

The Treasury

Education Funding System Review Information Release

Release Document

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- [1] 9(2)(a) – to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Treasury Report: Review of funding systems: Early Childhood Education services and schooling

Date:	8 April 2016	Report No:	T2016/601
		File Number:	SH-4-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note the contents of this report. Support the Cabinet paper subject to officials reporting back to Joint Ministers on the terms of reference for the Sector Advisory Group; and agree to a check in point to discuss emerging issues.	Ahead of SOC on Wednesday 13 th April.
Associate Minister of Finance (Hon Steven Joyce)	Note the contents of this report	Ahead of SOC on Wednesday 13 th April.
Associate Minister of Finance (Hon Paula Bennett)	Note the contents of this report	Ahead of SOC on Wednesday 13 th April.

Contact for Telephone Discussion (if required)

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Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure:No

Treasury Report: Review of funding systems: Early Childhood Education services and schooling

Executive Summary

The education funding Cabinet Paper will be discussed by the Social Policy Committee on Wednesday 13th April.

The Treasury supports the recommendations in the paper. While the proposals need further development, we support the proposed process to test the direction of change with the sector and wider stakeholders. The Minister of Education proposes to report back to Cabinet in October 2016.

Benefits of proposed reforms

The proposed reforms in themselves are unlikely to have a significant impact on education outcomes. However, as part of wider system reform the proposals could have an important impact over time. We would particularly highlight the following opportunities:

- Increased transparency around the amount of funding provided for educational outcomes.
- Providing funding on the basis of individual student risk factors should help to sharpen the system focus on the children who need most support (although this is partly dependent on wider changes to the outcome and accountability framework).
- Increasing the level of funding for some schools may enable important investments to support at-risk students (although this is dependent on school capability).
- Increased flexibility for schools to use FTE allocations for other things may lead to increased effectiveness, although it is unclear the extent to which this may happen.
- Increased transparency around the cost of maintaining small schools.

There are some aspects of the review where the potential benefits are less clear. These are:

- Property funding – The Cabinet paper proposes separate funding for property related costs (removing flexibility to shift funding between learning and property activities, and enabling wider changes). While we think it makes sense to test this proposal through the review, greater clarity is needed around the potential impacts of the change.
- Varying funding levels across years of learning – While it is logical to vary funding levels based on the size of the learning challenge, it is unclear how the size of the learning challenge would be determined and the impact that adjusting funding levels would actually have. One approach would be to focus the effort on improving the evidence base around the efficient cost to deliver at different stages of learning.

Managing the scope of the review

The scope of the review is broad, and we are comfortable with this. We think it makes sense to include in scope all the main components of the funding system (operational funding, base funding, decile funding, and staffing entitlements), as there are opportunities for improvement across all these strands. Looking at them together will allow modelling of impacts to take place across different option areas.

Nonetheless this implies a significant amount of change to the funding model. It will be important that there are opportunities at future points to re-set the scope of the work. The Cabinet paper recognises this, stating the need to be “prepared to pause or stop”.

Ministers may wish to discuss at SOC the approach to the ‘global budgets’ proposal. This would provide schools with greater flexibility to use their staffing entitlement for other things. This may be seen by the sector as a first step towards moving to a fully cashed up environment (which would increase financial responsibility for schools). However, this is not the intention of the proposal.

Ministers may also wish to discuss the overall approach to testing the proposals relating to ‘clearer expectations and greater transparency around educational progress’. While we consider this is a critical part of the review, there is a choice around the scope and emphasis of this work. In particular, the extent to which the focus is on improved measures of educational progress.

Fiscal considerations

[2]

Review process

[3]

We recommend that you support the Cabinet Paper, subject to officials reporting back to Joint Ministers (Minister of Finance and Minister of Education) to agree by May 2016:

- the terms of reference for the sector advisory group; and
- a check in point between May and October to consider emerging issues from the review. A check-in point would give you the opportunity to discuss how the package of options is shaping up, consider the fiscal impacts of change, and gain visibility of any emerging issues being raised through sector engagement.

