



Education Report: Decision-making timelines and additional information for shifting to the Equity Index

To:	Hon Chris Hipkins		
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Security Level:	In Confidence	METIS No:	1183599
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Purpose of report

The purpose of this paper is for you to:

- **indicate** which timeline option you prefer for seeking Cabinet and Budget decisions for replacing decile-based funding with funding using the Equity Index
- **note** the Ministry's Equity Index work programme update

Summary

1. This paper provides you with timeline options for key Cabinet and Budget decisions for replacing decile-based funding with funding using the Equity Index, in order to implement in 2021. The key benefits, risks and mitigation considerations are assessed for each option.
2. We have also attached an update on the Ministry's work programme to develop and implement the Index (Annex 1). This update includes work to explore options for future resourcing using the Index, enhancements being made to the model, as well as providing you with a spectrum of potential options for externally presenting the Index.

Recommended Actions

The Ministry of Education recommends you:

- a. **note** there are two key Cabinet decisions that need to be made this year, should implementation of the Equity Index take place in 2021. They are to:
- i. seek 'in principle' agreement from Cabinet to shift to the Equity Index and not proceed with recalculating deciles, and
 - ii. seek Cabinet agreement to implement the Equity Index in 2021, and to seek pre-Budget commitment to additional funding

Noted

- b. **note** these Cabinet decisions need to be made by November 2019 at the latest for implementation in 2021

Noted

- c. **indicate** whether you would like to seek 'in principle' Cabinet agreement to shift to the Equity Index either:

- i. as soon as possible (**June or July 2019**), to allow early lead in time for engagement with internal and external stakeholders

OR

- ii. alongside the Tomorrow's Schools report back to Cabinet (likely to be in **August 2019**)

June / July / August

- d. **agree** to seek Cabinet agreement for implementation and pre-Budget commitment to additional funding in **November 2019**, using updated data and modelling on distributional and funding impacts

Agree / Disagree

- e. **agree** the Ministry will update its work programme and prepare further advice based on your preferred combination of timeline options

Agree / Disagree

- f. **note** the Ministry is exploring options for distributing funding post-transition to the Equity Index and enhancing funding calculations

Noted

- g. **note** the Ministry is making enhancements to the Index model to improve its reliability and comprehensiveness

Noted

- h. **note** the spectrum of options the Ministry is exploring to present the Index's final output and mitigate stigma, and we will report back with further advice in June 2019

Noted

Proactive Release Recommendation

Agree that this briefing will **not** be proactively released at this time as the matters discussed are subject to Budget consideration.

Agree / Disagree



Damian Edwards
Associate Deputy Secretary
Education System Policy

4/4/19



Hon Chris Hipkins
Minister of Education

29/4/19

Ahead of Cabinet decisions I'd like to see more detailed modelling, including a move to a higher % of overall funding being linked to equity. I'd like to see how losses could be minimised/phased and future funding increases used to help offset the cost of moving to the new model. I'd also like the Ceb paper to provide an indication of how other support/funding currently linked to decile will be transitioned to a new system.

Timeline options for Cabinet and ministerial decisions

1. We know students from disadvantaged backgrounds face greater barriers to educational success. You intend to implement the Equity Index for the allocation of funding for socio-economic disadvantage [METIS 1164813 refers]. This supports a wider focus on achieving equity and lifting the overall wellbeing of disadvantaged students.
2. We have previously advised you that the earliest we can begin phasing in the Index is the 2021 school year. We will confirm whether this is possible in August 2019, following further development and refinement. Should implementation proceed for 2021, there are a range of key milestones that need to be met.
3. There are two key Cabinet decisions that need to be made this year (shown below):

Milestone 1

Seek Cabinet agreement 'in principle' to shift to the Equity Index and not proceed with recalculating deciles

Milestone 2

Seek Cabinet agreement to implement the Index in 2021 and pre-Budget commitment to additional funding.

4. Note that Milestone 2 above involves a Budget pre-commitment to increase equity funding. This pre-commitment is necessary as a shift from decile-based funding to the Index cannot occur without additional funding. If it did, current modelling suggests that some schools could lose up to 30 percent of their operational grant funding. This additional funding would reduce potential losses for schools over time and smooth the transition to the Index.
5. We have provided you with potential timeline options for going to Cabinet for each of the milestones outlined above, assuming a 2021 implementation date.
6. All of the options provided seek Cabinet approval in 2019. We consider that these decisions are needed by November 2019 at the latest in order to have enough lead in time to communicate the impact of the changes to schools and other stakeholders.

