

Chair
Cabinet Social Policy Committee

REVIEW OF EDUCATION FUNDING SYSTEMS: UPDATE AND NEXT STEPS

Proposal

- 1 This paper reports back on sector engagement on the first phase of the Review of Education Funding Systems and seeks Cabinet endorsement for the next phase of work s 9(2)(f)(iv) OIA [REDACTED] in the context of a timeline for proposed implementation in 2020.

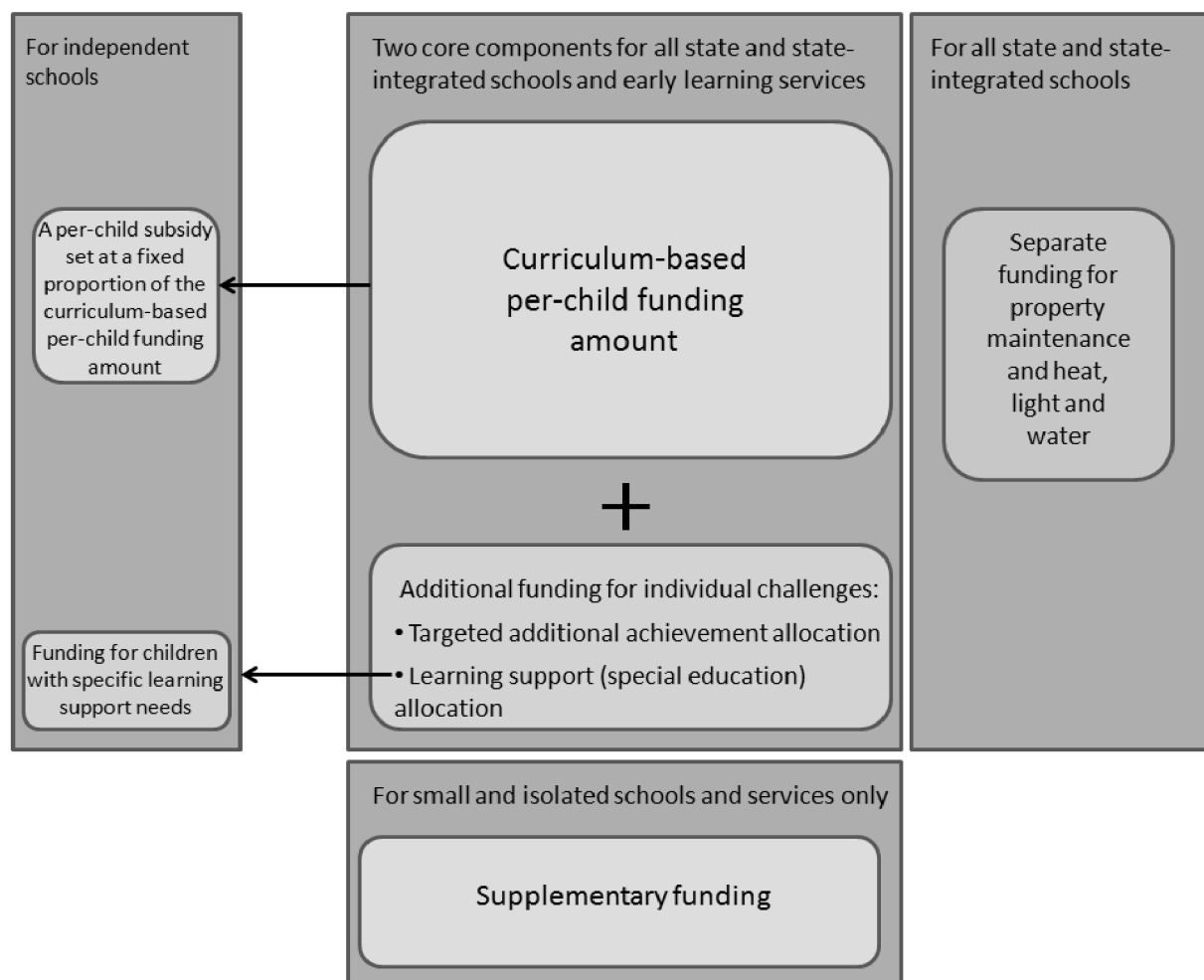
Executive Summary

- 2 In April 2016, Cabinet agreed to a substantive review of funding systems for early learning and schooling [CAB-16-MIN-0173]. The aim of the review is to develop a new funding system in which children are adequately supported to make at least a year's worth of progress against the curricula every year.¹
- 3 Between May and early September 2016, the Ministry of Education tested initial elements of a new funding model with the sector. In light of the feedback received, I propose to progress work to develop the following new funding system:
- 3.1 a core funding model in both early learning services and state and state integrated schools made up of two components:
- 3.1.1 *a curriculum-based per-child funding amount* – as the funding basis and tailored to the learning expectations of children and young people at each stage of the curricula. In early learning, this involves moving to per-child funding. In schooling, this involves a review of funding levels at each stage of the curriculum;
- 3.1.2 *additional funding for individual challenges:*
- 3.1.2.1 *targeted additional achievement allocation* – for children and young people from disadvantaged backgrounds and to replace the current decile system and better align funding to the actual curriculum-based achievement challenge;
- 3.1.2.2 *learning support (special education) allocation* – for those learning support needs that services and schools are expected to meet from within their funding;
- 3.2 for small and isolated early learning services and state and state integrated schools, supplementary funding to enable the maintenance of a network of provision;
- 3.3 for state and state integrated schools, funding for property maintenance and heat, light and water would be separated from other funding with restrictions on how this is

¹ Te Whāriki (the early learning curriculum), the New Zealand Curriculum, and Te Marautanga o Aotearoa (the Māori medium curriculum).

spent to better ensure appropriate maintenance of school property and support optimal internal environments for learning;

- 3.4 for independent schools, a per-child subsidy set at a fixed proportion of the per-child funding amount for state and state integrated schools.



