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**DRAFT – NOT GOVERNMENT POLICY**

# Review of Funding Systems

# Background paper for Advisory Group

**School Global Budget Concept**

24 June 2016

**School Global Budget concept**

**Introduction**

This paper outlines the Global Budget concept that is being tested as an alternative mechanism for delivering funding to schools. In this paper we discuss the potential benefits and implications of this approach.

The value of funding provided to each school through its Global Budget would depend on the decisions about the school funding model. For example the per-student funding level, the additional funding for students who meet criteria associated with being most at risk of educational under-achievement, and the supplementary funding where necessary to support a network of schools.

There is also a question to be resolved through other work streams about the full range of costs required to be managed through the Global Budget. These costs depend on decisions relating to how schools are funded for the maintenance of school property and other infrastructure/platform related costs.

The purpose of this paper is to:

* set out the features of the Global Budget concept and the rationale for exploring it as a key change in the education funding system
* outline current arrangements for delivering funding to schools, and other alternatives that have been considered
* identify some of the major implications, benefits and issues that need more in-depth exploration.

**The Global Budget concept**

The Global Budget concept relates to the delivery of funding to state and state-integrated schools only. It does not relate to funding for early childhood centres, partnership schools | kura hourua or private schools. The Global Budget has the following key features:

* Schools would be provided with an annual government funding amount – the Global Budget. Schools would have to meet all their operational costs, including teaching and non-teaching staff salaries, from their Global Budget and any locally raised funds.
* This means that all school funding would be specified in monetary values. A national average cost of teacher salaries would be used when determining the value of each part of the school funding model (e.g. per student funding level).
* The base salary costs of an individual teacher’s salary (employed on a permanent or fixed term contract) would be credited against the Global Budget at a ‘notional’ rate - **not** at actual cost (average in, average out). A number of notional rates could be used for teachers and principals but non-teaching staff salaries would be credited at actual cost.
* The Ministry would continue to pay all staff salaries through the central payroll system and meet the actual salary cost. For some teachers actual cost will be higher than their notional rate, and for some teachers actual cost will be lower than their notional rate.
* As a result of schools’ choices, the Global Budget would be divided into two components:
* A cash amount that would be paid to schools in regular instalments (likely quarterly as per the current operational grant).
* A credit component which would be centrally retained by the Ministry to cover the anticipated salary cost of all staff. For teachers and principals this would be based on notional rates. Due to all staff salaries being included in the credit portion this will reduce and could potentially avoid the requirement for schools to transfer cash funds to pay salaries.
* Throughout the school year school leaders would be able to see what their actual and projected spending is due to all funds being expressed in dollars. There could also be flexibility to adjust spending by transferring between their cash and credit balances to address budget needs. At the end of the school year, remaining credit would be able to be rolled over to meet staffing costs in the next year’s budget or be received as a cash payout. Where a school’s assessed salary expenditure has exceeded the credit amount in a given year, this would be automatically recovered from the first cash payment at the beginning of the next year.

**Elements of the Global Budget concept**

Assumptions about teaching requirements and **average** teacher salaries used in calculation of amounts

Supplementary funding

Additional funding for at risk

Per child funding

**Global budget**

Schools make choices about balance between teaching and non-teaching expertise and other expenditure.

Credit (held centrally)

Cash (paid quarterly)

Salary expenses: Permanent and fixed term teaching staff charged at **average** rate

Other staff at **actual** cost

Operational expenses:

Classrooms resources

Cleaning

ICT costs

Professional development etc

Pays

Pays

Financial management and budgeting support

**Why introduce a Global Budget?**

The Global Budget is being explored as a way to future proof the funding system by providing:

* more ability for schools to use their resources to best meet the learning needs and wellbeing of their students
* an easier mechanism for schools to collaborate and share resources, including through Communities of Learning, to improve learning outcomes, and clear away current administrative barriers
* a simpler funding system with less administrative costs, particularly those associated with the banking staffing system
* more transparent funding across the system and better supported financial management in schools.