Milestone 1 – Seeking Cabinet agreement to shift to the Index and not proceed with decile recalculations

Description

7. This milestone seeks initial 'in principle' Cabinet agreement to shift to the Index as well as confirm not proceeding with decile recalculation for the 2020 school year. This decision does not need in-depth statistical modelling and distributional analysis to inform Cabinet. These details will be covered in Milestone 2 when seeking agreement from Cabinet on implementation and pre-Budget commitments to additional funding.
8. There are two timeline options you can consider for seeking this Cabinet decision:
 - a. Seek Cabinet agreement as soon as possible (June or July), to enable early and more comprehensive engagement with internal and external stakeholders.

- b. Align this Cabinet decision with the Tomorrow's Schools Review (TSR) report back to Cabinet (likely to be in August).
- 9. The key benefits, risks and additional considerations are discussed in further detail below.

a) Seeking 'in principle' agreement as soon as possible (June or July)

Benefits

Receiving early Cabinet mandate supports early engagement with stakeholders

- 10. We are committed to engaging meaningfully with key stakeholders and interest groups who are likely to be affected by changes to decile-based funding. We want to ensure students, whānau, teachers and wider communities are informed, and are able to provide their perspectives and feedback on how we intend to implement the new model. We also want their feedback on what additional supports and accountability they think most suitable for Index-based funding moving forward.
- 11. The need for strong engagement also extends to our cross-government and NGO counterparts to inform the development and future implementation of the Index. This is particularly true for agencies and organisations that currently use decile to target service provision. We need to consider how to redistribute these services according to the Index, and whether we can better organise provision of social services in schools.
- 12. Seeking early Cabinet approval to shift to the Index provides strong mandate to:
 - a. engage early with external stakeholders including the sector, students, whānau, and wider communities
 - b. continue cross-agency work with Statistics New Zealand to develop and refine the model, and ensure that it can be operationalised for funding purposes in 2021
 - c. engage with other government agencies to plan the transition to and implementation of the Index, and the impacts the shift may have on targeting social services to schools
 - d. provide certainty among internal and external stakeholders about the direction of equity-based funding for disadvantage.

Risks

- 13. There are no major risks in seeking 'in principle' agreement to shift to the Index and to not proceed with recalculating deciles in June or July.

b) Seeking 'in principle' agreement alongside the Tomorrow's Schools Review report back (likely to be in August)

Benefits

Alignment with the Tomorrow's Schools Review report back to Cabinet

14. As you know, one of the Taskforce's recommendations released in December 2018 was to shift to using the Index as soon as possible. It also covered increasing the total level of equity funding and using the Index across a range of mechanisms including staffing, property and operational funding.
15. Aligning with the August report back on the TSR provides a cohesive approach to introducing major changes to the education system. It is likely that findings from the TSR will recommend key policy and structural changes to the education system. This option allows for Cabinet decisions to shift to the Index to be made in accordance with broader system level changes as part of the TSR.

Risks

Waiting until August delays engagement with stakeholders

16. A smooth transition to the Equity Index will require wide engagement with the education sector, families and whānau, and other key stakeholders. We have begun some targeted engagement with other agencies and representatives from the sector; however, this option impacts on our ability to engage more widely and to do so with a strong mandate.
17. Specifically, early engagement with the sector and other stakeholders is important for the following reasons:
 - a. Replacing decile-based funding is a high-profile piece of work, with great interest from the education sector, the general public and the media. It is also a significant change from the current decile system, so it is crucial that we gain stakeholder buy-in and trust in the model ahead of implementation. Early communication and engagement of the shift will give us greater lead in time to build this buy-in and trust.
 - b. We also want to ensure parents, whānau, schools and communities are able to provide their perspectives and feedback on the most effective ways to mitigate the effects of socioeconomic disadvantage, and to build this feedback into how the Index is implemented. As above, this will be supported by earlier engagement.
 - c. Delayed engagement may also undermine our obligation under Te Tiriti o Waitangi to support meaningful participation in policy decisions that impact Māori children and young people. This is particularly important for the shift to the Index, as we know Māori experience higher levels of disadvantage than most New Zealanders.

Considerations for mitigating the risks

18. It is difficult to mitigate the risks associated with delayed Cabinet mandate. While not ideal, we could continue broader engagement and cross-agency work without formal Cabinet mandate. We would be unable to explicitly discuss the Index with external stakeholders, limiting our ability to provide information and build public trust and confidence. The lack of certainty around Cabinet decisions also limits our ability to influence other government agencies and NGOs.

Milestone 2 – Seeking Cabinet agreement to implement the Index in 2021 and pre-Budget commitment to additional funding

Seeking Cabinet agreement in November

19. This milestone seeks Cabinet agreement to implement the Index in 2021 as well as pre-Budget commitment to additional funding. We will provide you with further advice on the quantum of additional funding that is needed and how this could be delivered (for example, delivering additional resourcing through a combination of operational grant funding and staffing entitlement) as our modelling develops.
20. We consider that these decisions are needed in November 2019 to enable implementation in 2021. While we will begin to engage with the sector and other stakeholders once we receive 'in principle' agreement to shift to the Index, we will need to provide certainty around when this shift is going to occur and the impact on schools as soon as practicably possible.

