

An increasing tightness – pressure points for schools’ financial management

Second year report from the NZCER school funding study

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NEW ZEALAND COUNCIL FOR EDUCATIONAL RESEARCH
TE RŪNANGA O AOTEAROA MŌ TE RANGAHAU I TE MĀTAURANGA

WELLINGTON

2005

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Summary

Key points

This is the second report in NZCER's three-year study of effective New Zealand schools' financial decisionmaking. This study is funded by the NZ School Trustees' Association. It is based on interviews with principals and board representatives of 17 schools, together with analysis of the schools' financial data. Material from NZCER's 2003 national survey is also used in the report.

Key findings are:

- Most of the schools were facing a tighter financial situation. Only two of the 17 schools are in a comfortable financial position, and able to think of further development to their programmes. The schools seemed to have reached a plateau in the revenue they could raise, and their costs were less able to be contained.
- Pressure points on school budgets that were found in 2004 have increased in 2005. These are the costs of support staff, additional teachers, ICT, and property. Depreciation is also an issue for schools.
- Secondary schools that expanded their programmes on the back of revenue from international students were particularly hard hit by the decline in international students. International students can no longer be relied on, as many secondary schools have, as an additional source of revenue.
- High-decile schools facing financial difficulties increased the level of parent donations. This was not an option for low-decile schools. Increasing the level of parent donations is a rare event, and indications were that schools in the study may not be able to increase them further in the next few years. There may be growing parent resistance to paying donations.
- While schools have been successful in raising more money to support their programmes, provide ICT, and modernise their property, they would welcome more reliable sources of funding.
- The Ministry of Education's forthcoming review of school operational funding is therefore extremely timely. Schools in the study would welcome not only increased amounts, but also changes to the formula used to calculate it, so that the new costs that have arisen for schools since the formula was set in 1989 can be properly recognised.

Overview

In 2004 we found that the schools were unable to meet all their operational costs by use of their operational grant alone. The biggest pressures on school budgets came in relation to costs of support staff (administration and teacher aides), additional teachers, ICT, and property maintenance. Depreciation was also an issue. Schools in the study generally had robust systems of budget development and monitoring. They all relied on good administration staff to do this. They ran on thin margins, and took a conservative approach to financial management and programme changes. Working capital was important to provide a buffer for things that could not be anticipated, and to ensure schools could maintain programmes if rolls dropped. International students had become major revenue sources for some of the secondary schools.

There are other signs that schools are facing issues with their funding.

National data from NZCER surveys of nationally representative samples in 2003 also show that boards had to manage their finances very carefully, and were not able to cover all the support for students that they thought they should be providing.

- 55 percent of the secondary principals noted shortfalls: their government funding was not enough, nor was their entitlement staffing, nor did they have money to employ adequate support staff. Only 1 percent felt they were adequately resourced for all three of these aspects.
- 47 percent of the primary principals expressed shortfalls: their government funding was not enough, nor was their entitlement staffing, nor did they have money to employ adequate support staff. Only 11 percent felt they were adequately resourced for all three of these aspects.
- 52 percent of secondary trustees and 37 percent of primary trustees said their board had struck financial management issues in the previous three years.

The amount raised by schools has definitely increased since the start of self-managed schools in 1989. Then only 10 percent of primary schools in NZCER's national survey raised more than \$15,500 a year. In 2003, 49 percent of primary schools did so. Primary schools raised an average of \$42,320, mainly from fundraising (around 37 percent), grants or sponsorships (18 percent), and parent donations (around 15 percent).

In 2003, secondary schools in NZCER's national survey raised an average of \$370,000. The main sources of this additional revenue were international students (around 30 percent), and parent donations (around 19 percent).

In this report, we describe how pressures on school budgets remain, and have intensified. In the past year, costs of support staff, ICT, employment of staff above the government-funded numbers continue to pose issues for schools. Property costs have soared, and providing non-contact time for teachers is a new issue. International student numbers have declined, cutting revenue that secondary schools had come to rely on.

Alternative revenue sources do not appear to provide the stability that schools need to sustain good quality programmes. It would be unwise to rely on international students. Some schools are in a position to increase parent donations, but this can only be done occasionally. There are reports of increased resistance to paying donations. Contestable Ministry of Education funds are useful, but costly in terms of staff time. They are also unreliable and thought to be unevenly distributed.

We see signs of increasing strain in the schools in this study. Of the six schools in this study that seemed in a comfortable financial position in 2004, only two were still comfortable in 2005. These two schools had a full roll or an increasing roll, good reserves, and modernised property. Falling international student numbers, allowing for depreciation, and having unanticipated property costs triggered the need for action in the four schools whose position changed so quickly. School capacity to swiftly increase revenue from one year to the next when faced with an unexpected deficit was better if the schools had enrolment zones and could take students from out of zone, or if their parents were willing to pay increased donations. But all these schools also had to cut costs, including spending on support staff, ICT, curriculum area budgets, and professional development. They also increased class sizes and cut or amalgamated senior secondary options.

Most of the other schools in this study were also having to manage more tightly than in 2004. They were shaving spending or cutting back on some support staff hours to maintain their programmes as best as they could, usually relying on additional unpaid effort by existing management, teaching and support staff. They felt stuck, and unable to undertake further development. They were aware of unmet gaps in their provision. Only one school in the study could identify only minor unmet needs.

The schools in this study had issues with both the amount of the operational grant, and the formula used. The formula was set in 1989, and has not been substantially revised since to take into account the increases in our expectations of schools, stemming from both government and communities. The more competitive environment in which schools operate, and increased health and safety costs stemming from a more safety-conscious, risk-averse society are also playing a role. The schools in this study had done their best to meet these expectations and changes in their role by raising more revenue, and limiting their costs as much as they thought they could without real erosion to their provision. However, in most of the schools, there were trade-offs made that impacted on particular groups of students, e.g. in class size, courses available, or programmes for students needing additional support. The schools did seem to have reached a plateau in the revenue they could raise, and their costs were less able to be contained.

Over the last decade, there has been an overall increase in government entitlement operational funding per student of 37 percent after CPI inflation for the period is taken into account. Over the last five years covered in the financial accounts looked at for the schools in this study, increases to entitlement operational funding per student were higher than inflation (24.4 percent compared with 13.42 percent). However, in the school sector report published in late 2004, the Ministry of Education also recognised new pressures on operational funding, suggesting that simply keeping

pace of the CPI inflation changes (indeed, adding more) cannot provide the match with school costs that schools seek. The CPI inflation index covers only price increases. Changes in the total cost of school provision include prices, but also include changes in the mix of resources used (e.g. the marked increase in the much wider range of ICT related equipment), and changes to the intensity of the resource (e.g. improvements in ratio of computers to students).

The Ministry of Education has begun a review of operational funding. This is extremely timely. This study identifies some common issues that are likely to be significant for many schools, and that should be relevant to that review.

1. Introduction

This study follows the financial decisionmaking and financial management of 18 effective schools, 9 primary and 9 secondary, of mixed roll sizes and socio-economic decile, over a 3-year period, so that we can gain some understanding of how previous decisions affect the scope of later decisions, the nature and impact of unexpected costs or shortfalls in revenue, and how effective schools respond to changes in their locality or government policy that have an impact on their roll numbers and costs. It was commissioned by the NZ School Trustees' Association.

The study has four research questions:

1. What are the main drivers in effective schools' budget decisions?
2. How do effective schools identify the need for changes to their programmes?
3. How do effective schools resource changes to their programmes to better meet the needs of their students? Are they able to make such changes using their normal government resourcing alone?
4. What conclusions from the patterns found among effective schools' allocation of resources and obtaining of revenue can be drawn in relation to New Zealand schools in general, and government policy for school funding and support?

To answer these questions, we are gathering information and perspectives from the 18 schools through interviews and analysis of school financial statements. In the first two years of the study, we have interviewed the principal and board chairperson or treasurer¹ and often the executive officer in each of the 18 schools during May–August 2004 and in 17² schools during July–August 2005, and have undertaken some analysis of school financial statements from 2000 to 2004, to establish the range of different revenue sources and spending in some key areas. This year, we also gathered additional information about expenditure in a survey sent to the schools before we visited them.

Our first report, in 2004, focused on the formation of budgets and the factors that affect budget decisions, both in and outside schools. This report is available on the NZSTA (www.nzsta.org.nz) and NZCER websites (www.nzcer.org.nz).

¹ The interview outlines are given in appendix 2 to this report. The interviews were undertaken by Cathy Wylie of NZCER, and Julian King of Health Outcomes International. In some schools the interviews were with individuals; in others, with the school professionals and board representative together.

² Both the principal and board chair changed in one school at the time of our 2005 fieldwork, and it would not have been possible for their replacements to answer our questions. This school will be included again in our 2006 data collection.

One of the reasons for a longitudinal study of the schools was to look at how schools are affected by outside events, and earlier decisions made by the school, and to look at the cumulative impact of pressures and decisions. In the current report, we look at changes between 2004 to 2005, and we trace trends in school financial reports over the 2000 – 2004 period, with a focus on the key pressure points for schools' budgeting that emerged in the first year of the study and continued to be evident in the second year, and other issues that have made budgeting difficult for the schools.

School boards have had legal responsibility for creating their own budgets and managing their own finances since 1989, when educational administration was decentralised to the individual school level. Prior to this, school committees at primary schools and boards of governors at secondary schools did handle small amounts of money. Money raised from voluntary parental donations, activity fees, and local fundraising by parent-teacher associations (PTAs) was able to be used by the school for its own purposes, usually small property and programme enhancements, but not the employment of staff. PTAs were likely to make decisions on how the money they had raised through school galas and the like should be spent.

Government resourcing that is allocated on an individual school basis for schools to decide how to use comes in two forms: staff, and cash. Schools are allocated full-time equivalent staff numbers on the basis of "the lesser of the Ministry's prediction and the school's prediction submitted on the July roll return for each type of student for each year of schooling." (Ministry of Education 2003a, p. 6). This "entitlement" staffing is paid centrally.³ The money for this staffing appears in school budgets, but is not seen by schools as part of their budget. Schools can now "bank" staffing to give them some flexibility (this was originally to allow schools to initiate programmes or support mid-way through the year, but is also used by schools to manage their own funds by having their lowest-paid staff members paid from the "banked staffing" component).

Schools receive operational funding from the Ministry of Education; this includes a base-grant up to certain roll-sizes, and per student capita funding. Around 15 percent of the total money spent on operational funding is linked to schools' socio-economic decile. This decile-linked funding, TFEA (targeted funding for educational achievement) and SEG (special educational grant), is a much higher component of operational funding for low decile schools, and provides them with higher per capita government funding than high decile schools. Prior to decentralisation, these schools usually had higher government resourcing than others in the form of additional staff.

The breakdown of the total amount of operational funding shows 59 percent of it is directly per pupil, with per pupil formulae also used for most of the other components. The base components,

³ In the 1990s, previous governments offered "bulk funding", also known as "full-funding" or "direct-resourcing", which included funding for teacher salaries within operational grants. This was an attractive option for schools that did not have the majority of their teaching staff at or near the top of the salary scale, because it funded teacher FTEs (full-time equivalents) at the top of the salary scale. The final version of this funding also allowed schools to return to central funding after three years., which was also attractive to many schools who saw that they would lose rather than make money if they continued to have full-funding.

given to cover 'fixed costs associated with the operation of a school and to compensate for the absence of economies of scale in smaller schools' amount to only 6 percent of the total amount of operational funding spent by government.

Operational funding has some components that are identified in Ministry of Education advice of funding entitlement given to each school, but the components are not targeted, and do not need to be separately accounted for. Operational funding is described in the Ministry of Education school resources handbook as:

The money a board of trustees receives from the Government to implement the goals of the school's charter and for the running of the school. Operational funding does not include the salaries of entitlement teachers, property, or other large capital items. The funding is paid quarterly in a bulk grant directly to the board. Although the grant is made up of set components, boards are free to decide how the grant should be spent. (Ministry of Education 2003b).

Operational funding is calculated by the Ministry of Education on schools' predicted rolls for the next year, that are given in their July roll return. Schools receive funding on this estimate in January and April. Primary and special schools' actual rolls at the beginning of March are used to recalculate the amount of their July instalment, and their actual July return, the amount of their October instalment. Other schools (that do not have new entrants starting on their fifth birthday throughout the year) have their July and October instalments adjusted by their actual early March roll numbers. "Extraordinary" roll growth after funding has been recalculated can lead to operational funding adjustments on application to the Ministry of Education.

Over the last decade, there has been an overall increase in government operational funding per student of 37 percent after CPI inflation for the period is taken into account. The Associate Minister of Education, in a 2005 press release, has also noted a 5.2 percent increase in government spending per student in real terms between 1999 and 2004 over and above the operational grant for "things like information technology, software licences, and staff professional development, that schools would have otherwise had to find the money for out of their operational fund."⁴

However, between 1990 and 1999, the increase in per student funding was only 4.4 percent after adjusting for inflation, with the increase coming only from 1996, after a loss of 10 percent in schools' purchasing power between 1990 and 1996 (Ministry of Education 1996). Thus, schools were faced with the need to raise more funds locally from the early 1990s to maintain revenue levels and programmes, and it may be that cutbacks to spending that were needed during the first part of the 1990s have had later repercussions for school budgets, such as needing to buy more curriculum resources, or attend to capital and property items that were deferred as non-essential.

⁴ Associate Minister of Education. *School operational funding increases 18.5 per cent in real terms per student under Labour*. Media Statement 11 March 2005.

One secondary school (not in this current study) provided us with a detailed analysis of its expenditures on a defined group of 'basic costs' (drawn from the school's audited accounts) and Operations Grant revenues (traced from the Ministry's Operations Grant Advice Statements) from 1989 to 2003. The comparison showed a gap of 39.6 percent between the initial funding calculated in 1989 (which at the time covered the basic costs so defined) and increased to the level of funding received in 2003, and the actual expenditure on those same basic costs in 2003. The analysis eliminated new funding which was ring-fenced for new costs (and therefore cannot be used for basic costs).

Although various attempts have been made to trace the relationship between schools' needs and operational funding over time, these are invariably open to interpretation and criticism, partly because of problems defining schools' needs (as well as other methodological issues), and partly because it is uncertain what additional costs have been recognised in funding increases.

The boundaries that separate educational 'basics' from 'extras' are not always clear, and often cannot be elucidated by the available evidence on outcomes for students. Thus, there are no universal benchmarks that could be used to determine whether a school has allocated 'too much' or 'too little' resource to a particular activity or programme. Consequently, the question of 'how much funding is enough?' is complex and cannot be addressed purely through analysis of the available data.

However, by tracing the experiences of selected effective schools, it is possible to identify key pressure points and other resourcing issues that schools have in common. By examining the trade-offs these effective schools are making between different areas of spending in order to operate within their means, themes can be identified that suggest possible shortfalls in current funding, and the implications of those shortfalls can be assessed.

Because operational funding is not tagged to particular areas of expenditure, it is not always clear whether the inputs which schools currently pay for out of their locally managed funding are recognised (notionally) within the Operations Grant. However, there are many examples of increased costs and new areas of expenditure that have emerged since the introduction of the Operations Grant, which have not explicitly been reflected in revisions to grant levels, such as the use of ICT, increased award entitlements for support staff, and new types of compliance cost such those related to health and safety, and copyright fees. This study attempts to identify the most important areas of additional or growing expenditure for the 18 schools. Although it is beyond the reach of our study design to extrapolate these findings to other New Zealand schools, the findings can assist judgements about the need to review school resourcing levels nationally. They can also be useful to other schools to inform their own decisionmaking.

Signs of shortfall in government funding for schools

Fifty-two percent of secondary trustees in the NZCER 2003 national survey said their board had faced financial management issues or problems in the last three years. Responses to financial issues addressed both costs and revenue. About half of these cut spending across the board, or took international students. About a quarter cut back spending in a few areas only, put more effort into local fundraising, and sought outside sponsorship. About a fifth reduced support staff hours only. Thirty-seven percent of the primary trustees in the NZCER 2003 national survey reported that their school had faced a financial management issue or problem over the previous 3 years. Trustees from boards that had struck financial issues reported that their school's main responses were to cut back spending across the board (63 percent), and put more effort into local fundraising (47 percent). Around a quarter of these trustees reported either seeking outside sponsorship, reducing support staff hours, or cutting back spending in just a few areas. Eighteen percent reported that their school had recruited international fee-paying students. This pattern of responses is similar to that found in 1999, with the addition of the recruitment of international fee-paying students.

Thirty-nine percent of the primary trustees, but only a quarter of the secondary trustees, whose board had had a financial management issue said the actions their board had taken had solved the issue. Forty-two percent of the secondary, and 35 percent of the primary trustees said their board's actions had been partially successful. Eighteen percent of both primary and secondary said it was too soon to tell. Eight percent of the secondary, and two percent of the primary trustees said that either the actions taken had not been successful, or that the financial issue went beyond the board's capacity to resolve.

The first report in this study showed that the 18 effective schools were unable to meet all their costs by use of their operational grant alone. The biggest areas that took operational funding were support staff (administration and teacher aides), additional teachers, and ICT (including hardware such as laptops that do not amount to a large capital item individually, but that are rarely bought individually, and would amount to a large capital item if annual replacements were looked at as a whole).

Schools in the study generally had robust systems of budget development and monitoring. They all relied on good administration staff to do this. They ran on thin margins, and took a conservative approach to financial management and programme changes. Working capital was important to provide a buffer for things that could not be anticipated, and to ensure they could maintain programmes if rolls dropped. Rolls were key to their financial health. It was also important to have a roll size that could make full use of their site without overcrowding, and to have a roll profile that did not include high proportions of students with large learning and support needs, and in the secondary schools, had predictable patterns of retention into the senior secondary school. International students had become major revenue sources for some of the secondary schools.

National data from NZCER surveys of nationally representative samples in 2003 also show that boards had to manage their finances very carefully, and were not able to cover all the support for students that they thought they should be providing.

NZCER 2003 national survey findings

94 percent of secondary principals and 75 percent of primary principals thought their government funding was inadequate.

83 percent of secondary principals employed more teachers than their teaching entitlement. Most said their school's staffing levels were not adequate.

71 percent of primary schools employed more teachers than their teaching entitlement, and most also said their school's staffing levels were not adequate.

67 percent of the principals said they did not have sufficient funding to employ adequate support staff to meet their school's needs.

55 percent of the secondary principals noted shortfalls for all three of the funding and staffing areas asked about in the survey⁵: they said their government funding was not enough, nor was their entitlement staffing, nor did they have money to employ adequate support staff. Only 1 percent felt they were adequately resourced for all three of these areas.

47 percent of the primary principals expressed shortfalls in all three of the funding and staffing questions asked in the survey: they said their government funding was not enough, nor was their entitlement staffing, nor did they have money to employ adequate support staff. Only 11 percent felt they were adequately resourced for all three of these areas.

52 percent of secondary trustees and 37 percent of primary trustees said their board had struck financial management issues in the previous three years.

Lack of money and lack of time are the two main reasons why principals feel they cannot undertake the curriculum innovations they would like, and lack of money the main reason why they feel they cannot undertake operational/personnel innovations.

New Zealand schools' financial health in the 2003 school year was described as generally sound by the Ministry of Education. However, it also noted two trends that "warrant attention". These were increases in the level of locally raised funds, and borrowing to fund operational costs (Ministry of Education 2004, p. 62). It noted that while some borrowing was related to schools' financing leases for ICT and long-term contracts for painting as part of property maintenance, there were also increases in overdrafts and bank loans that did not result in increases in productive assets, and were not sustainable.

⁵ Government funding; teaching entitlement; support staff.

The Ministry of Education notes that operating deficits can occur as part of normal school life in relation to particular school initiatives (Ministry of Education 2004, p. 62). This is borne out by the fact that only 28 percent of schools had no deficit over the three years ending in 2003. The proportion of schools with a deficit in all three years increased for primary schools, from 8 to 11 percent, and for secondary schools from 9 to 14 percent (Ministry of Education 2004, p. 84).

The proportion of schools occurring large operating deficits (more than 10 percent of the school's total income excluding staffing) over a single year was 12 percent in 2003, slightly less than in 2001 and 2002. The proportion of primary schools with a large deficit over the 1999–2003 period has varied around the 12-13 percent mark; the proportion of secondary schools rose markedly from 5 to 9 percent between 2000 and 2001, rose again in 2002, but dropped back to 8 percent in 2003.

The Ministry of Education's annual report on the school sector to Parliament for 2003 identifies increases in government funding of schools that run ahead of a general inflation rate (Ministry of Education 2004, p. 57). In the four years from 1999–2003, it says that operational funding increased 21 percent, compared with an inflation rate of 10.2 percent. However, the same report notes that:

In recent years a number of pressures have come to bear on schools' operational funding and cost structures. These have arisen from changes in the curriculum and assessment frameworks, greater need for ICT in schools, and increasing costs of support staff. While operational funding has increased since 1994, schools face an ongoing challenge to focus and refine the management of their resources within this changing environment. (ibid).

As well as these pressures on school budgets identified by the Ministry of Education, schools in this study also faced increased pressure from loss of revenue, particularly decreases in the number of international students, and rolls that were lower than estimated at the end of the previous year. Depreciation remained an area that could catch out well-managed schools. Rising building and trades costs also posed problems. Resourcing non-contact hours for secondary teachers was looming on the horizon for 2006 for some of the secondary schools.

There appears to be some recognition by government that it is timely to review the funding schools receive to manage locally. The Education Review Office has received additional funding to carry out a study of school financial management around operational funding, which will involve the collection of data on 200 schools that are part of its review work in terms 3 and 4 2005, and case-studies of a smaller number of these schools in early 2006. This study will feed into a wider Ministry of Education review whose terms of reference are currently being finalised, for reporting with recommendations to the Minister of Education by the end of July 2006. The results of this current study should also be useful for that review.

In this report, we first describe the continuing tightness overall, and deterioration in financial health for some of the schools in this study between 2004 and 2005, and schools' responses. We then look at the pressure points for schools in terms of managing their revenue. Next, we look at schools' revenue sources and patterns over time. We conclude with an outline of the implications

of our findings. Our main focus is on the effective schools in our study, with some context provided by patterns found in the NZCER 2003 national surveys of primary and secondary schools.

2. An increasing tightness

Of the six schools in the study that had seemed in a comfortable financial position last year, only two remained in that position in 2005. The majority of schools in the study were having to manage more tightly than they were in 2004, and make savings. Two schools whose rolls had increased between 2004 and 2005 still had to manage tightly, but were not facing the major cutbacks that were looming last year.

The two charts below show the changes for the study schools between 2004 and 2005. Schools were placed in the '*comfortable*' category if they did not identify major areas in need of improvement, and were confidently planning for further development.

Schools in the '*tight*' category were those that had to manage carefully, shaving spending or cutting back on some support staff hours to maintain their programmes as best as they could, usually relying on additional unpaid effort by existing management, teaching and support staff, and who could not undertake further development. They were aware of unmet gaps in their provision. One board chair of a school in this category described his school as constantly 'having to scrimp'. The '*tight*' category is broad: the position of individual schools on the chart represents our judgement about the extent to which lack of revenue and lack of certainty of revenue were curtailing provision and planning.

The '*major cutbacks*' category includes schools that were faced with making teaching staff redundant, and cutting back severely on the range of courses or provision offered for students. One school in the study was close to that position; two were close to that position in 2004, but had managed to avoid it. Another is likely to be making them for 2006.

Figure 1 Secondary schools – change in overall financial management 2004–05⁶

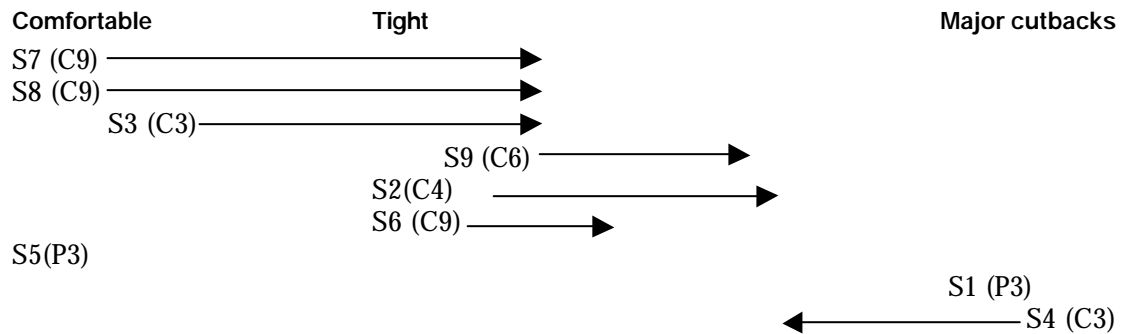
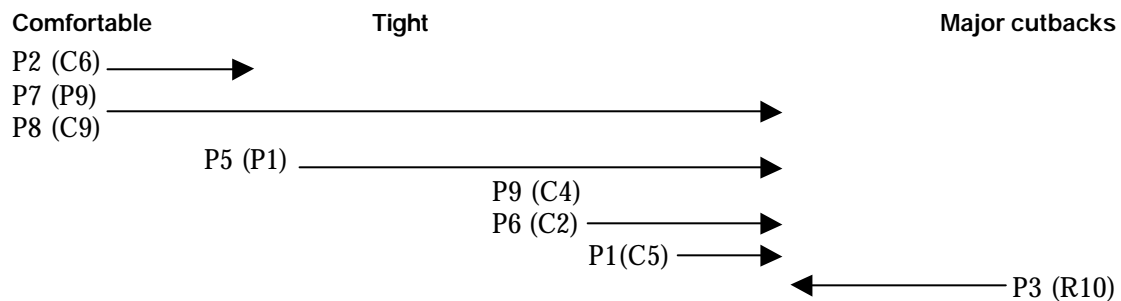


Figure 2 Primary schools – change in overall financial management 2004–05



What can a school do if its revenue drops from one year to the next to the extent that a school that thought itself to have a healthy surplus or good financial position finds itself ending the year with an operating deficit, or facing an operating deficit the following year? This happened to four of the nine secondary schools in the study, and three of the eight primary schools: a total of seven of the 17 schools in the study for whom we have information for both years. This is a high proportion. But it is in line with the national proportion of schools that end the year with an operating deficit (39 percent estimated in 2003). The fact that these were occurring in this sample of well-performing schools raises some questions about the volatility of school finances at the individual school level. Particular issues that arose in this sample were the costs of coming to rely on non-government revenue, costs related to property, particularly large ‘lumpy’ spending, and getting depreciation right.

⁶ The letters and numbers refer to individual schools. We have used the same references in graphs and charts in the report, so that readers can make connections between different sections and the detail shown in appendix 1. S= secondary; P= primary; the number after that is the reference number for a particular school in the study. In the brackets, C= city, P=provincial, R = rural, and the number is the socio-economic decile of the school.

Financial difficulties in secondary schools

All four secondary schools facing deficits in 2005 had been confident in 2004 about their financial position – they all had surpluses or reserves that seemed to allow them to keep pursuing some development goals. In all these schools the numbers of international students or adult fee-payers did not meet budget forecasts (one school dropped to 75 percent of its expectation; another to almost half). However, these losses were the sole cause of financial difficulty in only two schools. A falling roll because of increased competition in the area (the knock-on effect from a new school) and a boiler needing replacement⁷ were additional problems for one school; and for another, it was the timing of a large property development bill, and the higher than budgeted cost of the work – an issue raised by other schools that have had the misfortune to plan property development at a time when building costs have risen rapidly and steeply.

Both the two schools that were knocked into the red solely by the greater than expected loss of their fee-paying students had built up well-regarded programmes for these students. They had seen the revenue from these programmes as allowing them to develop, rather than cover 'bread and butter'. However, when numbers of fee-payers dropped substantially over a short period, they were faced with the realisation that the developments they had been able to fund were now part of their taken-for-granted programmes, such as a high standard of ICT equipment and access, a wide range of subject options, small senior classes, or small vocational classes for students who were disengaged in ordinary classrooms, and disruptive to others.

The four schools did not rely on just one response to their loss of revenue. They all sought to increase their revenue through other means, as well as cutting costs. The action available to them to increase revenue was dependent on their:

- existing capacity to take more students,
- position in the local school market, and
- board's judgement about the willingness of parents to pay higher donations.

The high decile schools were in a much better position to increase revenue than the low decile schools. Both high decile schools markedly increased the level of their voluntary donations, and were fortunate to continue to get a high level of parent payment. The other two schools had lower rates of parent payment of the donation levels asked for, and did not see themselves able to ask more of parents. However, they both made small adjustments to what was asked of families in the form of activity fees or payments for use of materials, particularly around Internet access, ICT printing, and homework workbooks.

⁷ The principal thought this should have been treated as a capital item, and allowed to be taken out of the school's 5-year property plan, but boiler replacement – an expensive and unpredictable event – was deemed by the Ministry of Education to be covered by operational funding. This meant that the school ended 2004 with a small deficit for the first time in some years.

Three of the schools had enrolment zones, but two of these were already full to capacity, and could not improve their revenue by taking out-of-zone students. The third school, which was high decile, took a much higher number of out-of-zone students than in the past.

Three of the schools saw the problem looming in sufficient time in 2004 to take action to increase revenue or reduce staffing costs for the year starting in 2005. In large secondary schools, a turnover rate of around 10 percent, teachers taking maternity leave, and in some parts of the country, the number of overseas-trained teachers who return home after several years teaching in New Zealand means that schools can reduce teaching staff in such situations without having to pay redundancy costs. The cuts that were made were:

- Support staff positions or hours were cut; experienced staff who left were being replaced by less experienced but cheaper staff;
- In schools that employed ESOL teachers on contract for their fee-paying students, contracts were not renewed;
- Spending on capital items, particularly ICT;
- Cuts to curriculum area budgets;
- In one school, loss of a programme for one group of students; and in another, the dropping of one senior course;
- In another, increases in class sizes; amalgamation or dropping of senior classes where numbers were low; and
- Some shaving to professional development.

While cuts were made to contract positions related to international students, the schools had to meet some continued fixed costs for the infrastructure relating to this provision, and continued or extended their marketing.

There was increased scrutiny of financial reports, and tighter financial management and board overview. In some cases this meant less flexibility at the curriculum department level. Existing teaching and administrative staff put in more hours; board members' time was also called on more.

Curriculum areas, teaching, and ICT costs were the aspects of school work that were easiest to cut – at least in the sense that these are areas that are not regulated in terms of legislation (e.g. employment, health and safety), and that are not fixed infrastructure costs. Where schools could cut infrastructure costs, such as finding a cheaper cleaning contract, they did, in the recognition sometimes (not always) that they are also opting for a slightly lower standard.

Continuing tightness

These actions to manage costs were similar to the actions that were occurring in four more of the secondary study schools, as part of their continuing response to declining rolls, and/or difficulty in

raising new revenue. These schools were used to tight financial management, limited spending on capital items, low curriculum budgets, prioritising by highest need,⁸ and sometimes rotating around subject spending on textbooks and class materials rather than allowing each subject a similar per student amount one year after another. They also prioritised property maintenance spending, and looked for ways to save money on this and on ICT support.

Some of these schools had been helped this year by the recalculation of decile funding. One had an enrolment scheme and was able to take out-of-zone students when a healthy local labour market meant it lost senior students unexpectedly in 2004. But otherwise these schools were not in a position to raise new revenue. They saw no possibility of increasing the money they could make from parental donations, either because the level of payment had decreased when they last raised it, so that they made no more than before, or because they were encountering resistance and lower payment at existing levels from parents, with expectations that 'free' education meant exactly that.

These were all schools that were making the most of what they had, and were adept at juggling to meet the full range of student needs. But in all of them there was a sense of increasing strain, and uncertainty about how much longer they would be able to maintain what they regarded as a reasonable quality. There was also frustration that their aim was circumscribed, that their horizon was limited to trying to maintain what they had, rather than being able to innovate or develop.

You ask me what new initiatives are in this year's budget, well, none because we've got no money to make any. It's quite a depressing exercise. (board chair of a 'tight' secondary school)

I laugh when I see your questions about this school's strategic priorities sort of determining where the money goes. There is so little room to actually strategically apply money. You can't say where shall we put \$20,000 this year, shall we put it into learning support or something else. By the time you've paid all the fixed costs it becomes a wee bit of a scramble. (principal of a 'tight' secondary school)

We have to send in these targets, and we want, and the government wants us to lift the game for everyone, they particularly want the tail brought up, but we have to fund that, and at the moment we're not really able to fund it through the government grants. If the government's expecting us to achieve better, then they have to fund us better. (principal at a 'comfortable→tight' primary school)

Only one of the nine secondary schools in the study remained in a reasonably comfortable position over the two years. This school has experienced significant roll growth over the last few

⁸ Competing priorities given by one principal as illustration were: the expansion of a successful course at senior level, providing support so that a student with difficult behaviour could settle and not disrupt the learning of 25 others in the class, and updating resources for a subject area where the school had a high reputation. In this case, the principal would fund the last two, on the basis that the students who could not take the senior course "have a wide range of other things that they can choose from, and that they are capable of doing. It is not actually ruining anyone else's life."

years, a result of growing reputation, general population growth in the area, and room on the site for more buildings without crowding. The issues for this school were now around providing a wider range of subjects to ensure that the school continued to maintain its roll numbers, and attract students from across the ability spectrum.

Financial difficulties in primary schools

Not allowing enough for depreciation had caught out two primary schools that had been in comfortable positions in 2004. But other factors also saw these schools facing deficits. One low decile school had to upgrade its ICT network system and some hardware (for the first time in six years), and that brought it close to the end of the reserves built up over its receipt of bulk funding⁹ (which ended in 2000). The high decile school had to fund architect fees for its proposed remodeling out of its locally managed funds rather than its 5-year-property funding when tenders for the remodeling made it unaffordable. Its 2004 roll was slightly down on the estimates, and the difference had to be paid back to the Ministry of Education. It was looking at a deficit for the year of less than \$30,000, but that was making a marked difference to the programme:

It has suddenly become much, much harder for us to offer what we have offered in the past.
(principal at a 'comfortable→tight' school)

In both schools, the use of banking staffing for the first time in a serious way was making an important contribution to improving their financial position. Both had sufficient numbers of teachers at the lower end of the salary scale to gain from banked staffing. The recalculated deciles also gave them some unanticipated revenue.

Both these schools had enrolment zones, and stable rolls. In the high decile school, the board increased the donation level after nine years of it remaining unchanged; however the proportion of parents paying the higher donation amount dropped somewhat. The school also undertook major fundraising in the local community that gave it a better than anticipated return. The willingness of individual parents to lead the fundraising effort was crucial: it was estimated that the effort had taken the equivalent of 6-months full time work for two parents in particular. Cuts were made to curriculum spending, and professional development. Support staff hours were maintained, but unlike previous years, would not be increased if new students brought new needs to the school: a

⁹ Principals of the low decile schools in this study noted that because low decile schools tend to attract younger teachers, costing less (and often with a higher turnover both because they were younger, and more likely to travel or take maternity leave; another factor can be the high and intensive workloads required in these schools), the final version of bulk funding, that funded schools at the top of the salary scale for each entitlement position, gave their schools much more money than they had previously had, and allowed them to build up reserves and/or increase staffing and non-contact time as well as spend more on curriculum resources. All of these schools had a core of experienced senior staff who had non-contact time to work with and support their less experienced colleagues.

student with existing support but lesser needs would lose that support. It was seen as important to act as a good employer; the school management was also concerned that if support staff hours were cut by half, their motivation would be negatively affected. School management were aware of other schools in the area also confronting deficits, who had cut their support staff hours. Cuts were also made to building maintenance and furniture replacement. Storage for the school's new numeracy resources was not purchased, making them less accessible to teachers. The classroom upgrading went on hold. The school did not subsidise some excursions and performances.

The principal took on some teaching to save reliever costs, and teachers worked more hours to make curriculum resources that they could not afford to buy. This additional effort and cutting back on ICT and property spending meant that the school could maintain its innovative programmes for the current year.

The low decile school cut back on some teacher aide hours and spending on ICT, and increased some class sizes. School managers pursued philanthropic foundation money with some success, partly they felt because of the school's considerable reputation. Teachers at this school also put in additional time to maintain the school's programmes.

Budget management became tighter, with much more scrutiny of individual items, and tracking spending against budget each month. Staff were urged to provide invoices as quickly as possible, so that the schools would have a clear financial picture throughout the year, but particularly toward the year end, when they would be setting the budget for the following year.

Both these schools thought they could end the current year avoiding deficit, and felt they had managed to do so without eroding their programmes too much. However, because the programmes now depended on additional effort from teachers who were already working intensively and long before the schools experienced financial difficulty, and on raising revenue outside the school, both schools felt some nervousness about their ability to maintain or further develop their innovative and well-regarded programmes.

The third school that faced a deficit after being in a comfortable position in 2004 found itself with lower roll numbers at the start of the year than expected, and less ability to raise funds itself than it was accustomed to. Locally raised revenue was included in the 2005 budget for the first time, and by mid-year, the target set seemed unattainable. The school was not receiving so much money from gaming (community trust), and its PTA had become inactive. Fewer international students enrolled (the school had budgeted for only a small number, based on previous years). Expansion of the school in previous years in line with a rising roll left behind some additional costs in the form of depreciation for new assets, including library books. The school had shaved curriculum budgets after its starting roll was lower than expected, giving priority to some curriculum areas, with the plan of rotating priority to different curriculum areas in different years. It was holding back on property work until it could raise further revenue.

Continued tightness

All but one of the other five primary schools in the study this year were having to manage tightly, holding spending in some areas, rotating spending around curriculum areas and year levels, shaving spending on professional development, or in some cases cutting library spending, stopping provision for particular groups of students, or cutting spending across the board. Literacy and numeracy were less likely to be cut or not budgeted for compared with areas like social studies or science; but even in these two core areas, there might be more money available for particular year levels than others. Principals also talked of reduced scope for teachers to match curriculum topics with student interests. All felt that though they were coping day to day, they were not able to spend where they needed to in order to ensure the quality of their provision in the medium to long term, and could not provide for all their students. In one school, a reading programme for at-risk readers had had to be dropped; it was replaced with voluntary adults who trained in an adult assisted reading programme, and peer tutoring. The principal thought this was working well, but did not completely replace the programme that had become unaffordable because some students needed adults with additional expertise.

Two of the schools had declining rolls; and one school had a high rate of transient students, who were not always able to be counted for funding purposes. The fourth school had had an unexpected and marked roll increase.

Three were reliant on having Ministry of Education contestable contracts to develop particular emphases in curriculum or provision for a particular group of students. School experience in making applications and learning to provide milestone and full reports was important. Schools that did have contestable contracts noted that they did not cover all the costs faced by schools (particularly the numeracy contract), and that the funding for them did not always come when expected, leading to one school experiencing difficulties with cash-flow. They created more work, particularly in administration and reporting “sometimes for very small amounts of money”.

The fourth had tired of the effort needed to apply, and of the variable success. However, one experienced parent was using her skills to gain some environment and health related funding for some of the school’s provision for a low-income community.

One principal whose school was successful in accessing contestable funding also spoke of the large additional workload required to both gain and run contracts, particularly where they involved other schools. This school had avoided a deficit situation through this hard work and success, the change to the decile rating, and local community support for some property work. This increased revenue had countered the loss through a gradually declining roll. Banking staffing was also crucial to the school.

The school that had increased its roll in 2004 had nonetheless overspent its budget, because it needed additional staffing, and had not sufficiently allowed for depreciation. It continued not to spend on some curriculum areas (‘zero budgeting’), held off on property upgrading, ICT, and some professional development. It was raising more revenue through the increased roll, and had increased its parent donation.

Staff in the “tight” schools were said by their principals to work over and above ‘duty’ alone, to meet some classroom consumable costs from their own pockets, and to forego payments they could legitimately claim, e.g. for travel or school camp costs.

The one primary school that remained in a comfortable position continued to maintain strong reserves, and gained some money from the change to the decile rating. It had experienced a drop in its international students, but this did not affect its programme: it had never had to trim curriculum spending, or professional development. It had an enrolment scheme (with continued interest from students living out-of-zone) and a stable roll. It counted itself fortunate that its property was in good condition.

Students with special needs were often cited as unexpected costs that were hard to accommodate in already set budgets. Property costs that were higher than budgeted, or things needing urgent attention were another. One school had carefully ensured that a painting contract to cover an outdoor surface covered a replacement if necessary, but the firm that had done the work went out of business, leaving the school with unbudgeted costs.

Links between budgets and student performance data

The planning and reporting framework introduced in 2003 asked schools to set targets each year and report on them. We asked schools whether there was a link between this process and their budget setting, as might be expected if schools are in a position to undertake the kind of strategic financial planning that some assume is possible.

All the schools paid attention to their student performance data, and some also monitored indicators of student engagement in school in relation to goals of improving student achievement. Links between school budgets and targets for student performance included in school charters as part of the school planning and reporting framework are not always explicit. Targets and emphases are regarded as part of the everyday life of schools, since they are, as one principal put it, about ‘effective teaching and engaged learning’. If a particular group is a priority, then they inform the ways in which a cost area might be spent rather than becoming a separate cost area. For example, the key driver of professional development expenditure in a school aiming to improve NCEA level 1 results for Māori and Pacific students was related to gaining understanding and strategies for teachers to use in working with these students.

Principals considered that links with school emphases and targets existed within curriculum budgets, as heads of department and curriculum leaders made decisions about resources in relation to identified student needs. Board chairs and treasurers generally also saw these decisions as part of school professionals’ normal work. Some commented that they could do little anyway, given the limited amount of money they had left after fixed costs or costs that were related to larger groups of students were met. Several boards did have priority areas, particularly to lift the achievement of Māori and Pacific students. Sometimes changes in students or teachers identified

new groups of need: these were the kinds of links with achievement data that were more likely to be identified as needing new money.

This year our analysis of student achievement data identified a need to develop particular areas of reading, comprehension skills in particular. We had quite an influx of new students in the senior school. We had a new staff member who has a particular expertise in reading so if you put those two things together, she has probably analysed our data better and in more detail. What that did was throw up some needs and so we have set priorities from those, we have actually directed additional income into this area both for the purchase of readers and resources plus an additional staffing of .1 for learning support in the senior school. That was a direct result of our findings. (principal of a 'tight' primary school)

One school was bringing forward HoD reports and planning to fit with the budget setting cycle to get a better fit with assessment of needs and the budget; but it also noted that staffing decisions were made some time before examination results were known, making it hard to make more than small shifts to meet new identified needs, usually using banked staffing.

The amounts of money involved were usually less than \$20,000, and would provide for some teacher time to work with small groups of identified students, or specialist teaching or additional teacher aide time.

If new needs were identified, schools were rarely in the position of being able to fund these without cutting back in another area, or – less directly affecting learning – putting some capital purchases on hold.

One chair commented on the cumulative effect of having to manage money tightly, and always prioritise.

I worry sometimes that some of the annual objectives, they seem to compromise at the time: they're set with a view to budgetary constraints. So when sitting down and saying, "well what are going to be our operational targets this year", they actually take account of budgetary considerations when they set the targets instead of saying let's forget money and just say what are the things that we really would like to do, and then take it to the Board and let them worry about the money, where they're going to get it from – not that we would know! I don't say this critically, it's just this perpetual discipline and knowledge that there's no money. (board chair of a 'tight' secondary school)

One principal expressed frustration at the gap he saw between the Ministry's strategic objectives and the funding given to schools.

It's all very well for them to set the goals and set the targets, and say this is what we are wanting to achieve and have it in their mission statement, you know this is really important - and then underfund it. We do the best we can because we are committed professionals to make it work for our kids and I believe that's the same scenario in every school. But we can't, we're all the time juggling these balls to try and actually make it work. We do a really good job but we don't do it as well as we could if we had more funding. (principal of a 'comfortable' secondary school)

One common theme among the secondary principals was their desire to ensure student engagement, and the gains they had seen from particular programmes or approaches that offered students less traditional 'academic' approaches. These programmes were often dependent on contestable funding, or on being able to juggle other courses or class sizes, raising questions for the principals about how to sustain all the provision needed to cater for the full range of learning needs, in line with the Ministry of Education's goal of having all students experience effective teaching (Ministry of Education 2005c) which has been linked to teachers' ability to meet the learning needs of 'diverse' students.

Views on the operation grant

When we asked the schools which single element of the operations grant made it difficult to set their budget, almost all mentioned the amount.

There's never been any adjustment to the best of my knowledge in terms of the overall makeup of that operations grant. When the formula for the operations grant was originally set, I don't know what it was, but I get the impression it was just done on what was done at the time, and for many years there was no indexing of it either, so it just got less and less and less. They've now started to index it which just means that it's like, like a drowning man, you're drowned whether you're one inch under the water or six inches under the water, so they pushed us down so we were six inches under the water and then said aren't we good, we're going to lift it so you're only one inch under the water. Well, you're still drowning. (board chair of a 'tight' secondary school)

One executive officer estimated the shortfall at her school to break even was about 10 percent, and suggested one way to provide schools with that amount would be to make it GST exclusive. However, to properly resource the school would mean the operations grant should rise by 20 percent. At another school, the estimate of the shortfall was 25 percent.

What it should better cover was also usually mentioned: some noted support staff, and some ICT, as areas that kept increasing in cost, and that were not seen as having been covered in the assessment of school costs in 1989, when the grant was composed. Some suggested that each school have targeted funding for support staff within the operations grant, or entitlement support staffing.

If they're not going to do it by a payroll system, they should look at each school by size and say x number of kids, that should be y number of teacher aides – you're always going to use teacher aides for the benefit of kids. And then you know where you stand, and your support staff will know that they have got a job every year. (principal of a 'tight' primary school)

It would help if support staff were centrally resourced in some way. I know it's a big issue but because of that increasing cost annually it just means that it eats into other budgets, just constantly playing with pots of money and putting a bit here and taking a bit off there. (principal of a 'tight' primary school)

Several also thought that ICT costs could be funded separately, in relation to approved plans.

Increasing the SEG component so that the costs of working with students with special needs were fully met, or ensuring that the costs schools encountered over and above individual students' GSE or ACC funding was also mentioned. One principal of a low decile school wanted improvements in the reading recovery allocations, to better match the large need at the school, and thought that money for professional development should come as a per-teacher amount. He would also welcome changes in the staffing formulae.

Some thought that the large proportion of their grant that went to staff was a clear indication that staffing formulae needed to be revisited, and that if improvements were made there, then there would be less need to increase the operational grant.

There was a general sense that the base formula needed revisiting, to reflect the actual uses that schools found they needed to make of it, and to ensure that the components were properly costed. Some suggested more thought to funding infrastructure, rather than having so much on a per-student basis.

Probably years ago you did have a basic infrastructure that was supported by the Ministry, and so your ops grant was actually the bums on the seats. That was reasonable because it did relate to what was directly happening in the classroom. The bulk of the ops grant now is not going to stuff that happens directly in the classroom. It is basic infrastructure that all supports what is going on in the classroom, so there is a justification for it, but it bears no relation to a per pupil number. It needs to be rebundled and reshaped. (executive officer of a 'comfortable→tight' secondary school).

Indexing component of the operations grant and the 5-year property funding to the most applicable inflation index, rather than the general CPI was also called for.

Changes to the depreciation requirements were also suggested as a way to make more use of government funding.

Some schools mentioned changes in the processes related to operations grant, and support for children with special needs. Four schools had to find additional funds or make cut-backs because their rolls were over-estimated, and they had to pay money back to the Ministry of Education. This can be difficult if the money received has already been spent. Transient students could be an issue if they were not in the school when the roll counts were done in March and July. One school had a particular problem with immigrant students who moved in and out of New Zealand. Several schools with high proportions of transient students commented that the Ministry of Education's roll counting process had become tighter in recent years, making it more difficult for them. One principal with high transience rates suggested that the roll return dates be shifted:

I think they should be May or September, because we're supposed to be a country that's coming to grips with increasing multiculturalism, and yet this formula goes back to the year dot, and doesn't necessarily suit large urban schools. It's probably a very good economic measure for the government, but it doesn't really help us at all. (principal of a 'tight' primary school)

The biggest risk is changes in Ministry of Education policy, bringing on a few things that we're not aware of when we set our budget. (principal of a 'tight' primary school)

Schools also expressed frustration with the time taken for decisions to be made in relation to the teacher aide hours GSE or their RTLB would allocate them: schools had to carry costs in the meantime, and it was difficult if teacher aide hours allocated by GSE or the RTLB were decreased. The needs remained at the school.

At one school three new students had come from a school that was merged in a network review. Each of these students was to take some money with them to their new school, if their parent indicated the school the children were going to late the previous year. The Ministry of Education had told the principal that this money would not come to the school because the parent had not given the Ministry of Education this indication. This seemed unfair to the principal, particularly given the high needs of the children.

One senior school manager thought that schools would need to collaborate to share resources that they could no longer afford individually. A board chair said

It's not an easy model for the government to manage, you give all this power to the boards and you haven't got a lot of control over them. If there's a government concern that improvement in school operational funding might be spent unwisely, if that's what's driving the agenda, then they should look at how they can improve the funding in a way that meets that concern. (board chair of a 'tight' secondary school)

3. Financial pressure points

In this section, we describe the main sources of pressure for schools' management of their revenue. We look first at the funding of support staff, then at employment of teachers above the school's staffing entitlement, ICT, property, depreciation, and new costs, such as funding teachers' non-contact hours, and costs seen as 'compliance' with legislation, sometimes arising outside education.

Support staff

The costs of employing support staff (including administrative staff, teacher aides, and technical support staff) have increasingly been identified as a key source of pressure on schools' budgets, and as an item which government funding has failed to keep pace, both in terms of the number and type of support staff needed by schools, and the costs of employing suitable people.

Seventy-six percent of the 240 participants in the NZEI 2004 survey of a nationally representative random sample (which had some under-representation of primary schools) thought their school did not receive sufficient government funding to meet minimum staffing requirements for administrative support, and 83 percent to meet minimum staffing requirements for teaching and learning support. Forty percent of the principals said locally raised funds were used to pay or 'top up' the wages of support staff, at an average of 29 percent (and wide ranges). Sixty-seven percent said the money provided by GSE or ACC for support staff to work with individual students with special needs did not cover the full employment costs of these staff. Seventy percent of the schools also reported parent and community volunteers working in essential support areas including accounts and administration, library, and classroom support. Seventy-four percent identified increased workload related to increased administrative compliance costs to provide data to the Ministry of Education and NZQA over the two previous years, and 31 percent had increased their support staffing as a result (NZEI 2004).

At the School Executive Officers' 2005 conference, 21 workshop seminars were offered. Half were related to Ministry of Education requirements and resourcing (including annual reports, property, risk management, banked staffing, and ICT standards); several were related to systems and approaches to work that could ease workloads and stress, and one was about school marketing. (<http://www.seo.org.nz/downloads/conf2005abstracts.pdf>).

The NZEI study of support staff included case studies of a good cross-section of 13 schools. The proportion of operations grant spent on support staff ranged from 13 percent (an intermediate) to 73 percent (a special school). The mean was 40 percent.

The NZEI study shows the support staff collective award base rate increasing about 2 percent more than the increase to the operations grant during the 2000–2004 period, and about 4 percent more than ORRS funding for support staff. Changes to the support staff collective award do not result in immediate changes to the operations grant, leaving schools with a continuing shortfall. This was an issue for most of the schools in this study.

These negotiations with support staff: how can you come up with an agreed increase and then not fund it? Because all you've really done is you've cut the ops grant back by that percentage. (principal at a 'tight' secondary school).

Most of the schools in our study budgeted for increases in support staff salaries arising from the collective award so that they would not be caught out; nonetheless, they could not always afford to maintain employment for the same number of hours. Negotiations for the current claim, seeking a 6 percent rise started in late August.

In the NZCER 2003 national surveys, 67 percent of the 95 secondary principals and the 254 primary principals responding said they did not have sufficient funding to employ adequate support staff to meet their school's needs. Compared to the 1999 survey figures, there was an increase in the proportion of primary principals who identify the need for more teacher aide hours, teacher aides working with teachers for students with special needs, in the library, for caretaking/cleaning, and kaiarahi i te reo. The NZCER secondary survey was run for the first time in 2003, so no comparisons with previous needs can be made. Secondary principals also put teacher aides at the top of their list, but closely followed by ICT support, teacher aides working with teachers for students with special needs, other pastoral/behavioural support, and clerical/accounts work.

The average number of additional hours per week of support staff wanted per school was 66 for primary schools, and 102 for secondary schools. In terms of particular kinds of work, the average number of additional hours is modest: for teacher aides, 16 hours at primary schools, and 21 at secondary schools; for ICT support, 8 hours at primary schools, and 18 hours at secondary schools; for aides to work with children with special needs, 11 hours at primary schools, and 13 at secondary schools, and for clerical/accounts, 4 hours at primary schools, and 11 hours at secondary schools.

These modest amounts would indicate that there is no spare capacity in many school budgets for even small changes to how schools are run.

Fifty-four percent of the secondary principals would like to employ more administrative staff, and 42 percent, ICT specialists. Lack of money was the reason cited by almost all those who would like to make operational/personnel innovations in their schools but could not.

ICT specialists headed the list of people primary principals would like to employ to develop their programme (47 percent), followed by more specialist staff (35 percent), more administrative staff (23 percent), and more pastoral support staff (21 percent).

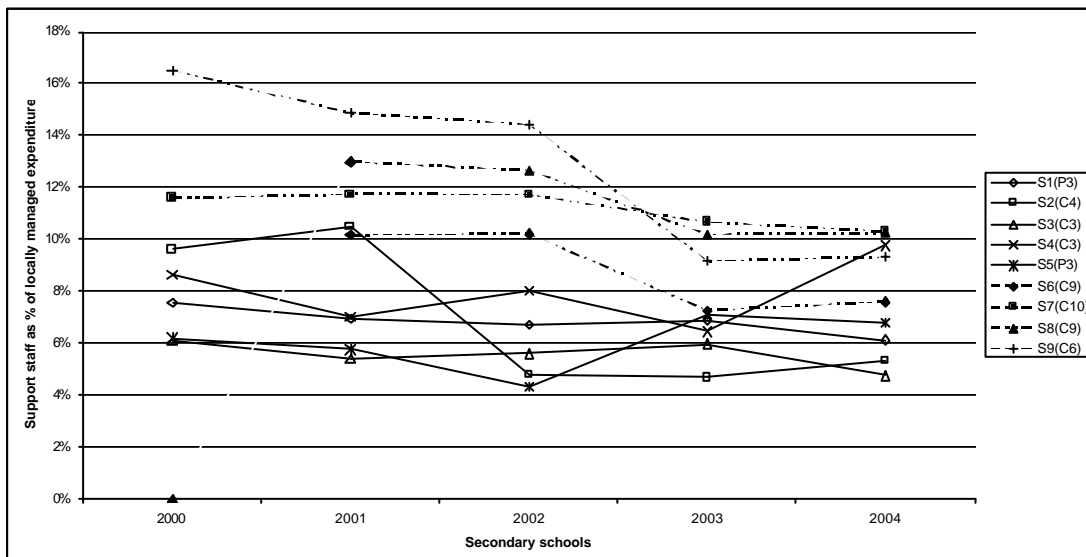
Seventy percent of the 744 secondary teachers responding to the NZCER 2003 national survey said they had some help from support staff, and 72 percent said they could use more help: mostly less than five hours a week. The main kinds of help they would like are with preparing and maintaining resources, working with students with special needs, clerical/administrative help, help with behavioural problems, and ICT technical support.