The Global Budget concept has been informed by alternative ways of delivering funding to schools in Australia, particularly Western Australia and Victoria. Improvements in student outcomes have been linked to greater school autonomy including the ability to manage their budgets to address their individual school’s needs.

*Question for discussion*

*How can we better determine and measure the extent of the benefits of the Global Budget in terms of enabling schools to use their funding and to collaborate to better meet student needs and lift educational outcomes?*

**Current arrangements**

Funding is currently delivered to state and state-integrated schools in the form of a cash operational grant and staffing entitlement. Staffing entitlement is a quantum of full-time teacher equivalents (FTTEs) for which the Crown directly meets the salary cost. Staffing entitlement generally accounts for around 70 percent of a school’s total funding.

Where schools employ teachers above their staffing entitlement these costs are met from operational grant funding and locally raised funds. Schools also employ non-teaching staff (e.g. caretakers, administrators and teacher aides) using their operational grant, as well as meet other costs such as equipment and utilities.

The staffing entitlement mechanism enables schools considerable flexibility in the mix of teachers they employ. Schools are not required to manage the actual cost of teaching staff or the financial risk associated with the turnover of teaching staff and with staff progressing up salary scales over time - apart from those teachers employed through operational grant funding. This would not change under the Global Budget proposal; the Crown would continue to manage these risks. Managing the financial uncertainty of staff turnover would be particularly challenging for small schools, which are a significant feature of the New Zealand school system.

There is a trade-off between protecting schools from financial risk and how the funding system supports equity and encourages schools to develop an overall staffing profile with a mix of abilities, skills and experience. The Global Budget concept would not change this.

Staffing entitlement can only be used to employ teachers who hold a practising certificate or a limited authority to teach. Staffing entitlement cannot be used to employ non-teaching staff for specialist roles, unless the person also holds a practising certificate or limited authority to teach. The Global Budget proposal would provide schools with more ability to employ specialist non-teaching staff. However, schools would continue to be required to employ persons holding a practising certificate in a teaching position, as required by Section 349 of the Education Act 1989.

Schools can transfer staffing entitlement between each other, but this involves Ministry-based administrative processes. These administrative requirements can unnecessarily hinder the sharing of expertise, although some informal ‘barter’ arrangements are occurring. There is a demand to increase the ability to share teachers between schools and we expect this to increase in future. For example, teaching expertise is transferred in virtual learning arrangements established between groups of schools (e.g. Volcanics eLearning Community) and Communities of Learning. The Global Budget has the potential to better enable the sharing of teaching expertise.

Usage of staffing entitlement is monitored and accounted for through the banking staffing mechanism, which operates off the teacher payroll system. A monitoring system is required to manage the risk to the Crown of its obligation to meet the cost of teacher salaries.

Over time the rules for the use of staffing entitlement have been changed to provide schools with more flexibility in how they can use staffing entitlement during a school year and a limited ability to cash up unused staffing entitlement at the end of the school year. This has added to the complexity of the payroll system and the volume of transactions that it must process in a particular period. This has been exacerbated by a number of practices that schools use to maximise the value of their funding. For example, schools that employ teachers in excess of staffing entitlement, regularly switch teachers between staffing entitlement and operational grant funding, so that the salary cost of their lowest cost teachers is paid from operational grant funding.

Currently schools need to budget for expenditure from their operational grant and locally raised funds, and monitor this throughout the year, but practices vary. This can include expenditure on teacher salaries. Separately, they also need to plan how they use their staffing entitlement and monitor usage through the year. Where a school exceeds its staffing entitlement, it must pay the Crown for excess use which, if unplanned, can put financial pressure on the school.

The Global Budget proposal may require changes in the way schools plan and budget. Schools would need to consider their staffing and operational costs within a single budget.

**Implications and expected benefits of the Global Budget**

There are considerable implications for changing the way funding is delivered to schools and if pursued, this change would need to be transitioned carefully. Outlined below are key implications for schools and for the Crown.

