

Finances for an RTLB Cluster

A Practical Guide

Objective for the session

A greater understanding and appreciation of some key School Finance concepts



If in role for less than 1 year – listen and get familiar with the terms.

If in role for 1 to 2 years - the penny should drop

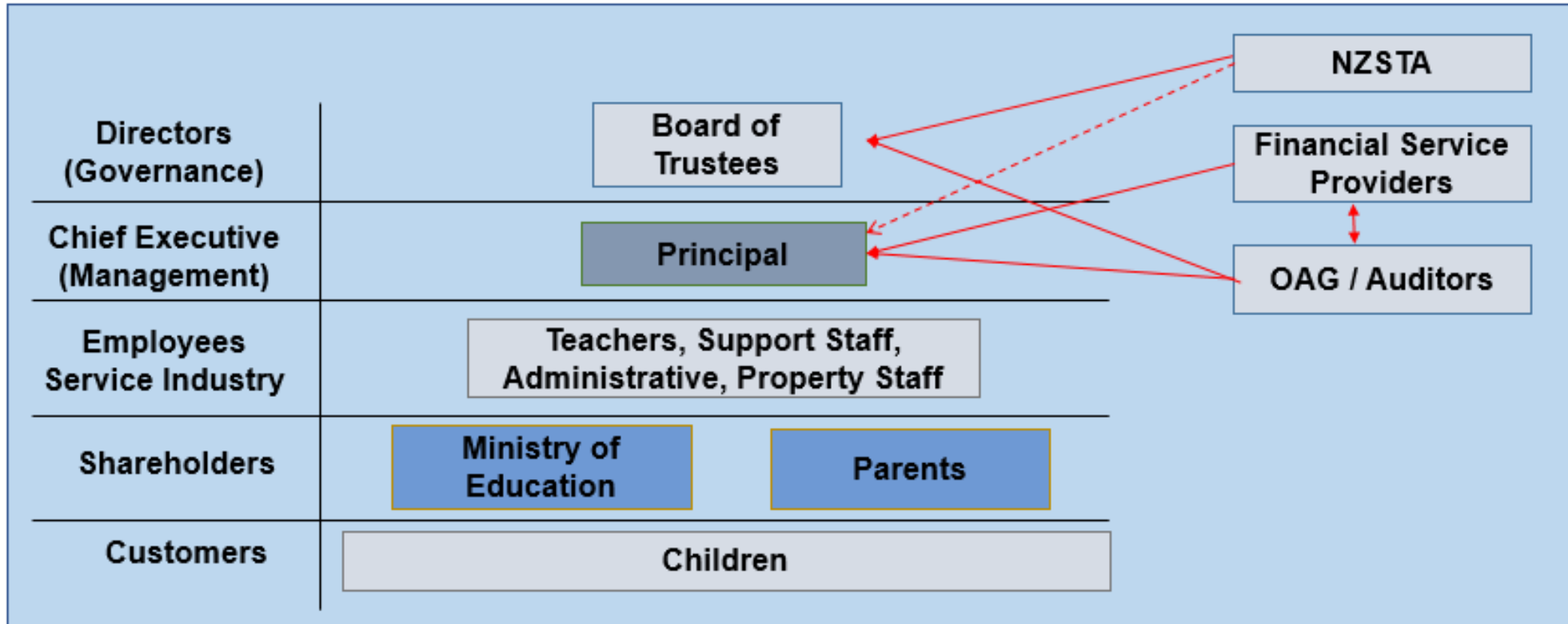
If in role greater than 3 years - refresher & better appreciation of school's finances

Themes for the session

- Governance & Management structure
- Roles & responsibilities in relation to school finance
- Financial Management
- Financial Compliance
- Key transactions and areas of focus
- Open Q&A

