

How do effective schools manage their finances?

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Executive summary

Key points

This 3-year study of 18 effective New Zealand schools is funded by the NZ School Trustees' Association. The schools provide a range of location, roll size, and socio-economic decile. The study focuses on financial management, to gain some real insight into funding decisions and the factors that influence those decisions, and the use of government operational funding and locally raised funds to meet their students' needs. Finding out what is needed to accomplish this provides valuable pointers to the adequacy of school funding.

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

- They had robust systems of budget development and monitoring. School boards and management worked well together within shared frameworks created by their strategic planning.
- The schools ran on thin margins in their budgets and therefore needed to take a conservative approach to financial management and programme changes.
- They focused money left after meeting essential running costs to annual goals derived from their strategic plan priorities, and monitored spending very carefully.
- Working capital was important in these schools to provide a buffer for things that could not be anticipated and to ensure they could maintain programmes in the short-term if rolls dropped.
- Rolls are key to schools' financial health. Only three of the nine primary schools in the study had ideal roll profiles. Small secondary schools faced issues of being able to provide a sufficient range of courses, and large secondary schools on limited sites, issues of overcrowding.
- All the schools employed teachers above their staffing entitlement. This cost them on average around a third of their operation grant. Other big cost areas were property maintenance, support staff, and ICT.
- While spending on other areas showed some fluctuation over time, spending on professional development remained fairly consistent, between 2–3 percent of operation grants.

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

Trends from financial reports

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

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

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

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

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

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

Financial management

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

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

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

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

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

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

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

School professionals and boards in these schools had solid relationships built on openness. Trust was developed by shared decisionmaking and analysis, using shared frameworks of the school strategic plan and identified with the school culture, rather than particular individuals. Boards did not rubber-stamp plans, but saw their role to robustly discuss initiatives and draft budgets. Because of the joint management-board approach to developing new initiatives, in relation to strategic plans, few initiatives could be isolated as coming from the board alone; those that were tended to be property-related.

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

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

Financial challenges and pressures

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

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

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

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

The ideal secondary roll in terms of financial health is:

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

Three of the four secondary schools in the study with rolls under 1,000 thought their current roll fell short of their ideal roll number in terms of being able to provide what they wanted to for their students. The large secondary schools were concerned that their sites were becoming overcrowded, with implications for behaviour, and property spending. Extending sites was a costly option in cities where land costs have soared.

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

Main drivers of effective schools' budget decisions

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

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

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

- | |
|---|
| <ul style="list-style-type: none">• roll numbers – including their distribution over different year levels and special needs;• number of classes (primary) and courses (secondary) and timetabling (secondary);• state of school property and adequacy for roll numbers and programme;• state of curriculum resources and adequacy for roll numbers and programme; |
| <ul style="list-style-type: none">• support staff – school administration, teacher aides, and others needed to support programme;• ICT – equipment, networking, maintenance, software, technical support; and• depreciation (for an increasing level of capital assets). |

Implications

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

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

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

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

Roll size and stability are key to financial health. Primary schools appear more inherently difficult to keep financially healthy: they seem much more vulnerable to roll changes, because they are smaller, and may be more likely to experience decile rating changes that lead to sudden revenue

drops due to their smaller geographic catchments. One principal observed that schools are now taking the risks of correctly estimating rolls, rather than government. Even these effective schools, particularly at primary school, could get caught out by changes in patterns, even if they were conservative, and took into account the nature of their local area, their roll, and any changes in their local area.

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

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

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

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

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

1. Introduction

Background to this study

The NZ School Trustees' Association approached NZCER to discuss options for research work in the area of school funding, particularly in relation to the adequacy of government funding for schools.

Perceptions that primary schools were not adequately funded by government for their work grew steadily between 1989 and 1999 when 87 percent of primary principals thought their government funding was inadequate.¹ While this dropped to 75 percent in the 2003 NZCER national survey, it is still a high proportion. The proportion of principals in secondary schools who found their government funding inadequate is even higher, 94 percent. Trustees' views in the NZCER national surveys are slightly more optimistic than principals', with 70 percent of primary school trustees thinking their school's government funding inadequate, and 84 percent of secondary school trustees. Thirty-seven percent of the primary trustees and 52 percent of the secondary trustees said their board had struck financial management issues in the previous 3 years.

Also relevant to considerations of whether schools have the resources they need for what is asked of them is staffing. Teaching staff are funded separately by government, using roll-related formulae. In the 2003 NZCER national survey, 61 percent of primary principals and 79 percent of secondary principals thought their current entitlement staffing was not enough to meet their school's needs. Numbers of teachers employed above this using school revenues have risen from 1,562 in 1999 (3.9 of all teachers) to 2,716 (6.2 percent) in 2004.²

Support staff costs are met from school revenues. Seventy-one percent of primary principals and 67 percent of secondary principals responding to the NZCER 2003 national survey did not think they had sufficient funding to employ the support staff needed in their school.

What is adequacy? In education, it is particularly difficult to define, since the outcomes of education are not (and cannot be) specified in an easily measurable way, and depend on interaction between students and the opportunities they are given.

¹ Wylie, C. (1999). *Ten years on: how schools view educational reform*. Wellington: New Zealand Council for Educational Research.

² Using the first pay period for the year. Source: *Statistics on teaching staff at March 2004*, available on www.minedu.govt.nz.

Overseas research into adequacy of educational funding has taken four main forms. First and most complex is statistical analysis of the relationship between funding or resources available to students and their achievement levels, in order to gauge the adequacy of funding, the difference that additional resources might make to student performance, or to gauge the efficient use of resources. Much of this has been at the aggregate level, which has raised criticism that it is too general,³ and that what is needed is to trace the impact of resource use for individual students – a very expensive exercise.

Other approaches are focused more on the practical aim of deriving formulae for schooling systems to use. These include analysis of historical spending patterns, and the use of “expert-design” (also known as “professional judgement” or “activity-based”) models that collect detailed time-use and direct costs in a sample of schools, in relation to estimates of the time needed to cover the curriculum at each year level, to inform discussion and agreement among a group of educators. This approach provides a general estimate of the per-student funding needed for each year level.⁴

The fourth approach is the one used in this study. It focuses on a sample of “successful schools”, as a way to gain some real insight into the funding decisions made in New Zealand schools and the factors that influence those decisions, and the use of operational funding and locally-raised funds to meet perceived needs. The value of focusing on schools that are particularly effective is that they are schools that are doing their best to meet student needs, with evidence that students are engaged in learning and achieving. Finding out what is needed to accomplish this provides valuable pointers to the adequacy of school funding.

Study design

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.

The study has four research questions:

³ Vignoles, A., Levacic, R., Walker, J., Machin, S., & Reynolds, D. (2000). *The Relationship Between Resource Allocation and Pupil Attainment: A Review*. Department for Education and Employment Research Brief No. 228. The Stationery Office, United Kingdom, www.dfes.gov.uk/research/re_brief/RB228.doc <5.12.01>

⁴ Ross, K. N. & Levacic, R. (Eds.). (1999). *Needs-based resource allocation in education via formula funding of schools*. Paris: International Institute for Educational Planning, UNESCO.

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 year of the study, we interviewed the principal and board chairperson or treasurer⁵ in each of the 18 schools over May–August 2004, and have undertaken some analysis of school financial statements from 2000 to 2003, to establish the range of different revenue sources and spending in some key areas. In this report, we focus on the formation of budgets, and the factors that affect budget decisions, both in and outside schools.

The primary schools in the study were recommended by school support advisers and ERO reviewers in seven different areas of the country, including both North and South Islands, urban, provincial, and rural areas, and by the NZSTA president, as ones that stood out among those they had recently visited or reviewed, as being particularly effective in engaging students in learning, and achieving high levels of student performance. We triangulated recommendations as much as possible. The secondary schools in the study had higher than average student retention and qualification rates for their socio-economic decile, including for Māori and Pacific students, over several recent years.

Not all the schools that we had on our list of possibles accepted our invitation to participate. The study was one too many for some highly effective low decile schools that are popular choices for innovative initiatives. Several appeared to shy away from our interest in school financial management, particularly if there were recent changes of staff, including executive officers. Some principals simply felt they did not have enough time to take part. Time pressures also existed for many of the school professionals and board chairs and treasurers who did take part in the study, but they were largely confident in their practices, willing to share them with others, and interested in the topic.

We felt privileged to go into these schools. They were lively and energetic; principals and trustees were proud of what they had accomplished and the cultures that supported shared visions for the future. They were sanguine in the face of difficult decisions, and the persistence needed to bring about change, or maintain good quality when rolls were unstable. They had a “can do” approach

⁵ The interview outlines are given in the appendix to this report. The interviews were undertaken by Cathy Wylie and Robyn Baker of NZCER, and Julian King of Health Outcomes International.

to securing funding, and making the best use of it. As one principal said, “There are no barriers, only obstacles.”

In this first report from the study, we first outline sources of school revenue and school boards’ financial responsibilities. Then we use the financial reports provided by the 18 study schools to provide an overview of their revenue and expenditure, an exploratory analysis of expenditure patterns related to four key items: professional development, support staff salaries, property management, and depreciation, and a description of the study schools’ financial wellbeing. Next we describe the themes that emerged through the interviews in relation to the roles of board and principal, formation of budgets, attention paid to teaching staff, the key aspect of school rolls, how they raise revenue, and the ways in which these effective schools manage their finances, and the challenges they face.

We return to the four research questions in the conclusion.

2. Government funding and school responsibility for financial management

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.”⁶ This “entitlement” staffing is paid centrally.⁷ 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, with around 15 percent nationally based on the 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.

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

⁶ Ministry of Education, School Resourcing Handbook, *School staffing*, p. 6, 1 September 2003.

⁷ 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 at the top of the salary scale. The final version of this funding also allowed schools to return to central funding after three years.

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.⁸

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.

Operational funding has been increased by just over 10 percent per student since 1999, after adjusting for inflation and roll growth.⁹ Between 1990 and 1999, however, 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 1996.¹⁰ 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.

Prior to 2000, operational funding was to cover the property maintenance which could be expected to fall within a 10-year period, and schools applied to the Ministry of Education for major maintenance and capital projects, such as remodelling or building new administration blocks. Most schools found themselves on a waiting list, and competing against other schools to show greater need.

In 2000, the means of funding property development shifted to the Five-Year Property Programme, which provides schools with an inflation-adjusted budget for 5 years, leaving decisions on how to spend this money up to boards of trustees. Boards are also responsible for managing the projects undertaken. The programme was progressively rolled out, with the final schools coming onto the programme in 2004/05. State schools needed to have a 10-year property

⁸ Ministry of Education, School Resourcing Handbook, *Operational Funding*, p. 5, 1 September 2003.

⁹ Minister of Education. (2004). Speech to the NZ School Trustees' Annual Conference, Palmerston North, 10 July.

¹⁰ Ministry of Education. 1996. *Briefing papers for the incoming government*. Wellington: author.

plan in place before coming onto the programme. Funding is provided separately for new schools, for new classrooms where schools have substantial roll growth, and for “catastrophic events” (fire, flood, earthquake, etc).¹¹ Nine percent of government funding going to schools in 2002 was for property.

The Ministry of Education describes the financial management responsibility of boards as:

Board members collectively are the trustees for the school’s financial and physical resources. Your board is publicly accountable for your school’s financial governance and for the use and maintenance of school land and buildings.... Boards are fully accountable and responsible for the:

- Allocation of funds to reflect school priorities
- Control of school expenditure
- Preparation and auditing of annual reports

...A school’s community can reasonably expect the board to account for its resources to the educational benefit of the community. Similarly, your board is accountable to the Government, whose assets and grants have been entrusted to your board.¹²

The Ministry of Education provides guidance to boards (available in the online School Resourcing Handbook) on financial planning and monitoring, including checklists of indicators of good financial management, and signs of a school being at-risk financially. It notes that the Ministry of Education reviews every school’s audited financial statements, and writes to schools where there is an element of financial risk. It identifies eight indicators of financial risk, and notes that “each of these indicators in isolation does not necessarily mean that a school is financially at risk, and schools will need to make a judgement based on their circumstances”:

Over the past few years we have seen that most boards written to have already noted potential problems and have the situation well in hand. This is evidence that a high percentage of boards exercise high levels of financial responsibility and effectiveness.¹³

The educationally effective schools in this study generally met most or all of the indicators of good financial governance and management. Nonetheless, some mentioned that they had received letters from the Ministry of Education in relation to an indicator of financial risk, usually an end-of-year deficit that was attributable to allowing for depreciation.

¹¹ Ministry of Education. (2003a). E1-113. This notes that 215 schools suffered such events in the 2002/03 financial year.

¹² Ministry of Education, School Resourcing Handbook, *Financial management*, p. 3, 7 September 2003.

¹³ Ministry of Education, School Resourcing Handbook, *Financial management*, p. 12, 7 September 2003.

Locally raised funds

Locally raised funds have increased since decentralisation. Ministry of Education calculations showed an increase of 45 percent per student in locally raised funds from 1995–2001 for the compulsory school sector, somewhat more than the increase of 32 percent per student in total government grants over the same period.¹⁴ The rate of increase has been higher for locally raised funds, but government grants continue to provide more money: the increase over this period was \$304 per student from that source, compared with \$168 from locally raised funds. In terms of the money that schools have to allocate, net locally raised funds were \$174 million in 2001, and operational funding provided \$837 million. In aggregate, locally raised funds appear to provide around 17 percent of the funds schools have at their disposal. However, the proportion varies considerably among individual schools, and is much higher in secondary schools: in 2001, 26 percent raised more money themselves than they received through their government operational funding.¹⁵

¹⁴ Ministry of Education. (2003). *School revenue and locally raised funds*. Paper for the Schools Consultative Committee, prepared by Schools Resourcing Policy, February 2003.

¹⁵ Watkins, T. (2003). Free schools: a legacy lost. *Weekend [NZ] Herald*, B6, 20–21 September.

3. Financial overview of schools

This section provides an overview of the revenues and expenditures of the nine primary and nine secondary schools included in the study. The following analysis is based on information drawn from financial statements provided by the schools.

Revenues

Secondary schools

The following two graphs provide revenue breakdowns for the secondary schools included in the study, on an absolute and relative basis.

Secondary schools' total revenues ranged from \$3.5 to \$13.6 million including teacher salaries grants (\$1.3 to \$5.7 million excluding teacher salaries grants). The secondary schools' rolls ranged from 580–2,230. Average revenue per student ranged from \$5,100 to \$6,300.

The teacher salaries grant was the largest component of each school's revenues, comprising between 57–70 percent of total revenues (mean 64 percent).

The next largest revenue component was the operations grant at 18–24 percent of total revenues (mean 20 percent). In absolute terms the operations grant ranged from \$742,000 to \$2.5 million, with a mean of \$1.41 million across the nine schools.

Revenue from other sources was highly variable between schools. For example, net locally raised revenues (including international students) comprised between 3–21 percent of the schools' total revenues with a mean of 11 percent (range \$126,000 to \$2.8 million, mean \$756,000).

Figure 1 Secondary school revenues, 2003

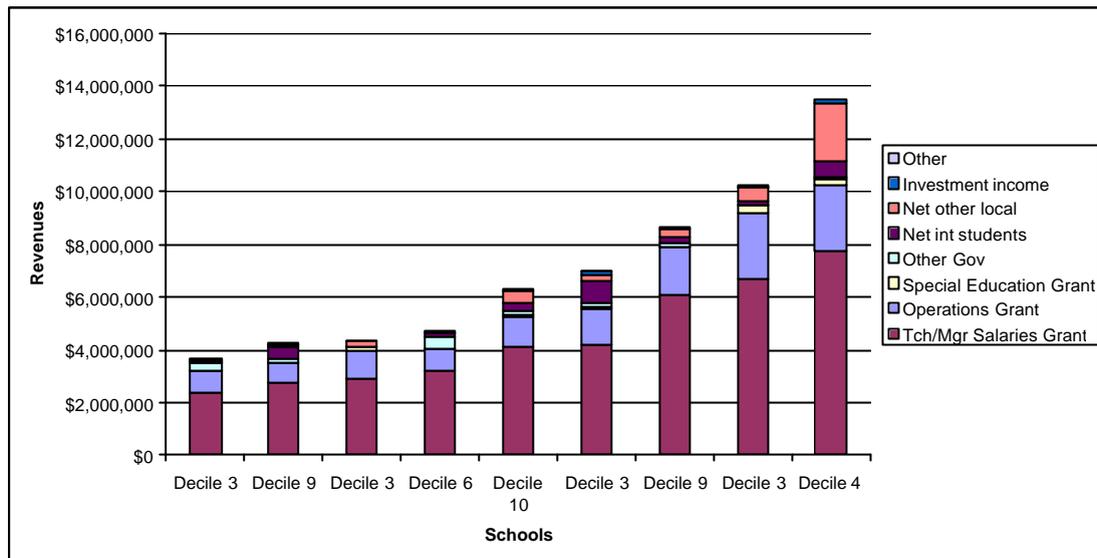
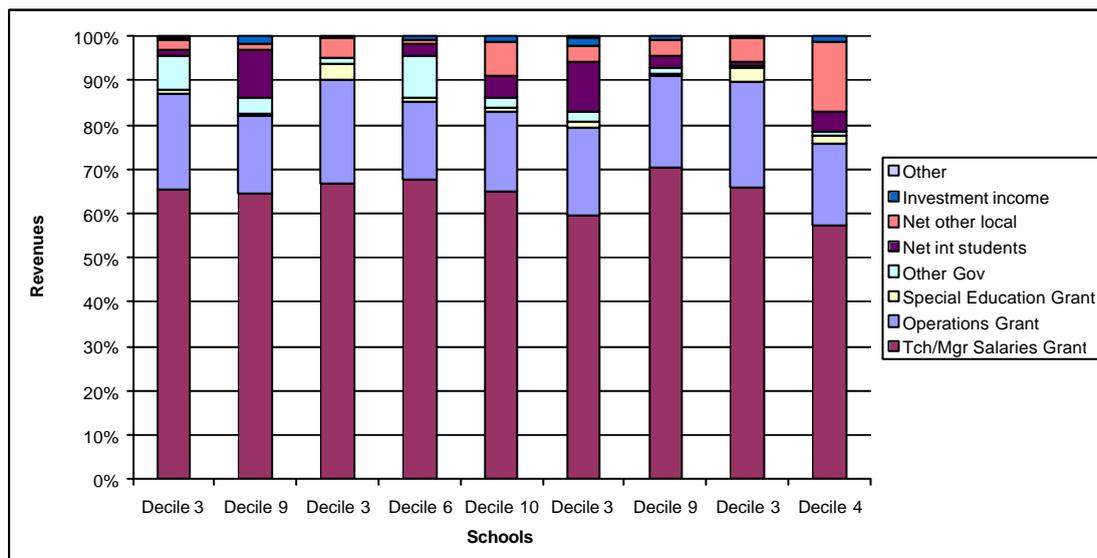


Figure 2 Proportionate breakdown of secondary school revenues, 2003



Primary schools

The following two graphs provide revenue breakdowns for the nine primary schools on an absolute and relative basis.

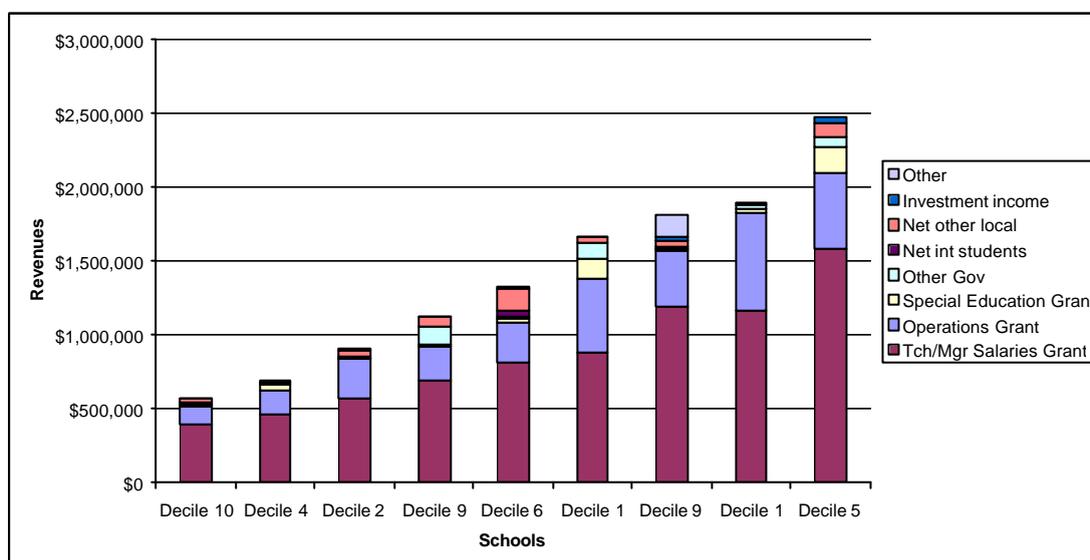
Primary schools' total revenues ranged from \$570,000 to \$2.5 million including teacher salaries grants (\$179,000 to \$894,000 excluding teacher salaries grants). The schools' rolls ranged from 130–620 students. Average revenue per student ranged from \$3,300 to \$4,800.

