MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Education Report: The impact of shifting to the Equity Index on eligibility for the School Donations Scheme

To:	Hon Chris Hipkins, Minister of Education		
Date:	28 June 2021	**Priority:**	Medium
Security level:	In Confidence	**METIS №:**	1261518
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Messaging seen by communications team:	No	**Round robin:**	No

Purpose of report

This report provides you with information on the impact that shifting to the Equity Index will have on eligibility for the donations scheme. Our advice focuses on the treatment of schools who become eligible for the scheme and those who are no longer eligible after a shift to the Equity Index.

Summary

The Equity Index is likely to be implemented in 2023, subject to decisions in Budget 2022. We recommend that the Equity Index be used to determine eligibility for the donations scheme when the Equity Index replaces school deciles. This report provides you with advice on how to manage the changes in eligibility that would result from this shift, assuming eligibility for the scheme is not extended wider than the current policy settings.

Our recommended approach is as follows:

1. Set the new threshold for eligibility as the Equity Index of the school at the 70th percentile of the Equity Index.
2. Extend eligibility for the scheme to schools who become newly eligible under the Equity Index.
3. Grandparent eligibility for schools who are currently eligible under deciles but do not meet the new eligibility threshold under the Equity Index.
4. Adopt a 'no losers' approach to eligibility in future years, whereby schools that meet the threshold become eligible, and those that move below the threshold remain in the scheme (as long as they remain opted in).

The estimated cost to extend the scheme to newly eligible schools would be approximately $6.912m. We estimate that an additional $542,000 per year would be required to transition these schools into the scheme, assuming all newly eligible schools opt in, with the rest to be covered by existing underspends in the donations scheme.

We will engage with Treasury on seeking an in-principle transfer from the 2021/22 underspend to 2022/23 to cover the cost of extending the scheme to these schools in the first year. Alternatively, this funding could be sought as part of the budget bid in Budget 2022 for an ongoing increase to equity funding and funding for the transition arrangements. We will present you with an options paper at a later date, should additional funding be required. A fiscally neutral approach is also possible by amending eligibility thresholds.

Following the initial transition from deciles to the Equity Index, there will likely be small changes in eligibility year on year. Should you agree to the 'no losers' approach to eligibility for the scheme, we propose seeking Cabinet agreement to move the scheme into forecast changes, when other decisions around Equity Index implementation are taken to Cabinet. This would mean that any cost associated with the potential increase to schools becoming eligible each year after the initial transition would be able to be met through forecast changes.

We are seeking high-level decisions on the donations scheme now to enable changes to be built into Ministry systems. The new Education Resourcing System (ERS) is planned to go fully live in 2023. In order to complete the IT build for ERS, all decisions that involve changes to current settings need to be made in July 2021, which includes decisions on the eligibility for the donations scheme.

Recommended actions

The Ministry of Education recommends you:

a. **Agree** to use the Equity Index to determine eligibility for the donations scheme when the Equity Index replaces school deciles (likely in 2023).

Agree / Disagree

b. **Note** that options in this paper assume no material changes to the proportion of schools eligible for the scheme (excluding grandparented schools).

c. **Agree** that the Equity Index of the school at the 70th percentile be the new threshold for eligibility for the scheme.

Agree / Disagree

d. **Agree** that the Equity Index set as the eligibility threshold will not change year on year.

Agree / Disagree

e. **Note** that we will provide you with the final eligibility threshold and changes to eligibility next year based on an early 2022 Equity Index output.

Treatment of schools in the first year, following the implementation of the Equity Index

f. **Agree** in principle to extend the scheme to the schools who become eligible under the Equity Index in the first year.

Agree / Disagree

g. **Agree** to grandparent eligibility for schools who are currently eligible under deciles but do not meet the new eligibility threshold under the Equity Index

Agree / Disagree

h. **Agree** that any decile 1 – 7 school who does not choose to opt in for 2023, and whose Equity Index is below the new eligibility threshold, is not eligible to opt in for future years.

Agree / Disagree

If you agree to (f) above:

i. **Note** that we will continue to work with Treasury on how to fund this option, should additional funding be required.

j. **Note** that should additional funding not be approved, the eligibility threshold would be able to be set at a level that is fiscally neutral.

