

**SUBMISSION BY THE
NEW ZEALAND BUSINESS ROUNDTABLE**

Bulk Funding Of Teacher Salaries

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Introduction

Recent reviews of New Zealand¹ education have made a strong case for greater decentralisation of education administration and self-management of individual public schools. The changes recommended include the establishment of local boards of trustees, agreed charters for each school and the delegation of decision making over school operations. Underlying these changes is the view that parents and local communities have stronger incentives and better information to determine education needs and ensure performance than education providers and central government agencies. They are also an integral part of a process of moving to a system which allows greater competition between schools and greater parental choice over education offerings.

The Picot concepts of self-management were considerably watered down in their implementation in the face of resistance from established education interests. Moreover, they relied too heavily on elected parental and interest group representation on boards rather than the exercise of choice by parents within a more competitive education system.

Considerable frustration has been expressed by trustees over their restricted ability to make important decisions about school management. Over time capable people may be discouraged from serving as trustees and the present system may become unviable. Remedying these weaknesses involves providing schools with greater autonomy over resource decisions, linking funding directly to enrolments and ultimately allowing public and private education suppliers to compete on even terms for students. Bulk funding of teacher salaries is an essential part of such a programme.

The Case for Bulk Funding

At present school boards of trustees have effective control only over the smaller component of school expenditure represented by the operational grant. Staff are the crucial resource both in financial terms and in terms of their impact on the quality of education. The advantages of allowing boards to control staffing resources on the basis of bulk funding of teacher salaries are as follows:

- (i) Boards have better information about individual school needs and should have full freedom to make decisions over such matters as:
 - teacher to student ratios
 - the mix of senior and junior staff
 - the mix of teaching and other support staff (e.g. library, remedial reading)
 - the relative numbers of full time and part time staff.

¹ In particular, *Administering for Excellence: Report of the Taskforce to Review Education Administration*, (Picot Report), 1988 and Stuart Sexton, *New Zealand Schools: An Evaluation of Recent Reforms and Future Directions*, New Zealand Business Roundtable, 1990.

Schools are not free to make all such decisions at present.

- (ii) Decisions on staffing could be made by boards in relation to operational expenditure (e.g. whether priority should be given to a library assistant or computer equipment). At present flexibility exists only in the direction of operational to staffing expenditure, and on a very restrictive basis. To allow these trade-offs to be made, the salary and operational grants should be combined.
- (iii) Additional funding raised by schools could be applied to either staffing or operational needs.
- (iv) Vesting staffing decisions with boards would strengthen school-staff relationships and incentives for teacher performance, even without more far-reaching changes to employment arrangements.
- (v) Financial controls over education spending would be more effective. The weakness of present arrangements has been demonstrated by the recent over-expenditure on teacher salaries.
- (vi) Financial allocations to schools would be more fairly based. At present effective per pupil funding varies because of factors such as differences in teacher seniority.
- (vii) Bulk funding would provide a basis for a subsequent review of teacher employment arrangements. There is a good case for moving away from inflexible, centrally determined awards, in line with the general employment changes being promoted by the government with the Employment Contracts Bill.

In order to maximise flexibility, the preferable bulk funding option is to relate funding directly to student rolls. There may be a case for a small number of bands of per pupil funding according to the costs of education for different age groups. Any special grants (e.g. for handicapped children) could be paid as a supplement to the standard per pupil allocation. There may also be a need to modify the formula for very small schools e.g. by way of a minimum grant. However, to achieve a system which is efficiency-driven rather than cost-based, such variations should be kept to a minimum. Considerations of administrative efficiency also point to the cash-based and direct funding options wherever possible.

Objections to Bulk Funding

Most of the objections raised against bulk funding are considered spurious. They appear to have little to do with educational goals. Rather, they reflect the self-interest of teacher unions and central bureaucracies in maintaining their power and resisting moves to transfer control to the local level.

- (i) It is claimed that bulk funding would place an undue administrative burden on schools. This is not credible. It is noteworthy that private school administration is considerably more complex since it involves the collection of

individual fees rather than a bulk payment on, say, a monthly basis. School personnel administration is not a complex function. Automatic payment systems operated by banks and other payroll services would be used by most schools in the same way as other organisations. The savings made by cutting down on centralised salary administration could be reallocated to schools to enable them to hire or train administrative personnel, or to contract for services.

