



Rationale:

This policy recognises the school's responsibility under NAG 4.

Purpose:

The purpose of this policy is to provide guidelines for providing a sustainable plan to achieve and maintain 'financial health' through the annual budgeting process.

Scope:

This policy applies to the Board and staff.

Definitions:

Financial Health (per MOE Financial Information for Schools Handbook)

2.3.1 Indicators of financial health

- Positive working capital - this shows that the Board can pay its current debts - short-term assets, such as cash or assets that can be converted to cash quickly, are greater than short-term liabilities (payments that have to be made soon).
- Operating surplus - income is greater than expenses.
- Positive equity - total assets are greater than total liabilities.
- Cyclical maintenance obligations are up to date.
- Roll information and staffing usage information are on track.

2.3.2 Indicators that a school is financially at risk

- Negative working capital - this shows that the Board cannot pay its current debts - short-term liabilities are greater than short-term assets.
- Operating deficit - expenses are greater than income.
- Any indebtedness outside the Board's borrowing limits (see note below).
- Failure to set aside cash funds for asset replacement (i.e., computers) or exterior painting of the buildings (i.e., cyclical maintenance provision).
- Failure to have a 10-year property plan in place.
- A qualified audit report.

Guidelines:

- a) The school will prepare an annual budget which has a minimum breakeven result after depreciation.
- b) The budget will include annual provision for:
 - i. Continual improvement to the school IT systems in line with an IT Strategy of minimum 5 years.
 - ii. Cyclical replacement of classroom furniture and fittings based on a 10 year replacement plan for all classroom furniture (adjust for any replacements identified through the 5YA).
 - iii. Adequate allowance to maintain essential infrastructure.
- b. The depreciation (non-cash) allowance will be used to replace capital items. Capital requests will be presented to management and prioritised for the Board (or its delegated budget committee). Items relating to student achievement will be priority.
- c) If the school has a negative working capital position at year end (i.e. is insolvent), then the Board will **prioritise** a reserve fund from operating surpluses from **all activities of the school** (including Carruth House, International Students etc) to return the school to a positive working capital position.
- d) Teaching staff should not be budgeted from operational funding (including budgeted surpluses from International Students) unless the school is solvent in the short term. This is reinforced by the MOE guidelines at:



<http://www.minedu.govt.nz/NZEducation/EducationPolicies/Schools/SchoolOperations/Resourcing/ResourcingHandbook/Chapter2/EmploymentTeachersFromOperationalFunding.aspx>.

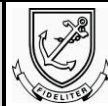
- e) Operational funding fluctuates based on the school's roll. The Board needs to be prudent in committing to fixed costs which cannot be reduced if the school is in a falling roll situation. A prudent approach includes:
- a. Avoiding commitments to long term contracts that do not provide flexibility for a falling roll.
 - b. Adhering to support staff scale rates of pay and not exceeding these.
 - c. Avoiding extending curriculum choices that cannot be sustained at senior levels with a falling roll.
 - d. Avoiding commitment to use teacher relief for discretionary activities– the school is only funded for statutory leave.
- f) Carruth House
- a. Carruth House will be operated in a way that does not require funds from school operations or reserves to be viable.
 - b. To be viable in the medium term, the Carruth House budget must make provision for maintaining the facilities in a manner that complies with all building codes and guidelines or codes relating to the provision of school Boarding facilities.
 - c. Carruth House provides a service to third parties and therefore needs to operate as a full cost recovery model, otherwise extra costs are absorbed by the school, at the cost of students and their families.
 - d. The hostel budget will include
 - i. Reasonable allocation of school overheads to recognise school support services such as administration, IT, finance, and management and Board time.
 - ii. Reasonable allocation for property overheads to recognise school property services such as recreational facilities, swimming pool, property management, and Board time.
 - iii. Deferred maintenance provision to allow for essential infrastructure planned over 10-years.
 - iv. General maintenance provision that is adequate to allow for continual maintenance of core infrastructure.
 - v. Contingency provision to recognise the risk of some budget items and to ensure budget errors/omissions do not impact upon the school operations or reserves.
 - e. The hostel provisions and allowances will be determined by the Board (or its delegated committee) in consultation with the Hostel Manager.

Related policies:

1. Finance
2. Carruth House

References or Sources:

1. National Administration Guideline 4
2. <http://www.minedu.govt.nz/NZEducation/EducationPolicies/Schools/SchoolOperations/SchoolFinances/FinancialInformationForSchoolsHandbook/Ch2FinancialGovernance/23Monitoring.aspx>



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Management Contact:

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