Treatment of schools beyond the first year, following the implementation of the Equity Index

k. **Note** that there will be slight changes in eligibility for the scheme each year after implementation as each school's Equity Index is recalculated on an annual basis.

l. **Agree** to adopt a 'no losers' approach to eligibility, whereby schools that meet the set threshold become eligible to join the scheme, and those that move below the threshold continue to receive their donations funding as long as they remain opted in.

Agree / Disagree

Proactive release

m. **Agree** that this Education Report will not be proactively released until after Budget 2022 and after funding decisions have been communicated to schools.

Agree / Disagree

Dr Andrea Schöllmann
Deputy Secretary
Education System Policy

28/08/2021

Hon Chris Hipkins
Minister of Education

___/___/_____

The Ministry requires a decision on how eligibility for the donations scheme will be targeted when school deciles are replaced by the Equity Index

1. Work is underway to implement the Equity Index for schools in 2023, subject to further funding being secured in Budget 2022. We recommend that the Equity Index is used to determine eligibility for the donations scheme when the Equity Index replaces school deciles (likely in 2023).

2. Transitioning from the decile system to the Equity Index will more accurately determine which schools have families that are more likely to face socio-economic disadvantage and therefore financial pressure if paying school donations.

This paper provides you with advice on how to manage the shifts in eligibility that take place under the Equity Index

3. As the Ministry has previously advised [METIS 1251782 refers], the 70 per cent of schools that the scheme targets using deciles is not the same 70 per cent of schools that the scheme will target using the Equity Index. This is because deciles have disguised socio-economic disadvantage in some schools and over-estimated it in others.

4. You have indicated that the Government is open to extending the donations scheme to all schools in the future, subject to future Budget decisions. The options in this paper assume that there will be no material changes to the proportion of schools eligible for the scheme.

5. However, if you choose to seek funding in a future budget to further extend the scheme, this change can be accommodated.

Decisions are required in July to enable delivery through the Education Resourcing System

6. The new Education Resourcing System (ERS) is scheduled to be fully live in the 2023 school year after funding was secured to complete the system in Budget 2021. All existing funding settings and policies used to calculate funding for schools need to be migrated into ERS.

7. Design work for the new ERS system is underway, and in order to complete the IT build, all decisions that involve changes to current settings need to be made by 16 July 2021. This includes decisions around how all funding streams that are currently targeted using deciles will be allocated after the Equity Index is introduced.

8. The Ministry requires confirmation that the Equity Index will be used to determine eligibility for the donations scheme and a high-level indication of how the scheme will operate. You will also receive further advice on the allocation of the Special Education Grant (SEG) and the Careers Information Grant (CIG).

9. It is possible to make further changes to how the scheme operates after this point, although it is not recommended. Any significant changes to the settings aside from adjustments to eligibility thresholds (for example, using an entirely different targeting mechanism) would need to be rebuilt in the system, which will require more funding.

This report considers options on how to treat schools whose eligibility for the donations scheme changes under the Equity Index

How we determined eligibility for the donations scheme under the Equity Index

10. All decile 1 to 7 schools are currently eligible for the donations scheme. These schools reflect the 70 per cent of schools with the highest proportion of students from low socio-economic communities.

11. There are currently 72 per cent of schools in deciles 1 to 7. The number of schools in deciles 1 to 7 has increased over the last 5 years as a result of decile reviews, as deciles were last recalibrated in 2015 using 2013 census data.

12. In order to determine eligibility for the scheme under the Equity Index, we identified the school at the 70th percentile of the Equity Index. We set the threshold for eligibility as the Equity Index of the school at the 70th percentile. This means that slightly more than 70 per cent of schools would be eligible for the scheme, as there are schools who have the same Equity Index as the school at the 70th percentile. This is in-line with the approach used under deciles.

13. Note that the analysis in this report is based on the August 2020 Equity Index output. The distributional impacts of the shift to using the Equity Index to target the donations scheme will change slightly each year as schools' placement on the Index moves.

14. Therefore, the exact number of schools who are eligible and ineligible and the threshold for eligibility are subject to change prior to implementation. Further modelling will be done using future outputs. However, we do not expect the next output to differ substantially.

