An increasing tightness – pressure points for schools' financial management

Second year report from the NZCER school funding study

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 modernize 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 recognized.

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 modernized 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 operational funding per student of 41 percent after CPI inflation for the period is taken into account. Over the 2003-05 period, increases to the operational grant per student are higher than inflation (23.1 percent compared with 6.4 percent). However, in the school sector report published in late 2004, the Ministry of Education also recognized new pressures on operational funding, suggesting that simply keeping apace 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.