses, although only a few federal schools in very wealthy parts of the country receive such sponsorship income.

A community school must meet certain criteria if its governors wish it to become a federal school. The process of becoming a federal school begins with a majority vote by the school's governors to submit an application to the Ministry of Education that demonstrates that it would be sustainable as a federal school. If the Ministry of Education approves the application, the federal school will be created as a charitable trust that will take ownership of the school's property from the regional authority. Note that the regional authority has no role in this process, and no power of veto. If the Ministry of Education approves the conversion of a community school into a federal school, the regional authority must assist in implementing the change as soon as reasonably practical.

A charitable trust is a type of organisation that has charitable purposes, which may include the relief of poverty and provision of healthcare as well as provision of education, and is registered

with the Charities Registrar. Charitable trusts are corporations, but they are not liable to pay taxes on any surpluses they generate.

A charitable trust is run by its trustees and, by definition, the board of governors of a federal school are also the trustees. The trustees shoulder all of the legal responsibilities of the charity including financial management and approving the financial statements. The School Governance Regulations do not apply to charitable trusts. There is no upper limit on the number of trustees, and each charitable trust can make its own constitutional arrangements. In practice, the charitable trusts of federal schools tend to reflect the practice of community schools by having a mix of parent, staff and co-opted trustees. However, by law, the headteacher, as the chief executive of the organisation, cannot be a trustee, to avoid any conflicts of interest.

Federal schools receive a General Education Grant (GEG) as their major income stream for operating expenses. There are also grants for additional educational needs and pupils whose first language is not English. Effectively, the Ministry of Education operates a funding formula in a similar way to the regional authorities but, from 2018 to 2021, as a matter of policy, the Ministry of Education's formula for calculating GEG paid to federal schools was more generous than its formula for calculating the grants paid to the regional education authorities to fund community schools. This was an incentive for schools to convert into federal schools. In the last two years the Ministry of Education equalised the formulas because it could not afford to pay higher rates to the growing number of federal schools across the country.

In 2023, the Ministry of Education has signalled to all schools across the country that they are likely to face increased budget pressures in 2024 and beyond due to the general tightening of government spending. The signals suggest the tightening will impact not just the mainstream funding of secondary education through the GEG, but will also lead to reductions in the funding for additional educational needs and pupils whose first language is not English, as well as reductions in the total funding available for capital expenditure grants.

Federal schools cannot borrow money, either as a bank overdraft or a loan. If they wish to incur capital expenditure, they can use their accumulated reserves to finance it, or they can

apply for grant funding from the Ministry of Education or from their regional authority. In practice, regional authorities have limited capital resources and face significant demands from their own community schools, so they are unlikely to approve a federal school's request for a capital grant.

The Ministry of Education provides guidance to federal schools about the level of reserves. They are recommended to hold at least 3 percent of their annual operating budget in unrestricted reserves, and should avoid, if possible, holding reserves higher than 10 percent of the annual operating budget. There are regulations preventing federal schools from making risky investments with their reserves. They can either hold them as cash or in Federal School Bonds, which are a specific government investment with a fixed term of one year and a coupon of 1 percentage point above the base rate.

Headstart Academy

Headstart Academy (HA) is a large federal school in Borwick, the fourth-largest city in Kusanda. It is in an inner-city neighbourhood, Easton, and has almost 1,200 pupils aged 10 to 18. Easton is the most economically and socially deprived neighbourhood of Borwick and most of its pupils live in the neighbourhood.

HA was created in 2019 to replace Easton Community School. Easton Community School was assessed by the school's regulator, the Education Standards Inspectorate, to be failing its pupils. Its average points score per pupil for the NLC examinations in 2016 and 2017 were the lowest in the country, and it had unacceptably high rates of both truancy and exclusion. Newspapers regularly referred to it as "the worst school in Kusanda".

To remedy the problems, the Ministry of Education promised funding for a complete rebuilding of the school, on condition that the new buildings were operated as a federal school. The school's governors were therefore encouraged to submit one of the first applications to be a federal school, which was duly approved in late 2017.