Recommended Action

We recommend that you:

1. **note** the contents of this report.
2. **Support** the proposed Cabinet paper, subject to officials reporting back to Joint Minister (Minister of Finance and Minister of Education) to agree:
 - a. the terms of reference for the sector advisory group; and
Agree / disagree
Minister of Finance
 - b. agree a check-in point ahead of October to discuss key issues emerging from the review.
Agree / disagree
Minister of Finance

Grace Campbell-Macdonald
Manager, Education and Skills

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Paula Bennett
Associate Minister of Finance

Treasury Report: Review of funding systems: Early Childhood Education services and schooling

Purpose of Report

1. The education system funding Cabinet paper will be discussed by the Social Policy Committee on Wednesday 13th April. This report provides Treasury advice on the content of that Cabinet paper.

Analysis

2. The Minister of Education proposes to test a number of directions of change.

Proposal	Treasury comment
A standard per-child funding amount - varying across stages of learning, to reflect the teaching and learning challenge in the curricula and the needs of children.	<p>We are generally supportive of a single per-child funding amount. This would make more transparent the amount of funding available for student achievement.</p> <p>While the proposal to vary the funding level to reflect the size of the teaching and learning challenge has sound logic, we note that there is limited evidence available that could inform setting specific funding levels at different years of learning. We also don't have much information on the extent that schools use existing flexibilities to move funding across years. Nonetheless, the existing funding distribution has evolved over time (resulting in a "U" shaped curve), and a more even distribution may be justifiable. In particular, schools currently receive significantly more resourcing for students in Year 12 and 13 largely through more curriculum staffing provision.</p>
<p>Additional payment for children at risk of educational under-achievement (to replace decile system). It is proposed that the following risk factors will be tested:</p> <ul style="list-style-type: none">• Long term beneficiary status• CYF finding of neglect or abuse• Parental corrections history• Primary caregiver qualification <p>The Cabinet paper indicates that there may be merit in adjusting the balance between 'general' and 'targeted' funding. The current</p>	<p>We are supportive of testing this proposal with the sector. The main advantage of this direction of reform would be to strengthen the focus on the students who need greatest support. It would also remove the ease with which funding measures can be used as a proxy for school quality.</p> <p>The following issues need to be explored further:</p> <ul style="list-style-type: none">• The extent to which funding for concentration effects should also be included.• The specific measures to be used.• Issues relating to direct collection of information from ECE/schools (which would be required for primary caregiver

value of targeted funding provided through decile funding model is \$118m.	<p>qualification).</p> <ul style="list-style-type: none"> • Impacts for individual schools [2] • Potential for adjustment of funding across years of learning.
Retaining supplementary funding, for small or isolated schools, to maintain a network of provision.	<p>We agree that supplementary funding is necessary to support the network. There is a transparency benefit from having this clearly separated from per-child funding.</p> <p>[2]</p>
<p>Establishing a 'global budget' – this would provide schools with a total budget made up of a:</p> <ul style="list-style-type: none"> • Cash component; and • A credit component that broadly equates to the average value of salary costs paid centrally. <p>Where a school does not use its credit balance this is paid out in cash. Where a school overuses its credit, cash is recovered from the school.</p>	<p>We think that this proposal has merit and is worth testing with the sector. The main benefit of a global budget would be to provide schools with greater flexibility to use their staffing entitlement for other things (e.g. employ specialist, but non-teaching, staff).</p> <p>We have provided further analysis of this proposal later in this report.</p>
Core ECE funding provided solely on per-child basis.	<p>We are supportive of this proposed change.</p> <p>It would support the implementation of additional payments for children at risk. It would also remove the possibility for some children to access more than 30 hours of subsidised ECE per week.</p>
<p>Separating funding for property-related costs, and removing the flexibility for boards of trustees to shift funding between maintenance and learning activities.</p> <p>The Cabinet paper also indicates other possible flow on changes, which could involve regional facility management arrangements or centralising maintenance and energy and water costs</p>	<p>We are supportive of testing this change with the sector. However, a number of issues need to be explored further:</p> <ul style="list-style-type: none"> • <u>Understanding benefits</u>. A range of potential objectives have been indicated (transparency, fiscal certainty for Crown, freeing up schools to focus on achievement, and efficiency). Greater clarity around these objectives and how they translate into benefits is needed. • <u>The impact on schools</u>. While removing the flexibility would have a 'fiscal management' benefit for the Crown, we do not yet