Eighty-one percent of the 431 primary teachers responding to the NZCER 2003 national survey said they had some help from support staff, and 74 percent said they could use more help, again, mostly for less than five hours a week. As well as preparing and maintaining resources, they would like people to work with individual students on their reading or language, writing, and mathematics; working with students with special needs, and ICT technical support.

Trends 2000–2004 in the study schools

Total support staff costs are higher than shown in the figures below for some schools because while all schools in the study included administrative staff in this category, some did not include teacher aides, and some did not include others, such as ICT technicians, who were included in other categories in the schools' financial accounts. The variability in whether or not teacher aides are included may account for some of the differences between schools evident in the figure below. For seven of the nine secondary schools, support staff costs represent a lower proportion of locally managed expenditure (LME) in recent years than in 2000.

Figure 3 Spending on support staff as a proportion of LME (secondary schools)

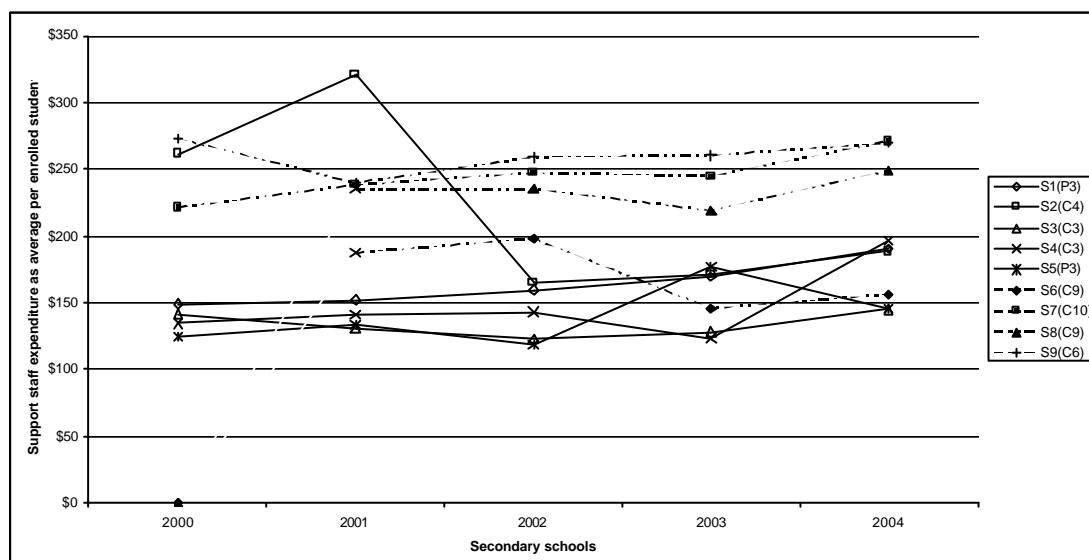


But while support staff spending has declined as a proportion of LME, the per student costs have slightly increased.¹⁰ One school had increased its support staff from 19 in 2000 to 27 in 2004, to provide technical support for its increased use of ICT, more support for teachers (particularly as the NCEA came in), and to increases in 'Ministry of Education compliance'. Other schools had increased support staff to monitor student attendance and reduce truancy.

Six of the secondary schools saw the collective employment agreement as the key factor influencing their support staff costs. The other three saw this as having a moderate impact. Six secondary schools thought changes in salary levels due to other factors also had a moderate impact, and two said it had a major impact. Some felt that the progression between pay levels in the collective agreement was leading to pay rates for some support work that were too high for the work entailed.

The impact on their spending of changes in the number of staff was evenly spread between major impact—no impact, depending on whether schools had added or cut support staff over the period.

Figure 4 **Support staff spending per student (secondary schools)**

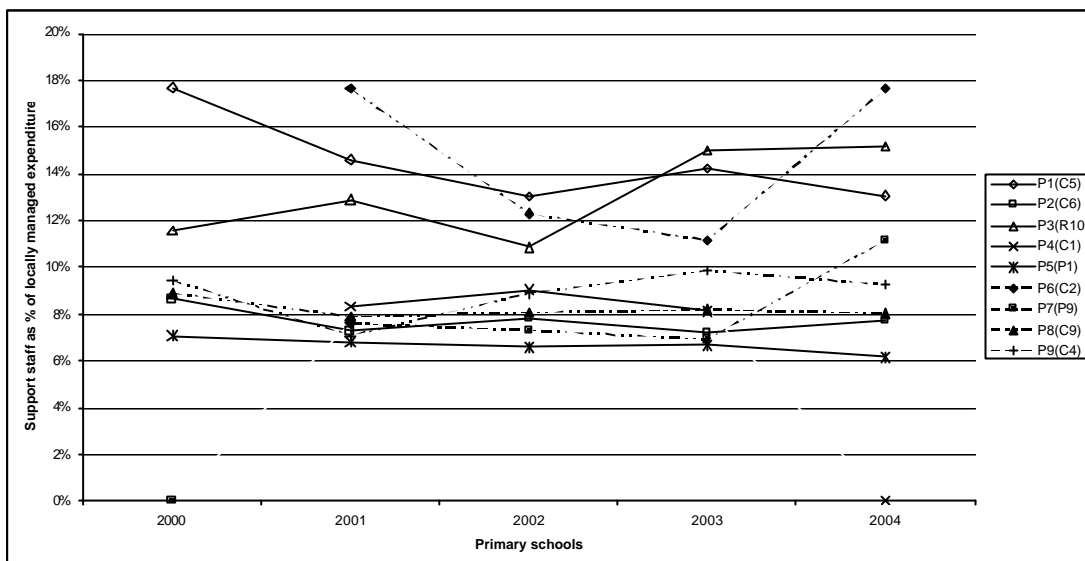


The primary schools in the study show a mix of patterns: steadier for the schools whose spending on support staff was lower as a proportion of LME, and more volatile for those whose spending on support staff was generally a higher proportion.

School P6's reduced spending in some years reflects cutbacks to programmes for a low income community with many ESOL, Māori and Pacific students that were needed to cope with reduced revenue from a falling roll and the lack of new revenue in those years. What this indicates is that schools in such a position cannot offer consistent programmes to meet such student needs.

¹⁰ Per student amounts in the figures used in this report are generally not inflation adjusted.

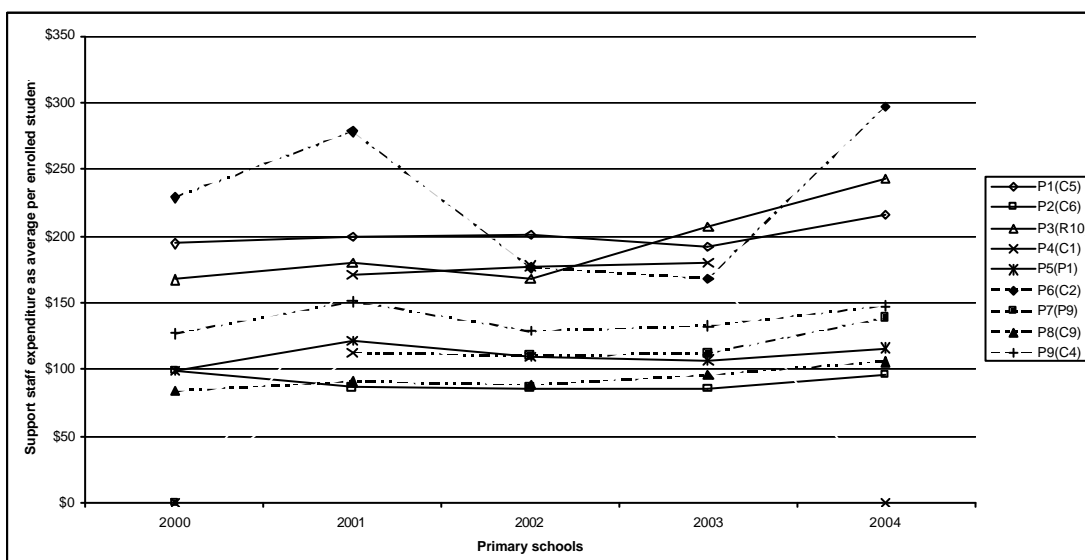
Figure 5 Spending on support staff as a proportion of LME (primary schools)



For primary schools, salary increases due to the collective and other factors (e.g. seniority/increments) had a major to moderate impact on their spending on support staff, while number of staff had a moderate to minor impact. One school was increasing its use of parent volunteers.

There has been a gradual if small increase in average costs per student for support staff in primary schools.

Figure 6 Support staff spending per student (primary schools)



What this data on total spending does not show are patterns of numbers employed, hours, and salaries. The NZEI survey and the information from the schools in this study indicate that these

are the elements that are juggled each year. The skill of staff is also important. A number of the schools benefited from caretakers who could undertake a wide range of repairs and maintenance.

[The caretaker] saves us twice his pay with the sort of stuff he can do. [executive officer at 'comfortable→tight' primary school]

Support staff is an area that schools will look at to make savings if they need to; sometimes resulting in increased workload for others, or reduced support for students. It was one of the main areas that the study schools would like addressed in any review of the operations grant.

Employment of teachers

Boards have been able to employ teachers using their locally managed funds for some time (both fully (bulk) funded and centrally resourced schools did so). Banking staffing began in 2002, to allow schools flexibility in when they used their staffing entitlement over a year. There was an increase to the time allowed for balancing staff usage for the year at the end of 2004. Considered use of banked staffing (e.g. by charging the salaries of the lowest paid teachers at each pay period to the banked staffing component) can provide schools with additional revenue.

Schools usually resource these additional teachers using more than one revenue source. Ministry of Education operational funding (both the grant itself and other roll-related funding) is the major source (81 percent of primary schools, and 62 percent of secondary schools), coupled in secondary schools with revenue from international students.

Table 1 Sources of funding for teaching staff employed above staffing entitlement - 2003

| Funding Source | Secondary (n=79)* % | Primary (n=162) % |
|---|---------------------------|-------------------------|
| International students | 68 | 15 |
| Operational funds | 62 | 81 |
| STAR funding | 39 | N/a |
| SEG funding | 33 | 30 |
| TFEA funding | 30 | 25 |
| Using additional MoE contract/programme funding | 23 | 14 |
| Locally raised funds | 19 | 26 |
| Using 'banked' staffing | 15 | 19 |
| School fees | 5 | 8 |

* Numbers and proportions are only for those currently employing teaching staff above entitlement. Data from the NZCER 2003 national surveys.

Principals of primary schools whose rolls had increased between 1999 and 2003 were more likely to say that their entitlement staffing was not enough to meet their school's needs, and with those whose school roll had remained stable, to be employing teaching staff above their Ministry of Education funded entitlement.

For state schools¹¹ as a whole, the proportion of teachers employed using local funds increased markedly in 2001, when operational funding was increased following the end of full-funding (bulk funding) and the redistribution of funds across all schools that resulted. This increase gives some indication of the priority schools gave to the curriculum. In secondary schools, employment of teachers using locally managed funds also includes provision for international students, such as teachers of English as a second language.

Table 2 **Proportion of teachers employed using locally managed funds in state schools, 1999–2005**

| FTTE* | 1999 % | 2000 % | 2001 % | 2002 % | 2003 % | 2004 % | 2005 % |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Primary | 3.1 | 3.2 | 5.1 | 4.9 | 5 | 5.3 | 4.8 |
| Secondary | 3 | 3.6 | 5.8 | 6.1 | 6.5 | 6 | 5.1 |

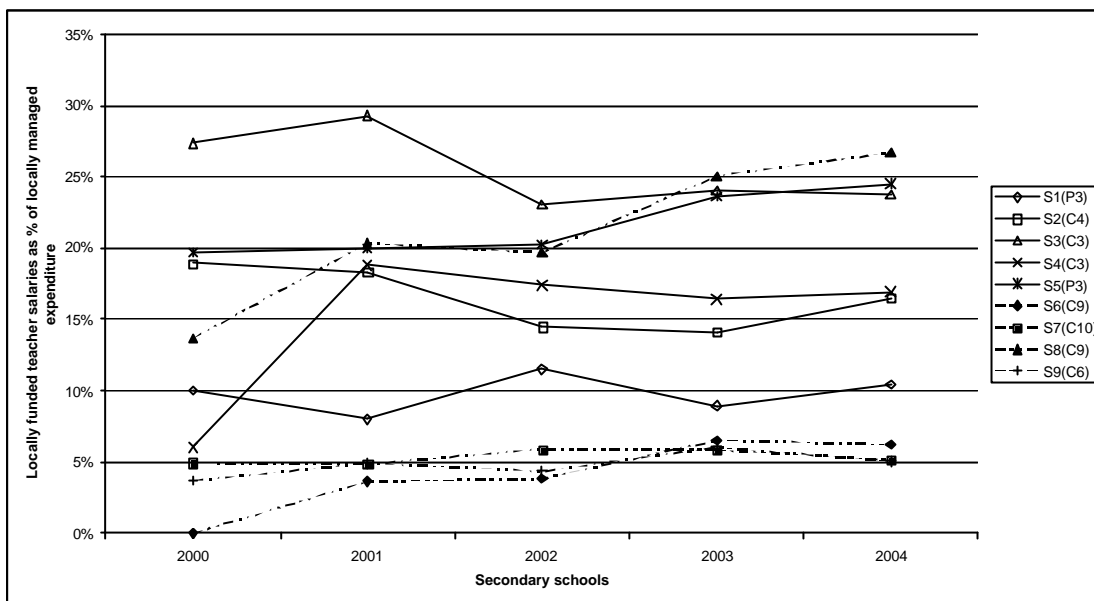
* FTTE = full time equivalent.

The decrease in the proportion of teachers employed using local funds since 2003 may reflect an increased use of banked staffing; for secondary schools it is also likely to be linked to the decrease in international students (both in terms of need and revenue). In interviews, principals and executive officers of schools that had not managed to attract the international students they had budgeted for in 2005 mentioned cutting back on the number of teachers they employed above entitlement.

But changes in the number of teachers employed above entitlement also reflects prioritisation at the school level in the face of competing demands on school revenue, particularly the operational grant. There is more volatility in spending on teachers above entitlement shown in the graph below than in spending on property; and a similar level of volatility as spending on support staff.

¹¹ The figures given here are for state schools only, to match the sample of schools in this study. The data was provided by the Ministry of Education, using April payrun figures (Payrun 401).

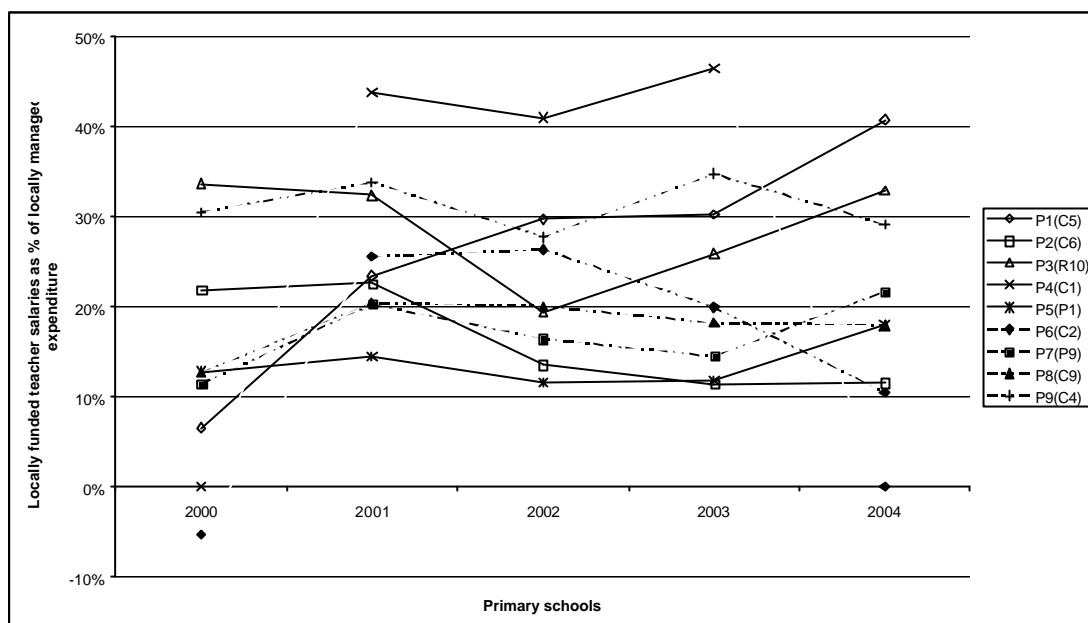
Figure 7 Proportion of LME spent on teaching staff above entitlement (secondary)



In 2004, eight of the nine secondary schools in the study were spending from \$100,000 to \$1.4 million a year on teacher salaries over and above their staffing entitlement, from 3 to 20 percent above it. This amounted to between 5–27 percent of their locally managed expenditure.

The eight primary schools all employed staff over and above entitlement, spending between \$50,000 to \$400,000 in 2004, from 7 to 26 percent above their staffing entitlement. This amounted to between 10 - 41 percent of their locally managed expenditure. This proportion fluctuates more than does spending on property or support staff. Some increases in the graph below individual schools reflect success in winning a contestable contract with the Ministry of Education (e.g. school P3). School P6 decreases steadily because of a falling roll, and that school’s marked reliance on the operational grant.

Figure 8 Proportion of LME spent on teaching staff above entitlement (primary)



Different proportions spent at different schools reflect both assessment of need, and available revenue. Contestable Ministry of Education funding gave additional revenue that was used to employ additional teachers (e.g. Enhanced Programme funding for students with moderate special needs was used to employ specialists or reduce class sizes to provide slower learners with more support). Banked staffing was also used, though the Ministry of Education’s intentions about the use of banking staffing as a form of revenue were not clear to all. While some saw banking staffing as simply a new revenue source, and one that takes some careful calculations on an ongoing basis; others thought by using it to gain revenue, they were taking advantage, or using a loophole.

Two primary schools that had been relatively comfortable before 2005 and now faced deficits had not used banked staffing before. Their current use of banked staffing was making a sizeable contribution to allowing them to maintain the main elements of their programmes, and bring their deficits down.

ICT

The first Ministry of Education ICT strategy for schools was released in 1998. It focused on developing the use of ICT in schools, through support to build infrastructure and capability. Almost all schools wrote an ICT plan and received an ICT grant, and a large number of schools accessed funding for related professional development and network cabling (Ministry of Education 2003c). The next strategic step covered 2002-2004, and focused more on the use of ICT in relation to the curriculum, and sharing best practice through ICT clusters. Its vision was that

All learners will use ICT confidently and creatively to help develop the skills and knowledge they need to achieve personal goals and to be full participants in the global community (Ministry of Education 2003).

This vision has been retained in the latest framework, currently out for consultation (Ministry of Education 2005). The consultation document notes that while ICT use is widespread, it is not yet 'normalised' as part of learning; and the new framework aims to shift ICT use to another level.

It also notes the need for a more co-ordinated approach to (e) learning, to reduce duplication of effort and resources, and provide more connections so that schools are using ICT to prepare students for the world of the 21st century. It mentions partnerships between schools, government, communities and business to support innovation. There is an acknowledgement of the cost of ICT provision to schools in one of its principles:

Be affordable and sustainable

It is important that (e) learning initiatives are sustainable in terms of investment of financial resources as well as the human resources of staff time involved in professional development and application of (e) learning. Provision of network and infrastructure systems at a national level is likely to be necessary to support the participation of individuals in a "networked, flexible education system".

ICT provision by schools now forms part of the ERO review criteria. For example, a 2004 ERO review of one of the study schools stated that

E-learning is using ICT in flexible ways to promote student learning and achievement. E-learning is referred to in all National Curriculum statements. Boards of trustees are expected to ensure that all students have appropriate opportunities to engage in e-learning.

Thus in the space of seven years, ICT equipment and use has become expected of all schools, for both learning and administration. Government support for ICT use in schools began generally with a one-off \$25 million in 1998, and additional funding added then to operational funding, at the rate of \$13.60 a student. The Ministry of Education has since provided support through laptop subsidies for teachers, free or low-cost software licenses, the ICT professional development clusters, which approximately 44 percent of schools have been involved in (Ministry of Education 2005), broadband networks, websites, and digital resources. But schools have been left to meet the costs of hardware and maintenance, and have often been reliant on community trusts and businesses to provide either equipment or funding. This has led to some marked differences in the ICT environments of schools. For example, the Ministry of Education's 2003 ICT survey found that one-third of the schools responding did not have 80 percent or more of their classrooms networked, and the Ministry of Education has just announced funding for 300 small schools that have no networks. In this study, ICT costs ranged from \$50 to \$300 per student in 2004 in secondary schools, and from \$29 to \$537 per student in the primary schools. The last figure was unusually high, with most of the schools spending \$100 or less per student, a figure that was not dissimilar and sometimes lower than they were spending in 2000. There was more volatility in the

patterns of spending on ICT in the secondary schools than the primary, but all were spending more per student than they had in 2000.

Figure 9 ICT spending per student (secondary schools)

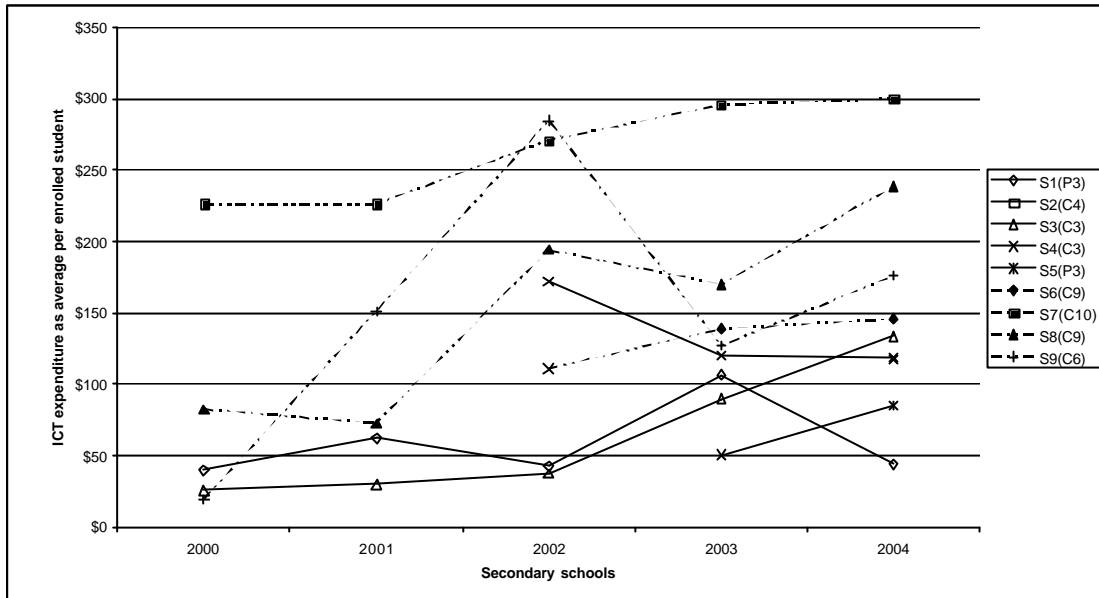
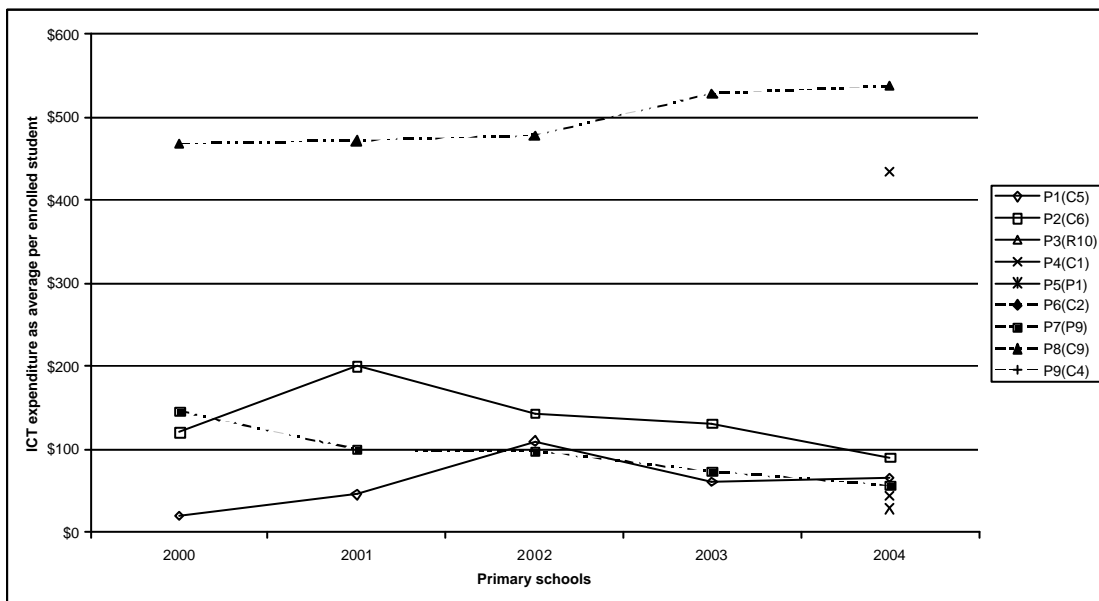


Figure 10 ICT spending per student (primary schools)¹²



ICT spending is not a separate category in the schools' annual accounts required by the Ministry of Education: there is probably a case now given its growth and prominence in schools to do so. We asked the schools in the study to pull out their ICT spending separately. These amounts may not be strictly comparable, since some schools included their technical support, for example, and

¹² Data on ICT spending was not available for all of the primary schools.

others may not have. Some ICT spending is within curriculum budgets, and may not have been included in the figures given.

ICT spending was less than 10 percent of the LME in most of the study primary schools, and less than 12 percent in most of the study secondary schools (with a wide range for each sector). But it was an area that was regarded with some nervousness, and some of its costs were not captured in direct amounts, but under the heading depreciation. Some schools leased their ICT to avoid depreciation costs, and to have some certainty about the cost, though this was usually more expensive than buying outright.

Schools attempted to get as much life as they could from their computers. Primary schools were often dependent on grants from external trusts and foundations to replace their hardware.

The nervousness schools expressed about the cost of ICT in their schools was related to the increased role it was playing, and the difficulty in containing spending or expectations. The horizon was continually receding.

The problem with ICT stuff is that it's never up to the mark. What you buy now and settle into is going to be outmoded tomorrow. (board treasurer, in 'comfortable →tight' secondary school)

ICT is such an upgradeable thing, things are changing in the ICT world all the time. They've made great gains with the Microsoft arrangements, site licenses, that's great. I think it needs to go a bit further than that, I know they're trying to do that. It's got to be ongoing professional development, software, hardware – these things depreciate so quickly, and then you pay for it again in depreciation. (principal in 'comfortable to tight' primary school)

One primary school had shifted from a small number of personal computers in each classroom, to pods of laptops, network servers, digital projectors. Now its new frontier was data projectors and electronic whiteboards.

As people use them and see the power of the tools that they're using, they want more.

There is now a wider range of hardware needing regular replacement. The increased use of networks and servers allow more use of cheaper hardware, but are expensive to replace, and can suddenly crash.

When schools tried to cut costs and take advantage of some falling prices for ICT hardware, they often faced increases in consumable costs. For example, one primary school replaced its inkjet printers with laser printers to cut its computer consumable costs (cartridges), and could increase its number of printers because the price of laser printers has come down. But the increased access to printers and speed resulted in increased printing, and thus paper costs increased. The Internet is more of a source of resources for teachers as well, so they are downloading more, also contributing to rising paper costs.

There's all the other things like printers and cartridges and batteries and discs, and they talk about paperless filing, but we use more paper than we've ever used. (principal of 'tight' primary school)

Some secondary schools were moving to charge students for their use of the Internet or printing.

Government funding for teacher laptops was welcomed, though it did mean some additional costs for schools both currently, and in terms of replacement in years to come, since they had now become part of the way teachers worked. Principals felt their access to the laptops made teachers more productive. Expectations from the Ministry of Education that schools would use accredited student management systems loomed for some: one school now facing a deficit had held off updating their system until they knew if it would be accredited. It was, but had to be upgraded, and the school could not afford to do it this year, which would mean extra work in changing data twice.

The Ministry are moving more and more in the direction of e-administration and we haven't really got the capacity as yet to really keep up with that. That's an additional pressure and it does involve expenses because it's about having a good functioning computer network in the school and having appropriate software. (principal of 'tight' primary school)

To try to contain ICT costs, one secondary school had calculated the annual cost of running each computer, so that staff could make informed decisions in relation to other aspects of their programme. It also tried to contain expectations.

We also enter into agreements with staff, mostly verbal but sometimes in writing, that yes we can give you this technology now and you should take it and enjoy it and use it the best you can, but you've got to do so on the understanding that it may not be possible in two years time to replace it. A lot of schools have put in ten or twenty whiteboards, and those things have a finite life. They're going to be putting away \$20,000 a year for the next five years for when they have to replace the whole lot again. Or you get to the stage where everyone's wedded to the technology and you've got no money to replace it. So we are really careful on that, I'm really conservative. (principal of 'comfortable→tight' secondary school)

It seemed that in most schools, decisions about equipment were made at management or board level, and were over and above the budgets handled by curriculum leaders. This means that ICT spending is not yet fully in competition with curriculum spending. The principal quoted above was starting to think of shifting some of the hard decisions to curriculum leaders as a further way to contain costs.

I am giving some serious thought to going to HODs and saying here's a dollar amount that you can have, if there's technology and things that you want, you can buy it but you've got to buy it out of this dollar amount, because what I'm getting is increasingly demands for smartboards and data projectors, but they haven't modified at all their demand for textbooks or photocopying or anything else and yet they're increasingly using the technology. Our budget's getting tighter, not more generous, so we are going to have to go back to the departments and say yes, you can have these things but you need to look at how you're going to fit them within the total package of money that you've got. I mean if ICT is really important, they will, I think, with internet access getting cheaper and that, a lot of what they're doing, they're pulling stuff off the net and there shouldn't be the need to have all the textbooks. (principal of 'comfortable→tight' secondary school)

Some principals and senior managers also noted that while the expansion of ICT use in classrooms seemed continuous, its absolute value remained unknown, and thought it could be occurring at some cost to teachers working together to improve learning, or taking money that would formerly have been spent on teaching and curriculum resources.

If you go back 10 years that equivalent amount of money [that we're now putting into ICT] we were actually putting into teachers, and we had some very good initiatives going on. Teachers were doing in-class support and professional development and growth with other teachers and it was very exciting. ICT has to be recognised not just for the cost of the hardware. Certainly Ministry agreements whereby you can get free licences for software are good, but there is the technical back up which is utterly vital and expensive. There are also developmental things. Media studies are desperate for access to better systems. I find it very difficult to say to the head of media studies, I know that's what you need for your subject but I'm sorry we can't afford it. (principal of 'tight' secondary school)

We've moved from OHPs to data projectors in each classroom, that are really no different from OHPs – except in cost – but in terms of the kids' learning – is it making any difference? Some of the staff embrace it; others would say curriculum has suffered as a result. ICT is the component of spending that is accelerating out of proportion. (senior manager, in 'comfortable→tight' secondary school)

You're always upskilling with ICT, more professional development and support needed, and now the teachers have laptops and they want a data show projector to go into the classroom and you've got to be careful that you don't replace an overhead projector with a newer overhead projector which is just for a computer and a data show projector, you know, you've gone from something that was \$400 to something that is \$4000 and all you've done is change the view on the screen, it's still a slide, still got information and that's not what learning's about. So the jury's still out with a lot of ICT stuff, I mean it's a fantastic tool, but in terms of making a difference in the classroom, in terms of how teachers teach, there's still a long way to go to get it right. (principal of 'tight' secondary school)

Property

The Property Management guidelines (Ministry of Education 2005c, p.7) note four ways for schools to get funding for property:

Directly from the Government – Vote: Education;

The sale of assets – such as buildings or houses;

Fund raising; and

Grants from community organisations, for example, the Lottery Grants Board New Zealand.

Thus it is clear that there is no expectation, on the government's part, that government funding alone will cover all the property costs or plans of schools. Certainly, the schools in the study had all had to raise additional money to cover major building or refurbishment.

Government funding for property work in schools comes through the operational grant for maintenance work, and through separate funding to upgrade property, for capital works. Each board receives a GAN (grant advice notice) in October/November estimating the amount of money included in its operational grant for the coming year, with a confirmation notice in June of that year. The GAN is based on the total land area, the total building area, the paintable area, and changes over the preceding year, for example, alterations, construction, or demolition. Schools have the responsibility to notify the Ministry of Education to ensure that the information used for the GAN calculation is correct. Capital funding is to 'upgrade work to a higher standard', and refers to assets that are 'beyond repair, need replacing or upgrading, not a small job, or new rooms to meet roll growth.' However, this does not seem to cover the replacement of boilers, which was one of the factors tipping a secondary school that had been 'comfortable' in 2004 into the 'tight' category in 2005.

Schools try to plan for their property spending, and will generally have some years where only maintenance is occurring. This is largely because of the costs of building, and the need to raise revenue from trusts and the school community, and stage spending. Staff and board time and energy are also involved in any big property project. Spending on property development or updating also competes with other school priorities.

If we have a big property spend next year, there will be less for curriculum. There are certain things you can change and certain things you can't change, and unfortunately curriculum seems to be the most flexible. (principal of 'tight' primary school)

Several of the schools had faced additional and unexpected finishing costs on building projects, even though they had thought they had budgeted sufficiently for any unforeseen costs.

Some of the schools in the study needed little doing to them, often because of substantial work in recent years, before the increase in building costs. Other schools were being caught out by the steep increase in building costs. One primary school had plans drawn up, but the tenders that came in were too expensive. It went back to the drawing board, to get simpler, cheaper plans. But costs had risen in this period to the extent that quotes for the simpler plan were as high as the quotes for the original plan.

This school had had capital funding from the Ministry of Education for two classrooms because of roll growth, but this money was insufficient: the school had to use some of its 5-year property funding.

The only way we would have got it in their [Ministry of Education] budget was to build a bare classroom, with no facilities around it. (board treasurer of 'comfortable→tight' primary school)

The school was half-way through its 5-year cycle, but could not undertake further work to finish the classrooms because it would then have nothing in reserve for the remainder of the cycle.

At one secondary school that had no local external funding support, and could not modernise classrooms and a technology block on Ministry of Education funding alone, school staff were providing voluntary work alongside local builders.

It's taken a lot longer and been much disruptive than if we got contractors in to do it but we wouldn't have been able to do it if we'd got contractors in to do it. (principal of 'cutback→tight' secondary school)

Some schools on already full sites had additional issues that did not seem to be addressed by the current Ministry of Education formulae. Schools built to take the 'baby bulge' 40–50 years ago were in particular need of modernisation.

Property work is one of the areas where schools have some discretion. However, facilities and the appearance of a school were seen as important marketing factors to ensure schools had sufficient students, and thus schools felt they could not leave property work at the end of the priority queue.

I mean, we're here to educate children, not to maintain beautiful buildings at the end of the day, but if the buildings fall into wreck and ruin, parents aren't going to want to bring their kids to the school. The problem we have is trying to get the education quality level up to the standard the school will be proud of, but if you don't have the level of funding that is required, it just becomes too difficult. (school board member of 'tight' primary school)

I think some of the difficulties provide a distraction from our core business in terms of my job. I think there is a total impact in a business sense. Just the way the school presents itself alongside more modern schools is a bit of a problem in that when you've got an ageing school where you can't smarten up the facilities, I mean that projects a certain image of perhaps a slightly tawdry sort of environment. Enhancing the school environment is a big priority that we basically can't do. We'd like to have children paint some murals to brighten the place up, but we just can't afford the materials. (principal of 'tight' primary school)

A sign of the tight financial situation for some of the study schools was that they could not afford not only projects such as classroom modernisation, but were also trimming back their painting maintenance cycles, and grappling with how they could tackle non-immediate health and safety work, such as the felling of trees whose age and height were making them potentially dangerous. Because it can be deferred, property maintenance can be used as a pressure valve in the short term. But it has long term consequences as well as possibly short term health and safety implications.

One school noted that its science laboratories would not meet current building standards, and thought this was a widespread experience.

The Ministry have just realised that if they were to enforce the rules, fundamentally they would have to come up with a lot of money that they just haven't got. Virtually none of our labs are compliant because they are old. I mean it would just be an impossibility to manage upgrading them. (principal of 'cutback→tight' secondary school)

While several of the schools in the study had been sufficiently comfortable because of their ability to raise additional revenue from international students or community trusts to build or modernise

gymnasiums or auditoriums, most of the schools were not in the position to do so, though some had ambitions to do so, seeing these as part of the contemporary curriculum, as well as signs of quality education to intending parents and the community.

Several board chairs expressed some frustration at what they felt was being asked of their voluntary, laypeople boards.

One thing this school is facing and there may be many other schools in the country: these schools were built, modernised maybe 40, 30 years ago but there's a need to upgrade the school and we're really struggling with how to go about that, in a financial sense. I'm not for one minute criticising the Ministry of Education, but I'm saying the rules and the regulations don't help, it's all up to the Board to do this, and we're lay people you know, we're parent representatives, and we're expected to make business cases for millions of dollars to build bricks and mortar and understand how the Ministry works and understand how a school works. I mean previously they used to have people in the Ministry I suppose doing this anyway, now it comes to a voluntary group. (chair of 'comfortable→tight' secondary school)

Rising costs of tradespeople were also an issue. The tendering process required of schools for more than minor repairs did not reduce costs in markets where trades skills are at a premium.

We are finding it hard to get people who are interested in repairing our guttering and our roofs. Just finding a tradesman at a reasonable price is proving impossible because they are all working on other projects, and we can't drive down the costs through a tendering process. We're lucky to get anyone to walk in the door and give us a quote, and that's really driving costs up. I can't see that changing. (executive officer of 'comfortable→tight' secondary school)

Equipment failure meant a problem when schools were tightly budgeted, and when savings could not be made in other areas.

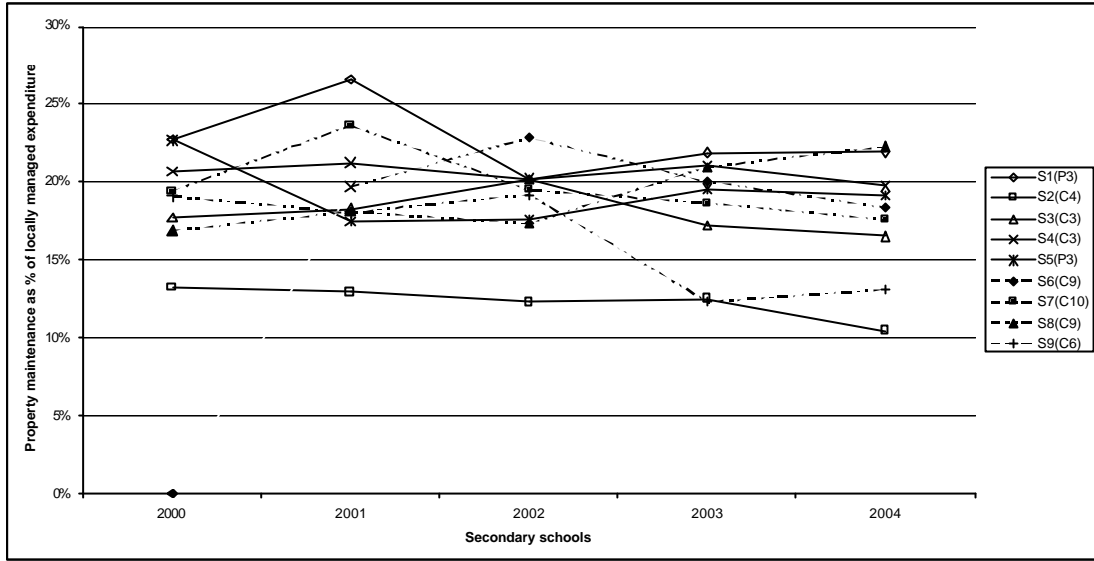
One primary school with a dental clinic faced new costs for work not covered in the property occupancy agreement signed by the school for the clinic; this work was required by the new funder for dental clinics, the district health board, which would not pay for it.

Trends over time

In the secondary schools, spending between 2000 and 2005 showed property maintenance costs¹³ were clustered around 20 percent of LME, with some marked fluctuations showing how schools use property development and maintenance as one of their more flexible areas of expenditure.

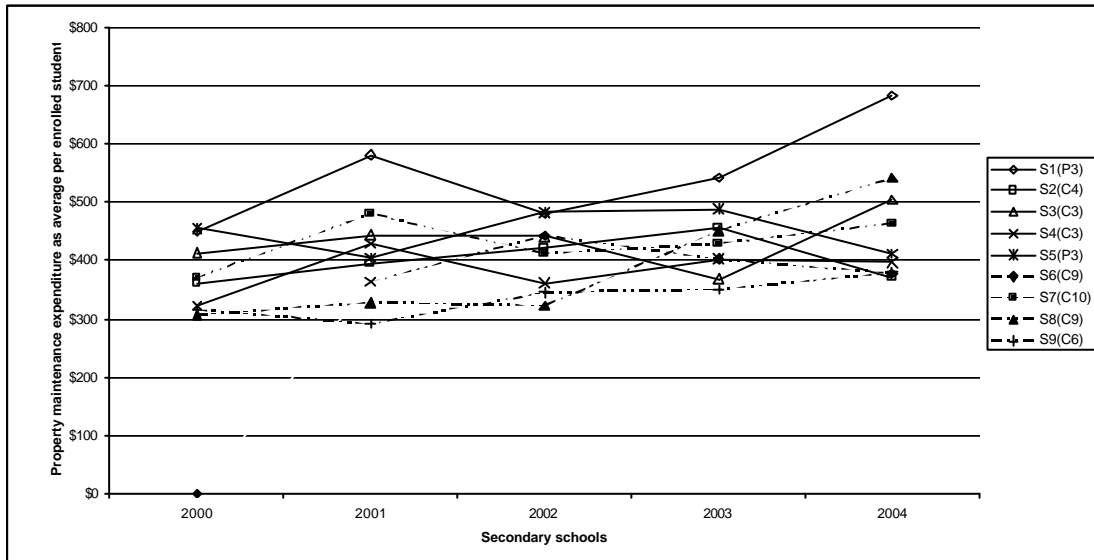
¹³ This is spending on property maintenance; capital works spending is covered in depreciation, but up-front expenses are not included in the year they are incurred. However, some capital works may appear in school accounts under the property heading where local funds are used.

Figure 11 Proportion of LME spent on property (secondary schools)



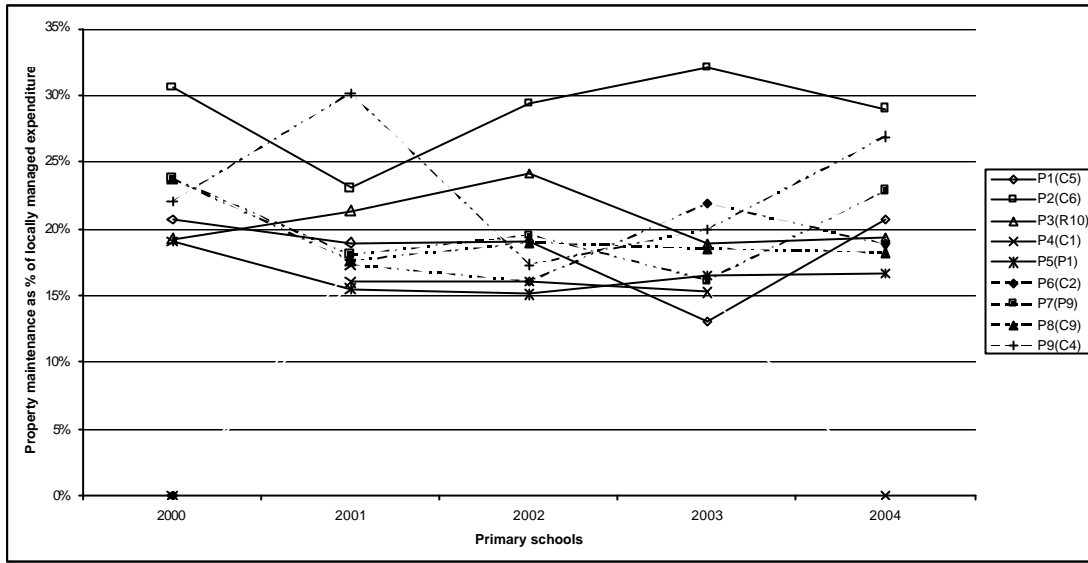
Per student costs for property have risen over the last five years.

Figure 12 Property costs per student (secondary schools)



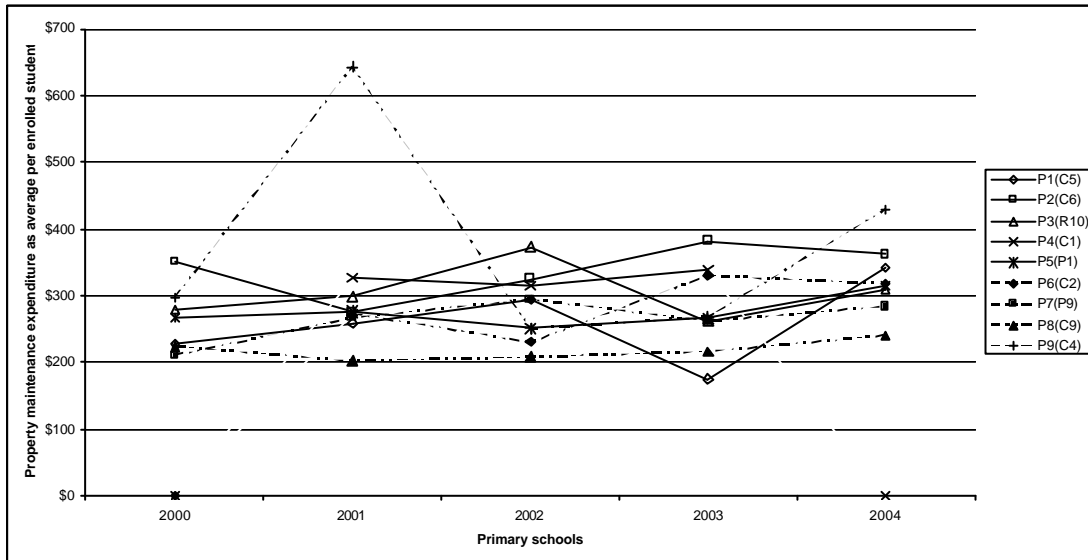
In the primary schools, there was a little more variability than in the secondary schools, indicating their greater volatility around rolls and expenses. The high outlier is a school with a growing and then stable roll that ran a large surplus every year and reinvested it in property projects. Most of the schools spent around 18 percent of LME on property maintenance.

Figure 13 Proportion of LME spent on property (primary schools)



Property costs per student have also risen in primary schools.

Figure 14 Property spending per student (primary schools)



Depreciation

Our report last year showed that depreciation was a stumbling block for schools in their desire to avoid deficit; and not getting it right was a contributing factor in the slide of four schools from a reasonably comfortable position to one requiring swift action to gain new revenue and cut costs in order to avoid a deficit position in 2005, or if that was not possible, to keep it as small as possible.

One primary school that had a new executive officer and was now more aware of some areas of financial management was contracting a valuer to value its assets to ensure it had allowed properly for depreciation. This school had less allowance for depreciation in its budget than the other study primary schools.

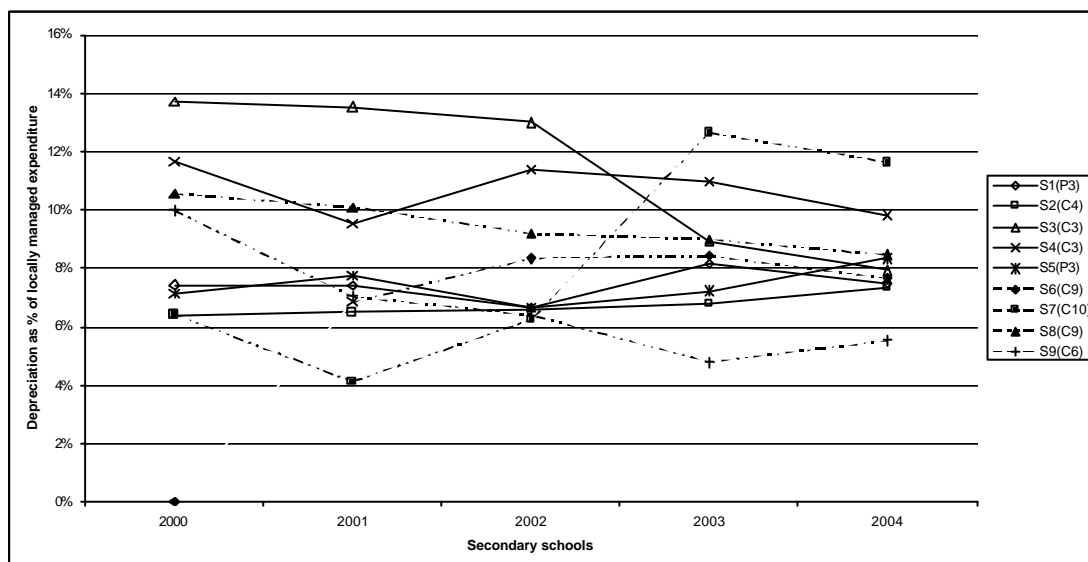
Where there are new buildings, and donations made by outside organisations for capital items, depreciation costs rise. ICT hardware also brings new depreciation costs.

Trends over time

Secondary schools

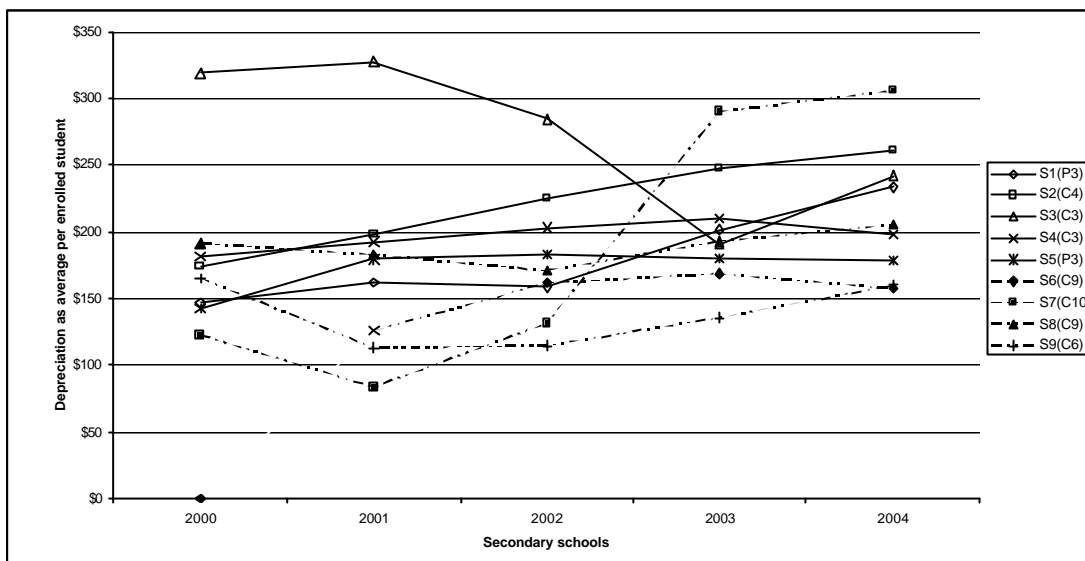
Depreciation fluctuated over time, reflecting recent capital purchases. Few schools had steady capital purchase patterns. It generally took between 6–8 percent of LME.

Figure 15 Depreciation as a proportion of LME (secondary schools)



The per student amount spent on depreciation has been increasing, from around \$150–200 in 2000, to between \$150 to \$250 in 2005.

Figure 16 Depreciation spending per student (secondary schools)

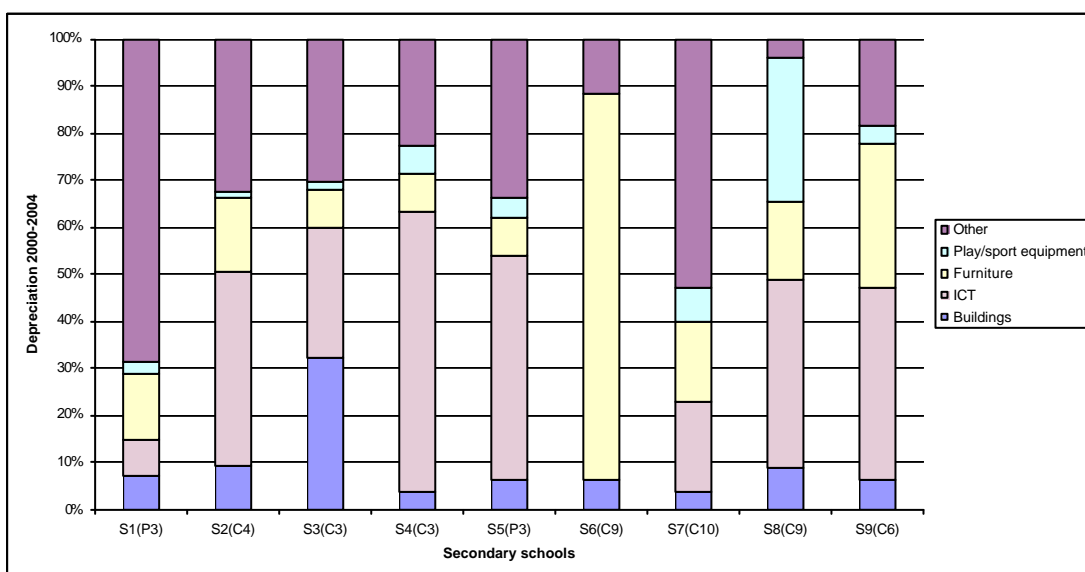


ICT shows up as a significant component of depreciation in secondary schools. One principal said something that made sense in terms of the pattern we found last year, when allowing for depreciation made the difference to whether some schools ended the year in deficit.

