

Henderson Rotary Club

Bulk Funding is Dead. Long live Bulk Funding.

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Bulk Funding is Dead. Long Live Bulk Funding.

Thank you for the opportunity to address the Henderson Rotary Club.

The Tomorrow's Schools reforms of 1989 ushered in a new era for New Zealand schools. The Labour Government's reforms had a number of far reaching effects, including eliminating an entire level of education bureaucracy, providing communities with a greater voice in schooling, and giving schools the freedom and autonomy to better meet the needs of local communities.

Under the Tomorrow's Schools system, which remains in place today, all state and state-integrated schools are governed by boards of trustees made up of elected parent and community volunteers, the school principal and a staff representative (and student representative in secondary schools). Boards of trustees are responsible for all aspects of school management, including appointing and dismissing teaching and non-teaching staff.

All schools are funded via a bulk grant to cover their operating costs. Schools are funded in-kind for teachers' salaries and teacher pay is negotiated centrally by the Ministry of Education.

New Zealand's system of school governance provides a very good international example of what experts call 'school-based management' or SBM. SBM is defined as the systematic decentralisation of responsibility for making decisions about school operations to schools themselves. School decision-making authority is often broken down into different areas or domains, the four most important being:

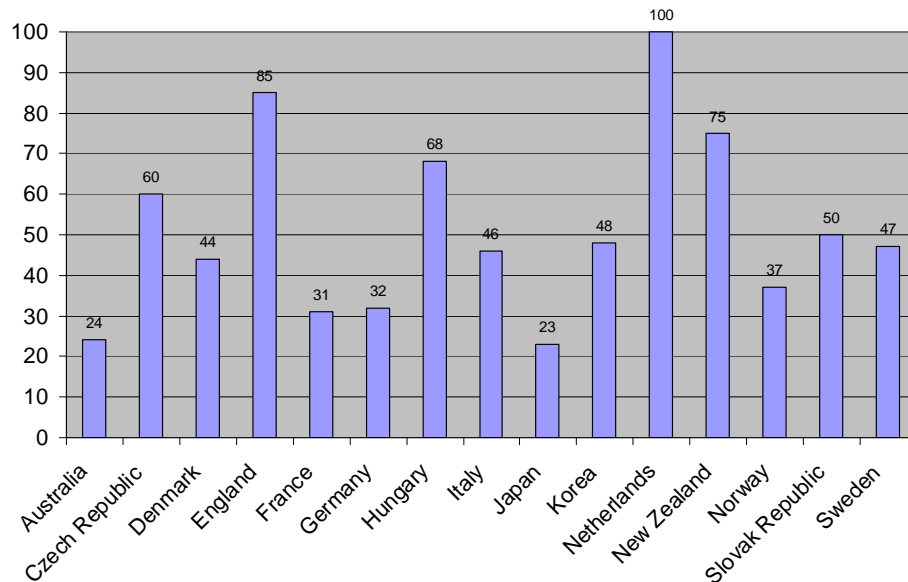
- personnel management (hiring and firing teachers, setting salaries);
- financial resources (development of school budgets);
- student policies (disciplinary and assessment policies); and
- curriculum and instruction (course content and textbooks).

Other areas include infrastructure development and maintenance and security.

As can be seen from Figure 1, school decision-making is highest in OECD countries such as the Netherlands, New Zealand, England, Hungary and the Czech Republic – all with at least 50% of decisions being made at the school level. Other countries with high proportions of school decision-making include Korea, Denmark and Sweden.

According to the Organisation for Economic Cooperation and Development (OECD), the degree of decentralised decision-making in public schools varies considerably across countries. In 14 out of 25 countries, most types of decisions that bear on lower secondary education are taken locally or by the school itself. As can be seen from Figure 1, the school itself is by far the most important level of decision making in the Netherlands, the Czech Republic, England, Hungary and New Zealand, where well over half of decisions are taken at the school level. The Netherlands stands out among all countries, with all decisions being taken at the school level.