The teacher salaries grant comprised between 53–68 percent of each primary school’s total revenues (mean 62 percent).

The next largest revenue component was the operations grant at 20–35 percent of total revenues (the 35 percent being for a decile 1 school with less than \$70,000 in other revenue) and a mean of 25 percent. In absolute terms, the operations grant ranged from \$126,000 to \$669,000 with a mean of \$346,000 in 2003.

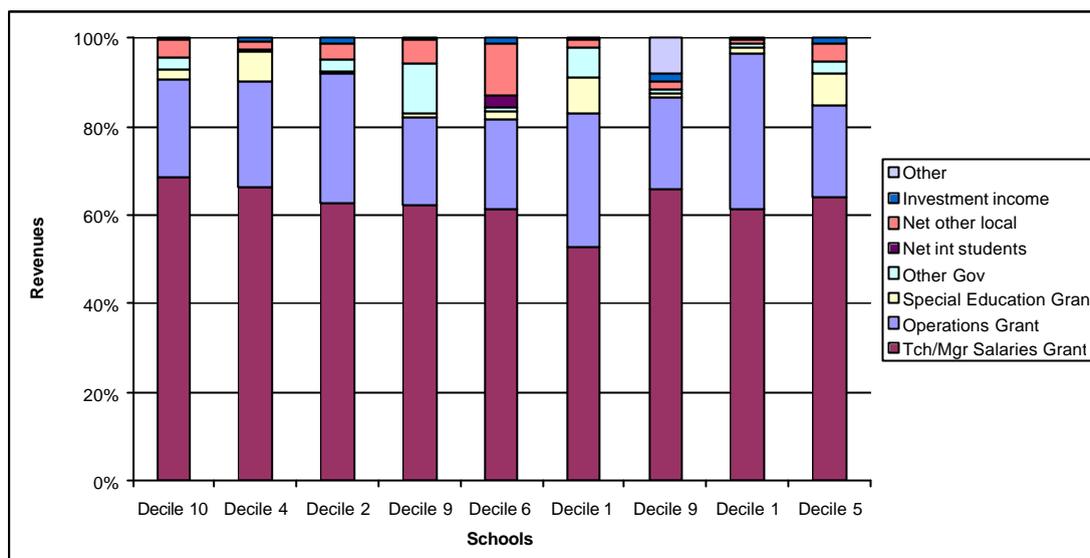
As with secondary schools, revenue from other sources was highly variable between schools, with net locally raised funds comprising between 1–14 percent of the schools’ total revenues. The 14 percent was an outlier, with the second highest figure being 5 percent of total revenues and the mean being 4 percent. In absolute terms, locally raised funds ranged from \$12,000 to \$192,000, with a mean of \$57,000.

Figure 3 **Primary school revenues, 2003***



* Figures for one primary school are from 2002.

Figure 4 **Proportionate breakdown of primary school revenues, 2003***



* Figures for one primary school are from 2002.

Costs

Secondary schools

The following two graphs break down secondary schools' costs on an absolute and relative basis. Total expenditures ranged from \$3.5 to \$13.6 million, with teacher and manager salaries accounting for 65–77 percent of costs in each case. The proportionate breakdown of all other costs (i.e. the locally managed costs) varied from school to school as follows:

- Other Learning Resources (e.g. curriculum supplies, extra curricular, teacher development, minor equipment and repairs, library): 5–17 percent, average 12 percent.
- Property Management (personnel, maintenance, caretaking and cleaning, grounds, heat, light, water): 5–9 percent, average 8 percent.
- Administration (support staff, Board of Trustees fees and expenses, communication, consumables, audit fees): 4–10 percent, average 6 percent.
- Depreciation: 2–5 percent, average 4 percent.

Figure 5 Secondary school expenditures, 2003

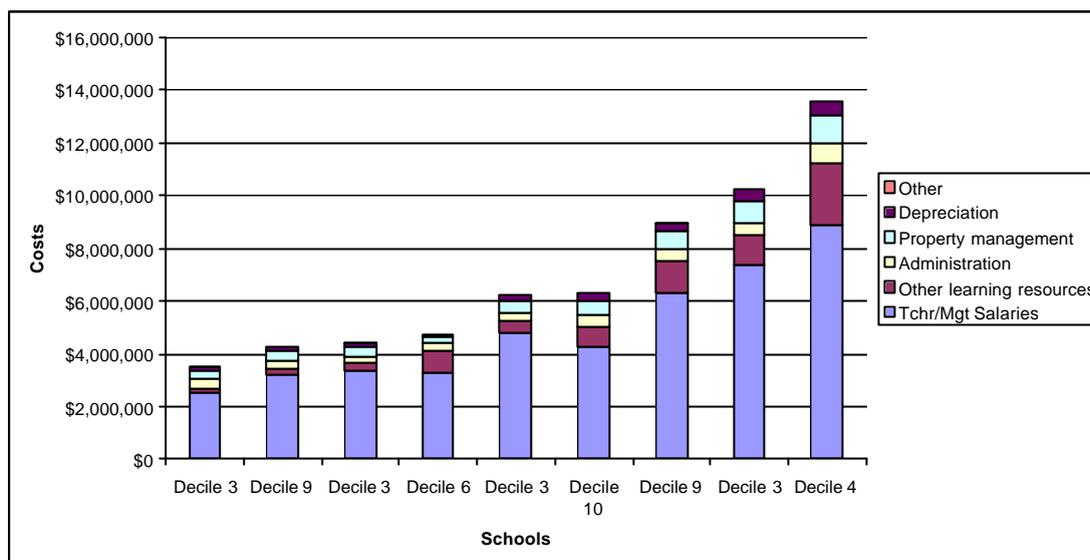
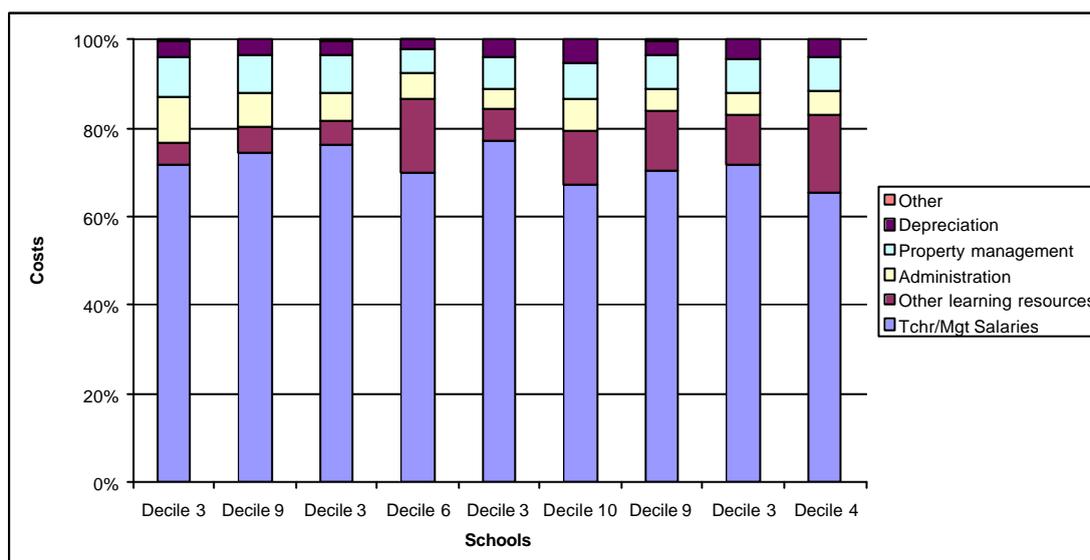


Figure 6 Proportionate breakdown of secondary school expenditures, 2003

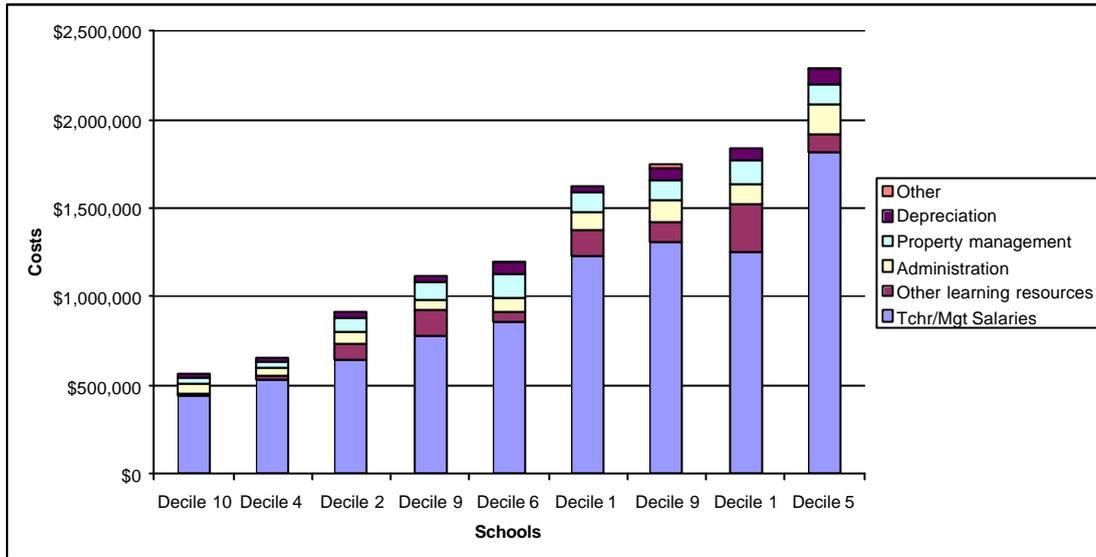


Primary schools

The following two graphs break down primary schools' expenditures on an absolute and relative basis. Total expenditures ranged from \$560,000 to \$2.3 million, with teacher and management salaries accounting for 69–80 percent of costs in each case. The proportionate breakdown of all other costs (i.e. the locally managed costs) varied from school to school as follows:

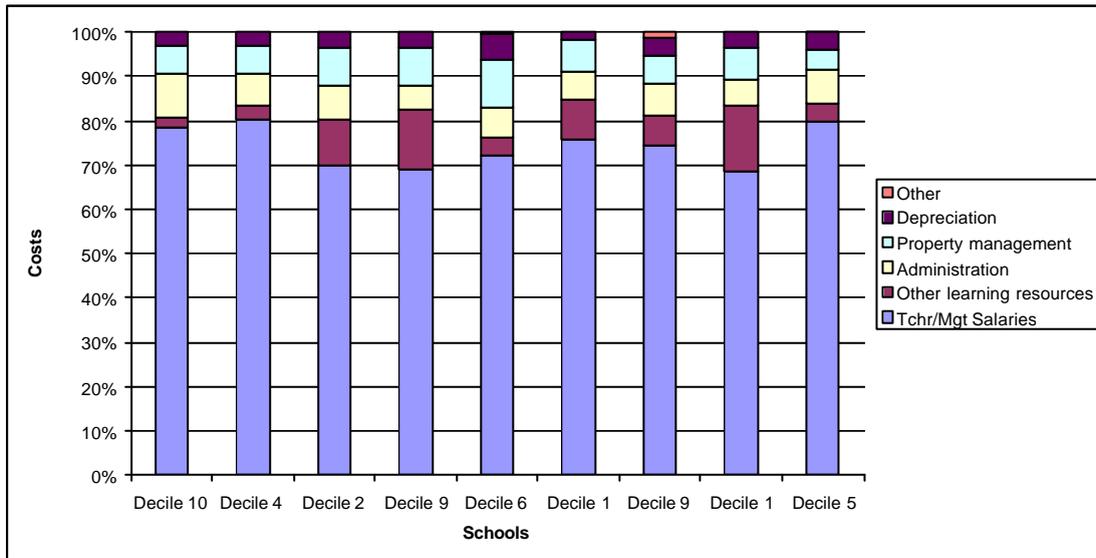
- Other Learning Resources: 2–15 percent, average 8 percent.
- Property Management: 5–11 percent, average 7 percent.
- Administration: 5–10 percent, average 7 percent.
- Depreciation: 2–6 percent, average 4 percent.

Figure 7 **Primary school expenditures, 2003***



* Figures for one primary school are from 2002.

Figure 8 **Proportionate breakdown of primary school expenditures, 2003***



* Figures for one primary school are from 2002.

4. Exploratory analysis of expenditure patterns

This section investigates trends and relationships in the available school financial data. Key areas investigated are teacher salaries, teacher professional development expenditures, support staff salaries, property management expenditures, and depreciation charges. A sixth area of interest, ICT, was unable to be explored due to a lack of consistency in the treatment of this item in schools' financial statements. Further investigation will be undertaken in this area for next year's report.

Teacher salaries

All 18 schools employed additional teaching staff over and above entitlement staffing. The following two tables analyse the extent of this additional expenditure.

Secondary schools

In 2003, the nine secondary schools spent an extra \$120,000 to \$1.16 million on teacher salaries in addition to their entitlement staffing (with a median of \$430,000).

The Teacher Salaries Grants to these schools fell between 4–16 percent short of these Boards' and management teams' assessments of the schools' actual staffing requirements (mean 10 percent). As a result, these schools elected to spend between 12–59 percent of their operations grants on teacher salaries (mean 32 percent), or between 7–32 percent of total locally managed expenditure (mean 18 percent).

Table 1 **Teacher salary expenditures – secondary schools, 2003**

School	Teacher Salaries Grant (\$m)	Teacher Salaries Expenditure (\$m)	Extra Spent (\$m)	% over Teacher Salaries Grant	% of Operations Grant	% of Locally Managed Expenditure
Decile 3	4.17	4.83	0.66	16	47	32
Decile 3	2.90	3.37	0.47	16	45	30
Decile 9	2.74	3.17	0.43	16	59	29
Decile 4	7.72	8.89	1.16	15	47	20
Decile 3	6.72	7.37	0.65	10	27	18
Decile 3	2.38	2.51	0.13	5	16	12
Decile 6	3.17	3.29	0.12	4	15	8
Decile 9	6.08	6.30	0.22	4	12	8
Decile 10	4.09	4.25	0.16	4	14	7

Primary schools

In 2003, the nine primary schools spent an extra \$50,000 to \$350,000 on teacher salaries in addition to their entitlement staffing (with a median of \$80,000).

The Teacher Salaries Grants to these schools fell between 6–39 percent short of these Boards' and management teams' assessments of the schools' actual staffing requirements (mean 14 percent). As a result, these schools elected to spend between 14–69 percent of their operations grants on teacher salaries (mean 36 percent), or between 12–47 percent of total locally managed expenditure (mean 26 percent).

Table 2 **Teacher salary expenditures – primary schools, 2003***

Decile	Teacher Salaries Grant (\$m)	Teacher Salaries Expenditure (\$m)	Extra Spent (\$m)	% over Teacher Salaries Grant	% of Operations Grant	% of Locally Managed Expenditure
Decile 1	0.88	1.23	0.35	39	69	47
Decile 4	0.46	0.53	0.07	16	44	36
Decile 5	1.58	1.82	0.24	15	47	34
Decile 10	0.39	0.44	0.05	13	41	30
Decile 2	0.57	0.64	0.07	12	26	20
Decile 9	1.19	1.30	0.11	9	30	20
Decile 9	0.70	0.77	0.08	11	34	18
Decile 1	1.16	1.25	0.09	8	14	14
Decile 6	0.82	0.86	0.05	6	18	12

* Figures for one primary school are from 2002.

Professional development

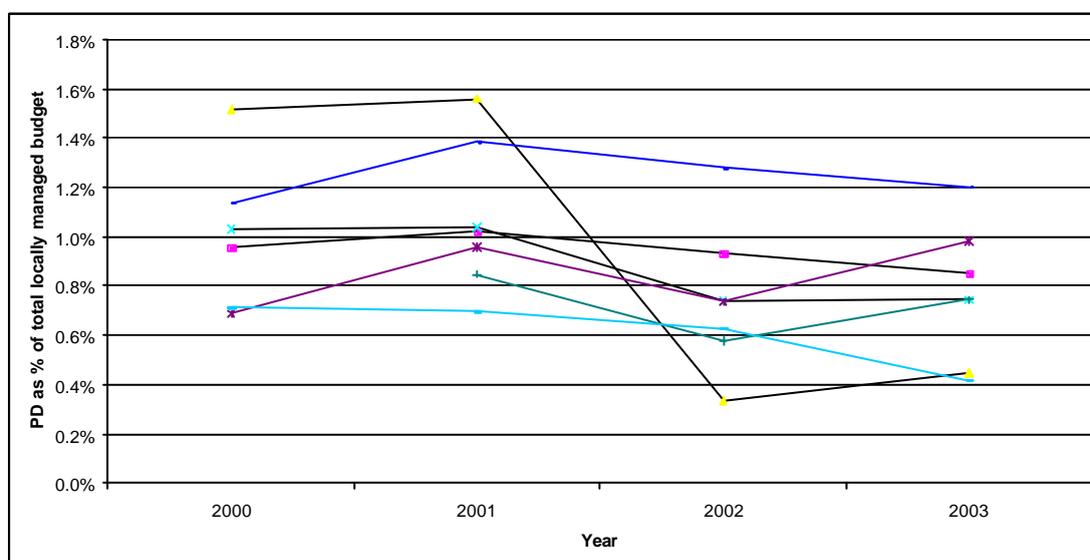
The following two graphs show professional development expenditures as a percentage of the schools' "locally managed expenditure" (i.e. total expenditures minus teacher salaries grant) for the 4-year period 2000–2003, for secondary and primary schools respectively.

Secondary schools

Seven secondary schools provided details of professional development expenditures within their financial statements. In 2003, these secondary schools spent between 1.4–4.3 percent of their operations grants on teacher professional development (mean 2.4 percent).

From 2000–2003, professional development expenditure usually comprised between 0.6–1.4 percent of locally managed expenditure. Professional development expenditures fluctuated from year to year. Overall there was a similar degree of fluctuation within schools (between years) as there was variation between schools in a given year. There was no evidence of a systematic increase or decrease in teacher development expenditure at these schools during this period, although one school showed a substantial decrease from 2001 to 2002.

Figure 9 **Teacher development as a percentage of locally managed expenditure, secondary schools, 2000–2003**

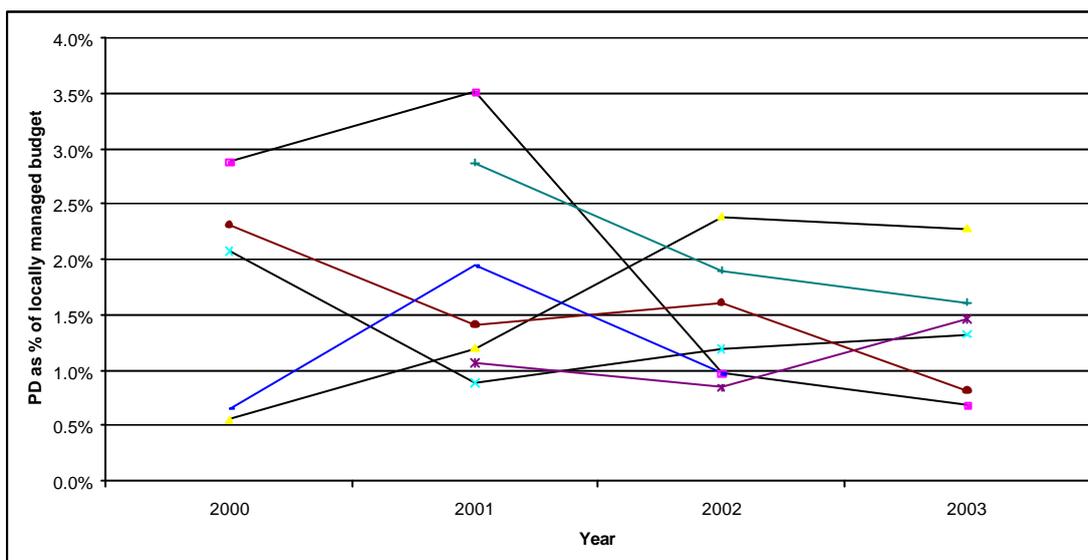


Primary schools

Seven primary schools provided data on professional development expenditures in their annual financial statements. In 2003, these schools spent between 1.4–7.0 percent of their operations grants on teacher professional development (mean 2.8 percent).