I think every school that really gets serious about their ICT stuff suffers major problems with depreciation. Luckily the Ministry is now allowing us to choose the rate at which we depreciate some of the stuff. (principal at 'comfortable' secondary school)

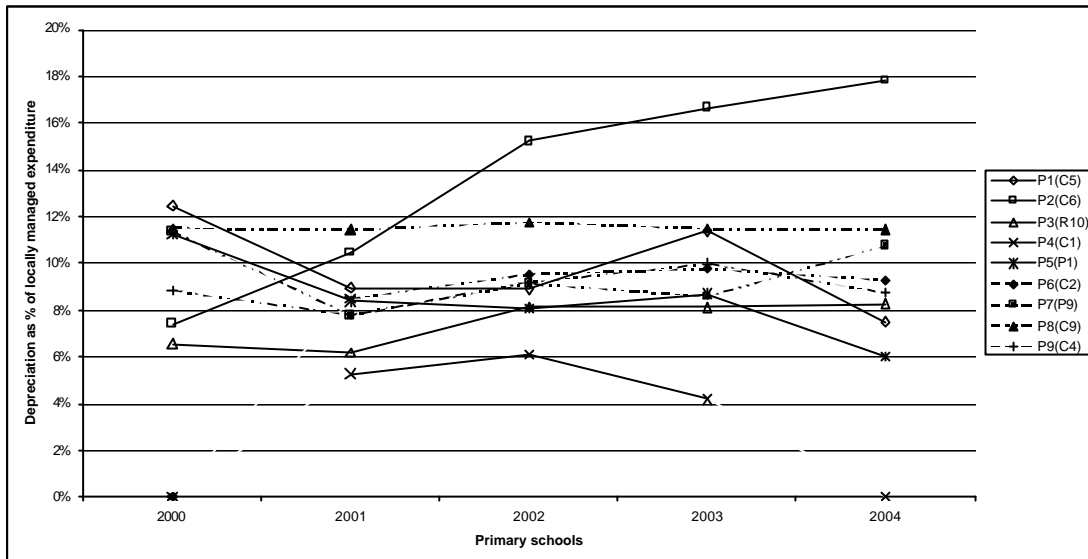
Library books, vehicles, and building/furniture depreciation that could not be disaggregated is included in the "other" category in the chart below.

Figure 17 Depreciation Components (secondary schools)



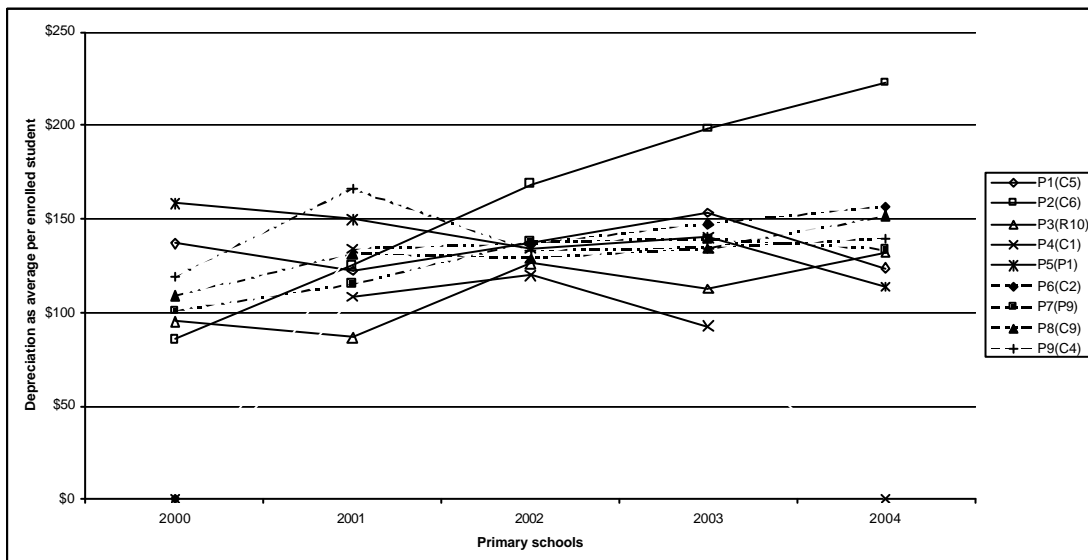
In primary schools, depreciation also fluctuated, and generally took around 8–12 percent of LME. The high outlier is the school that ran a large surplus every year and reinvested it in property projects.

Figure 18 Depreciation costs as a proportion of LME (primary schools)



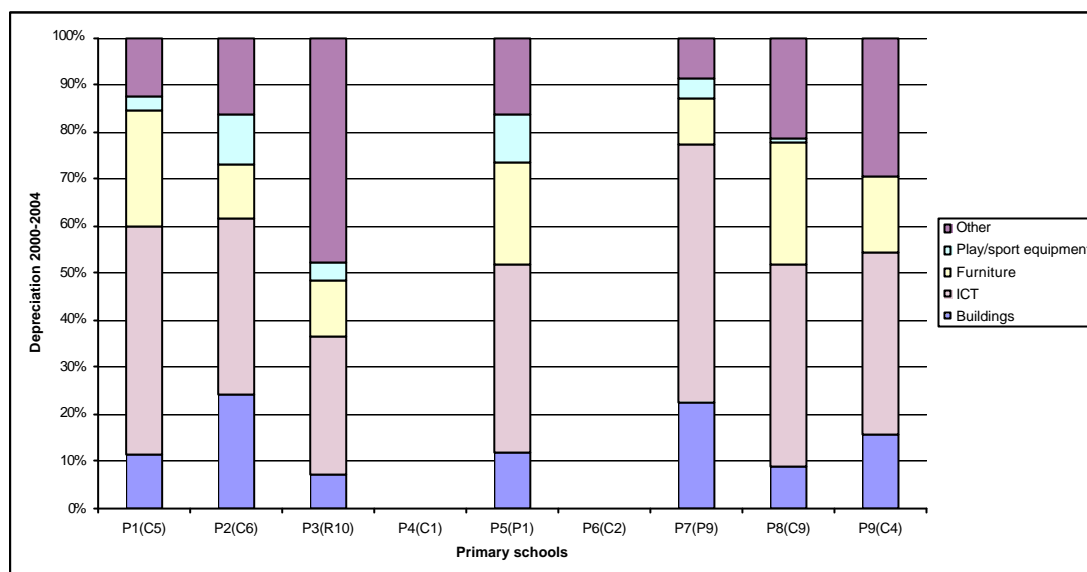
The per student cost of depreciation (or putting aside money to replace assets) has also increased in primary schools, but at a lower rate than in secondary schools.

Figure 19 Depreciation costs per student (primary schools)



ICT depreciation is generally the largest single component in primary school depreciation expenses.

Figure 20 Depreciation Components (primary schools)



Non-contact time

The secondary teachers' collective agreement in 2003 included 5 hours non-contact time for every full-time teacher employed within a school's staffing entitlement. Additional staffing went into secondary schools as a result of the School Staffing Review Group from 2002. The PPTA has calculated these as adding 4 FTTE a week to schools, and at the start of 2006, a final 1.3 FTTE. It has noted 13 factors affecting non-contact time provision. These are existing non-contact policies/provision, timetable structure, use of staffing increases since 2002, curriculum width, class sizes, composite classes, management structure, distribution of non-contact to senior management/HoDs, pastoral network structure, numbers of eligible teachers, number of teachers exceeding minimum requirements, rate of implementation, and other local decisions.

Two-thirds of the secondary schools had some issues related to the provision of non-contact time. Five thought they had only been funded to cover less than half of their staffing needs. They were looking at increasing class sizes in years 9 and 10 (the recently announced increased staffing for years 9 and 10 may therefore provide some relief) dropping some subjects offered in the senior school where class sizes were low, using the Correspondence school for such subjects or amalgamating year levels. One principal foresaw real erosion of the school's programme as a result.

The only way we will be able to provide that without going into debt is to increase class sizes. We have a maximum of 25 kids in every year 9 class so that we can easily recognise those that are struggling in those classes and get remedial help for them. We might have to boost those classes to 35. How can the Ministry on one hand make an agreement with the teachers union and then only fund us with 20 percent of what we need to honour that contract, and then government walks away from us and says it's your problem? How do you

then still manage to work your remedial programs and all that which have been very successful in this school? Our Maori boys year 9 and 10 are far above the average in their reading abilities and it's because we restrict our year 9 classes to 25 so that the teachers have time to recognise those that are struggling. We'll lose the emphasis the Ministry wants on recognising early and helping those kids that are struggling. It's impossible. (principal at 'comfortable' secondary school)

About a third of the schools had gradually made provision for the non-contact time over the years, and did not think they would face a large change or demand on their revenue for 2006. However, they said it had not always been easy to match the new provision with providing non-contact hours in ways that made sense for actual teachers in relation to actual classes, the length of periods, and teaching hours.

In primary schools, classroom release time will be available for full-time classroom teachers as a result of their 2004 national collective employment agreement from Term 4, 2005, for 10 hours a term. Each school must have a policy on its use by teachers, and what classes will do while their teacher is taking release time. Several principals in the study were grappling with how to best structure this time. Their understanding was that the time would be fully funded by government, but they were concerned that to be fair to long-term relievers and if they had staff employed above entitlement, they would need to find funding to pay for the non-contact time for these people also.

Other costs

In the survey we sent to schools before our interview, we asked them to comment on the significance of a range of specific cost pressures that had been raised over the previous year, including an estimate of the cost of each item to the school in 2004.

Other issues identified by secondary schools (in approximate order of importance) were:

- Copyright: Mentioned by most schools. Costs were commonly in the \$5–10,000 range
- 3R payments: Mentioned by over half the schools. Costs were commonly in the \$3–12,000 range, with one school running to \$50,000.
- Other issues: The following received a mention from some schools with costs generally up to a few thousand dollars.
 - Pan Tax (on toilets)
 - Holidays Act
 - Health & Safety Act
 - Additional leave
 - Obligations of planning and reporting
 - NZQA collection fees
 - Attendance monitoring

In aggregate, the schools' estimates of the costs of these compliance costs represented more than 6 percent of locally managed funds for half of the schools, and more than 13 percent for two of the schools. The true cost is likely to be higher as schools were only able to estimate the costs in some of the categories.

The key issues identified by primary schools (in approximate order of importance) were:

- Copyright: Mentioned by most schools. Costs were commonly in the \$5–10,000 range.
- Other issues: The following received a mention from some schools with costs generally up to a few thousand dollars:
 - Pan Tax
 - Holidays Act
 - Health & Safety Act
 - Additional leave
 - 3R payments
 - Obligations of planning and reporting

Across the five schools that provided estimated costs of some of these items, the quantified costs represented over 9 percent of locally managed funds for four of the schools. The true cost is likely to be higher as schools were only able to estimate the costs in some of the categories.

Examples mentioned in interviews of increased 'compliance' costs included upgrading or changing administration software as a result of the Ministry of Education accreditation of student administration packages. One executive officer expected the Ministry's new digital enrolment scheme would have cost implications for the school. Storing resources and assessment results related to NCEA was a growing issue, particularly around teachers being able to find things quickly. NCEA assessments had led to larger copying bills. One school thought that compliance costs (which included NCEA) amounted to a full-time person in the school.

In some areas, there were also substantial rises in power costs; and in one, local body costs, including rubbish disposal had risen by half during the year. Examples of increased compliance costs related to health and safety included checking of electrical outlets, signs for smoke-free environment (that were vandalised in one school, but the separate vandalism amount given to this school did not cover actual costs). Vandalism costs that were over and above the Ministry of Education funding were mentioned in a number of schools.

Savings

Schools found it difficult to identify any areas where costs had fallen over recent years: the reverse was their experience. Areas of saving identified by the study schools were usually around changes to suppliers, rather than items coming down in cost. Several primary schools noted the value of being in bulk buying schemes, and one school would like to see someone employed full-time to operate one for their region.

4. Sources of revenue and schools' financial health

In this chapter, we start by looking at the major source of locally managed expenditure, the operations grant. Next, we look at other sources of revenue that are dependent on school initiative, including parent donations, international students, fundraising, and Ministry of Education contestable grants. Finally, we look at trends in schools' operating in surplus or deficit over the 2000–2004 period, and in working capital.

Operations grant

The operations grant remains the major source of locally managed expenditure. It has increased slightly above the CPI inflation rate (as at 30 June each year) for the study schools over the period 2000–2004 for most, but not all of the study schools.

Figure 21 **Inflation-adjusted operational grant per student 2000–2004 (Secondary schools)**

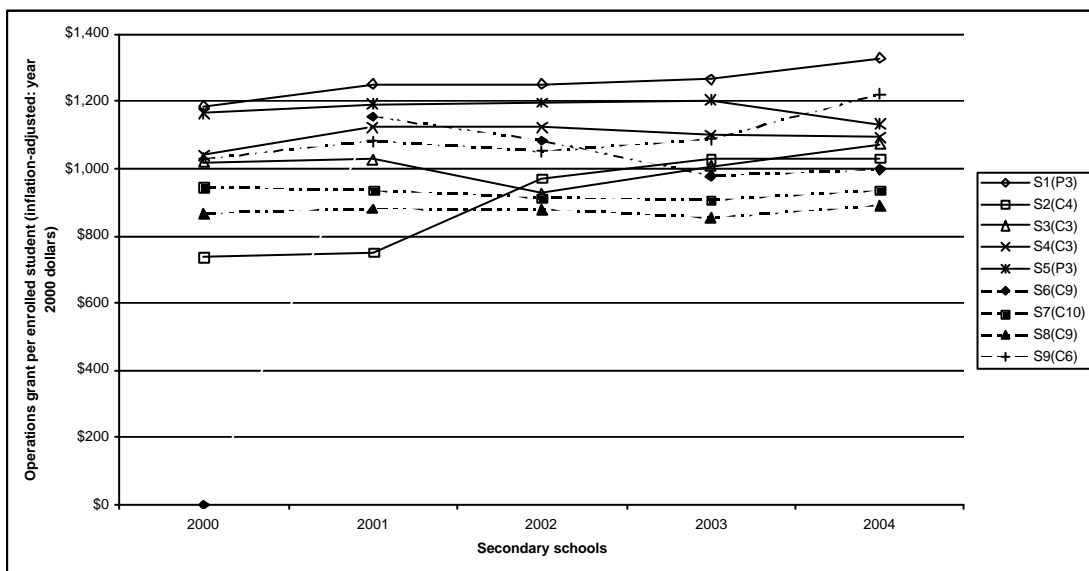
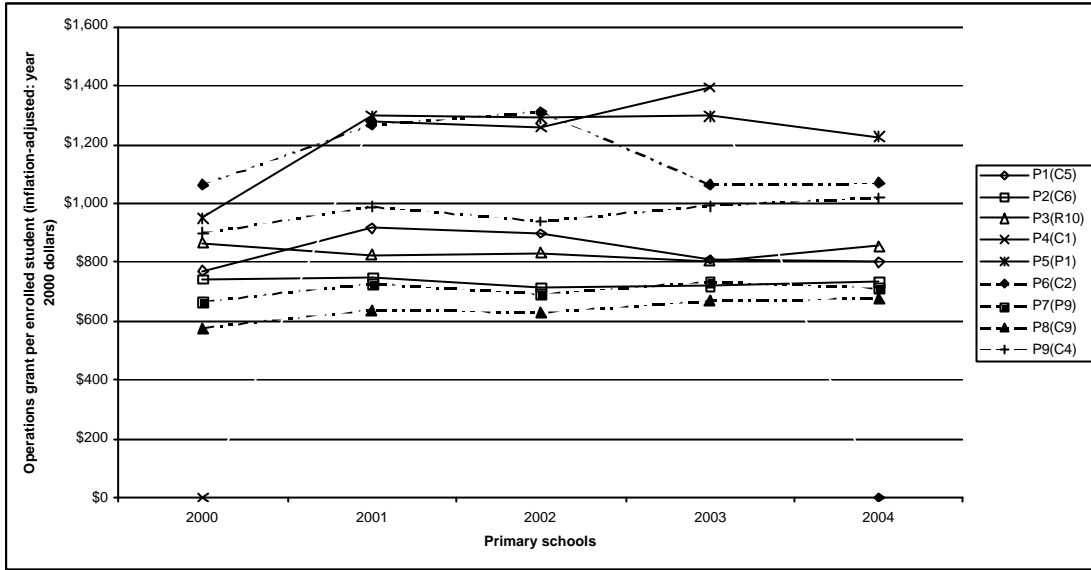


Figure 22 Inflation-adjusted operational grant per student 2000–2004 (primary schools)



While the operations grant shows a steady increase on a per student basis, it represents for the secondary schools in the study a somewhat lower proportion of LME in 2004 than in 2000. This is largely because of school effort put into gaining other revenue, particularly from international students, community funds, and Ministry of Education contestable contracts. Increases in parental donations were not a major source of increased local funds over the 2000–2004 period (only three secondary schools increased them between 2000 and 2004).

Figure 23 Operations grant as a proportion of LME (secondary schools)¹⁴

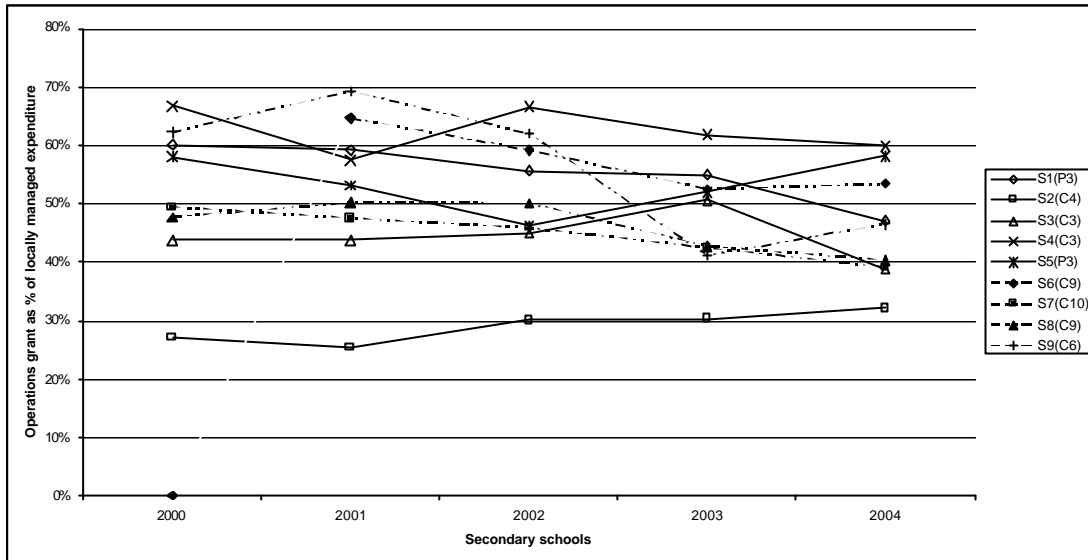
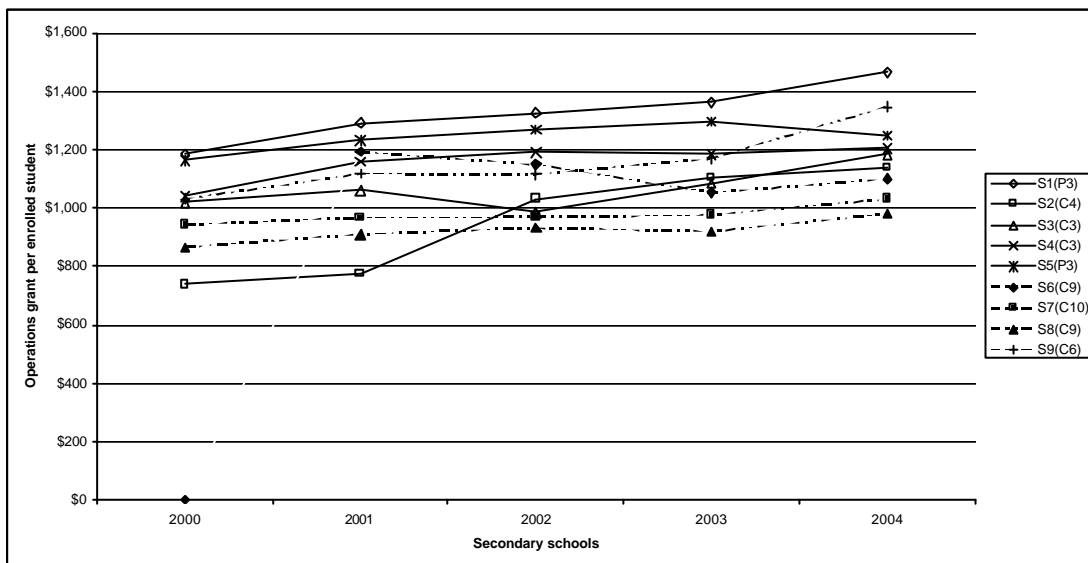


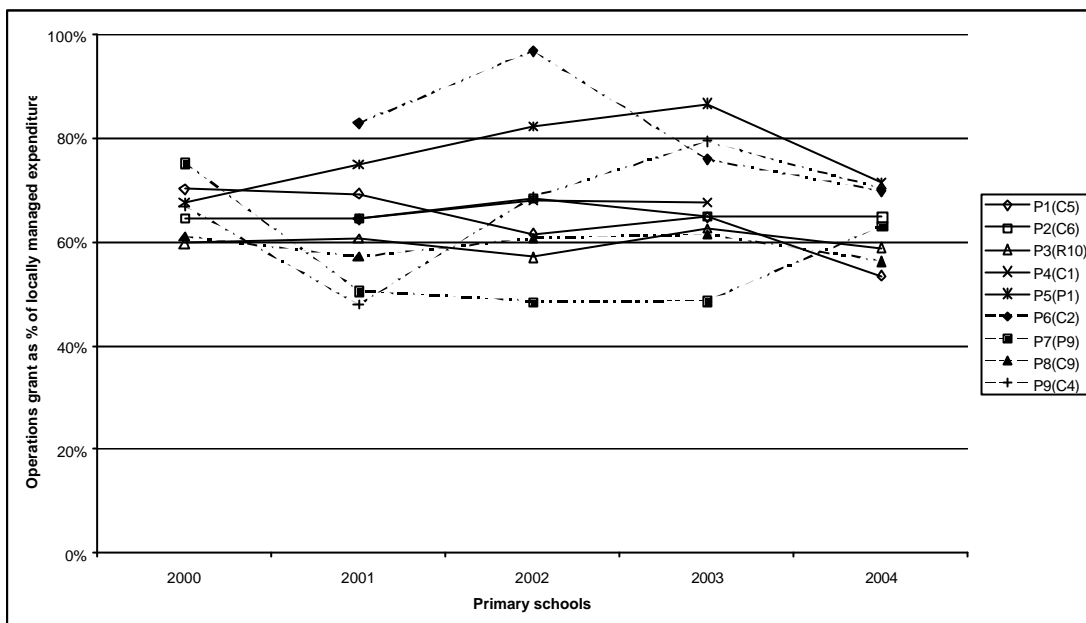
Figure 24 Operations grant revenue per student (secondary schools)



By contrast, primary schools did not seem to have increased their other sources of revenue as much as secondary schools over the period 2000–2004: probably because international students did not play such a role in their revenue. They were, however, still somewhat less reliant on the operations grant in 2004 than in 2000.

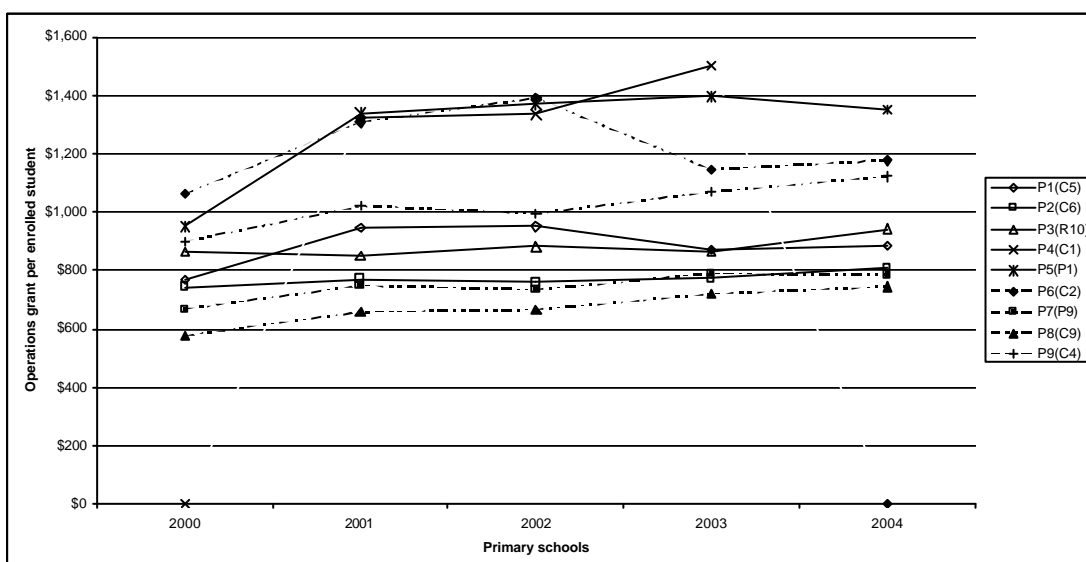
¹⁴ In school accounts there is a major category called Government Grants, and this is broken into Operating Grant, Salaries Grant, Special Education, and Other Government Grants. The operating grant includes TFEA (decile) funding.

Figure 25 Operations grant as a proportion of LME (primary schools)



The funding per student from the operations grant also rose for the primary schools, reflecting the government increases over this period. However, some schools (e.g. P6) did not gain as much as other schools in some years as a result of their decile redefinition.

Figure 26 Operations grant revenue per student (primary schools)



Locally raised funds

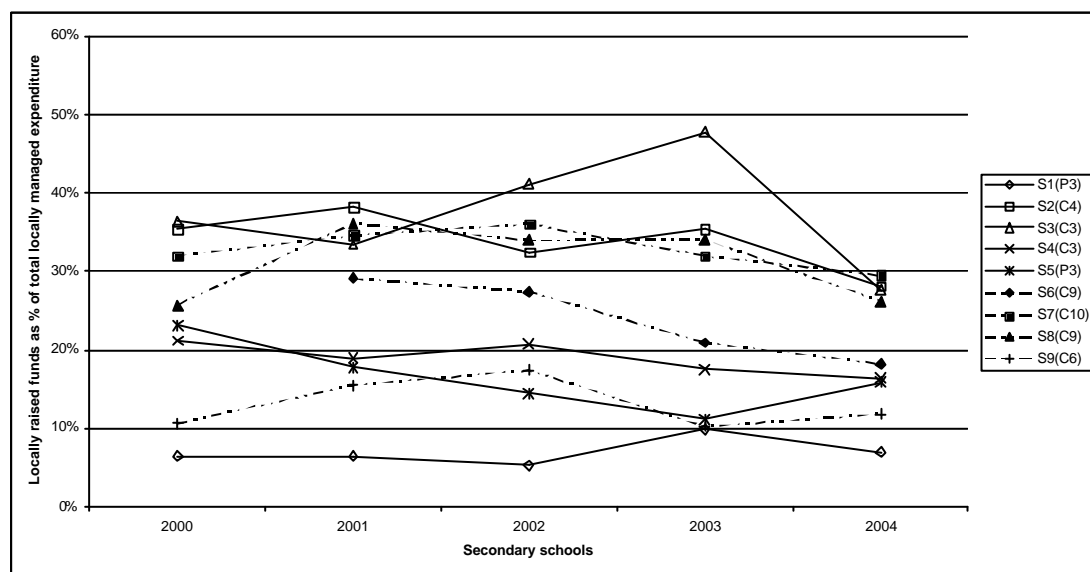
Schools raised money to supplement their government resourcing before 1989. But decentralisation has definitely increased the amount raised by schools. In 1989, only 10 percent of

primary schools in NZCER's national survey were raising more than \$15, 500 a year. By 2003, that had grown to 49 percent. The average amount raised was \$42, 320. Their main sources of this locally raised money were from fundraising (37 percent), grants or sponsorships (18 percent), and parent donations (15 percent); with other sources contributing less than 5 percent each.

Secondary schools raise much more: the average in the 2003 NZCER national survey was estimated at \$370,000. Secondary schools' main sources of local funds in 2003 came from international students (around 30 percent), and parent donations (around 19 percent); with other sources contributing less than 10 percent each.¹⁵ Other sources included grants or sponsorship from organisations and businesses, activity fees, fundraising, hire of school facilities, investments, and supplies for students (e.g. uniforms, stationery, canteen).

The following graphs show net locally raised funds (from international students, other local revenue raising and investment income) as a percentage of locally managed expenditure. For most of the secondary schools the contribution of locally raised funds to total costs was reasonably consistent over time. The fall-off in international student enrolments is a key factor affecting the drop from 2003 to 2004 affecting several of the schools, and was most marked in schools that had placed greater reliance on this revenue source (refer to Appendix 1 for further detail on the individual schools).

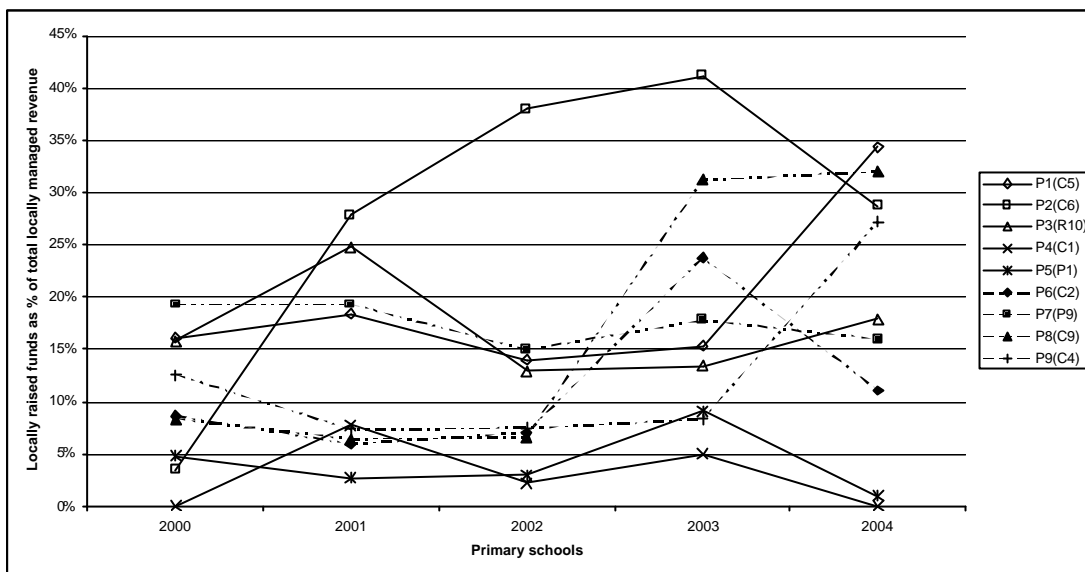
Figure 27 **Locally raised funds as a proportion of LME (secondary schools)**



For the primary schools the contribution of locally raised funds to total costs appears more volatile.

¹⁵ Principals in the 2003 survey were asked to give an approximate percent of the locally raised funds gained from different sources, so the overall total does not add to 100 percent. The estimates are useful in giving a rough picture of the weight of each source in the total picture of revenue. They underline the importance of international students as a source of revenue for secondary schools.

Figure 28 Locally raised funds as a proportion of LME (primary schools)



Appendix 1 provides breakdowns of revenues (as well as costs) for each school for 2000–2004. The impact of the recent fall in international student revenues is evident for three of the secondary schools, while the others had limited their enrolments and therefore their exposure, or had managed to more or less maintain their international enrolment levels.

The importance of net other locally raised funds (i.e. locally raised funds other than international student revenues and investment income) varied substantially between secondary schools, and this was related to decile, although not strongly so. Similar variation existed between primary schools, and was more strongly related to decile.

Four of the secondary schools had substantial and/or growing revenues from Government grants other than TSG, Operations Grant and SEG (e.g. ORRS, STAR, and contestable funding) over the last 2-3 years. This was not evident for any of the primary schools.

In general, investment income represents a small proportion of schools' locally managed funds.

In the rest of this section, we look at four school revenue sources of particular importance: parent donations, international students, trusts, and Ministry of Education contestable funding.

Parent donations

In 1989, 29 percent of the primary schools asking for donations asked for more than \$20¹⁶ a student. By 1999, 69 percent asked for more than \$20 a student, and the average school donation was \$50. In 2003, 90 percent of the donations asked were above \$20, and the average school

¹⁶ These amounts have not been inflation-adjusted.

donation was \$58 a student. The average donation for secondary schools in the NZCER 2003 national survey was \$89.

Few schools get this donation paid by all parents. The average proportion of parents who paid their school donation was 70 percent in the 2003 NZCER national surveys for both primary and secondary schools asking for a donation (with a range from more than 90 percent, to less than 30 percent).

In this study, the range of donations requested in secondary schools in 2004 was from less than \$50 in a low decile school, to \$300. The range in the primary schools was from \$20 to \$120. Three schools increased their donation amount between 2002-03; and another three schools did so in 2005. The top rate was now \$400.

None of the schools had all parents paying the requested donation amounts. As with national patterns, payment rates tend to be much higher in high decile schools than low decile schools.

None of the study primary schools had increased their donation amounts over 2000–2004; in 2005, increases were made in two schools that were in the ‘tight’ category, one facing a deficit for the first time. Another school lowered its donation amount to try to encourage more parents to pay, in a community where there was resistance to paying voluntary amounts. Three of the secondary schools had increased their donation amount over 2000-2004; and in 2005, increases were made in two secondary schools that faced financial difficulty.

Generally, parental donations were not seen as revenue sources that could be continually increased: schools thought there was a fine line between setting an amount that they would get the highest levels of parent payment, and setting it too high, and encountering resistance or higher levels of non-payment. The initiative to raise donation amounts came from the parent representatives on school boards—it may be that principals feel they cannot suggest it, or that if parent representatives on the board are not ready to think about it, then this is a sign that other parents will be unwilling to pay more. The schools that did raise donation amounts in 2005 to deal with looming deficits had not raised their donation amounts for some years before. They were all high-decile.

It would seem that schools do not keep raising their donation amounts in incremental levels, but make a move in this direction only occasionally. This is therefore not a revenue source that can be relied on to make up for any shortfalls in funding over the next few years in New Zealand schools.

A number of the schools noted growing resistance to paying donations. Both low decile secondary schools whose level of parents paying donations had dropped in 2005 attributed it to publicity about its voluntary nature.

So much publicity that you don't have to, it's a free education, you don't have to pay, but we all know that it's not totally free, and parents need to contribute something. We tell parents what it is for, keeping the pool going, extra things, costs of sport and music and drama. Low decile schools get affected more than high decile schools. High decile schools,

there's always an expectation that you pay it, and you get sent a bill. (principal of 'tight' secondary school)

One primary school with a high transient population noted that some parents of students who did not stay the full year were now asking for their donation to be returned. Another primary school that had high numbers of Chinese and Indian students explained their particularly low proportion of parents paying the school donation as due to the donation not being compulsory, and the government "says that a donation is a donation and you don't have to pay it—parents take that literally." Another school also mentioned parent resistance to payment of donations in their school community.

We're told that as a government school, we provide the basics in education. Well access to the computer is probably a basic, and some of the arts equipment and art activities, some of the sporting equipment – but whilst health and PE are part of the curriculum, the resources that are provided for that can be very expensive. (principal of 'tight' primary school)

The high decile primary school that found itself budgeting for a deficit in 2005 for the first time had increased its parent donation, and also raised substantial money from fundraising from parents. It had wondered how the community would react when it said the money raised would be spent on the numeracy work the school was doing (and for which it had some funding and support from the Ministry of Education, but not enough to cover all its costs), rather than on tangible evidence, such as playground equipment.

We had talked a lot to the community about our school focus and our work on numeracy, and we put it to them that the funds from that would contribute to that focus – our professional development and our resources. Now I wondered how that would go, but our community really responded positively to that. I mean it would be fair for them to say, hey, this is the government's responsibility. (principal of 'comfortable→tight primary school)

The chair of one high secondary school decile board that increased its parent donation substantially in the face of an unexpected deficit, and managed to get only a slightly lower proportion of parents paying than in 2004, linked the decision to meeting parent expectations.

It came quite suddenly, when towards the end of the year things were getting really quite tight, there was a background of sort of tightness throughout the year, but then when we actually saw the numbers we had to decide on what is the expectation of parents when they send their kids to the school and would they want, do they want the same level of service, are they expecting the same sort of things this coming year because if they are, unfortunately unless we make some changes we won't be able to provide it. I think that was the driving force behind the decision and we felt that the parents would prefer to pay the money and get the same level, get their expectations met, than not pay the money and continue to have their expectations. (board chair of 'comfortable→tight' secondary school)

One school had looked at an ICT levy rather than increase the parental donation level, but found that such a levy would attract GST, effectively reducing revenue by 12½ percent. When it increased the donation amount, the proportion of parents paying dropped from 80 to 60 percent, so the net revenue increase was small.

Activity fees

Schools generally charge parents for activities that are not curriculum related, or that take place outside the school. They can also legally charge parents for the costs of materials used to construct things that are taken home. This has become somewhat of a vexed area as some schools have appeared to enlarge what is covered in fees—which are not voluntary. It is difficult for schools to give totals for activity fees, since these may be charged for events as they occur, and in secondary schools are often subject-specific. Estimated totals amounted to less than \$100, but in one low decile school that asked for a low level of parent donation (and had a low rate of payment), the activity fee estimate was over \$200.

All the primary schools in this study, including those serving low socio-economic communities, asked parents to pay for excursions and performances, and sports costs (e.g. subscriptions, uniforms). These costs were usually several dollars only.

There is an acceptance from parents that they expect to pay for these extra activities, that they are not going to be subsidised by the state. (principal of 'tight' primary school)

However, the board chair of one high decile primary school thought that it unfair to ask parents to pay for these costs on top of parents paying taxes, paying the school donation, and fundraising: "the ultimate triple dip".

Sometimes the school subsidised; they were generally reluctant to not include children whose parents had not paid. One low-decile school had excluded children whose parents had not given the money to pay for them to attend a performance in the school hall in order to get the message across that parents needed to make some contribution to such events: this strategy had worked.

People walk in and see the way the school looks, see the programmes that are offered, and that suggests to them that everything is in hand and everything is comfortable and there's plenty of money to go around, therefore not a lot's expected of parents, so it can be quite hard to actually get them to take seriously the need to be involved in fundraising and parent groups and things like that, they just seem to have this attitude sometimes that it takes care of itself because everything looks so good and the Ministry must have it all in hand and I don't think parents realise how much goes in the school that the Ministry doesn't actually put money into. In reality we need them to make those small contributions to add value to the opportunities that we're trying to give the children. (principal of 'tight' primary school)

Some primary schools also asked parents to pay for stationery.

Secondary schools also included these costs in fees charged to parents. They generally thought it was fair to ask parents for payment to recover costs associated with:

- 'Consumables'—mainly for technology; photography; one or two mentioned science.
- extracurricular expenses, e.g. for sports uniforms or transport, the annual school production, and camp costs (but generally not the cost of e.g. relievers to cover for the teachers who went on the camp)

Most secondary schools operated a discretionary fund that allowed them to include students whose parents could not afford costs of class trips that were seen as curriculum-related; and one board chair mentioned the importance of geography field trips as ways of offering integrated learning. Some principals mentioned financial support for students whose participation in competitive events would enhance the school's reputation.

Some schools now had software allowing them to track and charge individual use. Some schools were now charging students for printing and internet use. Some included student ID cards and school magazines. Homework books with additional examples etc were one gray area (schools did not generally charge for these, but some were looking at it).

There was a spirited discussion in one school as to whether schools should charge for the additional costs of senior school courses (at years 12 and 13) that were more expensive to provide than others. On the one hand, it seemed unfair that student choice was decided by parental means or willingness to pay; on the other, as one said, "in life we have to make these choices." Most of the principals and board people spoken with would hold the first rather than second view when it came to student subject choice, partly because they thought parents did pay these fees if they could: that not being able to pointed to genuine financial difficulty, rather than not paying the parent donation to make a statement. For example:

With the technology things there's a consumables fee, but if they can't pay it's made quite clear that they drop a line to the executive officer. There is no child that can't do a subject because they can't pay the fee. That is to my mind as it should be. We don't get people saying they won't pay the technology fee because "I don't believe in the Labour Government". They don't see it as quite the same way as the school donation. (principal of 'tight' secondary school)

International students

Revenue from international students fell by 34 percent in the first three months of 2005, with a drop in enrolments from 15,303 to 11,669 (Guardian weekly, 22 July 2005, Learning English section, p.2 '*New Zealand faces student slump*'). This follows a drop in enrolments of 17 percent between 2003 and 2004, following large increases in 2001 and 2002, slowing to an increase of 14 percent in 2003.

Although government has warned schools not to rely on international students, it also encourages international students, and is now offering more support to recruit them to schools (possibly because NZ tertiary international enrolments benefit from a flow of students from NZ schools). With reference to the downturn in enrolments, the Minister for Education said in a recent speech that

A comprehensive assessment is necessary of options for how government can best help schools and the English language sector to build the quality, scale and scope of their provision for international students.

Interaction between government and these parts of the sector is needed over the next six to eight months, so that we can understand better how to attract and retain more students to quality providers in these parts of the sector. (Minister of Education 2005).

All the secondary schools in this study have had international fee paying students, and most—but not all—were already affected by the drop in students in 2004. This trend will be exacerbated in 2005. In most of the schools, the net revenue from these students covered less than 10 percent of LME; but in two schools, it had been close to 30 percent in 2003.

Figure 29 Net revenue from international students as % of LME (secondary schools)

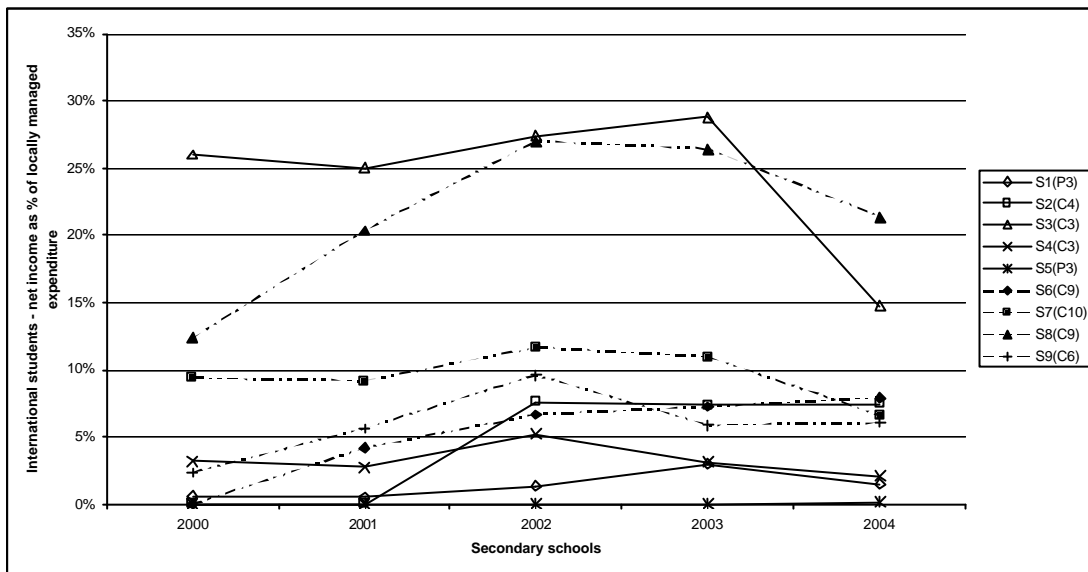
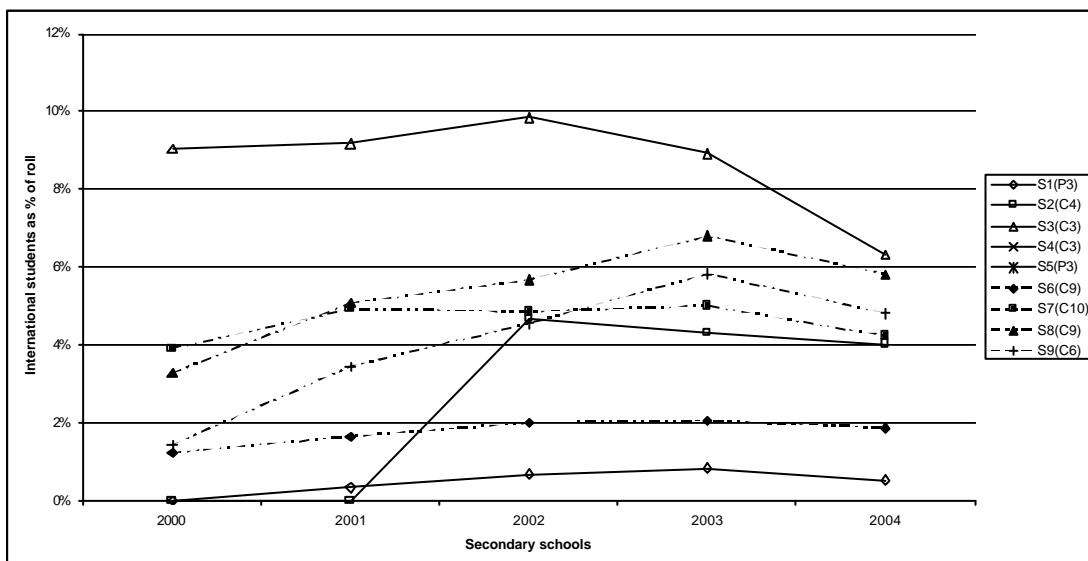


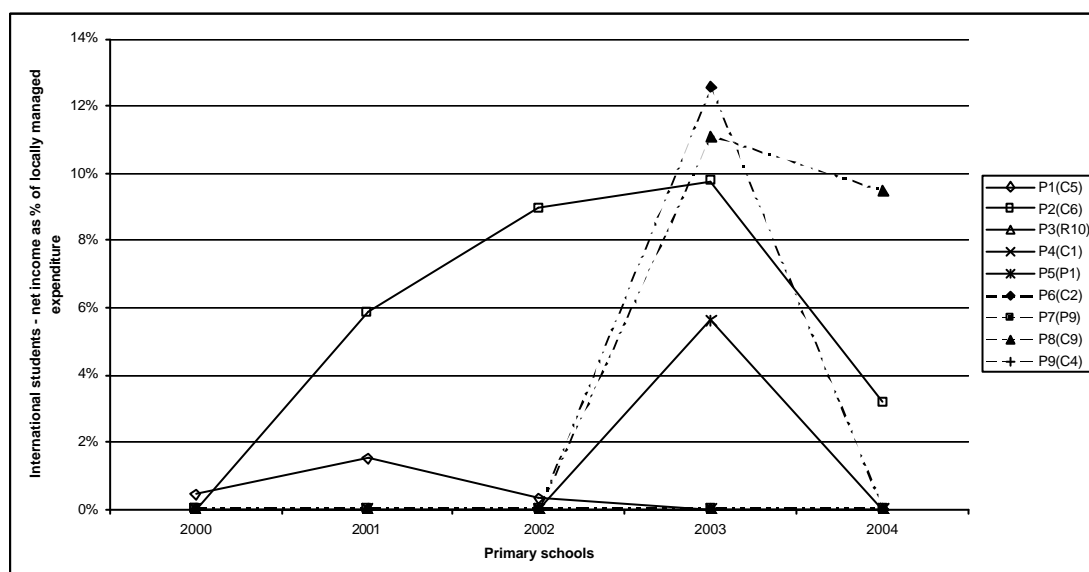
Figure 30 International students as a percentage of roll (secondary schools)



Those who were not affected were those who did not have large numbers, and who have not relied on international students as a major source of their revenue. This dependence on international students raises questions about the degree of business risk that schools can assume, as well as what it means for the programmes in schools that have become heavily dependent on revenue from international students. The schools in this study that lost students had well-regarded programmes, with good pastoral support, and they had thought that they had intakes that were not too dependent on one country. Nonetheless, their student numbers did drop. In one school a high proportion of international students in 2004 had been in their final year of schooling, and there seemed fewer younger students entering school at junior secondary level, raising questions for schools about the spread of their international students across year levels, and the additional costs of marketing and recruitment if international students may spend less time in New Zealand secondary schools than when they first started to come in sizeable numbers.

Five of the primary schools also had some international students; their numbers had also decreased from 2003. 2003 was a peak year for revenue from this source, when it contributed as much as around 10–12 percent for three of the schools. It was now much less than that for all but one school.

Figure 31 Net revenue from international students as % of LME (primary schools)



Trust and other revenue

Twenty-three percent of the secondary principals in the NZCER 2003 national survey had applied for support from a philanthropic trust: 5 percent gained all the money they asked for, and 16 percent some of what they asked for. Fourteen percent had sought corporate sponsorship, with 2 percent gaining all the money asked for, and 8 percent gaining some money.

Most of the secondary schools in this study sought money from philanthropic trusts, sometimes for relatively small amounts to help pay for student involvement in sports and arts; sometimes for larger amounts to pay for capital items and property development. One school gained a substantial and unexpected grant from a local trust, that allowed it to end the 2004 year in surplus.

Outside trusts allowed schools to build a hall, swimming pool, remodel a library. In some areas, trust money is related to community use of new assets, such as Astroturf and performing arts suites. One principal in a low decile school that was looking at such funding expressed some ruefulness that it was easier (comparatively) to get money for capital development than for staff to work with the children. Like other principals of low decile schools, the programmes that were lifting and widening student performance were staff-intensive, backed by whole-team approaches, so that professional development and support was continuous. Another principal in a high-decile school talking of money from lottery grants also noted the need for secure revenue for staffing.

You could raise money one year and say, that gives us a good number of teacher aides for the classrooms, and that's well and good for the year that you can afford it, but can you guarantee that the folk are going to give you the same amount next year and the year after that? For those big commitments you've got to have a reliable source of funding, you can't just hope you are going to find the money every year. (principal of 'tight' primary school).

Several schools were able to resource environmental projects that they saw as part of their curriculum through outside grants.

The Telecom school zone system was working well for several schools (Telecom subscribers can nominate a school to be allocated points according to their use), helping to cover broadband and phone charges, or purchase electronic goods. One school near a large mall also benefited from parent and community earning points system that enabled it to buy hardware.

Community education was a source of revenue for some of the secondary schools.

Some board members interviewed thought that it should not be the role of a board to continually fundraise or put great effort into seeking external donations: that this was too much to ask of voluntary people.

Seeking outside funding (including contestable contracts) and gaining international students were also mentioned by some chairs and principals as activities that could distract from the principal's role as educational leader; teachers could not always see the links between the money gained and what they received in the way of support or opportunities. One principal reflected on his own experience of having found some additional revenue:

Schools can't go and sell more product and we can't increase our margins. We can't make more money because you've got nowhere to make it, the only thing you can do is cut what you spend, you can't increase what you earn. We've done some creative things so we have increased what we earn but you can't as a rule. And you get distracted too. It takes a lot of time that's not being spent in making sure that what's happening in the classroom is happening so you've got to be sort of balancing there.

One senior school manager said:

Probably the biggest challenge I see for education in the future is what is the role of the principal, what is the role of management in a school? I don't see the business model being satisfactory because if it was we would have adopted it years ago and it would have worked. But the old educational model is not satisfactory either.

Contestable Ministry of Education funds

All the schools in the study had gained funding in recent years for limited-term teaching, curriculum, or ICT projects from Ministry of Education contestable pools. This is a higher application and success rate than found in the NZCER 2003 national surveys.¹⁷ This underlines the energetic nature of the schools in the study, and their quest for resources to fund the programmes they thought would improve learning or meet particular students' needs. It might also suggest that if these schools were continuing to have difficulty resourcing such programmes, then many other schools may be in a tighter situation, with less room to innovate or meet the full range of their students' needs.

These applications involved substantial work; and reporting on the progress of the contracts was also time-consuming. Principals spoke of their perception that the Ministry of Education did not understand the reality of school workloads (both the amount of time involved and the intensity of that time) and that curriculum leaders and school managers did not "sit in front of a computer for most of their day, able to do blue skies thinking." One principal said she had not applied when she was a teaching principal because of the additional work, and thus schools with non-teaching principals or people who were good at writing applications and reports were advantaged when it came to something she saw as "the only way to get the money you need for real improvements".

The principals did not think that money should be simply handed over for programmes that targeted particular groups of students, like the Enhanced Programme funding for students with moderate special needs. Nonetheless, they supported changes to the current application-contestability regime, partly because of the work and process, but partly because the funding was time-limited, and usually the work it had funded could not be sustained after the contestable funding finished.

While they had known success, they also thought the work required in application distracted them from their role of educational leadership; and some saw inequities in the decisions, based on the

¹⁷ For example, less than half the secondary schools applied for Enhanced programme funding, second language learning, or alternative education. A fifth had applied for collaborative innovations funding, and 13 percent for innovative funding for those at risk. Success rates varied, with two-thirds of those applying for the collaborative innovations and almost half those applying for Enhanced programme funding getting no money, but all those applying for the second language learning getting at least some of the money applied for (Hipkins & Hodgen 2004).

views of those who made the decisions, or the unreal promises made in some applications. One principal thought wastage of funding was inevitable with contestable funding because not everyone made good use of it.

A common theme was that the Ministry of Education should be able to identify schools with high proportions of students with special needs or low levels of school entry knowledge and skills that were already working to improve student learning, or schools that had soundly based innovations, and fund them on the basis of plans and evidence of achievement.

If the Ministry were to come to me and say, look, we recognise you've been spending so much money on special needs, you've got a wonderful programme going on there, write us a plan on how you're going to develop that and what outcomes you're expecting, and we'll give you \$15,000, we'd do it, but you're not going to just keep applying – we put a huge amount of time as a cluster into the ICT funding application and it was a waste of time because they'd already decided whose turn it was next. (principal of 'tight' primary school)

One secondary principal thought that the approach taken to property funding could be used to fund school innovation and development.