- 4 The two core components will provide the basis for a range of delivery options across the education system including for Communities of Online Learning.
- 5 A complementary work programme to clarify expectations and strengthen information on student progression is being progressed through a business case as part of the wider Education Work Programme.
- 6 I am not proposing to take forward the global budget mechanism as a means of delivering funding to state and state integrated schools. This means that funding to these schools would continue to be delivered as a combination of cash and staffing allocation. However, the total level of funding per school will be more aligned to the size of their educational challenge.
- 7 Designing a funding model that makes visible the areas where further investment will make the greatest difference is a significant technical and public management challenge. As the review progresses, there will be an increased sector and community focus on their

perceptions of the adequacy of funding levels. It is essential that this discussion is framed within a context of the funding needed to progress children through the curriculum.

8 Subject to Cabinet's agreement, I intend to immediately progress detailed policy design of the following elements, and to seek Cabinet in-principle agreement to these [REDACTED]

s 9(2)(f)(iv) OIA [REDACTED]

s 9(2)(f)(iv) OIA [REDACTED]

- 8.1 the mechanism to determine the targeted additional achievement allocation relating to children and young people from disadvantaged backgrounds (paras 45-51);
- 8.2 the mechanism to determine the learning support (special education) allocation (paras 52-53);
- 8.3 the move from place-based to per-child funding in early learning (paras 54-58);
- 8.4 changes to the arrangements for funding for property maintenance and heat, light and water in state and state integrated schools (paras 59-63).

9 In parallel, work will be progressed on the following and I will report on their progress [REDACTED]

s 9(2)(f)(iv) OIA [REDACTED]

s 9(2)(f)(iv) OIA [REDACTED]

- 9.1 the determination of the curriculum-based per-child funding amount in schooling (paras 64-69);
- 9.2 the determination of criteria by which services and schools count as small and isolated (paras 70-73);
- 9.3 options for the level of funding to be distributed through each of the components of the funding model (curriculum-based per-child amount, both forms of additional funding for individual challenges, supplementary funding and property related funding);
- 9.4 the modelling of the distributional impacts of these options for individual services and schools and the associated fiscal costs.

Background

10 Funding arrangements are a key system lever, and it is important that these arrangements support other changes that we are making to raise achievement.² The core problem with the current funding system is that there is no line of sight between what is invested and the learning outcomes that are achieved. Underachievement is caught too late in the system resulting in higher expenditures for failure either in education and/or justice and welfare.

11 Current funding systems for early learning and schooling have developed in ad hoc ways over time and focus on the inputs for running an entity rather than the educational outcomes for children and young people. Less obvious - but just as worrisome in an increasingly competitive global market - is the lack of lift and stretch in student learning potential. We see the measure of this in the declining numbers of New Zealand students

² This is part of my Education Work Programme that encompasses an integrated set of changes to the education system levers to achieve a fit-for-purpose and sustainable education system [CAB Min (14) 38/5]. This work programme includes: Investing in Educational Success [SOC-6-MIN-0030], the Education (Update) Amendment Bill [CAB-16-MIN-0425], greater certainty of the funding and regulatory arrangements for state integrated schools [SEC-16-MIN-0012], and tighter targeting of professional learning and development.

in the top percentile of international benchmarks. These benchmarks also show a decline in performance by New Zealand students, both compared to other countries and against our previous results.

- 12 The cumulative cause of this system failure is that some children do not learn what they need to each year in order to keep pace with the curricula. The introduction of National Standards was our first intervention to help address this problem. Now, we need to do more to support every student to make at least a year's worth of curriculum progress every year.
- 13 Compounding the functional flaws in the system are its operational defects. The current funding system is riddled with complexities. For schooling, for example, multiple formulae are used depending on school type, roll size and roll distribution across year levels. In early learning, we fund both children and places. The system needs to be simplified both to make it clear that it is educational success we are investing in, and for administrative ease and clarity. Appendix one provides an overview of the current system.
- 14 With more than one million children and young people in our education system now, it is vital that we reconsider funding in concert with other system levers to lift the performance of the system as a whole for all children.

A Funding System to Support our Objectives

- 15 My objective is to develop a system which:
 - 15...1 funds the delivery of at least a year's worth of curriculum progress for all children and young people every year. Focussing our funding system on expected progress through the curricula will strengthen the line of sight between our investment in education and the longer term outcomes we expect from it;
 - 15...2 recognises that there is a standard cost of learning, plus a cost for those students who require additional support;
 - 15...3 delivers this funding based on the data and evidence driven size of the educational challenge faced by Communities of Learning | Kāhui Ako, schools, ngā kura and early learning providers.
- 16 Through this work, I am also seeking to ensure that the Crown's substantial investment in school property is better managed.

Initial Work on Designing a New Funding Model

- 17 In April 2016, Cabinet agreed to testing seven initial elements of a new funding model with the sector [CAB-16-MIN-0173]:
 - 17.1 a funding system made up of three core components:
 - 17.1.1 *a per-child funding amount* – tailored to the expectations of the curricula;
 - 17.1.2 *an additional payment for children and young people at most risk of educational underachievement*;
 - 17.1.3 *supplementary funding* – to support small and isolated services and schools;