During 2018 and the first half of 2019, the new school buildings that would become Headstart Academy were constructed in the grounds of Easton Community School, whilst the school was open and under the control of the Borwick regional authority. The new buildings incorporated as much state-of-the-art technology as possible, making them the highest specification school buildings in the whole country at the time.

HA was ready to open ahead of schedule and on 1 September 2019 the Borwick regional authority transferred the Easton Community School to Headstart Charitable Trust (HCT), which is the organisation that formally runs HA. The Easton Community School buildings were demolished during August 2019.

The project to develop and open Headstart Academy included recruiting a new headteacher, in 2018. Maggie Powless was recruited to the post because of her successful track record of school improvement in other schools in Borwick.

HCT's 2023/24 operating budget is £10,283,000 and the latest forecast is an overspend of £415,000. This will reduce its reserves to £292,000.

The headteacher is accountable to the HCT's trustees, but she negotiated a high degree of autonomy over educational and managerial policies as a condition of taking the post of headteacher. She was able to recruit her team of senior managers in part by offering salaries that were 10 to 15 percent above the norm for secondary schools in Borwick.

Maggie Powless has made many changes to the way HA operates when compared with its predecessor school. For example, she:

- reduced the number of subject departments so that there were fewer managers (that is, heads of department) reporting to the deputy headteacher. This saved some money but also added a degree of resilience and flexibility into staffing decisions, because the resultant departments were larger;
- recruited more teachers of core subjects like English, mathematics, science and technology;

- included more vocational elements into the curriculum in recognition that there were many pupils who would most likely go directly into work at age 18 (rather than continue in education); and
- re-introduced the compulsory wearing of a school uniform. The school now operates a subsidy scheme to assist low-income parents and guardians in buying uniforms.

HA has seen its academic performance improve every year since its launch in 2019. Its good reputation means it now attracts applications for places from pupils who live outside of its official catchment area.

The merger with Northbank Technical School

Northbank Technical School (NTS) is the closest secondary school to Headstart Academy, being 3km away in the Northbank neighbourhood of the city, which has a similar socio-economic make-up as Easton. NTS is a community school with 800 pupils in 2023, well below its capacity of 1,100 pupils.

NTS is struggling in academic terms. It is in a vicious circle: its poor performance in academic results leads to difficulties in recruiting and retaining good teachers, which in turn leads to further poor performance. There are many children whose closest school is NTS, but they attend Headstart Academy because of its better reputation. The families of those children must bear the costs (financial and practical) of their children travelling the extra distance to reach Headstart Academy.

NTS usually underspends its budget and has accumulated significant reserves over recent years.

NTS's governors voted to apply for federal status in early 2023. They were confident of approval of their application because of their historic underspending of the budget, but the Ministry of Education rejected the application. The reason for the rejection was a lack of

confidence about the school's ability to improve the educational outcomes for its existing and future pupils.

Officials from the Ministry of Education and the Borwick regional authority persuaded the governing body of NTS to seek a merger with HA because it would be, in their view, a faster and more reliable route to improved academic performance. A majority of the NTS governors (five of nine, including the headteacher) voted for this proposal. The four dissenting governors subsequently resigned.

HCT's trustees agreed to the merger, subject to several conditions being met. These included:

- the merged school would continue to operate over the two existing sites but would be called Headstart Academy;
- the number of trustees on HCT would be increased to include the four remaining governors (not the headteacher) from NTS. This will result in six governors from the existing HA and four from NTS, reflecting the proportion of pupils coming from the two schools; and
- the merged school would operate with Maggie Powless as the headteacher and a single senior management team. The existing headteacher at NTS has elected to take early retirement on 31 March 2024.

The merger is due to happen on 1 April 2024, to coincide with the beginning of Kusanda's public sector financial year. In legal terms, this will mean all assets and liabilities of NTS will be transferred to the HCT, and HCT's direct funding from the Ministry of Education will increase to reflect the increased pupil numbers. Funding of NTS via the regional authority will cease.