The advantage of contestable funding is that you have some additional funding. The disadvantage is that it's difficult to count on if you're never sure if you're going to get it, so we don't really know whether we'll be able to fund the changes, so we're planning for next year in terms of what we hope to do with these classes without being 100% sure that we've got the funding.

I can actually see the problem that the Ministry has, in the sense that they could make an innovations fund available to every school and find some schools just buying leather lounge furniture for the principal's office. If they funded it and put it in the budget and tagged it, they would get criticism from some schools who regard any form of having to account to the Ministry as a major intrusion into their autonomy and they wouldn't like it, but that's probably how I would fund it. I would tell a school that in the course of the next five years this is an amount of innovations funding you're getting, its \$93,000 or \$120,000, it's sitting there for you to use and you can use 50% of it in the first year if you wish, you know, pretty much like the capital building funding but you do need to be able to demonstrate to somebody that it's going to go to a particular innovation and they would need to have some way of measuring that there had been some output at the end. That means if it was a fantastically successful innovation you would be able to continue to fund it, you would know that in six years time you can still fund it and I think that's probably the better way. (principal of 'tight' secondary school)

Another thought that if there was a limited pot of money available, it might be timely to think of the provision in an area as a whole, and support things “where people really have the knowledge and the heart and soul – sustain them, rather than let them drop” [as at present with the time-limited contestable funding].

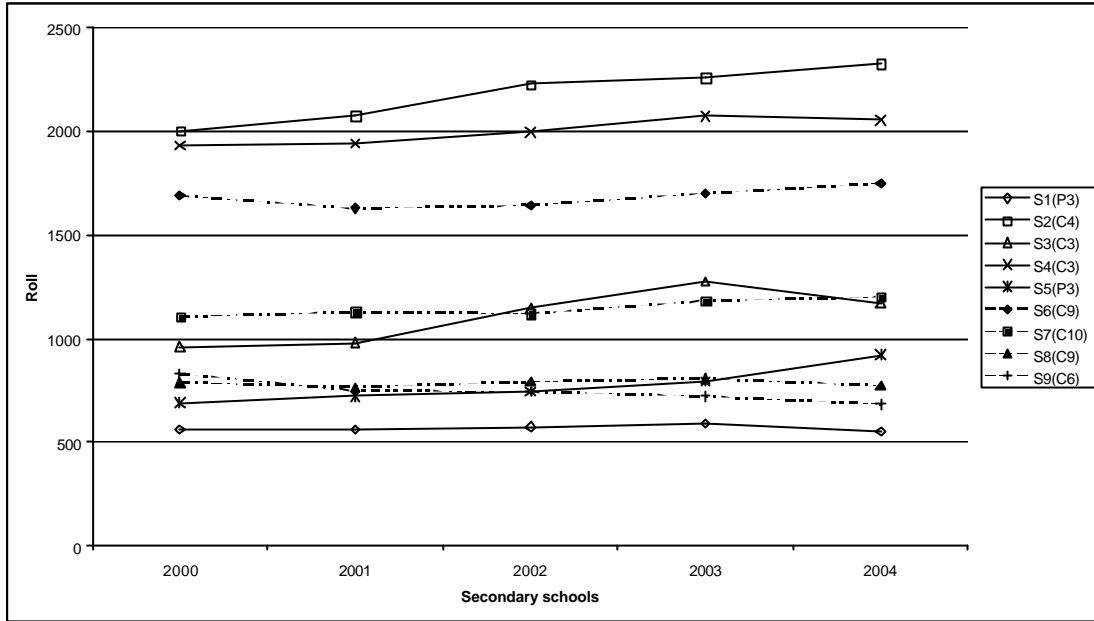
Roll changes

Rolls are key to schools' financial health: schools are best placed to make the most of their funds if their rolls are stable, or increasing in a steady manner. All the schools in the study were aware of the need to maintain or increase their rolls. They placed much weight therefore on maintaining their reputation. They took care to get articles about their programmes—children's activities—into local newspapers, and kept up connections with schools or early childhood services whose graduates could come to the school. It was important to them to get good ERO reviews—not just to have external affirmation for parents to see, but also to attract good teachers. Avoiding financial deficit—and, the worst case scenario, having the Ministry of Education bring in someone to manage the school's finances—was part of maintaining their reputation. Word of mouth was thought to be one of their best marketing tools. Schools with uncertain or falling rolls were more aware of competition with other local schools than others. For schools with enrolment zones, real estate agents were also valuable marketing tools—when their advertisements referred to a property being in the 'x school zone'.

The following two graphs show the rolls of the secondary and primary study schools respectively. For secondary schools, from 2000 to 2004 (and ignoring for one moment the fluctuations in between these years) the roll changes ranged from 17 per cent shrinkage (S9) to 34 per cent growth (S5), with a median of six per cent growth (S4). Thus, a range of roll scenarios are represented within the nine schools.

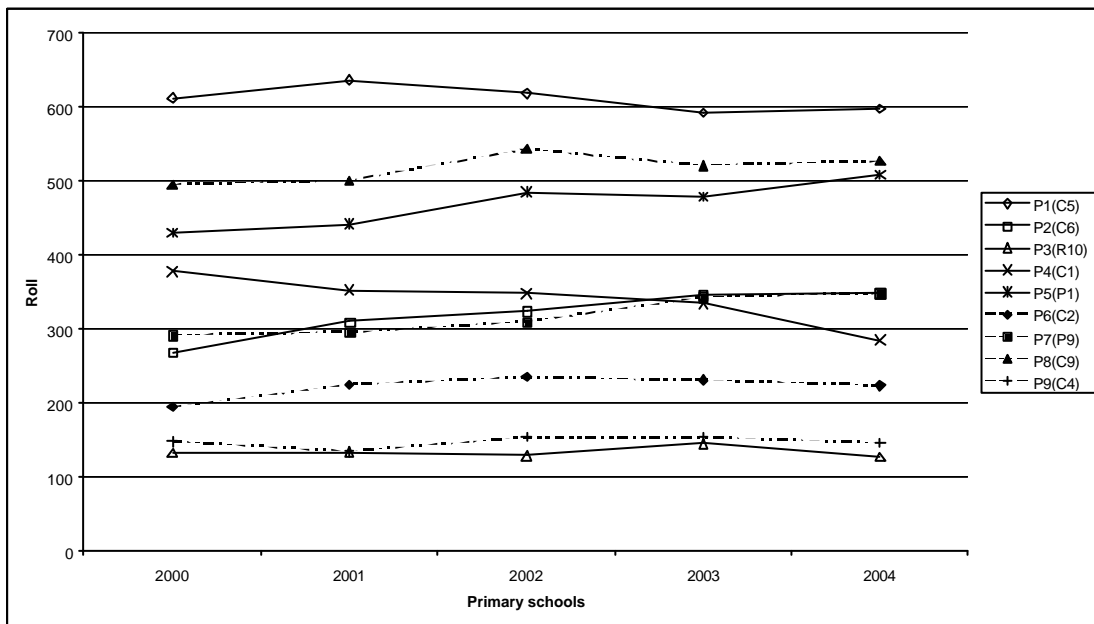
In terms of volatility, the year-on-year changes are best measured in absolute rather than percentage terms, as this gives an approximate indication of the accompanying change in the number of classes/teachers. Year-on-year changes for the secondary schools ranged from -109 students (10 per cent shrinkage) to +167 students (17 per cent growth). The school with the greatest roll volatility was S3 which ranged from growth of 167 students from 2001 to 2002, to shrinkage by 109 students from 2003 to 2004. The school with the least roll volatility was S1.

Figure 32 Secondary school rolls 2000–2004



For primary schools from 2000 to 2004 the roll changes ranged from 25 per cent shrinkage (P4) to 30 per cent growth (P2), with a median of six per cent growth (P8). In terms of volatility, the year-on-year changes ranged from -50 (15 percent) to +43 (15 percent). The school with the greatest roll volatility was P8 which ranged from growth of 42 students from 2001 to 2002, to shrinkage by 22 students the following year. The school with the least roll volatility was P7.

Figure 33 Primary school rolls 2000–2004



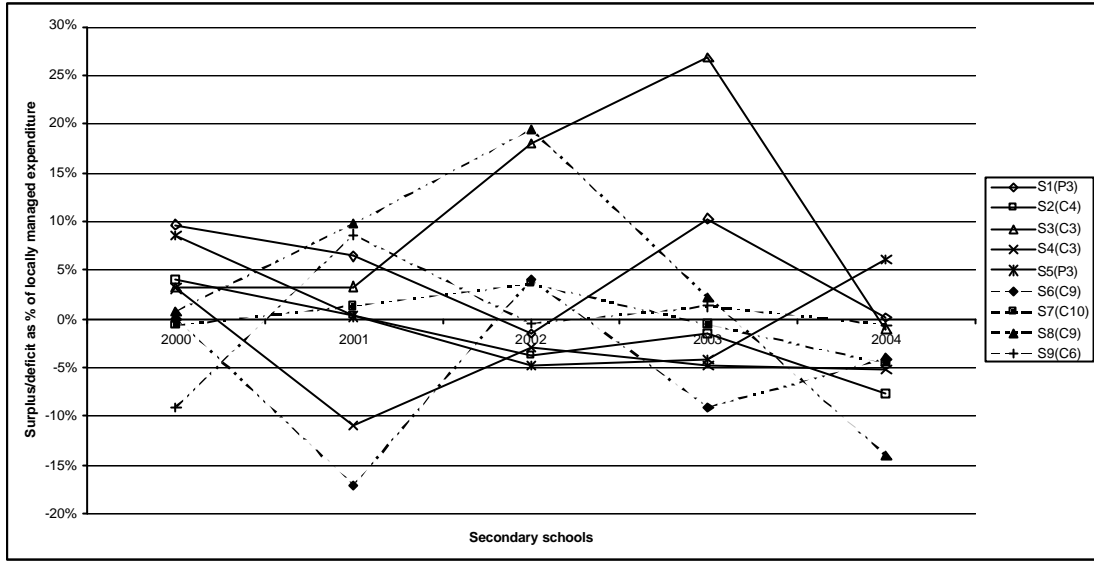
On the whole, changes from year to year did not cause difficulty for school budgeting if they were anticipated, and not large. However, as noted earlier, changes in student numbers are not immediately matched by changes to the operations grant funding amount, which causes some problems for schools with marked roll increases where they need to fund additional classes. Schools where rolls turn out to be lower than the number used for the operations grant are faced with another difficulty: unless they have been able to see the trend in time, they are likely to have spent money that they will have to give back the following year.

Patterns of roll decline are more likely to face schools with cumulative financial problems. In the NZCER 2003 national survey, primary principals whose school roll had declined between 1999 and 2003 were more likely to be anticipating a deficit at the end of the 2003 year (52 percent compared with 29 percent of those whose roll numbers were stable, and 13 percent of those whose roll numbers had increased). Secondary schools without enrolment schemes were more likely to be anticipating a deficit (42 percent compared with 29 percent of those with enrolment schemes). A similar pattern was evident in relation to whether the school had places for all students who applied.

Patterns of financial health

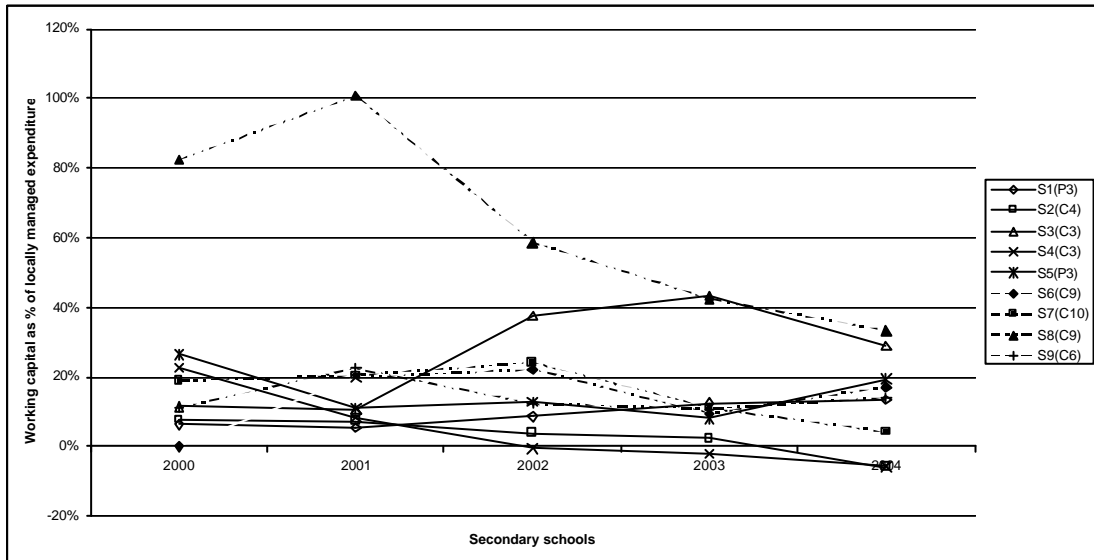
The picture emerging from the interviews of increasing tightness around finances is reflected in the patterns of surplus/deficit. Only one of the nine schools was in deficit in 2000; two in 2001, but 5 in 2002, 3 in 2003, and 4 in 2004. Note that schools that do go into deficit in one year generally avoid doing so the following year—but they cannot always maintain a balance or make a surplus every year. Most of the deficits (and any surpluses) are within 10 percent of the LME total.

Figure 34 Surplus/deficits as a proportion of LME (secondary schools)



Working capital did improve over the 2000–2004 period for one school; but otherwise, working capital trends are steady or show decline. The exception is S5, which has a growing roll. In general, working capital was less than 20 percent of LME.

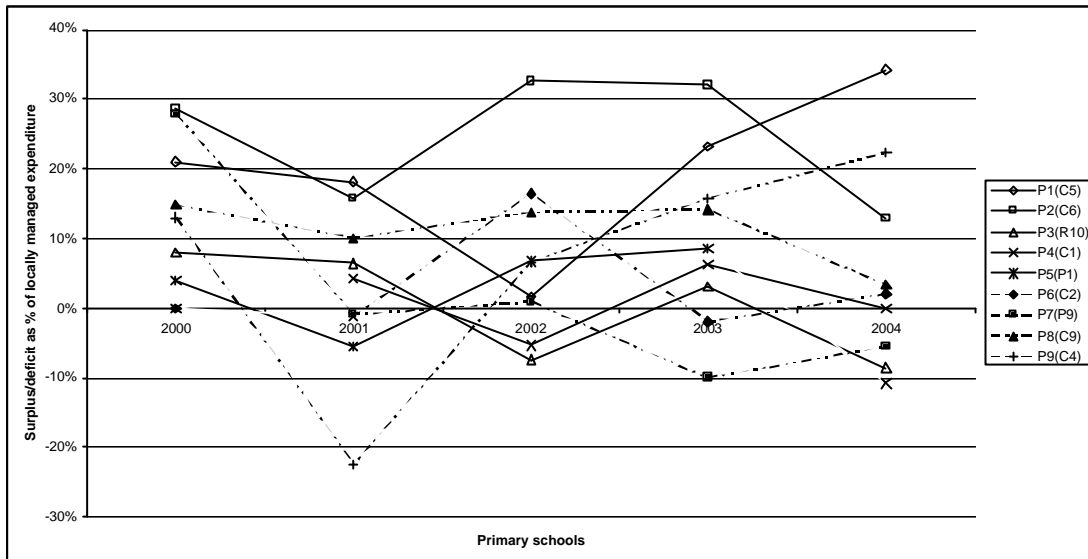
Figure 35 Working capital as a proportion of LME (secondary schools)



None of the primary schools were in deficit in 2000; two have been in the years 2001–2003, and three in 2004. But the schools have also experienced surpluses—indicating greater volatility for primary schools, and the impact of big expenses in particular years

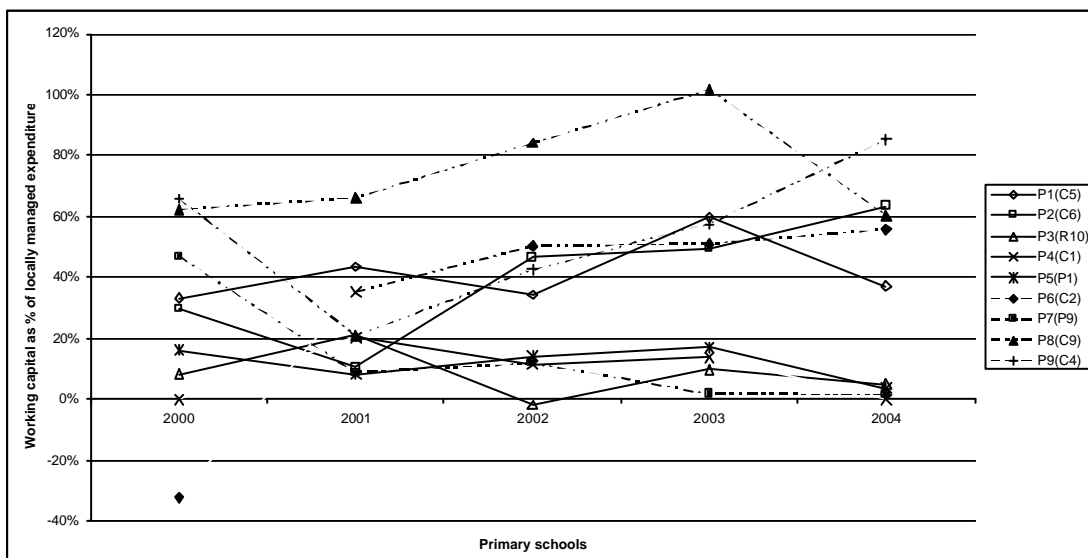
Schools could also run unexpected surpluses when their stringent approach to spending, or curriculum leaders leaving their spending until too late meant that some areas were underspent by the end of the year. This is another pointer to the uncertainty around school revenue and costs.

Figure 36 Surplus/deficit as proportion of LME (primary schools)



Working capital was lower for all the primary schools at the end of this five year period, though it had risen in P9, which had made strenuous efforts to improve revenue and put money aside for property modernisation.

Figure 37 Working capital as a proportion of LME (primary schools)



There was a range of views about how much working capital was needed: some schools were trying to put aside much smaller amounts per student than others. This is reflected in the range per

student shown below, from none in two secondary schools to close to \$1,000, and from close to none in one primary school, to close to \$1,400 (in a school that was planning substantial property development and modernisation). Those with small reserves had less flexibility in the face of roll volatility or unexpected or lumpy expenditure.

Figure 38 Working capital per student 2000–2004 (secondary schools)

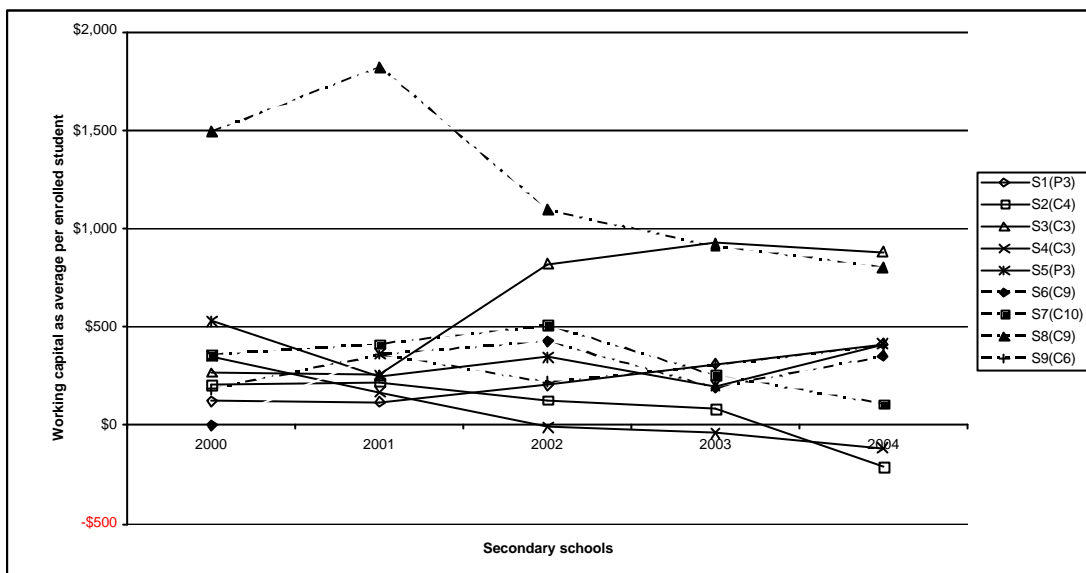
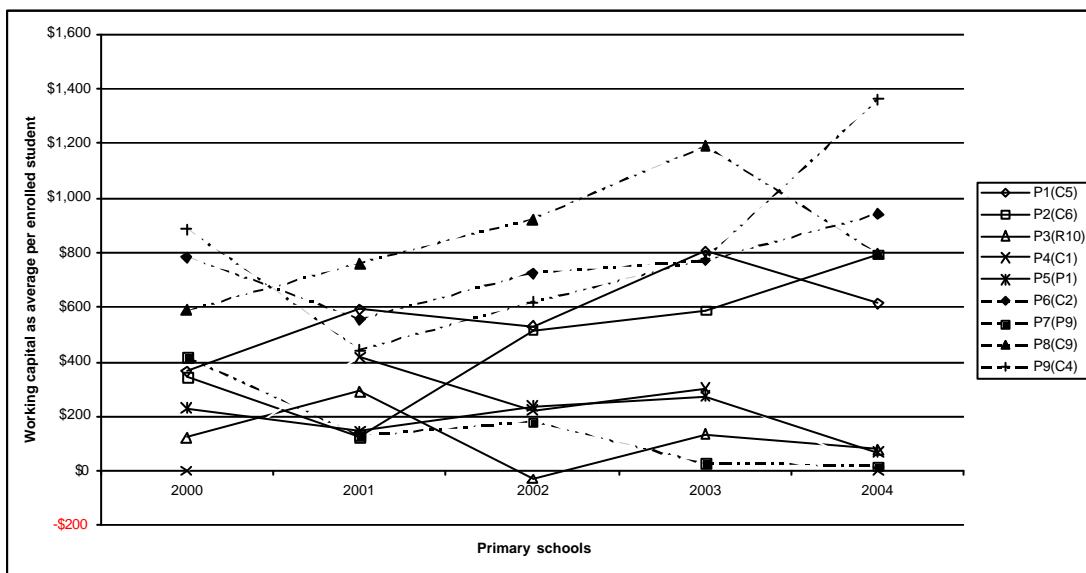


Figure 39 Working capital per student 2000–2004 (primary schools)



5. Conclusion

In this study, we have focused on a set of effective schools that have sound reputations in the educational community for the quality of their work, and the performance levels of their students. Our starting premise was that, although this is a small sample, its nature allows us to gain useful insight into how self-managing schools make financial decisions, the nature of those decisions, and the things that affect those decisions. Where possible, we have used data from nationally representative random samples to check the consistency of the patterns found in this sample.

In the first year of this study, we were struck by the cautious nature of school decisionmaking and financial management, and realised that this had a lot to do with the uncertainty of raising revenue additional to their government funding, as well as the thin margins of school budgeting, which meant that even small changes in roll numbers could mean having to cut provision and/or go into deficit. In this second year of the study, the reasons for caution are only underlined as we see how vulnerable some schools' programmes have become in the face of the loss of what seemed to them to have become a reasonable revenue source: international students. But that loss of revenue on its own was not the only factor tipping some schools into facing financial problems, or the reason why most of the schools seemed to find their decisionmaking even more constrained, and their funding covering even less.

The pressure points on school funding identified in the first year of the study have not eased: if anything, they have become stronger. Schools cannot imagine how they would operate now without administrative staff – including finance or executive officers who enable them to closely monitor their spending – or without teacher aides. They cannot operate without ICT for student, teacher, and administration use, and the technical support to keep it going. They usually fund at least one fulltime equivalent position above their entitlement staffing, and lament the loss if they can no longer afford it. Property maintenance and development costs have soared in the last year: schools can put off some planned work, but they cannot put off essential health and safety work, and they worry that their reputation will suffer if they look shabby, or offer out-dated or cramped facilities. Even the schools that look secure in their roll numbers to an outsider do not take their student numbers for granted in a competitive environment.

The Ministry of Education property guidelines indicate schools embarking on capital development or modernisation should not expect their government funding to cover every project. The schools in this study were reasonably sanguine about this, if they had been able to raise the additional revenue needed without much trouble (and not all of them had, or could). But they were not so sanguine about the shortfalls they saw in government funding for their day-to-day work, to cover the pressure areas identified in the preceding paragraph. They thought this work should be funded by government. It was not easy for them to raise external funding to cover its costs – they had the

most luck with ICT equipment. International fee-paying students were an attractive source of revenue because they enabled schools to fund teachers and curriculum resources, and seemed to offer some stability of funding which otherwise they do not have from external revenue sources. The seeming stability of this source of school revenue is now an issue.

Parent donations are also an important source of non-government revenue for schools. High decile schools are in a better position to raise levels of these donations, but increasing donation levels is not something boards do lightly or constantly. There are signs of some increasing resistance among parents to both increases, and paying at all. Parent donations cannot be relied on to provide higher school revenue to meet the higher costs schools are now faced with. Some schools were widening the range of consumables they were charging parents for, particularly related to ICT printing and Internet use.

In secondary schools, there are emergent signs of growing tension around the range of courses offered to students, with schools generally reluctant to make student choice of courses dependent on their family income. However, they were having to make choices about the range of courses offered by the school. It may become less possible in future for schools to offer senior secondary courses for small numbers of students on their own sites; this may not be to student detriment if alternatives can be organised by schools working co-operatively, or central provision is available, e.g. through the Correspondence school or video/internet clusters.

The first year of the study showed that many of the schools experienced difficulty juggling all the needs of their school and its students, and could not provide as much as they did without putting effort into raising revenue over and above the government funding they received as a matter of course. There is, of course, a fundamental tension implicit in formulaic government funding for schools that are self-managed and can create their own goals and discern their needs. Formulaic funding minimises central administrative costs, allowing more government money to be distributed to schools to use as they choose; but that also means that it is not necessarily matched to particular schools' needs. The flexibility schools have in their use of the operational grant – and staffing entitlement – also means that government can put the onus on schools to manage, whether government funding is well or ill-matched to school programmes, since the nature of these programmes is left to schools.

They've hidden behind this thing of self-management, control of your own destiny – that's very convenient for them. But I think the noises about [school funding] are getting too loud now. [board chair of 'comfortable→tight' primary school]

The schools in this study valued the flexibility they had, but the continued difficulty they were experiencing in actually using that flexibility to meet all student needs (as government expects them to do, by providing differently for different students rather than a one-size-fits-all model) was making many of them question the formula used for operations funding. They were tending to favour something more akin to a cost-drivers approach, so that the operations grant would recognise both infrastructural as well as per-student costs. There was a keen desire to shift from the current contestable grants regime to something that seemed more sustainable, fairer and less

exhausting for schools. The 5-year property funding was a model mentioned by several: secure funding that allowed planning, based on approved plans, and evidence of achievement for the money spent.

Expectations of schools have increased, from both government and communities. The more competitive environment in which schools operate, and increased health and safety costs stemming from a more safety-conscious, risk-averse society are also playing a role. The schools in this study had done their best to meet these expectations and changes in their role by raising more revenue, and limiting their costs as much as they thought they could without real erosion to their provision (though in most of the schools, there were trade-offs made that impacted on particular groups of students). They did seem to have reached a plateau in the revenue they could raise, and their costs were less able to be contained. The current government review of the operational grant is therefore extremely timely.

This study cannot provide estimates of how much schools need for each aspect, or each pressure point. What we hope it does show are the issues that are common to schools, so that these can be addressed in any reshaping of government support for schools.

Our analysis of the financial data from schools shows complex interplay between factors. This interplay underlines the limitations of using only analysis of this kind to draw conclusions about the issues facing schools, or their management of costs and revenue. Just about every graph includes a mix of trends that are increasing, decreasing and flat, as well as a mix of steady and volatile patterns. It is only when we contextualise each schools' financial results with the corresponding interview and survey data, and then triangulate between the various schools, that common issues and themes emerge. The value in this analysis is in the identification of common issues and that which are highly likely to be significant issues for a majority of schools. These may impact on different schools to a greater or lesser extent, and the patterns we have found could be used to model the impact of changes for schools in different circumstances, with different sources of revenue.

We would not recommend a complex approach to any reformulation of the operations grant that tries to include every possible item of ICT expenditure, support staff, etc. and define what amount should be included in the funding stream. That would lead to a one-size-fits-all model that fails to recognise the changing mix of resource inputs that are needed over time and the myriad valid differences between schools and the way they decide to allocate their resources at a local level. Instead, we would suggest that the funding model is based on a very few, robust cost drivers that bear a direct and strong relationship to the overall costs of providing an education and which recognise the role of resourcing in addressing relative disadvantage: this is in line with the current approach that includes socioeconomic decile.

We suspect the things that might not be working about the current approach include:

- It has been a long time since it was reviewed, therefore whatever basis was used at the time is most unlikely to be ideal now.

- Although the various components of the operations grant (TFEA etc) and the methods of setting the funding rates may (or not) be internally robust, the overall level of funding may not be appropriate when all they are added together.
- It is probably appropriate to look again at the proportion of the operations grant divided between fixed and variable costs, to see if these match patterns of school costs.
- It would be useful to look at the impact of the roll estimation processes on schools whose actual rolls diverge markedly from the estimation, and the impact of the dates used to decide final rolls for funding purposes on schools with high transience rates, to see if changes here could provide some stability of funding, and recognition of costs faced by schools for students who are not present in schools when rolls are counted.
- It may be appropriate to revisit the relative distribution of funding rates between deciles. There is no doubt that low decile schools need all their funding; but it has been suggested to us that the middle decile schools seem to struggle, without the revenue-raising advantages of high decile schools.

Therefore, as well as reviewing the high level cost drivers and conceptual science behind the funding model, there needs to be a supporting study to determine what the funding rates should be, based on the actual costs of running effective and efficient schools.

The Ministry already has access to a good data set to support this type of study based on the overall costs schools are currently incurring as reported in their financial statements. This data set on its own would be insufficient because current expenditure levels are restricted, by current levels of government funding amongst other things. And there are also difficulties in what is covered in different categories, as we have found (e.g. the lack of a uniform and visible approach to tracking ICT expenditures).

Therefore additional analysis would be needed, such as:

- analysis of the average cost per student, the degree of variation around the average, and the factors (including cost drivers, socioeconomic/risk factors and characteristics of the current funding system) that best explain or predict whether a schools' funding requirements will be higher or lower than the average, and
- the things that schools are going without due to their current resourcing levels, and what this tells us about the adequacy of schools' funding to meet basic needs (a similar study to this one, but with a narrower set of questions administered to a greater number of schools).

We found considerable expertise in the schools in this study in the art of allocating resources to meet educational needs as best as possible within the funding available. Schools did not have this expertise at the start of school self-management. As well as the analysis of financial records in large data-sets, it is important that any review of the operational funding for school include a good cross-section of schools with whom proposed changes could be modeled, and their impact discussed, so that there is a shared understanding between the Ministry of Education and schools.

Having set new rates, a basis needs to be identified/developed for reviewing the funding rates at regular intervals to ensure they keep pace with price inflation as well as the changing mix and intensity of resources used in schools. Again, an annual review of key indicators in schools' financial statements would probably be a component of this, as would monitoring of other data such as Statistics NZ price indices. It would also be valuable to keep monitoring a cross-section of schools with more qualitative information to ensure that there is a continual check on any emerging pressures, and to contribute to schools' and the Ministry of Education's understanding of what effective financial management to meet student and school needs entails.

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Appendix 1: Revenue and cost profiles of the individual schools

The analyses of schools' financial accounts applied the following definitions to cost and revenue categories.

Costs

Locally funded teacher salaries: Total teacher salary costs minus Teacher Salaries Grant.

Revenues

Net revenue from international students: Revenue from international students minus costs associated with international students. Some schools' accounts report these revenues and costs separately; others just provide the net figure.

Net other locally raised revenue: Net locally raised revenues minus the costs associated with raising those revenues, minus net revenue from international students as defined above. Some schools' accounts report these revenues and costs separately; others just provide the net figure.

Denominator and other data

The following denominators and other adjustments were used in the analysis in order to make the data more comparable between schools and between time periods.

Locally managed expenditure: Total expenditure minus Teacher Salaries Grant.

Locally managed revenue: Total revenue minus Teacher Salaries Grant.

Number of enrolled students: Total roll of the school at year-end as recorded in July.

The following graphs provide breakdowns of revenues and expenditure for the five year period 2000–2004, for each of the schools in the study. The breakdowns are shown in both absolute (\$) and relative (%) terms.

When comparing cost and revenue figures it must be borne in mind that the total revenues include the *net* cost of international students and other locally raised funds (i.e. revenues from these sources minus the costs associated with generating these revenues). This makes the total revenue figures appear lower than the corresponding cost figures for each school.

Secondary school S1 (Provincial centre, Decile 3)

Figure 40 Breakdown of total revenues – dollar basis

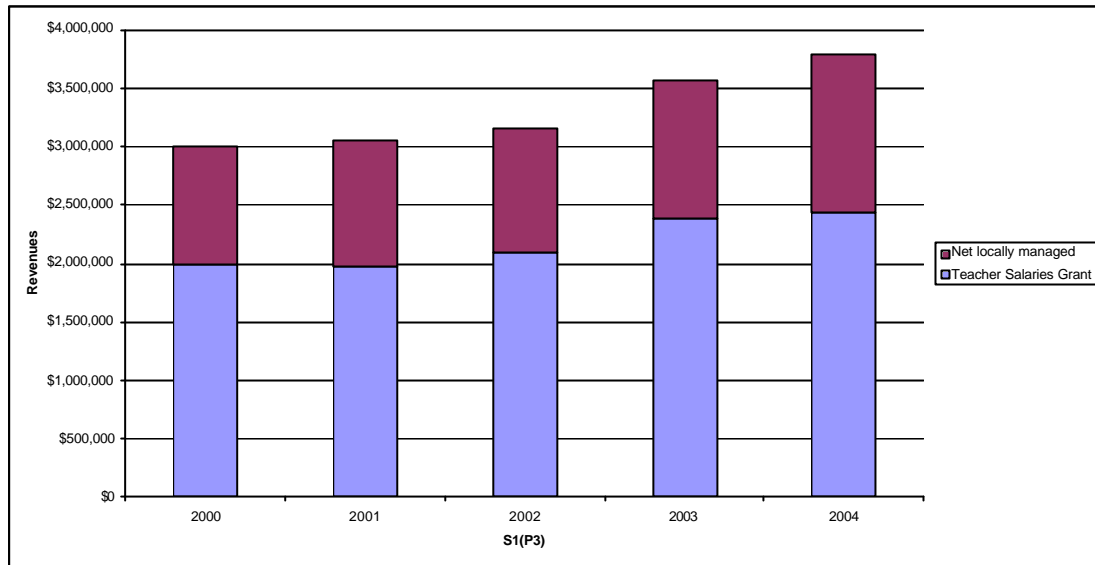


Figure 41 Breakdown of total revenues – percentage basis

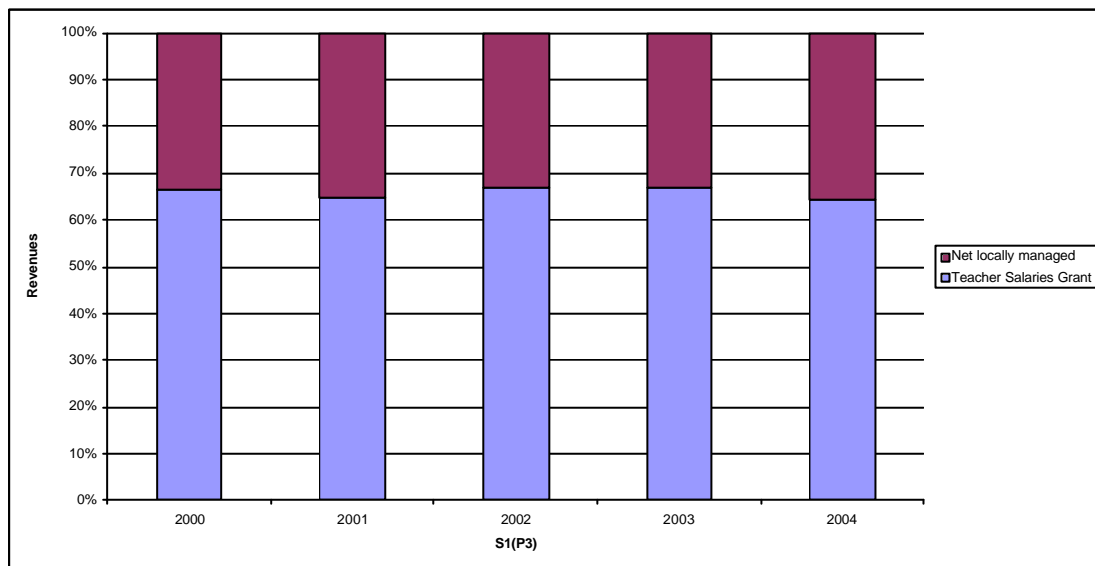


Figure 42 Breakdown of locally managed revenues – dollar basis

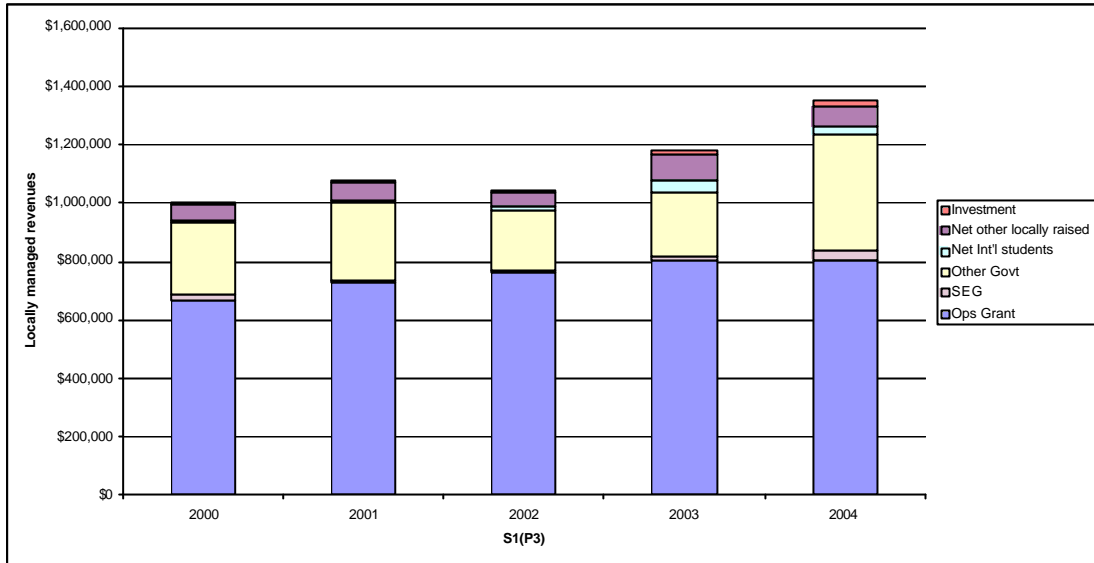


Figure 43 Breakdown of locally managed revenues – percentage basis

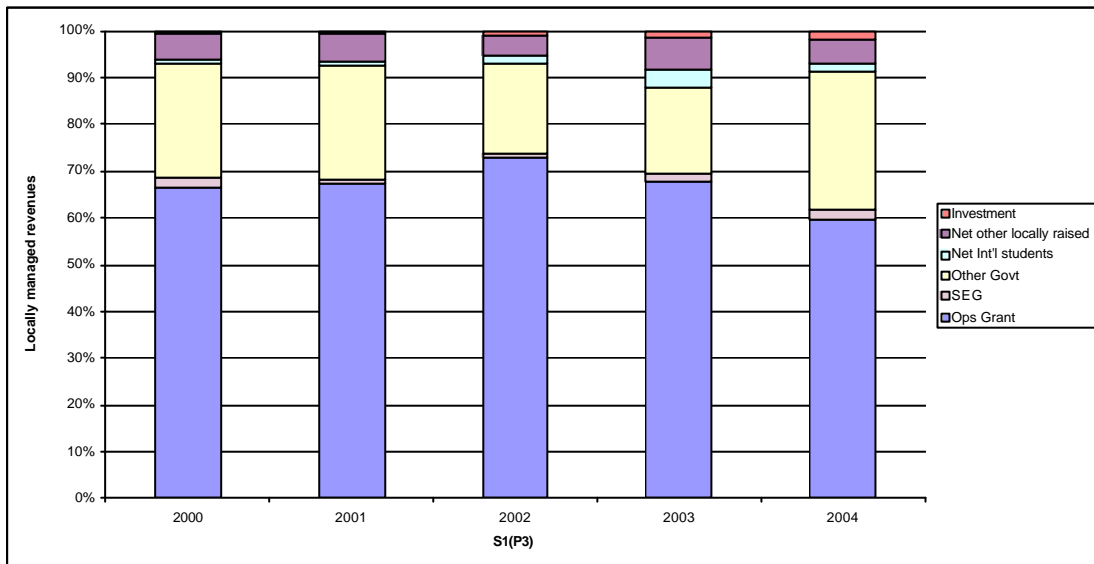


Figure 44 Breakdown of locally managed expenditure – dollar basis

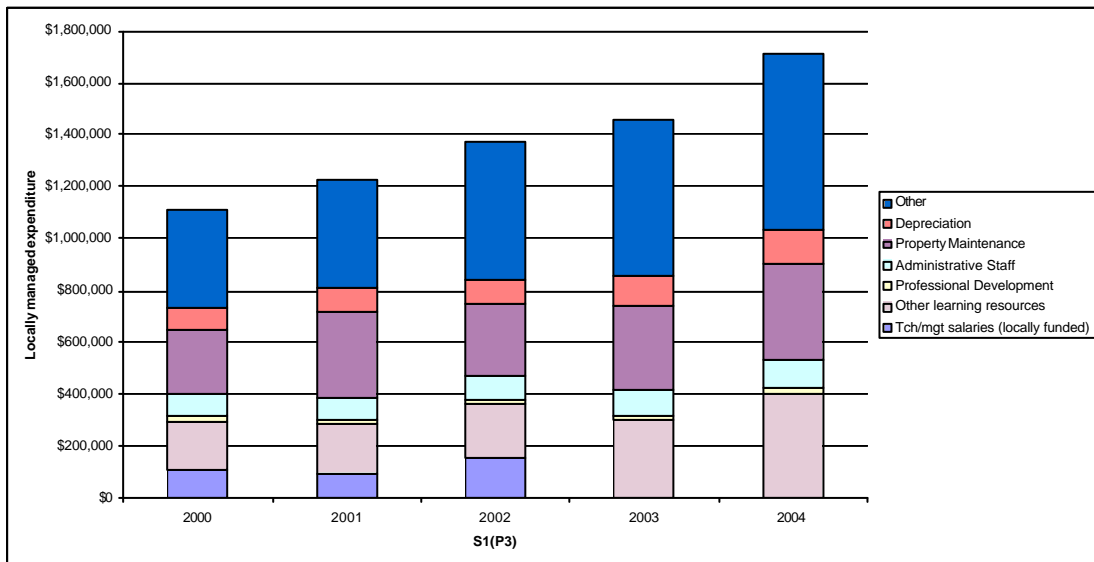
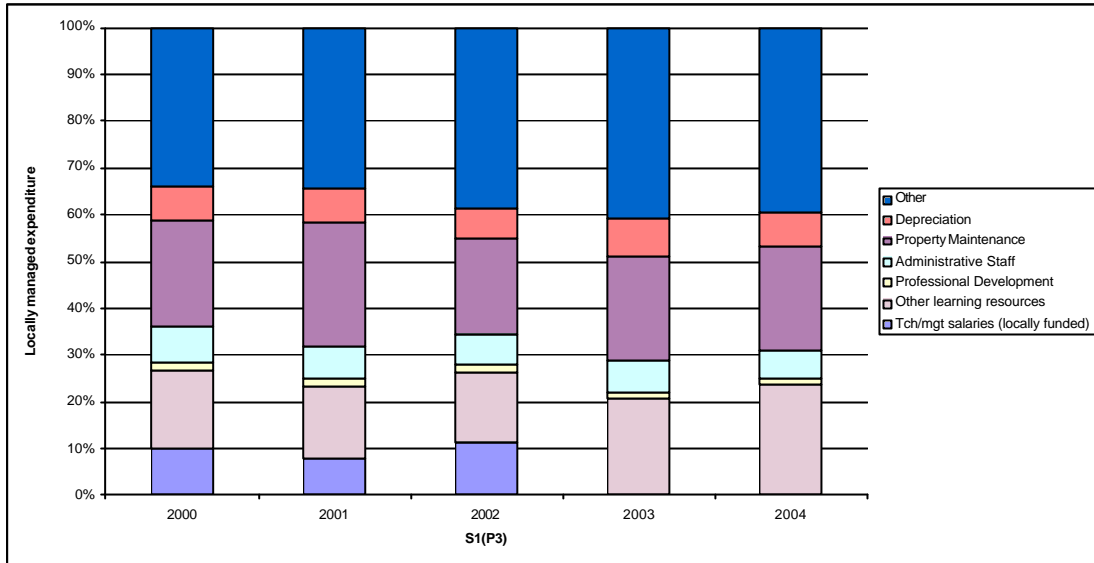


Figure 45 Breakdown of locally managed expenditure – percentage basis



Secondary school S2 (City/suburban, Decile 4)

Figure 46 Breakdown of total revenues – dollar basis

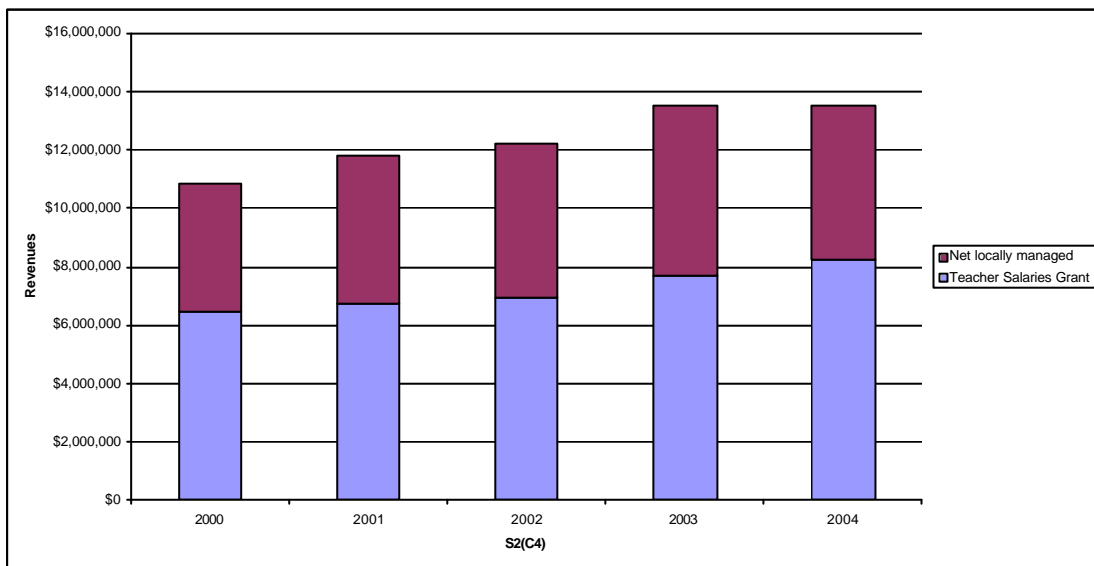


Figure 47 Breakdown of total revenues – percentage basis

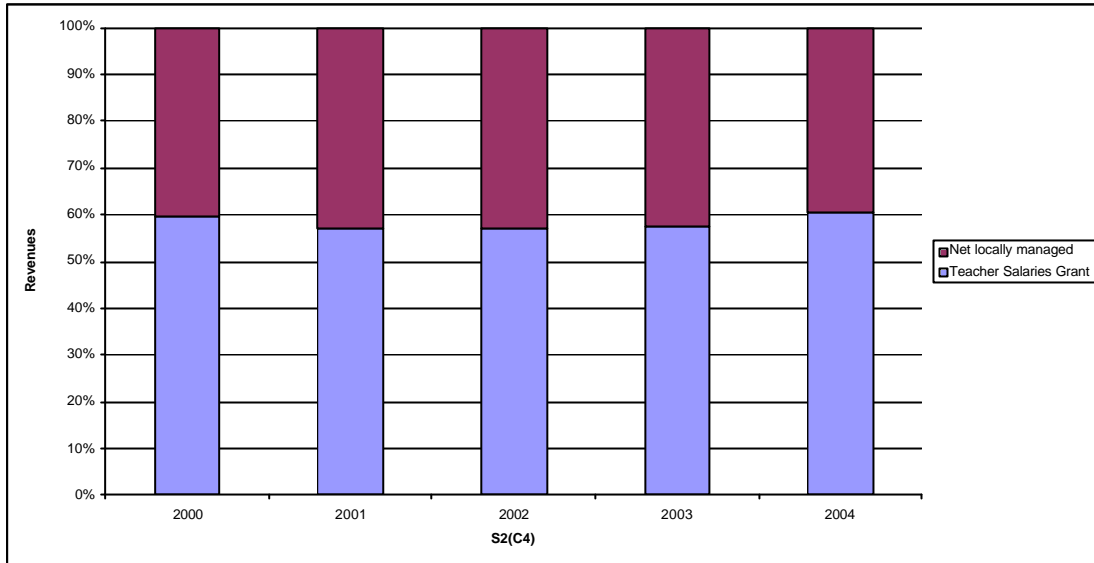


Figure 48 Breakdown of locally managed revenues – dollar basis

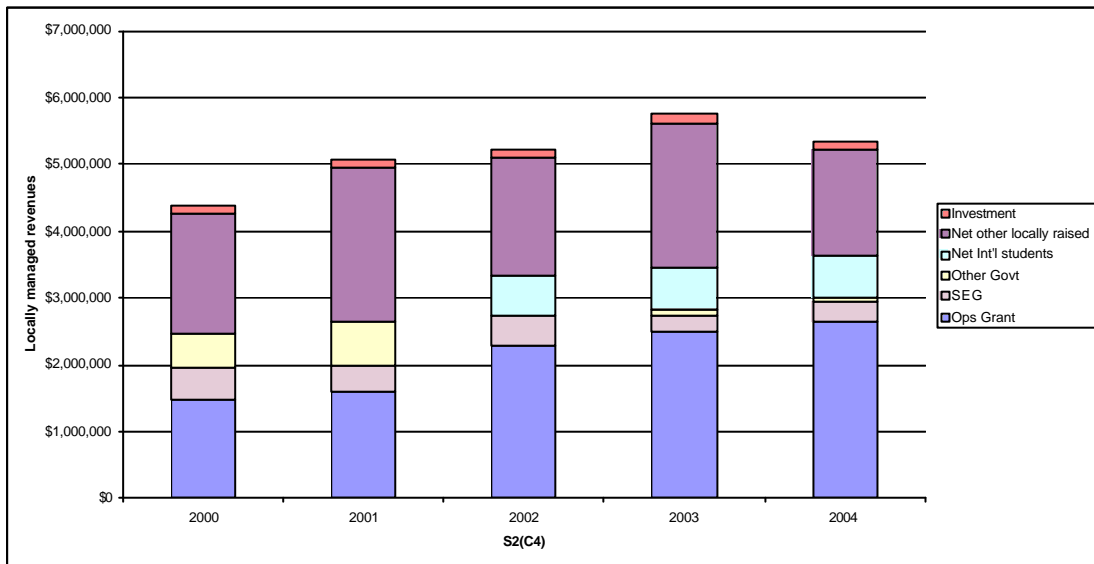


Figure 49 Breakdown of locally managed revenues – percentage basis

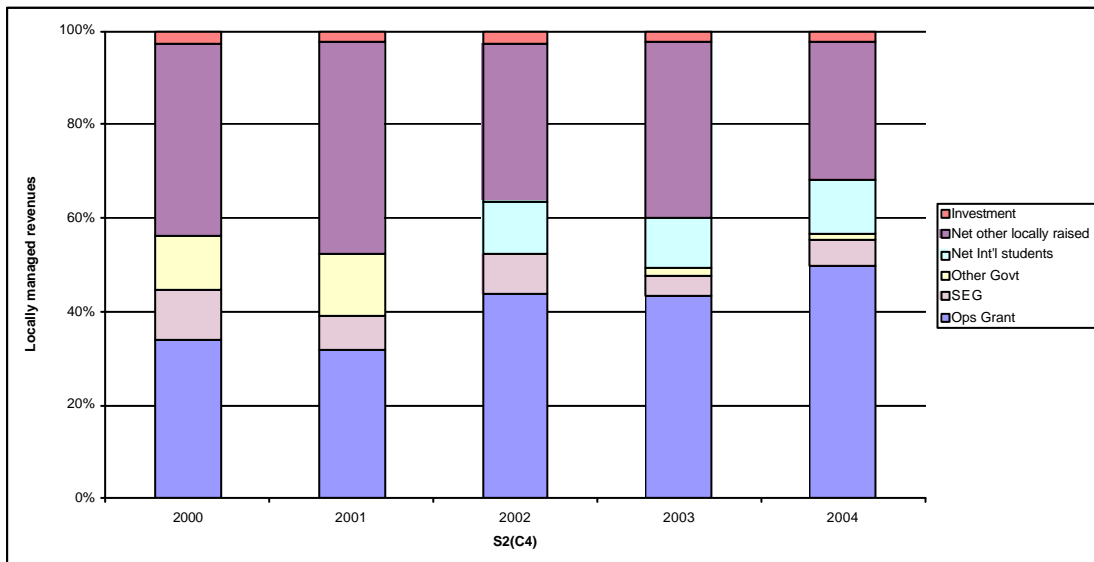


Figure 50 Breakdown of locally managed expenditure – dollar basis

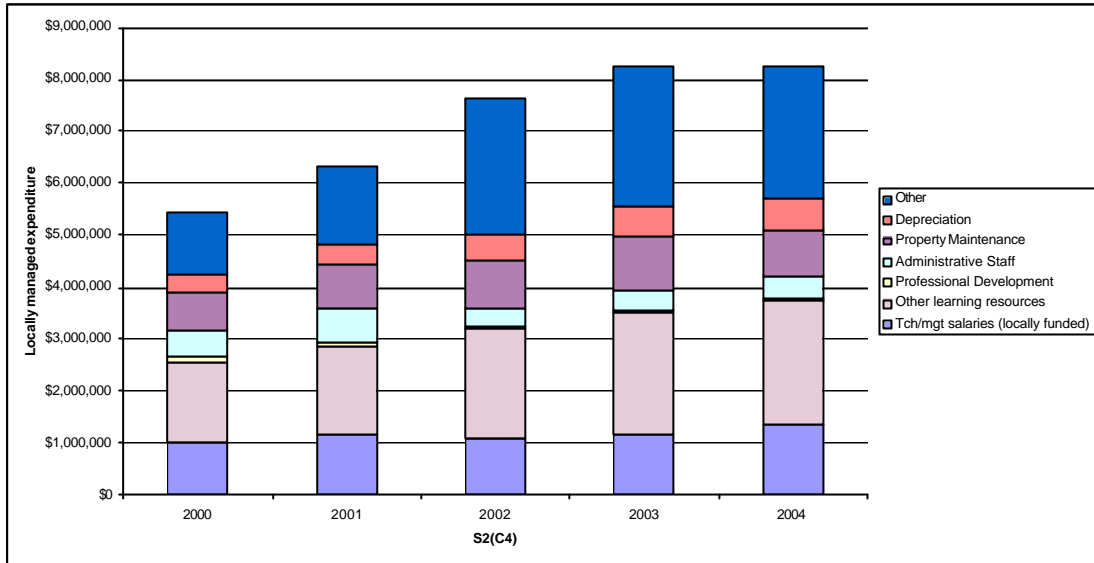
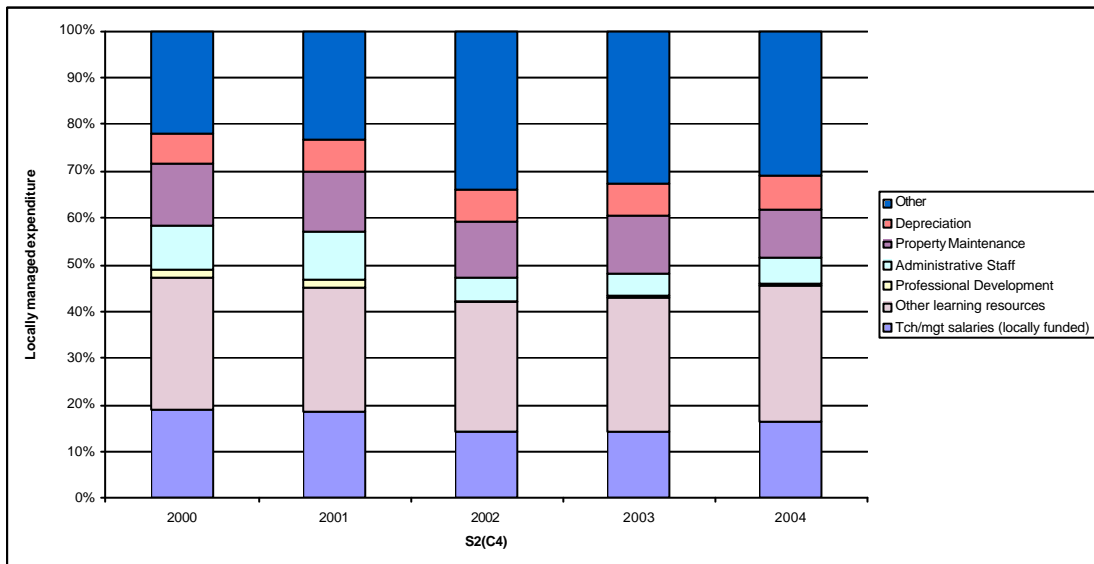


