



Education Report: Additional school funding to replace donations from families

To:	Hon Chris Hipkins, Minister of Education		
Date:	15 December 2017	Priority:	Medium
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Messaging seen by Communications team:	N/A		

Purpose of report

This report provides you with advice on the proposed policy to give state and state-integrated schools additional funding if they do not ask families for donations, and seeks your agreement to high-level design parameters.

Summary

1. Schools currently seek from families a mix of general donations and specific donations, relating to curriculum activities their child participates in during the year or specific school-wide projects. Separately schools may levy charges for optional activities that are outside the delivery of the curriculum, such as a lunch time sports club or weekend sports competitions. These are sometimes referred to as activity fees.
2. We recommend that the policy apply to both general and specific donations. If specific donations were excluded, there is a high risk that schools will ask parents to make these donations instead. This would undermine the integrity of the policy and materially increase its cost.
3. We do not have good information on the value and make up of donations. Schools are not asked to separately record donations from families and other sources, and further we understand that schools often record specific donations as activity fees. As a result any estimate of fiscal cost is subject to considerable uncertainty.
4. We estimate that the fiscal cost of the policy, if applied to all donations, would be in the order of \$57 million per year. If the policy is applied to general donations only, we estimate that, at a minimum, the cost would be \$77 million per year, but with behavioural change could increase to more than \$100 million over time.
5. There is a continuum of choices in the design of the implementation arrangements around the rigour of monitoring of compliance with the requirement to not request donations and any sanctions where non-compliance is identified. A relatively light

approach might be taken, reflecting a high trust approach that assumes the vast majority of schools would adhere to the intent of the policy, but carrying greater risks in terms of fiscal cost and the achievement of the policy objectives. A more rigorous approach to monitoring and enforcement would reduce these risks.

6. We recommend a moderate approach made up of the following three elements: an annual declaration that the board of trustees would not seek donations from families; risk-based monitoring of compliance with this requirement; and removal and recovery of funding where this is not adhered to. Investigation of complaints, the risk based monitoring and support to schools to resolve identified issues will require additional departmental expenditure of approximately \$0.510 million per annum.
7. The proposed approach entails a residual risk that the intent of the policy would be undermined by participating schools either not already complying with the requirement to provide free enrolment and free education, or over time seeking to use unlawful charges to replace revenue from donations. We have considered whether attestation of compliance with this legal obligation and associated monitoring and enforcement should be part of the policy design. We think this risk is better addressed through the separate programme of work that would be required to take forward the Manifesto commitment to strictly enforce guidelines that prevent schools charging for any aspect of curriculum delivery. To focus only on participating schools would likely be seen as discriminatory and inequitable, particularly given that these schools are more likely to serve disadvantaged communities.
8. There is a further risk that legally separate organisations, such as a Parent Teacher Association or the proprietor of a state-integrated school, might request donations from parents and pass them on to the board. This risk will be difficult to mitigate.

Recommended Actions

The Ministry of Education recommends you:

- a. **agree** that, to qualify for the funding in lieu of donations, boards of trustees must agree to not seek either general or specific donations from parents
Agree / Disagree
- b. **note** that we estimate this policy would cost in the order of \$57 million per annum
Noted
- c. **note** that the estimate is subject to significant uncertainty because of incomplete information on the value and make-up of donations
Noted
- d. **agree** that boards of trustees would be required to make an annual declaration that they will adhere to the requirements of the policy
Agree / Disagree
- e. **agree** that either
 - (i) the monitoring of compliance rely exclusively on parental complaints
OR
Agree / Disagree
 - (ii) reliance on parental complaints be complemented by risk-based monitoring of compliance
Agree / Disagree

f. **agree** that, where boards of trustees do not meet the requirements of the policy, either

(i) funding will be withdrawn

OR

Agree / Disagree

(ii) funding will be withdrawn and monies incorrectly paid will be recovered.

Agree / Disagree



Andrea Schöllmann
Deputy Secretary
Education System Policy

15/12/17



Hon Chris Hipkins
Minister of Education

21/12/17

I would like to discuss some exemptions for activity fees that cover the costs parents would normally have to meet but for the activity (eg. meals on school camp).