- 17.2 separating funding for property maintenance and heat, light and water from other funding for state and state integrated schools;
 - 17.3 a global budget mechanism for delivering funding to state and state integrated schools;
 - 17.4 developing clear expectations and greater accountability;
 - 17.5 funding independent schools at a fixed proportion of the per-child funding amount for state and state integrated schools.
- 18 Between May and early September 2016, the Ministry of Education tested these elements with a sector advisory group comprising representatives from both the early learning and school sectors, as well as through 89 regional stakeholder engagement meetings. For the early learning specific elements, separate meetings were also held with an early learning advisory group. I have received and considered two reports which summarise the input received through these forums. I released these reports publicly on 8 September 2016.
 - 19 The advisory group as a whole supported taking almost all of the elements to the next stage of work. The exceptions were the proposal to deliver school funding through a global budget mechanism and the proposal relating to independent school funding. However, the majority of the group conditionally supported progressing changes to independent school funding. In regard to establishing clear expectations and strengthening accountability, the advisory group considered that the scope of this work extends beyond the Funding Review and should be progressed separately.
 - 20 The advisory group considered that it would be premature to make specific recommendations about a new funding approach, given that the distributional impacts for individual services and schools are not yet clear. The advisory group was concerned about the potential loss of funding for services and schools as a result of redistribution. The engagement process occurred, as planned, at an early conceptual stage, responding to the sector asking to be involved at an early stage. The potential distributional implications for individual services and schools are not apparent at such an early stage.
 - 21 The advisory group considered that the Funding Review would be more comprehensive if it also included the adequacy of funding, notwithstanding explanations that questions of adequacy could only be properly considered once analysis of current expenditure was completed. Moreover, in future Budget rounds the case for increased investment in early learning and school education would be considerably enhanced under a new funding model with clearer line of sight between investment and educational outcomes.
 - 22 The early learning advisory group supported furthering work on the elements, including the move from place-based to per-child funding in early learning.
 - 23 The feedback from the regional meetings was similar.
 - 24 Paid union meetings were called by the NZEI and PPTA before the advisory process was completed. While taking a wide latitude from what Cabinet actually approved for discussion, and what was then considered in the advisory group, there was, nevertheless, emphatic opposition to global budgets as a funding delivery mechanism. The basis for concern was the replacement of the guaranteed minimum number of teachers in schools with flexibility of choice by the governance and management of each school as to what they thought they needed to meet their educational achievement challenges. The union

membership was adamant that the Ministry of Education should work collaboratively with the sector to develop a new funding system, despite truncating the first stage of this process.

- 25 Additional feedback from the sector, including the disability sector, raised concerns that the initial work inadequately addressed funding arrangements for learning support. It is my intention, subject to Cabinet's long term view of funding changes, to bring together the Learning Support Update and my recommendations for developing a continuum of additional support that provides for children and young people whether their risk of educational success arises out of physical, intellectual or behavioural needs or because they are from disadvantaged backgrounds.

The Proposed Model of Funding

- 26 In light of this feedback and further policy work completed since April 2016, I propose to continue to work towards developing a new funding system for early learning and schooling comprising:
- 26.1 a core funding model in both early learning and state and state integrated schools made up of two components:
- 26.1.1 *a curriculum-based per-child funding amount* – linked to the learning expectations of children and young people at each stage of the curricula. In early learning, this involves moving to per-child funding. In schooling, this involves a review of funding levels at each stage of the curriculum;
- 26.1.2 *additional funding for individual challenges:*
- 26.1.2.1 *targeted additional achievement allocation* – for children and young people from disadvantaged backgrounds and to replace the current decile system and better align funding to the actual curriculum-based achievement challenge;
- 26.1.2.2 *learning support (special education) allocation* – for those learning support needs that services and schools are expected to meet from within their funding;
- 26.2 for small and isolated early learning services and state and state integrated schools, supplementary funding to enable the maintenance of a network of provision;
- 26.3 for state and state integrated schools, funding for property maintenance and heat, light and water would be separated from other funding with restrictions on how this is spent to better ensure appropriate maintenance of school property and support optimal internal environments for learning;
- 26.4 for independent schools, a per-child subsidy set at a fixed proportion of the per-child funding amount for state and state integrated schools.
- 27 The proposed funding model is expected to result in a simpler, more equitable and more coherent funding system across early learning and schooling to ensure that the expected curriculum progress is made and to lift the learning potential of all children and young people. With better information about student progress, we will have a more robust basis

for making decisions about where any further resources should be invested to ensure that all children and young people achieve educational success. The proposed model would also provide more assurance that the Crown's investment in school property is appropriately managed.

- 28 I was due to report back to Cabinet in November on an interim funding model for Communities of Online Learning (COOL), which are provided for in the Education (Update) Amendment Bill. To achieve the goal of a coherent funding approach across the range of student-centred learning options within our schooling system, I propose to integrate the development of a funding regime for COOL into the funding review. The main implication of this approach is that, with the exception of Te Kura, the establishment of new COOL will occur as part of the implementation of the funding review, from 2020. This will ensure that the funding of COOL can be integrated into the wider funding system on the same basis as all other education provider types.
- 29 Designing a funding model that makes visible the areas where further investment will make the greatest difference is a significant technical and public management challenge. While the model will elucidate where funding is currently not aligned to the size of the achievement challenge, it will also make apparent where more investment is likely to improve performance across the system. As the review progresses, there will be an increased sector and community focus on their perceptions of the adequacy of funding levels for early learning and schooling.
- 30 The adequacy of current funding arrangements is often raised by the sector as a problem. Adequacy will always be subject to a level of judgement and will always be contested. However, we have very few schools that are failing financially. International benchmarks show above average student outcomes compared with other countries, suggesting that there is enough money in the system.³ Improvements in financial efficiency are also being made through the introduction of bundled services for Communities of Learning | Kāhui Ako. Monitoring and early intervention can also help schools to improve their strategic financial management and make their money go further.
- 31 International research shows that once a certain level of funding is reached within an education system, extra improvements in student outcomes cannot be achieved simply by adding more resourcing into the system. Instead, it matters how effectively this money is spent.⁴ Any assessment of the adequacy of our funding arrangements therefore needs to clearly and transparently assess where extra resources can be invested to most effect, including consideration of whether extra resources should be invested in services and schools or in developing teacher and leadership capability.
- 32 The components of the new funding model are discussed in more detail in paras 45-73. A complementary work programme to clarify expectations and strengthen information on student progression is being developed in parallel as part of my wider Education Work Programme. This is required to demonstrate learning growth and strengthen accountability, whether the funding system is changed in part or in whole.

3 OECD (2014), PISA 2012 Results in Focus: What 15-Year-Olds Know and What They Can Do with What They Know, OECD Publishing.