Figure 51 Breakdown of locally managed expenditure – percentage basis



Secondary school S3 (City/suburban, Decile 3)

Figure 52 Breakdown of total revenues – dollar basis

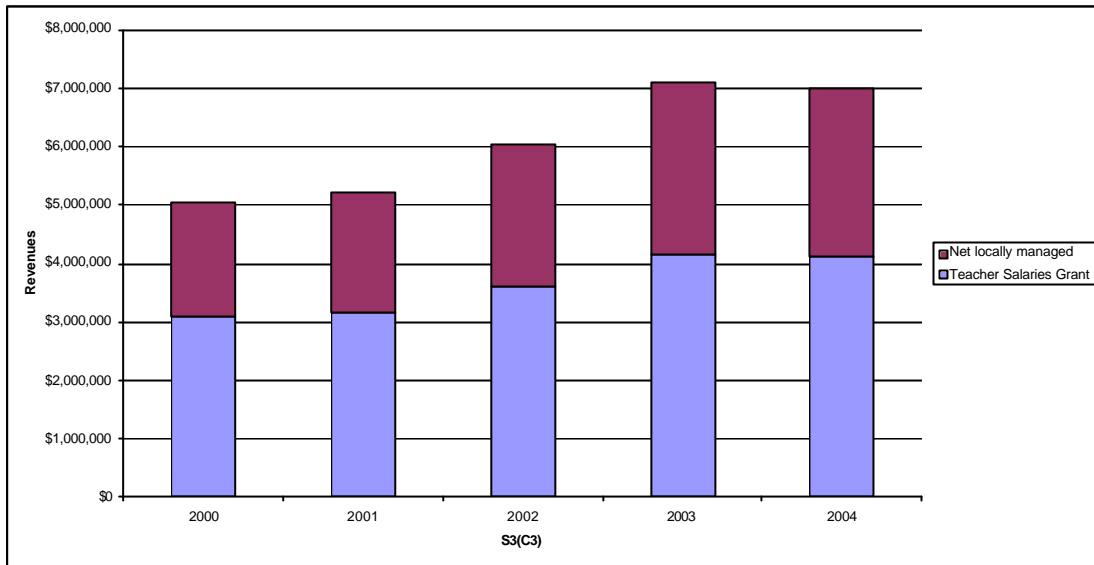


Figure 53 Breakdown of total revenues – percentage basis

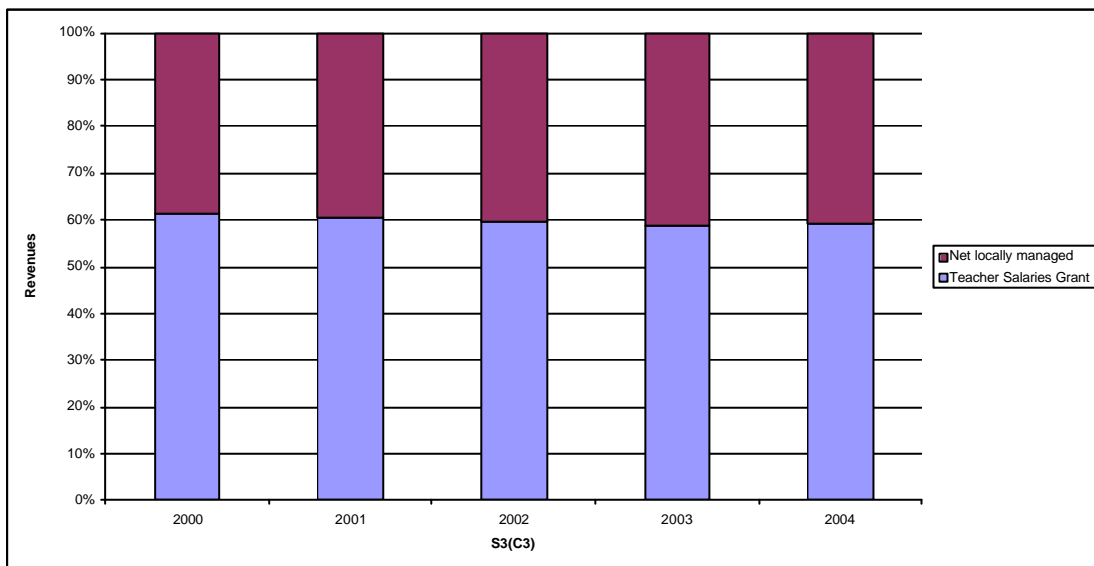


Figure 54 Breakdown of locally managed revenues – dollar basis

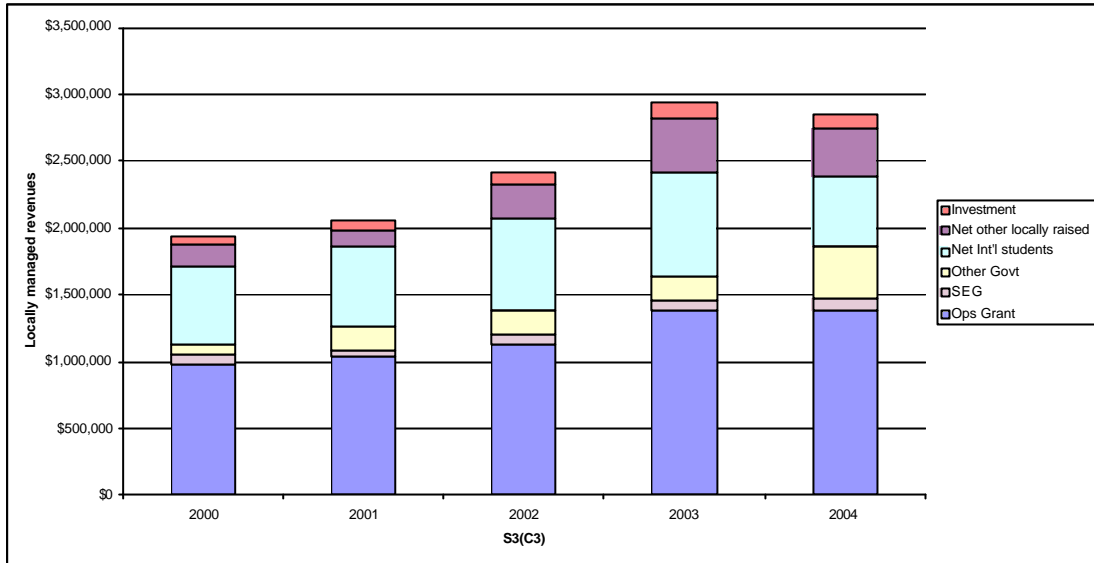


Figure 55 Breakdown of locally managed revenues – percentage basis

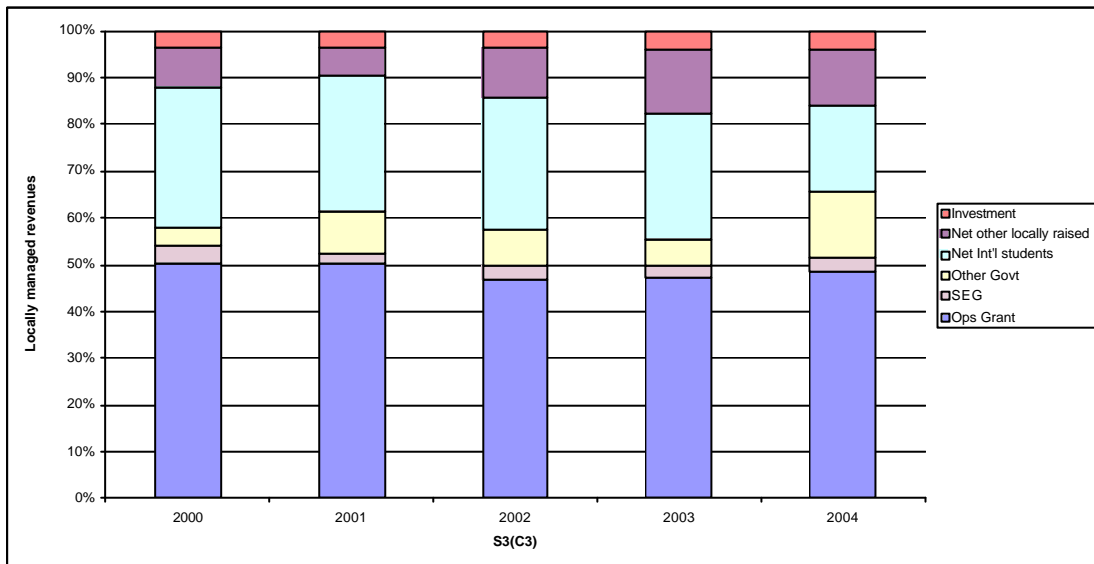


Figure 56 Breakdown of locally managed expenditure – dollar basis

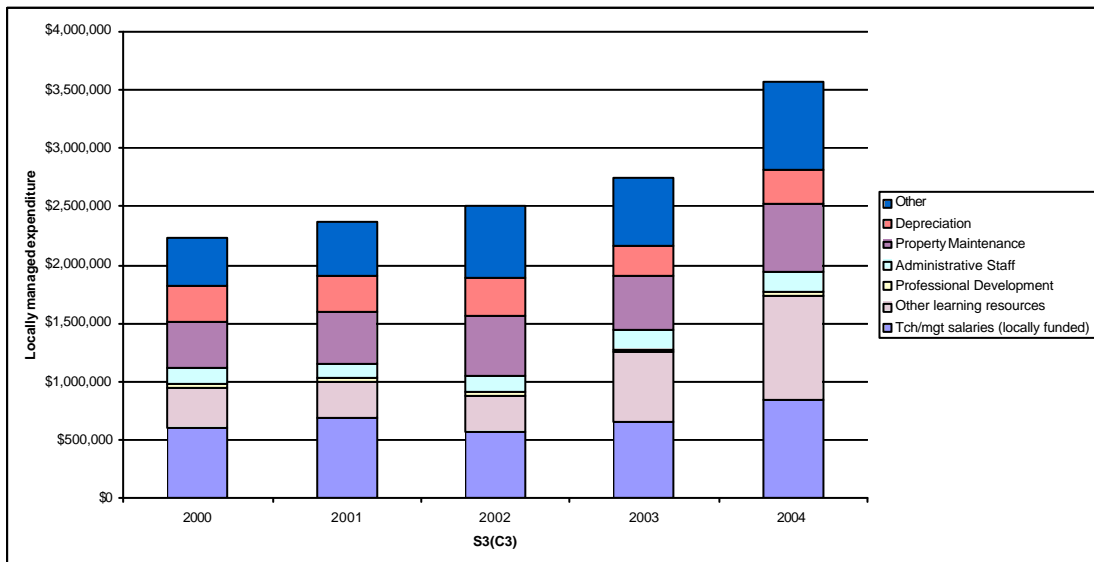
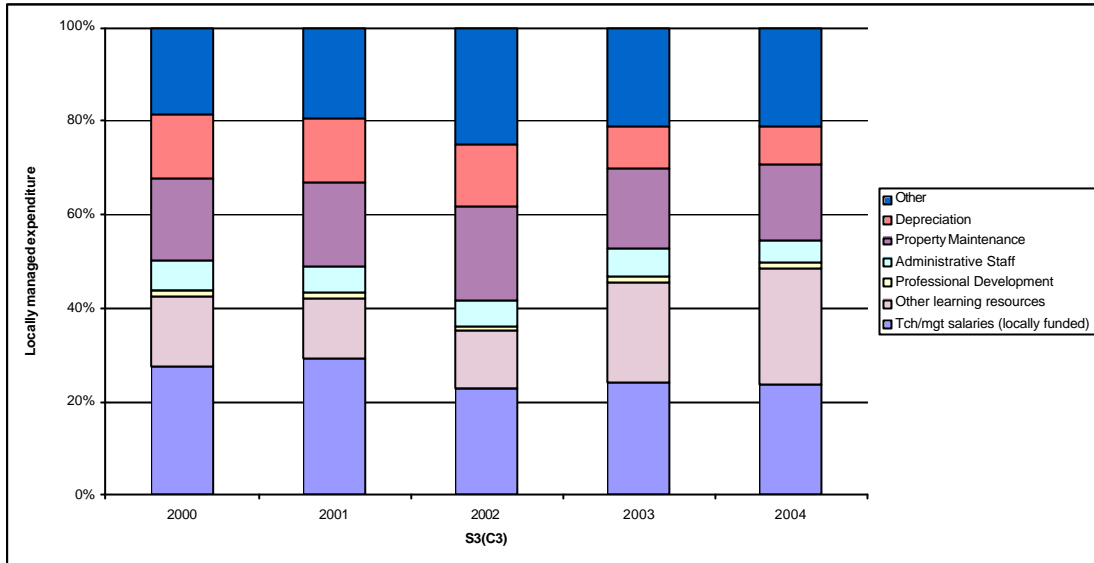


Figure 57 Breakdown of locally managed expenditure – percentage basis



Secondary school S4 (City/suburban, Decile 3)

Figure 58 Breakdown of total revenues – dollar basis

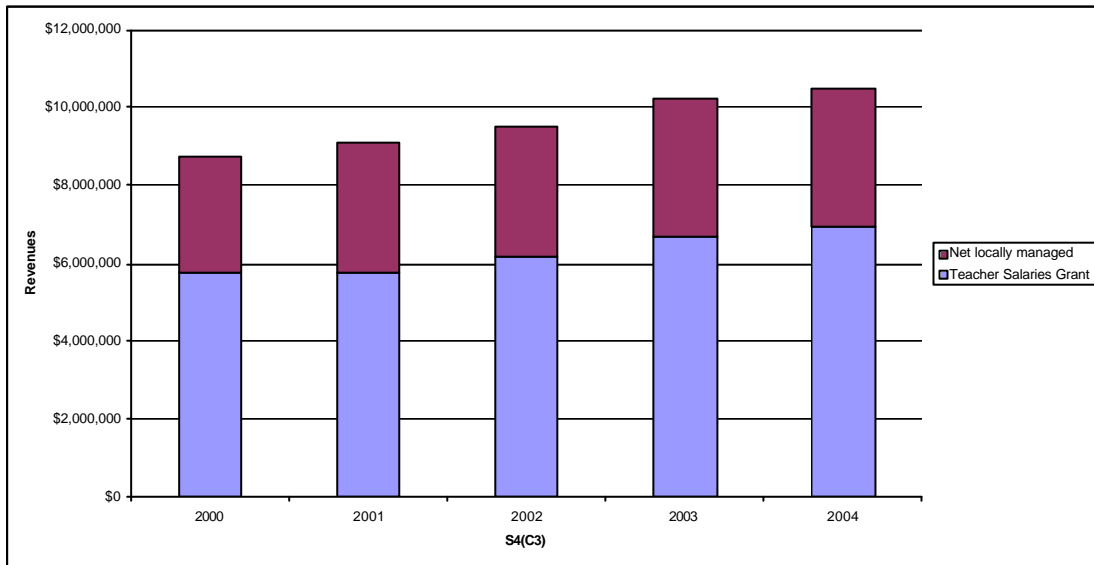


Figure 59 Breakdown of total revenues – percentage basis

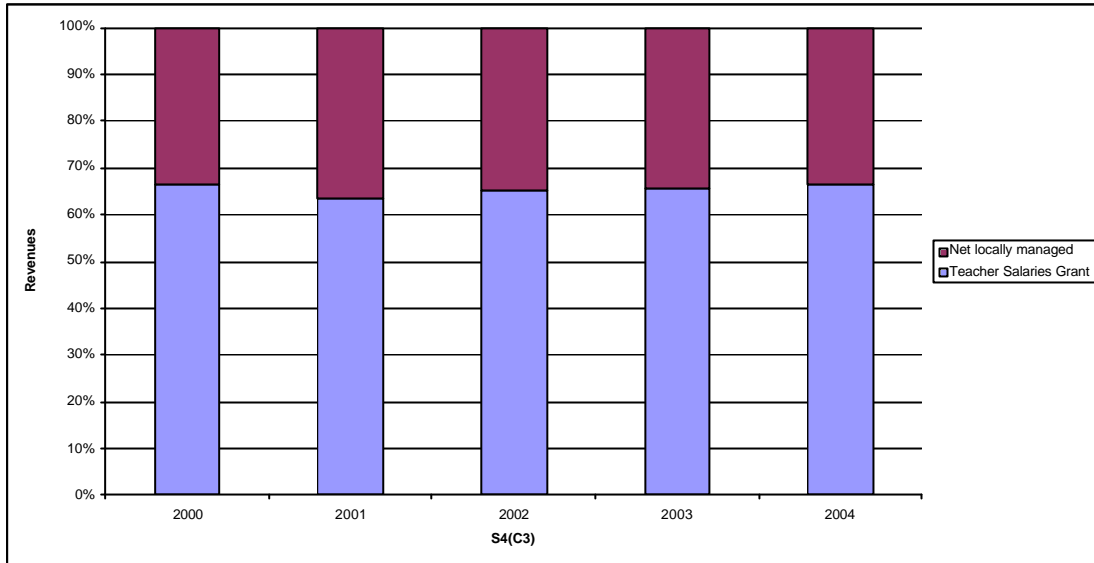


Figure 60 Breakdown of locally managed revenues – dollar basis

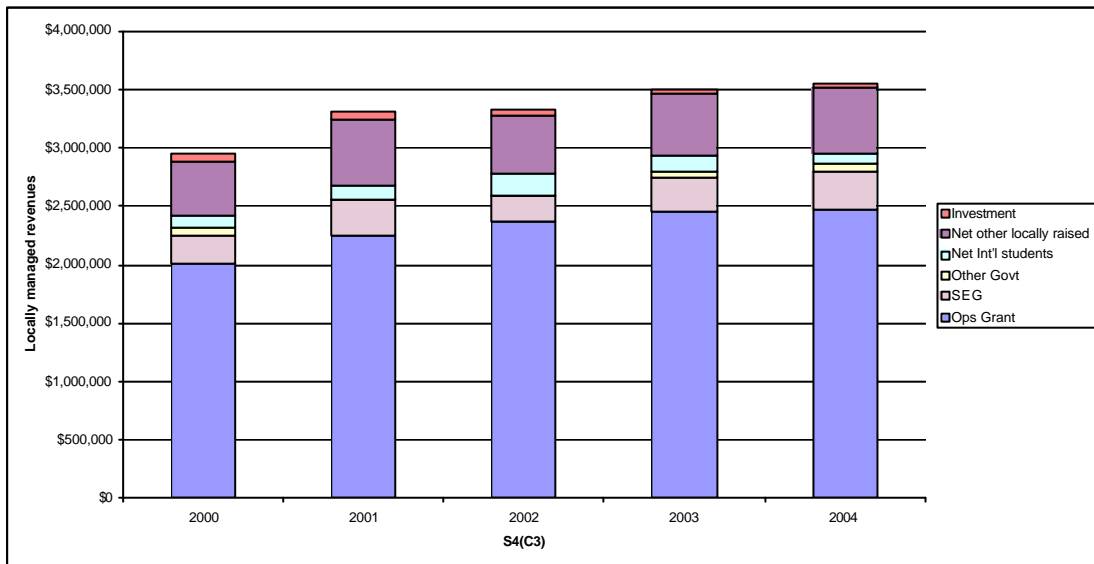


Figure 61 Breakdown of locally managed revenues – percentage basis

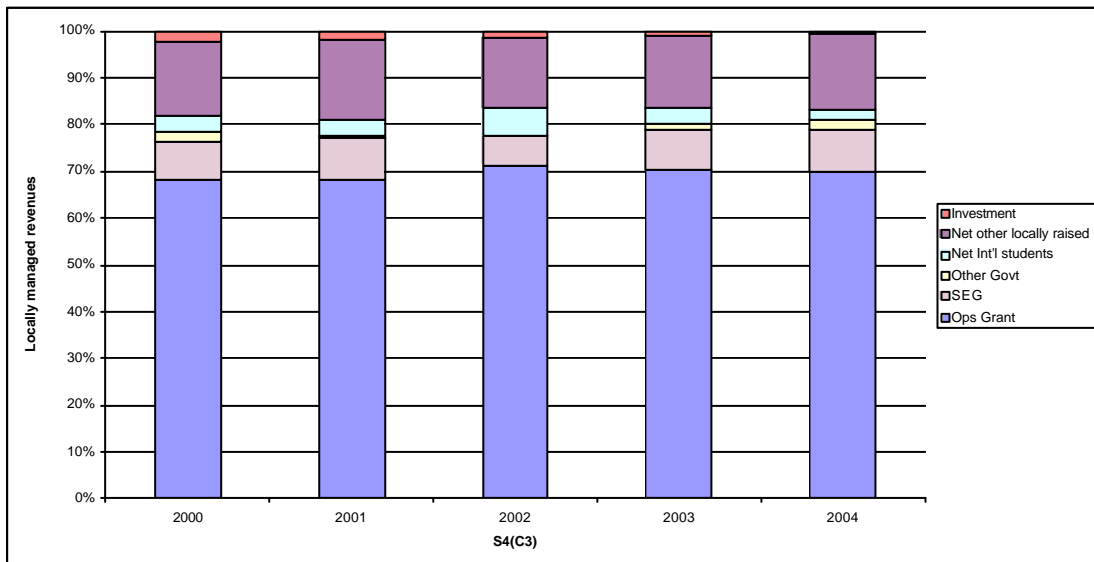


Figure 62 Breakdown of locally managed expenditure – dollar basis

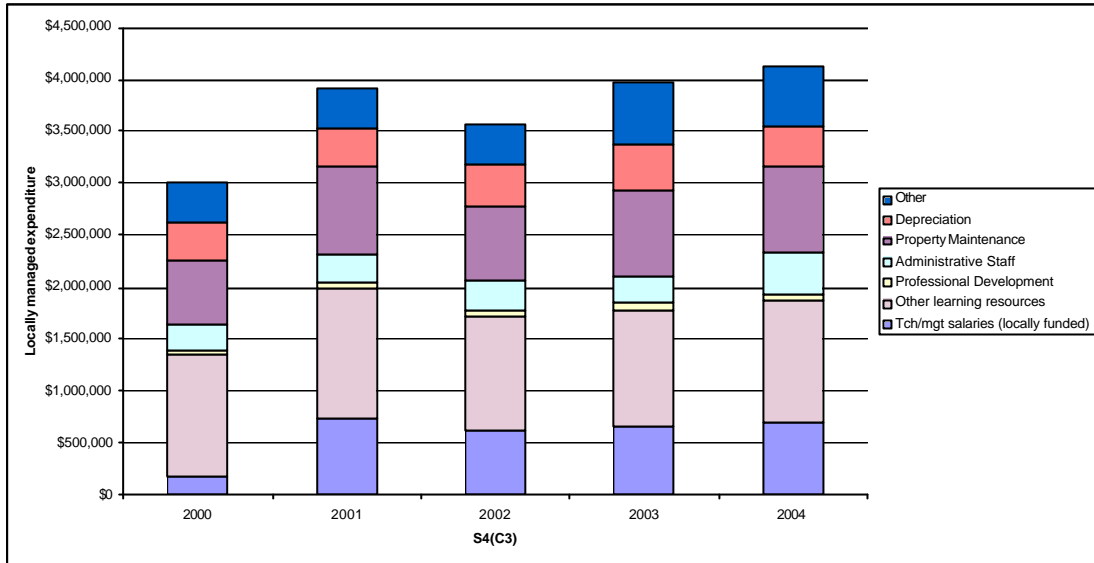
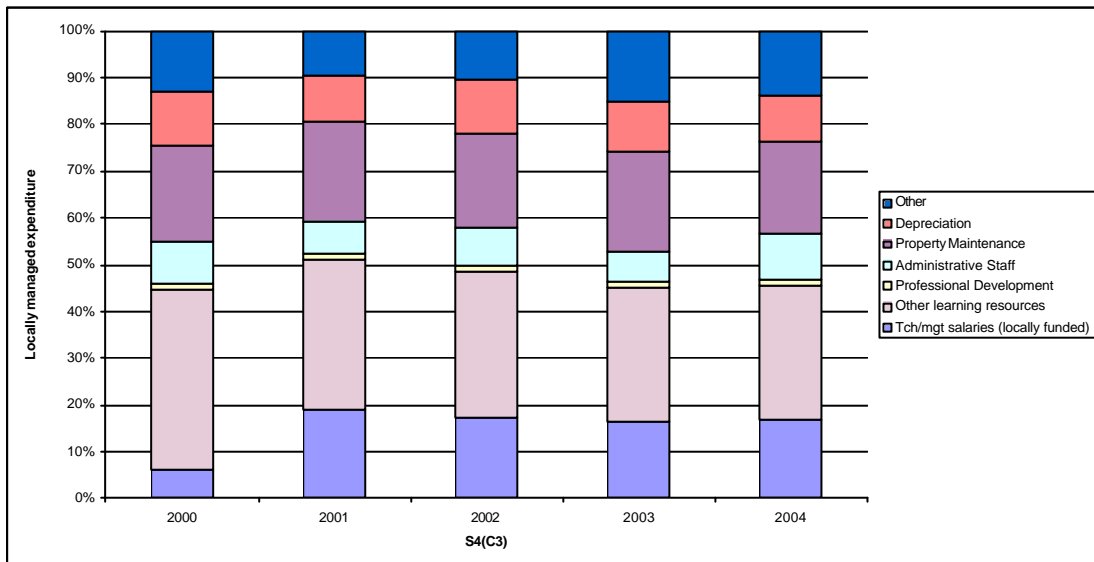


Figure 63 Breakdown of locally managed expenditure – percentage basis



Secondary school S5 (Provincial centre, Decile 3)

Figure 64 Breakdown of total revenues – dollar basis

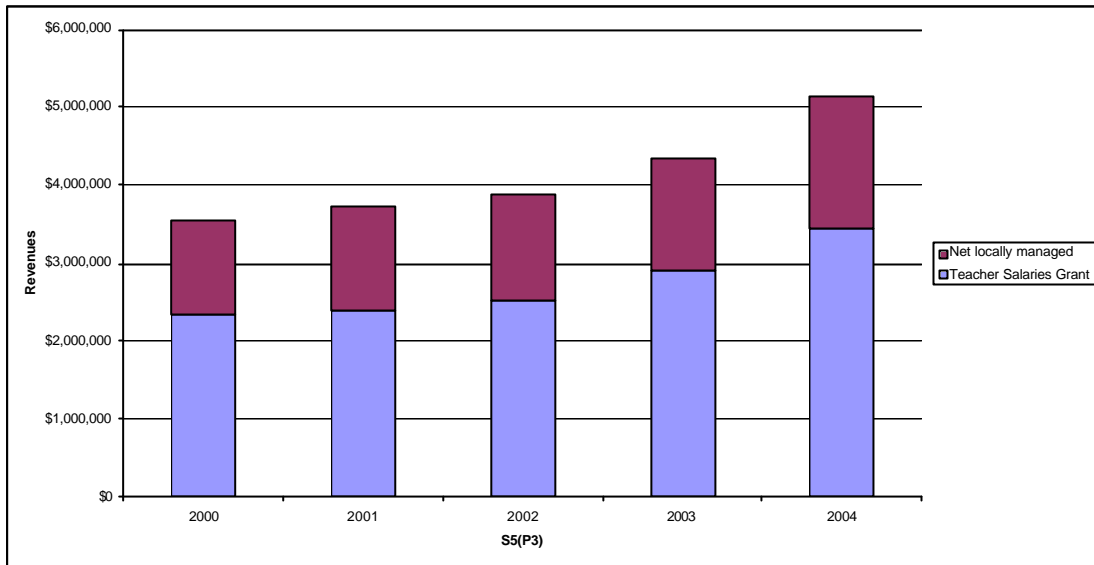


Figure 65 Breakdown of total revenues – percentage basis

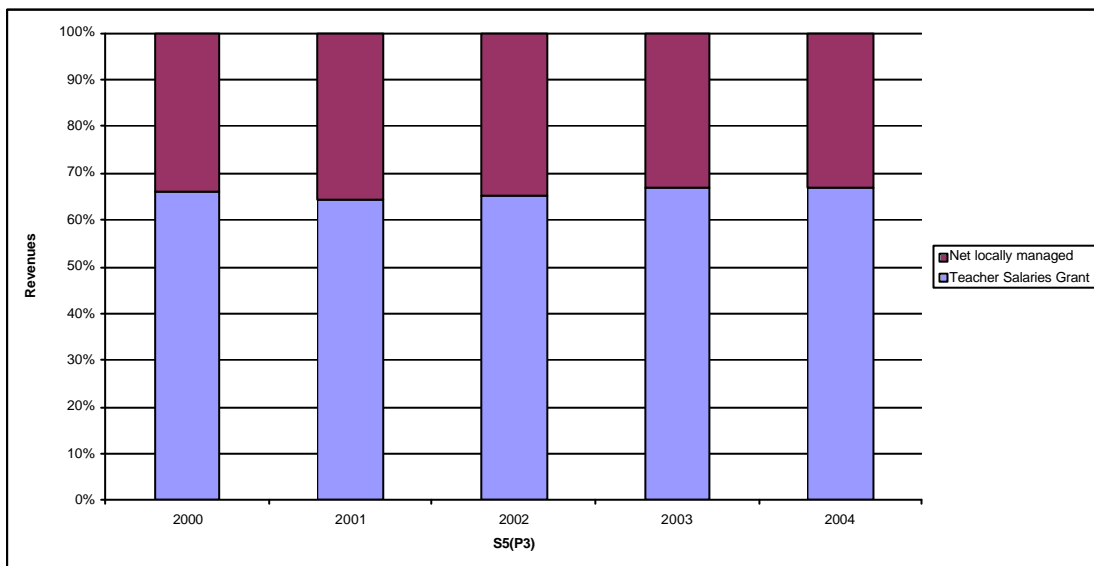


Figure 66 Breakdown of locally managed revenues – dollar basis

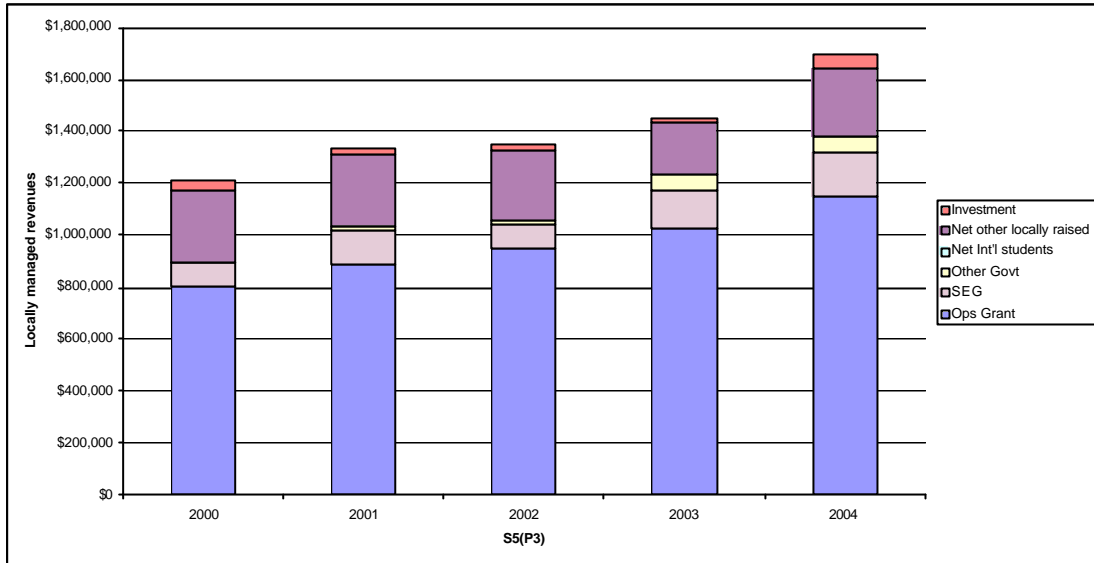


Figure 67 Breakdown of locally managed revenues – percentage basis

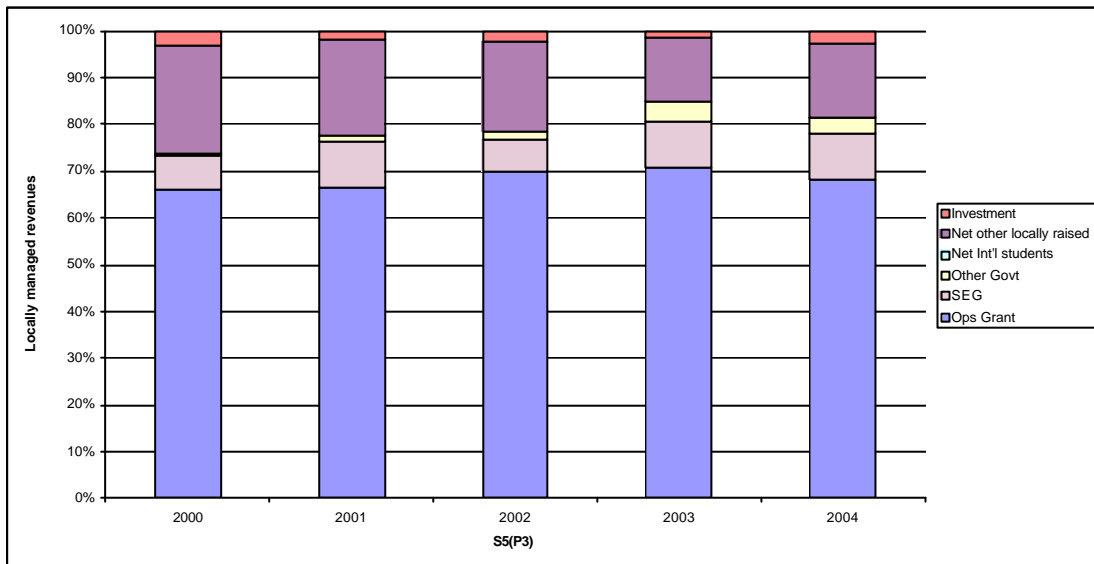


Figure 68 Breakdown of locally managed expenditure – dollar basis

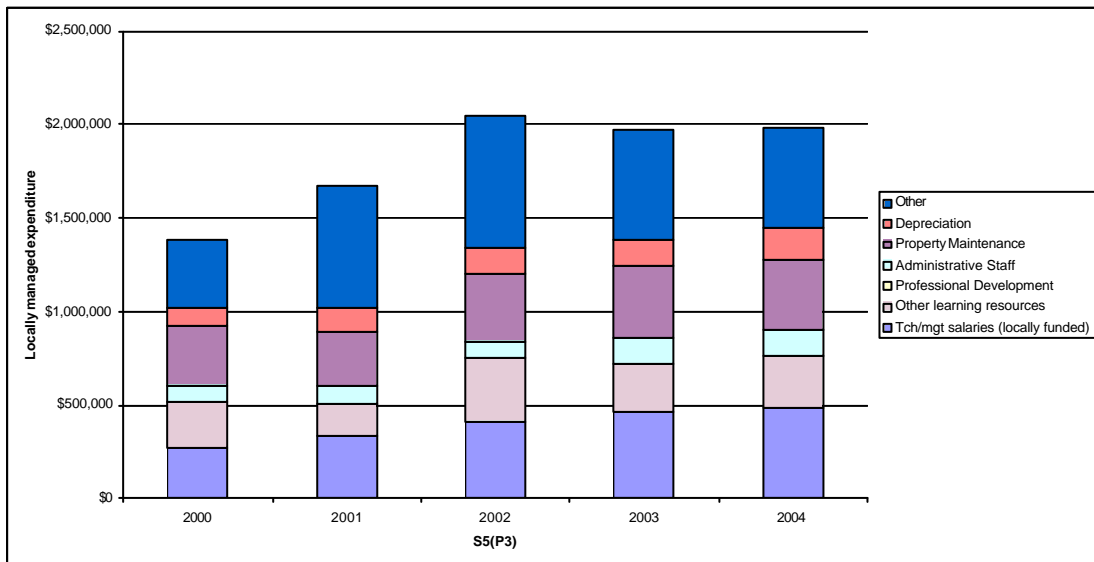
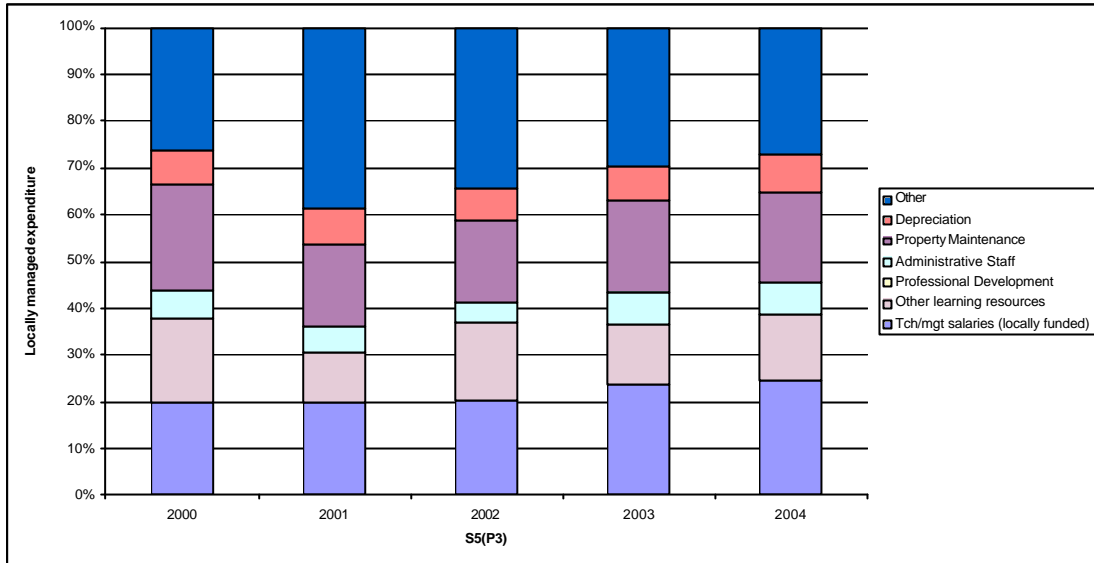


Figure 69 Breakdown of locally managed expenditure – percentage basis



Secondary school S6 (City/suburban, Decile 9)

Figure 70 Breakdown of total revenues – dollar basis

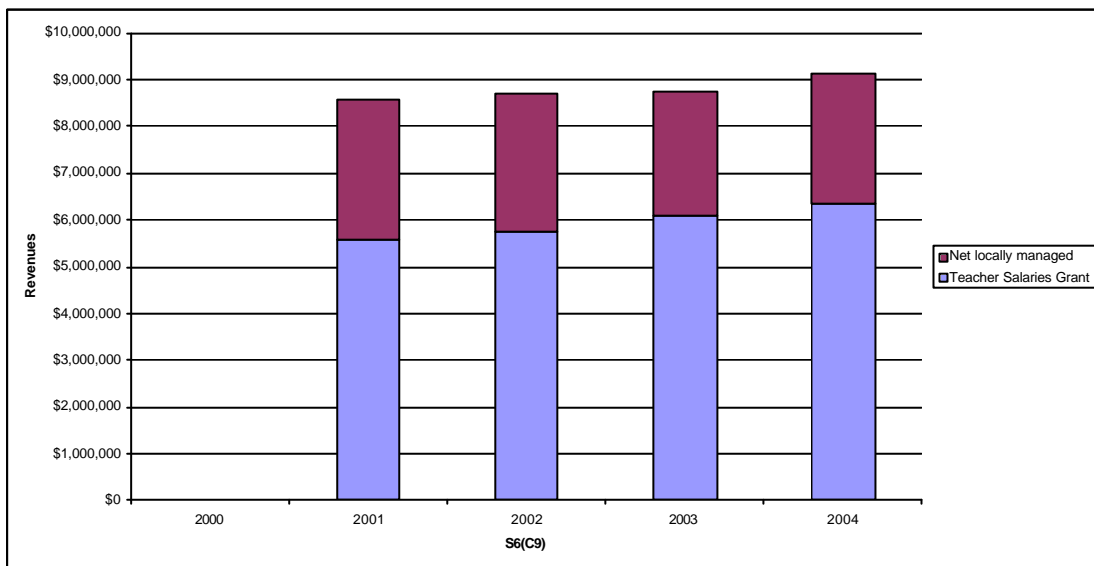


Figure 71 Breakdown of total revenues – percentage basis

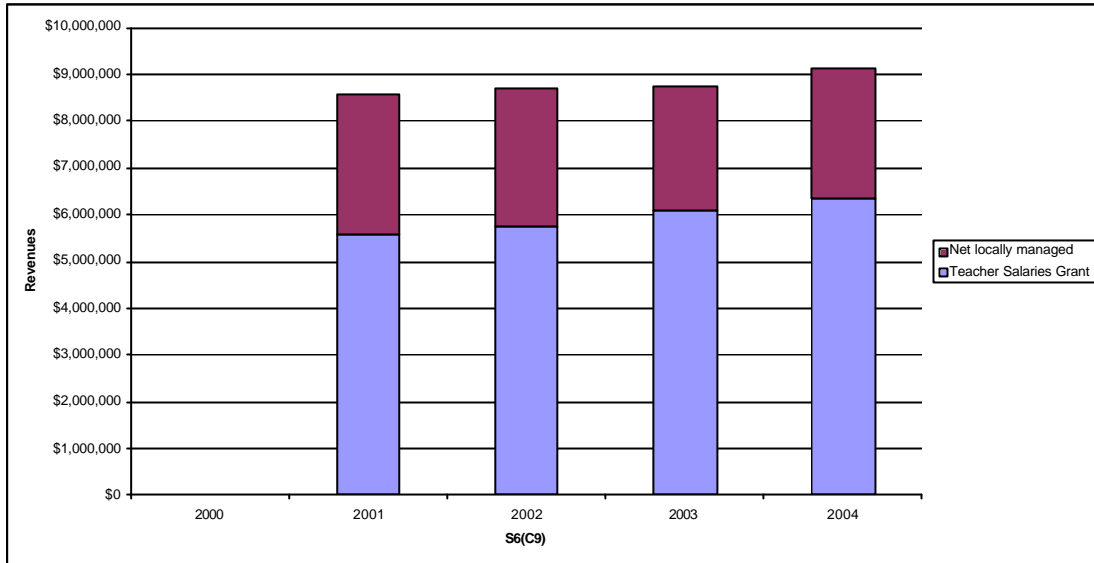


Figure 72 Breakdown of locally managed revenues – dollar basis

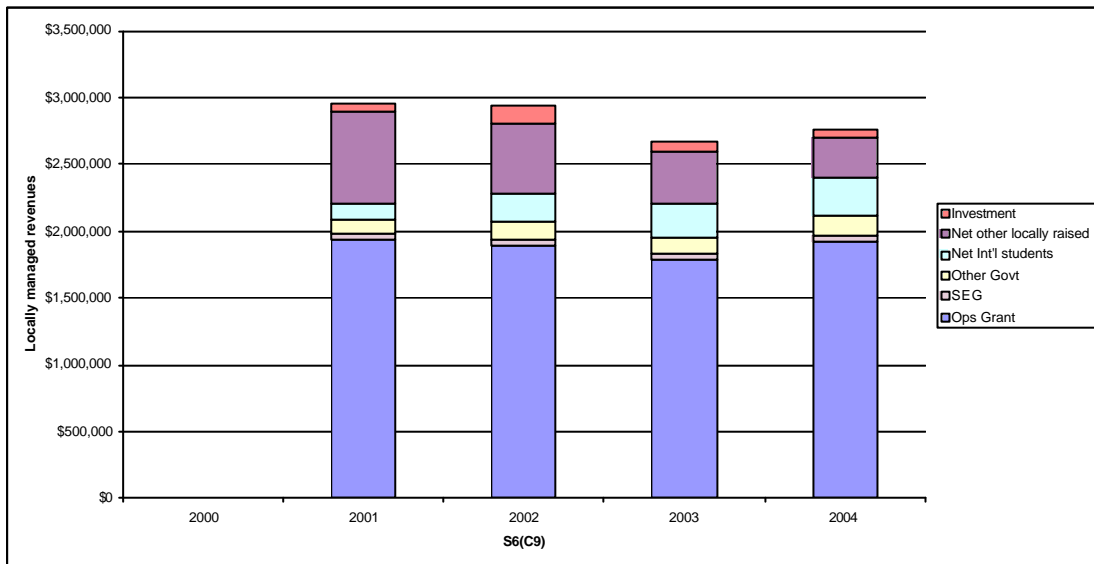


Figure 73 Breakdown of locally managed revenues – percentage basis

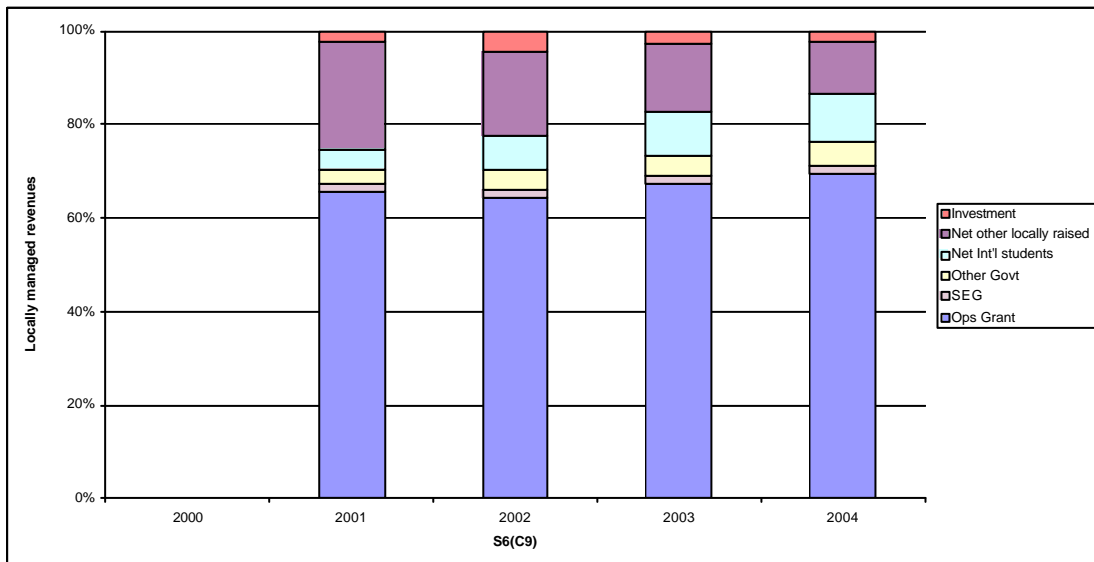


Figure 74 Breakdown of locally managed expenditure – dollar basis

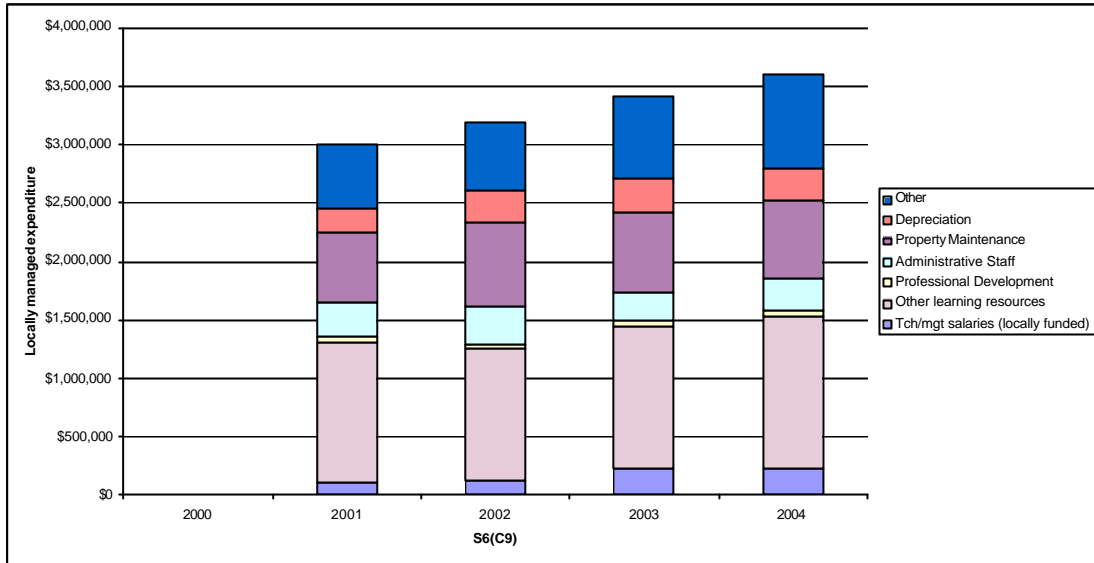
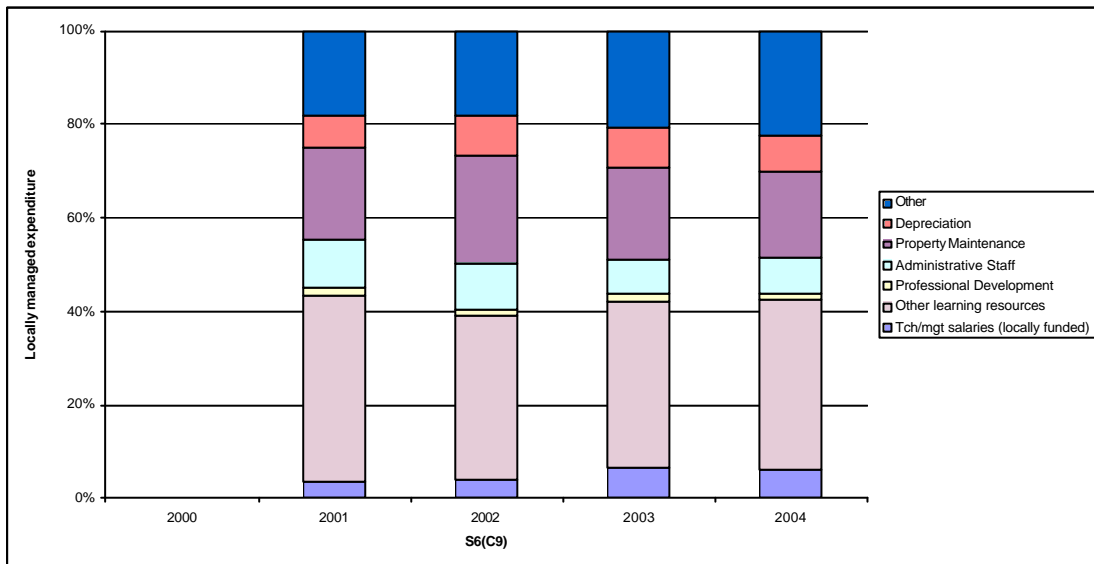