15. We recommend you seek agreement from Cabinet on the new eligibility criteria for the scheme under the Equity Index, at the same time that other Cabinet decisions are being sought on Equity Index implementation.

We recommend setting an Equity Index as the threshold for eligibility for the donations scheme that does not shift year on year

16. We recommend setting a fixed eligibility threshold for the donations scheme at transition. This would mean that schools with an Equity Index at or above the threshold would be eligible, and schools below would not be eligible. Setting an eligibility threshold that does not change each year will reduce the complexity in determining which schools are eligible and ineligible year on year. The set eligibility criteria will also be clearer for schools.

17. When using a fixed eligibility threshold, any substantial shift in the distribution of socio-economic disadvantage in the schooling sector could result in a significant increase in the proportion of eligible schools. This risk is small, and we continue to recommend setting a fixed eligibility threshold to provide certainty for the sector. This decision could be revisited in future if changes in distribution become evident.

18. The Equity Index is on a scale from 344 to 569, with schools at 344 on the Index having the lowest levels of disadvantage. Based on the most recent Equity Index output, the threshold for eligibility for the donations scheme would be 415.

19. Assuming implementation in 2023, we will determine the final threshold for eligibility next year based on an Index output in early 2022.

Assessment criteria for evaluating options

20. When assessing options for transitioning eligibility, we considered the following criteria:

    a. **The objectives of the donations scheme:** does the option alleviate the stress on household budgets for more families and direct more funding to schools serving low-income communities?
    b. **Equity:** does the option provide an equitable approach to address schools based on need?
    c. **Sector acceptability:** will the option be accepted by the sector as fair and reasonable?
    d. **Disruption:** how disruptive is the option for schools and communities?
    e. **Cost:** how much funding is required?
    f. **Administrative burden:** is the option administratively burdensome for schools and/or the Ministry?

How to treat schools who become eligible and ineligible for the scheme in the first year

Extend the scheme to the schools who become eligible when the Equity Index replaces school deciles

21. We recommend that eligibility for the scheme is extended to schools who become eligible in the same year as the Equity Index replaces school deciles (likely 2023). This will be those schools who are not eligible under decile but have an Equity Index at or above the new eligibility threshold.

22. The table below provides a breakdown by decile of the schools that would become eligible. The estimated cost assumes a 100 per cent opt in rate.

Table 1: Potential breakdown of schools that become eligible for the scheme under the Equity Index at the 70th percentile

Decile	Number of schools that become eligible for the scheme	Estimated cost (based on July 2020 roll and roll growth in March 2021)	Number of students
8	82	$4,464,600.00	29,764
9	42	$1,812,450.00	12,083
10	18	$635,850.00	4,239
Total	**142**	**$6,912,900.00**	**46,086**

23. The Equity Index shows us that there are currently schools with comparatively low levels of socio-economic disadvantage that receive donations scheme funding, while some schools with higher levels of disadvantage do not. This approach ensures that these schools now have the option to join the scheme.

24. Extending eligibility for the scheme will alleviate the stress on household budgets for families of children attending these schools. It also directs more funding to schools serving communities where parents are less likely to be able to make financial contributions to their children's school(s).

25. The extension of the scheme to these schools aligns with the original intent of the scheme to direct funding to the 70 per cent of schools with the highest proportion of students from low socio-economic communities in the first instance.

26. Overall, uptake of the scheme has been high (94.2% for the 2021 school year), though uptake among decile 6 and 7 is lower than for decile 1 to 5 schools. However, many schools who are ineligible for the scheme per deciles have expressed interest in the scheme, particularly primary schools. Most of the newly eligible schools (75%) are primary schools. Therefore, we would expect there to be a strong uptake.

27. Although the Equity Index highlights that the scheme is not currently targeted to the schools with the highest levels of socioeconomic disadvantage, we do not recommend including these schools prior to the shift to the Equity Index. We consider it is best that these transitions are managed together. Beginning to transition some funding streams ahead of decisions being made on others would create confusion and the risk of error in payments.

Financial implications

28. We have previously advised that it is likely the cost of extending eligibility to these schools could be met through underspends [METIS 1245184 refers]. However, the underspend is less than previously estimated. This is because several schools opted into the scheme late for 2021, the donations scheme was extended to Te Kura and we paid schools more additional donations scheme funding for roll growth than we had expected.