***Schools to have increased flexibility in use of funding and ability to share resourcing between schools***

The Global Budget concept involves two key changes that would increase schools’ flexibility to balance teaching and non-teaching costs and other requirements across the school year. Firstly, the Global Budget would mean moving away from staffing entitlement and the restrictions on how this funding can be used. Secondly, school leaders would be provided a role in determining the balance between the cash and credit components through staffing choices and budgeting decisions. These two changes would provide individual schools with more flexibility to decide on the staff profile that matches the needs of their school.

The delivery of all funding through a monetary value would also make it easier for schools to collaborate and share resources. For example, a school that wanted to access virtual teaching in a subject, rather than employ their own specialist teacher could pay the providing school cash, rather than having to sort out a barter arrangement or transfer staffing entitlement.

The delivery of a significant share of funding in the form of a credit held by the Ministry is designed to encourage sound financial management by requiring schools to explicitly plan for expenditure on staffing costs during the year, and limit the risk to the Crown of poor financial management by individual schools. It would also reduce the administrative cost of recovering monies from schools on a fortnightly basis for salary costs currently met from operational grant funding and locally raised funds.

The single bottom line of the Global Budget would allow schools to plan and allocate funds from the beginning of the school year and cash them in if they are not used or roll them over to the next year. However, given the credit component is intended to cover all anticipated salary costs during a year, schools would over the year hold lower cash balances than at present.

*Questions for discussion*

*How significant are the potential benefits to schools of increased flexibility in funding and how might this be used?*

*How might the global budget mechanism influence schools’ employment decisions, the quality of teaching and the system’s overall workforce profile?*

*What would be the implications for schools of holding lower cash balances than they currently hold?*

***Crown manages financial uncertainty faced by schools***

The Global Budget would retain schools’ confidence that the Crown would meet any increases in teacher salary costs negotiated through the collectives. Further, as the Crown would calculate and charge schools notional rates for the base salary costs of teachers and principals (average in, average out), schools would not need to manage the financial risk associated with changes in their workforce (e.g. new staff being recruited as staff depart, and as a result of staff progressing up salary scales over time). Teaching staff would continue to be paid at rates determined through collective agreement negotiations.

***Potential impacts on Crown fiscal risk***

Under current arrangements, staffing entitlement is used to manage the fiscal risk to the Crown arising from the obligation to pay teacher salaries. The Crown bears some risk as schools have flexibility to determine who they appoint and do not have to manage teacher salary costs within a specific budget amount.

Further, while schools meet the actual costs of teachers employed from operational grant funding and locally raised funds, there is scope for them to minimise this cost by charging their lowest paid teaching staff against operational grant funding and higher paid staff to staffing entitlement. The more schools do this, the more equity issues are created between schools.

Under the Global Budget concept, the fiscal risk to the Crown is managed through the interaction of the total dollar value of a school’s Global Budget and locally raised funds, and notional rates for charging teacher salaries. Together these would constrain the number of Full Time Teacher Equivalents that a school could afford to employ, given the other operating costs it must also meet.

Issues that need further investigation include whether the Global Budget concept would materially change the fiscal risk faced by the Crown, and possible fiscal risk in transitioning to any new arrangement. A further consideration is how it might impact on equity of funding arrangements.

*Questions for discussion*

*How might the global budget influence school behaviours to shift costs or increase the fiscal risk that is faced by the Crown?*

*How might the global budget mechanism impact on the equity of school funding arrangements?*

***Schools to develop a comprehensive annual budget***

Schools would need to develop a comprehensive budget and plan appropriately to manage their Global Budget and make decisions about the cash and credit split. This may change the way schools plan their staffing and other operational costs. Checking the viability of the budget would require a two way communication between the Ministry and schools and support mechanisms to assist the preparation of budgets where required.

To adequately implement the Global Budget, school leaders may need greater budgeting capability and stronger financial oversight than currently. An implementation consideration is how the Crown should support schools and provide tools to raise budgeting capabilities. One component of this support could be a real time budgeting tool accessible by schools and their financial service providers.

Currently the Ministry of Education reviews the accounts of schools on an annual basis and uses this to identify schools that are experiencing financial issues. This is reactive and often too late to prevent financial difficulties. As a result 130-140 schools are identified as at-risk. Under a Global Budget, more comprehensive budgeting and smarter real time management of finances would help schools to manage and prevent financial mismanagement and increase visibility for the Crown where it is warranted.