From 2000–2003, professional development expenditure represented a proportion of total expenditure that was equal to or greater than those of secondary schools, with most expenditures falling within the range of 0.5–2.5 percent and some outliers up to 3.5 percent. Overall, there was as much fluctuation in the level of professional development expenditure within schools (between years) as there was variation between schools (in a given year). There was no evidence of a systematic increase or decrease in professional development expenditures at these schools during this period.

Figure 10 **Professional development as a percentage of locally managed expenditure, primary schools, 2000–2003**



Professional development by decile and roll size

As the following two graphs show, there is no evident relationship between the decile rating of the school and the proportion of the budget allocated to professional development.

Figure 11 Professional development as a percentage of locally managed expenditure by decile for secondary schools, 2000–2003

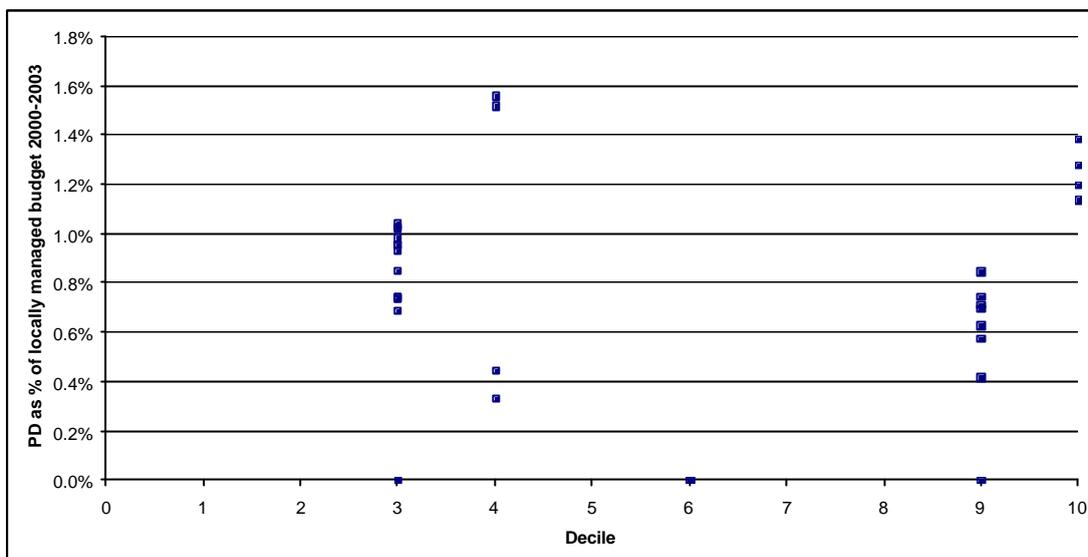
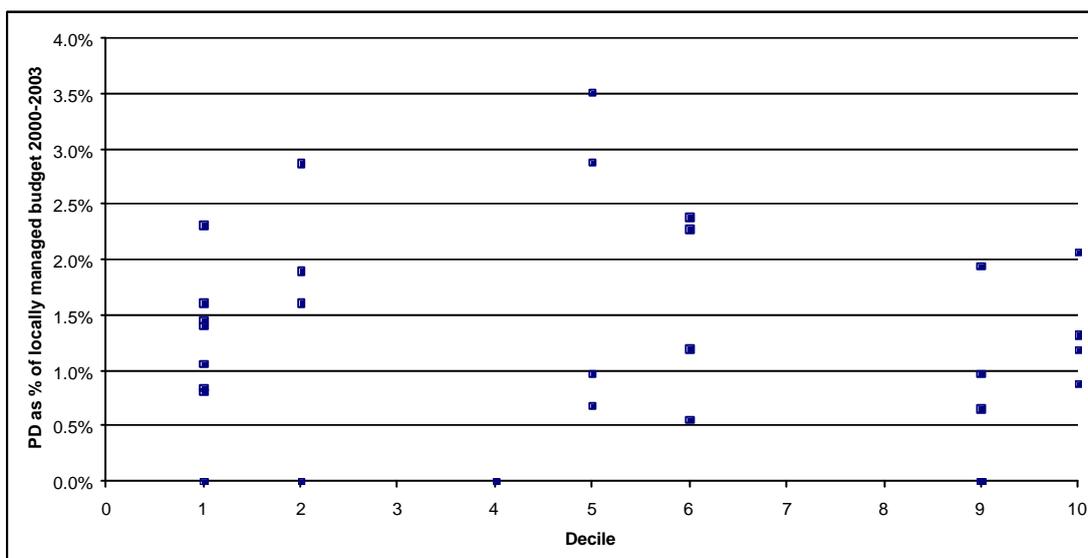


Figure 12 Professional development as a percentage of locally managed expenditure by decile for primary schools, 2000–2003



Similarly, there is no demonstrable relationship between the proportion of the budget allocated to professional development and the roll size of the school.

These findings are somewhat surprising as one can think of reasons why professional development expenditures might be loosely associated with the size of the school and its socio-economic profile. The lack of a correlation may reflect the small sample size and the number of other factors that determine professional development budgetary allocations.

For the remainder of this report, scatter plots showing no relationship between the variables have been omitted.

Support staff salaries

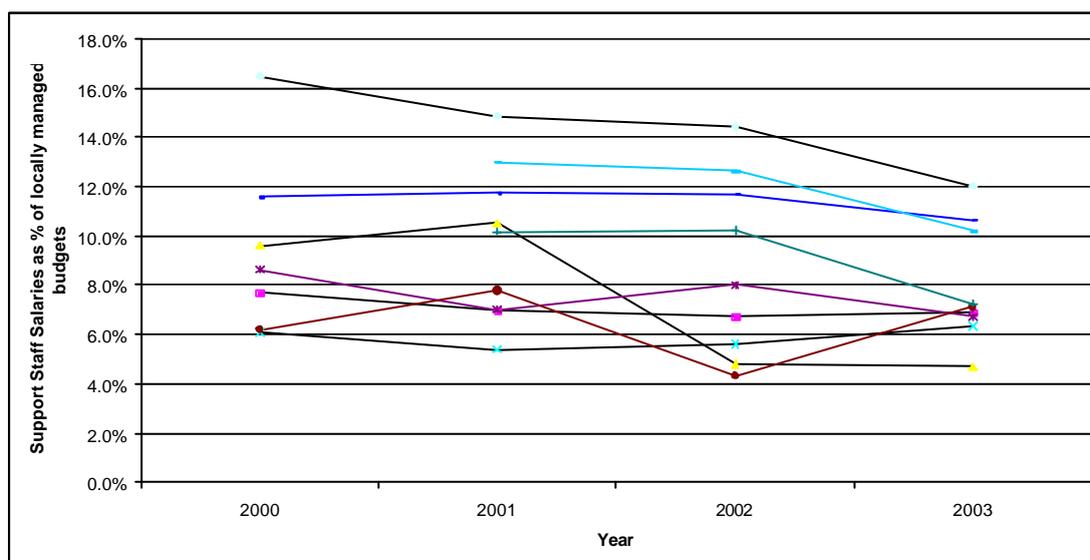
The proportion of the locally managed budget that schools spent on support staff salaries varied widely between schools, but in many cases tended to vary less between years than was observed for professional development expenditures.

Secondary schools

Data were available from all nine secondary schools on support staff salary expenditures. In 2003, these schools spent between 11–25 percent of their operations grants on support staff salaries (mean 15.4 percent). In absolute terms, support staff salary expenditures ranged from \$100,000 to \$386,000 in 2003, with a mean of \$216,000 across the nine schools.

Within the 4-year period shown in the graph, support staff salary expenditures ranged from 4.3–16.5 percent of locally managed expenditure, with the majority of cases ranging from 5–13 percent.

Figure 13 **Support staff salary costs as a percentage of locally managed expenditure, secondary schools, 2000–2003**



The notable increases and decreases in some individual schools may reflect changes to reduce costs. We will undertake more analysis of relations between overall financial health and changes in expenditure of key aspects of school provision in the next report.

Primary schools

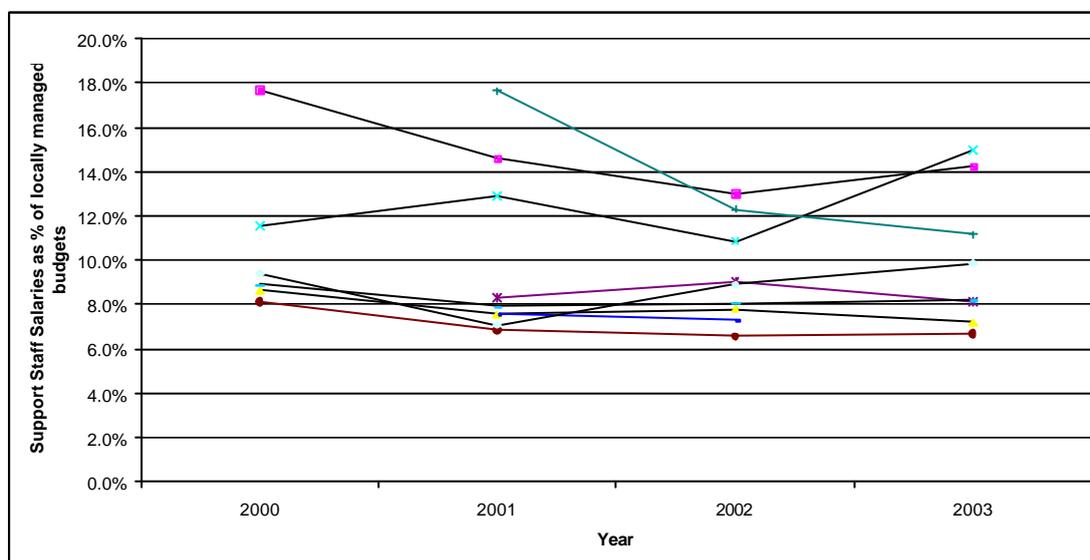
The nine primary schools' expenditures on support staff salaries ranged from 8–24 percent of their operations grants in 2003, with a mean of 12.7 percent. In absolute terms, expenditure on

support staff salaries ranged from \$20,000 to \$114,000 per annum, with a mean of \$49,000 in 2003.

From 2000–2003, as a percentage of the schools’ locally managed budgets, support staff salaries ranged from 6.6–17.7 percent as shown in the following graph.

Anecdotal feedback from schools suggests that the reduction in ORRS funding when a qualifying student departs is a common reason for having to lose a support person. This offers one possible explanation for some of the volatility observed for some schools. One of the schools made cutbacks in support staffing because its socio-economic decile ranking was increased, cutting its operational grant.

Figure 14 **Support staff salary costs as a percentage of locally managed expenditure, primary schools, 2000–2003**



Support staff salaries by decile and roll size

There was no discernible relationship between the proportion of the budget allocated to support staff and the decile rating of the school. Neither was the proportionate level of expenditure related to roll size. This finding was the same for both secondary and primary schools. This finding was somewhat surprising as one can think of reasons why support staff salary expenditures might be loosely associated with the size of the school and its socio-economic profile. The lack of a correlation may reflect the small sample size and the number of other factors that determine support-staffing decisions.

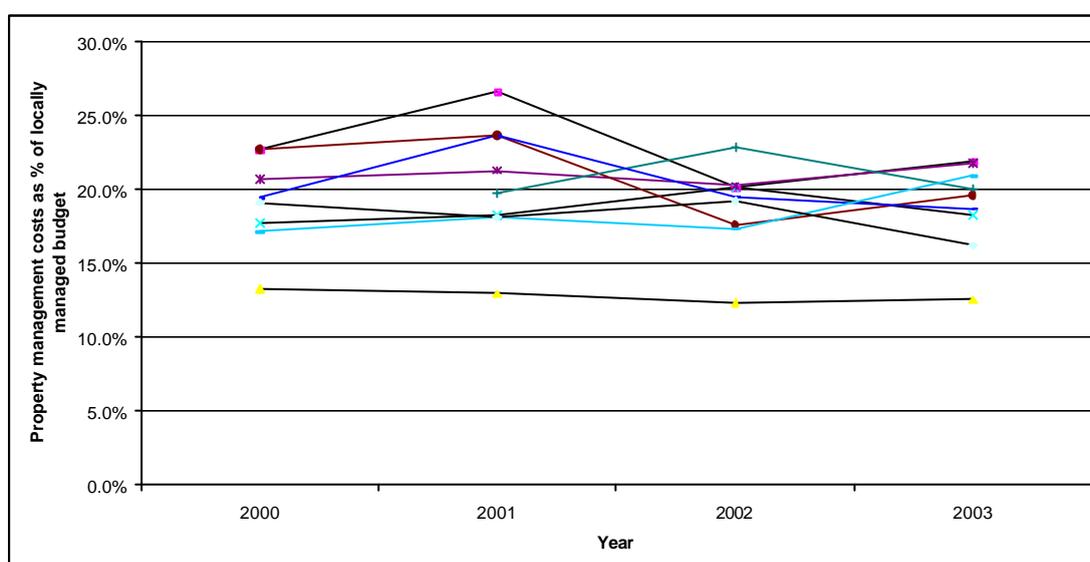
Property management

Secondary schools

Property management costs varied from 12–24 percent of the locally managed budget among the nine secondary schools, with one outlier of 27 percent in 2001 as shown in the graph. The tighter clustering of costs in the second 2 years compared to the first 2 years is probably coincidental.

As a percentage of the operations grant, these secondary schools' property management costs ranged from 30–49 percent in 2003, with a mean of 38.2 percent.

Figure 15 **Property management as a percentage of locally managed expenditure, secondary schools, 2000–2003**

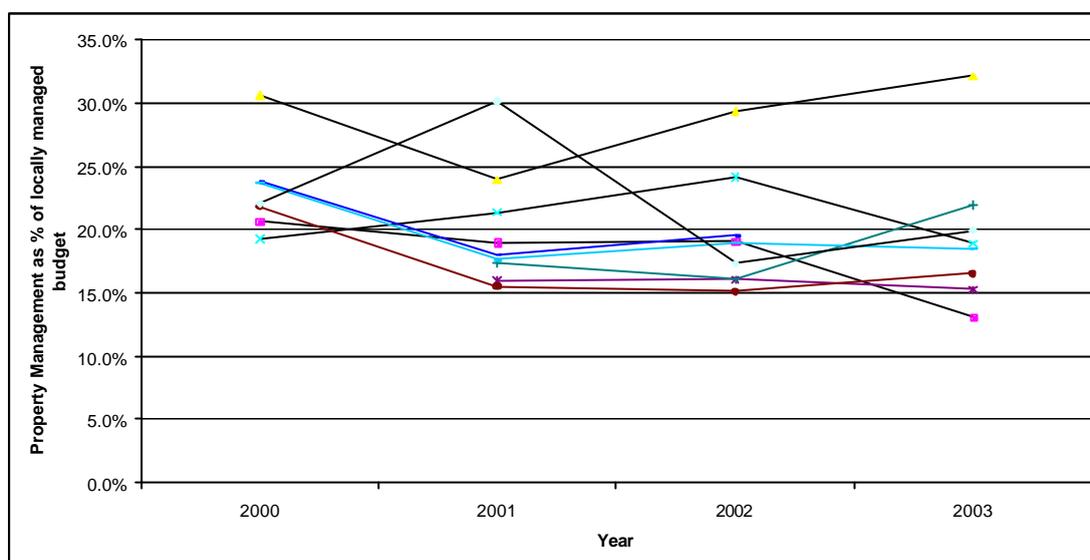


Primary schools

Primary schools' property management expenditures generally ranged from 13–25 percent, with four outliers of up to 32 percent (three of these being for the same school) as shown below.

As a percentage of the operations grant, these primary schools' property management costs ranged from 19–50 percent in 2003, with a mean of 24.0 percent.

Figure 16 **Property management as a percentage of locally managed expenditure, primary schools, 2000–2003**



For both secondary and primary schools, the proportion of locally managed funds allocated to property management exhibited a similar degree of within-school as between-school variation.

Property management costs by decile and roll size

The proportionate level of expenditure on property management bore no discernible relationship to decile rating or roll size.

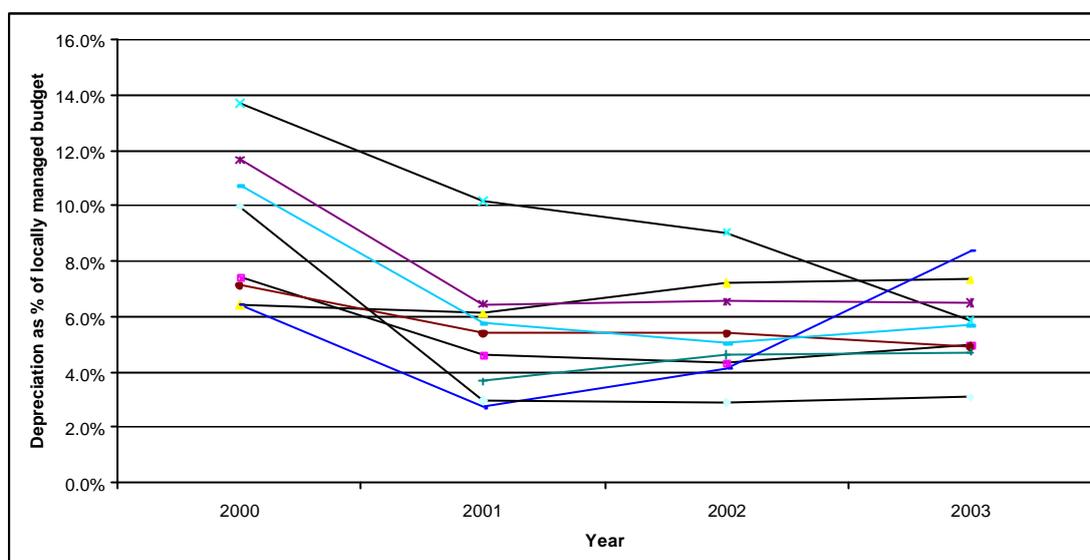
Depreciation

Depreciation is the reduction in the value of a capital asset and represents the portion of the asset that is “consumed” within a financial year. A depreciation charge is included as an expenditure item in schools’ financial statements. The total size of the depreciation charge is related to the total value and age of capital assets held by the school. The following graphs show the proportionate relationship of depreciation to total locally managed expenditures.

Secondary schools

Depreciation accounted for between 2.7–13.7 per cent of secondary schools’ locally managed expenditures as shown below. Although large fluctuations are evident from year to year, between-school variation was greater than within-school variation for six of the nine schools. This reflects different patterns of school purchase of capital items.

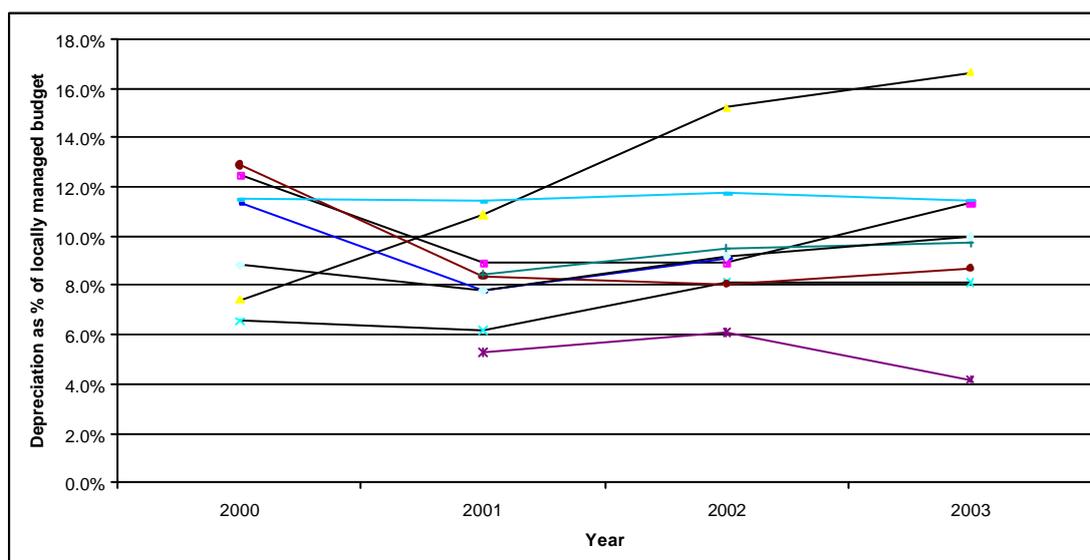
Figure 17 **Depreciation as a percentage of locally managed expenditure, secondary schools, 2000–2003**



Primary schools

Among the primary schools in the study, depreciation ranged from 6.6–12.9 percent of locally managed expenditure in 2000 and from 4.2–16.7 percent in 2003, with most of the widening being due to one school which moved from the second-lowest to the highest position during this time as it found outside funding for a substantial expansion of its ICT equipment.

