

## Guidelines for Interpreting and Scoring Benchmarks

**10.4:** *Financial plans include the delineation of costs for key target areas such as instruction, tuition assistance, administration, professional development, facilities, equipment, technology, program enhancement/expansion, capital projects and other planned projects.*

### I. What does this benchmark indicate for school performance?

Benchmark 10.4 articulates the importance of school leadership teams having a full and complete understanding of the costs associated with fulfilling the school's mission. This means more than simply dividing all the obvious costs by the number of students and calling it a "cost per child" – it means being able to break out those costs into logical areas that can then be analyzed and compared. Schools that have a good handle on this level of data are able to use the information in a number of ways:

- A "real" cost per child can be calculated, incorporating costs that might be otherwise overlooked. For example, a school which operates in a building which is owned and maintained by an associated parish might well never have considered what the space costs—this is a real cost, even if it is borne by the parish rather than the school. Having a comprehensive outline of potential costs would highlight this "hole" in the school's budget, allowing for a robust conversation about the sustainability of the current model and the risks involved with being dependent on the parish's continued support.
- Breaking out costs by area allows the school leadership team to evaluate the level of spending in each, and ensure that the budget accords with the school's mission. For example, a school whose mission centers on academic excellence, but whose teachers are poorly paid or whose budget for professional development is very small might recognize, through this exercise, that their budget tells a different story than does their mission statement.
- Breaking out costs by area also allows the team to analyze each area independently to ascertain if there are better (or cheaper) ways to achieve the school's mission. Benchmarking can be an excellent tool here, which is one of the reasons the standards strongly recommend including experts in non-profit management in the financial planning process. If your school is spending 1.5% of the budget on academic technology, and local competitor schools are all spending 3.5%, it doesn't mean that they're right and you're wrong – but it does indicate that this is an area where further research could be very valuable.

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- Finally, being able to articulate a robust, detailed cost picture will allow the school to practice greater transparency. This information can be very effective when communicating with current and prospective families as well as other stakeholders. Donors, in particular, are increasingly interested in understanding how a school stewards donated resources, and being able to articulate the cost structure, in detail, indicates a high degree of financial control.

### **II. As a review team member, what evidence do I look for?**

These are some questions which will help to frame this item:

- How are the costs broken out for all budgets (current year and, if available, the past 3 years)?
- How are the costs broken out in financial plans (next year's plan and, if available, the long-term 3-5 year plan)?
- How frequently are those responsible for reading and using the budgets / plans updating and reporting their numbers? Did you interview those responsible?
- How does the leadership team use this information?
- Is the financial reporting considered trustworthy?
- Is the leadership team or if the team incorporating the information into both strategic and tactical decision making processes?
- Is the information updated and reviewed, in detail, at least quarterly?
- Is this information considered as the key element of important decision processes like budgeting, financial planning, establishing tuition and aid levels, determining annual raises, setting fundraising goals or engaging in capital projects?

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- Is the budget information useful, (presented at a reasonable level – that is, rolled up into categories that are detailed enough to be actionable, but not so detailed that the information is unwieldy)?
- Is the leadership team able to explain (or defend) the specific way cost information has been aggregated?
- How engaged is the leadership team in the process of designing the budget reports?
- Does the leadership team find the reports useful?
- Is the leadership team able to use the information to make better decisions for the school?

### III. What are the key differences between the levels of the rubric?

At level **3-Fully Meets Benchmark**,

the set of costs being considered is complete – no major categories are left out. Cost information is aggregated to the best level for decision making, and is presented in a set of well thought out reports. Cost data is reviewed regularly by the school leadership team, and is used to inform important decisions. School leaders are cognizant of the relationship between the budget and the school's mission, and are committed to ensuring that they are aligned. The community understands the true “cost per child” and how it relates to tuition.

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### **At level 4-Exceeds Benchmark,**

all costs are included in the analysis, including “replacement cost” (rather than operational cost) for any goods or services that are obtained at less than market rate (examples might include lower-than-market teacher salaries, parish-funded utilities or donated books). Cost data is available in near real time, and can be used for day-to-day management as well as longer term planning. School financial systems / personnel are able to present data at different levels of aggregation depending on the need, from broad rolled-up categories for public reporting to very detailed levels for comparative analysis. Cost information is trended over time and is compared to appropriate benchmark data to identify potential opportunities or weaknesses.

### **At level 2-Partially Meets Benchmark,**

all regular operational costs are considered, but the budget may be missing more complex elements like depreciation, shared services or an accounting for capital expenses .Cost information is presented to the school leadership team in a manner that does not support the kind of planning or decision making desired. Developing detailed cost information is an arduous or expensive process, and so may only be available infrequently (perhaps once a year during “budget season”.) The school leadership team recognizes the importance of understanding costs, but does not always incorporate cost data into planning or decision making processes. Cost data, including the “cost per child”, is not shared consistently with the community nor used to help school families recognize the value of the education they are receiving.

### **At level 1-Does Not Meet Benchmark,**

the cost picture is incomplete; even some (or all) operational costs are not tracked or cannot be incorporated into financial plans. School leaders do not recognize (or agree with) the importance of considering costs when making decision or longer-term plans. The larger community has no knowledge of the true cost of education.

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### IV. What are some key suggestions for improvement?

**To move from level 1 to level 2,** the basics must be put in place:

- Capture and report a consistent system for costs and expenditures by category.
- Develop a process to ensure that the leadership team uses this information during financial planning and decision-making.
- Involve IT work if the current system's infrastructure is insufficient to support the school's budget work.
- Educate school leaders about budgets, including how to read financial reports.

**To move from level 2 to level 3,**

- Expand the set of costs being reported on to incorporate the more difficult items, probably assisted by someone with expertise in nonprofit finance.
- Commit to data-driven decision making as the norm for all school leaders.
- Provide additional training or coaching to be able to use financial information effectively.
- Make it the norm that the school's financial data is owned by the school's leadership team and creates a comfort level for modifying reports to ensure the reports have an accurate understanding of the school's financial health at all times.

**To move from level 3 to 4,** a very sophisticated data system

- Hire personnel capable of using it effectively—must be put into place.
- Incorporate historical data (for trend reporting).
- Create comfort level for the leadership team as it relates to financial topics and accounting norms.
- Establish trusted relationships with similar schools (perhaps schools far enough away that competition is not a concern).
- Exchange cost data regularly with partner school to allow for effective benchmarking.
- Complete market research to assess true “replacement costs” for all goods and services.
- Establish a more robust model for reporting the differences (for example, recording teachers' salaries at market cost and recognizing the difference an annual donation by the teacher under gift revenue).

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**V. What are key terms for common understanding? (Refer to NSBECS Glossary for terms listed below.)**