Background

1. We understand that, in Budget 2018, you would like to take forward the Manifesto commitment to provide additional funding of \$150 per student to state and state-integrated schools that do not ask parents for donations. Early decisions on the high level design will enable us to prepare quality information to support the Budget process, provide a basis for consistent messaging to the sector in the period before the Budget announcement and enable work to get underway to support quality implementation for the 2019 school year.
2. Boards of trustees are likely to need to take a decision on whether they opt into the new arrangement by early July 2018. This means that we will need to provide clear information on the detail of the policy, including monitoring and enforcement arrangements immediately following the Budget announcement.
3. We envisage this funding being an additional component of schools' operational grant funding.¹ Work to deliver schools' operational grant funding and staffing entitlement through the new Education Resourcing System in the 2019 school year is already underway. We need to provide the policy specifications for this new component early in the New Year to enable it to be included in this programme of work while managing risks to the overall timeframes for the implementation of the Education Resourcing System for schools.

Role of donations and the legal framework for free enrolment and education

4. Donations are a mechanism that state and state-integrated schools use to provide their students with a higher level of educational provision than that funded by government, given their legal obligation to provide free enrolment and free education². This requirement means that boards of trustees cannot compel payments (including donations) associated with the delivery of the curriculum. This includes for lessons, trips and activities which are part of a school's overall curriculum, such as school camps or swimming lessons in school time, or form part of the content of a particular course at a school.
5. The one exception is that boards of trustees can charge for the take-home component of certain curriculum activities (e.g. for technology courses) where the student or parent has agreed in advance to purchase the end product. Schools may also charge for optional activities that are outside the delivery of the curriculum (such as a lunch time sports club or weekend sports competitions). Such charges are often referred to as activity fees.
6. Donations can be of a general or specific nature. In practice, many boards of trustees ask for a general donation at the beginning of the year followed by requests for specific donations relating to curriculum activities the child participates in during the year, such as contributions towards the cost of food at a school camp or travelling to a destination for a field trip. Specific donations are also often sought for school-wide projects.³ The use of specific donations may reflect a judgement by schools that families are more open to providing financial support where they see a more direct benefit to their child. Schools

¹ Paid in four instalments and with the total value of funding determined by reference to the domestic student rolls used for other components of funding.

² Domestic students between the ages of 5 and 19 at state, state-integrated, and partnership schools are entitled to free enrolment and free education.

³ As donations are voluntary, parents are free to pay them in full, in part, or not at all.

vary in how clearly they communicate to families that these are optional donations and not charges.

7. Some boards of trustees do not consistently adhere to the legal obligation to provide free education. In particular, some charge subject fees and use various means to compel payments which should be voluntary. Both of these matters are unlawful.
8. The Ministry is revising advice to schools to provide greater clarity around the requirements for free enrolment and free education. We investigate complaints from parents but do not systematically monitor what schools are requesting in the way of payments by parents, including general and specific donations, and unlawful fees.

Achieving the policy objective and policy design elements

9. We understand that the objectives of this policy initiative include:
 - a. reducing the extent to which parents are asked to make direct financial contributions to the cost of education in a state school, consistent with the principle of free state schooling⁴
 - b. improving the equity of funding arrangements by providing some offset to the additional revenue that some schools generate through locally raised funds.
10. The extent to which these objectives are achieved will depend on the scope of donations covered by the policy and boards of trustees adhering to the intent of the policy that they not seek donations from parents.
11. We consider that the policy should cover all requests for donations from parents. If the policy were limited to general donations, we expect that over time requests for specific donations would increase. Parents are likely to continue to receive requests for donations, schools that receive significant revenue from parents through specific donations could qualify for the funding, and the fiscal cost of the policy would be higher.
12. In regard to the question of schools adhering to the intent of the policy, there is a continuum of choices in the design of the implementation arrangements around the rigour of monitoring of compliance with the requirement to not request donations and potential sanctions where non-compliance is identified. A relatively light approach might be taken, reflecting a high trust approach that assumes the vast majority of schools would adhere to the intent of the policy, but carries greater risks in terms of fiscal cost and the achievement of the policy objectives.
13. A relatively light approach would involve
 - a. an annual declaration that the board of trustees would not seek donations from families
 - b. no direct monitoring of compliance by the Ministry, but the Ministry following up on complaints by parents
 - c. where non-compliance is identified, funding would cease until the school can demonstrate that it is complying with the policy.