The merger is being managed as a programme of projects. Some of the projects relate to the educational aspects of the mergers. Others include a financial transformation project and a human resources project. Each project has its own project manager, and the project managers are accountable to the Merger Programme Board. The Merger Programme Board is chaired by Maggie Powless.

To avoid the Merger Programme Board having to report separately to the HCT trustees and the governors of NTS, the two organisations have agreed to set up a joint steering group for the merger. This comprises three HCT trustees, two Northbank governors, one official nominated by the Ministry of Education and one official from Borwick Regional Authority, to a total of seven in all. The respective chairs of HCT and NTS are both in the steering group, and they do not have a good working relationship. This has had a negative impact on the steering group's effectiveness at managing the programme.

Amina Bashar is the chair of HCT. She is the owner of a business that operates five care homes for elderly people. She lives in a wealthy suburb on the west of the city, far from Easton and Northbank. She sees performing her role and offering her time as an act of philanthropy. The chair of the NTS governors is Simon Clarke. He is one of the parent governors and works as an official of the Union of Social Care Workers (USCW). He has clashed with Amina Bashar many times in the past, while representing USCW members who worked in one of Amina's care homes.

Simon Clarke is the only parent governor at NTS who voted in favour of the merger, albeit reluctantly following the pressure from the Ministry of Education and the regional authority. His most common complaint at the steering group meetings is that NTS voted for a merger, but that in his view what is happening is a takeover by HA.

The merger of the two schools makes little difference to the number of teaching and other classroom staff because the combined school will have to operate on both current sites. Given that the two sites are 3km apart, it would be impractical to move pupils and staff between the sites during the school day. The NTS site will have the Year 6 to Year 9 pupils (10 to 14 years old), and the HA site will have the Year 10 to Year 13 pupils (15 to 18 years old).

The merger does mean there will be changes to the school's support services. In particular, the finance teams are being merged into a single team to be managed by HA's existing Director of Resources, Barbra Johansson. Barbra is a qualified private sector accountant who had a 20-year career in manufacturing businesses before joining HA in 2018. She was Maggie

Powless's first appointment. Her experience is strongest in management accounting rather than financial accounting.

Table 1 gives a snapshot of the financial management arrangements in the organisations as they currently are:

	Headstart Academy	Northbank Technical School
Overall financial responsibility	Director of Resources, a qualified accountant	Deputy headteacher. No financial training.
Finance team	Two full-time staff: Blake, the finance manager, and Michael, a finance assistant	Two full-time posts, with the senior role vacant for more than 12 months. Jean is the finance assistant. She has no financial training, and moved into the role in 2021 after being the school secretary for 15 years.
Payroll arrangements	Payroll service delivered by a bureau. Payroll input done by a member of HR team.	Payroll is processed by the regional authority's payroll team. Jean does the input.
Budgeting method	Incremental	Incremental
Budget control arrangements	<p>There are 12 budget-holders (heads of departments) who have delegated responsibility for allocated budgets. The Director of Resources is responsible for central budget items such as property expenses.</p> <p>Monthly management accounts are prepared for the trustees within 10 working days of month end, based on forecasts made by the budget-holders.</p> <p>Trustees are actively interested in finances every month, including the balance sheet.</p>	<p>The deputy headteacher takes responsibility for all finance.</p> <p>Budget control reports are prepared at the end of each term by a finance business partner employed in the School Support Team at the regional authority. These reports go to governors for information about two months after the end of each term.</p> <p>Full financial statements are only prepared after year-end, for submission to the regional authority.</p>