Figure 1: Proportion of Decisions Made at the School Level, Lower Secondary Education, Selected Countries, 2003



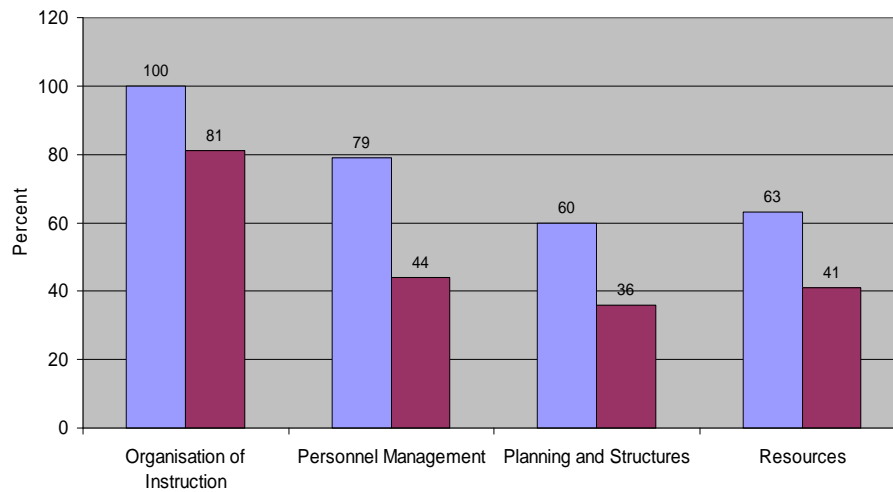
Source: OECD

In addition to variations across countries, there are also variations in the degree of SBM across the four main domains of school decision-making outlined above. In general, schools have the most control over the organisation of instruction and to a lesser degree personnel management

(see Figure 2). The lowest proportions of decisions made at the school level are in the areas of planning and structures and in resources.

New Zealand scores more highly than the OECD average for all areas and above all countries apart from the Netherlands, except for the organisation of instruction, where several countries 'top scored' with 100%. The biggest gap between New Zealand and the overall average for OECD countries is in the area of personnel management, where fully 35% more decisions are made at the school level compared to the OECD average.

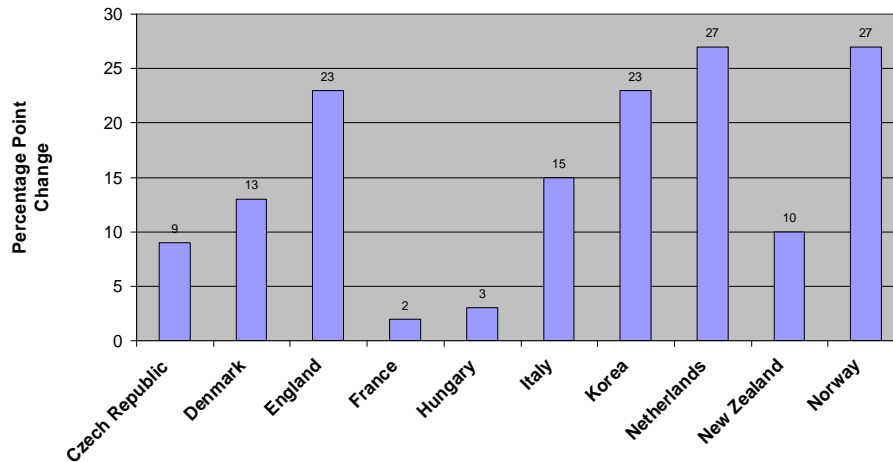
Figure 2: Proportion of Decisions Made at the School Level by Domain, Lower Secondary Education, New Zealand vs OECD, 2003



Source: OECD

Globally, the trend in recent years has been toward greater decentralisation of education decision-making. For example, OECD data show that in 14 out of 19 countries, school decisions were taken at a more decentralised level in 2003 than in 1998. This trend has been most noticeable in the Czech Republic, Korea and Turkey where more than 30% of decisions are taken at a more decentralised level in 2003 than five years earlier.

Figure 3: Change in Proportion of Decisions Made at the School Level, Lower Secondary Education, Selected Countries, 1998 and 2003



Source: OECD

At the school level, over 20% more decisions were made by schools in England, Korea, the Netherlands and Norway in 2003 compared to 1998. However, not all countries moved toward greater decentralization, with both Greece and the French Community in Belgium seeing a shift toward more centralisation in decision-making.