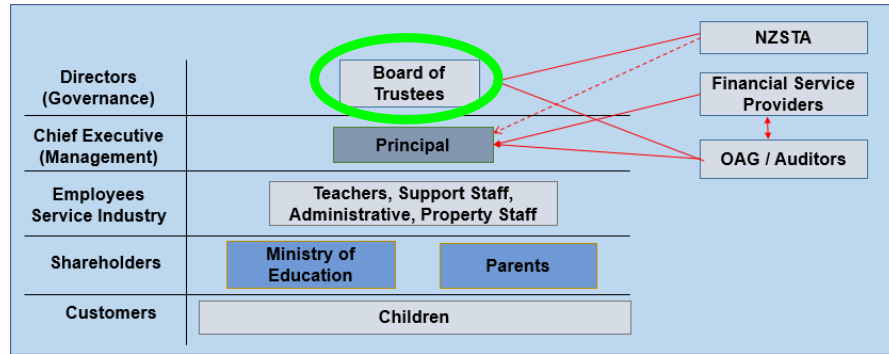
Governance & Management Structure

Consider your school to be a business (in many cases a multi million dollar business), providing an education service to your community.



Each of the parties plays a different role in the financial management of the School.

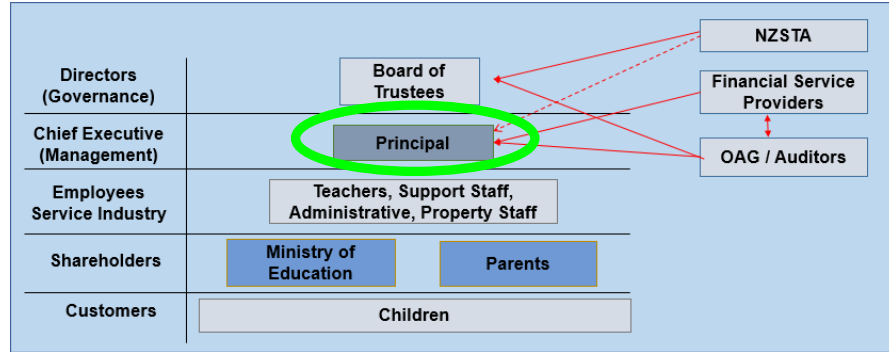
Financial management roles and responsibilities



Board of Trustees

- Set the strategic direction for the school and allocate resources to achieve the school's goals (Budget)
- Monitor and control school expenditure to budget (School and RTLB).
- Understand key financial information about the school.
- Ensure that annual accounts are prepared and audited
- Create special committees as required, and delegate any of its powers or functions to those committees or to employees
- Delegate its day-to-day financial management responsibilities to the Principal and /or Cluster Manager
- Establish and maintain financial policies
- Carefully document financial decisions about the school and decision-making processes
- Declare actual and potential conflicts of interests in any decisions and manage appropriately.

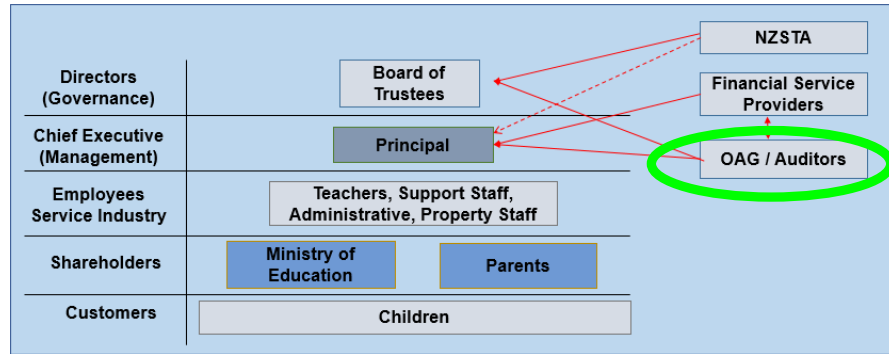
Financial management roles and responsibilities



Principal Cluster Manager

- Responsible for the day to day financial management of the school/cluster
- Required to comply with financial policy as set by the Board of Trustees.
- Responsible for monitoring and controlling school expenditure, as planned and budgeted.
- Report regularly to the school board of trustees on financial management.
- Prepare annual audited financial reports.
- Delegate financial management tasks to school employees and may also pay for external accounting services.
- Maintain sound financial systems, understand key financial information about the school and provide appropriate reporting.

