



Education Report: Funding Review background information and next steps

To:	Hon Chris Hipkins		
Date:	15 December 2017	Priority:	High
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Messaging seen by Communications team:	Yes / No		

Summary

- 1 When we meet with you on Tuesday 21 November 2017 to discuss the funding review you asked for additional background material. Your particular interest was in the work on funding for disadvantage, including the index to replace the decile mechanism, as well as the two decisions taken in-principle on property maintenance and early childhood education.
- 2 This report provides you with:
 - a. relevant Cabinet papers from 2017
 - b. recent reports, minutes and presentations related to the Funding for Disadvantage Technical Reference Group.
- 3 The Cabinet papers cover the period from March 2017, when the previous Government first considered the replacement of the decile system and took in-principle decisions on property and early childhood education, through to the final decision to replace the decile funding system in late June 2017.
- 4 The material from the Funding for Disadvantage Technical Reference Group takes the decile discussion beyond these Cabinet decisions and illustrates the detailed issues the group worked through between August and October 2017.
- 5 This report also provides you with a short discussion of the work we plan to undertake over the next few months to refine the index and to develop advice to inform your consideration of the future direction of this work in 2018.

Recommended Actions

The Ministry of Education recommends you:

- a. **note** that, following your request at our meeting on 21 November 2017, we have provided the following background material:
 - i. relevant Cabinet papers from 2017

- ii. recent reports, notes, and presentations related to the Funding for Disadvantage Technical Reference Group

Noted

- b. **note** that we are undertaking work to refine the index that will inform advice to allow you to make a judgement about the future direction of the funding review work on disadvantage in 2018

Noted

- c. **note** that the earliest that the index could be introduced is at the beginning of school year 2020 as this allows sufficient the time to:
 - i. test, refine and operationalise the index
 - ii. develop an operational plan for the funding mechanism
 - iii. engage the sector to build its confidence in this new methodology

Noted

- d. **note** that, given current demands on Vote Education, a better fit with your investment priorities could be achieved if the index is introduced from the 2021 school year

Noted

- e. **note** that we will include issues of timing in the advice we provide you in early April 2018.

Noted



Damian Edwards
Associate Deputy Secretary
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15/12/17

Hon Chris Hipkins
Minister of Education

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Background

1. On 2 November 2017, we provided you with a briefing on the funding review [METIS 1088540]. That report summarised the review's objectives and had a particular focus on the elements related to supporting all children and young people reach their educational potential. The report did not cover work on the other review objective, managing the risks to the Crown's substantial investment in school property.
2. On 21 November, we meet with you to discuss the review. The discussion focused on the following decisions of the previous government:
 - a. agreement in-principle to move away from a place-based funding system for early childhood education (ECE) and ngā kōhanga reo to a per-child funding system
 - b. agreement in-principle to introduce a set of minimum requirements for how schools use funding for property maintenance and vandalism, as well as phased implementation of heat, light and water funding based on actual spend
 - c. agreement to target funding for disadvantage based on the estimated number of children in each school or service at greater risk of educational achievement due to disadvantage:
 - i. using a risk index that would apply to information available on each child in Statistics NZ's Integrated Data Infrastructure (IDI)
 - ii. with the start date in schooling either the 2019 or 2020 school year, with a final date to be agreed after consultation with the sector
 - d. agreement in-principle that no school or service would lose funding as a direct result of the replacement of the decile system.
3. Only these last two decisions were announced.
4. You asked us to provide you with any additional material that would give useful background information on the work on children and young people from disadvantaged family circumstances and the index that was to replace decile.
5. This report responds to that request. It provides you with:
 - a. relevant Cabinet papers from earlier this year
 - b. reports, minutes and presentations related to the Funding for Disadvantage Technical Reference Group.

Cabinet Papers March – June 2017

6. Between mid-March and late June 2017, Cabinet received advice in a series of Cabinet papers. Some were revised and resubmitted and additional material and annexes were

provided to support discussion amongst Ministers. The most important elements of this material are attached and are listed in Annex A.