Figure 75 Breakdown of locally managed expenditure – percentage basis



Secondary school S7 (City/suburban, Decile 10)

Figure 76 Breakdown of total revenues – dollar basis

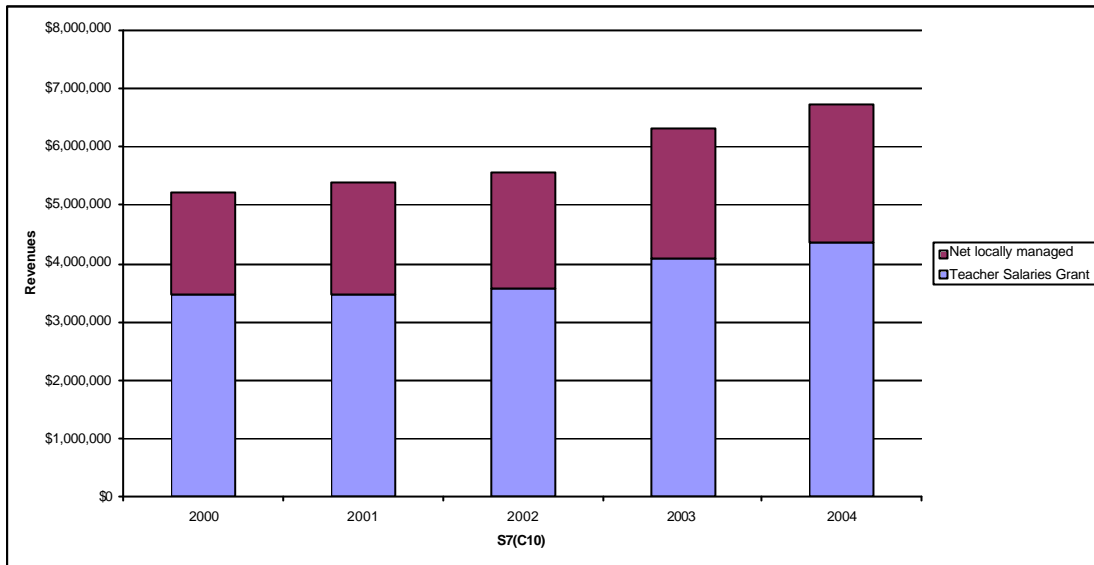


Figure 77 Breakdown of total revenues – percentage basis

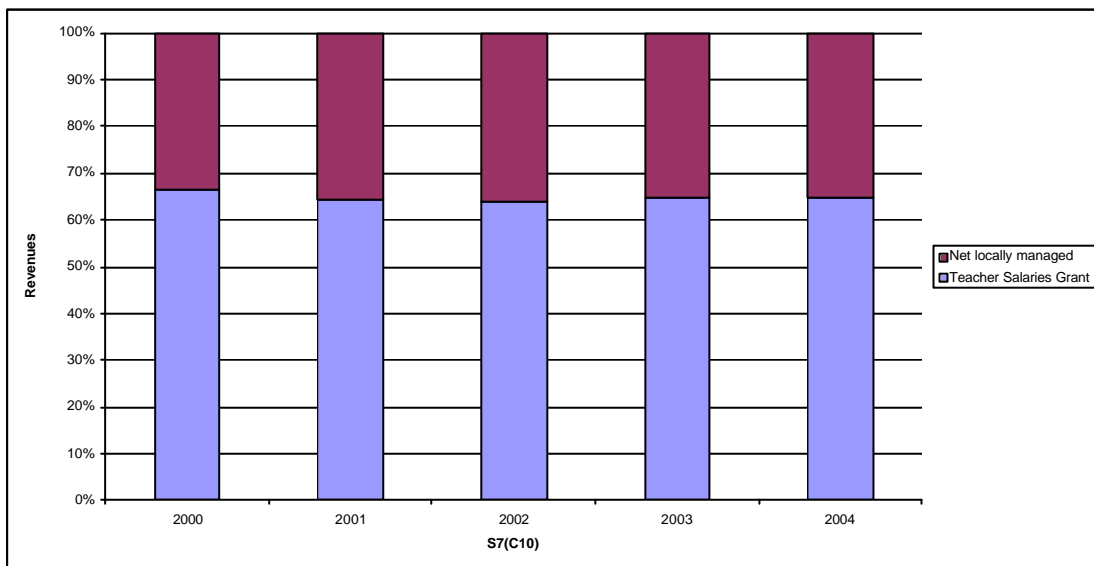


Figure 78 Breakdown of locally managed revenues – dollar basis

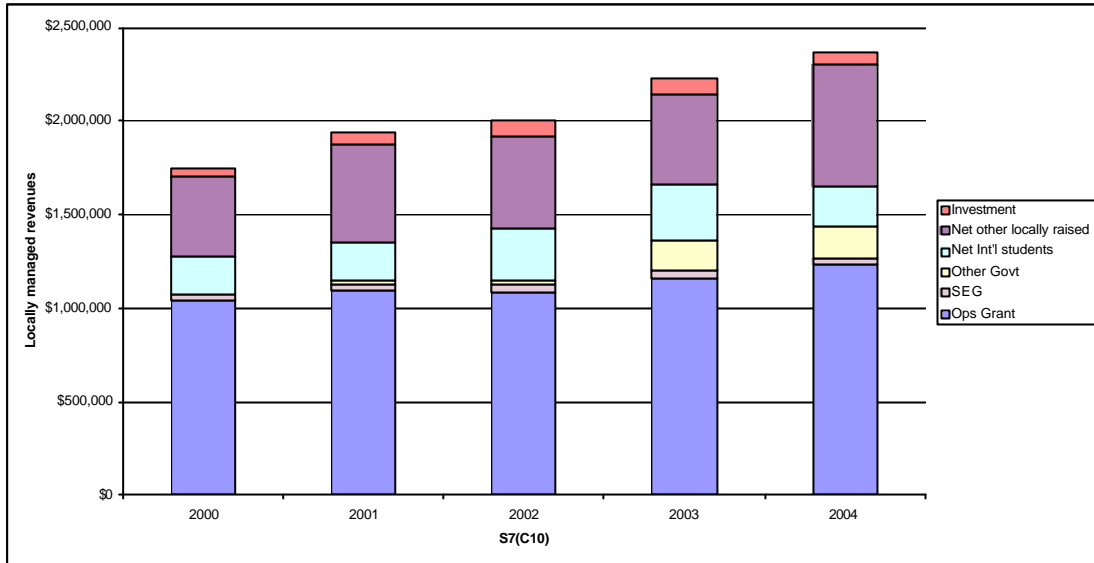


Figure 79 Breakdown of locally managed revenues – percentage basis

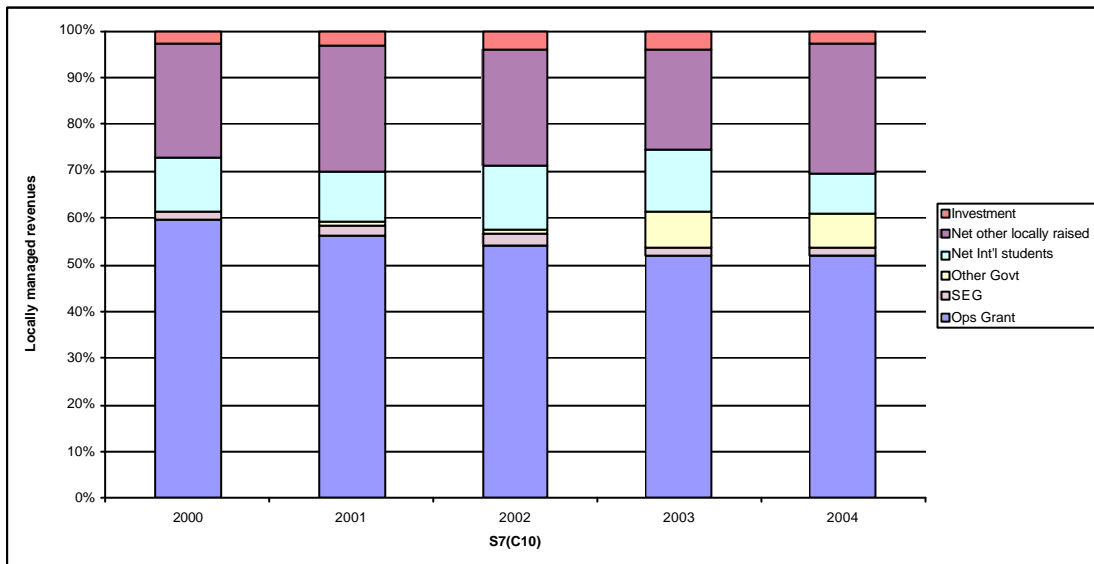


Figure 80 Breakdown of locally managed expenditure – dollar basis

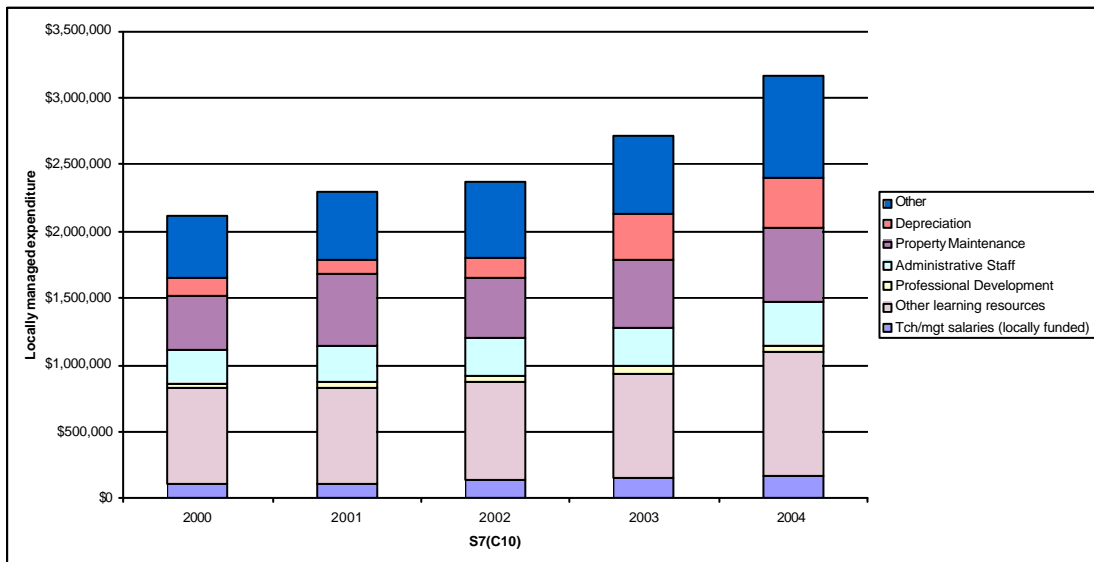
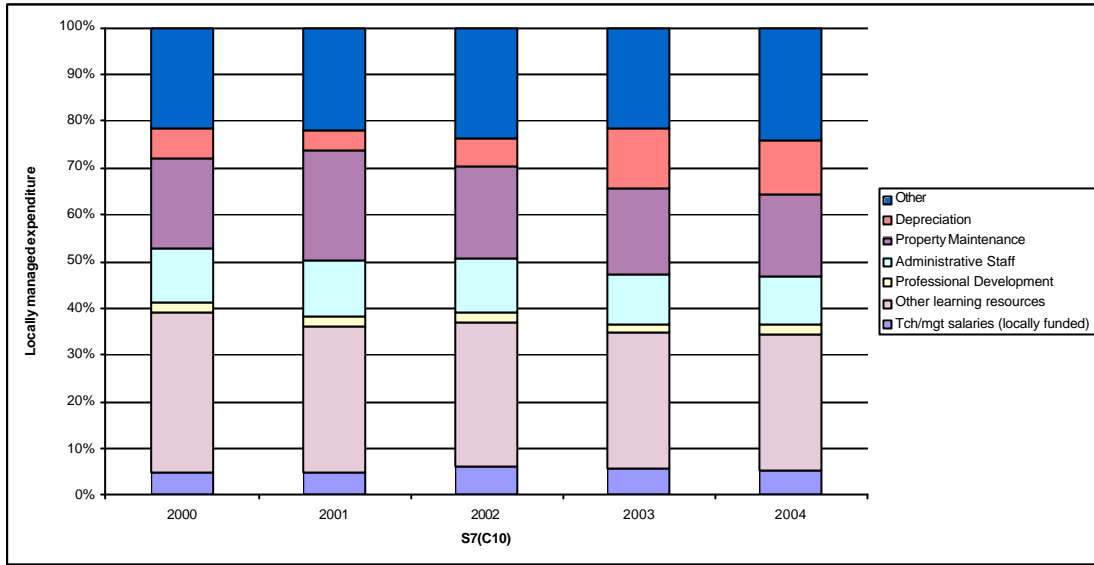


Figure 81 Breakdown of locally managed expenditure – percentage basis



Secondary school S8 (City/suburban, Decile 9)

Figure 82 Breakdown of total revenues – dollar basis

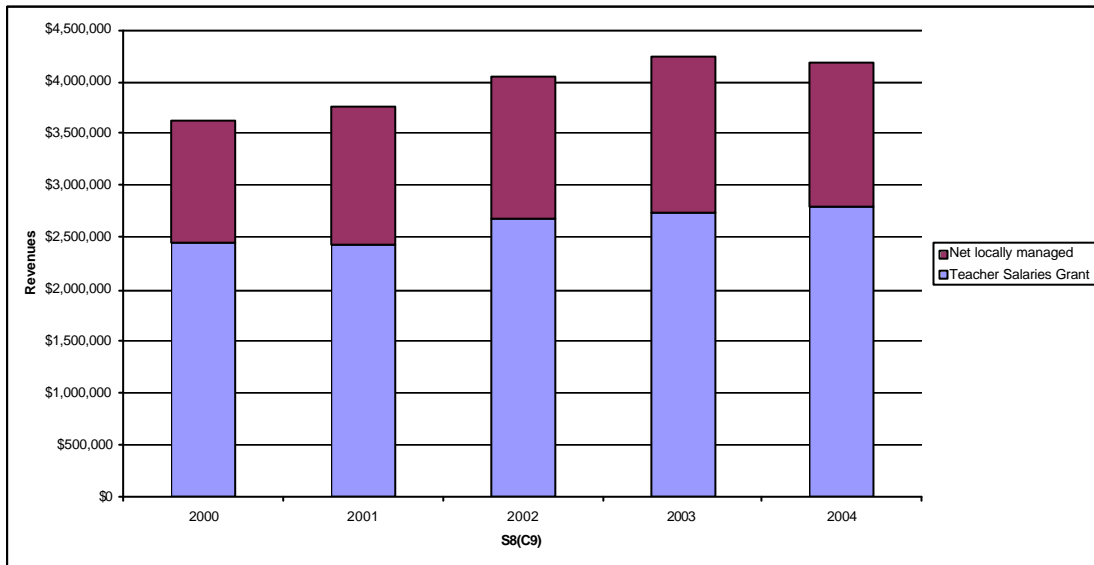


Figure 83 Breakdown of total revenues – percentage basis

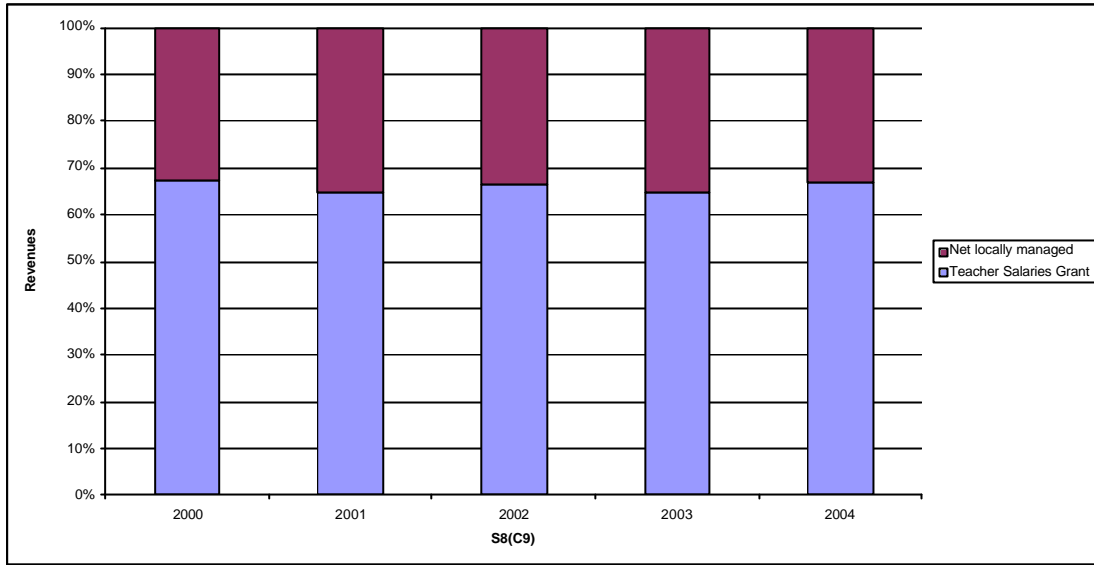


Figure 84 Breakdown of locally managed revenues – dollar basis

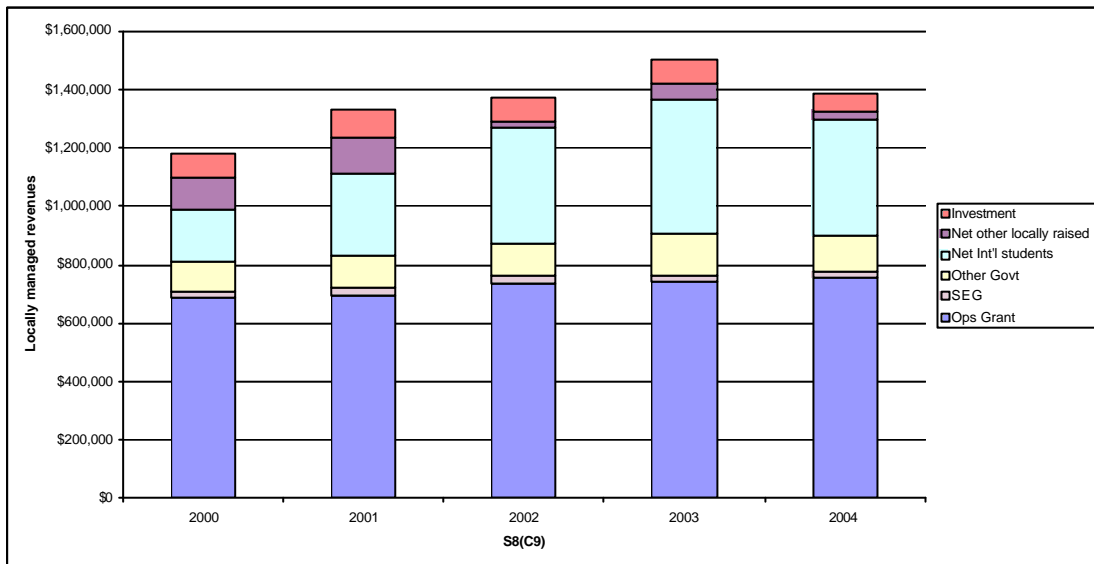


Figure 85 Breakdown of locally managed revenues – percentage basis

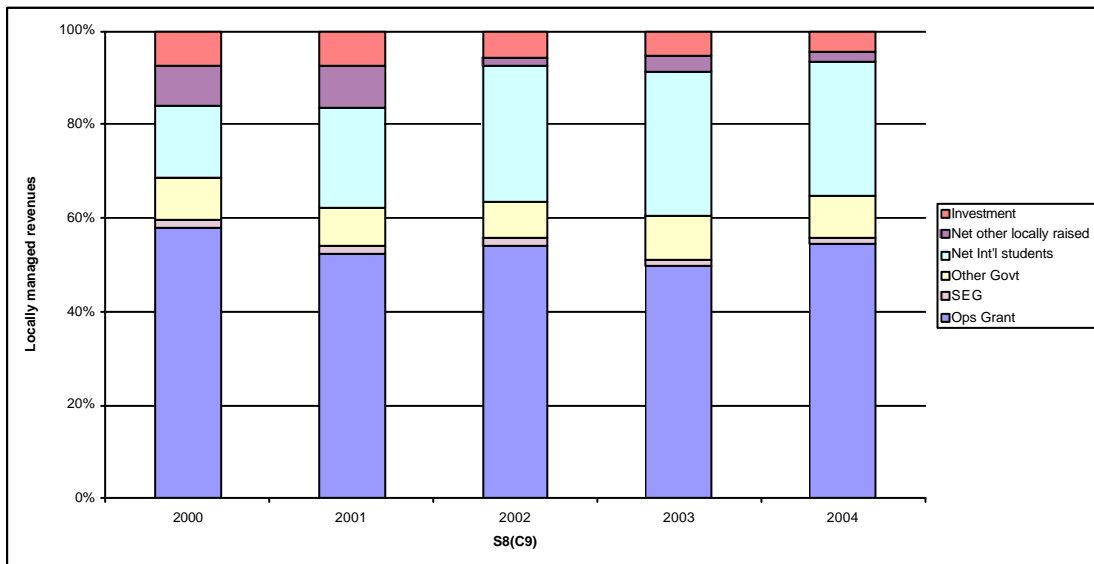


Figure 86 Breakdown of locally managed expenditure – dollar basis

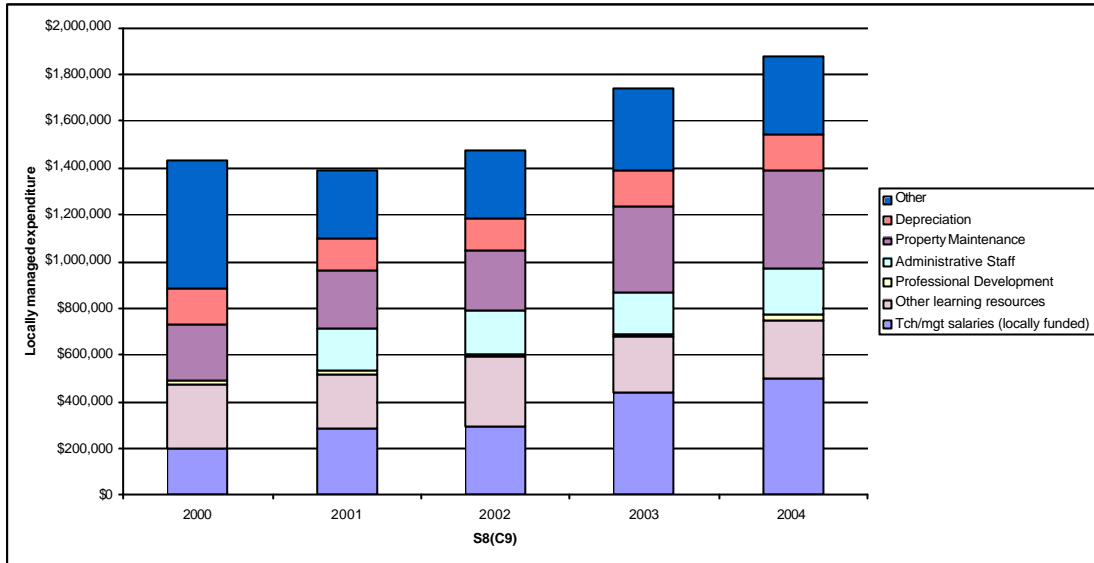
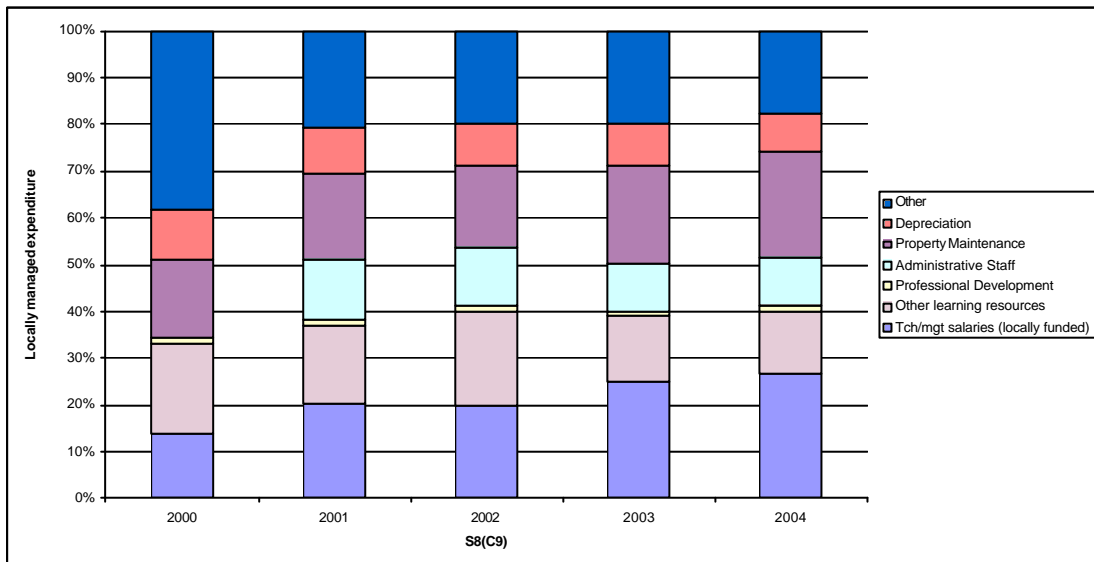


Figure 87 Breakdown of locally managed expenditure – percentage basis



Secondary school S9 (City/suburban, Decile 6)

Figure 88 Breakdown of total revenues – dollar basis

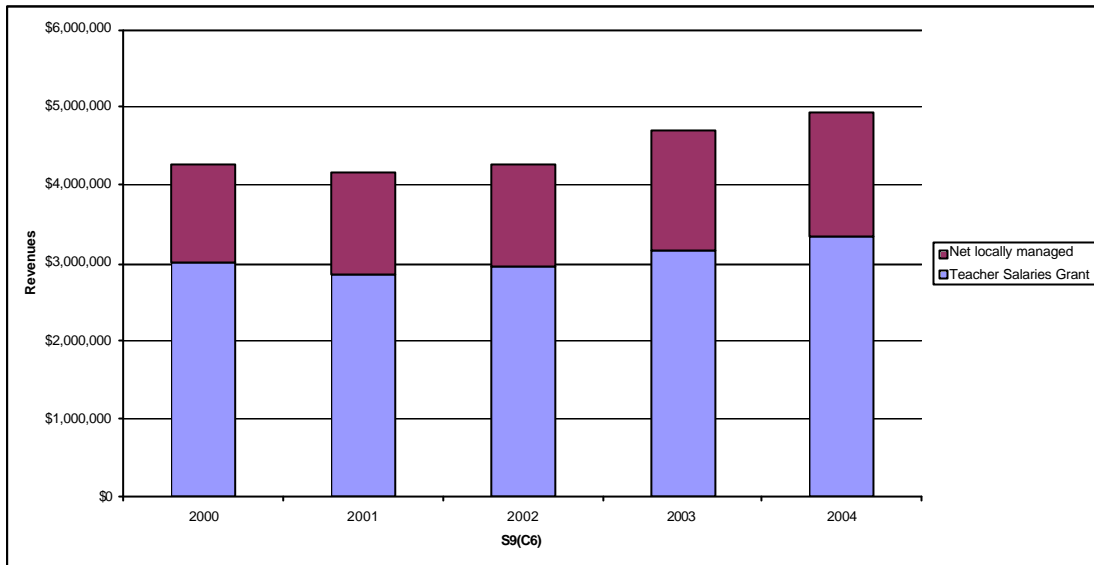


Figure 89 Breakdown of total revenues – percentage basis

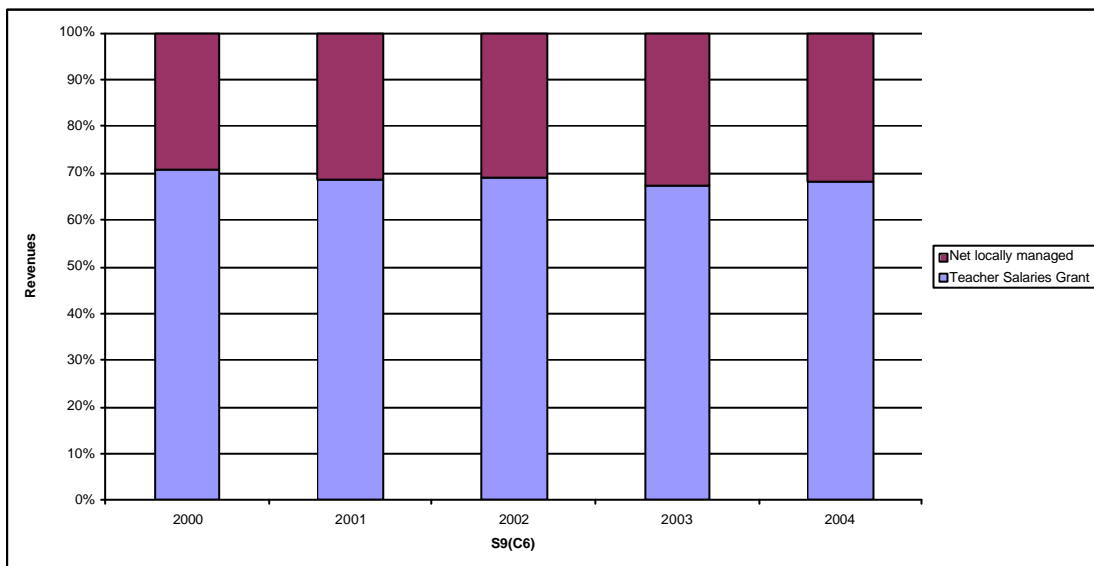


Figure 90 Breakdown of locally managed revenues – dollar basis

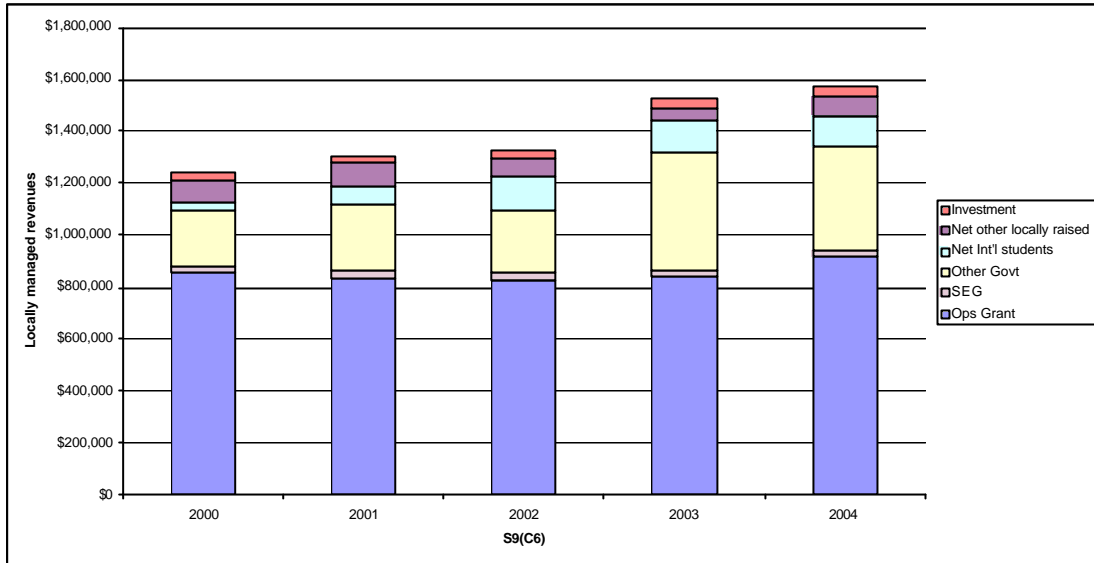


Figure 91 Breakdown of locally managed revenues – percentage basis

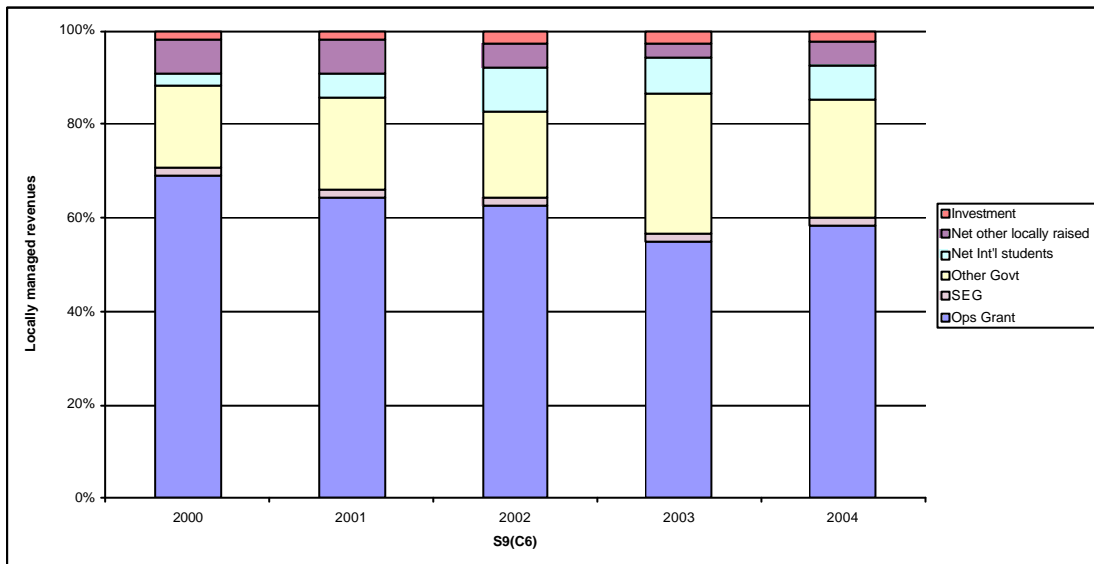


Figure 92 Breakdown of locally managed expenditure – dollar basis

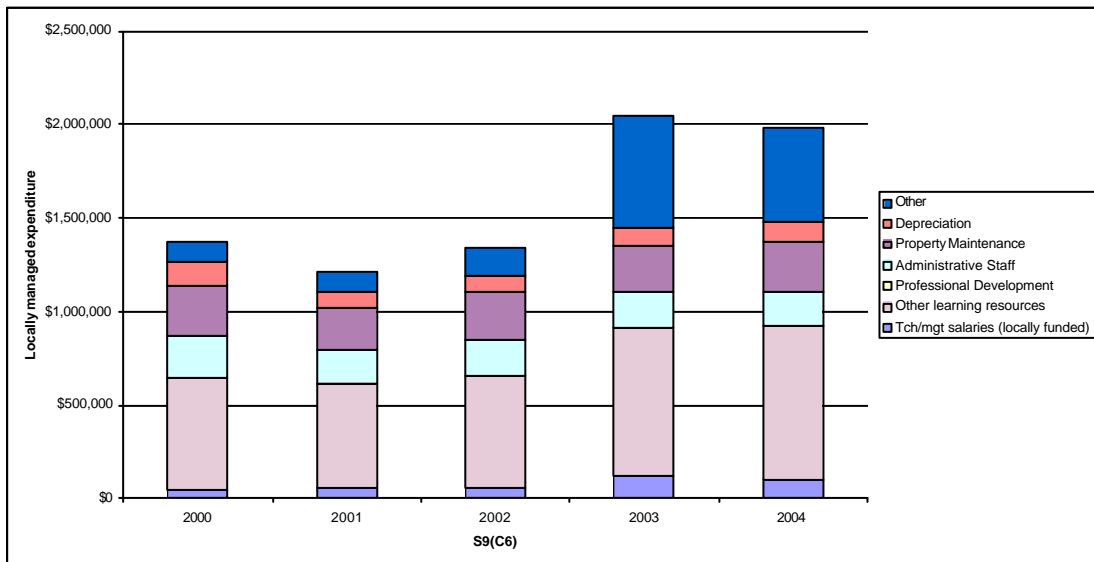
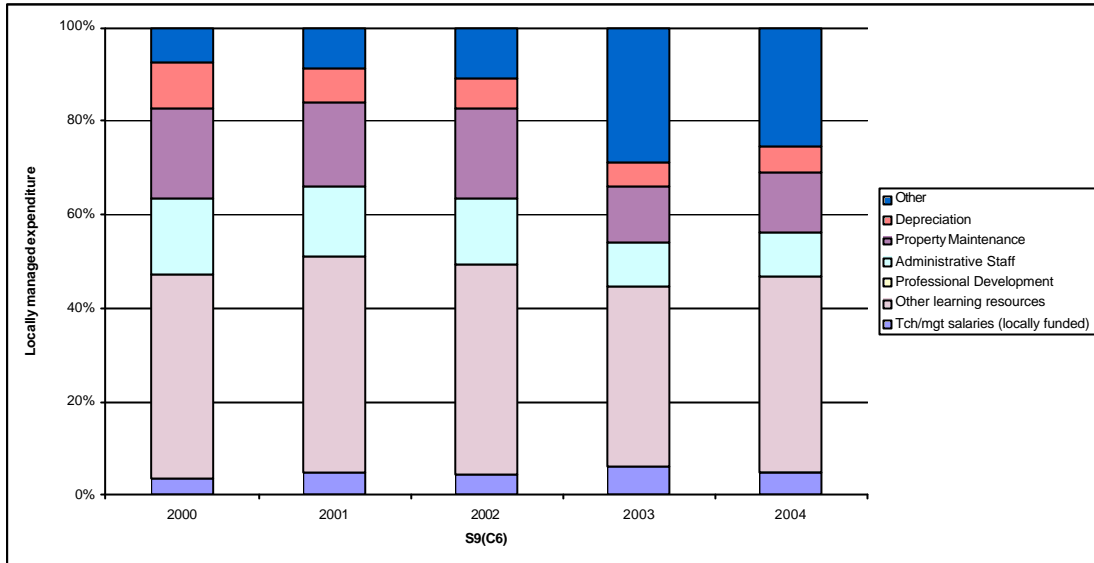


Figure 93 Breakdown of locally managed expenditure – percentage basis



Primary school P1 (City/suburban, Decile 5)

Figure 94 Breakdown of total revenues – dollar basis

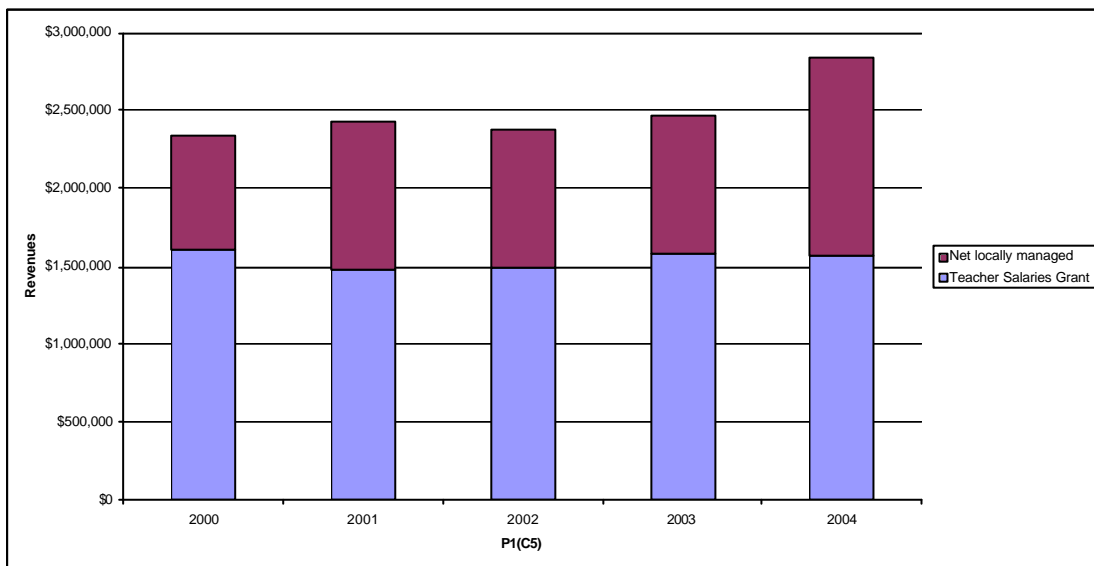


Figure 95 Breakdown of total revenues – percentage basis

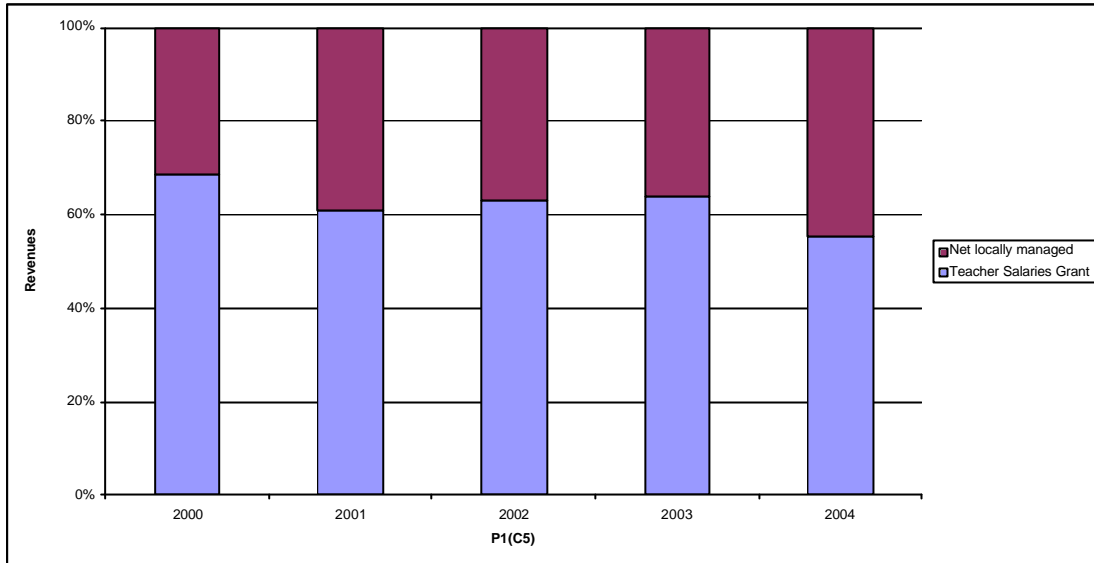


Figure 96 Breakdown of locally managed revenues – dollar basis

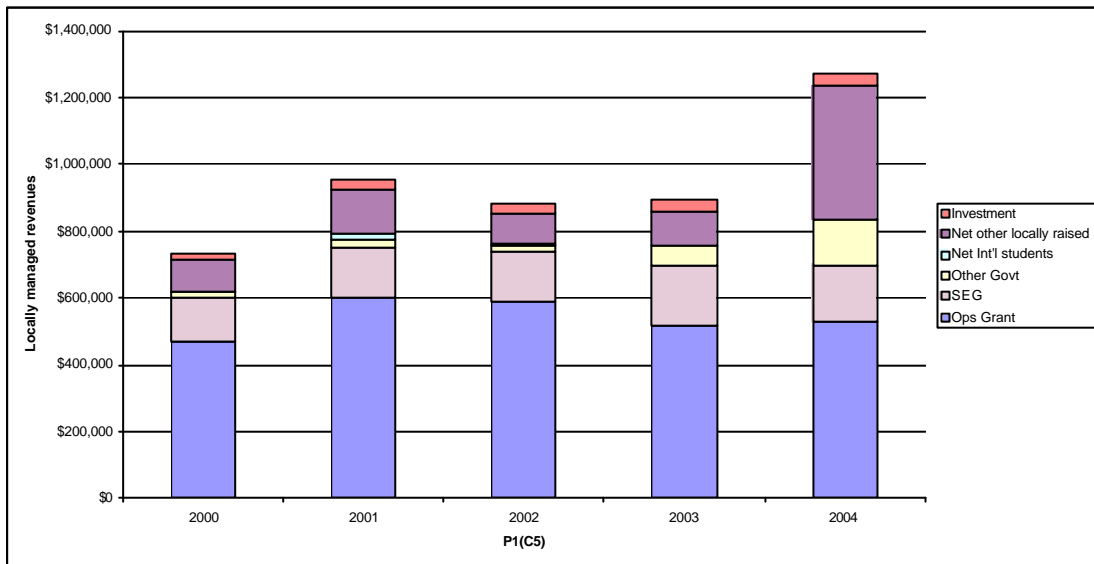


Figure 97 Breakdown of locally managed revenues – percentage basis

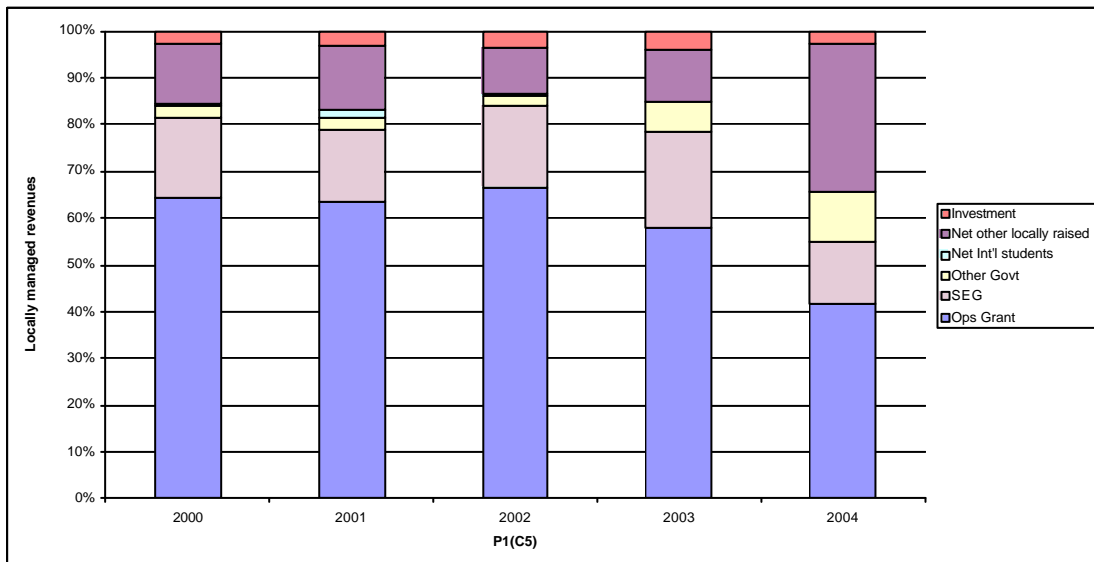


Figure 98 Breakdown of locally managed expenditure – dollar basis

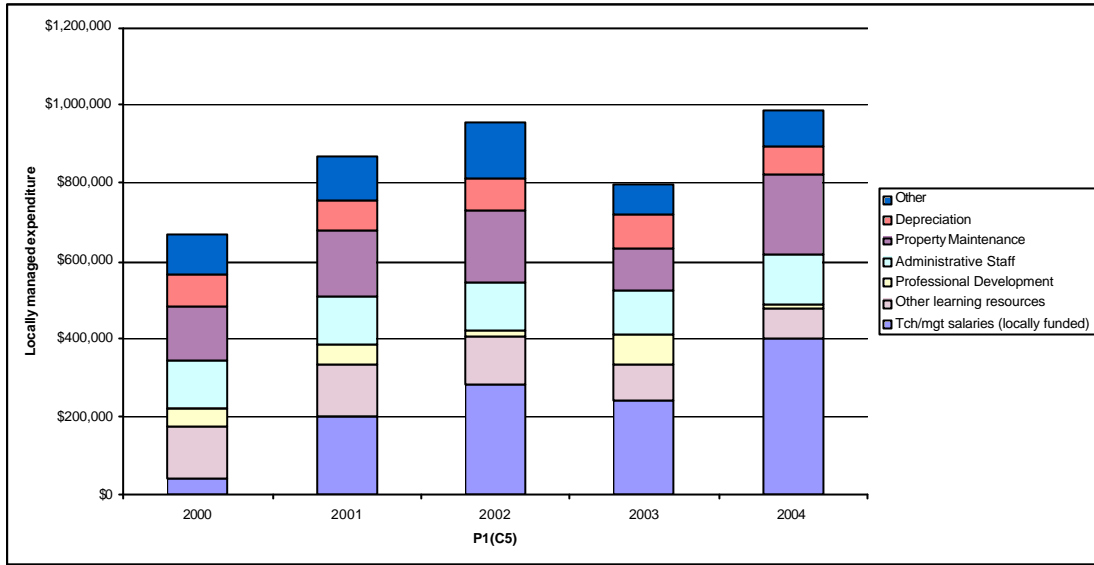
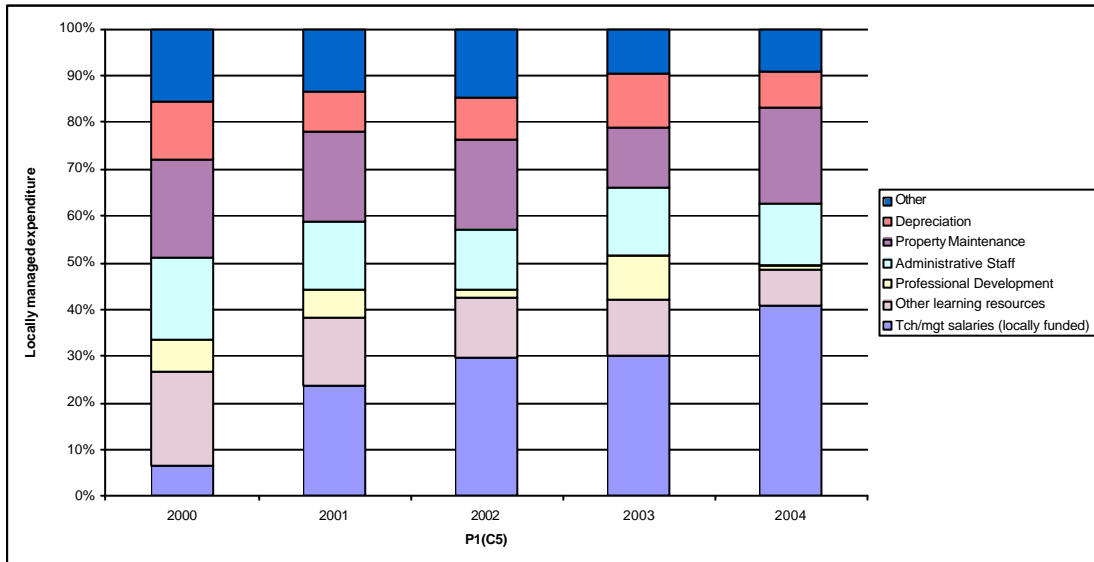


Figure 99 Breakdown of locally managed expenditure – percentage basis



Primary school P2 (City/suburban, Decile 6)

