



# Ko te Tamaiti te Pūtake o te Kaupapa

## The Child – the Heart of the Matter

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We welcome comments and suggestions on the issues raised in education evaluation reports.



## The Education Review Office

### Schools' Use of Operational Funding

The New Zealand Government has grouped its priorities and activities under three themes:

- Economic transformation
- Families, young and old
- National identity

The Education Review Office (ERO) contributes to these themes through its role of reviewing and reporting on the quality of education in schools and early childhood education services.

ERO's whakataukī demonstrates the importance we place on the educational achievement of our children and young people:

*Ko te Tamaiti te Pūtake o te Kaupapa*  
*The Child – the Heart of the Matter*

In our daily work we have the privilege of going into schools and early childhood services, and this gives us a current picture of what is happening throughout the country. We are then able to collate and analyse this information so that it can be used to benefit the education sector and, therefore, the children in our education system. ERO's reports contribute sound information for work undertaken to support the Government's themes.

This report on how schools use their operational funding is of most interest to the principals of schools and their boards of trustees. It is also of interest to the Ministry of Education, as the agency that funds schools, and there is a clear link to the Government's priorities and themes. In this study we looked at all the funds that come into schools – not just those from the Ministry's allocation – so this report will also be of interest to all the community and parent groups that contribute to their local schools both in kind and in the funds they help raise each year.

The successful delivery of education relies on many people and organisations across the community working together. We hope the information in this report will help them in their task.

Graham Stoop  
Chief Review Officer

June 2007

SCHOOLS' USE OF OPERATIONAL FUNDING

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## Executive summary

This national report presents the first phase of the Education Review Office's investigation into how schools use their operational funding.

For the purposes of this report, operational funding is used to define the total income available to a school. It includes the operations grant as well as a school's locally raised funds. The 'operations grant' is the money schools receive from the Government to meet their organisational goals and to pay for their day-to-day running. It is calculated on the basis of several factors including roll size, the decile<sup>1</sup> of the school, the Year levels of students and the number of Māori immersion students.<sup>2</sup> It does not include funding for teachers' salaries or major capital works that are funded separately.

The report describes income and expenditure patterns of schools and how the operations grant is supplemented through locally raised funds, volunteer support and non-cash donations. Schools blend government and locally raised funds and rarely attribute costs to the specific sources. Therefore the discussion of school expenditure shows how the operations grant and locally raised funds together are used on overheads in such areas as property and administration, and on teaching and learning resources in such areas as curriculum materials, ICT and support staff. Figures were collected by reviewers in consultation with the schools.

The Education Review Office (ERO) looked at the patterns of school income and expenditure and the processes used by schools to manage their operations grant and other sources of income. The report is based on a detailed analysis of information from 218 schools where ERO carried out a regular Education Review during Terms 3 and 4 in 2005. There were 180 primary and intermediate schools and 38 secondary and composite schools.

This evaluation found that schools have very different income and expenditure patterns. The way schools use the money they receive from the Government is influenced by different factors including:

- the amount of locally raised funds they generate;
- the overhead costs associated with running their schools;
- the amount of targeted funding for education achievement (TFEA) they receive as part of their operations grant;
- their community expectations; and
- the financial and strategic capability to which schools have access.

- 1 A school's decile indicates the extent to which the school draws its students from low socio-economic communities. Decile 1 schools are the 10% of schools with the highest proportion of students from low socio-economic communities, whereas decile 10 schools are the 10% of schools with the lowest proportion of these students. A school's decile does not indicate the overall socio-economic mix of the school.
- 2 See Appendix 3 for the components of the operations grant.

All schools raised additional funds to supplement their operations grant. The main issues connected with locally raised funds relate to the level of reliance some schools have on locally raised funds and the cost (to schools) of these fund-raising activities. It is clear that some schools in this evaluation were dependent upon locally raised funds for their day-to-day operation. Most of these schools were medium and high decile schools, as low decile schools received additional funding through targeted funding for education achievement (TFEA).

Some of the schools that were reliant on locally raised funds found it relatively easy to raise funds (for example, through parent donations), while other schools struggled to raise funds and/or raised funds by diverting school managers into fund-raising activities. Schools need to be aware that diverting school managers and leaders into fund raising activities has both monetary and educational costs to schools and students.

The financial and strategic capability of schools had an impact on how effectively they managed their total operational funding. This evaluation showed that, while most schools had satisfactory financial systems and were in a satisfactory financial position, many had identified gaps in the financial and strategic expertise of their school managers and trustees. While the day-to-day running of the school was being managed efficiently, the links between financial and strategic planning, management and reporting were weak.

ERO found that low decile schools were more likely to lack financial and strategic expertise. Schools that did not have access to this expertise were at greater risk of having financial problems and of having limited forms of evidence on which to prioritise and plan their spending on teaching and learning.

ERO found that some schools allocated funds to projects that had limited connection to improving the quality of education in the school, such as 'beautifying' the school. These projects were often the result of attempts to attract students to their school or meet an expectation within the community.

In 2007, ERO will extend the information provided in this report by presenting 27 case studies of school practice. These case studies will focus on the quality of schools' decision-making, and the impact of this and other factors on how school finances are used to enhance student achievement. It will also provide examples of good practice.

### NEXT STEPS FOR SCHOOLS

Regardless of the rationale for expenditure on different projects or activities, boards of trustees need to have robust information on the relative merits of each project at the planning stage, receive regular information on implementation and have evaluative information on the impact on and benefits for students to consider for their ongoing planning and reporting.

They also need access to financial expertise to assist them in understanding their current position and to provide them with assurance that the financial systems are in place to support their decisions. Strategic expertise is also needed to make the links between financial expenditure and achieving good outcomes for their students. Without this level of information and expertise, boards of trustees cannot be confident that they are using their income effectively to run their schools and meet government goals, community expectations and students' needs.

### NEXT STEPS FOR THE MINISTRY OF EDUCATION

The funding model for the operations grant needs to take into account of the complexity and diversity of our schools while also recognising the specific challenges some groups of schools are facing. This evaluation highlights key areas for further investigation by the Ministry of Education.

## Introduction

This report presents the first phase of the Education Review Office's investigation into how schools use their operational funding.

For the purposes of this report, operational funding refers to the income schools receive from the operations grant and sources such as locally raised funds and other government funding. The 'operations grant' is the money schools receive from the Government to meet their organisational goals and to pay for their day-to-day running. The operations grant is calculated on the basis of several factors including roll size, the decile of the school, the Year levels of students and the number of Māori immersion students. It does not include funding for teachers' salaries or major capital works that are funded separately.

ERO looked at the patterns of school income and expenditure and the processes used by schools to manage their operations grant and other sources of income. The report is based on a detailed analysis of 218 schools where ERO carried out a regular Education Review during Terms 3 and 4, 2005. There were 180 primary and intermediate schools and 38 secondary and composite schools. Characteristics of these schools are detailed in Appendix 1.

A team of review officers gathered and analysed the information for this report. They worked in schools alongside trustees, principals and other staff dealing with finance. Schools were generous with their time, open about their situations and eager to contribute to this investigation.

ERO found that schools coded their financial information in different ways and that some schools could not accurately identify and report on their income and expenditure. Several schools could not separate figures in their annual accounts into various categories as they were unsure of the categories their auditor had used to prepare the accounts. Some schools could not identify their precise levels of income and expenditure within the categories developed for this review and this had an impact on the level of analysis that could be undertaken as part of this evaluation.

A more detailed breakdown of costs would have given a more accurate picture of school income and spending. Despite this, it has still been possible to extract sound general data.<sup>3</sup> This is presented in some detail because school personnel showed a keen interest in knowing how their school compared with others. They were also interested in how schools in different deciles were managing financially and the report provides some of the relevant analysis by decile groupings.

<sup>3</sup> Figures collected for this report have been rounded to the nearest five percent and the nearest 25 dollars.



In phase II of this study, ERO will extend the information provided in this report by presenting 27 case studies of school practice. These case studies will focus on the quality of schools' decision making, the impact this and other factors have on how school finances are used to enhance student achievement and will provide examples of good practice.

## Sources of income

All state and state-integrated schools receive operational funding from the Government to meet long-term and annual Charter goals, the National Administrative Guidelines (NAGs) (see Appendix 2) and National Education Goals (NEGs). All 218 schools in this investigation also raised local funds. Schools merged these two sources of income and did not discretely track these specific income and expenditure streams. Thus it was not always possible to make detailed comparisons of income against spending or to identify the spending of government and locally raised funds separately.

### LEGISLATIVE FRAMEWORK FOR SCHOOL FINANCIAL MANAGEMENT

In addition to the National Administrative Guidelines and National Education Goals school financial management is bound by the following legislation:

- Crown Entities Act 2004
- Public Finance Act 1989
- Education Act 1989.

Current key requirements for school financial management are to be found in the Ministry of Education's *Financial Information for Schools Handbook*. This handbook is available on the Ministry of Education website at [www.minedu.govt.nz](http://www.minedu.govt.nz). It is regularly updated.