Financial management roles and responsibilities



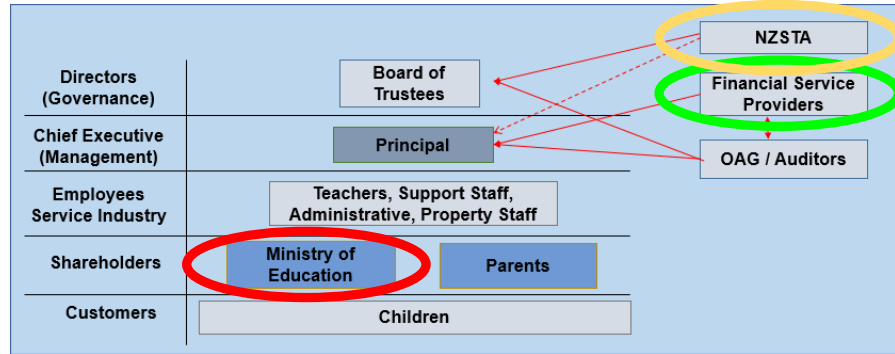
The Office of the Auditor General (OAG)

- All schools are required to have an audit under section 87(2)(c) of the Education Act 1989
- The Auditor General is the appointed Auditor of every crown entity.
- The Office of the Auditor General (OAG) undertakes the required auditing works on behalf of the Auditor General.
- To complete the volume of work the Auditor General will subcontract the audit work to Chartered Accountancy firms. For example
 - PWC, Staples Rodway, Crowe Horwath, Deloitte, Silks ...

Closing out the annual audit process

- At the end of the audit process you will receive two documents
 - The Audit Report:
 - The audit opinion and basis of the opinion
 - Responsibilities of the Auditor and of Management
 - Confirmation of the auditors independence
 - The Auditor's management letter
- The Office of the Auditor General publicly releases the findings from the audit season annually.

Financial management roles and responsibilities



NZSTA

“Our mission is to lead and strengthen school governance in New Zealand”

- Board of Trustees Governance and process guidance
- Human Resource guidance
- Board of Trustees Professional Development provider

Financial Service Provider

- They are also called your Accountant
- They offer a range of services to the school from GST returns and monthly reporting to preparation of annual financial statements
- You chose how involved they are in your school financial affairs.

The Ministry of Education

“We shape an education system that delivers equitable and excellent outcomes”

- Support and resource for Education Providers, Teachers and the Community
- Responsible for the management of the Schooling Property portfolio
- Responsible for the equitable distribution of the annual Crown budget to the education network.



Financial Management

Good financial management is

Common sense - think of it like personal finance

- Not spending more than you get
- Prioritise and then monitor spending
- Plan for the future
 - Asset Replacement

Common areas of financial risk for RTLBs

The leading causes of Schools finding themselves in financial difficulty are:

- Over staffing
- Significant asset purchases



Financial Policies

- What is the purpose of a financial policy?
 - To effectively manage the school's financial resources and use them to achieve the goals set within the Charter and Strategic Plan.
 - To maintain accountability for and control of the school's financial resources.
 - To safeguard the assets of the school for future generations of students.
- It clearly sets out the responsibilities of the board and the School Management (Principal)
 - It delegates responsibility and authority from the Board to Management
 - Day to day management
 - Operational spending limits (delegated authority)
 - Expected operational activities e.g. preparation and submission to audit of the annual financial accounts
- Where can I find policies?
 - NZSTA have a range of policies available
 - The Ministry of Education (FISH handbook) <https://www.education.govt.nz/school/running-a-school/school-finances/model-financial-policies-kiwi-park-school/>
 - Schools in your area – Collaboration on fundamental operational policy.