29. The forecast underspend for 2020/21 is $6.370m, however the estimated cost of extending the scheme to the newly eligible schools is $6.912m (assuming all schools opt in). It is not possible to estimate at this stage how many of the newly eligible schools will opt in but, as noted, we anticipate uptake will be high. If we expect the underspend for 2022/23 to be less than the cost of extending the scheme to schools that become eligible, additional funding would be required to meet the cost of this option.

30. Based on the 2020/21 underspend and July 2020 and March 2021 rolls, we estimate that an additional $542,000 would be required per year to transition these schools into the scheme. This could initially be funded through an in-principle transfer from the 2021/22 underspend to 2022/23.

31. We propose you seek agreement from Cabinet to move the scheme into forecast changes as part of the package of decisions on the Equity Index. After transitioning newly eligible schools into the scheme in the first year, the cost could be met through forecast changes, should Cabinet agree.

32. Alternatively, this additional funding could be sought as part of the budget bid in Budget 2022 for an ongoing increase to equity funding and funding for the transition arrangements.

33. Should additional funding not be approved, the eligibility threshold could be set at a level that is fiscally neutral. This would have some impacts on the number of schools that become newly eligible and the number of grandparented schools.

34. Your agreement to this option is subject to funding approval, and we will continue to work with Treasury on how to fund the cost of extending the scheme to newly eligible schools, should additional funding be required.

Schools who become ineligible who are opted in can remain in the scheme when the Equity Index replaces school deciles

35. Some schools currently within the scheme will no longer meet the eligibility threshold. We recommend that those schools who are currently opted into the scheme who become ineligible under the Equity Index are able to remain opted in.

36. The table below provides a breakdown by decile of the schools who become ineligible that are currently opted in for the 2021 school year.

Table 2: Potential breakdown of schools who become ineligible under the Equity Index that are currently opted in

Decile	Count of schools	Sum of donations funding in 2021	Number of students
2	1	$83,700.00	558
3	6	$299,100.00	1,994
4	13	$580,500.00	3,870
5	21	$911,700.00	6,078
6	32	$1,549,800.00	10,332
7	74	$3,956,250.00	26,375
Total	**147**	**$7,381,050.00**	**49,207**

37. We recommend that if these schools choose to opt out in the future, that they are unable to opt back in unless their Equity Index changes to meet the eligibility threshold.

38. This option ensures schools currently within the scheme can maintain eligibility under the Equity Index. It is the least disruptive option for schools and communities and is in line with the objectives of the scheme.

39. You have also indicated that the Government is open to extending the donations scheme to all schools in the future, subject to future Budget decisions. When assessing this option, we determined that the disruption for schools and communities would be significant if they were removed from the scheme only to be extended the opportunity to join again in the near future.

40. The disruption to schools and communities caused by removing schools from the scheme would be significant. The majority of these schools will have been opted in for the past three years, which means parents would not have paid donations for three years.

41. Due to the shift in parent behaviour as a result of the scheme, it is also very unlikely schools would be able to make up the difference by requesting donations. These schools have deliberately moved away from collecting donations from parents by opting into the scheme and removing them would mean they also lose the substitute income source provided by the Ministry.

42. Removing schools from the scheme would also place pressure on household budgets for families as they may feel obliged to pay. This goes against the objective of the scheme.

43. In 2021, these schools received between $1,050 and $310,950 in donations funding. Removing schools from the scheme would reduce the funding that the school receives to deliver the curriculum, therefore this would impact learning opportunities and outcomes for learners.

44. We plan to manage the transition from school deciles to the Equity Index at the same time as the transition to target the donations scheme using the Equity Index. Although we do not know the final distribution of equity funding, should some schools experience a decrease in their operational grant funding after a shift to the Equity Index, these schools are likely to be affected. This is because the decile system has over-estimated the socio-economic disadvantage in these schools. Schools would be significantly disrupted if their operational grant funding was reduced on top of being removed from the donations scheme, and outcomes for learners would be affected.