	Headstart Academy	Northbank Technical School
Procurement	<p>All budget-holders can place orders for books, educational materials, conferences, etc directly in the finance system providing their budget amount is not exceeded.</p> <p>Invoices are sent direct to the finance team for processing.</p>	<p>Heads of departments and other staff members make requests for books, etc to the deputy headteacher (some using official requisition templates, others by direct email). All spending decisions are made by the deputy headteacher.</p> <p>Jean places the orders for the purchases that are approved by the deputy headteacher and processes invoices from suppliers.</p>
Teaching and support staff	<p>The trustees have delegated all aspects of staffing to the headteacher subject to the overall constraint of the approved salary budget for the year. The headteacher can use this flexibility to change the numbers of posts in various departments, and change salary levels. She can also hire staff on a temporary basis to cover sickness absence, for example.</p> <p>The only exception to this is the trustees retain the duty to appoint the headteacher and set their remuneration.</p>	<p>There is a staffing structure for the school approved by the governors. This must be approved each year in response to changes in pay scales for teachers and support staff.</p> <p>The headteacher can only hire staff into posts based on the approved salaries.</p> <p>If the headteacher wants to make changes to the structure (say to change the staffing mix in a subject area), there has to be a report to the governors seeking their approval.</p>

As the date of the merger has approached, the governors of NTS have become less cooperative. Maggie Powless believes this is partly because the governors have been lobbied by their teachers and other staff who fear the change may result in the loss of jobs and/or status.

The Community Sports Centre

HA enjoyed relatively high levels of funding in 2019 to 2021 due to the Ministry of Education’s policy and its ability to increase pupil numbers. It has experienced real-terms reductions in its

GEG in the last two financial years, and recognises that the financial challenge is likely to continue for the next couple of years at least.

NTS has also suffered real-terms budget cuts passed on by the regional education authority alongside a reduction to reflect falling pupil numbers. However, its challenges with recruitment and retention mean that it has underspent its budget allocation for many years. It is forecast to have reserves of £872,000 at 31 March 2024, equal to 12.3% of its operating budget. NTS's governors have previously commented that the reserves built up by NTS over recent years should not be transferred to HA because it "did not earn them." Faced with the reality that NTS will not exist from 1 April 2024 the governors have argued that there should be some kind of mechanism in the future that ringfences the reserves generated by NTS for spending on the NTS site and/or for the benefit of pupils from the NTS catchment area. This argument has continued for months and shows no sign of resolution.

Barbra Johansson hopes to alleviate some of the predicted financial pressure on HA by increasing its income from sources other than GEG. One of the proposals to achieve this is to build a new outdoor sports facility on the current HA site (on the area where the Easton Community College buildings stood) with an all-weather artificial grass pitch, and constructing a building to house changing rooms and storage for equipment.

The new facility would be used by pupils during the school day, and then be hired to the community on weeknights, at weekends and during the holidays. The aim is for the facility to generate a significant amount of income to justify the initial capital investment. The capital investment would need to be financed by reserves because there are no grants available to finance projects that are not directly related to the delivery of education. There are also some HCT trustees who are concerned that the sports facility may not generate a good return on the investment. They want to be assured that management understands and can manage the risks associated with building and operating the facility.

The table below summarises the expected costs of constructing and operating the new sports facility. The project cannot commence until after the merger happens on 1 April 2024 and the working assumption is that the facility would be in use by 1 October 2024.

Table 1: Costs of new sports facility

	£
Capital investment	
Provision and installation of pitch	480 000
Construction of changing rooms building	230 000
Professional fees (architects, etc)	78 000
Total capital investment	788 000
Operating costs (full year)	
Pitch maintenance contract	37 500
Electricity (for changing rooms, floodlights, etc) and water	28 200
Premises consumables	6 000
Staffing at the centre outside school hours	49 500
Additional admin post (50% of full-time) to take bookings, issue invoices, etc	12 500
Total annual operating costs	133 700

When properly maintained, the artificial pitch has an estimated useful life of 20 years. The changing rooms building has an estimated life of 50 years.

Candidate's role

The candidate is Blake Simpson, a newly qualified CIPFA accountant. Blake works as the Finance Manager at Headstart Academy, reporting to the Director of Resources.

Abbreviations

GEG General Education Grant

HA Headstart Academy

HCT Headstart Charitable Trust

NLC National Leaving Certificate

NTS Northbank Technical School

USCW Union of Social Care Workers