

Briefing Note: Funding Review – Draft Terms of Reference for Independent Adviser

Date:	9 July 2015	Priority:	High
Security Level:	In Confidence	METIS No:	941115
Approved by:	Andrea Schöllmann	DDI:	[REDACTED]

s 9(2)(a) OIA

Purpose

1. Attached for your feedback is a draft terms of reference relating to the independent advice you are seeking on the review of education funding. David Moore has drafted the ToR on the basis of his discussions with you and the Ministry.

Development of the terms of reference

2. We have met with Mr Moore on two occasions to share information and discuss possible approaches. As a basis for discussion we provided Mr Moore with a preliminary draft terms of reference, which he refers to in the attached terms of reference. We also provided Mr Moore with relevant background papers, such as our stock-take of the ECE and school funding systems.
3. Mr Moore has sought to identify a scope of work that could be completed within the suggested time frame. This is reflected in the exclusions and limitation section of the attached draft terms of reference.
4. We are immediately sharing the draft terms of reference with you for feedback in order to maintain the momentum of this work.
5. The work Mr Moore is suggesting would make a valuable contribution to the review of the funding system. It requires engagement with selected individual schools to understand how they use their resources, which we would facilitate. We also propose briefing key sector groups in order to facilitate this work.
6. If you are comfortable with the draft ToR, we would finalise them with Mr Moore and begin the work next week.
7. If you wish to talk to Mr. Moore directly, he has suggested you contact him on [REDACTED]

s 9(2)(a) OIA

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

My understanding is there is concern 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 this lower quartile is growing and may become the new average.

The Minister has instructed important changes to the education system, In particular, 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.

As a personal comment, there is a high degree of central input into capital development and teachers’ salaries, whilst schools operate with elected board members; this is a strange mix of central direction and local autonomy. Further, the current funding mechanisms are input focused and would not appear to assist with incentives for supporting infrastructure investment or innovation in teaching.

Our approach

My suggested approach is to document closely the operation of the current funding system and, in particular, to re-cost the system from the perspective of the student. From that perspective, I think we can look at a range of funding options and assess those options against a range of desirable characteristics. From that perspective, we can generate the particular elements of a funding model without undertaking the detailed work to estimate parameters.

This could 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 is clearly there are both costs and economic benefits associated with different pathways and outcomes. My feeling is it will be well worthwhile charting a range (say six to twelve) 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, explore funding options, and review with an open mind what might happen in a system with funding attaching to students through to tweaks to the existing system: using the reference sites, we could 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 adjustors, and with some element of school capitation.

The third stage would be assessing the options and making draft recommendations for a pragmatic, step-wise adjustment path from the current funding model to a more desired funding model.

I haven't spent much time thinking about the assessment criteria but I think we need to dig deeper than a general appeal to efficiency, effectiveness and equity. The criteria that might be relevant might be as follows:

- 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.

We will need to bring the funding analysis together with the sector strategy and find a practical next step that is seen as fit for discussion with the sector and with other senior Ministers.

I fully understand this work needs to be both with the Ministry and for the Minister.

Exclusions and limitations

I am concerned about the suggested deliverables from the project.

1. The original departmental scope is not achievable in the time frame and radically underestimates the time needed for sector funding development. For instance, if the data envelopment analytical approach is used then likely sector working groups will need to come together for a period of some months to exchange information and develop the relevant cost measures and output units.
2. I am concerned about the reach-through to an espoused goal of outcome funding. In particular, funding for outcomes is only achievable if there is a great deal of clarity around attribution; I can't see this clarity espoused in any of the papers provided to me. I would strongly recommend an investigation of observable variation and progressive development of outcome measures before stepping into outcome pricing.

From a departmental perspective, the department has undertaken to provide a full review of education funding. This assignment will provide useful input and likely assist with determining further work stages but, however, will likely point to directions rather than be able to produce a conclusive result.

I note and agree a review of the quantum of funding is beyond the scope of this funding review.