



HOW DO EFFECTIVE SCHOOLS MANAGE THEIR FINANCES?

CATHY WYLIE & JULIAN KING

SUMMARY

KEY POINTS

This three-year study of 18 effective New Zealand schools is funded by the NZ School Trustees' Association. The schools provide a range of location, roll size, and socio-economic decile. The study focuses on financial management, to gain some real insight into funding decisions and the factors that influence those decisions, and the use of government operational funding and locally raised funds to meet their students' needs. Finding out what is needed to accomplish this provides valuable pointers to the adequacy of school funding.

Key findings from the first year of the study, about the 18 effective schools' financial decisionmaking are:

- They had robust systems of budget development and monitoring. School boards and management worked well together within shared frameworks created by their strategic planning.
- The schools ran on thin margins in their budgets and therefore needed to take a conservative approach to financial management and programme changes.
- They focused money left after meeting essential running costs to annual goals derived from their strategic plan priorities, and monitored spending very carefully.
- Working capital was important in these schools to provide a buffer for things that could not be anticipated and to ensure they could maintain programmes in the short-term if rolls dropped.
- Rolls are key to schools' financial health. Only three of the nine primary schools in the study had ideal roll profiles. Small secondary schools faced issues of being able to provide a sufficient range of courses, and large secondary schools on limited sites, issues of overcrowding.
- All the schools employed teachers above their staffing entitlement. This cost them on average around a third of their operation grant. Other big cost areas were property maintenance, support staff, and ICT.

- While spending on other areas showed some fluctuation over time, spending on professional development remained fairly consistent, between 2-3 percent of operation grants.
- These effective schools valued their staff, and gave as much priority as they could to providing supportive work conditions, and avoiding the need for redundancies.
- Allowing for depreciation to replace assets has become more significant to school finances because of increased school spending on ICT.
- Good administration staff were seen as essential to good financial management.
- Pressures on school budgets were coming mainly from rising costs of support staff, ICT provision and maintenance, and property. Provision of non-contact time for teachers, and costs associated with NCEA were also issues for some secondary schools.
- Most of these effective schools could not maintain their programmes without non-government funding.

TRENDS FROM FINANCIAL REPORTS

Analysis of the 9 primary and 9 secondary schools' 2003 financial reports showed variation in schools' net non-government revenue, ranging from 3-21 percent of secondary schools' and 1-14 percent of primary schools' total revenues. The secondary and primary schools spent similar proportions on average for property management, administration, and depreciation, but secondary schools spent a higher proportion on learning resources other than entitlement staffing.

All schools employed additional teaching staff over and above their entitlement staffing. Spending on these teachers was equivalent to around a third of the operations grant on average. Support staff salaries amounted to 15 percent on average of the operations grant for the secondary schools, and 12 percent for the primary schools. Property management amounted to an average of 38 percent for the secondary schools, and 24 percent for the primary schools. Professional development amounted to between 2-3 percent. However, there was a wide range of spending between schools other than for professional development.

Between 2000-2003, the study schools spending on professional development was more stable than their spending on support staff, property management, or depreciation. This reflects a priority given to quality teaching, but also differences in patterns of spending in other areas, where spending levels in one year have an impact on spending in the next.

These effective schools could not always budget for a surplus, but if not, they made efforts to break even. Even so, the secondary schools were more likely to end the year in deficit. However, they generally did not have cash deficits; the effect was due to allowing for depreciation.. Surpluses and deficits fluctuated around a positive mean for all schools.

Working capital remained fairly even between years for secondary schools, with some declines reflecting major capital investments, followed by increases as the schools rebuilt their reserves. Primary schools' working capital was more volatile.

There was considerable between-school variation in locally raised revenues, ranging from \$65 to \$973 per student and 11- 48 percent of locally managed revenues for the secondary schools, and \$41 to \$469 per student and 4-37 percent of locally managed revenues for the primary schools in the study.

FINANCIAL MANAGEMENT

Schools generally took a conservative approach to financial management, with an emphasis on stability, gradual change and development, and avoidance of the need to make heavy cuts in costs, particularly around staffing.

Their annual budgets were developed in an iterative process of estimating revenue and costs, and analysing costs in relation to school priorities derived from the annual goals of the school strategic plan. Schools were conservative in their roll estimates, but could still overestimate if new factors were at work in patterns of local school enrolment. Primary schools were more vulnerable to roll changes than secondary, but secondary schools could face difficulties with changing patterns at the senior secondary level. Schools were also conservative in their estimates of revenue from locally raised funds, including international students, though those that had historically steady trends could be less conservative.

