Breaking Bad Budget Habits

Understanding the Full Cost of Educating a Child

David Bartlett

In our work with schools over many years as a consulting firm, we have seen many budget and financial planning practices—you could say we have seen the good, the bad, and the ugly of school budgeting.

We have found that when considering the costs of running the school in budget planning, the first question that should be asked is, "What does it really cost to educate a child?" Understanding the full costs associated with operating a Christian school is a path to better planning and budgeting.

Tuition fees, donations, and, in some cases, government grants all contribute to the income of a school. The decision to set tuition fees is determined by a number of factors, including affordability for families and the costs of running the school.

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As you think about the process of educating a child, you will no doubt be thinking about some of the main costs: teacher salaries, tuition resources and textbooks, field trips and excursions, and administration costs. However, to stop there is really only uncovering part of the full cost of educating a child. What about costs such as:

- Building costs—not just annual maintenance, but long-term replacement and refurbishment of buildings
- Transport—student transport and bus fleets that need maintaining and replacing
- Sports and extracurricular activities—a vital part of school life, which often come with additional costs of both equipment and staff
- Special needs programs—catering for a growing list of special needs (both academic and otherwise), adding a layer of cost that is often shared across the school community
- Scholarships and discounts—supporting families that are in short-term financial hardship and offering scholarship programs, costs that need to be factored in to the budget equation
- Cafeteria and student services costs—medical clinics, counselling support, and many other related student services that need to be accounted for in the school budget

How do you ensure that you are calculating all the costs of educating a child at your school in your budget process? The following is a summary list of the main pitfalls we see in school budgeting pretty regularly, as well as some tips on how to avoid making them.

1. No Budget

A surprising number of schools actually run without a budget. The failure to determine expenditure priorities and monitor progress is poor management of resources and likely means that board members are not discharging their legal and moral duties—not to mention causing major problems in the operation of the school ministry.

2. Budget Not Linked to the Strategic Priorities of the School

Your budgeting should be linked to the strategic priorities and plans for your school. This helps focus spending on areas of priority, and provides an ability to plan for large shifts in spending over multiple years (such as implementing a music or sports program across the school).

3. Setting Tuition Fees Independently from the Budget Process

This is a common problem that often leads to financial stress. Setting the tuition fee schedule arbitrarily and then trying to operate within this artificial constraint can result in a cycle of decreasing education quality. It can also lead to situations where the tuition fees are too low compared to other schools in the market if the board and school leadership are too sensitive to fee increases and ignore this comparative data. Boards and school leadership can often balance overall tuition fee income more

effectively through the use of discounts and concessions so that those families that can afford to pay higher fees are able to do so, often resulting in increased overall school income.

4. Overstating Enrollment to Balance the Budget

This is another pitfall that is particularly common when schools are in areas of declining enrollment or demographic shift. Rather than gradually plan and change the educational program to fit the enrollment numbers when in decline, school leaders hold on to the hope that the enrollments will arrive. Praying for enrollments to come is excellent—budgeting for 50 extra students to arrive after analyzing the data is dangerous! It is much harder to do a major restructure of a school staff than to plan for and adjust to incremental enrollment changes from year to year.

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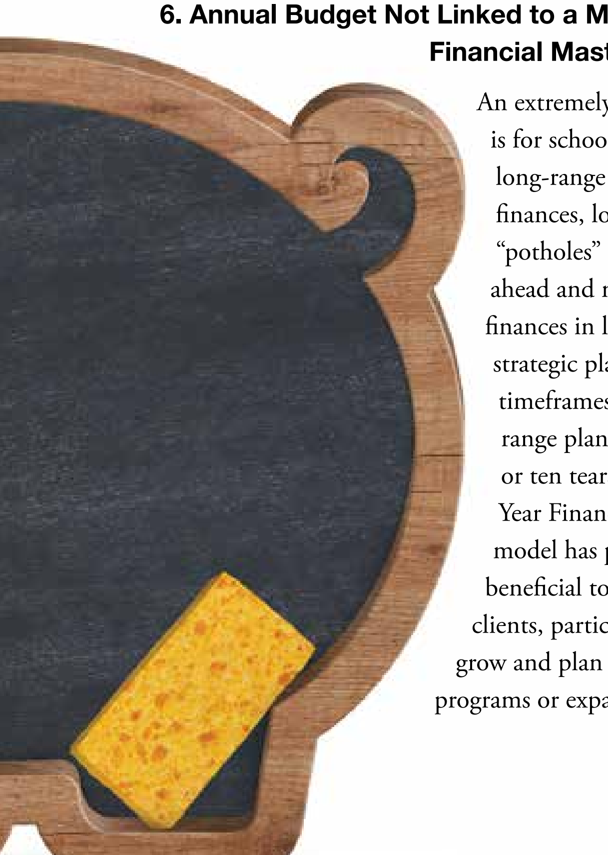
5. Too Little Detail in the Budget—Or Too Much

We have seen budgets go to boards with very little detail and some with way too much. The broad-brush approach is dangerous, especially when budgeting for staffing (the biggest expense in a school by far). We recommend detailed budgeting by staff member in this area, leaving the "last year plus 3%" method of budgeting to smaller expense areas.

6. Annual Budget Not Linked to a Multiyear Financial Master Plan



An extremely useful tool is for schools to take a long-range view of their finances, looking for "potholes" in the road ahead and managing their finances in light of the strategic plan. Common timeframes used in long-range plans are three, five, or ten tears. Resolve's 10-Year Financial Masterplan model has proven very beneficial to our school clients, particularly as schools grow and plan building programs or expanded services.

7. Misunderstanding or Ignoring the Relationships Between Key Income and Expense Areas

Key Performance Indicators (KPIs) help the board focus on the big picture. The use of KPIs also helps educators and board members who struggle with financial reports to get a good sense of where the school stands financially. At Resolve, we measure these KPIs, among others:

- Student/teacher ratios
- Salaries as a % of total expenses
- Tuition fee concessions as % of total gross potential fee income
- Debtors' collection days
- Principal and interest payments on capital loans as a percentage of total expenses
- Cash surplus as a percentage of total income

8. Poor Accounting Systems, Financial Controls, and Reporting

We have seen many schools get into trouble and even close because of poor accounting and administration practices. A simple, well-managed accounting system with strong internal controls and accurate, timely reporting is critical to the ongoing financial health of the school. Core issues such as not completing statutory obligations, not remitting necessary taxes, and financial carelessness will ultimately undermine the good work being done in the ministry.

9. Not Seeking Assistance

Unfortunately, it has been our experience that schools often don't ask for assistance when they would like to improve their administration and management of finances, or even when they are in difficulty. Too often, they "reinvent the wheel" and think they need to do it all themselves. There is enormous benefit in networking between schools on administration issues; you can find out who does something well and learn from them. If problems occur, it is better to ask for help early, when something may be done to resolve the issue, rather than to wait until it is too late.

Next time you are putting together your school budget, reflect on the full costs of educating a child in your school and make sure your budget processes are best practice.

David Bartlett has worked with hundreds of organizations across the education and not-for-profit sectors internationally in the areas of financial management, accounting systems, governance, policy development, strategic planning, business development processes, IT, capital and financial master planning, executive mentoring, mediation, and organizational management reviews. He has coauthored *Community Governance*, authored numerous articles, and developed international training curriculums dealing with business management and governance issues. David is a fellow of the Institute of Chartered Accountants in Australia and has several tertiary business and training qualifications. He also has had experience as a director, company secretary, finance director, chairman, and public officer of a number of organizations.