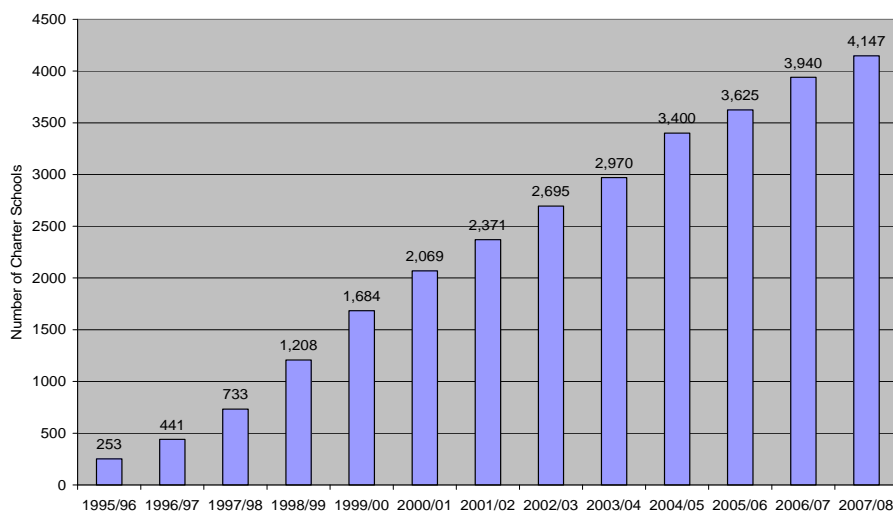
One of the best examples of the trend toward school self-management is the Charter school movement in the United States. Charter schools are secular public schools that operate with freedom from many of the regulations that apply to traditional public schools, such as geographic enrolment restrictions and teacher union contracts. Charter schools are subject to a performance contract that details the school's mission, program, goals, students served, methods of assessment and ways in which success will be measured. They may be managed by the community or by a for-profit or not-for-profit school manager.

School charters may be granted by a district school board, university or other authorising agency. The term of a charter can vary, but most are granted for three to five years. Charter schools are accountable to their sponsor or authorising agency to produce positive academic results and adhere to the charter contract. A school's charter can be revoked if guidelines on curriculum and management are not followed or standards

are not met. At the end of the term of the charter, the entity granting the charter may renew the school's contract. The advantage for charter schools' increased autonomy is strengthened accountability.

The first Charter school law was passed in the State of Minnesota in 1991, with the first charter school opening the following year. In the 2007/08 school year, there were more than 4,100 charter schools serving over 1.2 million students in the United States. The number of charter schools has increased considerably since the mid-1990s (see Figure 4). More than 40 states have passed charter school laws. A recent trend has been the development of Charter Management Organisations – not-for-profit networks of schools that serve a specific geographic area.

Figure 4: Number of Operating Charter Schools, United States, 1995/96 to 2007/08



Source: Vanourek, G. (2005) *State of the Charter School Movement 2005: Trends, Issues, and Indicators*, Charter School Leadership Council, Washington DC and Center for Education Reform

There are many other examples of schools being granted greater management freedom, including Charter schools in Alberta (Canada), Education Management Organisations in the United States and Academies in the United Kingdom.¹

Why is there a move toward decentralisation of educational decision-making at the school level?

¹ LaRocque, Norman (2008) *Public-private Partnerships in Basic Education: An International Review*, CfBT Education Trust, Reading UK.

Supporters of SBM argue that principals, teachers and parents are best placed to make decisions about how a school's resources should be allocated to best meet the needs of students and the wider community. In most countries, schools face a myriad of regulations, covering all facets of school operation – curriculum, enrolment schemes, staffing restrictions, school operation and school governance. Such regulation can limit schools' ability to organise themselves in the most effective way to meet student and community needs.

Such restrictions are of concern given the importance of school organisation to the academic performance of students. The improved management and accountability of schools under SBM can lead to improved education outcomes such as increased test scores and reduced drop-out rates. Other potential benefits from decentralisation include increased efficiency and innovation in the delivery of education, reduced education bureaucracy, increased responsiveness of schools to the needs of local communities, strengthened accountability and increased engagement with, and financial support for, schools.

There is some empirical support for the notion that SBM can improve educational outcomes, although the evidence is decidedly mixed.

For example, Chubb and Moe (1990) found that the way a school is organised was second only to student aptitude in determining educational achievement gain. Moreover, school autonomy was found to have the strongest influence on the overall quality of school organisation. In brief, the more a school is subject to the influence of external administrators and unions the less likely the school is to be effectively organised.

Cross-country evidence from successive OECD Progress in Student Achievement (PISA) studies suggests that education systems that devolve more responsibility to schools in areas concerning budget allocations within schools, the appointment of teachers, course offerings and disciplinary matters get better results. For example, data suggest that in those countries in which principals report, on average, higher degrees of autonomy in certain aspects of school management the average

performance in mathematics tended to be higher.² Similarly, in those countries in which principals report greater school autonomy with regard to choice of courses, the average performance on the combined reading literacy scale tended to be higher.³ The OECD is careful to point out, however, that correlation is not causality. In which principals report greater school autonomy with regard to choice of courses, the average performance on the combined reading literacy scale tends to be higher.