What should a good monthly board report look like?



- Make it user friendly – not all board members are accountants, provide a covering commentary
- Use graphs to show tracking during the year
- Graphs should show the key financial indicators of the RTLB Cluster operations;
 - ✓ TS Staffing Usage and overuse
 - ✓ Board funded staffing usage
 - ✓ Administration, Travel etc...
 - ✓ Net surplus/deficit for the year to date
 - ✓ Available Cash Position
- Tell the board about significant movements (+/-10%) from the YTD budget, why and solution
- Show the RTLB's cash position and from that how much of the funds are tagged for a purpose
- Should be prepared on an accrual accounting basis to avoid surprises at year end.

Cash basis v accrual basis

Surplus as at 31/07/2017 - as reported to the Board	\$62,236
Less Banking Staff overuse	(\$52,446)
<u>Operational Grant in Advance 2/3</u>	<u>(\$103,102)</u>
<u>Adjusted July 2017 Deficit</u>	<u>(\$95,315)</u>

How would your decisions change, based on seeing this?



- Your Budget is the most powerful tool you have to control your finances,
 - **Operational** – includes all expenditure a school incurs representing both Cash and Non Cash (cash in the future) transactions
- The Budget is a financial plan to estimate the income and expenditure for a future period of time.
 - It is a plan of action
 - A standard way to measure financial performance and track spending
 - It can be used to forecast expectations and the implications of today's decisions in the future.
- What do I need to prepare a Budget
 - Historical financial information (historical average, sense check) and the year to date financial activity.
 - Operations Grant entitlement and staffing entitlement notices
 - Asset replacement plan
 - RTLB plan / targets / goals for next year – focus your resources to achieving these

- Why is forecasting important?
 - It can simulate the impacts of different financial decisions on the school
 - How long can I afford to undertake this course of action?
 - If the RTLB Cluster is in a difficult financial position it can be used to evaluate the time required to change the current position and what actions need to be taken.
- What should I forecast? – Two Key areas are.
 - **Expenditure** - An expenses forecast estimates your ongoing operational costs over a period of time. School expenses may include (amongst others) lease commitments, insurances, curriculum support expenditure, employee wages, travel, and professional fees.
 - **Cashflow** - A cash flow forecast estimates the amount of money you expect to flow in (receipts) and out (payments) of your cluster, including projected income and expenses.
 - A forecast is usually done over a 12 month period but could also cover a shorter period, such as a 90-days.

Cash flow forecasts can help you identify when you may have extra cash available or experience shortages, so you can make the right decisions for the cluster.
- Budgeting and Forecasting are closely linked to each other, and are powerful tools in ensuring the financial health of your school.



Financial Compliance

Kiwipark - Annual Accounts



- All schools must prepare annual report, under Section 87 of the Education Act 1989.
 - This includes financial statements, and these must be audited (S 87A).
- It is compulsory to use the Kiwipark model Financial Statements (section 87 (3AA))
- Kiwipark is the name of the model set of a schools Annual Financial Statements
 - It stream lines the reporting of school finances across the country and ensures a consistent approach is taken.
 - Was brought in at the last significant change to the Financial Reporting Standards
 - All annual reports are to be published on the schools website (S 87AB)
- A copy of the Model accounts is available on the [Education.govt.nz](https://www.education.govt.nz) website

Important annual dates

- **31 December** – All Schools end of financial year
- **31 March** – All annual reports (and workpapers) are to be provided to your auditor (S 87A)
- **31 May** – All audited annual accounts are to be provided to the Ministry of Education (S 87C)

Statement of Comprehensive Revenue and Expenses (Page 2)

- Summarises Revenue and Expenses for the current and prior financial year
- Bottom line shows the net surplus or deficit
- Shows how the cluster has managed its money, it also includes all non Cash transactions.