Schools triaged their costs. First came the “no choice” areas, second, priorities from the school strategic plan, and third, other initiatives or ideas. Generally, the third area was not included in school budgets, and only some of the school priorities could be covered each year. Most of the strategic plan and school priorities were curriculum related, or focused on a particular group of students, to raise achievement and engagement in learning levels. However, because the “no choice” area includes property and health and safety-related costs, these sometimes felt as if they were being funded at the expense of curriculum; and if costs had to be cut, then it was in the curriculum area that it had to be done. Schools also pared or cut costs by deferring spending on capital items and property development where they could.

Quality of teaching and learning was important to these effective schools. They had reasonable stability of staffing, and attracted good applicants. They put money into ensuring they remained attractive to good staff by trying to provide good working conditions, support with student behaviour, and useful professional development. They also thought that they gained more from the teachers by doing so, so that this spending was value for money.

All the schools employed some teaching staff using their operational funding or banked staffing, to augment their government staffing provision. They preferred to offer permanent positions, or year-long positions, in order to get the best staff: however, they were also cautious, and would not do so unless they were confident that they could afford to do so in future. It was easier to offer permanent teaching positions in secondary schools with reasonable turnover.

Many of the schools reviewed their budgets or spending mid-year, and if they had managed to spend less or gain more revenue than budgeted, would then embark on work in priority areas that had not made it to the annual budget. Schools also pursued sponsorship and donations from community trusts and businesses for capital and extracurricular activity items they had not put into their budgets, or were able to cover items in their budgets from this revenue, and free up other revenue to cover curriculum-related costs.

In general, the schools ran on thin margins in their budgets, and therefore needed to take a conservative approach. This need, as well as the requirements of the national curriculum framework, the national qualifications framework, and other legal requirements, makes it more likely that innovation will be gradual rather than quick or radical, and any quantum leaps in provision more likely to be in ICT or property development, where non-government support can be accessed.

School professionals and boards in these schools had solid relationships built on openness. Trust was developed by shared decisionmaking and analysis, using shared frameworks of the school

strategic plan and identified with the school culture, rather than particular individuals. Boards did not rubber-stamp plans, but saw their role to robustly discuss initiatives and draft budgets. Because of the joint management-board approach to developing new initiatives, in relation to strategic plans, few initiatives could be isolated as coming from the board alone; those that were tended to be property-related.

Executive officers or financial administrators played key roles in financial management, working with both trustees on financial committees, and with school budget-holders. Monthly budget reports and discussions with executive officers and principals provided a framework for school budget-holders to stay within their allocation, and shared historical information and sometimes cross-syndicate or cross-department groups provided individual budget-holders with a wider perspective, to ward off 'silo' spending.

All the schools put effort into finding additional revenue, preferring international students at secondary level, community trusts and business sponsorship and donations, and contestable government funds. Strategic choice of projects and likely sponsors, maintaining relationships and information flows, and perseverance, were important. Parental donations played a comparatively small role in school fundraising, but the schools did try to raise as much as possible by using this money for activities and provision that would appeal to parents, and shared with them the way their money had been spent. They used these approaches rather than debt collectors, emphasising the voluntary nature of donations.

FINANCIAL CHALLENGES AND PRESSURES

Rolls are key to school financial health. In terms of school funding, schools whose rolls are not ideal for their site face more problems than others. Comparison within the study schools gave some pointers to what makes it easier for schools to manage their funding.

In terms of financial health, the ideal primary school roll is

- at its maximum in terms of the school's physical space, allowing the maximum utilization of buildings, but enough green and open space to allow children play and sport;
- growing or staying stable at its maximum; and
- balanced – not too many students with needs that require additional attention.

Only three of the nine effective primary schools in the study were in this situation.

The ideal secondary roll in terms of financial health is:

- also at its maximum in terms of full use of a site and buildings without overcrowding;
- one with steady or gradually increasing rolls, without steep and sudden increases;
- big enough to offer a useful and attractive range of subjects (difficult for those with rolls under around 700 students); and
- one with reliable patterns of student retention into the senior secondary school.

Three of the four secondary schools in the study with rolls under 1000 thought their current roll fell short of their ideal roll number in terms of being able to provide what they wanted to for their students. The large secondary schools were concerned that their sites were becoming overcrowded, with implications for behaviour, and property spending. Extending sites was a costly option in cities where land costs have soared.

Other challenges for the study schools were increases in the school's socio-economic decile rating, though the socio-economic profile of students remained much the same, property, particularly hidden costs such as poor quality previous development, the rising cost of support staff, and ICT. NCEA and non-contact teaching time had to be provided for in secondary schools, putting pressure on other costs. Allowing for depreciation was a particular challenge.

