



REDACTED

17 July 2015

## Education Report: Independent advice on options for the scope of an education funding review

---

### Recommendations

---

#### We recommend that you

- a. **approve** the attached scope of work to be completed by David Moore of the Sapere Research Group on your funding review

YES NO

- b. **agree** that the Ministry of Education enter a contract on your behalf with Sapere Research Group for this work

YES NO

- c. **note** we currently anticipate that the work by Sapere Research Group will be completed by the end of September 2015

- d. **note** that we have also contacted Murray Jack about further independent advice and that he is available for part of his time over August and September to assist.



Andrea Schöllmann  
Deputy Secretary

NOTED / APPROVED



Hon Hekia Parata  
Minister of Education

22/7/15

## **Education Report: Independent advice on options for the scope of an education funding review**

---

### **Purpose of report**

---

1. This report seeks confirmation that the Ministry should, on your behalf, engage David Moore from Sapere Research Group to provide independent advice on options for a review of education funding for 0-18 year olds.

### **Background**

---

2. In November 2014, Cabinet agreed to a review of funding for education from 0-18 year olds to be examined in two parts:
  - a. continuing the work that has been done to date, in consultation with the ECE sector, on reforming the ECE funding system; and
  - b. analysing the current school funding system to identify possible areas for the review.
3. Cabinet invited you to:
  - a. undertake further targeted consultation with the ECE Sector Advisory Group on funding to finalise policy proposals and then seek approval for wider public consultation on the changes; and
  - b. report back on how a review of the school funding system should be progressed.

### **Work so far**

---

4. Over the last 6 months, we have described and analysed current funding systems, and identified potential scopes for the review across funding for 0-18 year olds. Work has also continued on developing the policy proposals specific to the ECE sector.

### **Rationale for independent advice**

---

5. Our discussions with you have identified an opportunity to explore the creation of a per-student based funding system, rather than the current system based on a combination of provider and student funding. To do this, we need to identify ways to estimate the costs of educating different categories of students, rather than the costs of operating a school.
6. To help us with this work, you have decided to contract external expertise from David Moore of Sapere Research Group, who has extensive experience in estimating health sector costs per patient. He proposes to use this experience to identify high level options for a per-student based funding system for education.

### Scope of the work

---

7. A proposed scope for the work is attached for your approval (Annex 1). If you agree to the scope, we will enter into a contract with Sapere Research Group on your behalf for completion of the work.
8. Sapere will use conventional costing and pricing approaches, such as identifying fixed and variable costs, to better understand the cost of school education on an individual student basis. They will use information from schools' accounts and allocate costs to different student years and types of students as best they can. They do not plan to undertake sophisticated and time consuming techniques, such as time measurement tools, but rather, to use interviews to identify the magnitude of costs and test apportionment.
9. Sapere will also identify donations and international student fees (co-payments) for students to make sure they aren't missing anything in terms of the revenue raising capacity of different schools. At the same time, Sapere will try to tie the social costs of educational failure loosely into the model.
10. Across ECE, primary and secondary, Sapere plan to identify production models and costs of those models, at least as a starting point.
11. Given the need to work with individual schools to understand the costs of educating individual students, Sapere Research Group plans to work closely with the Ministry on the analysis. We will inform key sector bodies, including SPANZ, PPTA, NZPF and NZEI, before we begin to contact individual schools. We are meeting with our Directors of Education on Thursday 23 July to identify schools that David and his team might talk to.

### Further independent advice

---

12. We understand that you would like to seek further independent advice on the potential scope of the funding review. I have approached Murray Jack (formerly of Deloitte) to discuss what advice he could provide. He has advised that he is available over August and September for part of his time to assist. We will work through with you the terms of reference for that part of the work following your approval of this contract.

### Timeline and next steps

---

13. Sapere Research Group has advised that they will need a minimum of two months to complete the work. They are currently in the process of confirming the personnel and number of days that they consider will be needed, so that the Ministry can complete the necessary contract documentation.
14. We anticipate that a contract will be in place by the end of next week, so that the work can be completed by late September.
15. On 2 July, we provided your office with a draft letter for you to seek an extension to the Cabinet report back for the scope of the funding review. Following Sapere Research Group's work, we anticipate that a report to Cabinet on a proposed scope for the review will be possible in October.