*Questions for discussion*

*What do you see as the key financial implications that would need to be managed by schools?*

*What level of financial management capability would be required at the individual school level?*

*What support systems would be required to assist schools in the transition to, and ongoing implementation of the Global Budget?*

**Other options that have been considered**

Two other options were considered and discounted at this time.

1. Adapting the current operational grant and staffing entitlement system to:

* shift the balance between staffing entitlement and cash, with a greater share of funding delivered as cash

* change the rules relating to banking staffing to simplify the administrative arrangements.

This would tend to increase the financial uncertainty that schools would be expected to manage. Changing banking staffing rules to make them simpler would, in effect, reduce the flexibility for how schools could use staffing entitlement over time.

1. Moving to a full cash environment

This is akin to the bulk funding of teacher salaries which was experimented with in New Zealand in the 1990s. The fundamental difference between the Global Budget concept and a full cash environment is that in a full cash environment the actual (rather than notional) cost of teacher salaries is charged against a school’s funding.

This option would increase the levels of financial uncertainty and management challenges for many schools, particularly small schools. It would potentially reduce flexibility for schools in making employment decisions, as well as require a greater level of system change and support for it to operate effectively.

**Importance of detailed design**

If this proposal is progressed, decisions on detailed design would be important to how the Global Budget operates in practice.

A critical issue would be how the notional rates for the base component of teacher and principal salaries would be determined. An inter-related and important consideration would be how other elements of salary costs, such as management units, specific time allowances and additional allowances would be managed and accounted for and whether this would be done centrally through the payroll system or would become part of the school’s budget.

Determining the notional rates for teacher salaries would play a critical role in managing fiscal risk to the Crown. It would also influence decisions that individual schools make about tradeoffs between teaching staff and other resources. As part of any further work, it would be necessary to understand how the notional rate might affect schools’ decisions about who is employed, the nature of their employment contract and flow on effects in terms of teacher workforce development, equity across schools, and quality teaching. In addition, methods of monitoring and setting accountabilities would need to be determined.

Another key issue that would need to be managed is the costs and risks of transitioning the funding delivery mechanism from staffing entitlement to funding through a Global Budget and the level of support that would be needed to do this successfully. We would need to assess these costs alongside the costs and benefits to schools and the Crown over the longer term in coming to a view about whether this is a worthwhile proposal.

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| Objectives of funding delivery system | Current approach | Global Budget concept |
| Autonomy and flexibility in resourcing decisions | Schools leaders have control over staffing decisions. Staffing entitlement covers the payment of qualified teachers only. Operational grants must be used for non teaching staff and teachers employed above staffing entitlement. | Schools leaders retain control over staffing decisions. The Global Budget would provide greater flexibility to make decisions about the balance between teaching staffing, non-teaching expertise and other inputs. |
| Support schools’ collaboration and sharing of resources | Currently there is a difficult administrative process for transferring staffing entitlements between schools, which hinders the sharing of expertise, although some informal ‘barter’ arrangements are occurring. | The delivery of all funding through a monetary value would make it administratively easier for schools to collaborate and share resources. This could be useful for sharing both teaching and non teaching resources |
| Simple to administer for schools and the Crown | Staffing entitlement reduces the complexity of financial planning and management for schools (although they have to manage teacher entitlement). However, it is more complicated for the Crown due to the need to account for teachers employed under a range of different employment contexts against the entitlement. This is more difficult than accounting for dollar salary values. | As all costs are translated into a dollar value this means that it is simpler to transfer costs between schools. It is also easier to understand the status of the whole budget at all times. Staff would continue to be paid through the central payroll system. |
| Transparency in approach | Resourcing through staffing entitlement may be working against equity objectives, leading to a disproportionate share of more experienced teachers being employed by schools which are viewed as better places to work (without them having to bear the additional costs). | The notional rate for all teachers will be more transparent as schools with similar profiles and needs will receive similar budget allocations. Equity issues around staffing choices are not addressed in the Global Budget |