4 OECD (2012), Equity and Quality in Education: Supporting Disadvantaged Students and Schools, OECD Publishing.

Global Budget mechanism

- 33 I am not proposing to take forward the global budget mechanism as a means of delivering funding to state and state integrated schools. This means that funding to state and state integrated schools would continue to be delivered as a combination of cash and staffing entitlement. However, the total level of funding per school will be more aligned to the size of their educational challenge.
- 34 The global budget would only have marginal benefits for the sector. During the engagement process, schools indicated that the current system of funding delivery generally works well and can provide the flexibility required by most schools (particularly those with material levels of discretionary cash). Moreover, it is clear that neither principals nor teachers yet have confidence in governance and management to make good choices about the mix of inputs necessary to meet the educational challenge for their students. Given the criticality of quality teaching to raising achievement, the fears that teachers will be traded off is surprising. It is perhaps more a concern about numbers of jobs rather than quality of teaching. Notwithstanding, I do not wish the greater objective of better funding for educational success to be distracted by union opposition. I would prefer to engage in more meaningful and productive discussions with those in the profession whose energies can be harnessed to improve the funding system, and whose knowledge of the curricula complexities can expertly inform the work that needs to be done.

Process and Timeframe

- 35 A substantial programme of detailed policy work is required to translate these high level concepts to a workable funding system and to fully understand the distributional consequences. This needs to be supported by a process of change management with the sector.

- 36 I therefore propose to continue a staged approach to this work, which would enable Cabinet [REDACTED] to decide whether to continue to progress the model in its entirety, or to take forward particular components.

- 37 Subject to Cabinet's agreement, I intend to immediately progress detailed policy design of the following elements and to seek Cabinet in-principle agreement to these [REDACTED]

s 9(2)(f)(iv) OIA [REDACTED]. These are critical enablers of further work to develop the new funding system: s 9(2)(f)(iv) OIA [REDACTED]

- 37.1 the mechanism to determine the targeted additional achievement allocation relating to children and young people from disadvantaged backgrounds (paras 45-51);
- 37.2 the mechanism to determine the learning support (special education) allocation (paras 52-53);
- 37.3 the move from place-based to per-child funding in early learning (paras 54-58);
- 37.4 changes to the arrangements for funding for property maintenance and heat, light and water in state and state integrated schools (paras 59-63).

- 38 In parallel, work will be progressed on the following topics, which require a longer period to work through and decisions on the above topics in order to be fully progressed:
- 38.1 the determination of the curriculum-based per-child funding amount in schooling (paras 64-69);
 - 38.2 the determination of criteria by which services and schools count as small and isolated (paras 70-73);
 - 38.3 options for the level of funding to be distributed through each of the components of the funding model (curriculum-based per-child amount, both forms of additional funding for individual challenges, supplementary funding and property related funding);
 - 38.4 the modelling of the distributional impacts of these options for individual services and schools and the associated fiscal costs.
- 39 The policy design work would be followed by a period of funding level finalisation, implementation preparation and communication to services and schools to prepare them for the changes, before implementing a new system in the 2020 school year.

Ongoing sector engagement in policy development

- 40 I will continue to work with the sector through a layered engagement and communication process.
- 41 This will include small, topic specific, technical working groups made up of appropriate experts and representatives from the sector who will advise on detailed design and inform policy development.
- 42 The technical groups' work will be complemented by workshops with education professionals, academics, and experts to test key components with a broader audience.
- 43 I will also continue to engage, together with the Ministry, with the advisory group that was established in the first phase of the review. However, we will have to establish a clearer understanding of what is involved if we are to maintain integrity in the process. We will need to debate difficult issues without resorting pre-emptively to industrial action, as happened, when a particular element is not favourable. This group can be a powerful agent for improvement and change if it is willing to act as a reference point for the Ministry to test the emerging detailed design of the new funding model.
- 44 Additionally, subject to decision points for Cabinet, I will engage more broadly with the sector to continue to develop a common understanding of the review among all education sector professionals and the wider community, before implementation of a new system or component parts.

Work for Detailed Design Decisions [REDACTED] s 9(2)(f)(iv) OIA

Targeted additional achievement allocation

- 45 Analysis based on the administrative data that is available on past students who have and have not achieved NCEA level 2, suggests that we can develop a mechanism that would more accurately target funding than the current decile mechanism does. As shown in Table one, an index which uses existing administrative data and is calculated for each

child or young person could be more predictive of educational achievement than decile. The analysis also suggests that we would not need to directly collect additional information from families, such as parental educational qualifications, in order to target funding more accurately.

Table one: Comparison of the predictive accuracy of the set of indicators against the indicators underlying the decile indicators system

	If 25% of population defined as 'disadvantaged'		Predictive power (ROC score ⁵)
	Proportion of those who didn't achieve identified as 'disadvantaged'	Proportion of those who did achieve identified as 'disadvantaged'	
Set of Census meshblock indicators used for decile	42%	22%	0.65
Set of four social investment indicators ⁶	39%	13%	n/a
Set of administrative indicators in disadvantage index	57%	19%	0.78

- 46 This new index was developed using statistical techniques and enables differences in the circumstances of children to be assessed in a fine-grained way. It is made up of a large number of factors, outlined in Table two. These factors are combined in a way that takes account of the interplay between them. The greater predictive power of the index relative to the existing decile mechanism is a result of all these features of the index. The index is also more predictive than the set of four specific factors that was outlined in April 2016.

Table two: Indicators from administrative data ranked in the degree to which they were found to be risk factors for not achieving NCEA Level 2

HIGH MARGINAL CONTRIBUTION	MEDIUM MARGINAL CONTRIBUTION	LOW MARGINAL CONTRIBUTION
1. Proportion of time spent supported by benefits since birth 2. Child has a CYF notification 3. Gender 4. Mother's age at child's birth 5. Father's offending and sentence history	6. Asian (positive factor) 7. Youth Justice referral 8. Benefit mother unqualified 9. Proportion of time spent overseas since birth 10. Mother's average earned income over the previous 5 years 11. Number of addresses in the last 5 years 12. Maori 13. Country of birth 14. Father's average earned income over the previous 5 years	15. Migrant category/NZ born 16. Number of children (mother) 17. Mother received third tier benefits 18. Most recent benefit male caregiver is not the birth father 19. Pacific

⁵ A 'ROC score' is a measure of the accuracy of a set of indicators across a range of cut-off thresholds. The range is from 0.5 to 1.0, with a score of 1.0 meaning perfect accuracy and a score of 0.5 meaning no better than random chance.