## **Annex 1: Terms of Reference: independent advice on reviewing education funding systems for 0-18 year olds**

### **The brief**

The Ministry seeks a full review of funding, including development of a revised funding model. The time allowed for the project is two months. The Minister seeks independent, expert comment on the funding model, and, if possible, development of a funding model. In particular, as part of the process, the Minister would like some questions addressed such as “what is the cost of a good Kiwi education”.

### **Problem definition**

There is concern that the NZ education sector is under-performing. The upper quartile is world class, but decreasing in relative size. The lower quartile has been a major concern in international comparisons for the last decade. The concern is that this lower quartile is growing and may become the new average.

The Minister has instigated important changes to the education system; in particular, that leadership in schools is recognised more and schools are encouraged to work in communities to deal with some of the issues of small scale. For the Minister, this assignment offers an opportunity to assess whether the funding mechanisms align with the espoused vision and direction for the sector.

There is currently a high degree of central input into capital development and teachers' salaries, whilst schools operate independently with elected board members. Further, the current funding mechanisms are input focused, and do not appear to assist with incentives for supporting infrastructure investment or innovation in teaching.

### **Approach**

The approach will:

- document the operation of the current funding system and, in particular, re-cost the system from the perspective of the student
- look at a range of funding options and assess those options against a range of desirable characteristics
- generate the particular elements of a funding model without undertaking the detailed work to estimate parameters.

This will happen in the following stages:

The first stage, understand the schooling system through the eyes of students:

- understand how colleges/ schools allocate the money granted them. Establish a set of reference sites and understand both how schools/ colleges are funded and how they spend that money, which is likely to reveal a set of different strategies. The schools identified need to be typical of the public system and represent the range of schools typical of those the average student would experience. They would need to reflect urban, provincial and rural situations, at different stages of student development
- understand and cost the pathways for a range of typical students, including some of those at the high end and some of those at the low end. From the information provided, there is no such thing as an average Kiwi education (or therefore an average cost) but there are both costs and economic benefits associated with different pathways and outcomes. The work will chart a range (say six to twelve) of students through different institutions to give both a full costing of the experience with different but typical outcomes
- understand better variation in teaching and therefore possible drivers of value and explore as much as possible the sources of that variation.

The second stage will use reference sites to explore and review options with an open mind about what might happen in a system with funding attaching to students through to tweaks to the existing system. This will explore

- funding systems from other countries including direct funding to students
- a capacity system with additional elements as suggested in the Australian funding review
- funding mechanisms from the health sector moving to output funding with rural and other adjusters, and with some element of school capitation.

The third stage will assess the options and make draft recommendations for a pragmatic, step-wise adjustment path from the current funding model to a more desired funding model.

The assessment criteria that will be considered will include:

- better supports the advancement of education attainment by encouraging greater innovation in schools
- better allocates money to areas of growth whilst supporting capacity in rural areas
- provides strong incentives for local provision of the right mix of social and educational initiatives to best support learning development in schools
- best leads to financial sustainability of the sector

- reinforces key aspects of the Minister's education strategy including development of leadership and increased networking across communities of schools.

The aim is to bring the funding analysis together with the sector strategy, and to find a practical next step that is fit for discussion with the sector and with other senior Ministers.

The work will be both with the Ministry and for the Minister.

### **Exclusions and limitations**

1. The work will not include detailed analytical techniques such as data envelopment analysis, because this would require working groups for a period of some months to exchange information and develop the relevant cost measures and output units.
2. Funding for outcomes is only achievable if there is a great deal of clarity around attribution, and it is unlikely that this clarity will be achievable within the timeframe. An investigation of observable variation and progressive development of outcome measures will be needed before stepping into outcome pricing.

The Ministry has undertaken to provide a full review of education funding. This assignment will provide useful input and assist with determining further work stages, but is likely to point to directions rather than be able to produce a conclusive result.

A review of the quantum of funding is beyond the scope of this funding review.