### LOCALLY RAISED FUNDS

Schools raised funds from various sources including: donations from families and whānau; donations from the community through pub charities and charitable trusts; fund-raising efforts such as spellathons, auctions, fairs, sausage sizzles and garden tours; international students' tuition; school activities such as trips, camps, sports, and photocopying; sponsorships; trading through tuck shops, uniform and stationery sales; rental of school facilities; and asset sales such as furniture and school housing where the school shares the sale profits with the Ministry of Education. Tables 1 and 2 show the average percentage of locally raised funds in primary and secondary schools by source.

Table 1: The average percentage of locally raised funds by source for primary schools

<b>Fund-raising source</b>	<b>Percentage of fund-raising</b>
Asset/property sales	1
Whānau/guardian donations	10
Course/activity fees	14
Donations from the community	12
Hire of facilities	1
International students' tuition	18
Trading (such as tuck shops)	15
Sponsorships	Less than 1
Fundraising	11
Other	17
	100%

Table 2: The average percentage of locally raised funds by source for secondary schools

<b>Fund-raising source</b>	<b>Percentage of fund-raising</b>
Asset/property sales	1
Whānau/guardian donations	14
Course/activity fees	8
Donations from the community	4
Hire of facilities	3
International students' tuition	32
Trading	12
Sponsorships	Less than 1
School hostels	10
Fundraising	3
Other	12
	100%

The source of locally raised funds could have influenced the level of discretion which schools had over these funds. For instance, trust funds were usually tagged for the specific purposes listed on the grant application, and some community donations might also have been tagged for certain activities, such as sporting events. In some schools, funds raised by the Parent Teacher Association (PTA) were also tagged for specific purposes determined by the PTA and were not available for the board to allocate towards achieving their strategic goals. Some schools reported that use of PTA-raised funds could be a cause of tension between the PTA and board.

Direct parental contributions through donations and activity fees averaged \$125 per student for primary schools and \$275 per student for secondary schools. Table 3 shows the average amount of parental donations per student when the schools were grouped according to decile rating.

Table 3: The average amount of parental donations per student by decile grouping

Decile	Primary	Secondary
Low (1–3)	\$60	\$80
Medium (4–7)	\$90	\$155
High (8–10)	\$200	\$470

On average, funds raised locally by primary schools were equivalent to 50 percent of their operations grant, and by secondary schools to 95 percent. When known costs have been deducted the net figure for primary schools is 30 percent, and 50 percent for secondary.<sup>4</sup>

Table 4: The percentage of funds raised locally by schools compared to their operations grant

Decile	Primary Average	Range	Secondary Average	Range
Low	25% gross 15% net	5–90% 0–40%	40% gross 10% net	10–50% 0–20%
Medium	45% gross 30% net	10–95% 5–70%	80% gross 35% net	30–220% 15–105%
High	80% gross 55% net	5–190% 5–165%	145% gross 80% net	75–310% 25–250%

4 Gross locally raised funds are the total local funds a school has raised whereas net refers to the funds available to a school when the costs and/or expenditure items have been subtracted from this amount. Schools used different approaches to account for costs and expenditure against locally raised funds thus restricting the analysis that could be undertaken.

It is worth noting that high decile schools not only raised a greater amount of money but did so at lower cost than schools in other deciles. For primary schools the net amount, after costs, was 25 percent and in secondary schools 65 percent. This is compared with 10 percent for low decile primary schools and 30 percent for low decile secondary schools; and 15 percent for middle decile primary schools and 45 percent for middle decile secondary schools. Several factors contributed to the higher return for high decile schools, including a greater ability to attract international students and gain more parent donations than medium and low decile schools.

The average locally raised funds per student in primary schools was \$525 and \$325 after costs had been subtracted. For secondary it was \$1250 and \$650 after costs.

Table 5: The amount of locally raised funds per student by decile grouping

Deciles	Primary Average	Range	Secondary Average	Range
Low	\$325 gross \$175 net	\$50–950 \$25–750	\$725 gross \$200 net	\$425–850 \$50–400
Medium	\$450 gross \$275 net	\$100–1,200 \$50–1,050	\$1,025 gross \$475 net	\$450–2,850 \$200–1,600
High	\$725 gross \$475 net	\$100–2,300 \$50–2,250	\$1,675 gross \$950 net	\$750–3,800 \$450–3,100

For many schools, especially secondary schools, international students have been a major source of additional board funds. Of the 218 schools, 48 (of 180) primary and 34 (of 38) secondary had international students. Funds generated by enrolment of international students, before costs, ranged from \$1350 to \$600,000 at the primary level and \$30,000 to \$1.8 million at the secondary level. Therefore, a downturn in the number of international students is likely to have serious implications for some of these schools and require major financial adjustments.

Many schools reported that pub charities now have less money available to distribute and have moved to allocating funds on a regional rather than local basis. Examples provided by schools of funds raised from schools' local communities are given below.

- A large urban secondary school received \$2,684,000 towards the construction of a \$5.5million Arts Centre from grant applications to a banking trust and the local council. These augmented 10 years of fundraising by parents for this project.
- A secondary school in a rural town received \$34,500 from pub charities for sporting activities.

- The local fish shop owner in a rural community raises \$10,000 a year for the local high school from an annual fishing competition that draws participants from around the country.
- A link with the WINZ Job Track employment programme gave additional funds of \$55,000 for two years to a South Island secondary school.
- A student workday at a large decile 10 secondary school raised \$30,000; \$200,000 came from pub charities; and \$120,000 from a charitable trust for capital items.
- The main fundraisers for a small rural school include catering for local functions, and crutching sheep.
- Every four years farmers raise bull calves for a rural primary school. These net around \$1200 each when sold.
- A school gala drew significant numbers in a small rural northern community but did not make money.
- A Trivial Pursuit night raised \$12,500 for a large urban primary school.
- A skills and assets auction – house painting, gardening, corporate box tickets, use of bach, charter fishing trips – raised \$7,000 for a decile 8 primary school facing financial problems. A movie night made \$5,000.
- A quizathon every second year raises \$20,000 for a decile 1 urban primary school.
- Four applications to trusts drew \$102,000 towards an auditorium.
- For the past four years a local benefactor has provided \$20,000 per year for technology resources to a decile 5 rural primary school.
- A local property developer (anonymously) funds a professionally produced colour newsletter and supports talented individual students (for example, funded an athlete to compete in Australia).

#### INVESTMENT INTEREST AND RESERVES

Another area of additional funding for some schools was interest earned on investment income. Naturally those with the largest reserves have the potential to earn more investment income. Schools had different policies on reserves: some stated that current funds, in the main, should be spent on current students; other schools aimed to build reserves as a contingency fund for unexpected events or for specific projects.

Most schools in the investigation had reserves. Often these were five-year cyclical maintenance funds or funds for capital works. However, there were also schools with funds accumulated from when they had been bulk funded, funds from operating surpluses and non-tagged fundraising. The interest earned on investments of the schools ranged from nil to \$150 per student.

### **BANKED STAFFING**

Banked staffing is a system set up by the Ministry of Education to provide flexibility in the timing and use of a school's entitlement staffing. For example, the scheme allows schools to save staffing to match an expected increase or decrease in student numbers over the year. The careful management of banked staffing provides short-term financial advantage for some schools. The effective use of banked staffing is often dependent on the principal's understanding of this financial mechanism.

Examples of school practice in relation to banked staffing included the following.

- Some schools charged some lowest salaried staff to banked staffing and some highest salaried staff to the Ministry teachers' salary grant, thereby reducing the school's costs where the school employs over-entitlement teachers.
- Some schools carefully timed their use of banked staffing as a cushion to enable a delayed use of school operational funding and consequently maximized the interest that could be earned on school operational money.
- Some schools did not draw on the allocation for relief teachers from the Government's operational funds as they managed to cover relief from banked staffing or by providing cover from current staff. Fifteen primary schools and one secondary school had no recorded spending on relief teachers. They then used the Ministry relief grant for other purposes.

Others discovered they had over-used or under-used their banked staffing, sometimes resulting in an expensive mistake.

- A principal who struggled with managing banked staffing did not use \$30,000 of it in a recent financial year – an effective loss of \$30,000 for the school.

### **ADDITIONAL GOVERNMENT FUNDING**

Another source of income for schools was government funding to provide or host an educational service for themselves or a cluster of schools: Resource Teacher: Learning and Behaviour (RTLb); Resource Teacher: Literacy (RT:Lit); District Truancy Services (DTS); Alternative Education (AE); Attached Units (such as Teen Parent Units and Activity Centres); Adult and Community Education (ACE); English for Speakers of Other Languages (ESOL); Ongoing and Reviewable Resourcing Schemes (ORRS) provided for special education students; and other government initiatives such as Social Workers in Schools (SWIS) and Arts Coordinators. In this evaluation 85 percent of primary schools and all secondary schools received some form of additional government funding. Across all schools, the level of additional government funding was equivalent to approximately 10 percent of the total received from the Government's operations grant.

All schools were able to identify this source of income clearly but less able to track their spending against this income. From the information that ERO could access, it appears that schools did not profit from this funding and many of these schools reported that they had needed to supplement this money. ERO was unable to verify the extent of this because of the lack of specific information on expenditure against this source of income.

#### NON-CASH RESOURCES

In addition to the cash resources from the community, schools also received non-cash resources and voluntary help. These were not usually captured in the school's accounts but virtually all schools in the investigation were able to identify the types of non-cash resources, and 90 percent could provide an estimate of their volunteer hours. It was not possible to quantify the non-cash resources that included paper and cardboard, timber, sports uniforms, food, art, computers, books, plants, sunscreen, newsletter printing, donations as part of school fairs and auctions, and firewood.