Figure 18 **Depreciation as a percentage of locally managed expenditure, primary schools, 2000–2003**



There was no discernible relationship between depreciation, decile rating, and roll size of secondary or primary schools.

5. Indicators of schools' financial wellbeing

Here we compare the schools in the study in terms of their annual surpluses/deficits, their year-end positions (based on working capital), and their capacities to raise revenues locally.

Surplus/deficit

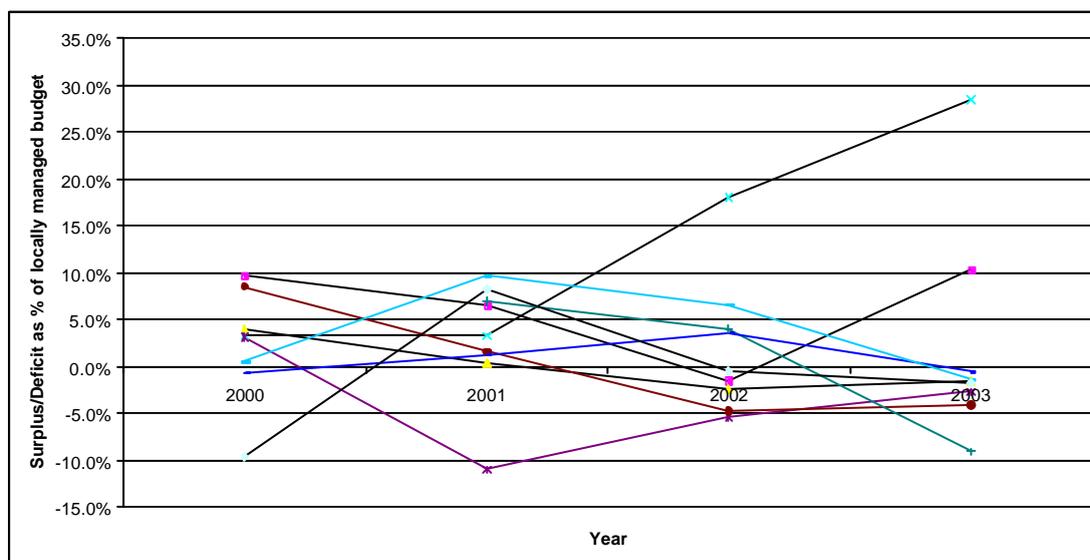
The surplus/deficit is the net difference between the school's revenues and its expenditures during a financial year.

Schools stated a strong preference for staying out of deficit, and this is evidenced in the graphs below. They were not always able to budget for a surplus, but they made efforts during the year to end the year in the black, or to break even.

Secondary schools

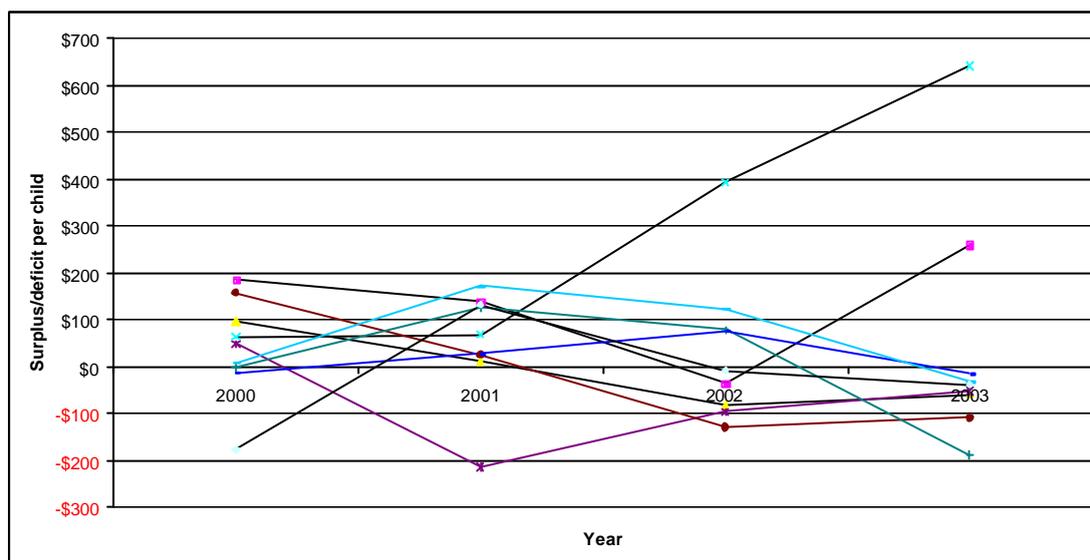
Among the secondary schools, the surplus/deficit value was available for eight schools over a 4-year period and for one school over a 3-year period, for a total of 35 financial years. A surplus was achieved in 20 (57 percent) of the 35 cases. Moreover, surpluses tended to be higher than deficits as a proportion of locally managed expenditure – i.e. the year-end results fluctuate around a positive mean.

Figure 19 **Surplus/deficit as a percentage of locally managed expenditure, secondary schools, 2000–2003**



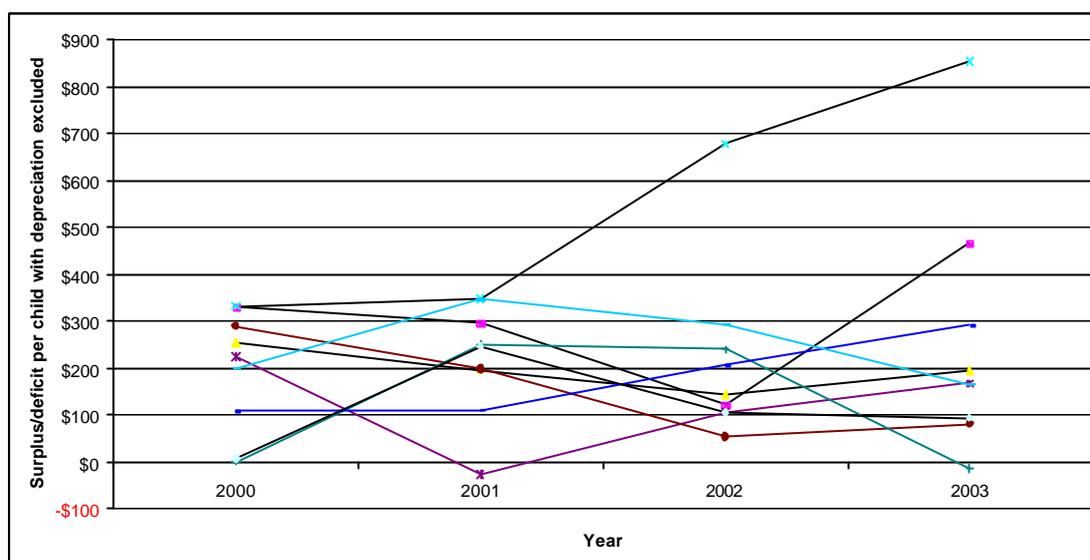
The following graph shows the same data expressed in average per-student dollar values, with the schools showing a tendency to cluster around the -\$150 to +\$200 per student range. The figures are approximate, being based on the 2002 roll in all cases. Most of the schools ended 2003 in deficit but when depreciation is excluded, all but two of these showed a surplus as shown in the subsequent graph (Figure 21).

Figure 20 **Surplus/deficit per student, secondary schools, 2000–2003**



The following graph shows the surplus/deficit for the secondary schools when depreciation is disregarded – i.e. the net balance of revenues and cash expenditures. This shows that the schools ran a cash surplus in all but two cases. Put another way, the inclusion of depreciation as an expenditure item in the schools’ financial statements accounted for 13 of the 15 deficits in the 4-year period.

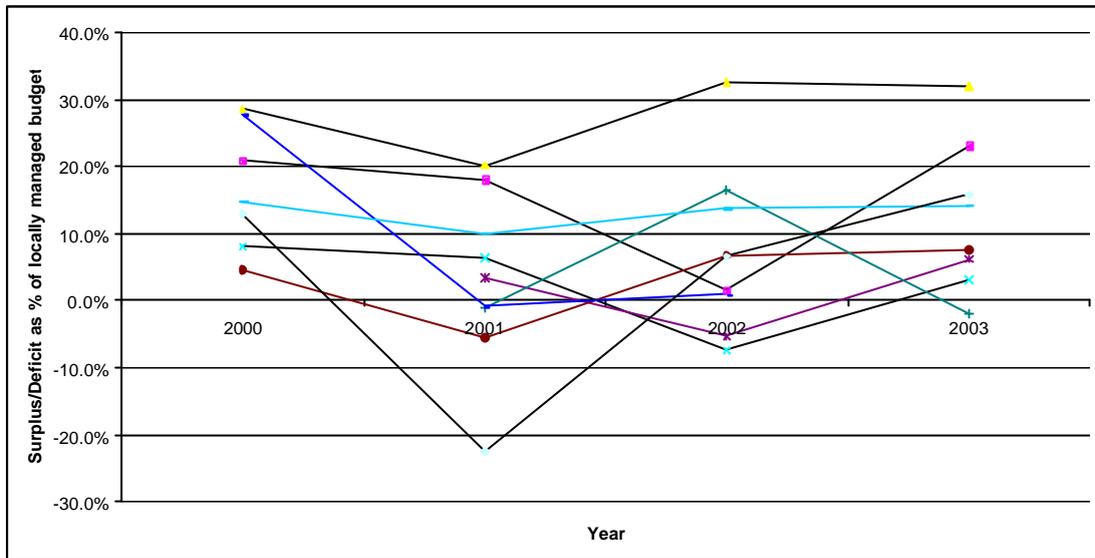
Figure 21 **Surplus/deficit per student with depreciation excluded, secondary schools, 2000–2003**



Primary schools

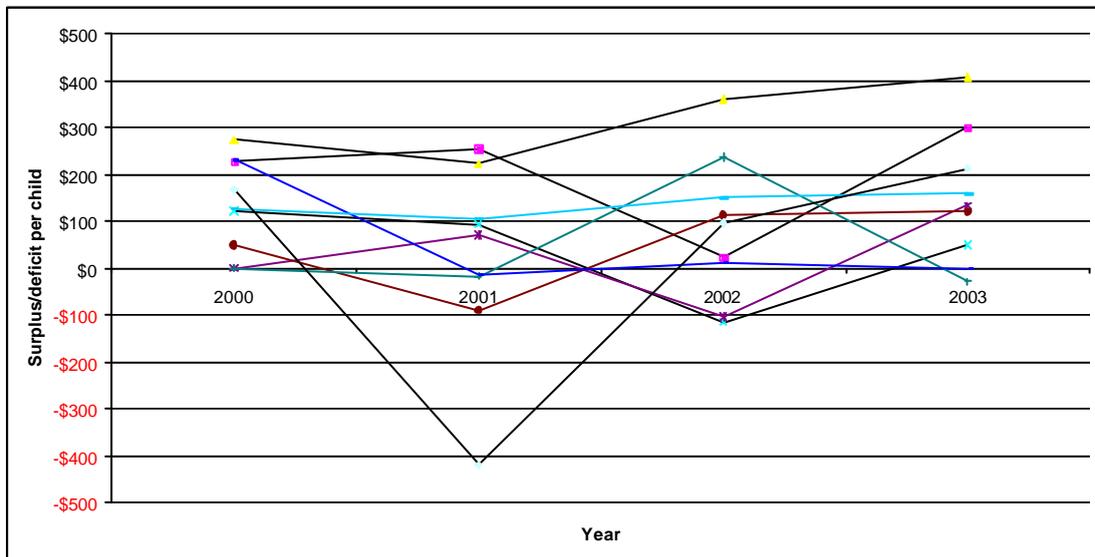
Among the nine primary schools, the surplus/deficit value was available for six schools over a 4-year period and three schools over a 3-year period, for a total of 33 financial years. A surplus was achieved in 26 (79 percent) of cases. This is a higher proportion than the secondary schools in the study, which may reflect in part the even greater caution with which the primary schools operated, because their smaller rolls give them a smaller overall budget to manage, and consequently, less room for error. As with secondary schools, surpluses tended to be higher than deficits as a proportion of locally managed expenditure – i.e. the year-end results fluctuate around a positive mean.

Figure 22 **Surplus/deficit as a percentage of locally managed expenditure, primary schools, 2000–2003**



The following graph shows the same data expressed in average per-student dollar values, with the schools showing a tendency to cluster in the -\$100 to +\$250 per student range. The figures are approximate, being based on the 2002 roll in all cases.

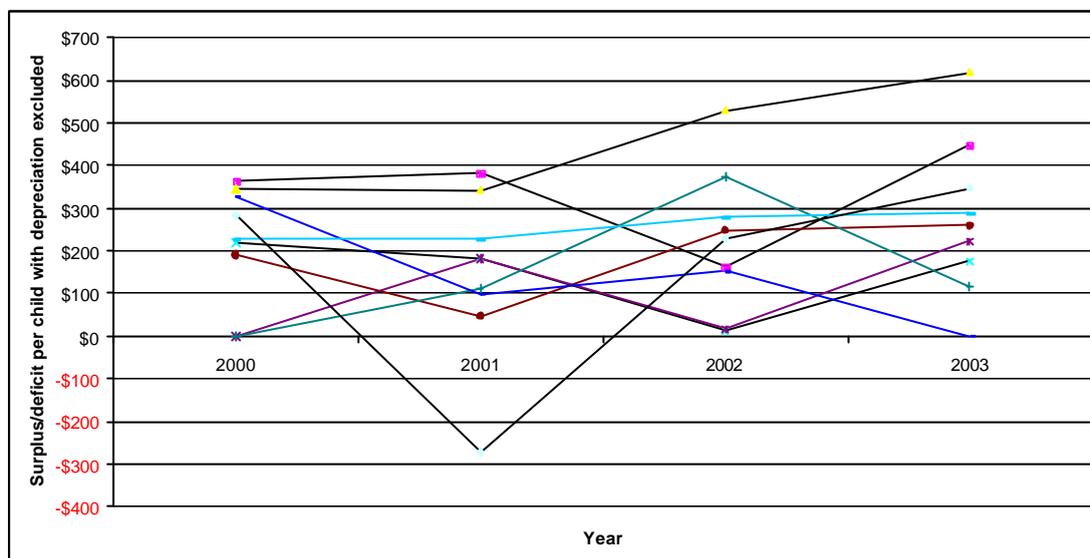
Figure 23 **Surplus/deficit per student, primary schools, 2000–2003**



The following graph shows the surplus/deficit for the primary schools when depreciation is disregarded – i.e. the net balance of revenues and cash expenditures. This shows that the schools ran a cash surplus in all but one case. Put another way, the inclusion of depreciation as an

expenditure item in the schools' financial statements accounted for six of the seven deficits in the 4-year period.

Figure 24 **Surplus/deficit per student with depreciation excluded, primary schools, 2000–2003**



Working capital

Working capital is the net difference between a school's current assets and its current liabilities at the end of a financial year. It is a readily comparable indicator of the school's year-end financial reserves, although it takes into account more than just cash reserves.

Current assets are assets that can be readily liquidated, and include items such as cash on hand in the bank, inventory (e.g. uniforms and stationery due to be sold), accounts receivable, GST refunds due, investments maturing within 1 year, and any property currently listed for sale.

Current liabilities represent the school's real and potential financial obligations to other parties, including items such as accounts payable, income received in advance (e.g. from international students), loans and/or leases payable within 12 months, and provisions for cyclical maintenance payable within 12 months.

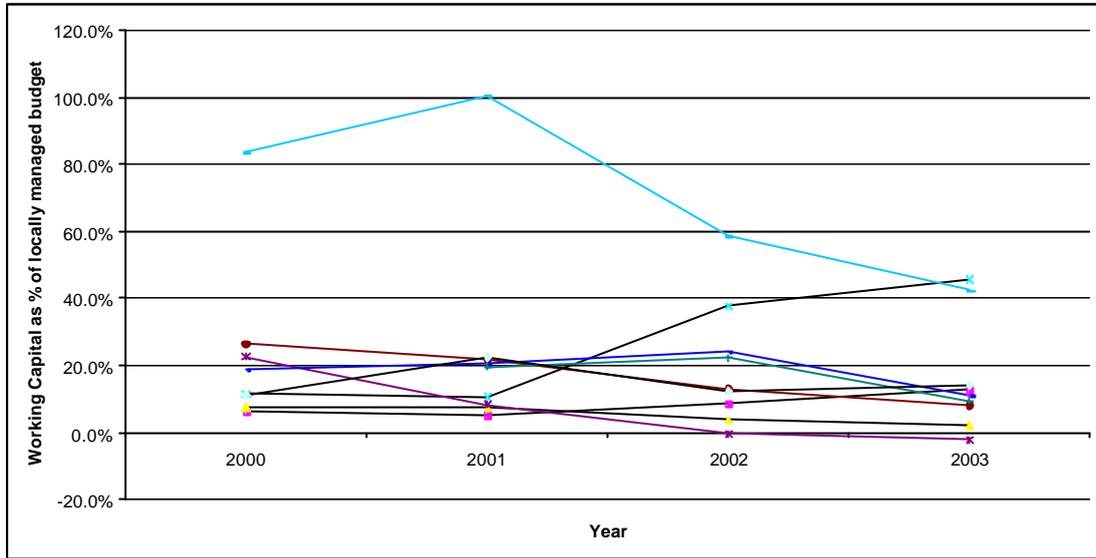
Schools stated a strong preference for retaining positive cash reserves, and this is reflected in their working capital results as shown in the following graphs.

Secondary schools

The following graph expresses working capital as a percentage of the locally managed budget. In general, working capital remained fairly even between years, with declines in working capital

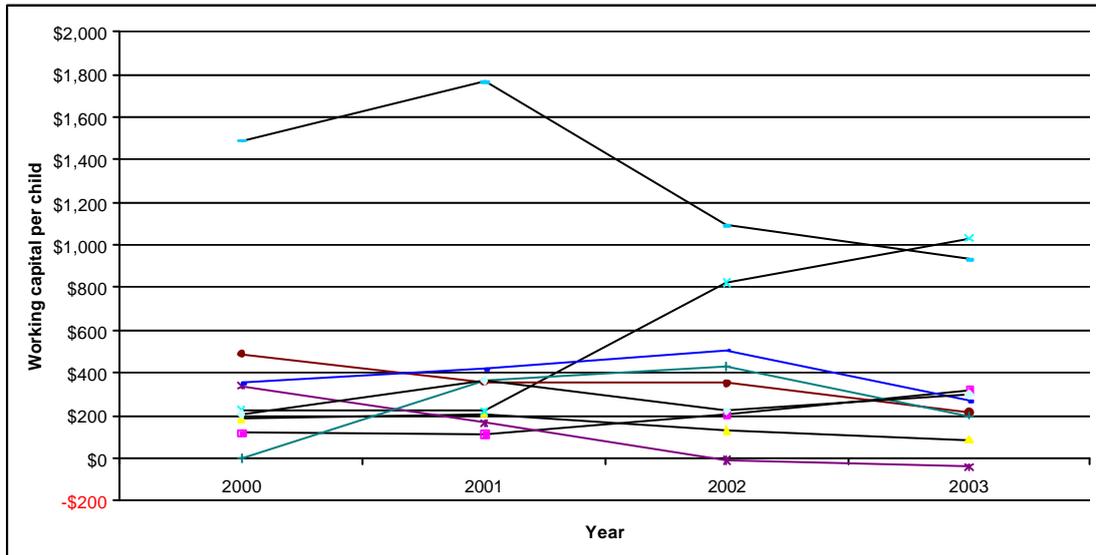
predominantly reflecting major capital investments, and increases often reflecting efforts to build up reserves after major capital investments.