⁶ Long term beneficiary status; Child, Youth and Family finding of abuse or neglect; parental Corrections history, and maternal or primary caregiver educational qualifications.

- 47 The level of funding to each school and service would depend on the estimated number of children and young people on their roll who are at risk of educational underachievement according to this index. Decisions would need to be made about which children and young people would generate this additional funding. For example, funding could be provided in relation to the 25 percent of children and young people who, as measured by the index, are most at risk of not achieving NCEA Level 2. There are also other possibilities such as a different threshold or a more continuous scale with a staggered funding rate.
- 48 Services and schools would know the level of their funding and how many students generate it, but would not be told which individual children generate this funding, protecting privacy and preventing stigmatisation. They would continue to make the best pedagogical decisions to best support the students they assess to be at risk of educational underachievement based on what they see in the classroom, and how to lift the learning potential of all students.
- 49 This approach has the potential to mitigate the stigmatising effect that the decile system has had on some services and schools as a result of it being incorrectly interpreted as an indicator of educational quality. There would no longer be a single government sanctioned metric that 'labels' individual services and schools. The approach also highlights that there are children with higher and lower risk throughout the system.
- 50 The next phase of work will explore the operationalisation of this index for funding purposes. This work will include the implications and risks of including particular factors within the index, including the perceived equity of the resulting funding allocation. Another key decision will be the extent to which the funding allocation should reflect the concentration of disadvantaged children and young people in each service and school.
- 51 Implementing the index would require changes to allow access to output from the Integrated Data Infrastructure (henceforth: IDI) at the level of individual schools and services and Communities of Learning | Kāhui Ako. This would be our preferred approach. The requirements to achieve this are still being worked through, but may require regulatory change. Alternatively the necessary data might be duplicated outside the IDI through a multi-agency Approved Information Sharing Agreement with all the relevant agencies. This would be more cumbersome and could require us to work with a simpler index which could decrease the predictive power and the accuracy with which funding can be targeted to need. Both approaches would require us to address privacy related considerations.

Learning support (special education) allocation

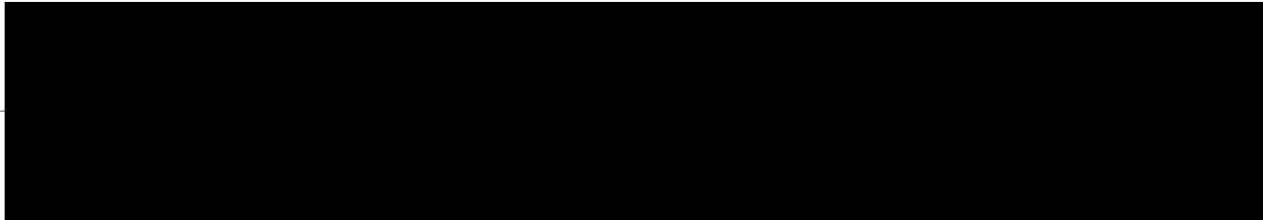
- 52 In the near future, I will report on the Learning Support Update and seek Cabinet agreement to my medium term vision for the way learning support will operate. The update provides an opportunity to reconsider the balance between centrally provided or purchased services and direct funding to early learning services and schools to meet their students' learning support needs. It also provides an opportunity to revisit the level within the system where decision making most appropriately sits about the support provided to children and young people with particular needs - at the level of individual services and schools, Communities of Learning | Kāhui Ako, larger regional groupings, or nationally. Future funding arrangements need to be aligned with any changes that flow from this work.

- 53 At present, funding for the learning support needs that services and schools are expected to directly meet from their funding is allocated on the basis of decile.⁷ In light of the shift away from deciles and potential changes emerging from the Learning Support Update, a new basis is required to allocate this funding.

Curriculum-based per-child funding in early learning: replacing place-based with per-child funding

- 54 At present, the early learning funding system provides some funding to services based on the number of child places provided by a service. Appendix one provides an overview of the current early learning funding system. A child place can potentially be shared by a number of children. Other funding to services is based on the number of hours that each child actually attends. I propose that all funding be provided on a per-child basis.
- 55 A per-child funding model would ensure a more equitable distribution of the 30 hours Early Learning Subsidy for each child. The current place-based funding means that 10,500 children (5% of enrolments) do not have access to a full 30 hours of subsidised provision. While 6,600 children (3% of enrolments) attend multiple services and can benefit from more than 30 hours of subsidised provision. Under the proposed model, all children would have access to 30 subsidised hours, consistent with existing policy objectives.
- 56 A per-child funding model would reduce system complexity by establishing a common funding model across all early learning subsidies. A per-child model is also a pre-requisite for implementing the targeted additional achievement allocation for early learning services. Implementing the additional allocation requires information on each child enrolled in each service, not just the number of places provided.

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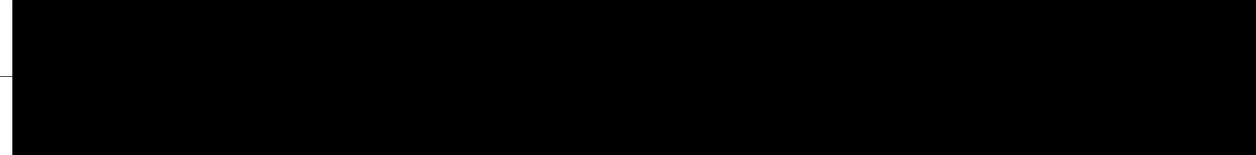


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- 58 No change is envisaged to the funding differentials between different types of early learning services, such as between kindergartens and home-based services.