Examples of the different types of non-cash resources schools had received from their communities included the following.

- In a 30-student rural South Island primary school parents drained, levelled and reseeded the playing fields, drained and resurfaced the drive, painted the pool, provided all transport for outdoor education and replaced the electric range with a donated one. The firewood for heating was donated. This school did not risk its high level of community goodwill by also asking for a cash donation from parents.
- In an urban, decile 5 primary school, over the Christmas break a team of parents, led by the principal, added a covered deck to a block of prefabs and repainted inside the classrooms. An area of the grounds was redeveloped. Paint was provided at a discounted price. All labour was donated.
- Two university students donated their time and expertise to modify software programmes to meet the specific needs of the school for student achievement data analysis and reporting, and did all the initial data entry.
- In a small, decile 4 Year 1 to 8 school, in a relatively isolated rural community, teachers regularly engaged the free expertise of the police, regional sports associations and parents to support health and physical activity programmes.
- An urban, decile 7 primary school with just over 400 students, at the high end of volunteer support, reported voluntary hours per week as: 6 on resources; 16 in-class support; 20 to support reading; 28 for the walking bus; 3.5 on road patrol; and 22 by PTA running the tuck shop and the uniform shop. In addition parents supported this school's focus on camps with 788 volunteer hours per year and Education Outside the Classroom (EOTC) with 160 hours per year.



- In a large urban secondary school the Māori parent group had a focus on lifting success rates in National Certificates of Educational Achievement (NCEA). This included extra tuition on a regular basis in mathematics, provided at no cost by a university lecturer. The lecturer even collected students from home to make sure they sat internal and external assessments – and the success rate made it worthwhile.
- In a remote, rural, decile 3 school with close to 60 students, parent volunteers helped with art and craft, returning aluminium cans, shifting things with a tractor, bagging and transporting mulch for fund-raising, reading, transportation and supervision on day trips and camps, preschool help, baking, general fundraising, kapa haka tutoring, and doing parcel pick-ups at the drop-off point which was a 30-minute drive away. A periodic detention worker did general maintenance of grounds and painting.
- An East Coast secondary school reported these volunteer hours: sports coaches, 35 people averaging 12 hours total a week; sports volunteers/managers, 7 to 10 hours a week; helper for the arts coordinator, one hour a week; music, one hour a week plus 50 per year; and drama, 20 hours per year.

Volunteer support (not including that donated by staff and trustees) was provided for: school camps; sports, cultural and performing arts; classroom and administration support; professional areas (such as law, accountancy, information technology); trades; and maintenance and cleaning. Some small, rural schools had the most volunteer support, approximately one hour per week on a per-student basis. In some large schools the volunteer hours were estimated at over 150 hours per week.

Rural schools reported higher levels of voluntary support than urban schools. High decile primary schools reported more volunteer support than middle decile schools and low decile schools reported the lowest amount of volunteer support. Primary school volunteers were mainly involved with school camps and secondary school volunteers with school sports coaching. Medium and high decile schools at the primary and secondary levels received more support from professionals and trades people than low decile schools. However, it is important to note there was greater diversity in the type and volume of volunteer assistance within deciles than between the decile groupings of schools.

Schools greatly appreciated the non-cash resources they received from their communities in the form of volunteer help and donated goods. However there was little evidence of schools evaluating the cost-effectiveness or risk of this reliance upon voluntary activities.

## School expenditure

Funds under the control of the board of trustees are used for two broad categories, overheads, and teaching and learning. In this study ERO allocated costs to these two categories as outlined below.

Overhead costs	Learning and teaching costs
Administration staffing	Additional teaching staff/time
Administrative consumables	Classroom/curriculum materials
Auditing/Accounts	ICT for learning (not administration)
Board of trustees' expenses	Library resources
Caretaker/Property staff	Support staff: teacher aides, librarians
Technicians	
Caretaking/Cleaning consumables	
Cyclical property maintenance	
Depreciation	
Insurances/ACC	
Marketing, publications, communications	
Property repairs and maintenance	
Relief teachers	
Telecommunications	
Utilities (power, water, rates, gas)	
Miscellaneous administration	

At times this analysis presents spending against the operations grant so that schools and the community have an idea of what could be provided from government funds alone. The following analysis also uses spending per student to compare the total spending of schools.

### SPENDING ON OVERHEADS

Primary schools on average spent the equivalent of 85 percent of the operations grant on overheads and secondary schools spent on average 90 percent. While averages provide an overall indication of the proportion of the operations grant schools are spending on overheads, the range of spending within decile groupings of schools provides a clearer picture of the wide differences in overhead expenditure between schools.

Table 6: The average and range of overhead expenditure as a percentage of schools' operations grant by decile grouping and school type

Deciles	Primary Average	Range	Secondary Average	Range
Low	70%	40–135%	70%	60–85%
Medium	85%	55–130%	80%	60–110%
High	100%	60–140%	105% <sup>5</sup>	75–175%

School spending on overheads on a per-student basis further illustrates the range within deciles and shows that there is a greater difference within deciles than between them.

Table 7: Spending on overheads on a per-student basis by decile grouping and school type

Deciles	Primary Average	Range	Secondary Average	Range
Low	\$1000	\$575–3,375	\$1,350	\$1,025–3,100
Medium	\$850	\$575–2,450	\$1,025	\$725–1,475
High	\$875	\$550–3,075	\$1,375	\$1,075–2,175

Similarly, in this investigation, primary and secondary schools' spending on staffing, administration and property was considerable. However there was a wide variation among schools in relation to spending on relief teachers, repairs and maintenance, telecommunications and the amount of money set aside for depreciation. Some schools had used banked staffing to offset the costs of relief teachers; others had made significant use of internal relief and Ministry contracts. Some schools had difficulty separating cyclical maintenance spending from repairs and maintenance. Some schools, generally those with high levels of locally raised funds, had building and maintenance projects charged against repairs that would be better classified as capital works. Telecommunications costs were dependent on the degree to which schools had developed and operated websites and the type of pricing plans they had chosen for internet connections, phone and fax costs.

Below is a comparison of two decile 4, urban secondary schools with similar student rolls of approximately 800 students. These two schools have some similarities and some differences in the ways they have allocated their spending to overheads and learning and teaching.<sup>6</sup> School A received \$168,307 from international students (before costs) and School B received \$364, 626. School A received \$417,403 in donations from the community and School B had not received any community donations.

5 This does not include two outlier schools that spent more than 150% of their operational grant on overheads. Including these schools the average for high decile secondary schools would be 120% of operational funding on overheads.

6 NB: As has been stated ERO found that schools coded their financial information in different ways and that some schools could not accurately identify and report on their income and expenditure. The specific figures reported in these examples are based upon the best possible information from school accounts, including annual accounts and Ministry of Education funding.

## SCHOOLS' USE OF OPERATIONAL FUNDING

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	School A	School B
<b>Income</b>		
Operations grant	1,100,610	1,132,003
Community Education	52, 843	221,430
Other government funds	95,042	336,011
Local funds	642,208	441,743
Investment income	49,206	35,789
	<b>\$1,939,909</b>	<b>\$2,166,976</b>
<b>Overheads</b>		
Administration staff	282,771	214,656
Administration consumables	11,479	42,406
Audit	2,900	10,050
Board expenses	19,064	36,008
Caretaker wages	38,200	30,247
Caretaking/cleaning	103,961	132,134
Cyclical property maintenance	39,500	–
Repairs	2,721	99,305
Depreciation	216,293	114,729
Insurances/ACC	12,443	–
Marketing, publications, communications	16,570	130,901
Relief teachers	63,874	73,598
Utilities	35,409	58,323
Miscellaneous administration	78,436	67,103
	<b>\$923,621</b>	<b>\$1,009,460</b>
<b>Learning and teaching</b>		
Curriculum materials	345,258	540,585
ICT for learning	55,000	112,000
Support staff	174,464	81,195
Library resources	13,312	6,104
Additional teachers	12,074	–
Professional development	14,179	12,162
	<b>\$614,287</b>	<b>\$752,046</b>

Below is a comparison of two small primary schools with rolls of 60 students. School A is a rural, decile 7 school and School B a rural decile 3 school.

	School A	School B
<b>Income</b>		
Operations grant	93,985	101,882
Other government funds	18,530	6,175
Local funds	16,673	37,041
Investment income	11,137	2,630
	<b>\$140,325</b>	<b>\$147,728</b>
<b>Overheads</b>		
Administration staff	13,117	14,579
Administration consumables	9,124	1,422
Audit	2,480	4,390
Board expenses	8,334	5,351
Caretaker wages	10,040	8,780
Caretaking/cleaning	109	11,191
Cyclical property maintenance	3,448	4,455
Repairs	13,979	7,693
Depreciation	15,458	21,901
Insurance/ACC	2,663	1,503
Marketing, publications, communications	–	–
Telecommunications	3,044	2,898
Relief teachers	–	5,195
Utilities	7,687	4,337
Miscellaneous administration	4,007	3,548
	<b>\$93,490</b>	<b>\$97,243</b>
<b>Learning and teaching</b>		
Curriculum materials	16,145	12,573
ICT for learning	3,137	2,290
Support staff	–	19,251
Library resources	2,055	449
Additional teachers	50,138	–
Professional development	8,943	5,558
	<b>\$80,418</b>	<b>\$40,121</b>

**Schools with the lowest levels of spending on overheads<sup>7</sup>****Primary schools**

All were medium or large schools and most were urban. All reported above 90 percent occupancy. Of the primary schools nine of the 18 were middle decile schools, three were low and six were high decile schools. On the indicators of financial soundness these schools performed at least as well as other schools.