Figure 25 Working capital as a percentage of locally managed budget, secondary schools, 2000–2003



The following graph shows working capital per student (i.e. taking the size of the school into account). Figures are approximate, being based on the 2002 roll in all cases. The graph suggests a clustering of working capital in the +\$100 to +\$500 per student range.

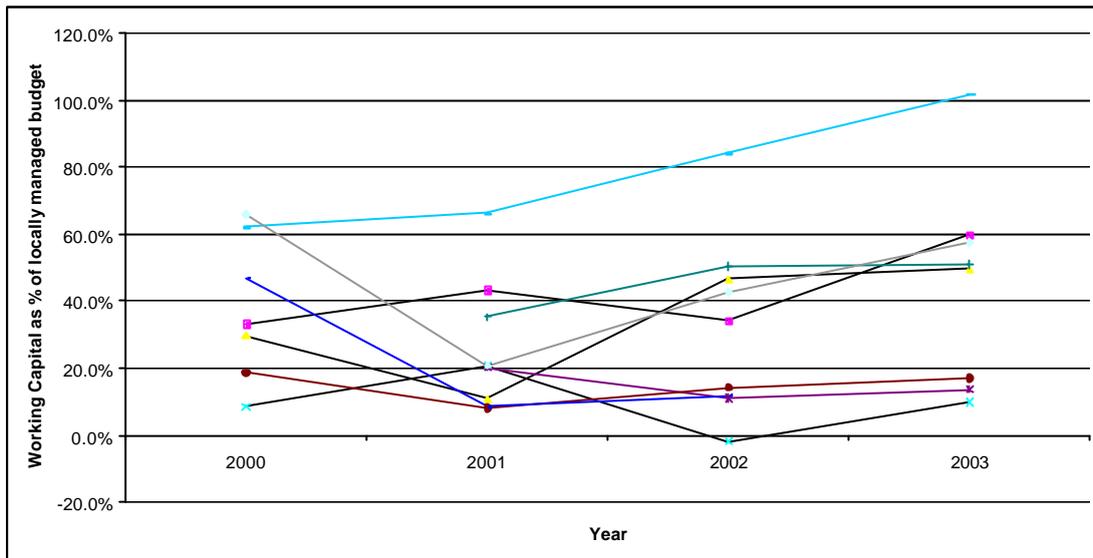
Figure 26 Working capital per student, secondary schools, 2000–2003



Primary schools

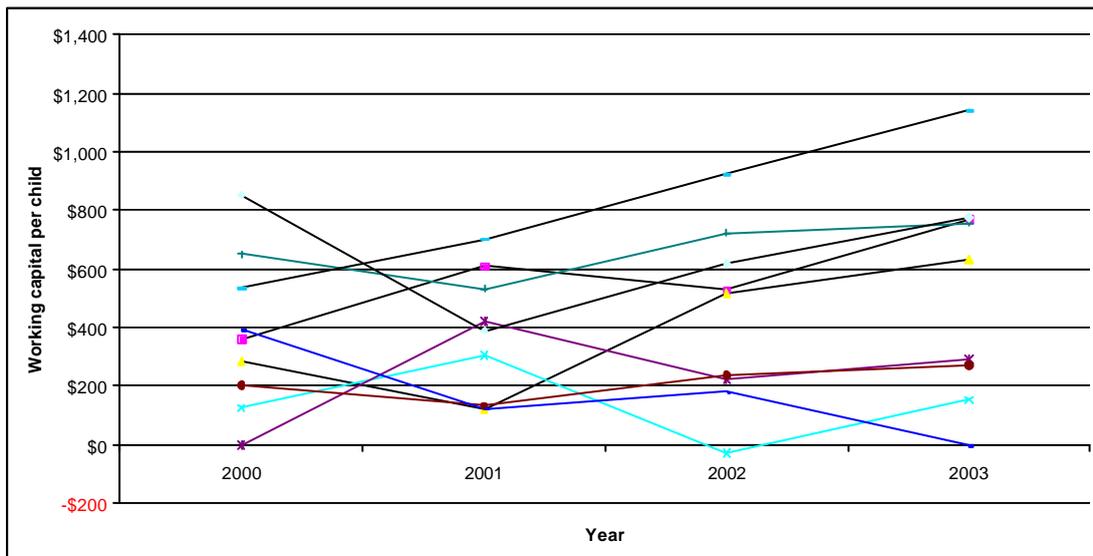
The following graph expresses working capital as a percentage of the locally managed budget. The primary schools' working capital was much more volatile between years and more varied between schools than those of the secondary schools.

Figure 27 **Working capital as a percentage of locally managed budget, primary schools, 2000–2003**



The following graph shows working capital per student (i.e. taking size of the school into account). Figures are approximate, being based on the 2002 roll in all cases. The graph suggests a clustering of working capital in the +\$100 to +\$750 per student range.

Figure 28 **Working capital per student, primary schools, 2000–2003**



Locally raised revenue

Schools differ in their capacity to raise revenues locally (and in the capacity of their local communities to contribute). This finding, which was highly evident in the interviews with school principals and board chairs, is supported by the degree of variation between schools in the proportionate contribution of locally raised to total revenues.

Among the secondary schools, in 2003, locally raised revenues varied widely, from 11 percent to 48 percent of locally managed revenues, and from \$65 to \$973 per student. Among the primary schools there was also considerable variation, from 4 percent to 37 percent of locally managed revenues, and from \$41 to \$469 per student.

International students were more important as a revenue source for secondary than primary schools. Eight of the nine secondary schools reported separately their net revenues from international students in 2003, with the net income from this source representing between 19–90 percent of total locally raised revenues. Only one of the primary schools had international students, with net income from this source comprising 21 percent of locally raised revenues.

6. Financial decisionmaking

Board-principal relations and roles

Five of the primary schools made the study interviews joint ones, with both principal and board chair, or treasurer present. At two schools the executive officer joined the interview, and at one of these the deputy principal also attended. All but one of the principals had led their school for at least 5 years, with most leading their school for 10 or more years. Most board chairs had also served on their board for more than 2 years.

Joint interviews with principals and board chairs or treasurers were held in three of the nine secondary schools. Trustees were not interviewed in one school since both chair and treasurer had joined the board after the last budget was set, and had no experience of the budget setting and management process. Executive officers joined the interviews at five of the schools. All but two of the secondary principals had led their school for between 5 and 10 years. Most board chairs and treasurers interviewed had also served on their board for more than 3 years.

Whether or not the interviews were joint, relations between principals and board chairs were respectful of their different roles, open, and trusting.¹⁶ This trust was built on experiences of shared decisionmaking, using systems and frameworks that were now identified with the school culture, rather than particular individuals. Decisionmaking took place within the framework of the school strategic plan, usually covering a 5-year period, and linked to the strategic plan, 10-year property plans. The fact of having such a framework allowed boards to focus on annual priorities, without having to constantly revisit basic purposes. Strategic planning brought together board and management in joint planning, providing a shared understanding as well as vision. It gave board decisionmaking reference points and a continuity that made it less vulnerable to *ad hoc* ideas or individual hobby-horses that might destabilise budgets and financial management. Board meetings were therefore not marathon sessions.

¹⁶ Some principals and trustees compared their own school situation favourably with other schools where there was distrust between board and principal, or within the board. It would be interesting to know more about how such situations arise, and whether they are less likely to arise in schools such as those in this study, that have built in systems and frameworks based on joint planning and monitoring, and open discussion. Several schools had had a change of board members in this year's election, and some principals and chairs spoke of their awareness of the need to ensure that new board members gained the same understanding of systems and frameworks as existing members, particularly in relation to the setting of budget priorities.

Chairs and trustees of these effective schools expected their principal to present them with the information they needed to be able to make good decisions. They saw the principal as having the curriculum knowledge they did not have (and did not expect to have to have), and saw that knowledge being deployed in relation to advice to the board on both the strategic plan and annual priorities. In most cases, the principal (and other school staff through the principal or senior management team) provided guidance and suggestions that the board discussed, and might modify. These were often developed over time, through ongoing discussion between school professionals and board members.

In some secondary schools, board committees that included the school professionals developed initiatives that were then taken to the whole board. In one of these schools, the board chair described the process of priority identification as a partnership that was more productive than formal presentation of papers:

It's an organic process. You can't say it's the board or management [that sets priorities]. We work very closely with management, and we identify needs, and encourage the board's thinking. ...Obviously when it comes down to it, there is a governance/management split, but we work very closely. ...I would be very disappointed if we got to the stage where management brought a proposal to the board and the board threw it out. That's a lack of communication at an earlier stage. It doesn't happen that way, the ideas germinate and they grow, and if there is sufficient buy-in, they will progress.

Boards of these schools did not work as rubber stamps only for the school professionals, but they did see their role as working jointly with school management to first develop shared frameworks, and then robustly discuss the management plans and cases. The questions were related to ensuring that new initiatives met real needs, were sustainable in the long-term, and were aligned with the strategic plan, and consistent with what trustees were hearing out in the community. One secondary board chair spoke of "the inner and outer coming together...sometimes the school has an insulated point of view".

Boards can take more of an initiatory role in relation to raising revenue, or, where there is property expertise, property planning. One secondary principal noted of his board:

Really they're most confident giving a lead with the physical environment, and they defer to the principal what's good for kids in the classroom.

But because of the shared framework and mode of development through discussion, few of the people we spoke with could specify some budget initiative that had come first from trustees on the school board.

The few board (rather than joint board-professional or professional) initiatives that were identified at the secondary level were all property-related. On one board, the student representative identified issues with toilets and lockers that saw the board decide to address these sooner than planned.

They saw decisionmaking occurring both at the time of setting the annual budget, and through the year, as the board monitored actual spending and revenue against projected spending and revenue, and decided whether they needed to reprioritise in order to avoid deficit at the end of the year, or, more happily, what spending they had not included in the budget that they could now afford.

Principals expected their board to ask questions, and they generally found those questions were useful in ensuring that the budgets were well-formed. They expected questions around the alignment of spending to the school strategic plan and annual priorities, and value for money. They also welcomed the opportunity to work with trustees who had more expertise in financial planning and management than they did, and several spoke of the advantage for principals of having people they could ask questions of, when there was a relationship of mutual trust.

We did not specifically ask who was ultimately responsible for the financial health of a school. However, all the board people spoke of their sense of responsibility in relation to ensuring that the budget was realistic, and monitoring it throughout the year. Several principals directly addressed this also. We will focus more directly on perceptions of the meaning of deficit in the next 2 years of this study.

Boards also had a role in raising revenue. The extent to which they did depended on the composition of the board, the way revenue was raised, relations with the school PTA, and the role the principal took in actively seeking support from community trusts and organisations, and business. There did appear to be differences in school cultures about the extent to which boards took an active role in making applications for additional funding, organising fundraising, or raising the revenue from parental donations.

However, most of the boards were not involved in fundraising that required a lot of organisation or took teaching time. Individual board members did take some responsibility to raise funds from community and business organisations, more so on some boards than others, and usually in conjunction with school staff, and in line with board strategic and annual plans.

The schools all had an executive or administrative officer who took responsibility for the day-to-day work of accounts. Most of these were not full-time positions, and some combined their financial role with other management support roles, such as human resources. Several principals commented on the importance of having a good person in the financial role, as it allowed them to run the school efficiently. Principals and their executive or administrative officers usually reviewed financial reports on a monthly basis, often with the board treasurer or chair, looking for variances and trends. In larger schools, the deputy principal or assistant principal may be the member of the school management team that works with board members in a board finance team or committee.

Composing the annual budget

Developing each year's budget is an iterative process. We asked whether schools began with their revenue, or costs. Most primary schools began with both; secondary schools were more likely to begin with their costs, follow with revenue, and look at the match between them. Some schools with historically steady levels of locally raised funds, or close knowledge of their likely international student numbers would start with revenue.

Schools estimated their government revenue by estimating their roll numbers for the next year, and from that, their staffing entitlements, operational grant, and other roll-linked government funding. Most were conservative in their roll estimates. They used the Ministry of Education estimates that reach schools in October, but moderated them in the light of their own local knowledge and historical experience. Schools that experienced high student transience or low pre-enrolment levels were particularly cautious. Nonetheless, schools could still be caught out and overestimate rolls if new factors were at work in patterns of local school enrolment (for example, unoccupied rental housing that was being refurbished or fewer families occupying rental dwellings, or a larger school starting to offer a wider range of curriculum opportunities for senior students). Roll overestimates led to revenue shortages; roll underestimates could lead to difficulties in having sufficient staff and additional pressures on buildings.

Several primary schools in the study had lower mid-year roll numbers and patterns of how rolls build over the year that were different from previous years. Since roll numbers are key to government revenue, the gap between even conservative estimates and actual numbers enrolled (and when they enrol) means decisions need to be made to cut back planned spending, put more effort into raising revenue, or use reserves to maintain programmes.

Some primary schools in particularly competitive situations maintained or tried to maintain close relations with early childhood education centres in their area for marketing reasons, which also gave them useful information in terms of estimating rolls for the coming year.

They also looked at historical data on spending. Some used several years' spending data, and also looked closely at monthly or quarterly spending patterns to see what that might mean for cash-flow in the year ahead.

Secondary schools also analysed spending in relation to courses, looking at student numbers, costs of consumables, and relation to the strategic plan.

All these schools kept an ear open for any shifts in costs, particularly around likely improvements to support staff salaries. They had all allowed for a 2–3 percent increase in support staff salaries, though changes to conditions from the last support staff collective agreement and changes to the Holidays Act were not anticipated, and were an issue for one small primary school.

The schools also used historical data to estimate locally raised revenue, again taking in most cases a conservative approach to what they might raise, and excluding some costs that they hoped to be able to cover from sources such as community trusts. Others felt safe in including such costs. One

primary school that has been very successful in finding other revenue sources deliberately set itself a high target.

All the secondary schools had some international students, and their numbers were also estimated on a historical basis. For 2004, most of the schools had pitched their estimate at a slightly lower number than recent years. Provision for international students was treated as a separate cost-centre, which also provided a net profit for the school as a whole.

Priority setting

Schools triaged, or ordered, their costs. First came the “no choice” areas. Second came priorities from their strategic plan – not all of which could be met in any given year. One board chair described a priority ordering within the strategic plan that gave emphasis to support for teachers, including professional development, ahead of ICT.

Every school had some priority areas from its annual plan, which stemmed from their strategic plan. Most of these are curriculum-related, including the use of ICT, or focus on a particular group of students; some schools also had values or behavioural goals, and some included property-related goals. Student achievement information feeds into the identification of priority areas; ERO reviews are less likely to do so, though they were helpful in clarifying priorities for the board of one primary school, because, as one principal put it:

If the ERO review produced a surprise, then the school would not be doing a good job.
(secondary principal)

Some are perennial – for example, a focus on literacy and numeracy; others are multi-year, and some are single-year. Generally, schools had just a few goals of this kind. The schools that had a reasonable or comfortable financial platform were in a better position than others to think of tackling new approaches. Most of the schools described a process of having to make sure that they had first covered fixed costs, or the “no choice” items (e.g. those identified as health and safety issues or, more so for secondary than primary, property expansion to cater for increased rolls) before they began to focus on curriculum goals:

We start with the fixed costs, then we look at curriculum and capital expenditure, so the part that is the most important gets looked at last. (primary principal)

When it comes to the pinch, what gets cut out first is the stuff that directly affects kids’ learning because you haven’t got much to move on in terms of power, rates, water, coal, maintenance, rubbish removal – all those things, you can’t trim them. But in the curriculum area you can, and that’s the saddest thing. (primary principal)

Secondary schools were more likely to identify the need to provide something different for particular groups of students, and also to be weighing up the pros and cons of changing their course mix in relation to student achievement and post-school options:

The number one goal is to get the kids the best results they can. (secondary principal)

One board chair noted that while the most efficient use of government funding for schools would be to provide only a small number of courses, thereby ensuring that class sizes were even and at the maximum for classroom space, schools needed to meet the diversity of their students with a range of different courses, particularly in the senior years. Dilemmas for secondary budgets were also experienced in relation to innovative courses that cost more than existing courses, but could better meet some students' needs, such as employment-related courses that cost more than STAR funding, or multidisciplinary courses, such as graphics or performing arts. Some secondary principals also weighed up the long-term sustainability of providing support for slower learners at Year 9, seeing it as something that would need to follow students through their school careers.

Secondary principals spoke of weighing up the value of maintaining courses for a small number of students against providing support for more students by (most commonly) keeping class sizes as low as possible, particularly for those who would otherwise struggle, and disrupt the learning of others as well as themselves. They could usually not afford to provide both, or meet all students' needs. This dilemma was not simply resolvable by comparing numbers of students: schools were also mindful of the need to remain attractive to those who sought more specialist or innovative courses leading to tertiary study, in order to have good social and learning balances in their schools. In one school, several courses had had to be cut with the new need to provide non-contact time within class hours, in a context of steady rolls:

We expanded our subject offering, but with static roll numbers, you get to the point where it is not economical if the courses have low student numbers. (secondary principal)

Staff participation in budget formation

Staff participated in the budget formation by providing "bids" or cases for their area. There was some variation in this process. Secondary schools were more likely to provide templates with some set formulae for estimating student consumables to heads of departments, and to have their executive officers playing a closer role in working with departmental heads in both the budget formulation and tracking through the year.

In some primary schools and most secondary schools each curriculum or syndicate area undertook an annual review of its work in relation to the strategic plan, and the needs it could see ahead. Several primary schools then shared the results of these reviews among school-wide management groups, and identified common links: this process was seen to have uses for curriculum development and the ownership of shared priorities, as well as budget setting. Secondary schools also used school-wide groups to prioritise, within the framework of strategic plans, and as one principal mentioned specifically, to consider the long-term implications of current spending decisions.

One secondary principal described the formal review of an initiative, saying that he wanted to ensure that he had "the highest return for the money". At this school, the principal had introduced a formal system of analysing cost-effectiveness of programmes, using knowledge from post-

graduate work. A board sub-committee with senior management staff included was formed to specifically focus on cost-effectiveness (value for money), analysing data on the cost of proposed new initiatives, likely outcomes, and the time it would take to get those outcomes. Those showing a poor return on investment (in terms of student outcomes and possibly other factors) were culled from the agenda. This formal analysis had sometimes had a significant impact on the school's decisionmaking. This committee had also undertaken some retrospective evaluation of existing initiatives, to identify whether they provided the expected value for money.

Other schools were less formal in their approach to deciding (a) whether something was necessary, and (b) whether it provided value for money. There was probably more emphasis on (a) than on (b) in most schools, and more use of comparison between need areas and likely gains for (b) than technical cost-effectiveness analysis. However, value for money in relation to student numbers is used in these approaches. One principal described his approach to supporting students with literacy learning needs:

We use the rolling cycle of reviews to identify priorities – we don't say 'Oh the children are not doing so well, here let's fire a bit of money at it.' It's not as black and white as that. But the areas we have targeted have been generated out of concerns for 'we really need to be better at that'. For example, the decision we made to support the _ programme, a big cost out of our operational funding, 0.2 staffing for a year. We did that because historically we had seen huge gains in reading ages, so there was obviously a cost benefit. For the number we were dealing with, it seemed a very appropriate way...it fitted the numbers well, we could virtually accommodate all of them [students with this learning need]. (primary principal)

Usually, however, area budget bids had to be made in relation to the benchmark of the priority areas for the year ahead, as well as maintaining existing levels of provision. School budget-holders were expected to provide rationales for their bids. Principals aimed to have enough information about the intended use of the money to be able to sort out the "essential" from the "wish list". In some schools, staff responsible for different areas were asked only for their needs.