Summary of options

21. Table 1 below summarises the potential combinations of timeline options for the two key milestones, as well all the positives and negatives for each.

Milestone 1

Seek Cabinet agreement 'in principle' to shift to the Equity Index and not proceed with recalculating deciles.

Milestone 2

Seek Cabinet agreement to implement the Index in 2021 and pre-Budget commitment to additional funding.

Table 1 – combination of options for key milestones

	Timeline Option A	Timeline Option B
Milestone 1 Seek 'in principle' Cabinet agreement to shift to the Index	June or July	August
Milestone 2 Seek Cabinet agreement to implement the Index in 2021 and pre-Budget commitment	November	November
Pros/Cons	<ul style="list-style-type: none"> ✓ Early 'in principle' Cabinet agreement in June/July supports effective internal and external engagement. ✓ Updated October Index output will be available to provide more up-to-date and accurate modelling to inform Cabinet decisions on implementation and pre-Budget commitments. ✗ 'In principle' agreement to shift to the Index pre-empts TSR report back expected in August. 	<ul style="list-style-type: none"> ✓ Seeking Cabinet agreement on shifting to the Index aligns with the TSR report back. ✓ Updated October Index output will be available to provide more up-to-date and accurate modelling to inform Cabinet decisions on implementation and pre-Budget commitments. ✗ Delayed 'in principle' Cabinet agreement to shift to the Index limits lead in time to engage with internal and external stakeholders.

Next steps

22. We will update our work programme based on your preferred combination of timeline options. We will provide you with further advice ahead of the upcoming strategy session.

Annexes

Annex 1: Equity Index work programme update

Equity Index work programme update

Considerations for future resourcing for equity

1. We currently have several operational funding streams for socio-economic equity, most of these are decile-based. Currently decile based funding is a flat rate per student depending on the decile level of the school, with the rate of funding increasing as school decile decreases. All of these funding streams would be part of the transition to equity based funding (with this transition covering possible consolidation of funding streams).
2. As part of replacing decile-based funding, we are currently exploring different options for future resourcing using the Equity Index. This includes options for distributing funding post-transition and enhancing future funding calculations.

Options for distributing funding post-transition

3. Our advice to date has used a marginal rate [METIS 1172683 refers]. This is a similar approach to the marginal tax rates that apply for income tax. Under this approach schools would receive set equity funding for every additional disadvantaged student in the school, at a different rate per bracket of disadvantage level.
4. The benefit of such a model is that schools do not experience large funding changes when their level of disadvantage changes, as currently occurs when a school decile changes. This approach also incentivises schools to accept additional students from disadvantaged backgrounds. The disadvantage of this model is that it is complex.
5. We are exploring alternative funding formulas to the marginal rate approach, with the intention of developing an equally effective and less complex method to distribute funding. We will provide you with advice as this work develops.

Options to improve the Equity Index's final output and the impact on resourcing

6. We are also exploring options to enhance the Index's final output to ensure it best reflects a school's roll and provides an accurate representation of the equity challenge in every school. This is a pivotal part of funding for disadvantage to support equitable educational outcomes.
7. More specifically, we have looked at using multiple Index outputs to represent different components of equity-based funding. For example:

Equity Output 1 – the median disadvantage level of all students in a school:

Equity Output 2 – the proportion of students in a school who are among the top 25% of disadvantaged students nationally.

8. An approach like this would provide more flexibility as funding could be independently weighted to each output. These weightings could also be adapted over time. We will continue to explore other possible options for the Index's final output.

Enhancements to the Equity Index

9. We are continuing to work on refining the model based on internal discussions and feedback from external academics and technical experts. These refinements do not change the essential purpose or nature of the index but will improve the reliability and comprehensiveness of the model. Key changes being considered are outlined in Table 2 below:

Table 2 – changes being considered to improve the Equity Index

Description	Input improvements			Output improvements	
	Review existing Socio Economic Status IDI inputs currently used in the Equity Index. This includes a review of data quality and the code within the Equity Index itself.	Investigate addition of new Socio Economic Status IDI inputs for use in the Equity Index (for example health related variables)	Enhance the use of the NCEA achievement measure by investigating a spectrum of actual achievement (rather than a pass/fail metric currently utilised)	Equity Index outputs to better reflect a schools full make up (which would remain inclusive of the 25% of students from the most disadvantaged backgrounds).	Develop options for the external presentation of the Index
Intent	To ensure that the data captured is as comprehensive as possible and this is utilised through the index to ensure existing measures best correlate with Socio Economic Status.		To enable Equity Index outputs to more accurately reflect academic achievement.	<p>To have measures which better reflect the equity challenge at a school. This approach could possibly comprise multiple components, as shown below:</p> <ul style="list-style-type: none"> Equity Output 1: the median disadvantage level of all students in a school. Equity Output 2: the proportion of students in a school who are among the top 25% of disadvantaged students nationally. 	To mitigate the potential stigmatising impacts of a new funding model on students, whanau, schools and wider communities.