7. These papers illustrate that the previous Government:
 - a. took early in-principle decisions on property and early childhood education (but choose not to announce these decisions before the election)
 - b. was convinced that the index was a better way to target funding for disadvantage than the existing decile system but asked for additional advice to:
 - i. understand the distributional impacts at a school-by-school level of a shift to the index (the advice was based on modelling using a provisional index constructed outside the IDI)
 - ii. support consideration of the level of investment necessary to adequately push against disadvantage and to support schools through the transition to the new system
 - iii. reassure Ministers that additional investment would be well used and that mechanisms would be in place to ensure this investment accelerated the progress and achievement of children and young people from disadvantaged circumstances
 - c. was prepared to consider additional investment in disadvantage in the schooling sector of around \$100 million per annum but, after discussion, deferred decisions on funding
 - d. was concerned about managing the transition where schools assessed as less disadvantaged under the index compared with decile could, as a result, see a reduction in disadvantage funding
 - e. made a commitment that no school or service would lose funding as a direct result of the index but had not worked through the specific details of these transition arrangements.
8. The June Cabinet paper (included in the attached material), in which the previous Government took the decision to replace the decile system, gave considerable space to related issues of reporting progress and achievement and what is required to support a focus at all levels of the system on continuous improvement. These issues were brought together with the decile replacement decisions in one paper because of the previous Government's interest in ensuring that any new investment in disadvantage funding delivered good educational results for children and young people from disadvantaged family circumstances.

Technical Reference Group Report, Notes and Presentations

9. The Ministry has since late 2016 used a number of technical reference groups, including one focused on disadvantage, to build our understanding of how the current funding model operates in practice, test our thinking and explore ideas. Following the final Cabinet paper in June, the Ministry worked with the Disadvantage Technical Reference

Group to explore the detailed design of the index and funding methodology. Attached for your information is the following:

- a. the group's report to the Ministerial Advisory Group (February 2017)
 - b. presentations drafted by the Ministry to support discussion at three meetings between August and October 2017
 - c. notes of the discussion at those meetings.
10. The report of the Disadvantage Technical Reference Group to the Ministerial Advisory Group provides a summary of the group's early work. Of interest given our discussion on 21 November are the group's:
- a. endorsement of the index as a better basis than decile for assessing the scale of disadvantage in each school and service (albeit with some concerns that it not continue the stigmatising effects of decile and a view that there was potential for further refinement)
 - b. view of the negative connotations of the term "funding for disadvantage" and its preference for the term "equity funding"
 - c. desire that the funding is framed as having the purpose of enabling schools and services to accelerate the progress of disadvantaged children across all areas of the curriculum
 - d. emphasis on ensuring the funding mechanism reflects concentration of disadvantage within individual schools and services
 - e. belief that, overall, the funding arrangements should allocate more to schools and services to overcome disadvantage.
11. As shown in the attached presentations and meeting summaries, in the three meetings between August and October 2017 the Group explored critical funding mechanism design, communications, and engagement questions. These included:
- a. refinements of the index and confidentiality and privacy protections
 - b. the level of disclosure of information about school's disadvantage and reducing the risk of stigmatisation
 - c. the proportion of students that should be defined as disadvantaged for funding purposes
 - d. funding rates and how to best recognise the impact of higher concentrations of disadvantaged students in a school
 - e. exploring and managing year-on-year volatility in the proportion of disadvantaged students in a school
 - f. considering what it takes to address disadvantage (and what works best)
 - g. ensuring the effective use of funding and considering the support schools require to achieve this.

Planned work over the next three months

Refining the index

12. Considerable progress has been made on developing the index and identifying the key design questions and work required to take the index from a research model to a tool that is integral to an operational funding mechanism.
13. As noted above, the advice provided to the previous Government on the profile of disadvantage in schools and the potential distributional effects of a move to the index was informed by a provisional index with a limited number of factors. This provisional index was used because at that time we were not able to extract school level data from the IDI. We had not yet completed the privacy impact assessment, secured consents from agencies that supply information to the IDI that is used for the index, or agreed confidentially thresholds with Statistics NZ. These steps needed to be in place to comply with the Statistics Act 1975, the Privacy Act 1993, and to meet Statistics NZ's other requirements for data to be released from the IDI. This work has now been completed and school level information extracted from the IDI.
14. Now that we have school level data, we are undertaking further work to refine and further test the index over the next three months. This includes testing to ensure the index does not underestimate the disadvantage of any sub-populations of children and young people (eg Pasifika or refugees). Given that sub-populations are not evenly distributed across schools, any significant underestimate of the level of disadvantage of a sub-population could impact on individual school level estimations of disadvantage and, therefore, funding allocations. This, in turn, could potentially undermine sector confidence in the index.
15. The index is a "black box" and schools will not be able to make their own assessments of their levels of disadvantage by surveying families (something that is possible under the decile funding system). It, therefore, becomes crucial that we build sector confidence that the index will accurately estimate a service or school's level of disadvantage. We can do this through effective engagement and communication and by extensively testing and refining the index and funding mechanism before implementation. This will ensure that, in taking the index from a research model to an operational model, the index is fit for purpose and you, the sector, and the Ministry can have confidence that disadvantage funding calculations will be right first time every time.