<p>responsibility. <i>We understand that the review will not be directly looking at these options.</i> [2]</p>	<p>understand how the change may impact on the way schools manage their finances.</p> <ul style="list-style-type: none"> • <u>Fiscal costs of change</u>. We do not have good information on how much schools spend on maintenance versus the funding they receive. It is very possible the review will lead to an expectation for more funding. • <u>Setting the level of funding</u>. It will be a technical exercise to set the level of maintenance funding (as current maintenance funding is not based on a specific methodology but has rather evolved over time). Different schools will also face different maintenance costs, reflecting issues such as age, so there is a risk of some 'over' or 'under' funding.
<p>Clear expectations and greater transparency around the educational progress for all children, including those at risk of educational under-achievement.</p> <p>The Cabinet paper signals the intention to consider dependable and consistent measures of educational progress (separate to the funding review). <i>We are reading this as consideration of changes to the measurement framework in primary school.</i></p>	<p>We are supportive of testing this broad direction with the sector, as funding changes are unlikely to have a significant impact without wider changes to the accountability and outcome framework.</p> <p>Some of the ideas in the Cabinet paper are worthy of further exploration, including considering the role of ERO to specifically consider the group of children at risk of under-achievement; and leveraging learnings as to why some schools may be having success at supporting at risk students.</p> <p>A key issue relates to whether to take forward work on measures of educational progress, and if so how this work will be progressed alongside and linked to the funding review.</p>
<p>Private school funding – introduce a per-child subsidy for children attending private schools as a fixed percentage of the per-student funding amount for students at state and state integrated schools.</p>	<p>This change would provide more certainty for private schools and move to a simpler and more transparent funding model (compared to the status quo of capped funding totalling \$42m). However, the following issues would need to be considered:</p> <ul style="list-style-type: none"> • Depending on the percentage chosen there could be an increase in fiscal costs. • Relative value for money of any additional funding compared to other population groups. • There would be a reduction in flexibility for the Crown to manage expenditure priorities.

Global budget

3. The 'global budget' proposal would provide schools with a total budget made up of a:
 - cash component; and
 - a credit component broadly equivalent to the average value of salary costs that are expected to be paid through the central payroll system (the Ministry of Education would continue to pay salaries directly). The specific methodology to determine the value of the credit would need to be considered further.
4. Under this proposal teacher salary would continue to be paid centrally. This means government will continue to manage the fiscal risks associated with staffing costs. This differs from a 'fully cashed' environment where schools would need to fully manage salary costs (e.g. risks associated with changes in composition of staff, or salary progression). Where a school does not use its credit balance this is paid out in cash. Where a school overuses its credit, cash is recovered from the school.
5. The main benefits of the proposal are:
 - It would increase transparency around the total value of operational resourcing that schools receive, and therefore may support a greater focus on the effectiveness and value for money of that resource.
 - There would be increased flexibility for schools, which could involve employing specialist staffing and also make it easier for schools to share teaching resources. It is unclear the extent to which schools may use this flexibility.
 - It would improve administrative simplicity related to the payroll system, and remove some of the unintended consequences of 'banking staffing' (i.e. schools charging FTE entitlements against most expensive staffing).
6. Wider considerations are:
 - There is a fiscal risk for government associated with transitioning to the new funding arrangement. Setting the 'credit value' will be critical, and if this is not well understood this could lead to an increase in total staffing costs for the Crown.
 - There would be no incentive for schools to change who they employ (e.g. change the balance of higher cost to lower cost staff).

Fiscal considerations

[2]

Review process

9. The Minister of Education proposes to engage with sector leaders and the wider stakeholder community to test and refine the proposed direction. There will be two strands to this engagement:
 - A sector advisory group will be established to provide comment on the work of officials between May and August 2016. This group will consist of sector leaders from schools and ECE services.
 - Wider sector conversations at national and regional level.
10. [3]

We recommend that you support the Cabinet paper, subject to officials reporting back to Joint Ministers (Minister of Finance and Minister of Education) to agree by May 2016:

 - the Terms of Reference for the sector advisory group; and
 - a check in point between May and October to consider emerging issues from the review. A check in point would give you the opportunity to discuss how the package of options is shaping up, consider the fiscal impacts of change, and gain visibility of any emerging issues being raised through sector engagement.