Property maintenance and heat, light and water funding

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s 9(2)(f)(iv) OIA

- 60 To ensure the Crown can better influence infrastructure expenditure, I propose separating funding for property maintenance and heat, light and water from other funding to schools.⁹

⁷ Equity Component B in early learning and Special Education Grant in schooling.



⁹ Property maintenance funding is separate from capital-related funding provided for the redevelopment and modernisation of school property.

s 9(2)(f)(iv) OIA

Initially, there would be no change in the calculation of the funding received by individual schools, but schools would have reduced flexibility to use this funding for other purposes.

- 61 Schools would be required to meet specific maintenance requirements, and would only be able to use property maintenance funding for other purposes when these requirements have been met. Initially, these requirements could include annual gutter cleaning, a bi-annual building wash and exterior painting when necessary. In the long run, these maintenance requirements would be adjusted to become school specific, related to a school's 10 Year Property Plan (10YPP). This would ensure that yearly maintenance is directly related to a property's long term investment plan, maximising the value of property spending.

s 9(2)(f)(iv) OIA

- 62 [REDACTED] the Ministry will do further work on how to align this funding with the 10YPP process and Ministry systems and to inform the date implementation could start.

- 63 The Ministry is currently working with energy providers, the Energy Efficiency and Conservation Authority and the Electricity Authority to get real usage data per school so that heat, light and water funding allocations can be informed by real usage and real energy rates. Where schools achieve savings in their heat, light and water expenditure, they would be able to retain a proportion of these to incentivise energy efficiency. The remainder would be made available to the Ministry to use for nationwide investments that further improve energy efficiency in schools.

Work for Further Consideration [REDACTED] s 9(2)(f)(iv) OIA

Curriculum-based per-child funding in schooling: Determining the funding amount

- 64 Over the next year, work will be progressed to guide decisions on the per-child funding amount, including the differential level required in the Māori medium context. My objective is to establish a per-child funding level that would provide schools with the funding needed to support children and young people to make at least a year's worth of progress across the curricula each year.
- 65 There are a range of pre-requisites that must be met in order to progress to such a curriculum-focused funding system. First and foremost is the development of our understanding of student progression through the curricula. In recent years we have made significant progress in making achievement data available at a school level. The Learning and Progressions Framework (LPF), supported by the Progress and Consistency Tool (PaCT) and Te Waharoa Ararau (TWA), provide the platform for assessing progress against curriculum levels 1-5 for reading, writing and mathematics.¹⁰ However, we have more work to do on improving our data on learner progression and developing frameworks that can operate more widely across the curricula.
- 66 Initial information on student progress suggests possible areas where more focus might be needed. The data available from National Standards information on reading, writing and mathematics, indicates that we have an achievement challenge which emerges during primary school and becomes more pronounced by Year 8. Data from the National Monitoring Study of Student Achievement indicates a similar pattern. In some curriculum areas, the differences between those who make expected and better than expected progress (around 60% of children are making progress in line with expected levels) and

¹⁰ The equivalent of progress up to approximately year 10.

those being left behind could be as much as two years worth of learning. It is not clear yet what is driving this.

- 67 Estimating the required level of funding for a year's worth of curriculum progress is a challenging area of work. Time is required to complete the range of analytical work necessary to make an informed judgement on the most accurate level of funding. This value has the potential to become a benchmark in relation to the adequacy of funding, and has flow-on implications for the levels at which other components of funding are set.
- 68 Work undertaken to date suggests that it is sensible to take multiple approaches to guide the final determination of this amount. The Ministry will be progressing work with the support of sector experts to assess the teaching and learning requirements at each stage of the curricula and the associated costs. In parallel, the Ministry will review information on schools' expenditure and identify exemplar, efficient schools. The Ministry will use insights about these schools' resourcing and how they use this to calibrate the funding levels required in the new funding model. I intend to update Cabinet [REDACTED] on progress, and seek further decisions on the per-child amount at that time. § 9(2)(f)(iv) OIA
- 69 I expect that this will be an iterative process, with this funding level refined over time.

Defining small and isolated services and schools

- 70 To support education provision being located as close as reasonably possible to families, I propose supplementary funding for small and isolated services and schools. This takes into account population densities in rural and provincial areas and our objectives for choice and diversity in education provision, including for Māori medium education.
- 71 Small schools face fixed costs in administration and curriculum delivery, including in providing subject choice at the senior secondary level. Isolated services and schools can face extra costs related to both teaching and learning and accessing trades and services. These services and schools would not be educationally viable if they received only the curriculum based per-child funding amount and the additional funding amount for individual challenges.
- 72 I am seeking to develop an approach to these services and schools that provides the minimal additional funding necessary, supports our objective of increased collaboration across and system, and takes into account the potential over time for Communities of Learning | Kāhui Ako and for Communities of Online Learning to mitigate some of the costs in the operation of small schools, including those associated with providing curriculum breadth.
- 73 The first stage of this work involves establishing a coherent basis for defining small and isolated services and schools. The second stage of this work involves determining the extra costs that these services and schools face in maintaining a viable provision and, hence, the funding that they require over and above that provided by the core funding model. There is a close relationship between this work and that related to the per-student funding amount.

Complementary Work on Accountability

- 74 Across the Education Work Programme, I am strengthening student progress information by making improvements that will make individual and collective impacts on children's

learning more transparent and provide information to inform responses throughout the system.

- 75 Collectively, these improvements are intended to put children and young people at the centre of our education system. These changes will create a strengthened accountability system that provides the necessary line of sight between educational funding and outcomes, and helps everyone in the education system to make the right decision, at the right time, for the right reasons for every child. This includes enabling the Ministry of Education to:

75.1 better target support and interventions to services and schools struggling to meet children's and young people's needs;

75.2 identify and learn from those services and schools which are most effective in supporting children's progress and achievement.