- (ii) Teacher unions have argued that moves towards making schools responsible for employment would encourage individualistic and non-cooperative behaviour and 'pit teacher against teacher'. Again the example of private schools demonstrates the absurdity of this claim. Schools are no different from many other autonomous organisations, including commercial firms, whose performance is dependent on cooperative team effort. Such attributes would be an important aspect of teacher performance assessment in any successful school. This claim can be seen as a transparent attempt to resist stronger forms of performance assessment and accountability.
- (iii) It has been suggested that bulk funding would lead schools to substitute junior teachers for more expensive experienced staff. This would be irrational. Consumers place emphasis on *value*, not low costs or prices per se. A more consumer-driven system would rightly focus on gaining greatest value from the education dollar. It would appropriately value experience, apply appropriate differentials for teaching quality and create incentives for quality to be upgraded.
- (iv) Claims have been made that school boards are not competent to handle staff employment matters. This overlooks the point that boards are now responsible for appointing principals, and that most other staff appointments would be handled by principals under delegations from the board. Again the fact that private schools handle all employment matters independently as a matter of course exposes the emptiness of these claims.
- (v) It has been argued that the government would be at risk of individual boards negotiating 'irresponsible' pay deals, exceeding their budgets and becoming insolvent. Recent experience suggests the current centralised system is not immune from budgetary blowouts. Strict financial controls would minimise any such risks and existing legislation allows the government to take remedial action in the event of school mismanagement. Such arguments may be motivated by a desire by central agencies to maintain a centralised wage fixing role, which is not conducive to encouraging sound and responsible management on the part of schools.

Implementation of Bulk Funding

In contrast to these largely spurious objections to bulk funding, there are some legitimate concerns about any transition from current arrangements. It is clearly desirable to allow boards time to set up effective arrangements for staff administration. On the basis that overall funding levels are maintained, there will be a mix of 'winners' and 'losers' amongst schools from a change to student-based funding, depending on their present staffing profile. Some issues such as the implications of a general bulk

funding formula for small rural schools or special education may need specific solutions.

These problems are clearly not insuperable and it is submitted that they should not be allowed to obstruct a reasonably rapid move to bulk funding. The ability of boards to make more efficient decisions over staffing and operational expenditure will mitigate the problems of those schools which face reduced allocations. These efficiency gains (as well as greater fairness in allocations) are the objectives of a switch to bulk funding, and efforts to move in this direction should not be thwarted by the fact that there will inevitably be one-off winners and losers.

There may be a case for phasing in bulk funding over a period of perhaps 1-2 years, starting with schools that are best placed to handle it. While larger schools, particularly in the secondary sector, may fall into this category, other schools should not be excluded. Small schools which face no staffing adjustments should have little difficulty picking up the administrative responsibilities. It would be undesirable to introduce bulk funding on a 'trailing' basis as opponents of the policy would be likely to go to considerable lengths to undermine its prospects of success.

Conclusion

Current reforms aimed at improving education performance by transferring responsibility for school administration from the central level to parents and local communities are currently at an unsatisfactory and unstable stage. A move to bulk funding of teacher salaries on a 'funding first', cash and direct basis wherever possible, and to combine the staffing and operational grants, is crucial to the success of a strategy based on self-management of schools. The benefits of a move to bulk funding would be enhanced by other changes to the environment in which schools operate. In particular, there is a case for reviewing:

- governance arrangements for schools, in particular problems of continuity and expertise on boards of trustees, and the conflict of interest which could arise if staff representatives or parents engaged as teachers at the school are engaged in employment decisions;
- monitoring of school performance, through mechanisms such as external examinations, more information on school achievements and the reintroduction of a form of inspectorate;
- ways of increasing competition between schools, such as the current moves on zoning and moves to per pupil or voucher-based funding which would allow direct competition between public and private schools.

However, these are separate issues which would not be prejudged by a move to bulk funding.

The objections that have been raised to bulk funding are not convincing and appear to be motivated by interests other than the educational interests of children. It is submitted that the government should confirm its policy of adopting bulk funding and introduce it on a basis consistent with achieving a smooth but relatively rapid transition.