	2017 Actual \$	2017 Budget (Unaudited) \$	2016 Actual \$
Funds held at beginning of the year	313,304	313,304	313,304
<i>Revenue</i>			
Teachers' Salary Grant	2,060,319	2,060,000	2,126,225
Administration Grant	104,960	92,256	91,343
Learning Support Funding	167,438	167,438	167,438
Year 11-13 Funding	114,283	114,283	114,283
Travel grant	107,562	104,431	103,749
Lead School	10,248	10,248	9,625
Interest	435	-	2,422
Other	26,123	10,631	19,342
	<u>2,591,368</u>	<u>2,559,287</u>	<u>2,634,427</u>
Total funds available	2,904,672	2,872,591	2,947,731
<i>Expenses</i>			
Employee Benefit - Salaries	2,060,319	2,060,000	2,126,225
Administration	200,114	316,370	184,578
Learning Support	170,777	167,438	151,402
Year 11-13	106,092	114,283	115,734
Travel	43,614	50,196	45,427
	<u>2,580,916</u>	<u>2,708,287</u>	<u>2,623,366</u>
Purchase of Assets	34,854	5,000	10,649
Funds Held at Year End	<u>288,901</u>	<u>159,304</u>	<u>313,304</u>

Income and GST

- All money received by boards, whatever the source, automatically becomes public funds
- Boards are accountable for the expenditure from these sources.

What is GST?

- Is a 15% tax payable to IRD
- All Annual Accounts are Exclusive of GST
- All Budgets are Exclusive of GST
- **Make sure you know if the quoted price is inclusive or exclusive of GST – 15% difference**
- To get the exclusive amount:
 - **divide by 115 multiple by 100, so $\$115.00 / 115 * 100 = \100**





**Key transactions
and areas of focus**

What is Over Staffing?



- This is the employment of teaching staff over your teaching entitlement and/or the number of Board Funded staff.
- Banking Staff is the management of your Teaching staff Entitlement
- Board Funded staff are your staff that are paid from operational funding from your bank account
- Who are Board funded staff?
 - Administration employees – Office support staff
 - Learning Resource employees – Relievers, Teacher Aides

Banking Staff Spreadsheet – An example

Dates	26/04/17 to 09/05/17	10/05/17 to 23/05/17	24/05/17 to 06/06/17	07/06/17 to 20/06/17	21/06/17 to 04/07/17	05/07/17 to 18/07/17	19/07/17 to 01/08/17	02/08/17 to 15/08/17	16/08/17 to 29/08/17	30/08/17 to 12/09/17	13/09/17 to 26/09/17	27/09/17 to 10/10/17	
-8.39	201803	201804	201805	201806	201807	201808	201809	201810	201811	201812	201813	201814	YTD Total
Teacher 1	1	1	1	1	1	1	1	1	1	1	1	1	18.00
Teacher 2	1	1	1	1	1	1	1	1	1	1	1	1	18.00
Teacher 3	1	1	1	-0.07	0	0	0	0	0	0	0	0	8.93
Teacher 4	1	1	1	1	1	1	1	1	1	1	1	1	18.00
Teacher 5	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	14.40
Teacher 6	1	1	1	1	1	1	1	1	1	1	1	1	18.00
Teacher 7	1	1	1	1	1	1	1	1	1	1	1	1	18.00
Teacher 8	1	1	1	1	1	1	1	1	1	1	1	1	18.00
Teacher 9	1	1	1	1	1	1	1	1	1	1	1	1	18.00
Teacher 10	1	1	1	-0.07	0	0	0	0	0	0	0	0	8.93
Teacher 11	1	1	1	1	1	1	1	1	1	1	1	1	18.00
Teacher 12	0	0	0	0	0	0	0	0	0	0	0	0	-0.29
													0.00
													0.00
													0.00
													0.00
Total staffing usage for period	10.80	10.80	10.80	8.66	8.80	8.80	8.80	8.80	8.80	8.80	8.80	8.80	175.97
Entitlement for period	9.31	9.31	9.31	9.31	9.31	9.31	9.31	9.31	9.31	9.31	9.31	9.31	167.58
Ministry Adjustment													0.00
Automatic adjustment													0.00
Difference for period	-1.49	-1.49	-1.49	0.65	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	-8.39
Estimated current value of staffing used in advance of entitlement YTD	(\$27,105)	(\$31,088)	(\$35,071)	(\$33,333)	(\$31,970)	(\$30,607)	(\$29,243)	(\$27,880)	(\$26,517)	(\$25,154)	(\$23,790)	(\$22,427)	
Required average staffing level to finish year with zero balance (FTE)	8.80	8.70	8.58	8.58	8.56	8.55	8.53	8.51	8.48	8.45	8.42	8.38	

