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**TO: SCHOOL PRINCIPALS
SCHOOL BUSINESS MANAGERS
SCHOOL BOARDS**

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CHALLENGES AHEAD FOR INDEPENDENT SCHOOLS

We survived the GFC – with some lingering effects.

We are weathering GONSKI – with some as yet unknown effects.

What now and what next ...

You will recall that when the GFC was our unknown challenge I urged you to KEEP CALM AND CARRY ON pointing out that the positive strengths of our schools as good educational institutions offering strong pastoral care would keep the majority of our parents engaged with us.

The GFC did have an impact on some independent schools and sits in the background as a reminder of what happens when a disruption to business and employment occurs. The affordability of our product then becomes one of our vulnerabilities.

Just when we were settling back into a normal pattern of operation along comes GONSKI which had a parallel effect to the GFC, not directly to our parents but this time to us. Initially there was uncertainty about funding levels with promises of NIRVANA post 2017. We always knew that large tranches of funding from 2018 would not occur. All we were looking for was stability and certainty of funding. This has been promised but will, most likely, not be delivered as we planned for it and more than likely at lesser levels.

Let us look at some positives. These include:

- We have had positive growth in Government Recurrent funding over the past 29 years. Recurrent funding increased in positive and above inflation terms under the Schools Resources Index (ERI) system from 1985 – 2000 then for a further 13 years under the Average Government Schools Recurrent Costs (AGSRC) system from 2001 – 2013. The State has followed suit to a slightly lesser degree in that period. The year 2014 saw a real increase in State funding as a catch up and a moderation of Commonwealth funding.
- The key issue drawn from the above points is that government funding currently provides us with a realistic and meaningful component of our income.
- The meaningful and real increase in Government recurrent funding has resulted in schools ability to raise tuition fees to match the significant but real increase in the cost of delivery of education over the past 20 years.

So what do we need to be conscious about as we look to the future.

- Have we been lulled into a sense of false security by accepting that the cost of the delivery of education is, more or less, out of our control and that our reaction has been an expectation that government recurrent funding will continue to rise, along with our tuition fees, to match the increase in delivery costs.
- We are mindful of the increasing number of students who require learning support. These are not only the verifiable students but a growing number of those students that sit at various levels below them. This is a real cost for schools as they seek to provide adequate support structures for these students.
- The integration of technology was progressing steadily until the sudden rush into the use of technology via the DER program in the period post 2008. A lot of money was wasted with this program and unfortunately it left a lot of schools with inefficient structures in place that are another layer of the cost of education today.
- Unless you are a new and developing school with modern facilities you are probably one of the majority who have ageing facilities that require upgrading to match modern curriculum delivery.

So what now and what next.

David Robertson, Executive Director of Independent Schools Queensland, is in the front line fighting for the continuation of funding for Independent School at real levels. David and Independent Schools Queensland are very important to the future of our funding because they are key players in the political arena where funding policy is determined.

Right now, in my opinion, we appear to be in a holding pattern because of the uncertainty caused by funding issues but we must take ourselves out of this holding pattern and look positively to our future.

It is reasonably certain that significant increases in government recurrent funding have come to an end and that we should plan for only moderate increases in funding into the medium term future.

It is also fairly clear that our parents are faced with shrinking sources of funds caused by the impact of budget cut backs at both the State and Federal level. Therefore, their disposable income from which they pay fees is likely to reduce. If GST is added into the education mix this will further exacerbate the problem.

Parents will still pay for good quality education for their children but we must play our part in ensuring they can afford it. This is where our challenge is.

I hear constant comment about the rising cost of education but no comment about what can be done to deliver it more efficiently and not less effectively. There seems to be an acceptance that education costs will continue to rise unabated and that additional money is the only answer to better education outcomes. I certainly agree with the need to target funding for students with learning needs but I disagree with the notion that education delivery costs cannot be moderated.

If we want to be effective educational institutions it is up to us to look at our education delivery structures and costs to ensure we deliver a top product at an affordable price.

We need to improve our productivity.

So where and how can this occur.

Independent schools must operate effectively as a business in order to produce a product that satisfies regulated educational outcomes as well as parent expectations that we will exceed the normal outcome whilst, at the same time, provide a safe place for their children in an environment of high standards of care and discipline.

The first and foremost rule in being an effective educational institution, from a business perspective, is that you must produce enough surplus (EBIDA) to cover replacement of capital facilities and resources including debt servicing. The average EBIDA of Independent Schools across Australia is around 12% but this is for schools with an average debt in the vicinity of \$7,500 per student. Debt above that level will require a higher EBIDA, particularly when interest rates inevitably rise.

We are a very labour intensive industry. This is because we provide face to face services to our students, not manufactured products. Therefore we must look at the structures of our business that require labour and see how they can be effectively controlled. These include:

- Is your educational management structure top heavy. A quick look at average salary costs will be a good guide to determine whether the number of accelerated positions of responsibility are driving your costs higher than they need to be. I see many structures that have evolved using the argument that “we must have it” rather than how can we deliver at more efficient levels.
- Class sizes should not be sacrosanct. They should be managed with a balance of teacher and, if necessary, some aide support rather than just having small class sizes.
- Subject offerings need to be balanced against efficient delivery. Are you offering more subjects than you can afford.
- IT integration is an insatiable cost. You must control it not let it control you.
 - An intelligent blended learning structure is imperative for cost effective delivery.
 - A lean and efficient IT support structure is an integral part of IT immersion in your school. You control the need. Do not let the IT department dictate the need. In other words get advice about the right structure for you.
- Review your academic and non-academic Administration support structure to make sure you are not spending more than you need in this area.
- Review your capital resourcing expenditure. Expenditure on capital resources should be planned on a “zero budget basis”. In other words, justify the need each year. Do not accept last year plus a percentage increase as a matter of course.

- Plan for facilities that will facilitate the efficient delivery of your curriculum. This will include a range of lecture spaces and break out areas that are easily supervised and a redesign of specialist and classroom facilities. The challenge for more established schools is how you do this using existing spaces. It can be done.

We must rise to the challenge of matching our revenue sources with appropriate cost effective education delivery. We currently have a good base of income that is supported by established government recurrent funding levels and tuition fees. We need to structure our delivery costs, without compromising quality, to match a more moderate income source.

Every school is likely to have some inefficiency in their structure that has evolved in the past 20 or more years. It is time to have a good look at how you can improve your operation in order to deliver a quality product without the need for increases in income at unsustainable levels. You have the means and intelligence to do it and if you start now it will put you in a stronger position as you go forward.

PETER J HOLLETT
DIRECTOR

Peter Hollett established Educational Finance Services in 1989. The company has a successful record in providing specialised services that assist Schools and Colleges in strategic planning, reviewing educational and administration structures, financial planning, facilities planning and school management.