**Secondary schools**

All seven were middle decile schools. All were urban, medium or large schools. All schools reported above 90 percent occupancy. On the indicators of financial soundness these schools performed on average at least as well as other secondary schools.

**Schools with the highest levels of spending on overheads****Primary schools**

Sixteen of the 18 primary schools had fewer than 100 students. Most of these schools were rural and represented a wide range of deciles. Occupancy was a key issue for these schools – half of them reported that under 70 percent of their site capacity was used and the other half reported between 70 and 90 percent capacity was used. On the indicators of financial soundness they performed much the same as other primary schools.

**Secondary schools**

No pattern was found in the secondary schools with high overhead expenditure. They were rural and urban, various sizes and deciles. Only one school of the seven was large and three were high decile schools. All schools had very different levels of locally raised funds ranging from a school with very limited local funds to one which raised more than its total operational funding. On the indicators of financial soundness four of the seven had some weaknesses with their financial systems and three were found to have weaknesses on all the indicators.

7 ERO analysed the 18 primary schools (10 percent) and the 7 secondary schools (18 percent) with the lowest levels of per student spending on overheads and the same number with the highest levels of spending.

## SPENDING ON LEARNING AND TEACHING

As set out above ERO collected information on learning and teaching spending in the following categories:

- additional teaching staff/time;
- professional development;
- classroom/curriculum materials;
- information and communication technologies (ICT) for learning (not administration);
- library resources; and
- support staff: teacher aides, librarians, technicians.

Spending on learning and teaching did not include entitlement teachers and professional development for teachers that is funded directly by the Ministry, or asset replacement costs that are met from depreciation and/or capital equipment budgets. Library books and ICT are usually replaced from a capital budget and costs are therefore likely to be understated in the figures below.

Table 8 presents the average and the range that schools were spending on learning and teaching activities as a proportion of their operations grant. This information demonstrates the substantial differences in spending patterns and priorities across the school system. Primary schools spent the equivalent of from 10 to 90 percent of their operational funds on learning and teaching and secondary schools spent from 25 to 130 percent.

**Table 8: The average and range of learning and teaching expenditure as a percentage of schools' operations grant by decile grouping and school type**

Deciles	Primary Average	Range	Secondary Average	Range
Low	45%	10–90%	55%	25–80%
Medium	50%	15–90%	65%	30–115%
High	50%	15–90%	70%	40–130%

School spending on learning and teaching on a per-student basis (Table 9) provides an actual dollar amount, for both the average level of spending and the range of spending, within and between decile groups.

Table 9: School spending on learning and teaching per student by school type and decile grouping

Deciles	Primary Average	Range	Secondary Average	Range
Low	\$650	\$200–1,475	\$1,000	\$400–1,450
Medium	\$500	\$175–1,375	\$825	\$375–1,400
High	\$450	\$150–2,100	\$825	\$450–1,625

ERO found that medium and high decile primary schools spent similar proportions in each of the learning and teaching areas. Low decile primary schools spent more on additional teaching time and support staff, and spent a lower proportion on ICT for learning. All spent close to 25 percent of their learning and teaching funds on classroom materials. Support staff salaries were the biggest teaching and learning expense for these schools.

In secondary schools almost 40 percent of the learning and teaching budget went on classroom materials. Other major areas of expenditure were ICT, additional teachers and support staff. Higher decile schools tended to spend slightly more on additional staff and lower decile schools spent a slightly higher proportion of available funds on learning-based ICT.

Table 10: Characteristics of primary schools that purchased additional teaching staff

Decile	Percentage of schools with additional staff	Average amount spent on additional staff per student	Range of total spend	Number of schools that spent over \$15,000
Low	70	\$125	\$1,325–201,750	22/46
Medium	70	\$75	\$750–134,850	27/69
High	70	\$75	\$900–117,100	29/65



Table 11: Characteristics of secondary schools that purchased additional teaching staff

Decile	Percentage of schools with additional staff	Average amount spent on additional staff per student	Range of total spend	Number of schools that spent over \$15,000	Number of schools that spent over \$100,000
Low	80	\$125	\$15,300–256,750	4/5	1/5
Medium	75	\$100	\$12,075–481,000	15/21	6/21
High	100	\$150	\$14,550–576,550	11/12	7/12

Schools with international students are required to employ additional teachers based on the number of these students. Many schools without international students also employed additional staff. The rationale used by schools in purchasing additional staffing was not clear. Schools did not provide evidence that these decisions were based on sound student achievement data or that they were evaluating the extent to which this additional staffing contributed towards improved student outcomes. Anecdotal evidence collected by ERO suggested that schools employed additional staff if they had available funds.

Schools viewed librarians, ICT technicians, student support personnel and laboratory technicians as very important in the support of student learning. Schools reported an increasing expectation from the community, students and teachers to make ICT widely available to support student learning. Some schools were struggling to meet these expectations, especially in relation to ICT provision.

### Schools with the lowest levels of spending on teaching and learning<sup>8</sup>

#### Primary schools

There was a wide range of primary schools, with slightly more small, rural and high decile schools. These primary schools raised different amounts of local funds and spent widely differing amounts on their overheads (per student). On average, these schools were as financially sound as other primary schools.

#### Secondary schools

There was also a wide range of secondary schools across the decile groupings as well as medium and large schools. Four of the seven were girls' schools. The net level of locally raised funds was lower than for schools of similar deciles. On the indicators of financial soundness they performed much the same as other secondary schools.

<sup>8</sup> ERO analysed the 18 primary schools (10 percent) and the seven secondary schools (18 percent) with the lowest levels of per student spending on teaching and learning and the same number with the highest levels of spending.

### **Schools with the highest levels of spending on teaching and learning**

#### **Primary schools**

Most of these primary schools had high proportions of Māori students or were described as multicultural. The majority were small primary schools, three were intermediate schools and half were rural. Nine of the 18 were low decile schools and eight had fewer than 120 students. Their locally raised funds were above and below the average levels for their decile category. This group of schools had a higher number of weaknesses on the indicators of financial soundness than other primary schools, with particular weaknesses in the strategies used to improve learning and the monitoring of teaching and learning.

#### **Secondary schools**

Most of the secondary schools were medium to low decile schools. Two of the seven were boys' schools. They all raised higher levels of local funds than other schools in their decile categories and were comparable to other secondary schools on the indicators of financial soundness.

## School management

ERO drew on New Zealand and international research, as well as the Ministry's financial management guidelines to schools<sup>9</sup> to evaluate the financial health of the schools. Based on this information, ERO judged that operational funding was likely to be used effectively to support teaching and learning if a school had:

- a sound financial system;
- a sound financial position;
- an effective strategy for improving teaching and learning and delivering the curriculum;
- monitoring and evaluation systems that provide feedback on the effectiveness of the school's initiatives to improve student achievement; and
- resources allocated for teaching and learning in an economically and educationally sustainable way.

ERO considered a wide range of documents including annual accounts, December accounts, budgeting and reporting documents, and school strategic and annual planning documents. ERO also interviewed trustees and school personnel to gather information on how schools monitored and evaluated their student achievement goals and the effectiveness of their financial decisions.

### FINANCIAL SYSTEMS

Schools with sound financial systems had effective financial policies and procedures that were reviewed regularly by the board and provided good information to the trustees, budget holders and managers. These effective systems provided schools with good financial monitoring and controls. Just over half the schools (54 percent) had sound financial systems, with a further third (35 percent) being generally sound but with minor weaknesses.

Schools with minor weaknesses in their financial systems operated board policies and procedures that were less well-defined, had weaker financial planning timetables and less useful budgetary and financial reporting systems for senior managers.

Eleven percent of schools had significant weaknesses in their financial systems. In these schools: policies were out of date, poorly documented or not followed; the quality of financial information to the board was low; and budget forecasting was seriously inaccurate.

9 For example, Vignoles A., Levacic R., Walker J., Machin S. and Reynolds D. *The Relationship Between Resource Allocation and Pupil Attainment: A Review*. United Kingdom: The Stationery Office, Department for Education and Employment Research. Brief No. 228, (2000). See also: [www.dfee.gov.uk/research/re\\_brief/RB228.doc](http://www.dfee.gov.uk/research/re_brief/RB228.doc); Annesley, B. *Allocating resources to improve education outcomes*. Wellington, N.Z: Ministry of Education, (2001).

ERO found that the level of financial expertise in the school influenced the quality of financial systems. A majority of those schools with unsound financial systems lacked personnel with experience in financial management. In most of these cases the principal had limited knowledge and understanding of financial systems and the board and/or the executive officer of the school was expected to provide financial expertise. This meant that forms of financial oversight of the day-to-day finances of the school were limited.