⁴ We have assumed that the policy allows schools to undertake general fundraising activities such as fairs, raffles and other fundraising a school might use.

14. A moderate approach would, in addition, involve risk-based monitoring of compliance by the Ministry, with the review of the practice of approximately 20 percent of schools each year, and the recovery of funding that has been incorrectly received. The monitoring arrangement would mean that boards face a credible risk that behaviour inconsistent with the policy will be identified. The recovery of funding that has been incorrectly received means that there are consequences for schools that do not adhere to the policy, and supports the overall equity and integrity of funding arrangements.
15. A more rigorous and more costly approach would involve annual monitoring of all participating schools.
16. We consider that a moderate approach is most consistent with achieving the policy objectives at reasonable cost in terms of monitoring costs for the Ministry and compliance costs for schools.
17. Further work is required to develop the detail of the risk-based monitoring arrangements, but this might involve participating boards providing additional information to the Ministry. Additional departmental resourcing will be required to investigate complaints from parents, undertake the risk-based monitoring and work with schools to resolve issues. This resourcing would be spread between central and regional offices.

Remaining risks

18. Were the moderate approach adopted, we have identified two residual risks to achieving the policy objectives.
19. First, participating schools may either not already be compliant with the requirement to provide free enrolment and free education or over time seek to substitute donations with unlawful charges. In light of this risk, we have considered whether participating schools should also be required to attest that they are compliant with their legal obligation to provide free enrolment and free education, and consequently whether this should form part of the monitoring and enforcement regime.
20. A policy that more closely scrutinised participating schools' compliance with this obligation is likely to be seen as discriminatory and inequitable between schools, particularly given that participating schools are more likely to serve disadvantaged communities. Overall, we consider that this is better addressed through the programme of work that would be required to take forward the Manifesto commitment to strictly enforce guidelines that prevent schools charging for any aspect of curriculum delivery. Monitoring compliance with this obligation would be more complex and resource-intensive, and may need to be supported by the use of lower level interventions, such as issuing performance notices to non-compliant schools.
21. The second risk relates to boards of trustees receiving benefit from legally separate entities requesting donations from parents, such as the Parent Teacher Association and, in the case of state-integrated schools, the proprietor.⁵ If this were to be avoided, legislative changes would need to be explored, with this possibly including prohibiting boards of trustees accepting donations from these sources. This would represent a

⁵ A proprietor (which is not a Crown entity) is able to seek donations from anybody – including parents – for any purpose. It is free to pass any of its funds, including donations raised from parents, to a board of trustees. The only exception is in relation to attendance dues, which are only able to be spent on quite tightly-defined items.

material change to the legal framework within which schools and charitable organisations operate.

Uptake of the policy

22. We expect that a board's decision to opt into the donations policy will primarily be based on a calculation of whether overall they would be financially better off. Additional considerations are likely to be:
- a. the assessed additional benefits and savings to the board in terms of its relationship with parents, the certainty of funding and the effort in soliciting donations
 - b. the sustainability of the arrangement, with possible concerns about the adequacy of the offsetting amount over the medium term and the reaction of parents if the board subsequently opted out.
23. It will be important therefore that we are transparent about all the requirements of the policy prior to boards of trustees making their decision. Clear guidance would need to be available for boards and proprietors immediately after the Budget announcement, with a full explanation of the requirements that must be met, the monitoring arrangements and the consequences of not adhering to the policy.

Estimated fiscal cost and distributional impact

Estimated fiscal cost

24. The cost of this policy depends on final decisions on the key design elements, in particular the scope of donations counted against the \$150 limit. The costings are also subject to considerable uncertainty because of the following issues around the data we have on the value and make-up of donations:
- a. the value of donations reported by schools in their financial data combines donations from families and other sources, e.g. from community trusts or businesses
 - b. it is likely that many schools record the value of specific donations as activity fees rather than donations.
25. System-wide, the value of income coded as donations was \$132 million for the 2016 school year. The value of income coded as activity fees was \$187 million.
26. Table 1 provides information on the estimated fiscal cost based on two scenarios and taking into account projected roll growth. The first scenario aligns with a policy where schools cannot ask for general or specific donations. To estimate this cost, we have assumed that all decile 1 and 2 schools would qualify⁶ for the funding along with those schools where the combined value of donations and 20 percent of revenues recorded as activity fees in their 2016 financial data was less than \$150 per student.⁷ There is significant uncertainty whether these assumptions accurately reflect the actual situation,

⁶ Assuming all decile 1 and 2 schools would qualify for the funding reflects a judgement that, where recorded donations revenue for these schools exceeds \$150 per student, the additional amounts relate to donations from sources other than families.