- 76 I do not consider it appropriate to strengthen accountability by introducing funding-related penalties or incentives as these would create risks to children's learning. I also do not consider it appropriate to create specific accountabilities for the additional funding generated by children with particular risk characteristics. The reality of which children actually need additional support is much more complex than we can predict, and services and schools are best placed to make these judgements.

- 77 I am proposing that we use our data to better understand the progress students are making individually and in aggregate against the curriculum: the learning growth. The value of focussing on progress is its potential to capture the learning of all students from the most challenged to the most advanced.

- 78 To ensure a continued focus on this work, I propose that the Ministry report back to me and the Minister of Finance [REDACTED] with an update.

Risks

s 9(2)(f)(iv) OIA

- 79 As the review progresses, there will be an increased sector and community focus on the adequacy of funding levels for early learning and schooling. This issue has already emerged in the context of discussion with the advisory group and in public statements by various sector leaders. The work to define the per-child funding amount required to make expected progress against the curricula could indicate a need for higher levels of funding than currently provided. Similarly, separating property maintenance funding and more explicitly specifying maintenance activities will create more insight into the adequacy of this funding. It is essential that this discussion is framed within a context of the funding needed to progress children through the curriculum.
- 80 The new funding model will have implications for the distribution of funding across individual services and schools. Support within the sector to continue to explore changes to funding arrangements is dependent on the eventual distributional implications. To mitigate this risk, the redistributive impacts for individual services and schools will be intensively modelled, so that this informs final funding level choices and transition decisions. The fiscal implications of options to reduce these redistributive impacts will also be modelled.
- 81 There is a risk that the proposed mechanism for allocating the targeted additional achievement allocation will be perceived as inequitable. This risk is due to the inclusion

within the index of factors not traditionally viewed as measures of socio-economic disadvantage and because the index seemingly places a heavy focus on benefit-dependent households. While predictive modelling is being used in a number of areas, such as guiding services provided to beneficiaries, its application to the schooling area is the first time it has been applied more broadly across population groups.

- 82 To mitigate this risk, the Ministry will work closely with sector leaders and other opinion shapers to build their understanding of the methodology.
- 83 The development of a mechanism that is materially more predictive than the current decile mechanism requires either the ability to use data from the IDI (for operational purposes) or the establishment a multi-agency Approved Information Sharing Agreement. There is a risk that privacy considerations may require simplification of the index, decreasing the level of predictability. If this is the case, to mitigate this risk, further advice will include the predictive power of the simpler index compared to the decile mechanism.

Consultation

- 84 The Treasury and the State Services Commission have been consulted on this paper. The Department of the Prime Minister and Cabinet has been informed.

Financial Implications

- 85 Moving to a new model will lead to a different distribution of funding, giving rise to issues around how to manage the transition. There may also be fiscal implications as a result of the reassessment of funding levels. As the review progresses and the above-mentioned options are worked through in more depth, the distributional and fiscal impacts will be quantified.

Legislative Implications and Regulatory Impact Analysis

- 86 This paper does not give rise to any specific legislative implications at this stage. Specific regulatory changes will be the subject of later Cabinet papers if regulatory change proves necessary.

Gender, Disability and Human Rights Implications

- 87 This paper is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993 and does not give rise to any specific gender or disability implications. If the future work on the review does lead to such implications, this will be the subject of later Cabinet papers.

Recommendations

88 I recommend to the Committee:

- 1 **note** that, in November 2014, Cabinet agreed to the Education Work Programme [CAB (14) 38/5 refers] aimed at improving educational outcomes for every child and young person, including a priority to review the school and early childhood education funding systems
- 2 **note** that the objective of the Review of Education Funding Systems within the Education Work Programme is to direct funding to the size of the education challenge faced by early learning services, schools and Communities of Learning |

Kāhui Ako so as to ensure that all New Zealand children and young people receive the best possible education

- 3 **note** that, in April 2016, Cabinet agreed to testing seven initial elements of a new funding model with the sector and hearing back in October 2016 [CAB-16-MIN-0173]
- 4 **note** that between June and August 2016, a sector wide engagement process took place. This included an advisory group and regional meetings
- 5 **note** that, informed by feedback from the sector, the proposed new funding system for schooling and early learning is as follows:
 - 5.1 for early learning and state and state integrated schools: two components for teaching and learning
 - 5.1.1 *a curriculum-based per-child funding amount* – linked to the learning expectations of children and young people at each stage of the curricula. In early learning this involves moving to per-child funding. In schooling this involves a review of funding levels at each stage of the curriculum
 - 5.1.2 *additional funding for individual challenges*
 - 5.1.2.1 *targeted additional achievement allocation* – for children and young people from disadvantaged backgrounds and to replace the current decile system and better align funding to the actual curriculum-based achievement challenge
 - 5.1.2.2 *learning support (special education) allocation* – for those learning support needs that services and schools are expected to meet from within their funding
 - 5.2 for small and isolated early learning services and state and state integrated schools, supplementary funding to enable the maintenance of a network of provision
 - 5.3 for state and state integrated schools, funding for property maintenance and heat, light and water would be separated from other funding with restrictions on how this is spent to better ensure appropriate maintenance of school property and support optimal internal environments for learning
 - 5.4 strengthened accountability for funding through work that is underway across the Education Work Programme, in parallel to the Funding Review, to increase the transparency of impacts on children's learning progress so that there is line of sight from funding to educational outcomes
 - 5.5 for independent schools, a per-child subsidy set at a fixed proportion of the per-child funding amount for state and state integrated schools
- 6 **agree** that the proposal of a global budget for state and state integrated schools will not be progressed further
- 7 **direct** the Ministry of Education to undertake detailed policy design and report back with in-principle decisions [REDACTED] on