A small number of the schools with unsound financial systems had also been affected by previous errors made in the school financial systems by school administration staff. These errors included poor filing, inadequate budgeting, poor quality or incorrect financial information and debts associated with GST payments. These errors might have been detected earlier with improved oversight from the school's management and board.

Included in the information ERO collected from schools were schools' own reports about the level of financial management expertise held by their principals, trustees, administration staff and senior management (where applicable). Half the primary principals reported that they had significant limits to their financial knowledge and understanding. A third of primary school boards and a quarter of administration staff reported that they had major limits to their financial understanding. Where primary schools provided ratings for senior staff, approximately 80 percent of these staff were reported as having major limits to their financial expertise.

In secondary schools, approximately a quarter of the principals indicated that they had significant limits to their knowledge and understanding of financial management. A quarter of secondary school boards indicated that they also had major limits to their financial understanding. Approximately 60 percent of senior secondary staff were reported as having major limits to their financial expertise. Most secondary school executive officers were rated as having good financial knowledge and understanding.

Key findings:

- Over two-thirds of the secondary schools had sound systems compared with half of the primary schools. A much higher proportion of primary schools had minor weaknesses.
- 18 percent of the secondary schools (7 of the 38), including five high decile schools, had inadequate or unsound systems compared to 10 percent of primary schools.
- 20 percent of low decile primary schools and 15 percent of small primary schools had inadequate or unsound systems.
- A majority of schools with inadequate or unsound systems lacked personnel with financial expertise, especially at the principal level. Some of these schools had been affected by errors in previous years such as debts associated with GST payments, poor quality or incorrect financial information, poor budgeting procedures and poor filing.

## FINANCIAL POSITION

When evaluating the financial position of schools ERO looked at auditors' comments, statements of cash flow, budget forecasts against actual spending, budget monitoring and if a school was likely to be able to maintain its current level of spending over the next couple of years. ERO did not evaluate the overall wealth of schools nor comment on effectiveness or efficiency of financial decisions.

Just over half the schools were in a sound financial position. These schools had commendations from their auditors, good cash flow, and most had strong reserves and/or locally raised funds. A further third had minor weaknesses, such as limited reserves, small deficits and debts, recent downturns in locally raised funding sources, changes in decile or geographic classification or a small drop in student numbers. The financial position of these schools was such that a moderate downturn in income or a rise in expenses would necessitate difficult budget decisions.

Thirteen percent were in a partially sound or unsound financial position. These schools had ongoing deficits, debts and significant drops in income, including that from local funds and dropping student rolls. A few had been affected by poor decisions about capital purchases and needed to make major changes to manage their financial position. A third of this group also had poor financial systems and did not have adequate financial expertise.

Below are some examples outlined by schools of situations that resulted in financial difficulties for schools.

- A decile 3 urban primary school, with almost 400 students, had not paid teacher aides' salary increments for the previous five years and back pay put pressure on its budget.
- A decile 7 urban primary school with an operating surplus of \$46,049 in 2004 had a deficit of \$10,665 in 2005. This was because of fewer international students (lost \$75,000 gross revenue) and administration staffing costs of \$80,408.
- A decile 3 urban school of 300 went into deficit because it had to repay a substantial GST debt.
- A decile 2 rural primary school with a roll of just under 60 had a debt from earlier misappropriation of funds. Money was saved by the new principal using release time to teach.
- A rural Years 1 to 13 school, where the roll had dropped from 148 to 113 over two years, had an operating deficit of \$42,329. It had purchased a bus for \$40,000 and was saving to upgrade a playing field for which it had \$51,605 in reserves.

- A decile 4 boys' secondary school, with a roll of just under 1200 had to reduce its budget by \$200,000 in 2005 because of a reduction of \$150,000 from pub charities and a downturn in numbers of international students. Courses with low student numbers were discontinued; above-entitlement staffing was reduced by \$100,000 and the school could no longer keep Years 9 and 10 classes under 28 students. The principal commented that it was becoming more expensive to educate boys, with pastoral care including a full-time nurse and three visiting doctors, mentoring programmes and behaviour management strategies, all of which were needed to keep boys focused on learning.
- A decile 7 secondary school with a roll of just over 650 and occupancy rates of between 50 to 70 percent had to make cuts to its budget when the new principal discovered several years of deficits that had been hidden by a previous accounting package. The deficit carried into 2005 was \$98,000. The operational grant for the year was \$938,000 and net locally raised funds were \$377,970. The professional development budget was halved and spending on ICT, EOTC and sports reduced.

Key findings:

- Three-quarters of large primary schools were in a sound financial position compared to 40 percent of small ones.
- Fourteen percent of small primary schools had major weaknesses compared to seven percent of large ones.
- A quarter of the secondary schools (nine in total) had major weaknesses in their financial position compared to 10 percent of primary schools. These secondary schools were from different decile categories, were different sizes and were located across the country. Four of these also had major weaknesses in their financial system.
- Two-thirds of high decile secondary schools were in a sound financial position, mainly due to extensive local funding and international students, compared to 40 percent of low and middle decile ones.

**MEETING LEARNING AND TEACHING NEEDS**

ERO evaluated how schools linked their teaching and learning goals to financial planning and reporting activities. An effective strategy was expected to be evidence-based, measurable and achievable, to be based on relevant student achievement information, to involve suitably broad aspects of the curriculum, and to identify key personnel and their roles and responsibilities.

Forty percent of schools had developed effective strategies to meet the teaching and learning needs of students. They had a broad range of measurable student achievement goals based on useful assessment data. Effective links between their strategic planning and their annual or operational plans were evident.

A further 35 percent of the schools had developed some strategies to meet student learning needs but these required further development. Weaknesses included: a concentration on just a few curriculum areas in student achievement targets; poor quality achievement data; and insufficient links between student achievement goals and school planning and reporting.

A quarter of the schools in this study had ineffective strategies or major weaknesses in their strategy to improve student learning. Their goals were often generalised, or specific but not challenging. These schools had poor quality student diagnostic and assessment data, poor self-review policies and procedures, and had not built useful links between their planning and student achievement data.

Key findings:

- High decile primary schools were slightly more likely to have an effective strategy than middle decile schools, followed by low decile schools.
- Medium and large schools were slightly more likely to have a better strategy than smaller schools.

#### MONITORING AND EVALUATION SYSTEMS

ERO also evaluated how effective the monitoring and evaluation systems in schools were at providing useful information on schools' initiatives to improve student achievement, and the extent to which this information was then used to inform future financial decisions.

Thirty percent of the schools had well-developed systems. They used high quality assessment processes, as well as robust financial reporting, to provide useful information to the school's management and board. A third of the schools had systems that needed improvement (for example, the gathering and analysis of assessment information was of varying quality across a school). Often these schools did not coordinate information on student achievement, professional development and school finances and hence had limited information on which to base future planning and expenditure.

Just over a third of the schools were ineffective or had major weaknesses in their monitoring and evaluation systems. They had weak systems for gathering and analysing student achievement data and were not able to identify patterns and trends. As there were often poor links between classroom, department or syndicate and school-wide analysis, management and boards had poor information on which to base spending decisions.

Key findings:

- There were no differences in the quality of monitoring and evaluation between primary and secondary schools.
- Nearly half of the lower decile primary schools showed major weakness or were ineffective compared to a third of medium and high decile primary schools.

#### SUSTAINABILITY OF SPENDING ON LEARNING AND TEACHING

The fifth area used to measure the financial soundness of schools was the sustainability of spending on learning and teaching. ERO looked at economic sustainability, and educational sustainability. Economic sustainability was judged against the likelihood of a school's being able to maintain its current level of spending over the next two years. Educational sustainability focused on the extent to which current spending was providing a suitable resource base for teaching and learning.

Thirty-six percent of schools were economically sustainable. Most of these schools had:

- a history of careful spending;
- high quality financial management;
- good resources;
- a growing roll;
- good ICT planning; and
- extensive income from locally raised funds or Targeted Funding for Educational Achievement (TFEA) funding.

Forty-four percent of schools had minor economic weaknesses but could expect to continue their current spending levels unless there were changes to their funding, roll or expenses.

Half the schools demonstrated educational sustainability, with satisfactory levels of spending on classroom resources and ICT, professional development and additional staffing. A further third of the schools were spending adequately on teaching and learning, although many of these schools reported areas of budgetary constraint, especially in terms of support staff and ICT.

About a fifth of the schools had major weaknesses in terms of economic sustainability, including a few schools that were spending much more on learning and teaching than they could afford. These schools had declining rolls, anticipated a reduction in locally raised funds and had higher than prudent levels of spending on ICT, additional staffing and overheads. A similar number of schools were judged to be educationally unsustainable, mainly because they were unable to allocate sufficient funds to learning and teaching and had limited library resources and low levels of ICT.



Key findings:

- Very few differences were found between types of schools in relation to their economic sustainability.
- Only a quarter of the secondary schools, compared to half of the primary schools, were considered to be educationally sustainable.
- Large primary schools were more likely to be educationally sustainable than medium and small primary schools.
- The proportion of primary schools with major weaknesses or unsustainable educational spending was similar to that of secondary schools.

## Findings summary

### OVERALL EFFECTIVENESS

Half the schools in this evaluation demonstrated they had satisfactory-to-effective strategies and systems for using their operational funding. The other schools had one or more areas for development. From these two broad groups, ERO identified a group of schools that had consistently effective strategies and systems for managing their operational funding and another group of schools that had major weaknesses across most or all of their strategies and systems.