Results are similar, though less pronounced, for other aspects of school autonomy, including the relationship between mean performance and the degree of school autonomy in budget allocation within the school. It is important to point out, however, that correlation does not equal causality. Nonetheless, the OECD concludes that the findings suggest that school autonomy and teacher involvement in decision-making tend, at least at the cross-country level, to be positively associated with reading performance.

In their research using PISA data, Woessmann and Fuchs (2004) find that students in schools that have autonomy in choosing textbooks do better in maths, science and reading than students in schools that cannot choose textbooks. They also find that students in schools perform better in all three subjects when the school has autonomy in deciding on budget allocations within the school and that students in schools that have autonomy in hiring their teachers perform statistically significantly better in math and reading.⁴ School autonomy in other areas, including the ability to fire teachers and the establishment of teacher salaries are not significantly related (in a statistical sense) to student performance on PISA. Some of these results corroborate earlier research by Woessmann (2003), while others do not.⁵

A recent report by UK think tank Reform argues that the Academies programme and the independent model of governance “have introduced vital new impetus through new leadership, freedom of management and

² OECD, *Learning for Tomorrow's World: First Results from PISA 2003*, Programme for International Student Assessment, 2004, p 236.

³ OECD, *Knowledge and Skills for Life: First Results from PISA 2000*, Programme for International Student Assessment, 2001, p 178.

⁴ Woessmann, L and T Fuchs (2004) *What Accounts for International Differences in Student Performance? A Re-Examination Using PISA Data*, CESIFO Working Paper No 1235, Munich.

innovation” and the “academies programme has given significant management freedom to schools, which is the key factor in being able to drive better standards in teaching and discipline.”⁶ That same report calls for Academies to be given even more management freedom.

While important in its own right, SBM is also closely tied to the issue of parental choice in education. Indeed, there is a close link between strategies that seek to increase school autonomy and those that seek to increase parental choice. A 2006 report prepared for the Education Forum by education policy expert Professor Caroline Hoxby identified independent management – ie. schools’ ability to innovate with regard to pedagogy, staff compensation, the organisation of work, budget allocation and the ability to set the length of the school day and year – as an essential element of any school choice programme.

Professor Hoxby argues that the most important aspect of independent management is the ability to make decisions regarding hiring, compensation, assignment to duties, promotion and so on. For instance, if a school has to work within a series of collective bargaining agreements that are highly detailed and rigid, and if the agreements have been negotiated not at the school level but at a much higher level, a school is unlikely to have much management autonomy.

Hoxby is careful to point out that need for control of inputs does not imply being free from accountability over outcomes and that independent management does not mean that every school has to reinvent the wheel. Indeed, in the USA, some of the greatest innovators in pedagogy and school management are education management organisations that operate large numbers of Charter schools and state schools under contract to the district school board.

In my view, schools are already hampered by too much regulation, covering all facets of school operation. While it is clear that decision-making authority in New Zealand schools compares well with that in other countries, the sector is far more regulated than just about any other sector

⁵ Woessmann, L (2003) ‘Schooling Resources, Educational Institutions and Student Performance: The International Evidence’, *Oxford Bulletin of Economics and Statistics*, Vol 65 (2), pp 117-170.

of the New Zealand economy and far more regulated than the early childhood education and tertiary education sectors in New Zealand. This is particularly true in the area that is clearly of utmost importance to good education outcomes – staffing.

School principals in New Zealand face a myriad of constraints caused by teacher registration requirements, immigration rules, centralised contracts and employment legislation that combine to limit who can be hired, how teachers can be paid and how easily poor teachers can be dismissed. And successive Labour government has taken New Zealand back in time with the abolition of bulk funding of teachers' salaries, the re-introduction of central contracts for principals and the tightening of school zoning.

Another factor that has affected schools' autonomy is the government's tendency to increase budgets through funding that is tied to specific programmes or initiatives – for example, funding to reduce class sizes and initiatives to provide laptops for principals – rather than through general increases in school budgets. This, plus the abolition of bulk funding, has had the effect of reducing the amount of discretionary funding that many schools have. This effect has been particularly significant for high decile schools as they do not receive cash funding aimed at addressing school disadvantage. It is one reason why such schools are seeking to increase community and other non-government funding.