How far one could go down the wish lists was dependent on projected revenue, and the aim in all but one of the primary schools to neither plan for, nor end, the year in financial deficit:

Our decisions are restricted to the maintenance level. We can't afford to be creative because there isn't a lot to play with...we can't end up in the red, we can't afford to be risk takers. (primary)

The three schools that were willing to have a budget that had a deficit did so because of their confidence that it would be able to raise money for new projects of worth that emerged through the budget-formation process. The primary school that did so had historical experience of never in fact ending in deficit. The board chair of one secondary school that had posted a small deficit for its 2004 budget year said:

We could take steps to disguise it, but we don't feel the need to disguise it because that is the truth of the matter. We are not fully adequately funded, so why pretend we are? ...But I

don't think we'll be entitled to just sit back and say so be it, we would have to work hard to try to avoid that. (secondary)

School budget-makers took into account the existing quality of curriculum resources and the teaching quality in a given area. These may differ according to previous budget priorities. Overall, the impression was that although historical spending patterns were important for schools, they were not the decisive factor in how much each curriculum area would get in a given year. One primary school gave curriculum leaders information about the money spent in their area over the previous 5 years so that each would have "the bigger picture" in both assessing their needs and accepting their share. Secondary principals also spoke about the value of providing staff with historical information for all budget areas, not just their own, so that they could see that the allocation was fair:

The critical thing is to get balance across the school, and every teacher seeing that they are benefiting from the spending that goes on, that no-one is being left out. ...What we try to do is not just get balance over the whole school in a particular year, because it can be quite imbalanced, but over a period of time they can see that it's balanced. (secondary principal)

The secondary schools were more likely to use set formulae to allocate funding to heads of department, using the number of likely student enrolments and type of equipment needed. What was covered in departmental budgets appears to vary: all would cover consumables and textbooks; some would include ICT software; and some included support staff.

It was more likely for classroom budgets to be much the same each year, though not every school had these, and they may cover different items – in one school, they were limited to student consumables; in another they also appeared to cover some photocopying and ICT consumables; in one secondary school they covered some professional development. Staff were also known to spend their own money on materials for their students.

Operation of school cost-centres

Most of the schools that delegated budget responsibility to curriculum and other cost-centres within the school (such as the caretaker, executive or office manager, special needs, international students' programme director, or classroom teachers for their own class), expected the money to be either spent, or contributed back to overall school funds if unspent. They wanted to avoid the "silo" mentality, or one of entitlement to the original budget figure, no matter whether it proved possible to maintain the programme at a lower cost than estimated, or whether the school as a whole had greater needs. It had been hard to make the change from an entitlement approach in some secondary schools, and to shift to steadier buying rather than "end-of-year stock-ups" and one principal noted the need for teachers with delegated budget responsibility, such as HoDs, to receive training and ongoing support from school executive officers. Generally, principals thought that their staff were careful in both budget estimates and spending. They thought it was important that delegated financial responsibility occurred within a framework of monthly financial reports and discussions about any substantial variances with executive officers or

principals. Some had also found that processes which included more than one area were more likely to lead to a sense of the wider picture, and willingness to share.

Overspending usually meant the area would have less money the following year; unspent money could usually not be carried over. Some schools allowed carryover if it could be justified (“not many can,” said one secondary principal). Capital items over a certain sum were not usually included in these delegated budgets, but had to be approved separately by the board, within its capital expenditure budget.

Some of the primary schools had separate budget lines for targeted components of their operational grant, the Special Education Grant (SEG, which is decile-linked), and ESOL funding (English as a second language funding, based on school supplied numbers). The secondary schools usually treated all of these and additional programme funding such as STAR as separate budget lines. Where these were treated as a separate budget line, the schools aimed to “break even” but were either prepared to cross-subsidise if needed, or already did so.

Board perceptions of budget priorities

Several board chairs and treasurers noted that school staff gave priority to students in any property refurbishment or development, and were reluctant to address issues in their own quality of working conditions. They saw it as the board’s role to ensure that in fact these were given priority rather than always falling to the back of the queue.

Board chairs with business experience, in schools which had stable or growing rolls, also commented on the relative predictability of school government revenue on the one hand, but the tightness of the budgets on the other:

I think [the school] does a fantastic job running its accounts... I defy you to find any commercial organisation that could [bring in the budget] with that precision...that is partly because of the predictability of the revenue and the discipline around sticking to the budget. They don't spend it until they've got it and they've developed a culture of care and conservatism which is prevalent right through the school in terms of the requests received from HoDs. It's probably the board that is pushing the school to spend more than the management. To commit to these projects, you have to have a bit of courage sometimes.

I don't like to discourage [the conservatism in spending] because it's better to have an environment like that, than an environment where you're having to check people back because you're constantly frustrating their hopes and aspirations. We have an environment where they make a request for y more PCs and I say 'How many teachers will that still leave without them?' and they say 'That will leave x', and I say, 'Why don't we go and buy a few more then', and so they feel they are being supported by the board as opposed to being knocked back. And while we've managed okay, our margins are very, very thin. It's not an environment where you can be extravagant – there is no way to recover. (secondary board chair)

Boards were more likely to trim or delay budget items when they discussed final annual budgets than to slash or delete them. Both principals and board members saw this as the result of the iterative process of budget formation, and the careful sifting out of anything that could not be shown to address identified needs, and then the prioritisation of these items. In secondary and the larger primary schools, the budgets had also been thoroughly gone through with the board finance committee before they reached the full board.

The boards were not being presented with budgets with some fat in them, or based on anything but conservative assumptions. Trustees trusted both the process of development, and the use that the school professionals made of the resources because of student achievement levels, behaviour, and positive atmosphere.

Discretionary spending

For effective schools, discretionary spending covers either the money that remains after essential costs have been met, or the items that can be deferred, or the areas remaining once fixed costs, beyond the school's control, have been met:

This is the most interesting bit; you can do really interesting things with it, though it's a small part of the budget. (secondary principal)

Discretionary spending was identified in most of the primary schools as primarily curriculum, followed by some aspects of property – mainly modernisation and replacement, capital spending (particularly ICT), support staff, and professional development.

Secondary schools were also likely to identify property (including some maintenance) and ICT items as discretionary:

We're very tight with the maintenance; we keep a good control on it. If you look round the school, you'd say it looks in very good condition, and it is, but we're pretty scrupulous in terms of saying 'Is it necessary now? Can we put it off till next year? What's essential to be done now?' (secondary principal)

As well, they identified staffing above entitlement, and one principal identified extracurricular activities, including sports.

Some items which were not included in primary school budgets were on the equivalent of a reserves list, and were likely to occur in the current financial year if the school roll was higher than estimated, or the school had been able to raise money from community or business sources for items it had included in the budget, thus freeing some of the revenue included in the budget. Such items included additional teachers for particular groups, curriculum resources, professional development, and capital items, including ICT. Some of these items were included in the strategic plan for the school. Two schools that had lower than budgeted revenue in the previous year because their socio-economic decile had risen chose to pare back professional development and

support staff spending rather than cut outright; to do so they had to rely on existing teaching staff taking on increased workloads:

We could only do it because we have a very stable and skilled staff who can up-skill the others. (primary principal)

Capital items and some property remodelling were also the kinds of items to be knocked back in secondary school budgets.

Items that were knocked back or put on the reserve list included ICT equipment, copiers, vans for transporting students to STAR courses or extracurricular activities, and upgrades in technology curriculum areas. In one small rural school, staff undertook remodelling in one curriculum area:

That was creative – we couldn't have afforded it if we hadn't done it ourselves, but it does feel second-best, teachers sometimes feel they are making do. There is nothing we could say that we are doing just the way we would like it. (secondary principal)

Current year's initiatives

Most of the primary schools were consolidating areas of previous development and focus, particularly through continued professional development, sometimes run in-house, or through networks built up with other schools, which supported visits to other schools. Several were focusing on areas for which they also had government grants, for example, as lead school in an ICT cluster, or the numeracy professional development. For some schools, these government initiatives come at an additional cost for the school. For example, in one small high decile school, the cost of release time and buying equipment had led to cutbacks for other curriculum area budgets, and cutback in support staff time. A larger high decile school had been able to use its PTA to create the necessary resources for the numeracy programmes.

New initiatives at the secondary schools in the study often included literacy, and support for slower learners. Schools were already likely to have additional support for their Year 9 entrants, often in the form of classes as small as they could manage, and with additional support staff, both to tackle any literacy and numeracy issues that could prevent learning, and to ensure that school values, including respectful behaviour and support for one another, were taken on board at the start of the students' careers in the school. Several schools were putting resources into more support for Māori and Pasifika students. ICT use and curriculum areas that internal school review had identified as areas for expansion and development were also among the secondary initiatives for 2004. One school was developing a sports academy.

7. Rolls and financial health

Rolls are key to school revenue.

Primary schools

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

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

Three of the nine primary schools in the study were close to this ideal roll situation, and they were also in good financial health. One principal whose roll had grown steadily over the past years said that steady roll growth helped financially because the school's other and more fixed costs (e.g. property maintenance) stayed at much the same level. Roll growth was attributed to gains in the school reputation, and these due in turn to the compound effects of brightening the school appearance physically, improving student behaviour, and improving teacher and programme quality through a focus on professional development and working together as a team rather than in isolation to improve student achievement. Another school in good financial health that had also grown over the years was now somewhat too large for its site. This school continued to market itself substantially, aware of changing demographics in the area that could see the roll reduce.

The other five primary schools had fewer students than their site could take. Two were low decile, two medium decile, and one was high decile. All five had somewhat fewer students in mid 2004 than they had estimated, two on the back of declines in 2003. These schools were grappling with hard decisions. They had also made the kinds of gains to student achievement, behaviour, and programmes which the schools that were in ideal roll situations had, but their local situations were different, for reasons that were largely related to local demographics and housing availability, or to the greater reputations of other schools. While one small high decile school's roll had grown steadily over the past few years, attracting an increasingly higher proportion of its roll from its own rural area, it was finding it harder to compete with a larger school offering a more diverse programme, and was also hit with changes in the pattern of rural mobility. A low decile school in an area that was gentrifying did not gain the middle-class students who were coming into the area: they chose higher decile schools elsewhere.

These schools were putting more effort into raising revenue, seeking sponsorship and donations from community trusts; they were putting more effort into marketing, though that was philosophically difficult for one principal who saw her gain occurring only at another school's loss. One school had some reserves that could be used. But these schools were also cutting costs wherever they could, lamenting what this would mean for the quality of their programmes. They were doing this as creatively as they could, and trying to "shave" rather than end proven initiatives, hoping that their situation would improve next year. Several schools had cut back the non-teaching time of management staff, which had meant they could work with class teachers, or lost a teaching position that had previously been funded from the school's operational grant, to reduce class sizes to enable more attention to children from poorly resourced homes.

However, even most of the schools in current good financial health could see themselves having to cut staff or aspects of their programme if their roll was to reduce by 10 percent. This included support staff and professional development. Some hoped they could cut property costs by closing off buildings or getting the Ministry of Education to remove portable classrooms.

These responses reinforce the centrality of roll stability, or the maintenance of the roll size the school has organised itself around, in primary schools' financial well-being. The fact that over half these effective primary schools with good programmes, and conservative budgets, found themselves losing momentum in what they had developed, and putting effort into trying to raise revenue by other means, which can be distracting from the work of educational leadership, points to a difficulty with per-student funding where roll numbers and stability can shift for reasons that are outside the control of school boards and staff.

Secondary schools

The ideal secondary roll in terms of financial health is:

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

Three of the four secondary schools in the study with rolls under 1,000 thought their current roll fell short of their ideal roll number in terms of being able to provide what they wanted to for their students. The large secondary schools were concerned that their sites were becoming overcrowded, with implications for behaviour, and property spending. Extending sites was a costly option in cities where land costs have soared.

Unexpected and steep changes in enrolments also caused difficulty. At one low decile school, there was a large rise in the number of students who returned to school at the start of the next

school year for Year 12 after the introduction of NCEA at Year 11. The school was faced with quickly finding and matching subject teachers to higher student numbers, and re-timetabling. The principal felt that the school had not had the choice of quality he would normally have looked for, partly because of the lateness of recruitment, and partly because the school felt it needed to be cautious, and offered only long-term relieving positions. He thought there had been an increase in student behaviour issues as a result. This year, the school had appointed permanent staff. However, he thought this was a reasonably “bold” move, since it was not yet clear what the pattern of student enrolment would be in the senior secondary levels.

Most of the secondary schools in the study had enrolment zones. One issue that could arise with zoning that had financial implications was related to any declines in in-zone enrolments, since students from out of zone attracted operational funding and staffing, but were not counted for the estimation of funding for property modernisation and development. Although overcrowded schools can narrow their zone, this is a very unpopular move in local communities, and can destabilise good social mixes, with possible down-stream effects of making a school less attractive, and thus reducing the roll below the most efficient and effective size for its site. Schools would generally prefer to extend their sites and build, though several were finding that their ideas did not fit within current Ministry of Education guidelines.

If their rolls fell by 10 percent, most of the secondary schools would cut back on support staff hours or numbers, and they would increase class sizes and reduce subject choice. Even in one of the large schools, the principal said that a 5 percent loss of students would have a real impact, because “the school’s budget is sensitive to [even] a small movement”.

Most would try to “manage downwards in a controlled manner”, with the choices open to them related to how much use they need to make of their operational grant, the size of their reserves, and the health of their international student numbers. Teachers who left would not be replaced – though secondary schools do face the issue of needing to staff by subject as well as year level, and this can pose problems if staff numbers have to be reduced. Several schools noted that their use of long-term relievers or limited-term appointments was to guard against this occurrence, since the real cost of a loss of 10 percent of a school’s roll would be not so much the operational grant money, but the need to pay teacher salaries above entitlement. One school with some employment of long-term relievers noted that if the roll drop was clear by the end of the previous year, action could be planned, but that it would be very difficult to manage if it only became clear once the school year had started, and teachers were employed.

Schools generally thought they could manage a downfall of 10 percent in the short-term, but if they had to increase class sizes and drop too many courses, a roll drop of this size could lead to continuing roll declines if students could easily access other schools that gave them more choice and more support.

One heavily oversubscribed school with healthy demographic growth in its enrolment zone could not imagine their roll falling.

8. The value placed on teaching staff

Quality of teaching and learning was paramount in these effective schools. All the schools enjoyed reasonable stability of teaching staff, with turnover rates of up to or less than 10–15 percent a year. They usually had no difficulty attracting good-quality teachers. Their teachers were likely to move for promotion, for personal reasons, or to travel on OE. The principals felt their schools had good reputations for being supportive and good working environments among teachers, and good ERO reviews, which were used by teachers in deciding whether to apply for positions. Several schools that did attract beginning teachers, and needed to rely on them because of their location, ensured that they had systematic support; and at the secondary level, there was consciousness of the need to offer conditions (such as the size of classes) that were at least as good as, or better than, schools competing for good-quality staff. Rural schools could have more difficulty attracting and retaining good staff.

Having reasonable stability avoids high spending on recruitment. Several principals thought it was well worthwhile to spend some additional money recruiting the right person for a job rather than make a mistake. They described appointment processes that included observing short-listed applicants in their existing positions. Others ensured that they sent out attractive application packs that were clear about the core values and focus of the school.

Principals, board chairs, and treasurers also spoke of the importance of providing good working conditions for staff, over and above their national collective contract. This included ensuring relevant and ongoing professional development, which might mean spending money to release senior primary staff from classroom duties to work with other staff, or spending on relief staff. Two secondary schools had started to offer mini-sabbaticals. In-school professional development provided a way to share and publicly recognise expertise; it also helped develop shared understandings and culture. Some primary schools included regular non-teaching time for all staff within school hours, at the cost of employing some relief staff. They saw this as valuable for staff and school alike, since teachers could work as teams with more energy and attention than they could muster “at 3pm after working damn hard teaching all day”.

A number of schools spoke of the importance of providing teachers with reasonable class sizes, and support from management with student behaviour. This also fitted in with cultures that emphasised working as teams, and sharing problems and their solutions, rather than working in isolation. Collegial cultures, shared sense of purpose, and good humour were also important ingredients in keeping good staff – and making the most of them.

Valuing staff included in some schools access to leave if needed, which has a cost in terms of relief staff for teachers. Principals and trustees saw such access to leave as a way of recognising

the hard work of staff. Some schools gave free flu shots, which had the additional advantage of cutting back on spending for relievers if there was less illness. Some schools also paid for the costs of teacher registration, and in secondary schools, the remaining third of the cost of the laptop leases that was not paid by the Ministry of Education. Some principals were cautious in offering any additional incentives because they thought they were “difficult to claw back if conditions worsen”.

Use of operational funding for teachers

All but one of the primary schools were employing teachers using their operational funding or banked staffing in 2004, to augment their government staffing provision. As shown earlier, all schools employed additional teachers above entitlement in 2003. The annual salary for primary teachers was around \$50,000, which is for some schools a substantial portion of their operational grant. Six were employing .7 or less of a full-time equivalent. Three schools, two low decile and one high decile, were employing 2.5 or more full-time equivalents, often on a part-time basis. These additional staff were sometimes class teachers, sometimes specialists who focused on supporting slower learners, or aspects of the curriculum, such as ICT and information literacy.

Some schools employed these staff on limited term contracts, since their affordability was dependent on how each year panned out financially, or they were employed for a specific task for part of the year. This was usually in the second half when it was clear whether the revenue estimate had been accurate, or better than (conservatively) estimated, and whether there had been some underspending, for example, less spending than (conservatively) estimated for relief staff to cover sick leave.

Schools that were suffering roll drops, or had done, also used operational funding or banked staffing to avoid redundancies, especially when it was thought that the roll drop was temporary.

Small schools used this additional staffing to secure release time for the principal or senior management staff. Uses of this time included providing professional development for the teachers, dealing with families – and applying for additional funding.

All but one of the secondary schools employed more than one teacher above their entitlement – the medium and large schools usually had at least five additional FTEs. They did this largely to reduce class sizes, and to ensure non-contact time as per the 2002 secondary teachers’ national collective contract. Schools usually paid for them from their net revenue from their international students’ programme. One principal noted that they were otherwise unaffordable for his school, “they would take a third of our operational grant”. One school that had had unexpected roll growth but a slight decline in its modest number of international students noted that it was a real strain to have to depend on the operational grant to maintain a programme that ensured small classes at Year 9.

Large schools that had full rolls and reasonable staff turnover (most were around 10 percent a year) could appoint such teachers to permanent positions, though even there one board chair identified his school's decision to increase the number of teachers as "moderately bold – because once you've hired them, you can't turn them off like a tap". Other schools were more cautious, and used long-term relieving positions.

9. Raising revenue

Increasing roll numbers

As noted above, roll numbers are key to financial health, and schools had to be active in ensuring they were attractive to students and their families. However, this source of revenue is not always one which can be increased. Schools do not want to grow uncontrollably, and most have clear ideas about the ideal roll number for their site and nature of students. Not all schools are in the position of being able to increase roll numbers, either because of zoning and limited physical sites, or local demographics, or other schools that are as accessible and attractive to students as the particular school.

Contestable government funds

Most of the schools had applied for contestable government funds linked to curriculum initiatives. Some spoke of the importance of regularly checking such opportunities in the *Education Gazette*, and the Ministry of Education website. ICT cluster leadership had been beneficial for some schools; others spoke of their disappointment in missing out. Several schools had won Enhanced Programme funding, for working with learners with moderate special needs. One school had been involved in a school support cluster. The schools generally applied for initiative funding that fitted with their own priorities (and needs), and that they thought they had a reasonable chance of getting, though principals were frustrated when schools that they thought were offering less well-developed programmes gained funding when they did not.

Several principals thought that such funding did not come cost-free to the schools, and spoke of the considerable additional principal and teacher time needed, particularly where schools were required to change some of their existing effective programmes or approaches to align with Ministry of Education systems and requirements for accountability. They were also not always able to sustain from their own funding government-funded initiatives that had been successful, such as sports co-ordinator positions.

Parental donations

Compulsory education is legally free to families in New Zealand. Most schools do ask parents for voluntary donations. None of the schools in the study relied on these alone to supplement their government funding. The schools tended to set donation levels that they thought would yield the highest proportion of parents paying them. They thought it important that parents saw the donations being used directly for their children, or going towards tangible capital projects.

Primary schools

In some primary schools, this meant that the donations and legally allowable activity fees to cover extracurricular activity such as school trips or visits by groups had merged. Nonetheless, only two primary schools had more than 75 percent of their parents paying the voluntary donations. The lowest donation sum was less than \$20 in one low decile school; the two highest were over \$70, one in a low decile school, and one in a high decile school. One medium decile primary school did not ask for donations, but set an activity fee each term to cover trips, visiting shows, and a music specialist.

Some primary schools sent out reminders each term, and indicated with these what the donations would cover. One primary school had attracted higher levels of payment by offering greater value (in the form of school trips) and entries into draws for groceries and fuel for early payment.