Schools that are not opted into the scheme should receive one further opportunity to join

45. There are 34 schools that have not opted into the scheme who become ineligible under the Equity Index. Based on July 2020 and March 2021 rolls, the cost of providing donations funding to these schools would be $3.070m.

46. We recommend these schools are provided the option to opt in for the 2023 school year. If they choose to opt in for 2023, they will be treated in the same way as other schools who are now ineligible but have already opted in.

47. These schools have been eligible for the scheme for two years but have chosen not to opt in. Therefore, we anticipate that the majority of these schools will choose not to opt into the scheme for 2023. 12 out of 34 are large secondary schools and make up approximately $2.005m of the $3.070m cost.

48. While we consider there is a low risk this full cost will eventuate, as with newly eligible schools we anticipate the cost of any schools that do opt in can be met from within underspends or potentially a small increase as part of Equity Index transition funding arrangements.

49. If they do not opt in for 2023, we recommend that they are not eligible to opt in for future years. This will be communicated separately to this sub-set of schools.

50. This approach reduces disruption to these schools as some may have been considering opting into the scheme. It is also more equitable than maintaining the eligibility of these schools after 2023 if they do not opt in, as all other schools with an Equity Index below the eligibility threshold will not have the option to opt in.

51. By extending the scheme to newly eligible schools and grandparenting in the now ineligible schools (including those who are and are not opted in), 78 per cent of schools would be eligible for the scheme in 2023.

Weaknesses

52. Choosing this option means there will be schools with the same level of socio-economic disadvantage as schools that maintain eligibility under the Equity Index who will not be eligible for the scheme.

53. The schools who maintain eligibility under this option have an Equity Index ranging between 414 to 352. 93 per cent (506 out of 546) of the schools who would not be eligible for the donations scheme in 2023 have an Equity Index within this range.

54. Many ineligible schools will be unhappy that they are being treated differently from other schools that are similar to them. Communications to schools will need to be carefully planned to manage this as it may be perceived as inequitable.

55. If we were to remove schools who become ineligible from the scheme, we may need to also pay these schools transition funding. This would cost approximately $7.381m in the first year (assuming no schools lose funding in the first year of the Equity Index). This would undermine any potential savings from not grandparenting eligibility, and would only delay disruption for these schools and communities.

56. On balance, we recommend that these schools are able to remain in the scheme for as long as they choose to opt in, despite the difference in treatment of schools with the same Equity Index.

How to treat schools who move in and out of eligibility for the scheme in the future

57. As each school's Equity Index is recalculated on an annual basis, we are likely to see some changes to eligibility for the scheme each year.

'No losers' approach

58. We recommend adopting a 'no losers' approach to eligibility, whereby schools that meet the set threshold become eligible to join the scheme, and those that move below the threshold continue to receive their donations funding as long as they remain opted in.

59. While the Equity Index is designed to smooth changes from year to year, there will be some inevitable movement around the margins of the eligibility threshold. We do not consider these changes to be substantial enough to warrant removing schools from the scheme.

60. If a school who is opted into the scheme moves below the threshold and subsequently opts out of the scheme, as long as their Equity Index is below the threshold, they would not be able to opt back in.

61. Communications will be required to support schools and ensure that the implications of opting in and out are understood.

62. This option is consistent with the recommended options for how to treat schools' eligibility in the first year. It is the least disruptive to schools and communities and the least administratively burdensome for schools and the Ministry. The 'no losers' approach is also consistent with the eligibility for Ka Ora, Ka Ako | healthy school lunches programme.

63. Should you agree to this option, and should Cabinet agree to move the scheme into forecast changes, the cost associated with the potential increase to schools becoming eligible each year after the initial transition and no schools losing eligibility would be able to be met through forecast changes.

64. We anticipate the movements in eligibility to be fairly minor each year. This is because schools' Equity Index are averaged across three years for the predictability and stability of funding for schools.

Next steps

65. Should you agree with the recommendations in this report, we will advise the ERS team to build in these changes. We will also begin developing our communications approach to schools around shifts in eligibility for the donations scheme, which will be part of the wider communications to schools on the Equity Index.

66. We will continue to work with Treasury on how to fund the cost of extending the scheme to newly eligible schools, should additional funding be required. An options paper will be presented to you at a later date.