

# Guide to Best Practice Financial Modelling in HE

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**Good financial modelling and forecasting** has never been more important in steering your institution successfully through the current financial strictures and uncertainties. These can pose serious short, medium and long term challenges. Tackling them requires an **effective financial planning model** capable of making forecasts, running scenarios, reporting 'actual' performance and communicating the results to the Executive Team, Heads of School, and Governors. **This Guide identifies the '12 must-have' attributes of best practice financial modelling in HE.**

## 12 Must-Have Attributes of Best Practice Models

### 1. Integrated

By its nature an effective financial model covers many different, but inter-connected, elements. At the highest level these include: I&E, Balance Sheet, Cashflow, Capital planning, banking covenants, KPI stress testing, loans, fixed assets etc. The time dimension is important with different considerations for: (i) short-term and in-year; (ii) four-year plan and forecast; and (iii) longer term strategic planning and choices.

**Best practice models combine all of these elements, including the time dimension, into a single model.** This contrasts with much common practice of separate, but linked, models for each of the major elements, and possibly quite separate models entirely for in-year, four-year, and longer term planning.

Lack of integration makes the modelling resource intensive; time-consuming; error-prone (ensuring the integrity of the links, and that they are updated for any change in data); and adds to the difficulty in reporting to stakeholders.

### 2. Dynamic

Users, whether senior managers or FP&A 'model operators', need a 'dynamic model', one which updates automatically when a figure is changed. Relying on running 'update procedures' is risky, time-consuming and inefficient. For something as important (in today's financial climate) as the 'institution's financial model', **you should settle on nothing less than 'dynamic' – change a figure and the results cascade automatically through the entire model.** Data changes may be one or many. They can cover anything in the model, like for example: forecast student numbers, fee rates, pay awards, operating cost efficiencies, areas of new activity or closure, debtor or creditor term changes, tax or interest rate changes, new capital investments and divestments, loans etc.

A dynamic model means that stakeholders are always confident that the inputs and outputs are self-consistent, and much effort and time is saved.

### 3. Flexible and Robust

Good financial planning models need to be both 'flexible' and 'robust'. **'Flexible'** means being able to model easily changes in organisational structure, activity, income and expenditure lines and investment. **'Robust'** means that changes are made with confidence that the model integrity is maintained.

Excel-based and legacy models are difficult to change and this results in a reluctance to change the model, meaning that it is frequently out-of-date or contains 'ad hoc' changes, with the consequence that it is unable to perform the 'agile' re-forecasting and planning scenarios required in today's environment.

***Modern financial modelling software ensures your model is both flexible and robust.***

Changes in organisational structure, activities, accounts and drivers are easy to make. They cascade through the model and its reports. This ensures 'robustness' and means that the changes can be made swiftly and efficiently. Model changes and maintenance becomes easier, and the skills are readily transferable, meaning that you have less reliance on the knowledge and skills of a few individuals.

#### **4. Sufficiency of Detail**

A 'model' is just that – a model with a purpose to plan and understand the resources required, risks, capacity limits, strategic options etc to deliver defined goals and performance. It needs to be 'accurate' and sufficiently detailed for management to deploy resources with confidence and with accountability, and also them to understand performance and how it will change at 'institution and budget holder unit level'.

***There is an optimum level of detail for every model. Too little detail*** and important drivers of performance and risk will be missed or inadequately modelled. The result would be a disconnect between plan objectives and resource allocation, and a failure to understand performance and how to improve it. Quite probably outturn performance would be lower than if the model had more key detail.

***Too much detail***, however, places a dead weight on the model, reducing agility, obscuring 'bigger picture messages', and making it resource intensive to operate. Best practice integrated financial planning models discussed here are a step away from the highly detailed I&E cost centre planning, account line, model (these have their place, but are separate to the purpose described here).

#### **5. Actuals, Plans, Forecasts and Scenarios**

Even in the 'best and most stable of times', planning is rarely a 'single pass process'. Today's financial environment and uncertainties require financial models to be capable of a 'layered approach' to building plans, regular re-forecasting, evaluating scenarios, and reporting 'actuals'.

***Best practice models*** are capable simultaneously of holding and reporting all of these different 'layers' or 'datastreams': ie agreed plan, outturn actuals, re-forecasts, multiple scenarios etc. This offers ***huge benefits over 'single stream models'***, not least in the ability to compare, analyse, and report on different datastreams, but also in sheer time and resource efficiency. The result a better understanding of performance and what drives it; more awareness of risk; and faster, better, more informed and effective decision making.

#### **6. Source Data**

Efficient and accurate upload of source data is essential in any model. This can be a lengthy and complex process with Excel and legacy models, and made more complex if source data needs to be imported into several different models. Checking the accuracy and correcting any errors in the import process can be very time-consuming.

**Modern financial modelling software cuts through all of this by offering direct integration and easy import from any source data** (with drilldown to underlying source data entries). It also offers easy and reliable upload of source data via a source system download into Excel. Whether the import is via a direct integration or an Excel download, integrity is ensured by comprehensive user report logs.