Ensuring that investment in disadvantage achieves results for children and young people

16. When discussing the review on 21 November, you asked how we will know that the investment in disadvantage is delivering better educational outcomes for children and young people.
17. Schools are not required to report on the use of either Targeted Funding for Educational Achievement (TFEA) or the Targeted At-Risk Grant. As this funding accounts for a small proportion of the resources provided to schools, the question of how we support schools to use funding for disadvantage effectively to get better results for children and young people from disadvantaged backgrounds is best progressed within the wider context of how schools use all their resources to deliver results for children and young people. This means supporting them to set clear strategic objectives around achievement and equity, to undertake strategic decision making and planning to give effect to these objectives, and with measurement and reporting (including at the individual level) that enables them to review progress and make continuous improvements.
18. There is guidance and support in place, or planned, to provide services and schools with tools to enhance decision making. You have also asked the Ministry to investigate other potential improvements to regulations on what needs to be in annual reports. There is a

potential role that the Education Review Office can play in improving schools' strategic decision making and effective use of resources to support achievement and equity that could be explored.

19. We will make appropriate links between this wider work as it progresses and the more specific issue of how we ensure current or future investments in disadvantage make a difference to the progress and achievement of children and young people from disadvantaged backgrounds.

Implementation Timeframe

20. As noted in our 2 November report, a start date for the new funding mechanism of the beginning of the 2020 school year would provide sufficient time to complete the critical work needed to refine the index and robustly quality assure its operational delivery.
21. While 2020 is the earliest date that decile could be replaced and aligns with the timeframe for the next decile recalculation, you could choose to implement the new methodology later than 2020.
22. A later timeframe, the beginning of the 2021 school year for example, may better align with your investment plans and priorities for the education portfolio. This would, of course, require the continuation of current decile ratings for another year as a recalculation of decile for one year only would not be a good use of resources and could create additional and unnecessary disruption and confusion.

Next Steps

23. The work described above will set us up to provide advice to you in early April 2018 on the likely distributional impact of the index in an operational context and under different funding options and scenarios. The intention is that this advice will allow you to have a clear picture of the index, the profile of disadvantage that it produces, the design of the funding mechanism, and the investment that would be required to make a difference in the educational outcomes for children from disadvantaged family backgrounds.
24. This will provide you with confidence about the index as an improvement over decile and support you to consider and communicate how you want to move forward with the replacement of decile and the timeframe for implementation. We will include advice on potential implementation timeframes when we report to you next year.

Annex A: List of Documents Provided

Cabinet and associated material

- *Review of Education Funding Systems: First Decisions* (Cabinet paper, 20 March 2017)
- *Options for Managing Transition to New Funding Arrangement for Students at Greater Risk Due to Disadvantage* (Material for Ministerial Sub-group, March 2017)
- *Review of Education Funding Systems: Funding for Underachievement due to Disadvantage* (Cabinet paper, 18 April 2017)
- *Handout on Funding Decisions Sought* – (to accompany April Cabinet paper)
- *Paper B: Replacing the Decile System* (Social Policy Cabinet Committee paper, 31 May 2017, Cabinet 6 June 2017)
- *Review of Education Funding Systems: Background* (A3s supporting, 31 May Cabinet paper)
- *Strengthening the focus on student progress and replacing the decile system* (Social Policy Committee paper, 21 June 2017, Cabinet, 26 June 2017)

Technical Reference Group reports, notes and presentations

- *Report from the Technical Reference Group on Funding for Disadvantage to the Review of Funding Systems Ministerial Advisory Group*
- *Funding for Disadvantage Technical Reference Group: Meeting 5 Presentation*
- *Funding for Disadvantage Technical Reference Group: Meeting 5 Summary*
- *Funding for Disadvantage Technical Reference Group: Meeting 6 Handout (Funding Rates and Thresholds)*
- *Funding for Disadvantage Technical Reference Group: Meeting 6 Presentation*
- *Funding for Disadvantage Technical Reference Group: Meeting 6 Summary*
- *Funding for Disadvantage Technical Reference Group: Meeting 7 Summary*