Secondary schools

Half the secondary schools in the study had donations of less than \$100 a child. The lowest rate of payment was 30 percent in a low decile school; three schools, medium and high decile, had 75 percent or more. In most schools, parents also paid activity fees that differed according to course costs and extracurricular activities. Schools generally tried to support students who could not afford these fees. To maintain or increase parental donations, schools told parents what their money covered, and spent it on things that were directly related to student learning “and not maintenance or photocopying”. None of these effective schools used debt collectors to gather donations, as some schools have been reported in the media as doing.

Parent-Teacher associations

Parent-Teacher associations (PTAs) also made contributions to school resources. In several schools board members had taken over some of their roles, or served on both. Boards and principals shared with PTAs their priorities for any money the PTA raised, and generally the PTAs supported these priorities. PTA money also went largely to tangible items, or support for representative teams and competitors in national or international events, but was used in one low decile school to buy textbooks.

Overall, the impression was that school boards had moved from an active role in fundraising through activities that took a lot of time for small net gain, to concentrating on a few irregular activities that were profitable, or seeking sponsorship from outside organisations, and for secondary schools, providing programmes for international students. One board chair had been well received by the school's PTA when he told them he would rather they spent their time organising mentors and parent involvement in extracurricular activities than raising money: that that time was better spend interacting with students and directly engaging in their learning.

Other sources

Some primary schools also raised money through specific events, such as spellathons, or staffing big local events. One school had been an early and enthusiastic entrant into schemes whereby telephone companies paid a proportion of subscribers' toll bills to the school they nominated, and had signed up people in the community and family relatives as well as the school families. This had been a substantial source of revenue over the years. The school had benefited from having a board member with the knowledge and contacts, and from its active marketing of itself through regular newsletters, thank you notes, and opportunities for personalised contributions.

The previous board of one large secondary school had been "bold" and invested money into initiatives that were now providing some income for the school. These initiatives were educationally or recreationally focused. Another school was also looking at property development that would not only house teaching and learning, but also provide some continuing (and reliable) income.

Several secondary schools had old pupils' associations, or were looking to start them. These were the source of some funding, often for scholarships and support for students in need; but sometimes for capital items and contributions to property development.

Secondary schools and some primary schools also had uniform shops and canteens, and some sold stationery and other school equipment.

Community trusts and local businesses

All the schools were reliant on money they raised from community trusts and businesses, both local and regional (such as banks and energy companies). ICT equipment and property development and refurbishment were the two main kinds of items that these organisations would fund. Low decile schools and one small high decile school also approached community organisations and pub charities for funding for sports uniforms, musical equipment, and school trips:

The biggest help for us is the pub charities at the moment. If we want anything extra, that's really the only way we can do it. (secondary executive officer)

Community organisations' voluntary labour (and that of people serving periodic detention) was sought for projects such as adventure playgrounds. While two primary schools included their targets for such funding in their budgets, the rest did not.

Access to such funding depended on the effort made by the school, but also on the financial health of local organisations, and their commitment to the local area. Some community trusts had been generous to educational institutions in the past, but were likely to have less money available in future, or had reprioritised. One primary school benefited from the initiative of the local principals' association, which had received sufficient funding from the local community trust to develop initiatives for an ongoing revenue scheme for all the schools in the association. This was the only ongoing co-operative venture mentioned by the schools in the study. It was also the only case where community trust money had been able to be used for professional development. On the whole, this funding source is limited to tangible items, and projects that have a clearly visible end-product, such as a refurbished library, astro-turf, or a hall that is also available for community use.

Two primary schools had also received in-kind support from their local councils, when they had approached them for advice.

The schools put effort into this fundraising: they saw it as essential. Without it, they could not have equipped their classrooms with ICT equipment, and they would not have been able to refurbish or extend their buildings to provide good working environments for students and teachers. If they had had to use government operational funding to cover these aspects of school provision, they would have had to cut back on curriculum resources, support staff, and additional staffing to allow release time for professional development and work together, provide smaller classes in low decile areas, or work with particular groups of students who needed additional attention. Thus the ability to gain this funding allows schools to preserve their government operational funding for direct learning needs.

Some of the principals had difficulty with the real source of the community trust money: gambling, and often by people who had little money themselves:

Where does that money come from? It comes from gaming machines. Who are the people playing them and putting the money into them? Our low socio-economic families. What's that doing to our society? Not a great deal. In the meantime, I'm going to capitalise on it, but philosophically, I wonder if I should be doing this. (primary principal)

We do go for the lotteries money, because they have to give it away, and we think, well, tainted as it may be, it's got to go somewhere. (secondary principal).

The schools did not experience 100 percent success rates with their applications. Ideally, they would be able to raise substantial sums from a few sources; often they found themselves accumulating smaller amounts from a number of approaches. They emphasised the importance of

building up good relationships, personalised approaches, and offering attractive projects. Some spoke of the trust that was built over time as donors and sponsors saw that their money was well spent, and shared in the pride of what had been achieved.

International students

All the secondary schools and one primary school had some international students. Two of the secondary schools had just a few students, at somewhat lower numbers than previous years, and one large school's international students comprised less than 1 percent of its roll. These schools did not invest time or money in recruiting students.

At the other schools, international students had become a substantial strand within the school, and a key source of locally raised funds. Most of these set a cap on the number of international students – often around 5 percent or less. They wanted to provide these students with a quality programme and pastoral support that met their needs, as well as making the most from the funding they brought for the school as a whole. The schools put energy into marketing and building up long-term relations, they tried not to be reliant on one country alone, and they also worked hard at retaining the students who came. Although there has been a national decline in the number of international students accessing non-school language courses, the numbers of international students at the study schools appeared to be holding in 2004.

Could effective schools rely on government grants alone?

Primary schools

Only the low decile schools thought they could manage on government funding alone, provided they were “creative”. However, they would lose the sporting and cultural activities that were important for their students, and their ICT programmes would be likely to run down over time.

The small high decile school would face substantial difficulties in having to rely solely on its government funding. The others could run on the platforms they had built up, but would cut back on support staff, professional development, curriculum resources, and non-teaching time. There would be additional calls on both staff and board time.

Several schools that had been able to raise good levels of local funds saw a loss of horizon, of thinking ahead, and planning for the school. One principal said: “It would change a positive, goal-oriented culture to a gloomy outlook.” The chair at one high decile school that had taken an entrepreneurial approach and enjoyed substantial success in raising funds thought that even if the government funding covered all its needs, “It would be no fun being on the board, it would be boring.”

Secondary schools

Urban secondary schools that have been able to provide attractive programmes for international students would be the hardest hit if they had to manage on their government funding alone. A principal said: “Our local funding is no longer a windfall, it is what keeps us ticking over.” One board treasurer calculated that his school would be bankrupt. One principal thought that the reliance on international students masked inequalities in provision:

If we were totally reliant on government funding, we’d be stuffed. It would be seriously difficult to do a lot of what we do; a lot of the programmes would be cut back.

That’s the unfortunate thing about international students because they aren’t consistently evenly distributed around the country, so schools like us are actually advantaged. There’s an unfairness to that. It’s a bit like medical insurance. If you get enough of the population with medical insurance, there’s a loss of interest in the population as a whole, to improve public health. Because so many schools have international students, the pressure on the government to fund education a little bit more effectively is reduced. (secondary principal)

They would all have to shed staff, raise class sizes, offer fewer subjects, reduce professional development, reduce non-teaching time, and reduce support staff. ICT and property development programmes would be limited.

Other schools that have had less locally raised funding, would have less to cut: mainly extracurricular provision, and educational trips. They would tighten their belts by teachers increasing their workload, asking more of voluntary support, and not doing or slowing down asset (e.g. ICT) replacement and property development.

10. Managing finances

Board chairs and treasurers noted that staff at their school were cautious in their spending, and kept a tight rein on it. Principals and executive officers spoke of trying to minimise costs by periodically reviewing their arrangements, for example with power suppliers and banks, to ensure they were getting the best deal. One primary principal who had tried to cut caretaking costs by tendering found out that the school had a contract that was far better value for money than any other seen by the regional NZSTA officer. Several schools had had a conservation audit done of their power use, and these too found no ways in which they could be saving money: their practice was already very conservative or close to the bone.

Sometimes this focus on restraining spending led to property projects taking longer than planned, as they were undertaken in careful stages as money became available, or became dependent on school managers' time:

I think they need someone on board – paid – to manage this property programme because I find things aren't quite finished off and they are just too darn busy to do it. (secondary treasurer)

All the schools reviewed their actual revenue and spending against budget estimates on a monthly basis, usually first in discussions between the principal and executive officer, and then with these two and the board treasurer or financial committee, before the regular monthly board meeting. Some principals also found considerable value in discussing the financial statements, and what they might mean for the remainder of the year, with the school accountant.

Staff with delegated budget responsibilities were given print-outs of the financial statements for their areas, and any marked variances would be discussed with them before the school management looked at the financial statements with board members. To analyse the statements, people needed to understand the historical patterns of spending at the school – and these varied, with some talking of substantial spending in term 1, and others of being cautious until it was clear that there was sufficient revenue. One primary principal whose school took the latter approach thought it was better to be able to give money to teachers, rather than have to “claw it back”. However, in this as in other schools, there had been occasions when all spending was curtailed to counter looming deficits.

Another primary chair noted that monthly analysis was too “granular” for the patterns of spending at the school (since teachers were more likely to have periods of purchases followed by lulls, rather than steady spending throughout the year), and that quarterly discussions were more useful in terms of working out whether there were any issues that would require a new tack. In this school, not all the revenue was allocated to allow for any new needs identified through the year.

One secondary school shifted 10–12 percent of the international students' fees (paid in advance), from the revenue to the expenditure side of its budget each month to ensure that the school had not spent money it would need to pay back if the students left before the end of the school year.

It was important for principals that those with delegated budget responsibilities did not see their budget as an entitlement that they could spend without regard to the over-arching school priorities, or that could not be adjusted if there was a wider need. One principal gave as an example a laminator that had broken down, and her discussions with teachers, to assess how important it was to them, and then, to get them to volunteer some of their budget to replace it, and reprioritise the spending they had identified for that budget.

If rolls grew more than estimated, the appointment of new staff was often done cautiously, through the use of long-term relievers or a temporary appointment, until it was clear that the higher roll number was continuing.

Pressure areas

Support staff, particularly for students with special needs, ICT maintenance and consumables, and property were the main pressure areas for the primary schools. Two low decile schools that added teachers to meet their students' needs saw the ability to maintain this attention and the programmes they had developed around it as a key pressure area for their management of their finances. Photocopying and printing costs were also mentioned by several schools, with one principal lamenting the fact that increased ICT use had not led to a paperless world, but in fact its opposite. Sick leave was identified by one principal (a particularly bad run can cause substantial over-runs for this budget item, since relievers have to be brought in).

One principal noted that though it might seem more efficient to employ support staff on limited contracts, it would undermine effectiveness, and create additional costs and work: "I can't keep good people here if they are on a term by term contract."

ICT was identified as a key pressure area by all the secondary principals:

It's a bit of a monster to feed. We're totally networked, 560 computers, a 5-year life, that's 100 a year to replace – we could spend \$160,000 without a blink just on replacement, let alone maintenance and the rest. So we make them last 6 rather than 5 years, which is less efficient for curriculum, and we can't get into some of the multimedia stuff. (secondary principal)

A number of the secondary schools were leasing computers rather than buying them, not because it was cheaper, but because it gave them more certainty over costs. Internet and now radio access were aspects of ICT that could be difficult to control, in order to be able to afford. The more ICT was used in a school, the more support it needed through additional staffing, both technical and curriculum-related. While the government funding of two-thirds of the leasing costs of laptops for

all principals and secondary teachers was welcomed, it also brought some new additional costs to schools.

Support staff was another major issue. There were concerns about the ability to maintain existing levels of support staff and retain experienced staff, given rising salary costs, and the ability to attract good staff without offering permanent appointments where the work was related to ORRS students. Several principals noted that GSE did not fund the full costs of teacher aides working with ORRS students, leaving it to schools to cover these costs. Principals also thought teaching staff needed more support so their focus could be on their work with students, and that it was advantageous to learning if some of their resource-creation, maintenance, or administration could be done by support staff.

Principals did not see how schools could operate without good administrative staff, who often also played a pastoral role with students. Some schools were also providing more support for arts and sports, initially through government grants, and now trying to continue the employment of co-ordinators through their own funds. Areas like sport, drama, and music have become more important for schools to offer. These are included in the curriculum, but they also straddle activities that physically take place out of schools, or out of school hours, for example, presentations and competitions. These aspects of the curriculum often provide significant learning opportunities for non-academically minded students, and experiences of success that can feed back into learning and attitudes.

Some secondary principals mentioned the provision of non-contact time for secondary teachers included in the 2002 national collective contract. One principal of a small school said though the school had tried to timetable as tightly as possible so that teachers could have non-contact time without having to be covered, they had had to employ another two teachers to provide the non-contact time, at a cost of around \$50,000 each.

Other pressures mentioned were the costs of NCEA photocopying and moderation (the latter a particular issue in rural schools which face the additional costs of teacher time for travel as well as the travel costs – which often end up being carried by teaching staff from their own pockets). Some schools found that the funding they received for STAR courses was insufficient, yet these courses were pivotal to students as stepping stones to employment or further education.¹⁷

¹⁷ A recent evaluation of STAR found that STAR programmes are now “integral to secondary schools’ functioning, curriculum, and arrangements for meeting student needs” (p. x), but that STAR funding *per se* did not cover course costs in 27 percent of schools in a national survey of STAR co-ordinators (p. 65). Vaughan, K., & Keneally, N. (2003). *Constellation of prospects: a review of STAR (the secondary-tertiary alignment resource)*. Wellington: Ministry of Education.

Property

Most of the schools liked the new 5-year property funding, because it gave them certainty about the government funding they would have available for property modernisation and development. One primary school that had done particularly well in the previous system of schools making individual cases and being placed on a priority list preferred that system, noting that now schools would be carrying the risk of any large over-runs in cost, and that building costs had been rising more steeply than inflation. The 10-year property plans they had developed with expert advice were used by the schools. They worked their way through their own priorities dependent on the funding available, and any health and safety issues. Priorities would change if needed: one event that several schools had encountered was the boiler that stopped working before its expected replacement date, and had to be replaced immediately. Schools with older buildings noted that they were more costly to keep maintained. Three schools (two primary, one secondary) were fortunate to employ caretakers who could also undertake some building and painting work, and this enabled them to do more in terms of property than having to pay external professionals. Several schools had also benefited from having property-related expertise on their boards:

We were able to afford it because we had a guy who knew all about it and could negotiate and renegotiate. (primary principal)

People with expertise could save schools money in the planning, judging of tenders, and quality of completed work, and getting the best deal in terms of the timing of the work, and the payment schedule for the work.

Good relations with the Ministry of Education were also seen as useful. Schools that commented on this were divided between those whose needs had been able to be met through working with their local Ministry of Education property person, and those who felt some frustration – whose particular issues seemed to fall outside existing guidelines. These included several secondary schools with full or growing rolls whose sites would be expensive to expand because of the high cost of urban or upmarket housing land:

They don't seem to know how to make money available for the quantum leaps that are sometimes necessary. (secondary board chair)

The provision of a performing art centre (replacing halls in some cases) was a target for a number of high decile secondary schools.

The integration of ICT into classroom programmes and more multidisciplinary approaches (e.g. biotechnology) also created issues for schools whose buildings were expensive to modernise.

Property was important to the principals and boards: it was not seen as a characterless background for school life, but as a contributor to the school culture and students' and teachers' positive sense of themselves and the work they did in learning and teaching. The layout of grounds and buildings

and the use of colour were carefully considered, and seen as important supports for student behaviour and wellbeing.¹⁸

Principals and boards were also very aware that their local community – potential parents of students, supporters, and donors – used the appearance of their school as a sign of its overall vibrancy.

ICT

The provision of ICT in the primary schools varied. It was essential to administration, including financial management. Government provision of laptops for principals was welcomed in all but one primary school, where they were incompatible with the school network. This provision usually freed up a computer for classroom use. In all the schools ICT use in classes had passed the novelty stage, and was being used – to greater or lesser degrees – in everyday curricula experiences. Some had one computer per classroom; others had networks, usually thin client networks that were cheaper to install and maintain. However, the thin client networks were not without their problems. Several schools had gained a large proportion of their current hardware through concerted efforts, and then looked to replace a small number of these each year. Others had built up their computers more modestly and steadily. A number of schools used second-hand or donated computers, though these could be more costly to maintain. One low decile school had put energy into a competition and garnered five new computers. As with property, schools that had found reliable sources of hardware, maintenance, and expertise, counted themselves fortunate, since they enabled them to avoid costly provision. Principals noted that ICT provision and maintenance was a constantly receding horizon, particularly with the growing interest by teachers and students in using multi-media.

The secondary schools were divided between the five schools for which ICT had become integral to their programmes (all the high decile, and two low decile schools), and those that were approaching it more modestly. The ability to be “moderately bold” as one chair described it was related to the school’s ability to raise money (usually through international student programmes, community trusts, or entrepreneurial activity related to the school or its site), as well as enthusiasm of school professionals and board. Several schools whose early interest in ICT had helped their bids to become lead schools in government-funded ICT clusters also used that as a platform for further growth.

¹⁸ This is consistent with the findings from NZCER’s study of 10 primary schools that had made substantial improvements to their programmes (Wylie, C., & Mitchell, L. (2003). *Sustaining school development in a decentralised system: lessons from New Zealand*. Paper presented at International Congress for School Effectiveness and Improvement, Sydney, 5–8 January, available on www.nzcer.org.nz.)

Making ICT widely available in a school increased demand as teachers and students saw the use that could be made of it, and the requirements of new subjects, particularly those that were multidisciplinary or related to design and performance.¹⁹

It's a nightmare [financially] because people want to teach in a more creative and innovative way. (secondary principal)

It was also important to secondary principals to provide industry standard software that would be used in employment. Several suggested that the government scheme which provided free software to schools needed to be extended to include this kind of software as well as wordprocessing and spreadsheet packages. Greater curriculum use of ICT was also raising issues about the kind of staffing that was needed to support it, including network managers, technicians, and graphic designers. At present, schools need to meet these new staffing costs from their operational grants and locally raised funds.

Some of the schools that were approaching ICT use more gradually noted that unless the introduction of ICT was accompanied by professional development and support, it was possible for equipment to go unused. To them it had made more sense to start slowly with enthusiasts who showed what was possible, thus creating the demand among other teachers.

Depreciation

Depreciation was an area that could be tricky for schools. The analysis of the schools' year-end positions from 2000–2003 showed that depreciation was the main factor in schools ending the year in deficit. Some schools had been caught out by changes that occurred after they had set their budget, and they then faced ending the year in deficit if they had not been able to use cash reserves to cover it. But this meant having to save spending in other areas, or cutting back on plans for spending in the following year.

It was most likely to be an issue for schools that had substantial capital expenditure, particularly ICT or furniture, or property development, in a single year or two. Thus while non-government funding from community trusts or other donors was crucial in freeing up government funding for more direct curriculum and “bread and butter” uses, it could carry a sting in the tail: recipient schools needed to ensure that some money could be set aside in future to allow for the replacement of the new equipment or assets. Schools do not necessarily see themselves following a set path of equipment or asset replacement, since they depend on the ability to raise funds in any particular year to do so, and will take “rainchecks” where they need to prioritise. They expect to

¹⁹ Such courses are becoming more popular, and can offer “new combinations of knowledge and skills that more closely match those identified in ‘knowledge society’ discussions about what will be needed for the future”. (Hipkins, R., Vaughan, K., Beals, F., & Ferral, H. (2004). *Learning curves: meeting student learning needs in an evolving qualifications regime – shared pathways and multiple tracks. Key findings*. Wellington: New Zealand Council for Educational Research, available on www.nzcer.org.nz.)

get more life out of their equipment, particularly ICT, than is allowed for in standard accounting for organisations covered under the Public Finance Act:

We are at the very sharp end of ICT [use in schools] and we roll over our computers much more often than anybody else, but that's nothing like the context in which either a business or government department will do it. We have to hang onto things a bit longer. I think they have to understand the different context in which we exist before applying rules that have been developed for government departments. (secondary chair)

So although the idea of a specific fund to replace equipment makes theoretical sense, it was not common for it to exist in practice:

We got it wrong last year, and had to allocate more money. It's crazy stuff because it doesn't really affect how much money you've got. I suppose it does affect your decisions, what you're going to buy. (primary principal)

One primary school that did include depreciation as a monthly budget expense to avoid such year-end surprises, had in fact made the decision to lease rather than buy ICT equipment to reduce the amount needed to cover depreciation in its budget.