Figure 100 Breakdown of total revenues – dollar basis

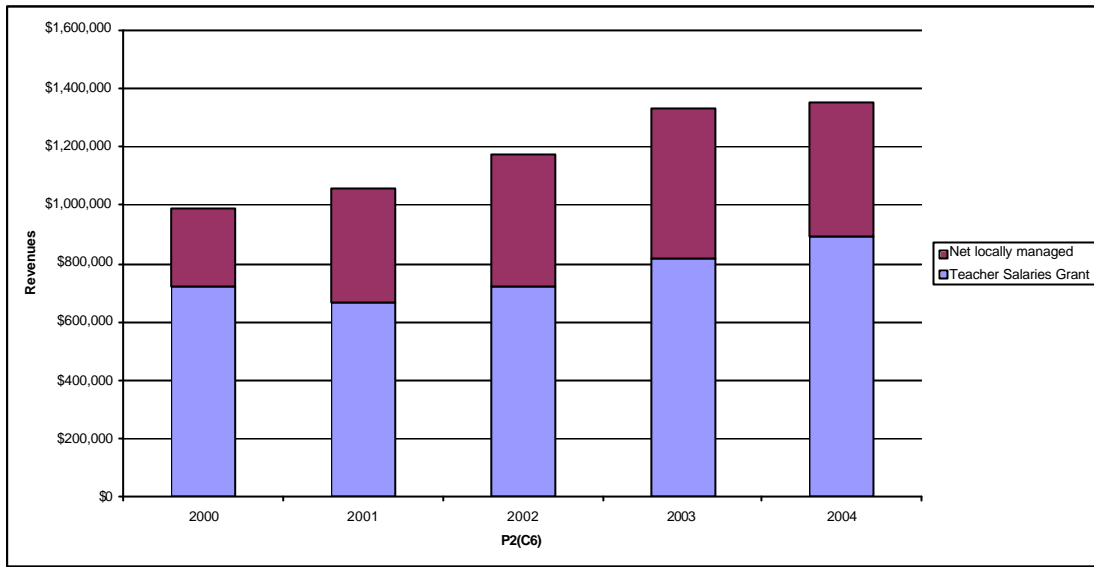


Figure 101 Breakdown of total revenues – percentage basis

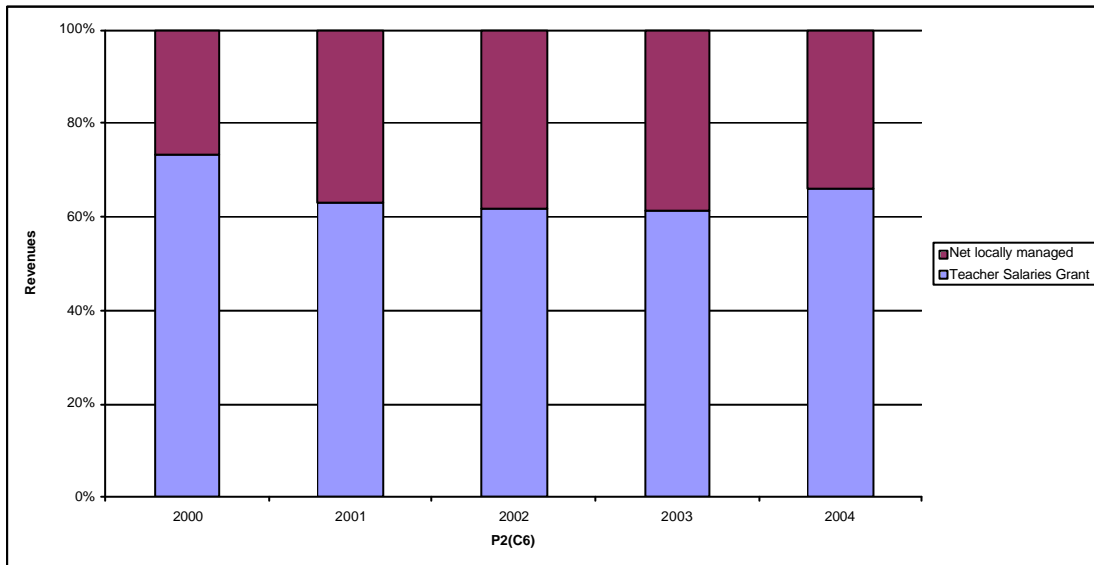


Figure 102 Breakdown of locally managed revenues – dollar basis

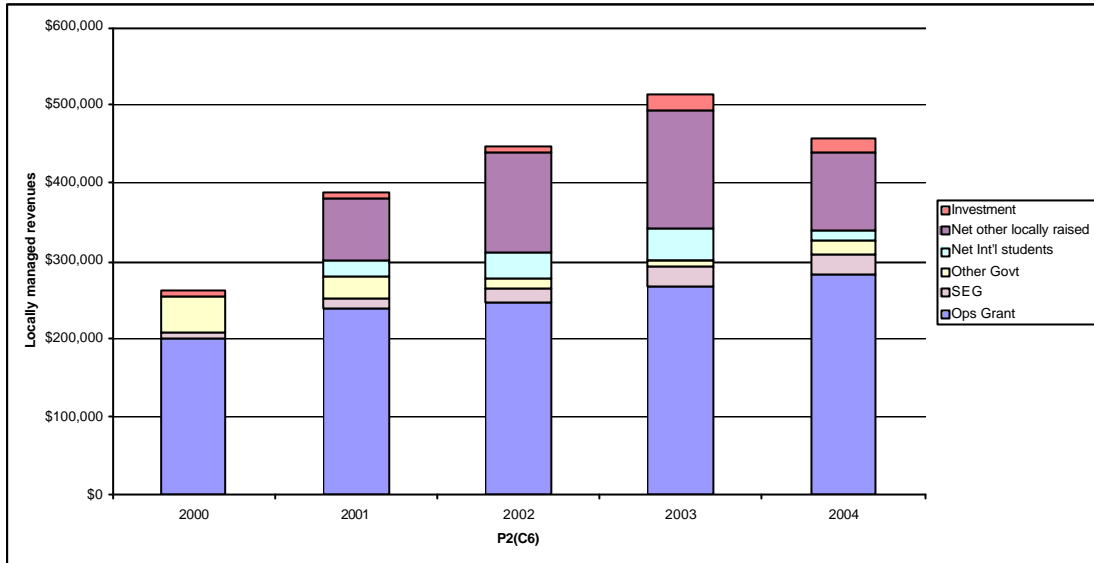


Figure 103 Breakdown of locally managed revenues – percentage basis

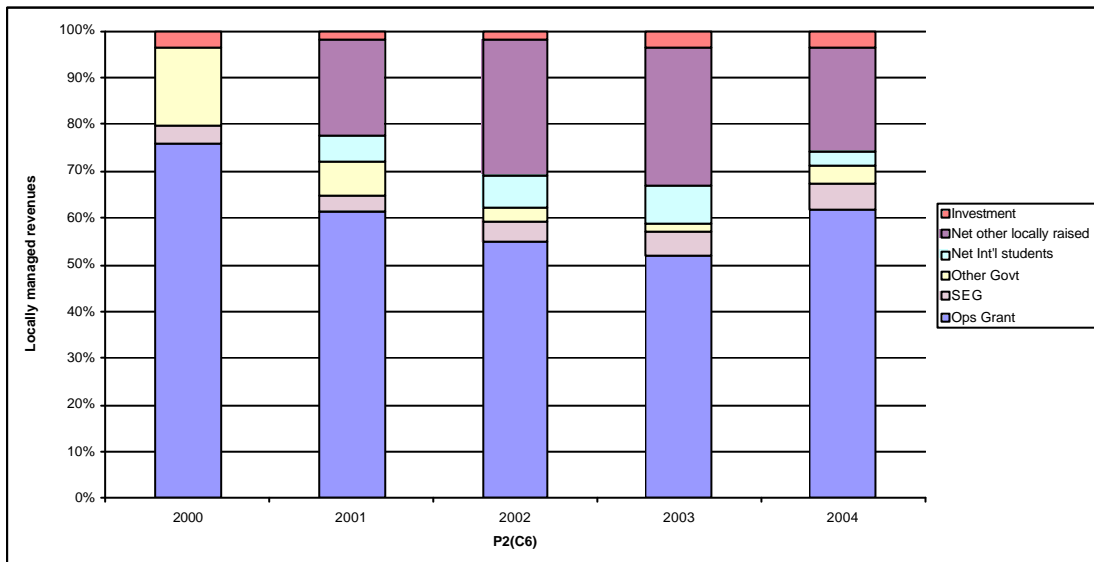


Figure 104 Breakdown of locally managed expenditure – dollar basis

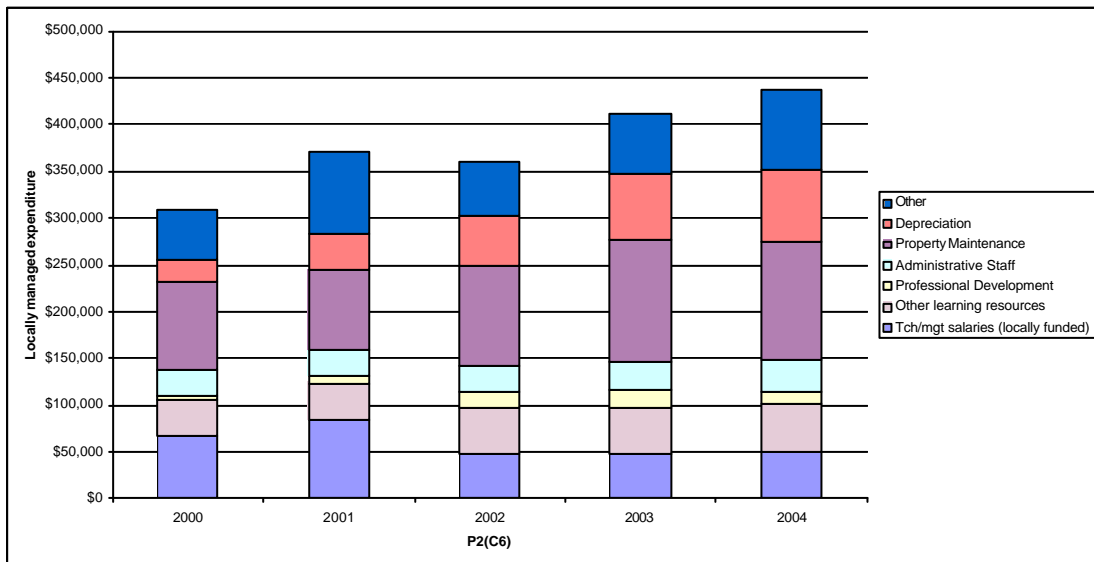
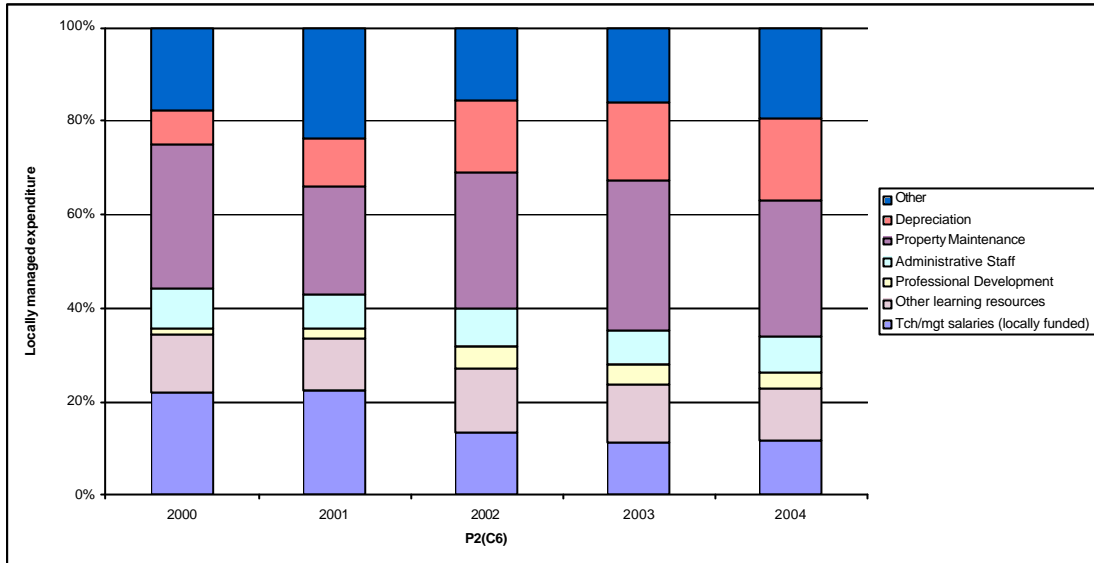


Figure 105 Breakdown of locally managed expenditure – percentage basis



Primary school P3 (Rural, Decile 10)

Figure 106 Breakdown of total revenues – dollar basis

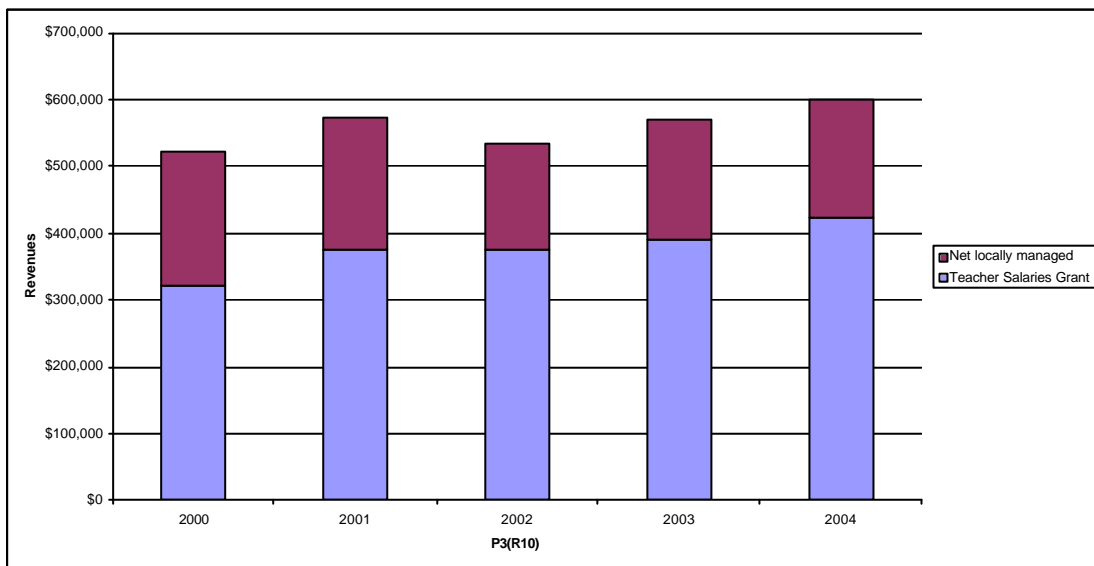


Figure 107 Breakdown of total revenues – percentage basis

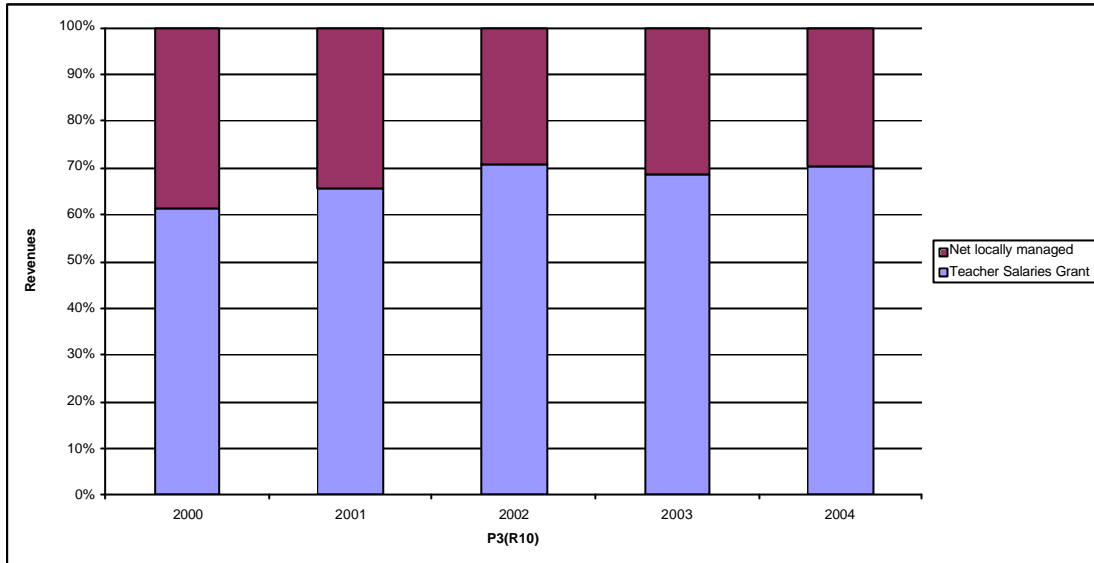


Figure 108 Breakdown of locally managed revenues – dollar basis

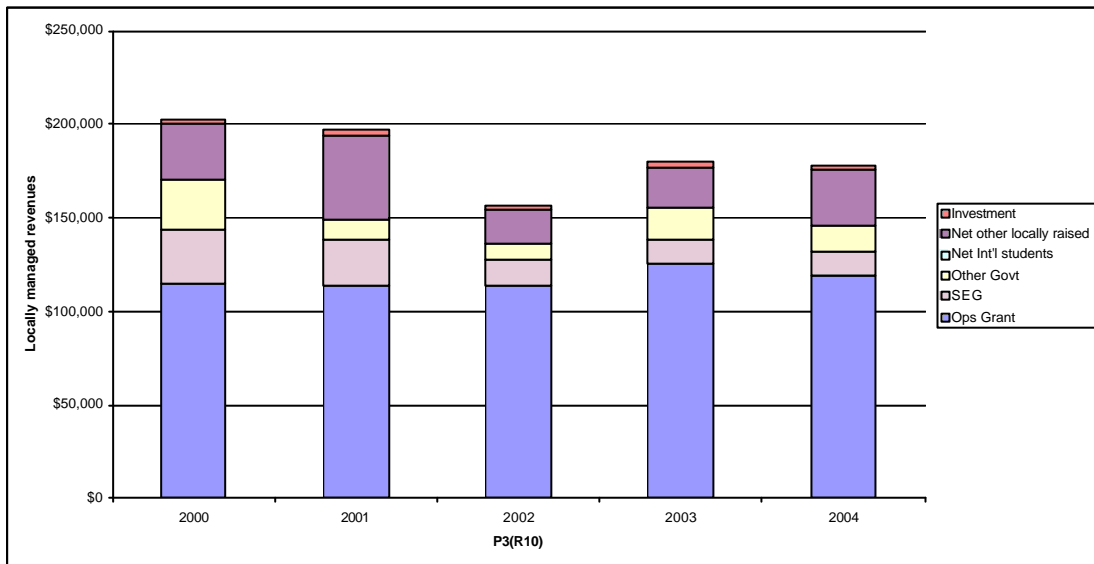


Figure 109 Breakdown of locally managed revenues – percentage basis

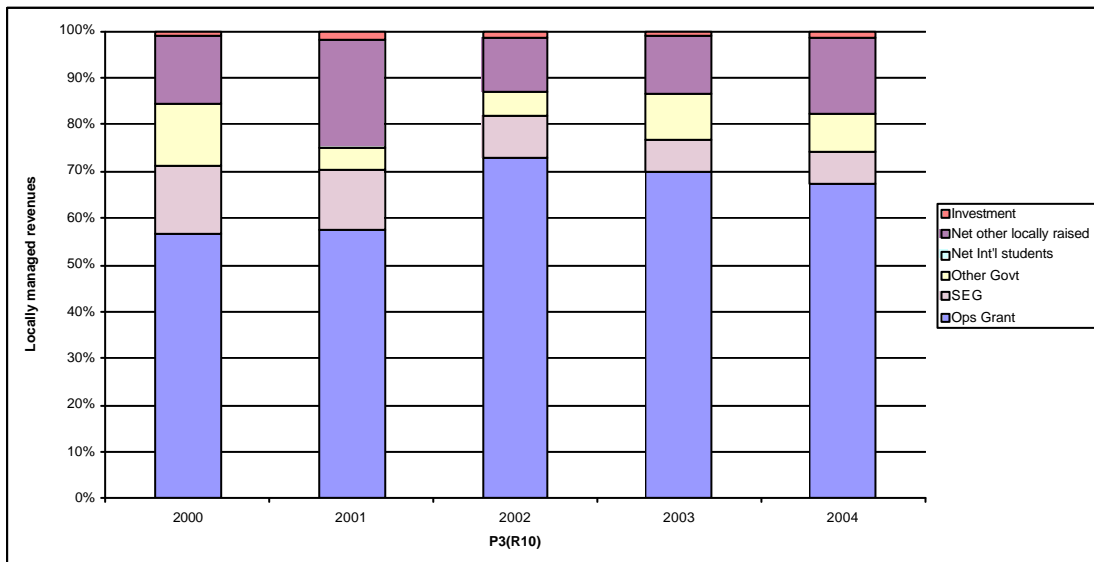


Figure 110 Breakdown of locally managed expenditure – dollar basis

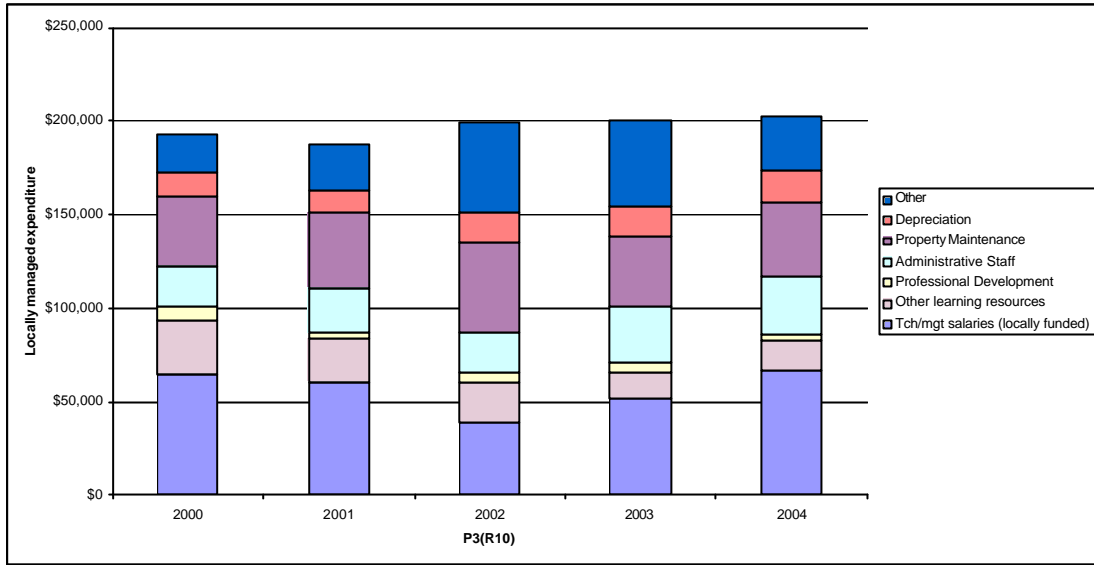
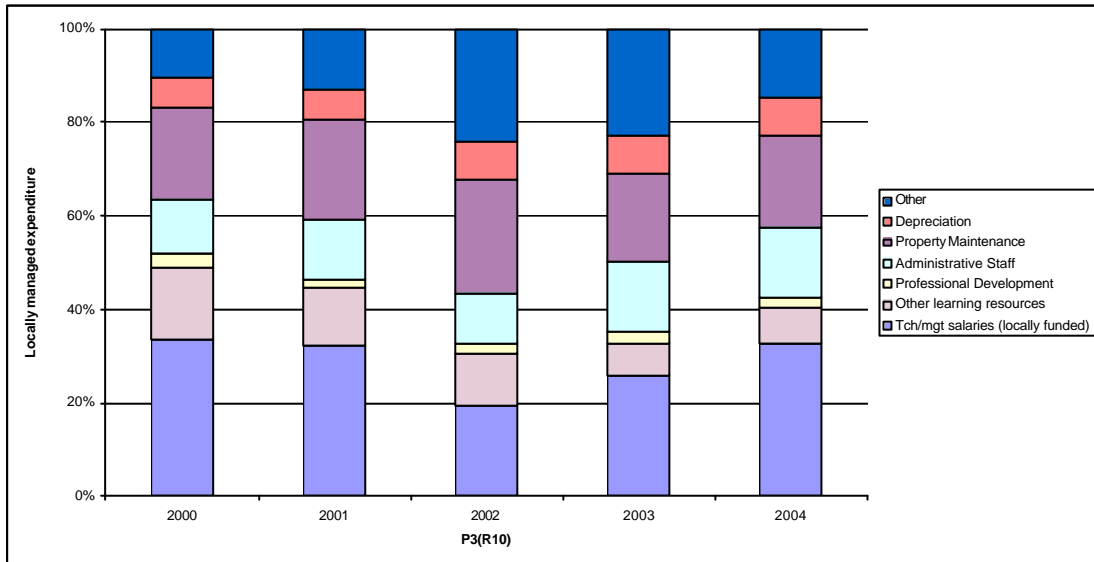


Figure 111 Breakdown of locally managed expenditure – percentage basis



Primary school P4 (City/suburban, Decile 1)

Figure 112 Breakdown of total revenues – dollar basis

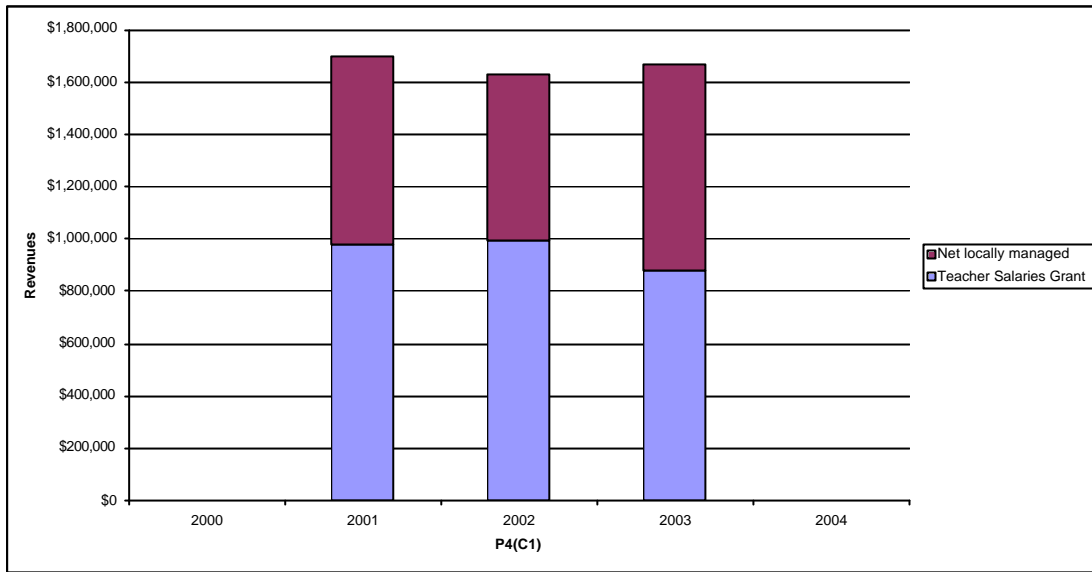


Figure 113 Breakdown of total revenues – percentage basis

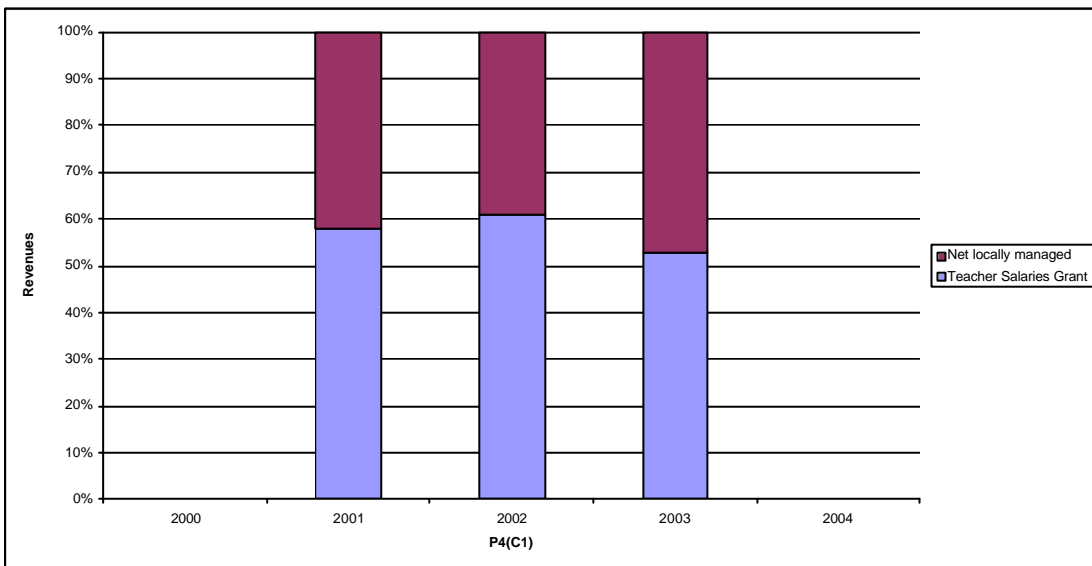


Figure 114 Breakdown of locally managed revenues – dollar basis

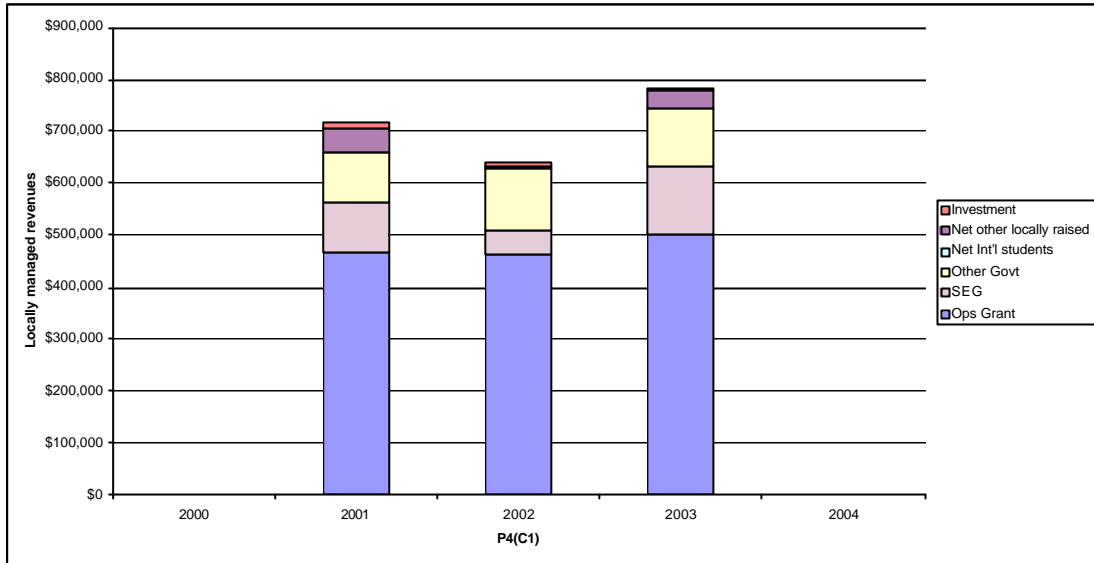


Figure 115 Breakdown of locally managed revenues – percentage basis

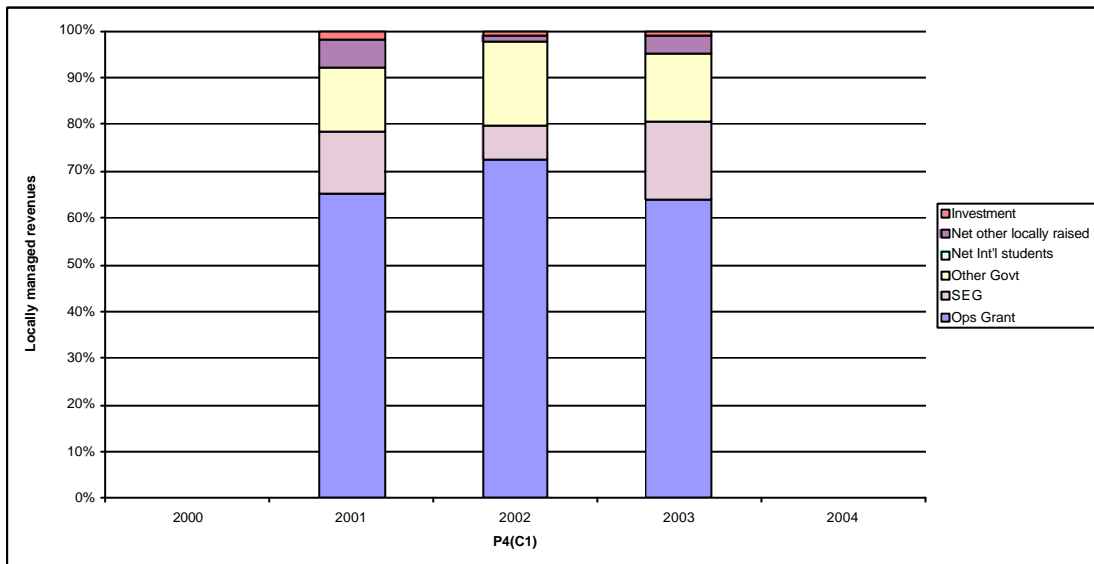


Figure 116 Breakdown of locally managed expenditure – dollar basis

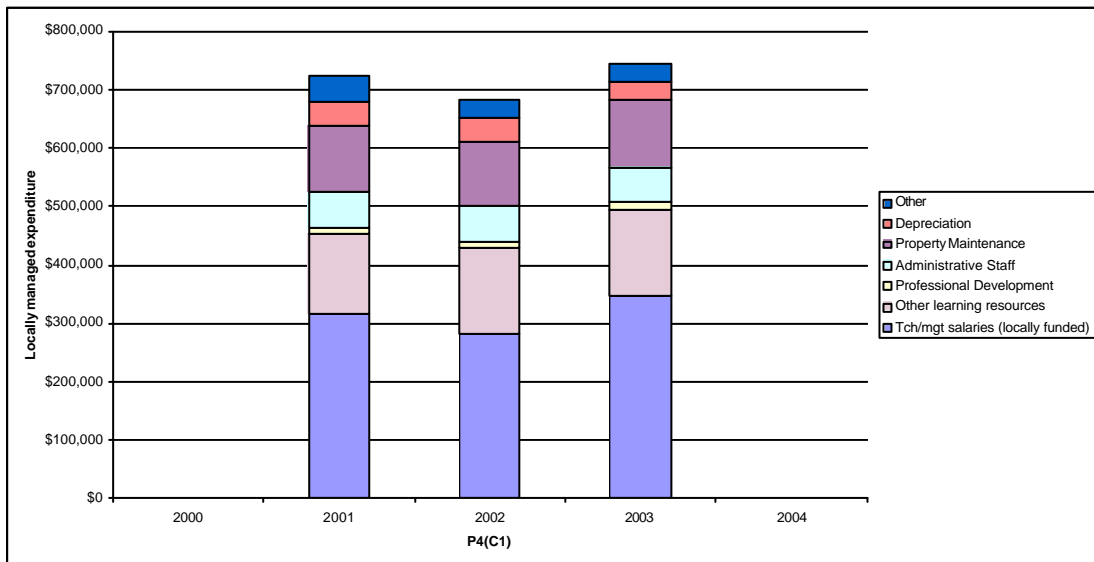
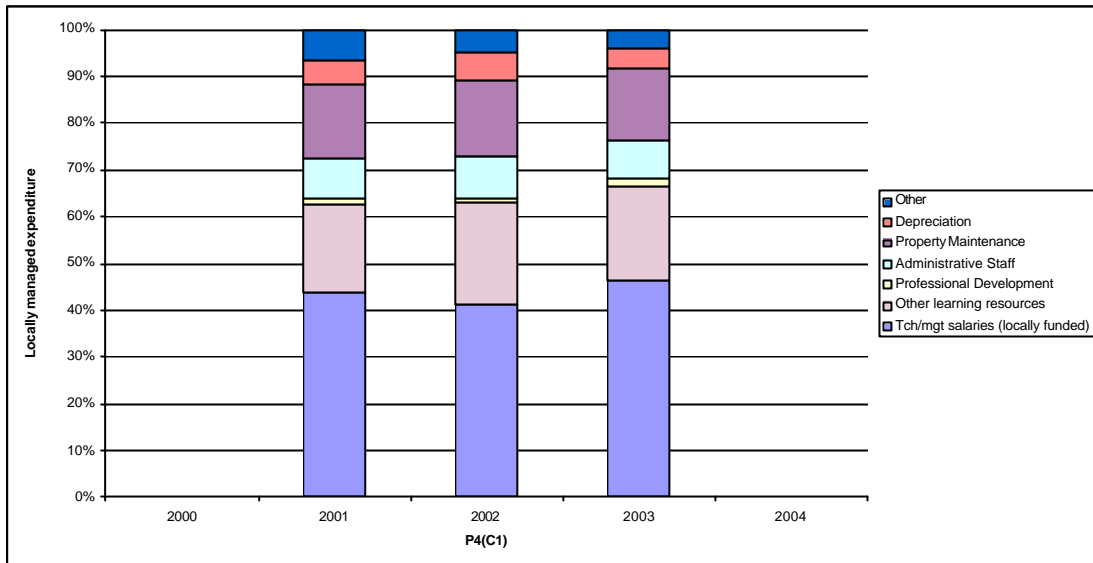


Figure 117 Breakdown of locally managed expenditure – percentage basis



Primary school P5 (Provincial centre, Decile 1)

Figure 118 Breakdown of total revenues – dollar basis

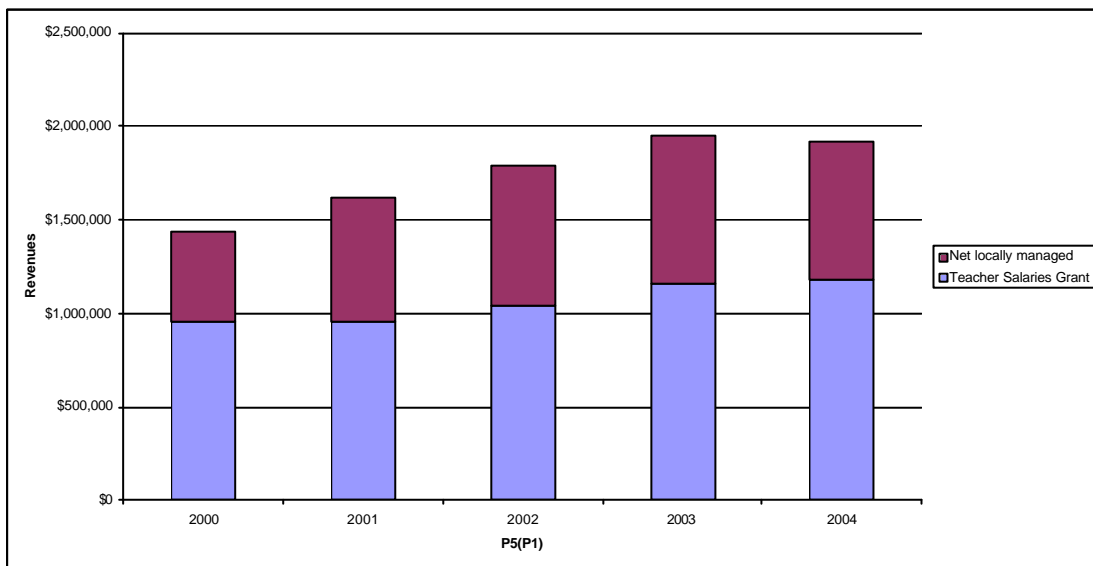


Figure 119 Breakdown of total revenues – percentage basis

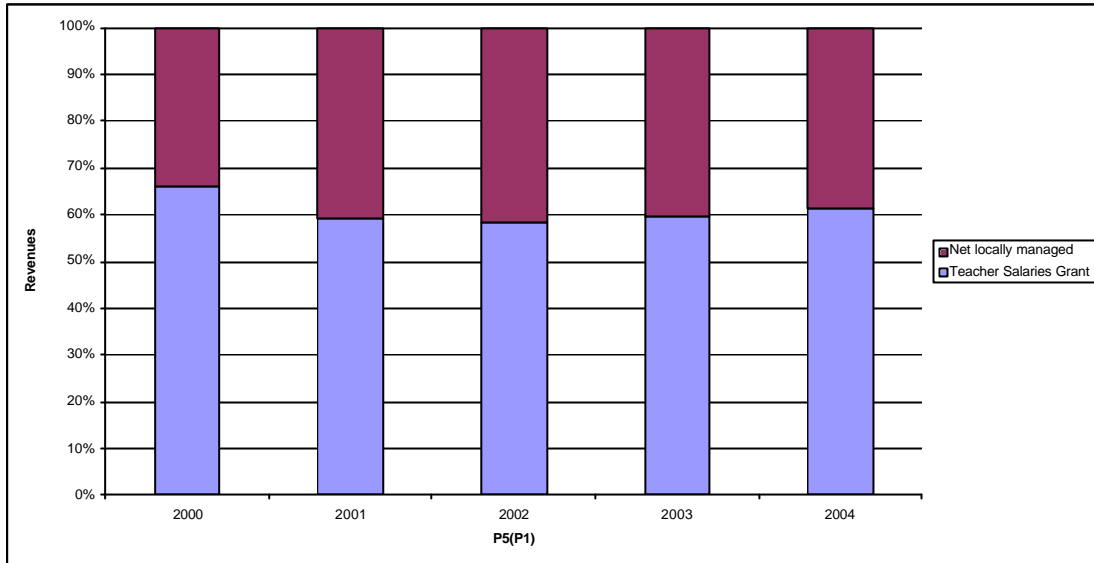


Figure 120 Breakdown of locally managed revenues – dollar basis

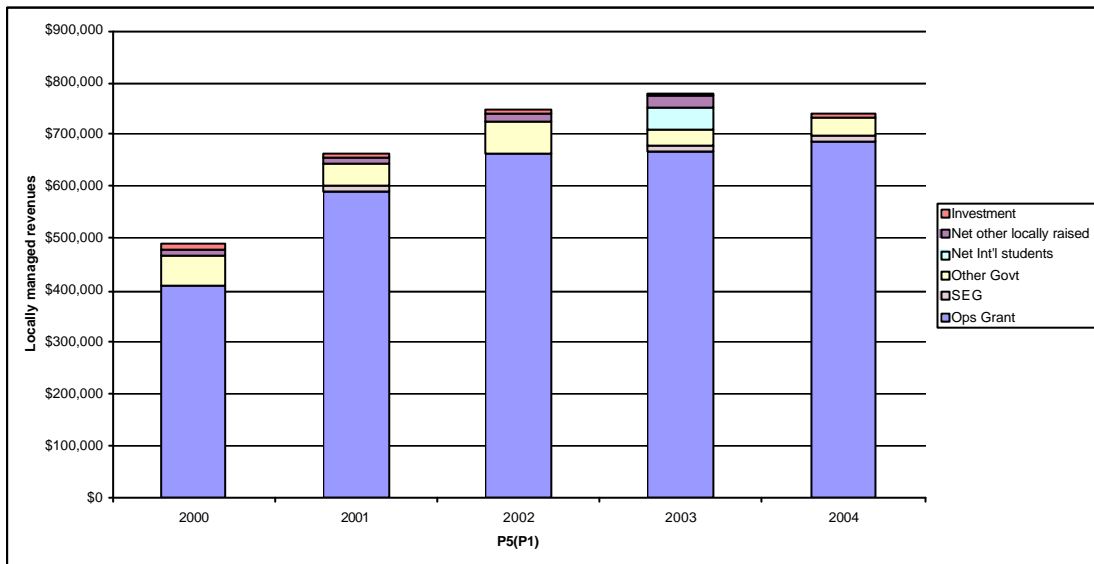


Figure 121 Breakdown of locally managed revenues – percentage basis

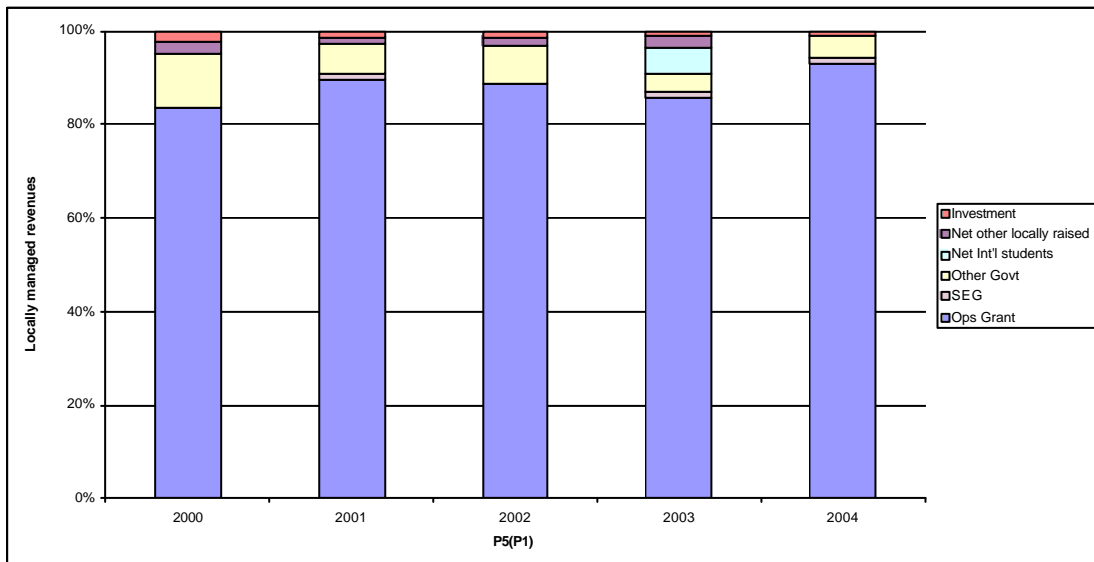


Figure 122 Breakdown of locally managed expenditure – dollar basis

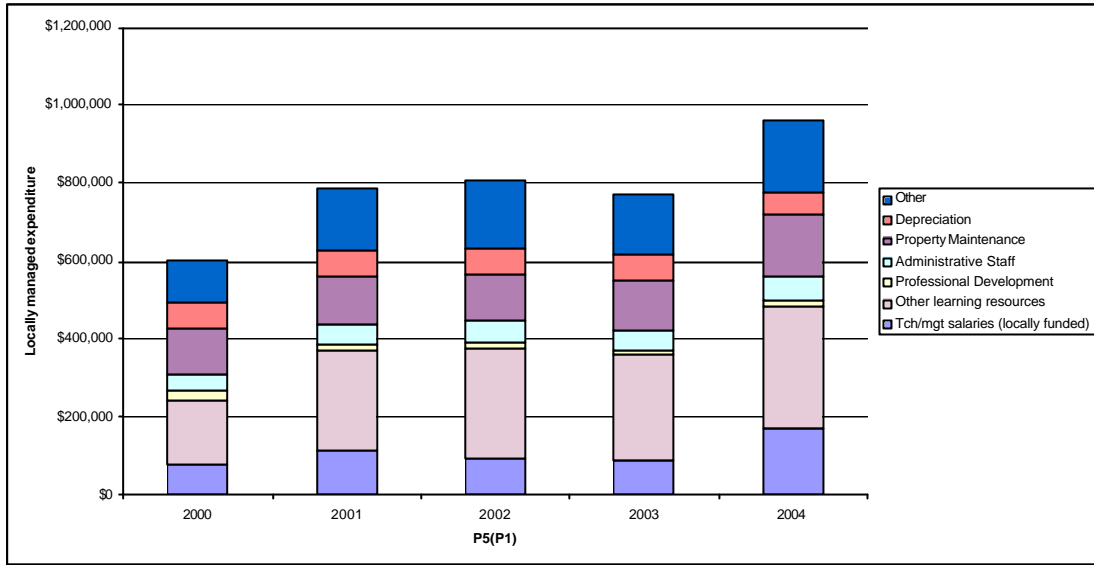
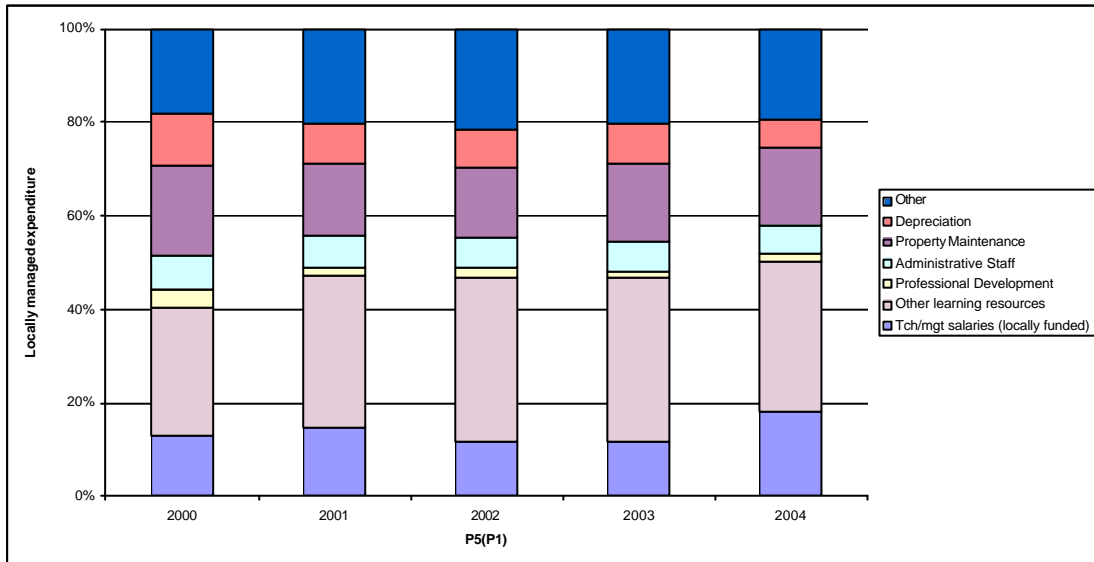


Figure 123 Breakdown of locally managed expenditure – percentage basis



Primary school P6 (City/suburban, Decile 2)

Figure 124 Breakdown of total revenues – dollar basis

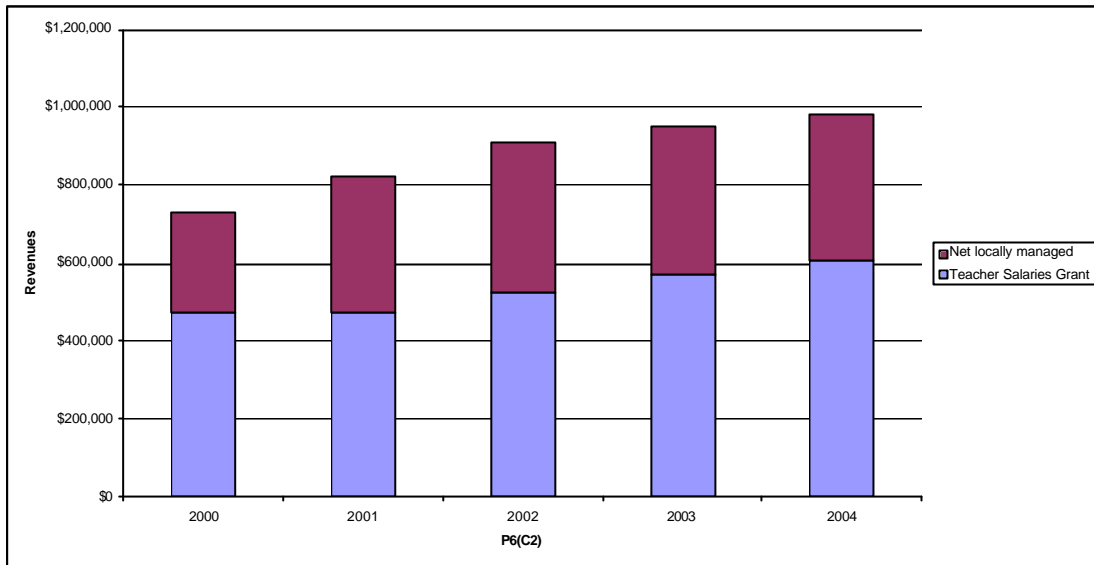


Figure 125 Breakdown of total revenues – percentage basis

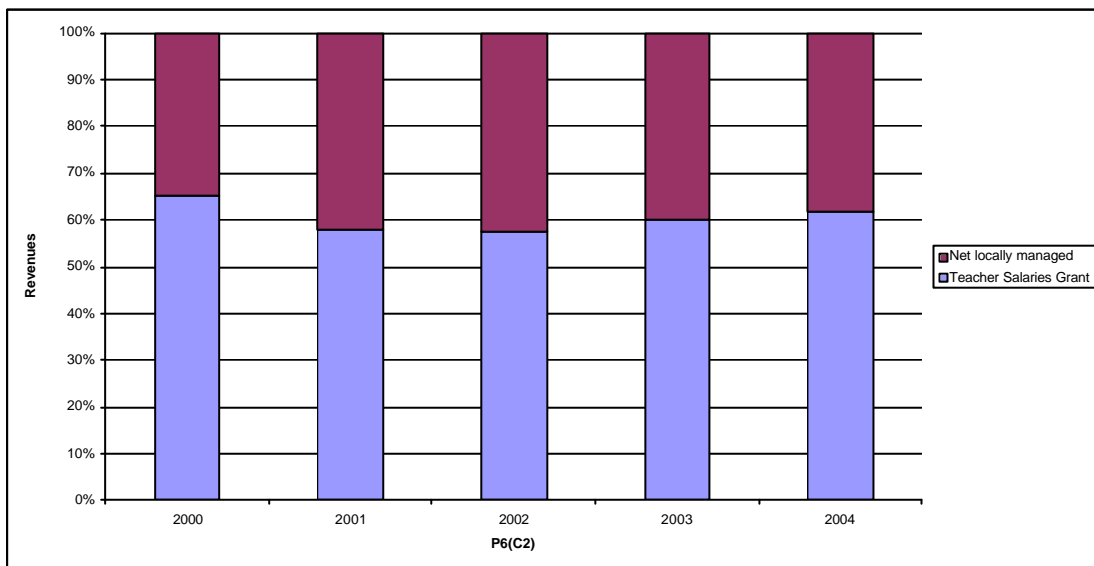


Figure 126 Breakdown of locally managed revenues – dollar basis

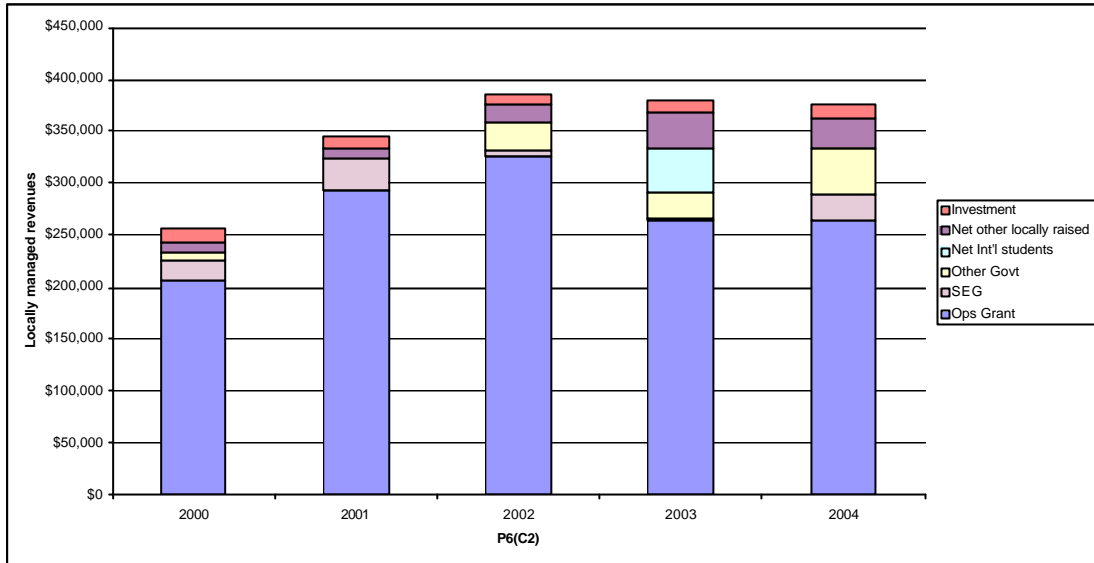


Figure 127 Breakdown of locally managed revenues – percentage basis

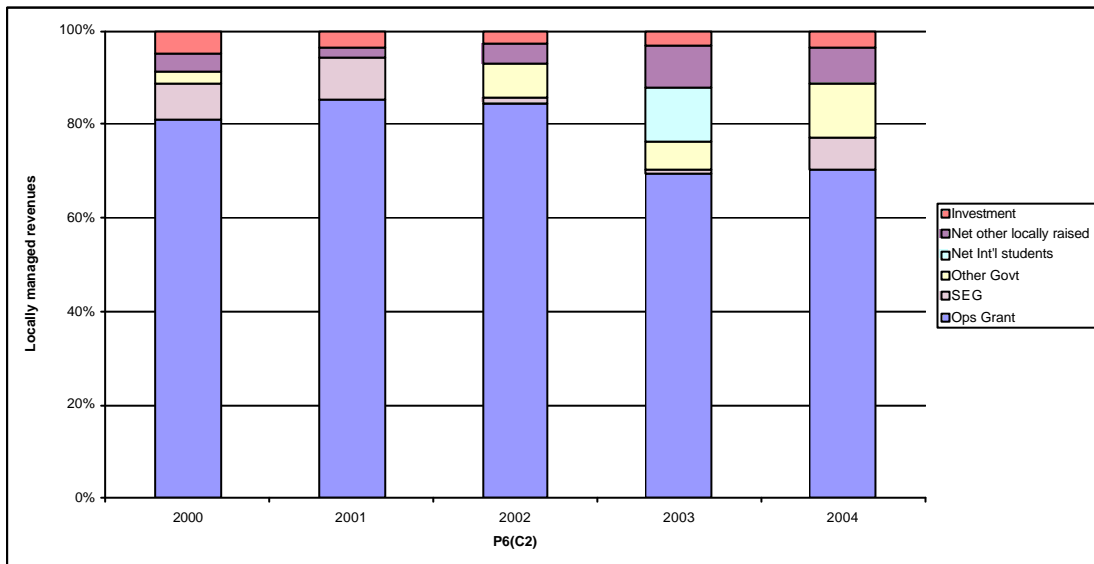


Figure 128 Breakdown of locally managed expenditure – dollar basis

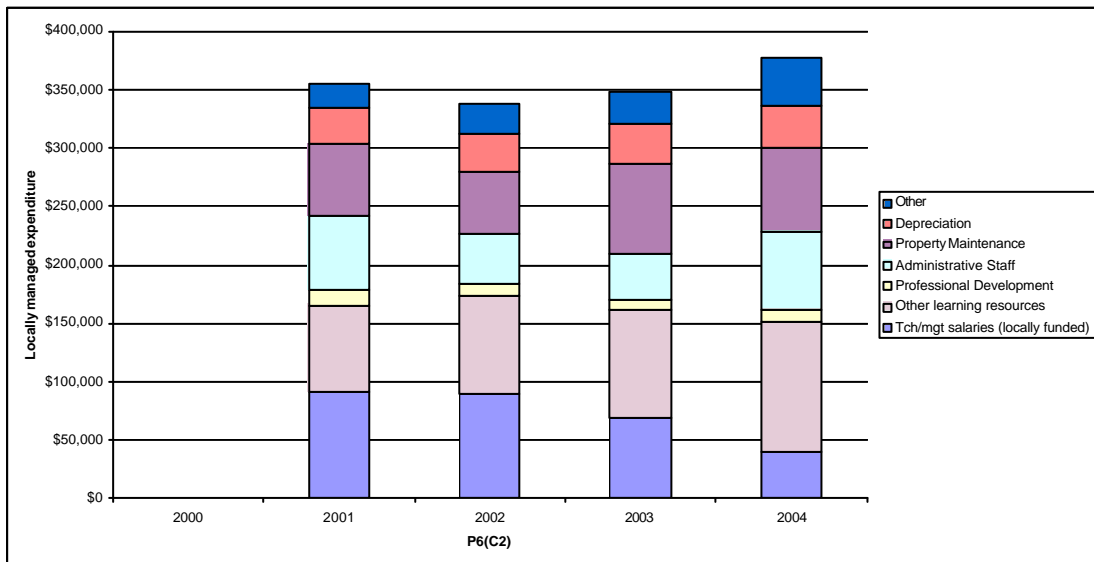
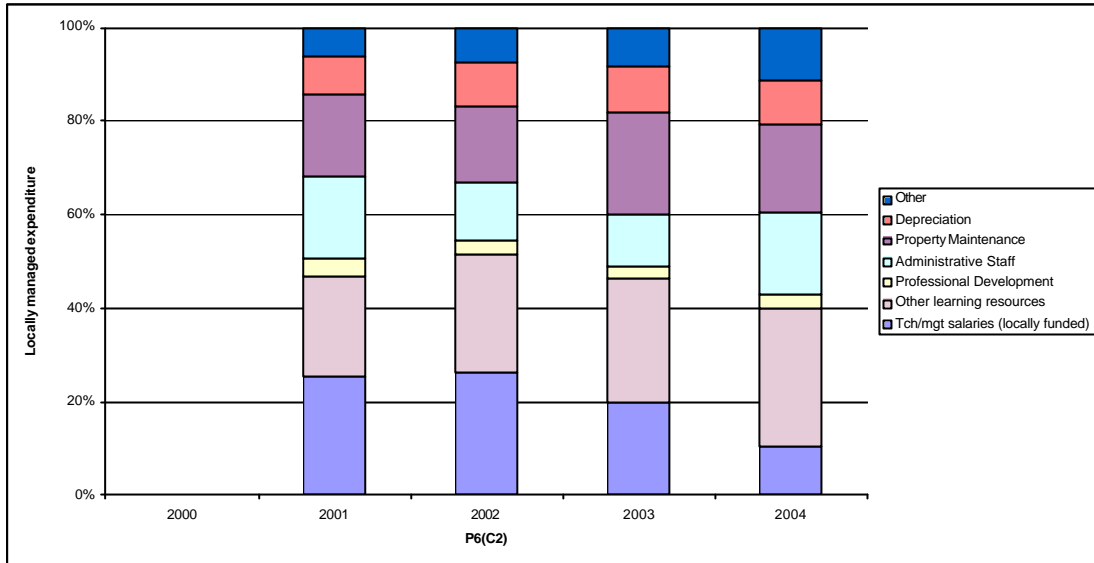