s 9(2)(f)(iv) OIA

- 7.1 the mechanism to determine the targeted additional achievement allocation relating to children and young people from disadvantaged backgrounds
- 7.2 the mechanism to determine the learning support (special education) allocation
- 7.3 moving from place-based to per-child funding in early learning
- 7.4 changes to the arrangements for property maintenance, and heat, light and water funding in state and state integrated schools
- 8 **direct** the Ministry to do further work and to report back on the progress of this work
[REDACTED] s 9(2)(f)(iv) OIA
 - 8.1 the determination of the curriculum-based per-child funding amount in schooling
 - 8.2 the determination of criteria by which services and schools count as small and isolated
 - 8.3 options for the level of funding to be distributed through each of the components of the funding model (curriculum-based per-child amount, both forms of additional funding for individual challenges, supplementary funding and property related funding)
 - 8.4 the modelling of the distributional impacts of these options for individual services and schools and the associated fiscal costs
- 9 **direct** the Ministry of Education to report to the Minister of Education and the Minister of Finance [REDACTED] with an update on the work to strengthen student progress information s 9(2)(f)(iv) OIA
- 10 **note** that the next stage of the review will involve a layered engagement and communication process including technical working groups and the testing of the resultant detailed policy design with the advisory group
- 11 **note** that the development of a funding regime for Communities of Online Learning will be integrated into the work of the funding review
- 12 **agree** to rescind the November report back to Social Policy Cabinet Committee on an interim funding model for Communities of Online Learning.

Authorised for lodgement

Hon Hekia Parata

Minister of Education

Appendix one: Current funding model

State and state integrated schools

The current funding to state and state integrated schools is made up of a staffing entitlement and an operations grant.

Staffing Entitlement

The staffing entitlement makes up approximately 70% of school funding. This is an entitlement to employ a number of full time teacher equivalents for whom the Crown directly pays the salary.

The staffing entitlement allocated to each school is calculated based on multiple components, each with its own formula, which depends on the type of school (primary, intermediate, secondary, composite), the total roll size of the school, the number of students at each year level, and whether students are learning in a Māori medium setting.

The main component is the curriculum delivery allowance which generates staffing dependent on the number of students in each year level and teacher:student ratios that differ across year levels. This is supplemented by regulations that provide additional entitlement to smaller schools, in the form of the Maximum Average Class Size which relates to small schools with students in years 1 to 8, and curriculum base staffing for schools with secondary level students.

Specific additional entitlement is provided in relation to technology teaching and learning at Years 7 and 8, and music at secondary year levels. There are also staffing entitlement allowances relating to the leadership and management of all schools, and for guidance support for schools with secondary level students.

Other components of staffing entitlement relate to teacher release time, supporting beginning teachers, and participation in Communities of Learning | Kāhui Ako. Additional staffing entitlement is provided for students with Ongoing Resourcing Scheme funding.

In addition to staff entitlement, schools are allocated a specific number of units and allowances that enable them to provide certain teaching staff with additional salary amounts to take account of extra roles and responsibilities.

Operations grant

The operations grant is a cash amount that each school receives, and is made up of a number of components:

- each school receives base funding that varies depending on the school type. It decreases as a school's roll increases, with the rate of abatement also depending on school type
- a general per child funding amount, which varies by year level
- relief teacher funding, which depends on school type and total staffing entitlement
- Targeted Funding for Educational Achievement – which depends on school decile and total roll size

- Special Education Grant – a per school amount plus a per student amount that varies by school decile
- Targeted Funding for Isolation – received by schools defined as isolated according to a specially developed index. Eligible schools receive a per school amount plus a per student amount that varies with the degree of isolation
- ICT funding – an amount per school plus a per student amount
- Kiwisport – a per student amount that varies between primary and secondary levels
- Careers – an amount per secondary level student that varies with decile
- Secondary Alignment Resource – paid in relation to students in years 11, 12 and 13, but differential rates apply depending on the total number of these students in each school
- Māori Language Programme Funding – differential per student funding amounts depending on the amount of time the student studies in and through te reo Māori
- Heat Light and Water Funding – an amount that is specific to each school
- Property Maintenance Funding – depends on property area (m²) and is adjusted for isolation and propensity to high corrosion
- Vandalism Funding – per student amount that varies depending on the vandalism risk classification of the school.

Students in trades academies

Students who participate in trades academies are funded under a separate arrangement. They do not generate standard staffing entitlement or operational grant funding. They generate a separate total per student cash funding amount.

Early Learning

The early learning funding system provides a range of funding rates based on the costs for different types of service. These costs include teacher salaries and other costs such as overheads and administration, utilities, property costs, and non-teaching staff costs.

ECE subsidy

The ECE subsidy is paid on a per-child-place basis, for a maximum of six hours per day, up to 30 hours per week. Within the ECE Subsidy there are separate rates for children under two (Under 2's Subsidy) and children aged two and over (Over 2's Subsidy). The rates for under two are higher to account for the additional cost of higher regulated teacher:child ratios.

Rates are also determined by service type because the costs and requirements faced by different service types vary. For some service types, funding rates are divided into rates for services where children attend for no longer than four hours a day (sessional services), and rates for all-day services.

20 Hours ECE and Plus 10 ECE

20 Hours ECE covers a maximum of six hours per child per day and up to 20 hours per week for three, four and five year olds. It is a higher funding rate that is designed to meet the full average cost faced by providers. 20 Hours ECE is paid per child rather than per child place.

For children receiving 20 Hours ECE who attend more than 20 hours per week, Plus 10 ECE subsidy is available for up to 10 additional hours per week so that 30 subsidised hours are available. The rate for Plus 10 ECE is the same rate the Over 2's Subsidy.

Equity Funding

Equity funding is the only targeted ECE subsidy and is paid to eligible services in addition to the above subsidies. The aim of equity funding is to reduce educational disparities, increase participation, and support services to raise educational achievement. Equity funding consists of four components. Services may be eligible for one or more components:

- A: low socio-economic communities
- B: special needs and non-English speaking backgrounds
- C: language and culture other than English (including sign language)
- D: isolation

Ministry of Social Development Childcare Subsidy

The Ministry of Social Development provides additional targeted funding in the form of the childcare subsidy, which is aimed at increasing labour market participation. This subsidy is paid directly to services. It is capped at 50 hours per week.