While there are many aspects to school autonomy, as I outlined above, one aspect – the funding of teacher salaries – has had the most attention in New Zealand in recent decades. Despite the theoretical arguments and empirical evidence in favour of school self-management, and its growing acceptance among schools, bulk-funding in New Zealand faced ongoing opposition from well-funded and well-organised opposition groups. A number of arguments were raised against bulk-funding. I have addressed those elsewhere and will not go through them now. Suffice to say that none of the criticisms withstand even the least bit of scrutiny.

Furthermore, such criticisms were also inconsistent with the evidence from two surveys of school principals and boards of trustees carried out for the

⁶ Tice, Richard (2008) *Academies; a model education?*, Reform, London, pp 5-7.

Ministry of Education in the late 1990s. These studies found that a great majority of respondents expressed strongly favourable views about their schools' participation in bulk-funding. They reported positive outcomes, including financial advantage and increased flexibility, especially in matters of staffing, the ability to self-manage and improved teacher/student ratios. In one survey, 94 percent of respondents felt their schools had been mostly advantaged by bulk-funding, and 80 percent indicated their school would prefer to continue with bulk-funding. That, by any measure, represents a strong endorsement – especially given the wide variety of schools that embraced the freedoms afforded by bulk-funding.

If media reports are to be believed, the National Party has apparently turned its back on bulk-funding a campaign promise in recent elections. In one sense that is a huge step backward in policy terms. It is, however, understandable, given the baggage that bulk funding carries with it. At the same time, it may a positive development if it leads to increased focus on the wider issue of school self-management and the conditions under which such self-management works best, rather than just bulk-funding.

It is clear that self-management broadly defined has taken a big hit in recent years. While I have not seen any rigorous evidence, it seems clear that schools are being strangled by regulation and red-tape. According to Anne Tolley, the National Party's spokesperson on education, school principals are being strangled by red-tape and bureaucratic bungling is beginning to affect the core job of teaching. According to a media release from Anne Tolley:

There are now 28 forms relating to staff hours, appointments, leave entitlements and pay. The situation is so bad that, in some cases, teachers' salaries are being delayed while the mountain of paperwork is dealt with.⁷

Some of you may recall the 'theatre of the absurd' situation earlier this year when a school principal in Otago was required to fill in 7 pages of forms in order to replace a \$2,500 carpet in the staff room. That apparently was not enough, as he was later told he needed to fill in a further 7 pages of forms

⁷ Tolley, Anne (2008) 'Principals strangled in red tape war with Ministry', *National Party Media Release*, 19 March 2008.

and was advised to engage a consultant to assist in the process! Talk about being hauled over the carpet!

There is a strong and robust case for giving school managers more say in the way they run their schools, for favouring communities over bureaucracies and parents decisions over 'experts'. Bulk funding was defeated not by the strength of strong arguments, but by an unholy alliance of shallow ideology and well-organised vested interests. The empirical evidence on self-management is as robust as that for other areas of education policy – for example proposals to reduce class sizes that are regularly put forward as the 'solution' to education's problems.

New Zealand does not need a return to bulk-funding. Indeed, one hopes that the words are never uttered again.

What New Zealand needs is a much wider consideration of all aspects of self-management and school funding, the degree of regulation facing schools and the benefits and costs of current regulation and funding policies. Such a review could provide a basis for consideration of policies aimed at giving school managers more decision-making authority, while strengthening school accountability. There is no need for such a review to focus solely on bulk funding. The next government – of whatever political stripe – would need to work hard to develop a constituency for change to ensure that we do not see a rerun of the 1990s debates over bulk funding. Given the entrenched interests, bottom up reform driven by sector groups may offer the best opportunity for meaningful reform of the New Zealand regulatory and funding framework.

There is no need for ideology in the debate over self-management in schools. Let's remember that it was the Labour Party that introduced the significant decentralisation of schooling in New Zealand in the late 1980s, including the legislation to implement bulk funding. Other countries – including the Netherlands – have successfully introduced highly decentralised school systems that operate without the politically and ideologically charged carry on that we have observed in New Zealand.

The Democrats under President Bill Clinton were strong supporters of Charter schools. The Labour Party in the UK – under both Tony Blair and Gordon Brown has championed public-private Academies. There is no reason why New Zealand cannot extend its decentralisation reforms. This is especially true given the head start we have in the area of decentralisation.

School decentralisation is not a be all and end all. Schooling systems need a number of things, including a strong and effective curriculum, world class qualifications, motivated students, engaged communities, good teachers and good managers. But it can play a role in improving New Zealand's educational outcomes.

Bulk funding is dead. Long live bulk funding.