Figure 129 Breakdown of locally managed expenditure – percentage basis



Primary school P7 (Provincial centre, Decile 9)

Figure 130 Breakdown of total revenues – dollar basis

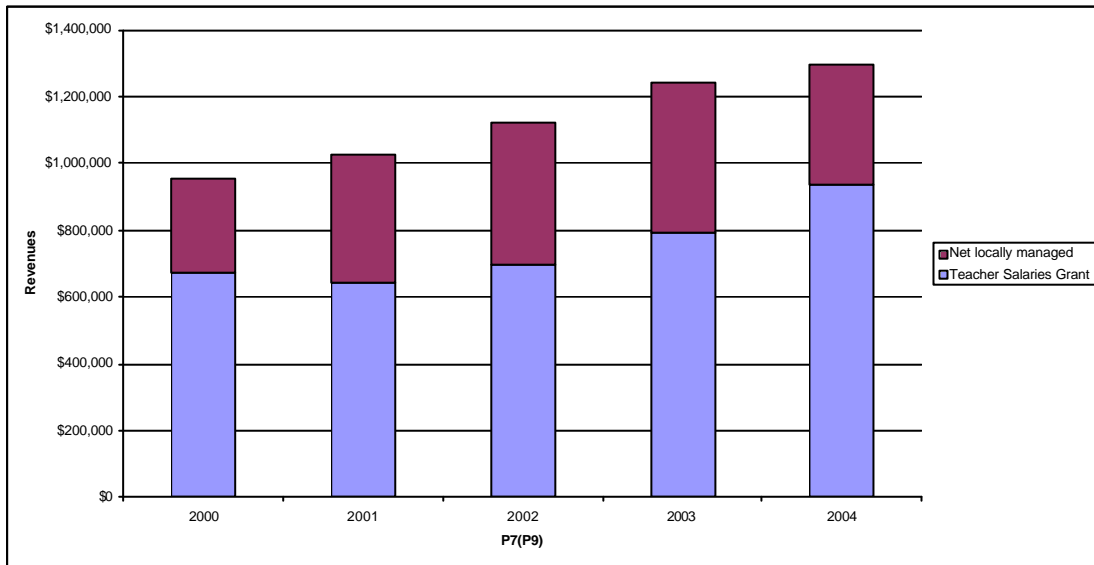


Figure 131 Breakdown of total revenues – percentage basis

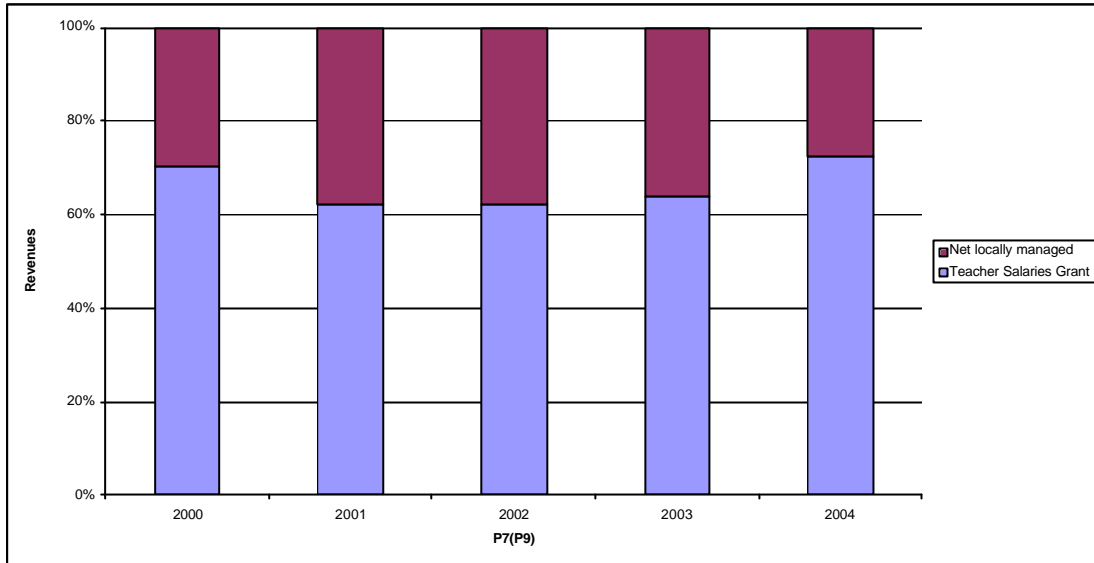


Figure 132 Breakdown of locally managed revenues – dollar basis

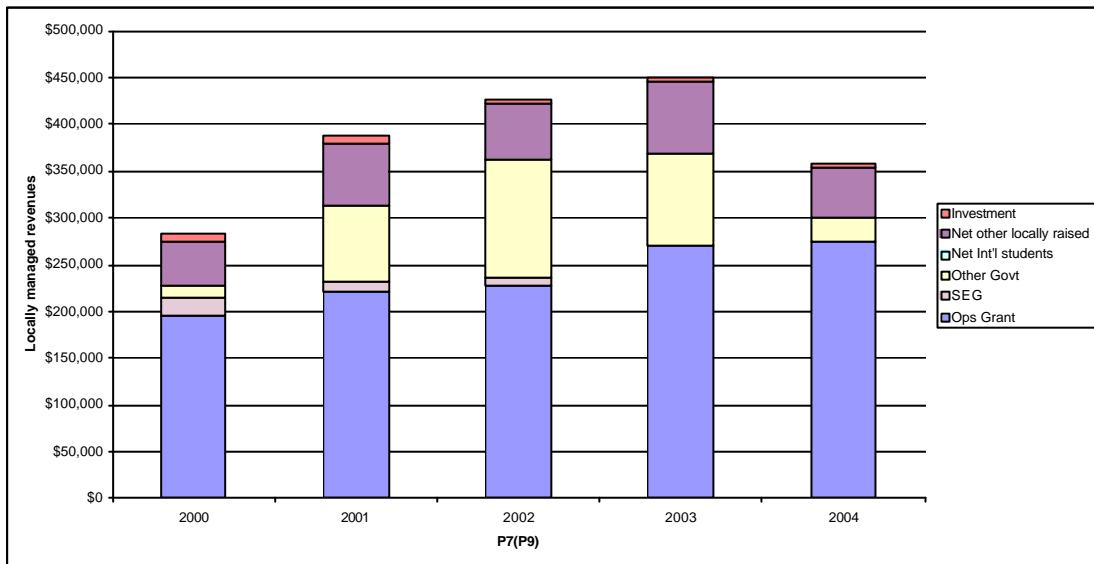


Figure 133 Breakdown of locally managed revenues – percentage basis

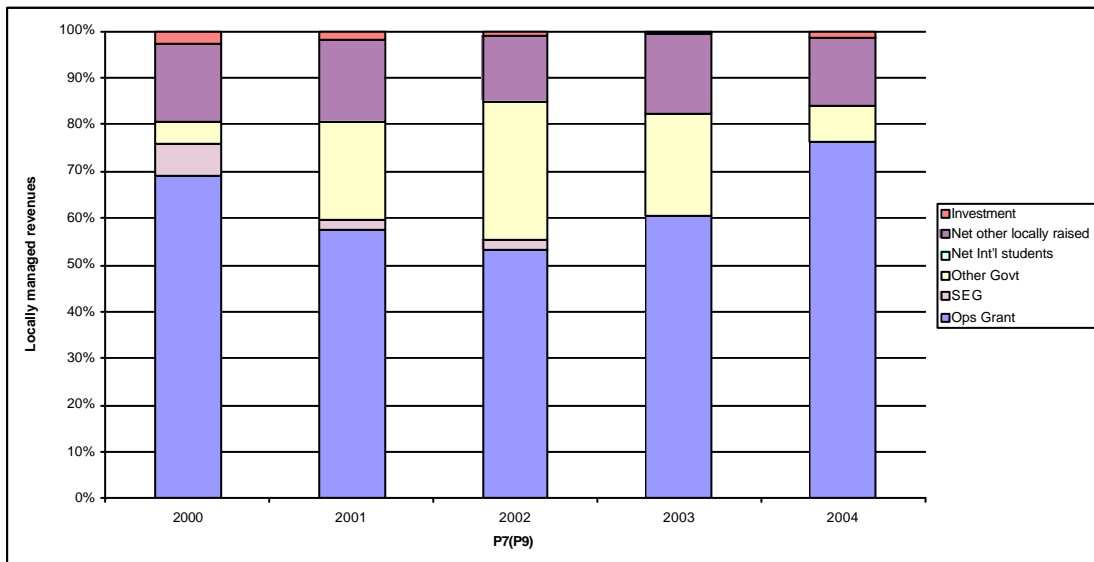


Figure 134 Breakdown of locally managed expenditure – dollar basis

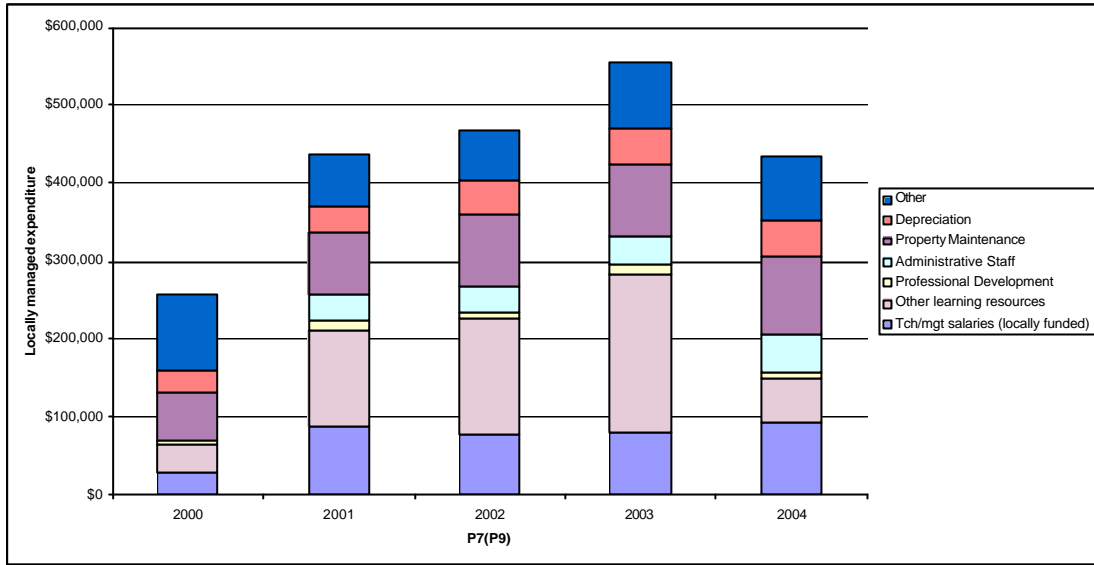
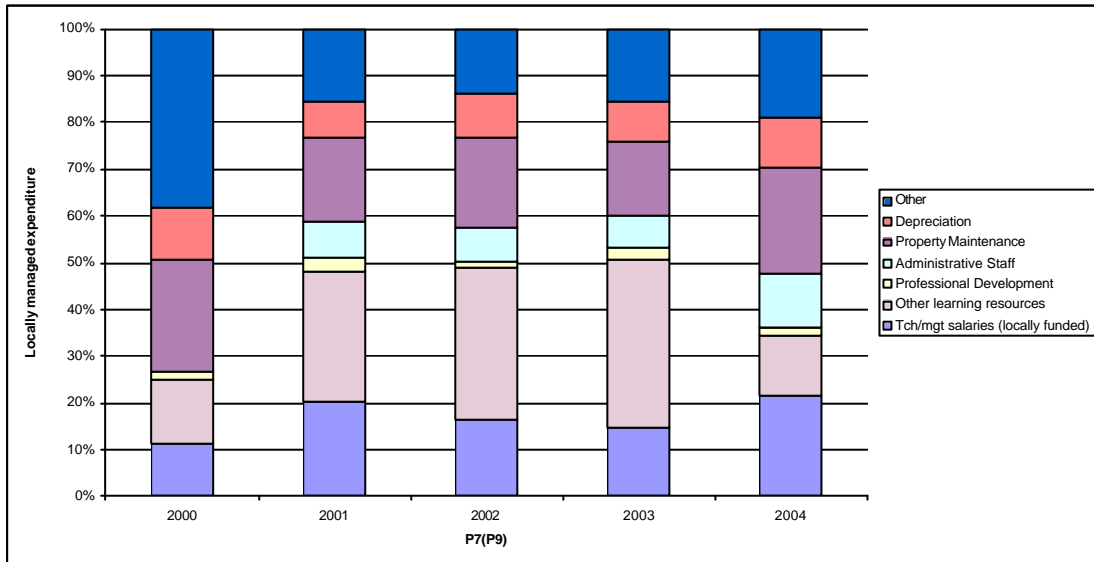


Figure 135 Breakdown of locally managed expenditure – percentage basis



Primary school P8 (City/suburban, Decile 9)

Figure 136 Breakdown of total revenues – dollar basis

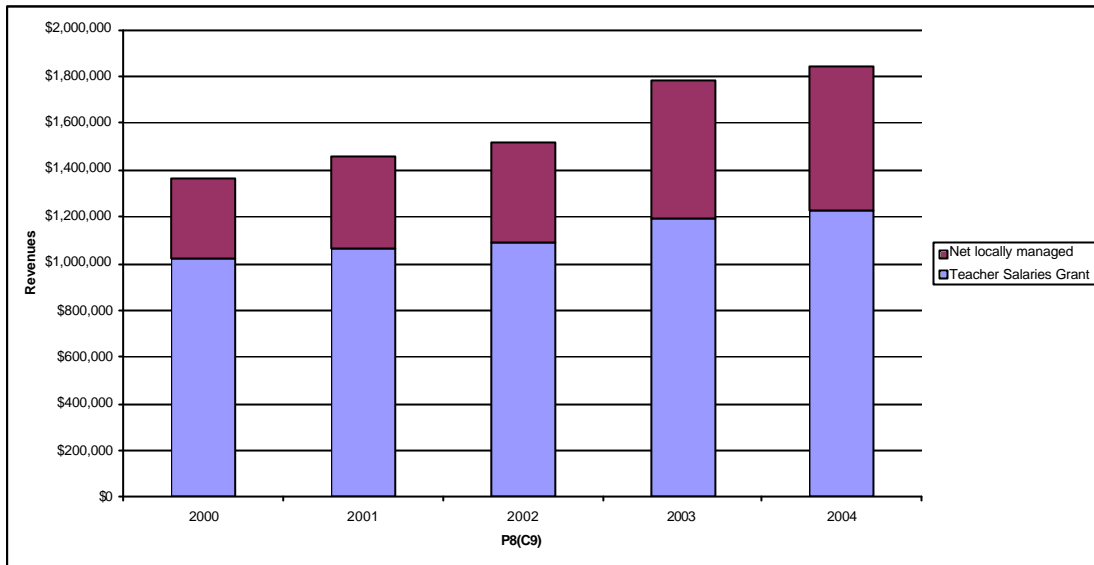


Figure 137 Breakdown of total revenues – percentage basis

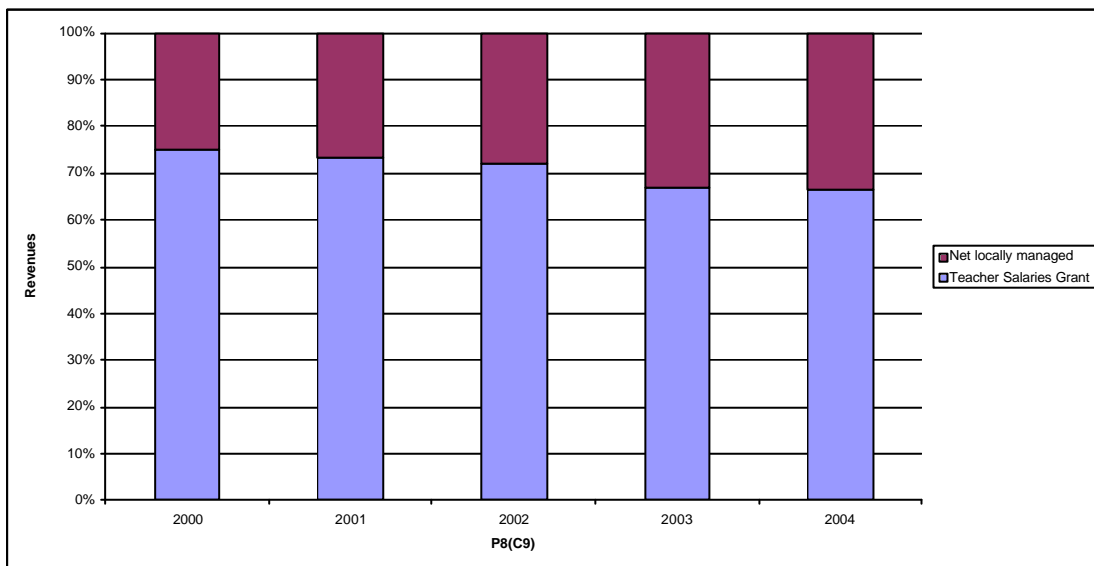


Figure 138 Breakdown of locally managed revenues – dollar basis

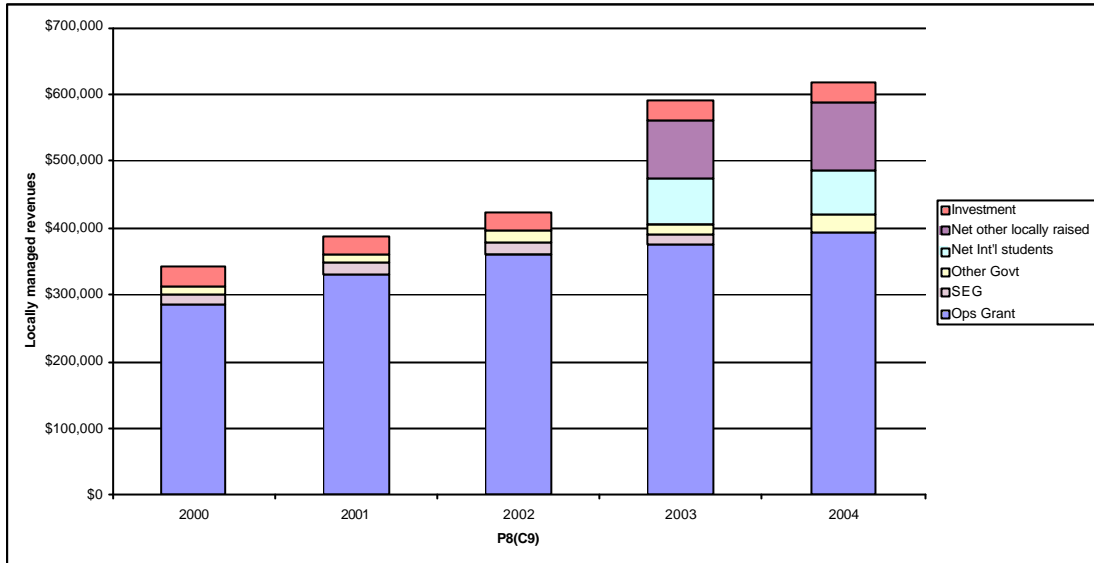


Figure 139 Breakdown of locally managed revenues – percentage basis

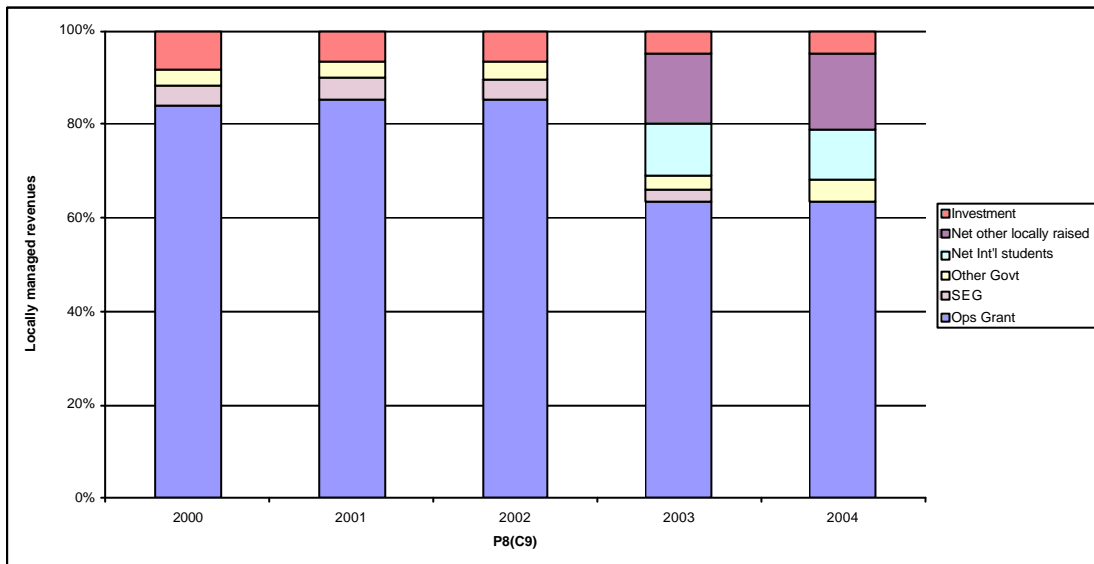


Figure 140 Breakdown of locally managed expenditure – dollar basis

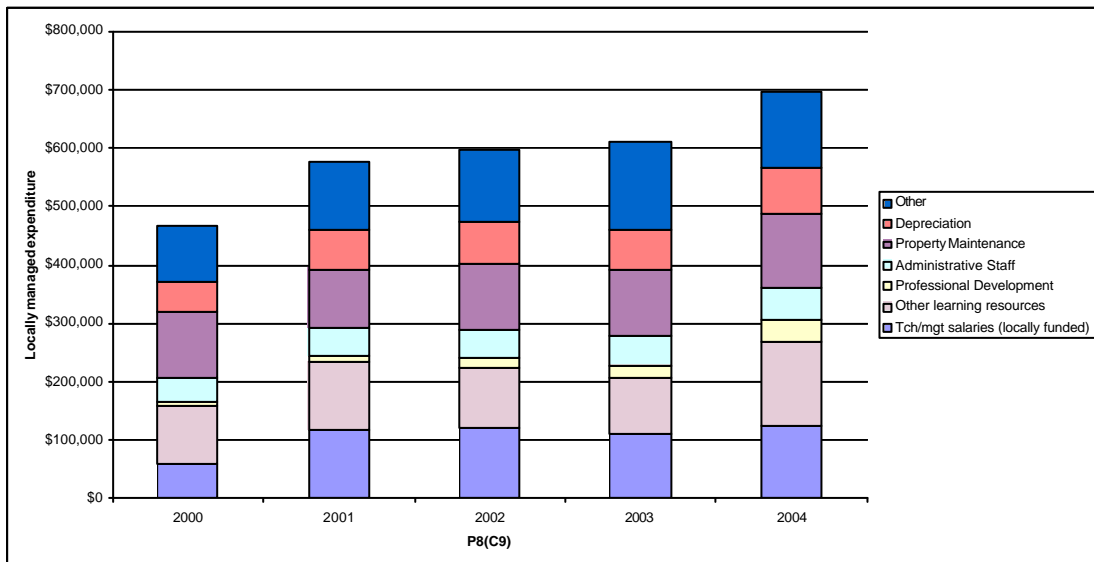
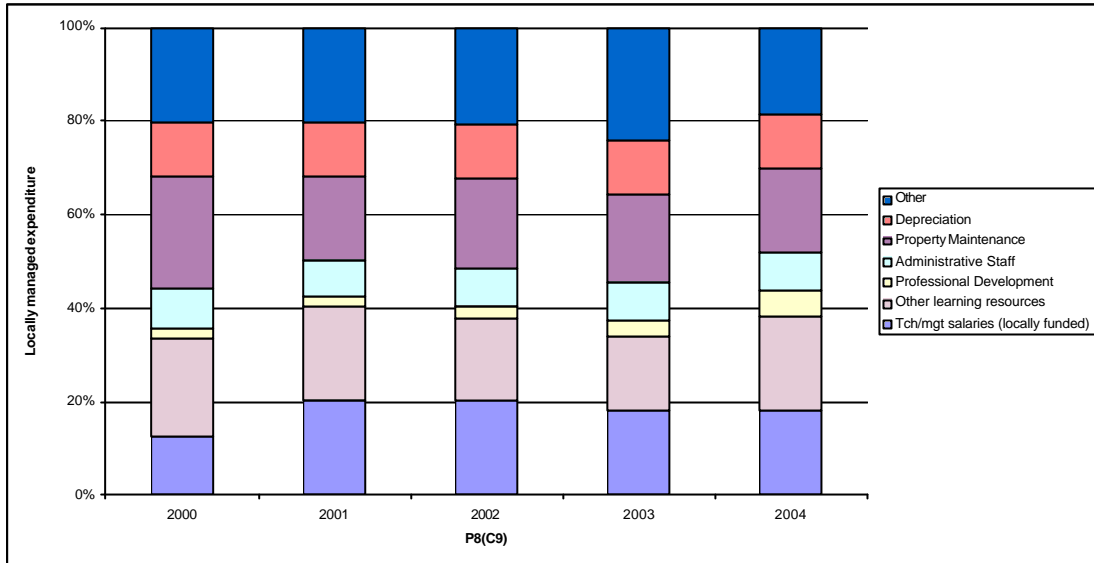


Figure 141 Breakdown of locally managed expenditure – percentage basis



Primary school P9 (City/suburban, Decile 4)

Figure 142 Breakdown of total revenues – dollar basis

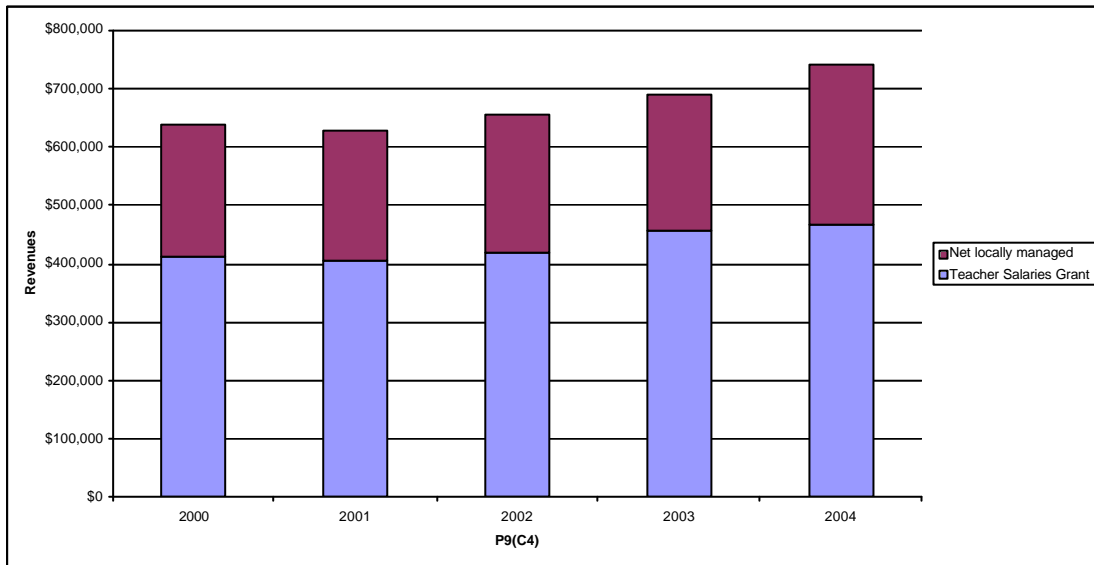


Figure 143 Breakdown of total revenues – percentage basis

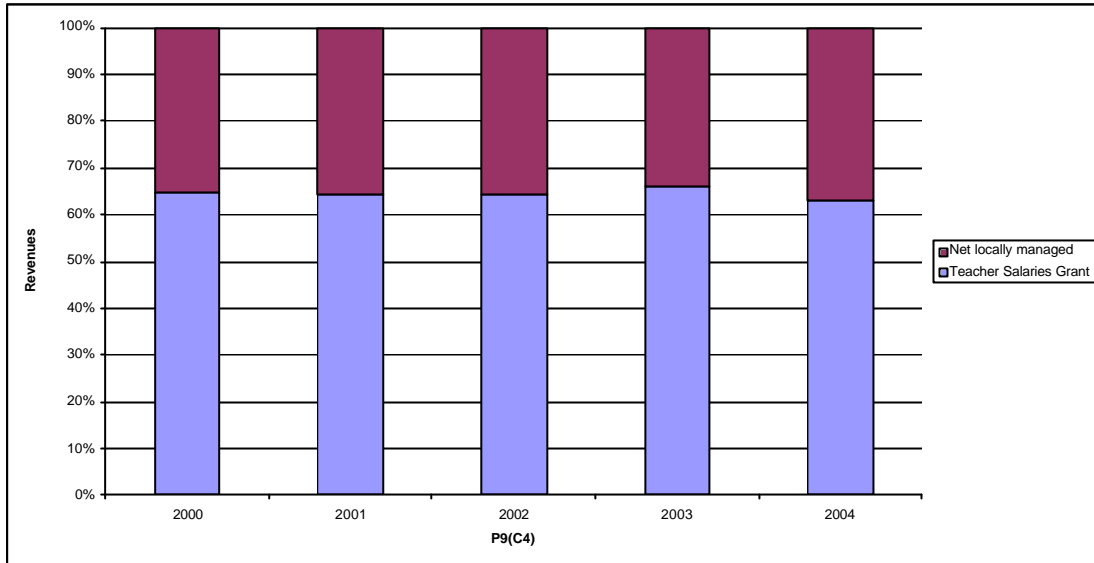


Figure 144 Breakdown of locally managed revenues – dollar basis

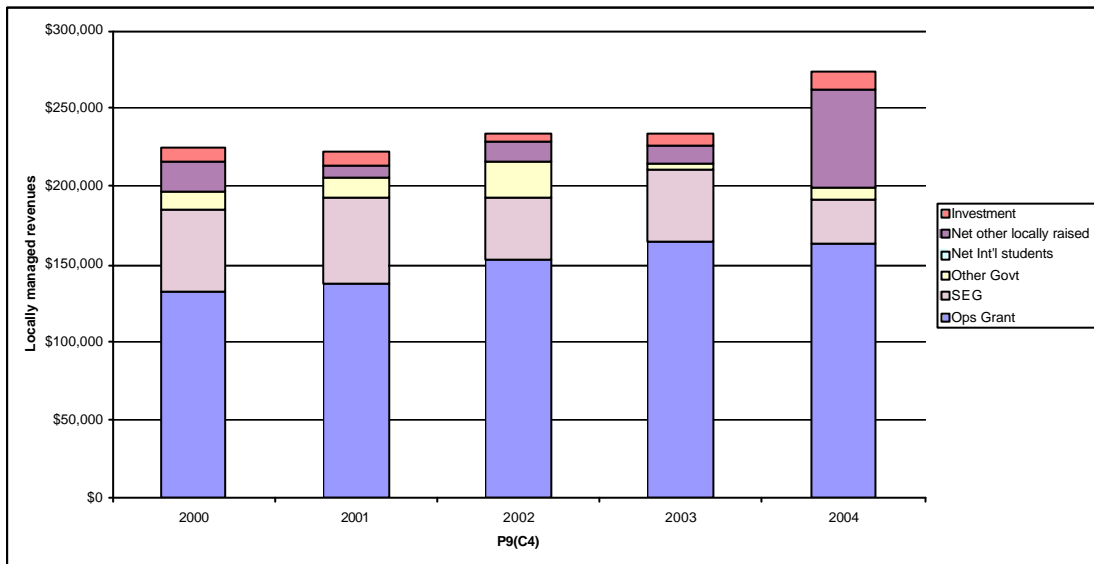


Figure 145 Breakdown of locally managed revenues – percentage basis

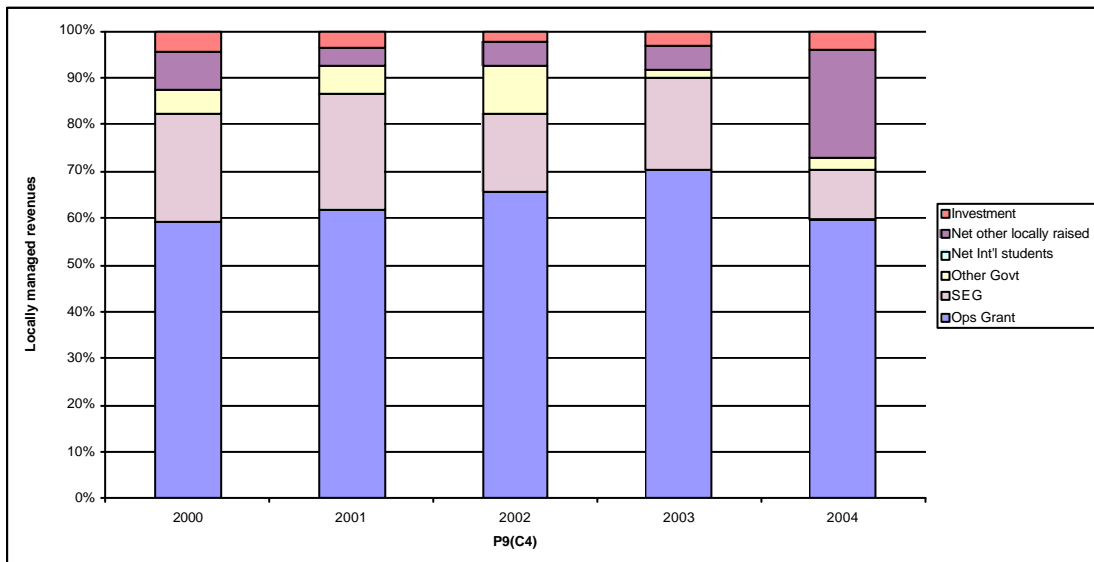


Figure 146 Breakdown of locally managed expenditure – dollar basis

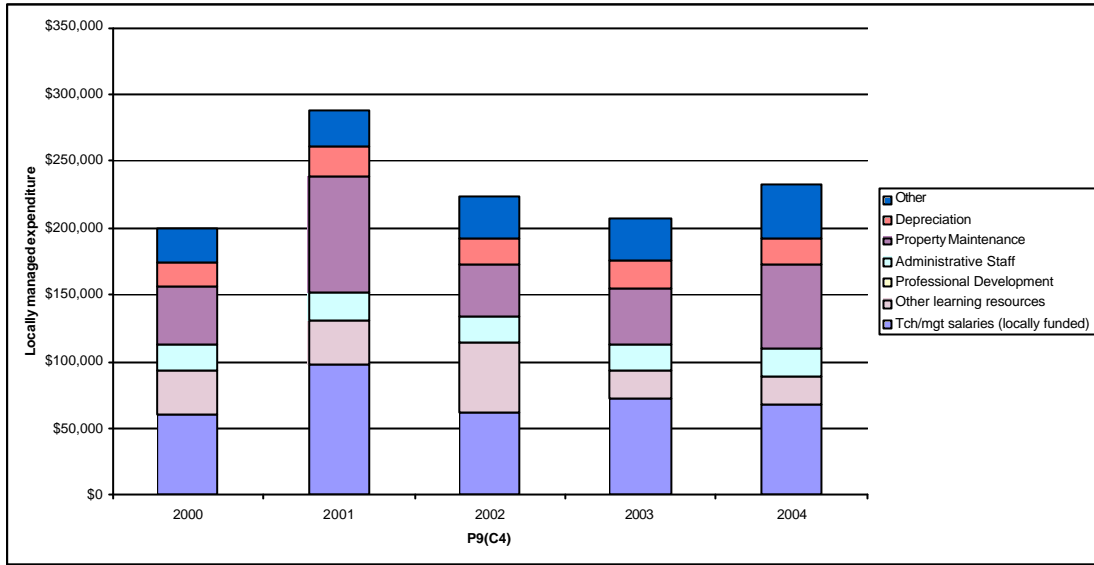
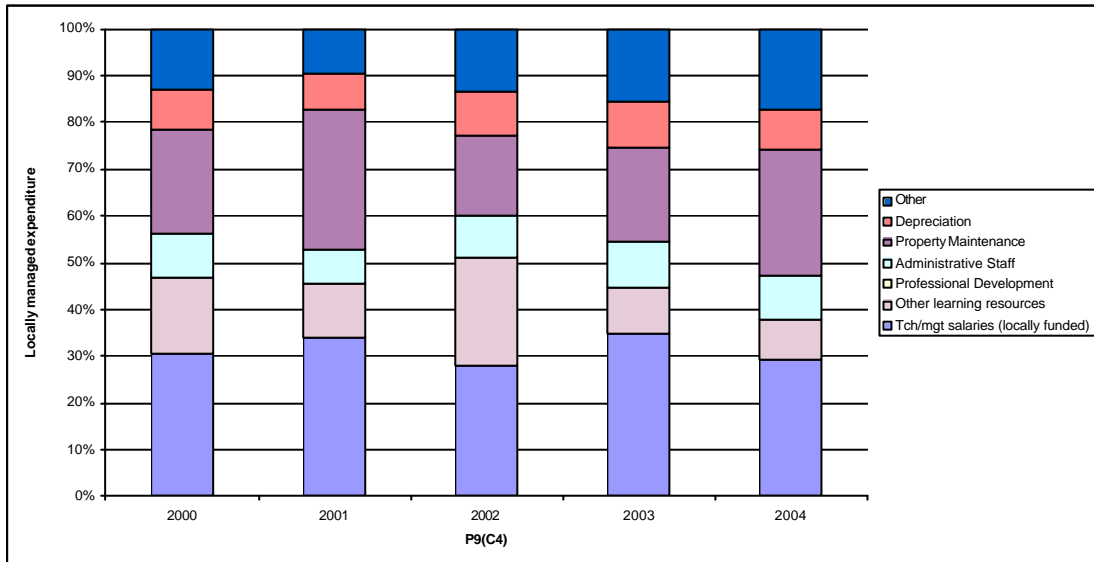


Figure 147 Breakdown of locally managed expenditure – percentage basis



Appendix 2: Interview schedules & survey

NZCER SCHOOL RESOURCING ALLOCATION STUDY SECONDARY PRINCIPAL INTERVIEW – 2005

This interview will cover three main areas:

- A. Managing costs and changes in income
 - B. Dilemmas and hard decisions
 - C. Some 'what-if' questions – how the school would react to changes in roll numbers or locally raised funds
-

A. MANAGING COSTS; CHANGES IN INCOME

Did you make any changes to the process you used to develop your annual budget for 2005?

If so, what? & why?

Did you make any use of student achievement data from the new reporting requirements?

Do you think you will use the same process to develop your annual budget for 2006?

If so, what? & why?

Do you anticipate any more use of student achievement data from the new reporting requirements?

Board role

Have there been any changes to the role of the board of trustees in relation to developing the budget, monitoring finances, or setting priorities for spending?

Have there been any changes in the people involved (school management, executive officer, board chair and other key board people, or their relationships)?

Are your delegations to budget managers within the school the same as last year?

If not, why did you change?

Do those in charge of different cost-centres see their role as containing costs, or using their entitlement?

This year's budget

What are the main changes or new initiatives that are in this year's budget?

Why are they there?

What are the things that got knocked back in this year's budget?

Why those things?

Are there any new sources of income?

If so, what are they, how did they come about?

What is this year looking like in financial terms?

Are there any particular financial aims, e.g. increasing reserves?

Why was this aim chosen?

Any challenges?

If so, how do you think you will manage them?

What are the main pressure points in your spending?

Are they new?

Are they continuing?

What is their impact on other aspects of the school?

Are there any areas that are rising in cost more than you expected when you set this year's budget?

Why do you think this is?

Are there any areas that are costing less than you expected when you set this year's budget?

Why do you think this is?

How will the change to the decile rating affect this school?

What is the trend in your international student enrolments?

(If trending downward), what will this mean for the school?

What changes have there been to the overall school roll this year?

Are the roll numbers about the same for each year level, or are there particular bulges and gaps? – if so, what does this mean for your staffing and budgeting?

Have there been any change in the nature of your students this year – or any trends you see in the nature of your students over time?

Do you think that the way you covered teachers' non-contact hours this year is the way you will do it next year?

- Why?

What is the way that you would like to see administrative & technical support staff funded in schools, and why?

- What difference would this make to your school?

What do you think it is fair for schools to charge parents?

- Why?

What marketing do you do for the school?

How many staff do you currently fund over-entitlement from your locally raised funds?

What roles do they play?

Are they in permanent or contract positions?

B. DILEMMAS & HARD DECISIONS – CURRENT AND LAST 2-3 YEARS

What use are you currently making of Ministry of Education initiatives and additional funding, e.g. linked to ICT, curriculum, professional development?

Have you applied for or used this because it was available rather than because it fitted into your goals/plan?

What has been the ongoing impact of any of these kinds of initiatives and additional funding for your school, and school spending?

Could you continue it; if so, how; did it lead to changes in other spending?

Has the school had any financial concerns in the last 12 months?

Any narrow escapes or unexpected blowouts?

If so, what action did you take?

Did this resolve the issue?

Are there any decisions that you would have made differently, with hindsight?

Is there anything you've funded recently that was an unexpected cost, or cost a lot, that you would not have initiated yourself, but felt had to be done?

What was it?

Why did you think you had to cover it?

What kinds of trade-offs between different programmes or activities or support have you made over the past few years?

How do you resolve choices between funding provision for a few students, and spreading money more widely?

C. WHAT IF...

If your roll fell by 10% next year, what impact would it have on your school?

If you had to cut, what would you choose, and why?

Is there anything you aren't you doing now that you think you should be doing, because you have not got the revenue to cover it?

If you were totally reliant on government funds: staffing, the operations grant and other per-student funding, what changes would that mean for your programme?

If your locally raised funds dropped by 10–15% what would that mean for you?

Short/long-term?

ANY OTHER OBSERVATIONS YOU WOULD LIKE TO MAKE ABOUT THE DECISIONMAKING AROUND YOUR RESOURCES, AND THE ROLE IT PLAYS IN YOUR SCHOOL?

**NZCER
SCHOOL RESOURCING ALLOCATION STUDY
BOARD CHAIR/TREASURER INTERVIEW – 2005**

This interview will cover three main areas:

- D. Budget development, costs, and income
 - E. Any dilemmas and hard decisions you face now or have faced in the last 2-3 years
 - F. Some 'what-if' questions – how the school would react to changes in roll numbers or locally raised funds
-

A. BUDGET DEVELOPMENT, COSTS & INCOME

This year's budget

What are the main changes or new initiatives that are in this year's budget?

- Why are they there?

What are the things that got knocked back in this year's budget?

- Why those things?

In setting this year's budget, did you make any use of student achievement data or progress towards school targets (e.g. to analyse needs, set priorities, stop spending in one area to shift it to another)?

Do you anticipate any (more) use of student achievement or progress towards school targets in relation to the school budget in future?

Where is the main use of this data in the school?

Are there any new sources of income?

- If so, what are they, how did they come about?

What is this year looking like in financial terms?

Are there any particular financial aims, e.g. increasing reserves?

- Why was this aim chosen?

Any challenges?

- If so, how do you think you will manage them?

What are the main pressure points in your spending?

- Are they new?
- Are they continuing?

What is their impact on other aspects of the school?

What was the key driver(s) in setting this year's budget?

Are there any areas that are rising in cost more than you expected when you set this year's budget?

- What?
- Why do you think this is?

Are there any areas that are costing less than you expected when you set this year's budget?

- Why do you think this is?

Are there any costs arising from requirements from outside the school in how the school operates, or reports that you think are unnecessary, or could be reduced?

If you were to identify one single element of the operations grant that makes the setting of the budget particularly difficult, what would that be?

- What would it take to ease that difficulty?

What sorts of things do you think it is fair for schools to charge parents for?

- Why?

Board role

Have there been any changes to the role of the board of trustees in relation to developing the budget, monitoring finances, or setting priorities for spending?

Have there been any changes in the people involved (school management, executive officer, board chair and other key board people), or their relationships?

B. DILEMMAS & HARD DECISIONS

Has the school had any financial concerns in the last 12 months?

- Any narrow escapes or unexpected blowouts?
- If so, what action did you take?
- Did this resolve the issue?

Are there any decisions that you would have made differently, with hindsight?

What kinds of trade-offs between different programmes or activities or support have you made over the past few years?

How do you resolve choices between funding provision for a few students, and spreading money more widely?

Is there anything you aren't doing now that you think you should be doing, because you have not got the revenue to cover it?

C. WHAT IF..

If your roll fell by 10% next year, what impact would it have on your school?

- If you had to cut, what would you choose, and why?

If you were totally reliant on government funds: staffing, the operations grant and other per-student government funding such as TFEA and ESOL, what changes would that mean for your programme?

If your locally raised funds dropped by 10–15% what would that mean for you?

- Short/long-term?

ANY OTHER OBSERVATIONS YOU WOULD LIKE TO MAKE ABOUT THE DECISIONMAKING AROUND YOUR RESOURCES, AND THE ROLE IT PLAYS IN YOUR SCHOOL?

SCHOOL RESOURCE ALLOCATION STUDY REQUEST FOR FINANCIAL INFORMATION FROM 2001–2004

1. Annual Report and Financial Statements

Please provide a copy of your 2004 Annual Report including Financial Statements for the year ended 31 December 2004. (This will extend our current financial dataset which is based on Annual Reports from 2001 – 2003).

2. Additional financial information

The following areas of expenditure have been identified as costs that have not been covered within historic increases to the operations grant or other government funding for schools.

Although schools' annual financial statements provide data on some of these costs, we need further breakdowns and other information to understand the significance of these costs and the drivers or reasons behind the observed year-on-year changes in these items.

Please complete the following questionnaire and return it to Cathy Wylie, NZCER, PO Box 3237, Wellington 6000, by Friday 6 May.

We appreciate that it might not be feasible to provide responses to all of the following questions, depending on the structure of your financial reporting systems. However, we will be most grateful to receive as much information as you are able to provide.

Support Staff Costs

Financial statements provide information on annual expenditures on support staff costs (sometimes labelled "staff expenses" or "personnel" within the Administration Costs category). The staff/personnel costs under the Administration Costs category are shown in the following boxes. Please complete for 2004.

| 2000 | 2001 | 2002 | 2003 | 2004 |
|------|------|------|------|------|
| | | | | |

Please indicate the categories of staff covered within this category in your statements.

Teacher aides (*if these are covered under a different category, please state which one/s*)

Office personnel (PA, reception, typist, etc)

Cleaners

Other (specify) _____

Please indicate the influence the following factors have had on the observed changes in support staff costs:

a) Changes in support staff salary levels due to the Support Staff Collective Agreement

Major influence Moderate influence Minor influence No influence

Comments:

.....
.....
.....
.....
.....

b) Changes in salary levels due to other factors, e.g. the seniority of support staff employed by the school

Major influence Moderate influence Minor influence No influence

Comments:

.....
.....
.....
.....
.....

c) Changes in the number of support staff employed by the school

Major influence Moderate influence Minor influence No influence

Comments:

.....

.....

.....

.....

.....

ICT Costs

Financial statements do not break out the costs of information and communications technology (ICT). Please provide a summary of your school’s expenditures on ICT in the following table for as many of these years as possible.

| ICT costs: | 2000 | 2001 | 2002 | 2003 | 2004 |
|-----------------------|------|------|------|------|------|
| Capital/startup* | | | | | |
| Maintenance/ongoing** | | | | | |
| Total | | | | | |

* For our purposes, capital/startup ICT costs include costs such as new computer hardware, software, peripherals, cabling and fitout of computer rooms.

** Maintenance/ongoing costs include the costs of operating existing computers, software, cabling etc. and keeping these up to date and in good working order.

If you cannot break your ICT costs into capital/startup and maintenance/ongoing, please provide total ICT expenditures.

Depreciation Costs

Your total depreciation costs are shown in the following table. Please complete for 2004 and, if possible, give breakdowns as follows.

| Depreciation costs: | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------|------|------|------|------|------|
| Buildings | | | | | |
| ICT | | | | | |
| Furniture | | | | | |
| Play/sport equipment | | | | | |
| Other (specify) | | | | | |
| Other (specify) | | | | | |
| Total | | | | | |

Use this space to provide any explanatory notes on the depreciation figures provided above (e.g. if building depreciation increased significantly, the capital project to which this relates).

International Student Income

Please complete the following table showing the number of international students enrolled at your school each year and the net income derived from international students (income less costs and government levies).

| | | | | | | |
|-------------------------|-------|-------|-------|------|------|------|
| International students: | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| Number enrolled | | | | | | |
| Net income | \$xxx | \$xxx | \$xxx | | \$ | N/A |

Income from parental donations and activity fees

Please complete the following table showing the standard per-child donation rate and average activity fees per student received each year.

| | | | | | | |
|------------------------|------|------|------|------|------|------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| Standard donation rate | | | | | | |
| Activity fees | | | | | | |

Regulatory/legislative changes

Please indicate the significance of the following cost items to the school by providing or estimating the cost of each item to your school in 2004. Space is also provided for comments, should you wish to provide additional comment on the impact or significance of these costs.

| Cost item | 2004 cost | Comments |
|--|-----------|----------|
| Pan Tax | | |
| Holidays Act | | |
| Copyright | | |
| Non-contact hours for secondary and area teachers | | |
| Health and Safety Act | | |
| Additional leave from Employment Relations Act | | |
| Additional costs associated with employing extra teachers from Board funds | | |
| Use of 3R payments (recruitment, retention, recognition) from Board funds | | |

Other significant costs

Are you aware of any other significant or emerging costs that are not recognised within operational funding? Please provide details below.

MANY THANKS FOR YOUR TIME AND THOUGHTS