10. In addition, the Ministry will review and refine the code used in the Index, migrate the code to a more flexible software platform, and engage an external agency to quality assure the Index itself.

Communicating the model and the opportunity to mitigate stigma

11. The decile funding model is commonly misunderstood to be a measure of schooling quality, as opposed to its true purpose as a measure to targeting funding to address socio-economic disadvantage. This has had major impacts on how schools are viewed, on enrolment patterns, on staffing of schools and on how students view their educational opportunities.
12. Funding for disadvantage should look to prevent such consequences or at least mitigate against them. The Equity Index is designed to enable schools to better meet the needs of students who face greater barriers due to their socio-economic status, and this should not inadvertently reinforce social stigma experienced by students, their families, schools and wider communities.
13. A school's decile rating depends on five Census measures of socio-economic disadvantage in the areas where the school's students live. This model gives schools a decile rating, which is a single number between 1 and 10.
14. Decile ratings are highly visible. They are published by the Ministry of Education in a range of documents, by schools, and used by external groups like real estate agents. They are also used by other government agencies and non-government organisations to target services to low socio-economic communities. Deciles are also commonly socialised by school students, teachers and the wider community.

The impact of stigma on students, schools and communities

15. A recent report prepared for the Ministry of Education (Vester, 2018) outlines how the current decile funding system, and more importantly the 'label' given to schools through this model, perpetuates stigma based on socio-economic circumstances. Findings from the report highlight key impacts the decile 'label' has had on schools. These are summarised below:
 - a. Attitudes to decile are shaped by the marketisation and promotion of 'school choice' in New Zealand through Tomorrow's Schools.
 - b. Student movement within schooling networks is noticeably influenced by decile. Data analysis shows that significantly more students now attend higher decile schools than when school choice first became policy. There is a clear pattern of average school size being positively related to decile.
 - c. Respondents and interviewees throughout the research reiterated how decile impacts on a school's ability to attract and retain students and staff.
 - d. Public and self-perception of decile rating influences student, staff and community esteem.

Mitigating these impacts with the introduction of a new model

16. The Equity Index provides an opportunity to address some of the issues and unintended consequences stemming from the decile funding 'label', particularly in relation to social stigma.
17. Addressing stigma with a new Equity Index model is a complex and multi-faceted issue, and requires a broad range of actions to influence change. Potential areas to address and/or mitigate social stigma associated with a new Equity Index model include:

- a. options relating to the presentation of the Equity Index's finalised output, and
 - b. options for supporting actions relating to levers broader than/external to the Equity Index (e.g. communications and resources, transition support for schools, leadership support etc.).
18. The information provided in this paper provides you with a spectrum of potential options for the presentation of the Index's finalised output to mitigate stigma.
19. We will continue to develop a plan for supporting actions relating to levers broader than the Equity Index. This includes communications and resources, support for schools to help their transition to the Equity Index model, sharing best practice for addressing disadvantage, and leadership support, among others.

Presenting the Index's final output

20. It should be noted, the current iteration of the Equity Index is currently being refined with final output yet to be confirmed by the Ministry. We are expecting initial outputs using an updated version of the model in August 2019.
21. Regardless of what refinements are made, we can confirm the Index will provide an output which will be a number (or numbers). This will measure the distribution and level of socio-economic disadvantage in schools.
22. Table 3 below provides a high-level overview of potential options we are exploring for presenting the Index's final findings.

Table 3 – spectrum of Equity Index presentation options

	Transparency			Mitigation			
	Complete release of individual schools' Equity Index scores		Conditional release of Equity Index scores			Withholding of all Equity Index scores	Additional supplementary option
Option	Scoring system with a complete release of individual school Equity Index 'scores'	Multiple Equity Index output scores transposed to a selected scale	Release schools' 'scores', but only aggregated to bands (the number of bands is changeable – the current decile system has 10 bands)	Release schools' 'scores' and total funding amount (inclusive of all components) without detailed breakdown	Release individual school 'scores' while banning the publication of league tables comparing schools' Equity Index scores	Completely withhold schools' scores	A scoring system from any of the options listed could be supported by the introduction of a formalised measure of schooling quality

23. We will provide you with more information and advice on this spectrum of options ahead of the upcoming strategy session.