#### Characteristics of the highest performing schools

The schools (about 10 percent) with consistently effective strategies and systems were predominantly primary schools and were spread across the deciles and school sizes, with a slightly higher proportion of high decile schools. They had higher levels of financial expertise on the board or in senior management than other schools and the majority used specialist accounting services. Most of these schools also had average-to-higher levels of locally raised funds per student, when compared to other schools in their decile category.

#### Characteristics of the lowest performing schools

The schools (about 10 percent) with major weaknesses in their strategies and systems were a mixture of rural and urban schools. There was a slightly higher proportion of low decile schools in this group. A quarter of these schools were secondary schools. Most of the primary schools in this group had a demographic or special character that made them different to other schools. This finding indicates that schools with complex financial and educational contexts are at greater risk of having financial problems and of having limited evidence on which to base their spending on teaching and learning.

Schools with major weaknesses also had lower levels of locally raised funds per student, when compared to other schools in their decile category. They had higher than average levels of overheads spending per student and lower than average levels of spending on teaching and learning per student.

### LOCALLY RAISED FUNDS

All schools generated locally raised funds. They also greatly valued the non-cash resources they received from their communities in the forms of volunteer help and donated goods.

ERO found that some schools were more able to raise funds locally and did so in a more cost effective way. High decile schools, on average, raised the highest amount of funds per student, followed by middle decile schools and then low decile schools. While decile rating does appear to be an indicator of a school's capacity to raise funds, it is important to note that the variation in locally raised funds within decile groups was much larger than the difference between decile groups. This indicates that factors related to individual schools other than their decile rating may have an impact on their capacity to generate local funds.

ERO found that many schools invested considerable time and money into local fundraising without reviewing the cost-effectiveness of their activities. For some schools, the pay-off was so small that they may have been better placed investing their time in teaching and learning activities rather than fund raising.

International students' tuition fees were a significant source of income for some schools. In this evaluation they contributed 34 percent of income raised by secondary schools and 18 percent for primary schools. Not surprisingly, high decile schools were more likely to generate income from international students, followed by middle decile and then low decile schools.

Many schools reported that they had provided additional funds to support initiatives for which they had received government funding, such as Alternative Education, District Truancy Services, Ongoing and Reviewable Resourcing Schemes (ORRS) and English for Speakers of Other Languages (ESOL). ERO was not able to verify this claim because most of these schools had not tracked their expenditure against the income received.

#### **SPENDING ON OVERHEADS AND ON TEACHING AND LEARNING**

ERO found wide variation among schools in their levels of spending on overheads, such as property and administration, and their spending on teaching and learning. There was more variation within decile groupings of schools than between deciles.

It was interesting to note that the ranges of overhead spending per student within each of the decile groups of schools were all large, yet the average amount of overheads on a per-student basis was very similar between deciles. These findings show that overhead expenditure in schools is extremely variable and that it costs different amounts of money for different communities to run different schools.

ERO found that the schools with the highest overhead costs per student were rural schools with low student occupancy rates for their property and buildings. In comparison, the schools with the lowest levels of spending on overheads were all medium or large urban schools with above 90 percent occupancy rates.

These findings show that school characteristics such as geographical location, school size and student occupancy rate have an impact on the proportion of school expenditure on overheads, which in turn has an impact on how much schools spend on teaching and learning activities. When budgeting, schools generally allocated funds to overheads first, and used the remaining money for teaching and learning. Schools with high fixed overhead costs were more reliant on locally raised funds and/or the TFEA<sup>10</sup> part of their operations grant to fund teaching and learning activities. Those schools with high overhead costs that did not have access to either funding stream found it challenging to fund their planned learning and teaching activities.

ERO found a similar pattern of variability for school expenditure on teaching and learning to that for overheads. Spending on teaching and learning on a per-student basis on average was similar between deciles (with low decile schools spending slightly more on teaching and learning per student than medium and high decile schools) and the ranges within deciles were also very wide. Low decile schools were able to spend more on teaching and learning per student than medium and high decile schools because of the additional funds (TFEA) they received as part of their operations grant.

Primary schools with low levels of per-student expenditure were made up of a range of schools with a higher proportion of small, rural and high decile schools. Secondary schools with low levels of per-student expenditure were also made up of a range of schools but were over-represented by girls' schools. These schools also tended to have lower net levels of locally raised funds when compared to other schools in their decile group.

#### FINANCIAL MANAGEMENT

Fifty-four percent of the schools were financially sound and had sound financial systems. Thirty-five percent of schools had minor weaknesses, while just over 10 percent had significant weaknesses. The majority of schools that had significant weaknesses lacked financial and strategic expertise, and some of these schools were struggling with managing historical errors (such as debts associated with GST payments) that affected their ability to run their schools effectively.

10 The purpose of Targeted Funding for Educational Achievement (TFEA) is to provide additional funds to schools with significant numbers of students from lower socio-economic groups, as measured by decile rating, to assist schools to meet the diverse needs of these students. Refer to Appendix 5 for TFEA funding rates.

ERO found that only 40 percent of the schools had connected teaching and learning goals to their financial planning and reporting activities. These schools had developed a broad range of student achievement goals that linked explicitly to their strategic and annual business plans. Another group of 35 percent of the schools had minor weaknesses in their strategies that included a narrow range of student achievement goals, developing strategies based upon poor assessment data, and making insufficient links between financial planning and student achievement goals. The remaining schools had ineffective strategies that did not link to the school's strategic and financial planning and reporting activities. There were proportionally more low decile schools with ineffective strategies than medium or high decile schools.

Monitoring and evaluating the effectiveness of school activities that aim to improve student achievement is an area for development for the majority of schools in this evaluation. Thirty percent of schools were monitoring and evaluating the impact of their activities on student achievement and reporting this information to their boards to inform future planning cycles. Another third had minor weaknesses mainly connected with the variable quality of the information gathered on the effectiveness of school activities. The remaining schools had ineffective systems. Proportionally there were slightly more low decile schools with ineffective systems than medium and high decile schools.

ERO found that just over 80 percent of the schools demonstrated educationally sustainable spending with approximately the same number demonstrating economically sustainable spending. Where schools had weaknesses in their educational sustainability, ERO found that schools were affected by factors such as declining rolls, a reduction in locally raised funds, and spending decisions in areas such as ICT, additional staffing, and library resources.

## Conclusions

The operations grant is the money the Government gives schools to pay for their day-to-day running costs and to meet government, community and school goals. Government goals are outlined in the National Administration Guidelines (NAGs) and provide a broad outline of what the Government expects of schools – such as teaching the New Zealand curriculum. Community goals are goals that have been identified by the schools' local communities as important for their students – such as all students learning to play a musical instrument. School goals are those that relate to the students attending the school and are usually based on their assessed needs or strengths – such as providing a language enrichment programme for Year 1 students. These goals are not mutually exclusive and should complement one another to bring about the best outcomes for students based on national considerations, local priorities and student needs.

Schools, as self-governing entities, have the freedom to determine how they meet these goals. Boards of trustees are responsible for prioritising and monitoring their school's spending in relation to their day-to-day running costs and their over-arching goals. This is a complex task that needs a high level of strategic and financial capability, access to high quality information about their students' needs and communities' priorities, and an adequate funding base.

This evaluation has shown that schools have vastly different income and expenditure patterns. Further examination of the findings show that the ways schools use the money they receive from Government appears to be influenced by different factors including:

- the amount of funds schools raise locally;
- the overhead costs attached to running different schools;
- the amount of TFEA schools receive as part of their operations grant;
- community expectations; and
- the financial and strategic capability to which schools have access.

One of the key findings of this evaluation is that all schools raised additional funds to supplement their operations grants and used volunteer support from their communities to assist with the running of their schools. The presence of locally raised funds and community support is not new in our schools. New Zealand communities have always been interested and involved in contributing to their local schools, just as our schools have always been an integral part of our communities. We know that when schools, parents and communities work together the outcomes are positive for everyone.

The main issues connected with locally raised funds relate to the level to which some schools rely on them, the ease or difficulty of fundraising, and the cost (to schools) of these fundraising activities.

It is clear that some schools were dependent on locally raised funds to run their schools. Most of these schools were medium and high decile schools, as low decile schools had additional operational funding through TFEA. Schools' relative reliance on locally raised funding warrants further investigation.

Some schools found it relatively easy to raise funds (for example, through parent donations), while other schools struggled to raise funds and/or raised funds by diverting school managers into fundraising activities. Schools need to be aware that diverting school managers and leaders into fundraising has both monetary and educational costs to schools and students.

Some schools also lacked the discretion over the use of locally raised funds that they had over their operations grant (for example when sponsors or fundraisers tagged funds raised for projects that were not the board's priorities). Fundraising and expenditure outside the board's control has implications for how effectively boards can link their available financial resources and their strategic planning.

ERO found that the level of financial and strategic capability different schools had available to them had an impact on how effectively schools managed their operational funding. This evaluation shows that while most schools had satisfactory financial systems and were in a satisfactory financial position, many had identified gaps in the financial and strategic expertise of their school managers and trustees. While the day-to-day running of the school was managed efficiently, the links between financial and strategic planning, management and reporting were weak.