MAIN DRIVERS OF EFFECTIVE SCHOOLS' BUDGET DECISIONS

On the **revenue** side, the main drivers of effective schools' budget decisions can be summarised as:

- NZ student roll – estimated number, stability, and, to a lesser extent composition
- International student roll – particularly for secondary schools – estimated number and stability
- Stable/historical locally raised funds – estimated; some schools do not include all likely sources in their budgets
- Working capital (reserves).

On the **expenditure** side, the main drivers are:

- Roll numbers – including their distribution over different year levels and special needs
- Number of classes (primary) and courses (secondary) & timetabling (secondary)
- State of school property and adequacy for roll numbers and programme
- State of curriculum resources and adequacy for roll numbers and programme
- Support staff – school administration, teacher aides, and others needed to support programme
- ICT – equipment, networking, maintenance, software, technical support
- Depreciation (for an increasing level of capital assets).

IMPLICATIONS

These effective schools had good management of their finances. They were largely cautious spenders, and conservative in their revenue estimates. They approached their task responsibly and as strategically as they could given their role. Yet very few were in what seemed reasonably comfortable positions unless their rolls were stable, they were oversubscribed, and they had been able to gain substantial external revenue. While some schools that were not in positions to garner much additional external revenue could maintain their existing programmes without making large cuts, most could not if they had to manage on their government funding alone.

Most directly at risk, if there was a marked downturn in international student programmes (particularly for secondary schools) or in the ability of community trusts and locally-minded businesses to sponsor and donate, would be ICT provision and use, and property development, particularly for sports and arts. Prioritisation and trade-offs might then be made between these aspects of school provision, and the additional teachers, support staff, and curriculum resources that these external revenue sources have to some extent freed up operational funding to cover.

In the government's schooling strategy, it asks schools to move from a "one size fits all" model in their provision for students, and to customise teaching more closely to individual student needs. It also emphasises the growing role of ICT in education. The current reliance on non-government funding of the effective schools in this study, whose work was very much in line with these

emphases, points to the need to analyse the current staffing and school funding formulae in relation to the expectations that government shares with these schools.

These effective schools needed to recruit and retain good support staff as well as good teachers. They could not manage without executive officers or an administration officer with financial responsibilities. Support staff costs have risen faster than inflation (for which operational grants are adjusted).

Roll size and stability are key to financial health. Primary schools appear more inherently difficult to keep financially healthy: they seem much more vulnerable to roll changes, because they are smaller, and may be more likely to experience decile rating changes that lead to sudden revenue drops due to their smaller geographic catchments. One principal observed that schools are now taking the risks of correctly estimating rolls, rather than government. Even these effective schools, particularly at primary school, could get caught out by changes in patterns, even if they were conservative, and took into account the nature of their local area, their roll, and any changes in their local area.

This raises the issue of whether it is fair for students to be affected by negative changes that happen to impact on the school they attend. There may need to be some transition measures for schools that do experience roll instability or decile-rating changes. One difficulty for formula-based school funding is that school situations do differ even among schools with similar characteristics; there is at present little discretionary funding available, other than school support initiatives that are usually targeted to school clusters, to respond to difficulties that arise despite good educational and financial management. The individual school-based nature of most of our educational funding makes it difficult to develop solutions shared between schools.

The Ministry of Education's introduction of 'banked staffing' has brought a new flexibility to schools (and some additional revenue if managed cannily). It is probably timely to look at the effect on schools of depreciation formulae created for other work environments, and to see if some similarly innovative approach can be devised that preserves the intent of a particular policy lever, while customising it more to the particular needs of schools, and free up money to spend on learning.

The Ministry of Education is undertaking a national survey of ICT provision. It would be useful if that survey provided the opportunity to look at ICT provision in the light of what we now expect, and its affordability. Should schools have a 5-year ICT funding plan, similar to that devised for property? In respect to property, should the guidelines be revisited in the light of changes to curriculum, and the growing integration of ICT in class programmes?

The schools in this study are all effective schools, managing in what were sometimes surprisingly tenuous situations, with little room for error. They depended a lot on the hard work and dedication of their staff, and the expertise available to them through their boards and financial and property advisors. They are also now dependent, for the most part, on the funds they are able to raise from sources other than their government funding, and far more so than they were at the start of school decentralisation. Yet locally raised funds are not always a reliable source. This increases the potential risks for schools, and for the achievement of the government's goals for education.

While in most countries, schools are not funded by their governments alone but also gain resources and support from their local communities, the pendulum may have swung too far if we are concerned to ensure sustainable quality, and provide equity of opportunity.