Reserves and borrowing

All the schools were conscious of the need to have reserves that could act as a "buffer" if their rolls fell or they were faced with some extraordinary circumstance, such as a large overrun on a building project, or urgent replacements for boilers or drains. This was particularly important to the schools that had high transient or volatile rolls. Reserves were used by the secondary school whose roll had dipped unexpectedly and two primary schools whose decile ratings had increased to maintain their staff, and avoid redundancy and maintain their programmes (including the deployment of support staff).

Schools that were in good financial health were more likely to think of their reserves as their working capital for asset replacement and property development.

Several schools expressed the view that each year's revenue should be spent on the students of that year, rather than salting some away each year. In one primary school, this led to taking out a small loan to spread the cost on changes to the school hall over a 3-year period. Several other schools that took this approach could benefit from the previous board's extensive fundraising and development of reserves. This view was implicit in the use of loans in secondary schools to finance substantial ICT or property development, in schools where rolls were steady or over-subscribed. Other secondary schools with less dependable incomes would not take the risk of taking loans:

We just don't go down that way. If we haven't got the money, basically we don't do it, we put it off. (secondary principal)

Certainly, some schools had much more substantial reserves than others: sometimes this reflected previous board and principal entrepreneurship; sometimes previous cautious custody (one principal had seen other schools suffer when they used money to employ additional staff and had then to retrench, without having a contingency fund); and some schools had gained financially when they took bulk funding (which provided schools with their staffing grant estimated at the top of the salary bands, thus providing additional funding for schools whose teachers had not all reached the top of the salary bands). One principal thought it important for schools to have reserves and steady planning and spending, rather than cycles of spending and retrenching:

I see myself in a custodian role, I'm keeping the school in good shape, but someone else is eventually going to be the principal, and I don't like situations where a principal comes in, spends the reserves, builds up the school fantastically, moves on to another job, and someone else comes into the school and to a situation where there is no surplus. I mean staff will have got used to [better] conditions, and it's very, very difficult to get that back – an enormous loss of morale usually. (secondary principal)

Other secondary schools were in the process of rebuilding reserves after substantial property or ICT expansion. This could mean tightening the belt in other areas of school spending if there was no improvement in new revenue (usually non-government).

Figures 26 and 28 (pages 30–31) showed substantial variations in school working capital. Some seemed to want to have significant buffers against any downturn in international students, or decrease in rolls; others who were in situations where they were over-subscribed and likely to remain so were more relaxed:

I'd like to keep it as low as possible – that's realistic because of the moderate certainty of our income. (secondary chair)

Surprises

Unanticipated events and changes could pose problems for schools' ability to adhere to their budgets. When this occurred, schools tried to maintain what they regarded as essential by using reserves or banked staffing, or trimming, cutting, or deferring other cost items or projects. They generally avoided cutting positions, both because of the non-casual nature of employment of specialist and support staff and the additional costs of redundancy for permanent staff, and because their first priority was to maintain the programmes and support they had decided on in relation to student needs. Although support such as reading recovery may be seen as additional to the ordinary classroom staffing, in that it was funded from operational and school-raised funds, it was also seen as essential to raise student achievement, which is an emphasis in the new planning and reporting requirements. As with the quote above in relation to experienced support staff, principals could not expect to secure and keep good specialists if they chopped and changed their employment during the year, or made it on a termly basis.

What kinds of things can't be anticipated? We have already described the difficulties caused by roll that do not follow historical trends or the local information available to schools when they draw up their budgets some 3–4 months before the start of the school year.

Other major challenges faced by the primary schools in this study in the last few years fell into two camps: loss of anticipated revenue, or cost increases.

Loss of anticipated revenue had occurred for two schools from an increase in decile rating. The schools that lost revenue because their decile rating had gone up did not see any change in the socio-economic profile of their students or their needs.

This is possible, given the reality of school choice, and the fact that the decile ratings are not absolute, but relative to other schools. Decile rankings are reviewed after each census; the last review saw 36 percent of schools receive a lower per-student rate than before, while 28 percent of schools received a higher rate, and 36 percent had no change.²⁰

The departure of an ORRS-funded student with special needs who had attended the school for some time was difficult for a small school, since they had employed a teacher aide specifically to support this student, from the ORRS funds. The redundancy costs associated with the student's departure however had to be met from the school's funds.²¹

Major increases in costs could occur from unknown faults in property infrastructure, poor maintenance work (e.g. painting), or changes in local body requirements. One school's city council had put all the local schools on notice to improve their drainage to a standard higher than the school could afford to immediately remedy. Failure of an ICT server had been an issue that had needed to be quickly fixed in another school. Schools with particularly tight budgets could not simply take up the government's latest roll-out of laptops for teachers and meet the costs for teachers, which they would like to do given the priority they give to supporting staff (and making the most of their time). They would need to shave spending in curriculum areas, or defer planned capital spending.

The financial surprises for secondary schools in the last few years were largely related to unexpected costs, though one school had, for once, overestimated its student intake. Some were property-related. Secondary schools also talked of depreciation, where school estimates were different from those for the public sector, additional costs associated with NCEA, and providing the new non-contact time – not just additional staffing, though schools had retimetabled as much as possible to avoid having to pay for additional staff, but in one case the need to add classrooms

²⁰ 'Decile changes', in *Education Gazette/Tukutuku kōrero*, 7 October 2002, p. 9.

²¹ Issues of viability and stability for schools, staff, and students that arise from the individually-attached nature of ORRS funding were identified in Wylie, C. (2000). *Picking up the pieces – review of special education 2000*. Wellington: Ministry of Education.

to house the new teachers (as an example of the cost-consciousness of school staff, relocatables were chosen “because they’re 30–40 percent cheaper than permanent”).

When we asked the principals and trustees whether their board had made any financial decisions they regretted, only half of the primary schools could identify such decisions, and they were all related to either property or ICT, and usually decisions that had to be made, but which were not of the expected standard, or had hidden costs. One principal of a low decile school regretted trying to save money by managing major property development himself:

It took an awful lot of time. It focused me on things I didn’t need to be focused on, and I certainly had no area of expertise in. I learnt that you don’t do things you have no expertise in and don’t pretend you know something that you don’t! (primary principal)

Three secondary schools had regrets in hindsight. These included having to make staff redundant, in one case “because we wandered in and out of decisions, and people made decisions for their own area without thinking about the whole or the long-term knock-on effects”, not building in a contingency allowance for a building programme, not fixing a supply date for a relocatable unit, and getting involved in a scheme to support a particular group of students:

We got into it because it had the support of an outside organisation – that’s not really a good reason, we weren’t equipped to do it. (secondary principal)

On the back burner

When we asked what people thought they should be doing in their school that they could not because they had insufficient revenue, all the schools had ideas they had not been able to action. Some simply said they would like to do what they did now, but better. The main desires at primary schools were for more staffing – sometimes to allow staff to work together more by having more non-contact time, sometimes to provide specialist support, such as music, the library, ICT, curriculum integration, environmental education, or to work at particular levels of the school or groups of students, and more support staff. Particular curriculum resources were seen by low decile and small schools as important aspects of provision that their current resources did not cover.

At secondary schools, the desire was for smaller classes, particularly for slower learners, provision for particular groups of students, particularly around employment-related and ICT-based (e.g. graphic design) programmes which tend to be more expensive, new courses, and improving teacher support and conditions (ranging from reducing teacher workload or allowing them more non-contact time in two schools, to being able to provide scholarships and additional monetary rewards at another). Being able to move on the property development identified in relation to widening the curriculum was also important to some of the schools:

We could comfortably spend twice what we do, and not waste a bit. (secondary chair)

11. Discussion

In this concluding section, we focus on the study's four research questions. They are:

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?

The main drivers of effective schools' budget decisions

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

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

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

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

It would be hard to express the weight of each driver in percentage terms, since they often operate in relation to each other, and it is a total jigsaw that is developed and then considered by school professionals working with their board. The weight of each driver is also dependent on previous budgets and finances and, to a lesser extent, extrapolation into the future. Thus roll numbers on

their own are the most obvious driver of government funding available to schools to allocate as they see fit. But the same number of students has a different meaning for an over-subscribed school that is confident this number will be much the same year to year than it does to one whose roll suddenly dipped the previous year, or has been declining for some time. It has a different meaning to the school whose existing buildings can cater, than for the school that faces the need to decide between adding some classrooms and providing support staff for slower learners.

Payment for teaching staff is the largest item in any school budget. It does not feature in the list of main cost-drivers because teachers up to the school's roll-related entitlement are centrally paid. This line item is "money in, money out". However, costs associated with attracting and retaining good-quality staff are one of the priorities in these schools' budget decisions. That includes some attention to workload, through offering non-contact time, support staff, reasonable class sizes, senior staff support, professional development, and various forms of recognition. We did not attempt to quantify the level of this support for each school, to see what proportion of the school budget it took, and what degree of variation there was between schools. However, it is of note that professional development remained a stable item in the study schools' spending between 2000–2003, whereas there was some fluctuation in support staff expenditure. It may be that this is because professional development takes a much lower proportion of school revenues than do school support staff; nonetheless, given the caution of school financial management, it would seem that professional development is safeguarded as much as possible.

Identifying the need for programme change and resourcing it

Here we look at research questions 2 and 3 together.

School budget formation in these 18 effective schools was consistent from year to year. Although individual aspects are "zero-based", the underlying principles remain much the same. Programme change that affects budgets and resource allocation is around the edges, rather than radical. There are several reasons for this. First, the schools were all operating within the national curriculum, and within common frameworks of resources associated with these, and made available to schools at no or little cost. While the national curriculum is not prescriptive in a tight sense, it does emphasise literacy and numeracy, and these are key foci in primary schools, and increasingly for Year 9 provision at secondary schools.

Second, most programme change other than that which is ICT-centred was occurring through ongoing professional development and greater staff collaboration, by supplementing existing provision, or changing the way that teachers worked together, for example, in one primary school by having a common theme in all classes each term, allowing a more integrated curriculum. Supplementation of existing provision was usually modest, and decided by what was available from government operational funds after meeting fixed costs, or could be freed up by accessing locally raised funds. Secondary schools that had identified the need for employment-related or

multidisciplinary courses found it more difficult to provide these, since they could mean new costs, rather than augmenting existing provision.

Third, the schools had to be conservative in both their revenue and cost estimates. Even the schools that were in the best financial health of all the schools in the study operated on thin margins. Though school professionals were aware of student needs that they thought could be better met, they could not take risks, and faced dilemmas in giving priority to one group of students, especially a small group, or if the costs would be ongoing. Unless schools can raise the money for new provision from a new revenue source, they can only offer new programmes by cutting costs somewhere else, when their estimate of costs and attempts to save money where they can are already conservative.

Fourth, schools are reluctant to take risks involving teacher employment. Teachers are not casual employees, consultants, or contractors. To teach effectively takes time, to develop knowledge of individual students, and use that knowledge to support and challenge them. While effective schools can and do employ long-term relievers when they are testing whether roll growth is permanent or not, they prefer to be able to offer permanent positions, so that they can attract and keep good-quality staff. However, this carries some financial risk if roll estimates are wrong, or the student composition changes. Increasingly, the schools were also concerned to attract and retain experienced support staff, and thus reluctant to offer only short-term employment. Schools see redundancy not as part of normal operations, but as very much a last resort, with both financial and non-financial costs, the latter through its negative impact on school cultures, where trust and stability are key.

Schools that sought to offer new courses identified needs through professional-board discussions, and readings of the future of education and employment, for example, the ubiquity of ICT, and the new creative industries arising from multimedia.

Conclusions for other schools and government policy

Other schools

These effective schools were all making the most of the money they had, and were active in ensuring they had all the government funding they were entitled to, and raising revenue additional to their government funding. There are some common approaches that may be of value to others:

Iterative development of school strategic plan, annual goals, and priorities, by school professionals and board so that there is a common framework and shared values and horizons that are brought to discussions around finances, and decisions.

Systems and processes that give up-to-date financial information to all budget holders at regular intervals, coupled with regular discussions about spending patterns with the school executive

officer and principal, and ongoing support, so that school budget-holders can manage their budgets. This occurs within frameworks that provide full information about the allocation of funds within the school as a whole, both past and present, with some schools using cross-syndicate or department groups so that overviews and analysis of trends that orient budget-holders to the common good as well as their own cost-centre are shared. These schools take care to avoid silo approaches.

Conservative roll estimates.

Generally conservative estimates of locally raised revenue, based on historical patterns and any changes in local circumstances.

Monitoring spending against budget, delaying some spending until it is clear the school can afford it.

Giving priority to quality staff (support as well as teaching), and school cultures that will bring the best out of everyone; taking balanced risks on costs associated with this.

Managing non-curriculum spending to get the most value from it, so that curriculum spending can be maintained.

Taking care to maintain property so it does not deteriorate, and remains welcoming and useful for students, staff, and community; either raising revenue for major property spending, or planning it in relation to long-term prioritisation based on essential need, and building in some contingency funding for any major projects. Finding good expertise and advice on property management and maintenance so that property costs can be spread over time, or major projects designed and finished as efficiently as possible.

Maintaining some working capital to cover the unexpected, and rebuilding it if used for major property or capital expenditure.

Understanding the Ministry of Education funding formulae, checking entitlements, and actively monitoring opportunities to access government funding and contestable funding pools. Developing good networks with community funding organisations and skills in “pitching” to these organisations for grant funding. A good executive officer or business manager is vital.

Maintaining good relations and information flows with parents, the local community, Ministry of Education property and funding advisers, sponsors, and local councils.

Government policy

These effective schools had good management of their finances. They were largely cautious spenders, and conservative in their revenue estimates. They approached their task responsibly and as strategically as they could, given their role. Yet very few were in what seemed reasonably comfortable positions unless their rolls were stable, they were oversubscribed, and they had been able to gain substantial external revenue. While some schools that were not in positions to garner

much additional external revenue could maintain their existing programmes without making large cuts, most could not if they had to manage on their government funding alone.

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

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

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

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

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

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

lever, while customising it more to the particular needs of schools, and free up money to spend on learning.

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

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

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

Appendix 1: Interview questions for principals and board members

Principal interview – 2004

This interview will cover three main areas:

- A. How you develop your budgets, find the funding you need, and manage your costs.
- B. Any dilemmas and hard decisions you face now or have faced in the last 2–3 years.
- C. Some “what-if” questions – how the school would react to changes in roll numbers or locally raised funds.

A. BUDGET DEVELOPMENT ETC

What process do you use to develop your annual budget?

- Do you start with costs, or revenue?

Revenue

- Do you include all your resources in your budget, including entitlement staffing?
- How do you estimate operational funding?
- How do you estimate other government sources, e.g. STAR funding [sec schools], SEG grant?
- How do you estimate locally raised funds?
- What sources of revenue do you see as up to the school to decide how to spend?
- Are there separate cost-centres for your sources of revenue such as TFEA, STAR funding, and the SEG grant?
 - If so, do you budget on them breaking even, or do you expect to cross-subsidise?
 - If you do cross-subsidise, what source of resources do you use? [e.g. entitlement staffing, ops grant, or locally raised funds]
- How do you decide what you will use your locally raised funds for?
- How many staff do you currently fund over-entitlement from your locally raised funds?
 - Are they in permanent or contract positions?
 - Are they included in professional development?

Costs

- Which costs do you see as a given – things that can't be changed by the school?
- Which costs are the ones where you have some discretion?
- How do you manage your costs?
 - What delegations are there?
 - Do those in charge of different cost-centres see their role as containing costs, or using their entitlement?

Budget priorities

- How do you identify budget priorities?
 - What is the role of roll trends; student achievement data; rolling cycle of reviews of different aspects of the school; pastoral care costs; ERO reviews and recommendations?
- How do you decide what new initiatives you'll fund?
 - What criteria do you use?
 - What research/guidance have you received in making decisions on new resources or programmes?
- What are the main changes or new initiatives that are in this year's budget?
 - Why are they there? [analysis of need/because \$ avail]
- What are the things that got knocked back in this year's budget?
 - Why those things?
- 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?

Board role

- What is the role of the board of trustees in relation to setting priorities for the work on the budget, or new initiatives?
- Are there particular initiatives or budget items – changes to revenue, e.g. raising level of school fees, or changes to expenditure – that have originated from the board?
 - What are they?

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

- How stable has your roll been over the past 2–3 years?
 - What impact has this had on your budget decisions?
- How stable has your staffing been over the past 2–3 years?
 - What impact has this had on your budget decisions?
 - What do you do to recruit and retain good-quality teachers who suit this school?
- Have you had things you wanted to do in the last 2–3 years that you then set out to find funding or resources so that they would happen?
 - What were they?
 - What did you achieve?
- What use have you made of Ministry of Education initiatives and additional funding, e.g. linked to ICT, curriculum, professional development in the last 2–3 years?
 - Have you applied for or used this because it was available rather than because it fitted into your goals/plan?
- What particular pressure areas are there in your budgeting?
 - Are there any particular cost areas that you feel you cannot control?
 - What are they?
 - How have they changed over the last 2–3 years?
- What impact has the growing role of ICT use had on the school's budget?
 - Has it meant that other areas have been funded at a lower level than before?
- Do you have any contingency funds?
 - Have you had to use them in the last 2–3 years?
- How do you cover changes arising from the national collective employment contracts, e.g. for support staff?
- Has the school had any financial concerns in last 2–3 years?
- Any narrow escapes or unexpected blowouts?
 - If so, what action did you take?
 - Did this resolve the issue?
- Have you taken any financial risks in the last 2–3 years?
 - Why?
 - How?
 - Did they pay off?
- Are there any budget decisions the school has made that you regret – that weren't worth the money, or that cost much more than estimated, either at the time, or in ongoing costs?

- Is there anything you've funded 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?

C. WHAT IF

- If your roll fell by 10 percent next year, what impact would it have on your school?
- If you had to cut, what would you choose, and why?
- Do you have an ideal roll size – in terms of maintaining what you have; in terms of developing/enhancing what you have?
- 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?
- 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 percent 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?

Board Chair/Treasurer interview

This interview will cover three main areas:

1. How you develop your budgets, find the funding you need, and manage your costs.
 2. Any dilemmas and hard decisions you face now or have faced in the last 2–3 years.
 3. Some what-if questions – how the school would react to changes in roll numbers or locally raised funds.
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A. BUDGET DEVELOPMENT ETC

- What process does the school use to develop your annual budget?
- How do you identify budget priorities?
- What is the role of roll trends; student achievement data; rolling cycle of reviews of different aspects of the school; pastoral care costs; ERO reviews and recommendations?
- How do you decide what new initiatives you'll fund?
 - What criteria do you use?
 - What research/guidance have you received in making decisions on new resources or programmes?
- What are the main changes or new initiatives that are in this year's budget?
- Why are they there? [analysis of need/because \$ avail]
- What are the things that got knocked back in this year's budget?
 - Why those things?
- 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?

Board role

- What is the role of the board of trustees in relation to setting priorities for the work on the budget, or new initiatives?
- Are there particular initiatives or budget items – changes to revenue, e.g. raising level of school fees, or changes to expenditure – that have originated from the board?
 - What are they?

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

- Have you had things you wanted to do in the last 2–3 years that you then set out to find funding/resources/other ways to achieve?

- What were they?
- What did you achieve?
- What particular pressure areas are there in your budgeting?
- Has the school had any financial concerns in last 2–3 years? Any narrow escapes?
- Have you taken any financial risks in the last 2–3 years – why – how – did they pay off?
- Are there any budget decisions the school has made that you regret – that were not worth the money, or which cost much more than estimated, either at the time or in ongoing costs?
- Is there anything you've funded that was an unexpected cost, or cost a lot, that the board would not have initiated itself, but felt had to be done?
 - What was it?
 - Why did you think you had to cover it?
- What impact has the growing role of ICT use had on the school's budget? Has it meant that other areas have been funded at a lower level than before?

C. WHAT IF

- If your roll fell by 10 percent next year, what impact would it have on your school?
- If you had to cut, what would you choose, and why? [ict/staff/library/maintenance]
- Do you have an ideal roll size – in terms of maintaining what you have; in terms of developing/enhancing what you have?
- 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?
- 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 percent 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?