ERO found that low decile schools were more likely to lack financial and strategic expertise. Schools without access to this expertise were at greater risk of having financial problems and of having limited forms of evidence on which to prioritise and plan their spending on teaching and learning.

Schools with complex financial and educational contexts, including schools with high proportions of Māori students and schools of special character, were at greater risk of having financial problems and of having limited forms of evidence on which to base their spending on teaching and learning.

The operations grant attempts to address the diversity of needs between different communities by providing additional funding to low decile schools. This evaluation has found that, while low decile schools had higher levels of expenditure per-student for teaching and learning than medium and high decile schools, many of these schools were not basing their spending on student achievement data and were not reviewing the effectiveness of their funded activities on student outcomes. This meant that many of these schools did not know if the additional money received in their operations grant to address educational inequity had been used successfully.

ERO found that in order to attract students to their school some schools were allocating funds to projects that had limited connection to improving the quality of education in the school, such as 'beautifying' the school. This may be happening because schools are reliant on maintaining and/or increasing students numbers for funding and/or may be a reflection of their community's expectations.

In phase II of this study, ERO will extend the information provided in this report by presenting 27 case studies of school practice. These case studies will focus on the quality of schools' decision-making, and the impact of this and other factors on how school finances are used to enhance student achievement. It will also provide examples of good practice.

#### **NEXT STEPS FOR SCHOOLS**

Regardless of the rationale for expenditure on different projects/activities, boards of trustees need to have robust information at the planning stage on the relative merits of each project, receive regular information on implementation and have evaluative information on the impact on and benefits for students to consider for the following planning cycle. They also need access to financial expertise to help them understand their current position and provide them with assurance that the financial systems are in place to support their decisions. Strategic expertise is also required to make the links between financial expenditure and achieving good outcomes for their students. Without this level of information and expertise, boards of trustees cannot be confident that they are using their income effectively to run their schools and meet the Government's goals, community expectations and student needs.

#### **NEXT STEPS FOR THE MINISTRY OF EDUCATION**

The funding model for the operations grant needs to take account of the complexity and diversity of our schools while also recognising the specific challenges some groups of schools are facing. This evaluation highlights key areas for further investigation by the Ministry of Education.



## Appendix 1: Characteristics of schools in this evaluation

ERO collected data for this evaluation from 218 state and state-integrated schools as part of the regular schedule of education reviews carried out in Terms 3 and 4, 2005. There were 180 primary schools (full primary, contributing primary and intermediate) and special schools, and 38 state secondary and composite schools.

The tables show comparisons between the sample of schools and the national population of schools according to Ministry published data current at the time of the evaluation.<sup>11</sup>

Table 1: School type

	Sample number	Sample percent	National percent
<b>Primary</b>			
Full primary (Years 1–8)	84	47	54
Contributing primary (Years 1–6)	82	45	38
Intermediate (Years 7–8)	14	8	6
Special (Years 1–15)	0	0	2
<b>Secondary</b>			
Secondary (Years 9–15)	26	68	54
Secondary (Years 7–15)	8	21	21
Composite (Years 1–15) <sup>12</sup>	4	11	24

The primary school sample was representative of school type. This sample represented eight percent of the total number of state primary schools nationally (2,124 in total).

Secondary schools (Years 9 to 5) were over-represented and composite schools (Years 1 to 15) were under-represented in this sample. This sample represented nine percent of state secondary schools in New Zealand (407 in total).

<sup>11</sup> Ministry of Education (1 July 2004).

<sup>12</sup> Includes one restricted composite (Years 7 to 10) school.

Table 2: Locality (rural/urban)

	Sample number	Sample percent	National percent
<b>Primary</b>			
Urban	125	70	70
Rural	55	30	30
<b>Secondary</b>			
Urban	36	95	87
Rural	2	5	13

The primary school sample was representative of locality and the secondary school sample was reasonably representative.

Table 3: Deciles

	Sample number	Sample percent	National percent
<b>Primary</b>			
Low (decile 1–3)	46	26	30
Medium (decile 4–7)	69	38	40
High (decile 8–10)	65	36	30
<b>Secondary</b>			
Low (decile 1–3)	5	13	30
Medium (decile 4–7)	21	55	40
High (decile 8–10)	12	32	30

Both the primary and secondary school samples covered the full range of Ministry decile ratings.<sup>13</sup> The primary school sample was reasonably representative of deciles. In the secondary school sample, low decile schools are under-represented and middle decile schools are over-represented.

<sup>13</sup> The Ministry of Education uses a decile rating system for school funding purposes. Each decile contains approximately 10 percent of schools. Schools in decile 1 have the highest proportion of students from low socio-economic backgrounds. Schools in decile 10 have the lowest proportions of these students.

Table 4: School roll/size

	Sample number	Sample percent	National percent
<b>Primary</b>			
Small (under 150 students)	65	36	48
Medium (150–300 students)	55	31	25
Large (over 300 students)	60	33	27
<b>Secondary</b>			
Small (under 300 students)	2	5	31
Medium (300–700 students)	18	47	33
Large (over 700 students)	18	47	36

In the primary school sample, small schools were under-represented and medium and large schools were over-represented. In the secondary school sample, small schools were considerably under-represented and medium and large schools were over-represented.

## Appendix 2: The National Administration Guidelines (NAGs)

In December 2003 a notice in the *New Zealand Gazette* advised that NAG 1 (iii) (c) had been amended with a footnote that states: “including gifted and talented students.”

From Term 1, 2005 it will be mandatory for all state and state-integrated schools to demonstrate how they are meeting the needs of their gifted and talented learners, as they are currently required to do for students who are not achieving, who are at risk of not achieving, and who have special needs.

A range of professional support is in place to assist schools with implementing this NAG change. This includes:

- in-depth professional development through School Support Services advisors;
- the handbook *Gifted and Talented Students: Meeting their Needs in New Zealand Schools*;
- a range of online and hard copy materials, including resources on Te Kete Ipurangi/ The Online Learning Centre [www.tki.org.nz/e/community/gifted](http://www.tki.org.nz/e/community/gifted) and the Ministry of Education website [www.minedu.govt.nz](http://www.minedu.govt.nz); and
- the recently released research into effective approaches to meeting the needs of gifted and talented learners [www.minedu.govt.nz/goto/gifted](http://www.minedu.govt.nz/goto/gifted).

In December 2004 a notice in the *New Zealand Gazette* advised that an additional clause had been added. The addition, NAG 1 (i) (c), requires the development and implementation of programmes that “give priority to regular quality physical activity that develops movement skills for all students, especially in Years 1 to 6.” This requirement takes effect from Term 1 2006.

### NAG 1

Each board of trustees is required to foster student achievement by providing teaching and learning programmes which incorporate the New Zealand Curriculum (essential learning areas, essential skills and attitudes and values) as expressed in National Curriculum Statements.

Each Board, through the principal and staff, is required to:

- (i) develop and implement teaching and learning programmes:
  - (a) to provide all students in Years 1 to 10 with opportunities to achieve for success in all the essential learning and skill areas of the New Zealand curriculum;
  - (b) giving priority to student achievement in literacy and numeracy, especially in Years 1 to 4;

- (c) giving priority to regular quality physical activity that develops movement skills for all students, especially in Years 1 to 6;
- (ii) through a range of assessment practices, gather information that is sufficiently comprehensive to enable the progress and achievement of students to be evaluated; giving priority first to:
  - (a) student achievement in literacy and numeracy, especially in Years 1 to 4; and then to:
  - (b) breadth and depth of learning related to the needs, abilities and interests of students, the nature of the school's curriculum, and the scope of the New Zealand curriculum (as expressed in the National Curriculum Statements);
- (iii) on the basis of good quality assessment information, identify students and groups of students;
  - (a) who are not achieving;
  - (b) who are at risk of not achieving;
  - (c) who have special needs;<sup>14</sup> and
  - (d) aspects of the curriculum which require particular attention;
- (iv) develop and implement teaching and learning strategies to address the needs of students and aspects of the curriculum identified in (iii) above;
- (v) in consultation with the school's Māori community, develop and make known to the school's community policies, plans and targets for improving the achievement of Māori students; and
- (vi) provide appropriate career education and guidance for all students in Year 7 and above, with a particular emphasis on specific career guidance for those students who have been identified by the school as being at risk of leaving school unprepared for the transition to the workplace or further education/training.

## NAG 2

Each board of trustees, with the principal and teaching staff, is required to:

- (i) develop a strategic plan which documents how they are giving effect to the National Education Guidelines through their policies, plans and programmes, including those for curriculum, assessment and staff professional development;
- (ii) maintain an on-going programme of self-review in relation to the above policies, plans and programmes, including evaluation of information on student achievement;
- (iii) report to students and their parents on the achievement of individual students, and to the school's community on the achievement of students as a whole and of groups (identified through 1(iii) above) including the achievement of Māori students against the plans and targets referred to in 1(v) above.

<sup>14</sup> Including gifted and talented students.

**NAG 3**

According to the legislation on employment and personnel matters, each board of trustees is required in particular to:

- (i) develop and implement personnel and industrial policies, within policy and procedural frameworks set by the Government from time to time, which promote high levels of staff performance, use educational resources effectively and recognise the needs of students;
- (ii) be a good employer as defined in the State Sector Act 1988 and comply with the conditions contained in employment contracts applying to teaching and non-teaching staff.