⁷ This reflects the likelihood that recorded activity fee revenue includes some revenue from specific donations.

and whether this would lead to an under or overstatement of costs. The estimated annual cost of the policy is \$57 million per year, with an estimated 1,245 schools participating in the arrangement.

27. The second scenario aligns with general donations only being covered by the policy. To estimate this cost we have assumed that all decile 1 and 2 schools would qualify for the funding along with those schools where the value of donations in their 2016 financial data was less than \$150 per student. The estimated annual cost is \$76 million per year, with an estimated 1,514 schools participating in the arrangement. With this scenario, there is greater risk of costs increasing over time as schools shift toward greater use of specific donations in order to qualify, with costs potentially rising to over \$100 million.

Table 1: Estimated fiscal costs⁸

	2018- 2019	2019- 2020	2020- 2021	2021- 2022
	\$ million			
Scenario 1 – policy covers general plus specific donations	28.3	56.7	57.0	57.3
Scenario 2 – policy covers only general donations	37.8	75.7	76.1	76.5

28. Our preliminary estimate is that additional departmental resourcing of four full time equivalent staff with an overall additional cost of \$510,000 per annum is required to provide capacity to investigate complaints, undertake the proposed risk-based monitoring and provide support to resolve issues with schools.
29. We expect that there would be a small offset in terms of an increased net tax take as a result of a reduction in the tax credit claims for donations for schools. Inland Revenue have advised that, on average, only one third of potential school donation tax credits are claimed. This suggests maximum additional revenue of \$6.3 million (scenario 1) to \$8.4 million (scenario 2). However, information on the current profile of the tax credits, which is provided at Annex 1, suggests that it is likely that this would not exceed \$2 million annually.

Distributional implications

30. The two scenarios have different distributional implications. Based on data relating to the 2016 school year, we estimate that under scenario 1, 32 percent of the additional funding would go to decile 1 and 2 schools. Under scenario 2, this falls to some 23 percent. More detailed information on the funding across deciles is in Table 2.

⁸ Excludes Te Kura, partnership schools and schools that have not returned FIDS data. Approximate total 4,050 students.

Table 2: Estimated distributional impact⁹

	Scenario 1- General plus specific donations				Scenario 2- General donations			
School decile	No of schools	No of students	Cost \$mill	% of funding	No of schools	No of students	Cost \$mill	% of funding
1	261	62,502	9		261	62,502	9	
2	247	56,344	9		247	56,344	8	
3	143	43,541	7		175	53,172	8	
4-7	433	153,228	23		581	226,538	34	
8-10	s 9(2)(f)(iv)							
Total								

Annexes

Annex 1: Tax treatment of school donations

⁹ Excludes Te Kura, partnership schools and schools who have not returned FIDS data. Total approximately 4,050 students

Annex 1: Tax treatment of school donations

1. Families may claim an income tax credit of up to 33 percent of the value of qualifying donations made to state and state-integrated schools. In the school context, qualifying donations include general donations, donations for school-wide projects, and donations to assist schools with the cost of providing specific activities, including those related to the delivery of the curriculum.
2. The total value of the tax credits claimed for donations made to schools and kindergartens was \$22 million for the year ending 31 March 2016. As shown in Table 1, over 80 percent of the total value of the tax credits claimed related to donations with a value in excess of \$600.

Table 1: School and kindergarten donations and tax credits¹⁰

Value of donation	Number of tax credit claims made	Value of qualifying donations	Value of tax credit
		\$million	\$million
\$0 to \$300	32,364	5	2
\$300 to \$600	16,624	7	2
\$600 to \$2,000	17,426	18	6
\$2,000 +	7,630	36	12
Total	74,044	66	22

¹⁰ Inland Revenue does not separately collect data on tax credits for school donations.