What goes wrong?

- Over committing resources - When employing staff have a full understanding of how they will be paid and from what source.
- Delays in paper work – switching staff between Teachers Salary grant and Bulk Grant
- Limited skills in payroll – training required
- No money to repay a banking staff debt on 1 July each year (Deduction from the July Operations Grant)
- Lack of monitoring – sign the payroll sheets each fortnight (Principal and Board), Internal Controls
- Not advising the board where you are in an overuse position and not including the overuse in monthly reports
 - If you are in an over use situation have a plan ready to explain how you are going to address the overuse. Your Board should be asking this question.

Probity / Sensitive expenditure



“The Public Audit Act 2001 raises Parliament’s concern that public entities should not enter into transactions or activities that are wasteful, or that show lack of probity or financial prudence. In particular, probity is concerned with whether the expenditure may be justified from a public perspective.”

- One of the biggest components of the audit process is around how you have spent public funds.
- This is over and above the standard audit process, and is a significant part of auditing a crown entity
- When spending funds it is critical to keep the above comments in the back of your mind.
- A handy thought when determining whether an expenditure is considered to be sensitive or not apply the “Six O’clock News” test

Probity – Examples

- A School paid for 5 members of staff to visit a neighbouring country, as part of a trip to tour schools in Asia.
 - No evidence of the Educational Outcomes was presented to the Board for this part of the trip.
- The Board gave the principal a \$8,500 ride-on-mower when they left the school.
 - The Board approved the gift, however it was not consistent with the school's gift policy, which allowed a gift to the value of \$1,000.

Financial Information for Schools Handbook

March 2018

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0-6 YEARS
Early Learning



5-19 YEARS
School



16+ YEARS
Further Education



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COMMUNITY

HOME: 5-19 years > Running a school > Managing school finances

Managing school finances

School finance information, including how to prepare your school's financial statements and general financial management information.

Financial information for schools handbook (FISH)

The handbook provides information to encourage best practice in financial governance, financial management and reporting.

[Download the FISH handbook](#) [PDF, 792 KB]

Questions



Contact Details

Presenter

David Hyland

School Finance Advisor

DDI: **+64 4 463 8673**

Mobile: **+64 27 490 7232**

Email:

david.hyland@education.govt.nz

The School Finance Adviser Team

- Carmel Riordan – Auckland , Tai Tokerau
carmel.riordan@education.govt.nz
- Rebecca Cook – Auckland , Tai Tokerau
rebecca.cook@education.govt.nz
- Chad Britton – Bay of Plenty/Waiariki, Waikato
chad.britton@education.govt.nz
- Margaret Pattullo – Hawkes Bay/Tairāwhiti, Rotorua/Waiariki
margaret.pattullo@education.govt.nz
- David Hyland– Wellington, Taranaki/ Whanganui/ Manawatu
david.hyland@education.govt.nz
- Andrew Seagar – Wellington, Nelson/ Marlborough/ West Coast
andrew.seagar@education.govt.nz
- Alex Dieudonne – Canterbury, Otago/ Southland
alex.dieudonne@education.govt.nz

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