**NAG 4**

According to legislation on financial and property matters, each board of trustees is also required in particular to:

- (i) allocate funds to reflect the school's priorities as stated in the charter;
- (ii) monitor and control school expenditure, and ensure that annual accounts are prepared and audited as required by the Public Finance Act 1989 and the Education Act 1989;
- (iii) comply with the negotiated conditions of any current asset management agreement, and implement a maintenance programme to ensure that the school's buildings and facilities provide a safe, healthy learning environment for students.

**NAG 5**

Each board of trustees is also required to:

- (i) provide a safe physical and emotional environment for students;
- (ii) comply in full with any legislation currently in force or that may be developed to ensure the safety of students and employees.

**NAG 6**

Each board of trustees is also expected to comply with all general legislation concerning requirements such as attendance, the length of the school day, and the length of the school year.

## Appendix 3: Components of the Operations Grant

This table is a summarised version of the table set out in the Ministry of Education's handbook: *Funding, Staffing and Allowances*, Chapter One, Operational Funding, page 10.

COMPONENT	OVERVIEW	AVAILABLE TO / METHOD FOR APPLYING
<b>Base Funding</b>	For fixed costs associated with the operation of a school and to compensate for the absence of economies of scale in smaller schools.	All schools, according to roll.
<b>Per-Student Funding</b>	For general running of the school. Standard rate per student, at four funding levels.	All schools, according to roll.
<b>Relief Teacher Funding</b>	Assists with the costs of employing relief teachers.	All schools, according to type and staffing entitlement.
<b>Targeted Funding for Educational Achievement (TFEA)</b>	Assists schools to overcome the barriers to educational achievement that are associated with low socio-economic status.	All deciles 1–9 schools, according to roll and decile.
<b>Special Education Grant (SEG)</b>	Enables schools to provide extra assistance to students with moderate learning needs.	All schools, according to roll and decile.
<b>Careers Information Grant</b>	For provision of careers guidance.	All schools with Years 9–15 students, according to roll and decile.
<b>National Certificates of Educational Achievement (NCEA)</b>	Assists with NCEA-related costs.	All schools with Years 11–15 students, according to roll.

COMPONENT	OVERVIEW	AVAILABLE TO / METHOD FOR APPLYING
<b>Vandalism</b>	Helps board take steps to reduce vandalism.	All schools except integrated schools according to roll and vandalism rating.
<b>Property Maintenance</b>	Provides for property maintenance expected to occur within a ten-year cycle, and for minor capital works.	All schools, according to property profile (minor capital works component not paid to integrated schools).
<b>Heat, Light &amp; Water</b>	Provides for the supply and consumption of fuel and water.	All schools. Changes to allocations by application only.
<b>Secondary Tertiary Entitlement Resource (STAR)</b>	For the provision of programmes in non-conventional subjects for senior students.	All schools with Years 11–15 students, according to weighted roll at each year level.
<b>Māori Language Programme Funding</b>	For the provision of Māori language immersion programmes.	All schools, according to number of Māori students at each immersion level entered in roll returns.
<b>Risk Management</b>	To insure school assets. Provided as part of per-student funding rates. Schools may also belong to Ministry's Risk Management Scheme, with levy deducted from operational funding.	All member schools, levied according to roll.
<b>Targeted Funding for Isolation</b>	Recognises additional costs incurred as a result of isolation.	Isolated schools, according to roll and Isolation Index.
<b>Class Funding</b>	Helps special schools employ support staff.	Most special schools. Changes to allocations by application only.
<b>Administration Grant</b>	Helps meet costs of attached teachers e.g. teacher development, telephones, materials, and administrative support.	Standard grant for each officially approved teacher position. Paid to cluster (RTLBs) or school (all other teachers).



COMPONENT	OVERVIEW	AVAILABLE TO / METHOD FOR APPLYING
<b>Travel Grant</b>	Helps meet travel costs of attached itinerant teachers.	Schools with officially approved itinerant positions. Depends on amount of travel. Paid to cluster (RTLBs) or school. Changes to rates by application only.
<b>Learning Support Funding</b>	For educational support.	Paid to RTLB cluster, according to each school's roll and decile.
<b>RTLB Years 11–13</b>	To support Years 11–15 students with learning and behaviour difficulties.	Paid to RTLB cluster, according to each school's roll and decile.
<b>Special Education Equipment/ Assistive Equipment</b>	For specialised equipment for individual students with special education needs.	One-off payment, on application to Group Special Education Technology Co-ordinator.
<b>New Classrooms</b>	Helps equip new classrooms generated by roll increases or increased staffing entitlements.	State schools, except integrated schools. One-off payment, no application needed.
<b>Out-of-hours Music and Art</b>	Administration grant for schools holding classes from official tutor hour allocation for Year 1–8 students.	Allocation of hours made by Local Office. Grant paid each term, once return sent to Local Office.
<b>Supplementary Grant for Principals' Remuneration</b>	For boards with principal employed on Individual Contract. Other principals receive it directly through Payroll.	Paid annually, depends on staffing roll and decile.
<b>Normal and Country Model Schools</b>	Helps these schools to meet extra operating costs.	Eligible schools according to roll.
<b>Enhanced Programme Fund</b>	Helps magnet schools for students with moderate special education needs.	Eligible schools, on application.

## Appendix 4: Payments by parents of students in state and state integrated schools

### PARAGRAPHS 5 TO 14 OF THE MINISTRY OF EDUCATION CIRCULAR 1998/25

#### The Right to Free Enrolment and Free Education

5. Section 3 of the Education Act 1989 states that every person who is not a foreign student is entitled to free enrolment and free education at a State school from the person's 5th birthday until 1 January following the person's 19th birthday.
6. The right to free enrolment and free education means that a board of trustees may not make payment of a fee a prerequisite for enrolment or attendance of a domestic student. The only exception to this rule is the provision for proprietors of integrated schools to charge attendance dues. These are dealt with in paragraphs 15 and 16.
7. In particular, a board of trustees may not demand a fee to cover the cost of either tuition or materials used in the provision of the curriculum.
8. Parents may not be levied to pay for things like heat, light and water charges, for which schools are resourced through the operations grant.
9. The right to free enrolment means that it is unlawful to charge for information about enrolment at the school.

#### School Donations

10. One of the problems in discussing the legalities of boards' rights to seek payments from parents is that different boards use different terms to describe the same thing. Government provides operational funding (including different types of supplementary funding) to State schools to enable them to run the school and deliver the curriculum to their students. Most boards, however, annually ask parents to pay a specified sum of money which will enable the board to provide additional services which directly benefit students. This general sum is most conveniently described as the "school donation" and this is the term used in this circular. Some boards, however, describe it as "school fees" and this is the term which the general public most commonly uses to describe it. Other boards use the term "activity fees" to describe the same thing. Even more confusingly, some boards use this latter term to describe payments for activities such as school camps, concerts by visiting artists, class trips etc, while other boards use it to describe payments associated with the cost of materials in particular subjects.
11. While boards may specify a sum for the annual school donation, they should make it clear to parents that this donation is voluntary and cannot be made a compulsory charge. When referring to this general payment in the school prospectus and notices

to parents, boards should not use the word “fees” or “levy” or any other term which implies that payment of the sum is compulsory. In particular, boards cannot demand payment of the donation to confirm enrolment at the school. Parents would find it helpful to be informed that the school donation (receipted as such) qualifies for income tax rebate.

12. Because school donations are voluntary contributions, a board does not have to pay GST on the money it collects. Therefore GST must not be included when the board specifies the amount of the annual donation.
13. School donations become part of board funds once given to the school and must be accounted for by the board in accordance with the board’s legal responsibilities under the Public Finance Act.
14. When specifying and collecting the school donation, boards may find it useful to take the following steps:
  - (a) Specify the amount of the school donation in the school prospectus or in an information letter to parents.
  - (b) State that the school donation is voluntary.
  - (c) Describe the uses to which the school donation will be put.
  - (d) State how and to whom payment is to be made.
  - (e) State that a receipt will be provided.
  - (f) If parents are having difficulty making payment, invite them to discuss the matter with the principal. At no time should the student be embarrassed over this issue.

Appendix 5: Targeted funding for education achievement (TFEA) rates for 2004 and 2006

Decile	TFEA Step	2004 rate	2006 rate
1	A	\$682.98	\$728.05
	B	\$596.02	\$676.85
	C	\$506.93	\$587.79
2	D	\$419.96	\$496.57
	E	\$352.09	\$407.51
	F	\$296.93	\$338.01
3	G	\$239.67	\$281.52
	H	\$195.14	\$222.90
	I	\$165.44	\$177.30
4	J	\$129.40	\$146.88
	K	\$117.73	\$120.55
	L	\$106.06	\$108.60
5	M	\$90.87	\$93.05
6	N	\$73.56	\$75.33
7	O	\$56.24	\$57.59
8	P	\$36.78	\$37.66
9	Q	\$22.70	\$23.25
10	Z	\$0.00	\$0.00

SCHOOLS' USE OF OPERATIONAL FUNDING

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SCHOOLS' USE OF OPERATIONAL FUNDING

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