## 7. Transparent

No matter how good the 'details of the model are' if they are obscured by a poor user interface the model rapidly loses transparency and credibility. Transparency is a key attribute to understanding 'how the model works' and its integrity. It builds confidence among users, and senior stakeholders, so that time is able to be spent on 'using the outputs for planning' and not on 'hunting around to understand how the model works', 'why a figure is what it is', 'confirming its integrity'. It reduces the reliance on the knowledge of one or two individuals and opens up the understanding of the model to all business users.

**A transparent model clearly portrays hierarchical and matrix relationships. It provides drill-through these relationships and easy identification of underlying formula and 'planning object' relationships.** It offers easy ad hoc reporting and analysis, including across 'time' and 'datastream' dimensions. Checksums with drilldown and error import logs are additional features of a transparent model. Modern financial modelling software delivers these features, whereas with Excel they cannot be achieved (and maintained) without a great deal of effort and added complexity.

## 8. Error Free

It goes without saying that any model should be 'error free' and remain error free as changes are made (eg changing organisational structure, adding new activities and accounts, adding new reports etc).

Achieving this assurance is very difficult for models based on Excel, especially when lack of flexibility and transparency are considered. The complex relationships between, say, I&E, B/S, Cashflow, borrowing capacity, banking covenants, capital investment etc add to the challenge, especially when running scenarios.

**These difficulties are overcome by modern financial modelling software.** Relationships between I&E, B/S, cashflow etc, are managed through easily configured and transparent 'logic blocks' where all the underlying logic and parameters are easily visible. Drill-through the model identifies hierarchical relationships and formula logic. Auditing the model becomes a straightforward task.

## 9. Planning Tools

Best practice demands that it should be straightforward, efficient, and transparent to enter plan figures. This requires the facility to **plan 'top-down'** (eg across a group of cost centres) or **'bottom-up'**, and also the ability to **'spread over time'** (eg linearly, by increment, or by profile, including historic trend). It also requires the ability to copy data from 'one version to another', for example when setting up alternative scenarios.

## 10. Reporting & Analysis

Ultimately the objective of any model is to provide effective, focused and actionable information to the Executive Team, Heads of School and Governors.

This requires a range of reports and analyses at entity, cross-School and at School level, with easy selection of timeframes (eg for in-year, four-year plan, and longer-term strategic planning), and 'version and variance selection' (eg actual, plan, re-forecast, scenarios etc). Reports will be both high level and detailed, and will include KPIs. **Best practice also demands that reports are easily available to all stakeholders (on a individual rights basis) and 'self-serve selectable' via a web browser.**

Whilst there will be a pre-defined pack, there is also the need to be able to create 'on the fly' ad hoc reports and analyses.

It should be easy also for users to create and publish new reports, both formal and ad hoc, and the reports should update automatically when changes are made to the model structure.

These are challenging requirements which a legacy-based model would find hard to achieve.

## 11. Stakeholder Ownership and Trust

'Ownership' by all stakeholders and trust in the model, its functionality and outputs is fundamental. Planning needs in HE have long moved on from 'steady as she goes', to needing to chart, plan and deliver a vision in a tough and uncertain financial environment with multiple options for change, different service offerings, asset investment and financing options.

The Executive Group, Heads of School and Governor stakeholders need to have the shared confidence that the model meets their needs in terms of governance and operational and strategic decision making. Decision makers need to know that the model can, without delay, run re-forecasts and scenarios across a wide range of assumptions, and deliver actionable information. FP&A staff need to be confident in the model and be able run the versions required quickly and efficiently, with time spent more on value-add rather than 'cranking the handle'. Their ownership and trust in the model will be enhanced if it is based on 'modern technology' which automates much of the process of making structural changes to the model.

Ownership and trust are difficult to achieve if the model is opaque, hard to change, slow, disaggregated, and resource intensive. **Conversely, with modern financial modelling software, ownership and trust are easier to establish and lead to faster, better informed decision making resulting in more assured financial sustainability.**

## 12. Resource Efficient

The financial pressures and uncertainties facing institutions place increased emphasis on effective financial modelling covering the entire period from in-year to long term strategic plans. However, diverting more resource to run legacy models which don't have the inherent architecture to run efficiently, is unlikely to be a practical proposition. Legacy models struggle to deliver 'more' and 'more quickly'. **Long, resource-intensive planning and re-forecasting cycles are the enemy of good planning.** The process gets bogged down. Frequently there is not the time nor the resource to run sufficient scenarios. What is required is a modern model.

***The architecture of modern systems ensures the model can ‘do more’ and ‘do it quickly’ with less resource than at present.*** Not only does this deliver more informed and timely decision-making information, it leads to more resource efficient working with less time spent on ‘data processing and model maintenance activity.

### How Account-Ability can Help

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1. **Proven**, easily configured, designed to meet your the specific needs, and used by 4,000 organisations like yours
2. Delivers **dynamic, integrated** I&E, B/S, Cashflow and Capital Planning, forecasting and reporting, seamlessly covering in-year, 4-year planning and longer term strategic planning
3. **Eliminates the complexities and limitations** found in Excel and legacy models
4. Is easily **connected to sources of data, fully transparent**, and complete with advanced planning and reporting tools
5. **Can be implemented quickly**, economically, without impacting the team’s ‘day job’

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