

Chair  
Cabinet Social Policy Committee

## **Allocating Secondary School Operational Funding Using Quarterly Roll Counts**

### **Proposal**

1. I propose that secondary school operational funding be allocated using quarterly roll counts, from 2011. This will improve student outcomes by providing an incentive for secondary schools to keep students engaged in education. This change to the way school funding is allocated is an important step in an ongoing work programme to fully realise the vision of the Youth Guarantee.

### **Executive Summary**

2. I am committed to fully realising the vision of the Youth Guarantee; an education system that gives all young people the best possible chance of achieving a worthwhile qualification in an environment that meets their needs.
3. This paper is concerned with the changes needed to the school resourcing system as part of the wider system-level changes required to realise the Youth Guarantee.
4. The school resourcing system needs to create the right incentives and provide sufficient flexibility to enable schools to meet the needs of all their students. To achieve this goal, I have already taken steps that will give schools greater flexibility in how they use their resources and direct more funding to the front line.
5. I am now seeking Cabinet's agreement to change the way secondary school operational funding is allocated to create an incentive for schools to keep students engaged in education.
6. I propose that from 2011 operational funding for students in Years 9 – 13 (in secondary and composite schools) be allocated using four roll counts a year, taken quarterly, rather than the current system of using only one roll count at the start of the year. This change will more directly link operational funding to students; it will create a financial disincentive from allowing students to drop out during the year, and reward schools that pick up students who have been excluded from other schools. This will incentivise schools to offer courses that keep students engaged in education, which will help to lift student achievement.
7. The introduction of quarterly roll counts will result in a decrease in expenditure on operational funding of approximately \$6 million in 2011 (this amount will decrease as student retention improves). My intention is not to reduce funding to secondary schools overall. Therefore, I am seeking to increase school operational funding by 4% in Budget 2010 to ensure that overall funding for schools is increased.

8. The sector is likely to react negatively to the introduction of quarterly roll counts, as this change may be construed as a way of cutting funding to schools. To mitigate the risk of a negative reaction I intend to announce this policy as part of Budget 2010 in the context of a 4% increase to school operational funding and to position this change as part of a package of changes needed to realise the Youth Guarantee.

### **The Role of the School Resourcing System in Fully Realising the Youth Guarantee**

9. The Youth Guarantee will ensure that all young people have access to a programme of study in secondary school and tertiary education that meets their needs and helps them achieve a worthwhile qualification. This will make a real difference to the way secondary-level education is delivered, particularly for the 16 to 18 year olds who currently disengage from traditional secondary education.
10. Achieving this vision will require significant system-level change. The challenge is to set the right conditions across the system that incentivise and enable schools, tertiary providers and industry to work together to meet the needs of all young people, with minimal direction from central government. In the current fiscal environment this must be achieved without significant additional funding.
11. Setting the right incentives and increasing flexibility in the school resourcing system is an important part of the changes required to fully realise the Youth Guarantee. The proposal put forward in this paper – allocating secondary school operational funding using quarterly roll counts – is an important step towards realising the vision of the Youth Guarantee.
12. The Government is also introducing performance-linked funding for tertiary institutions from 2011. This will initially focus on the results achieved by students, including completion rates. It will include outcomes, such as post-study employment, as this information becomes available. This change to the tertiary funding system will support the vision of the Youth Guarantee.
13. To ensure the way schools are resourced supports the Youth Guarantee, I propose a staged process for changes to the school resourcing system that will involve:
  - a. reviewing existing resource allocation processes and formulae to ensure resources are directed to where students need them
  - b. developing new policies regarding resource use and allocation to give schools greater flexibility and create incentives for improved performance
  - c. making changes to the way expenditure is managed to minimise fiscal risk to the Government and provide greater certainty and predictability.
14. To date I have taken the following steps:
  - a. The Cash for Buildings programme was made available to schools from the beginning of this year. This programme gives schools that are entitled to additional property the option of transferring the annualised equivalent value of this property to operational funding. Schools could then use this funding to, for example, hire specialist teaching spaces or to refurbish existing space to offer more trades-related education.

- b. From this year, schools that do not use up all of their staffing entitlement by the end of the year will receive a cash reimbursement for their unused staffing entitlement (limited to 10% of their total entitlement) This means that the first payments will be received in 2011. This will give schools greater flexibility in how they use their staffing entitlement and direct more funding to the front line; currently, any unused entitlement is lost to schools at the end of the year. This policy will increase the cost of school staffing by approximately \$10 million per annum<sup>1</sup>, and I am meeting this cost from the new operating allocation for Vote Education in Budget 2010.
  - c. I have reversed the previous Government's decision to pay the Secondary Tertiary Alignment Resource (STAR) to schools as a supplementary grant. Reversing this decision will allow schools to decide how best to use this funding.
15. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

### **Quarterly Roll Counts for Secondary School Operational Funding**

16. Currently, school funding is not directly linked to the number of students enrolled during the year. Secondary schools receive funding for the whole year for the number of students enrolled on 1 March, regardless of whether students drop out, or if the school enrolls additional students. Secondary schools therefore face no financial disincentive when students drop out during the year or are excluded, despite the fact that students have a greater chance of achieving at school if they complete the year, rather than dropping out early. For example, students can only gain credits from many achievement standards by sitting the externally assessed exams held at the end of the school year. In 2009 nearly 12,000 secondary school students left school without completing the year.
17. The intention of the current system is to provide schools with operational funding for their estimated maximum roll, which normally occurs at the start of the year. This system was designed at a time when schools submitted their roll information to the Ministry on paper. An electronic roll return system (ENROL) is now being used by all schools, meaning that for the first time more frequent roll counts are possible and practical. Schools are required by law to keep their enrolment information up to date. Schools that do so will face no extra compliance costs due to the introduction of quarterly roll counts.
18. I propose to link operational funding more directly with the number of students enrolled in a school by allocating operational funding using four roll counts a year, taken quarterly, instead of just one at the start of the year. I have decided against more frequent roll counts in order to minimise disruption for schools – operational funding is currently paid in four instalments per year, and the new roll counts will match the existing payment dates. The difference between the current and proposed operational funding systems for secondary schools is summarised in Appendix A.

<sup>1</sup> The current appropriation for school staffing assumes a certain level of under-use. Therefore, reimbursing schools for unused staffing requires an increase to this appropriation.

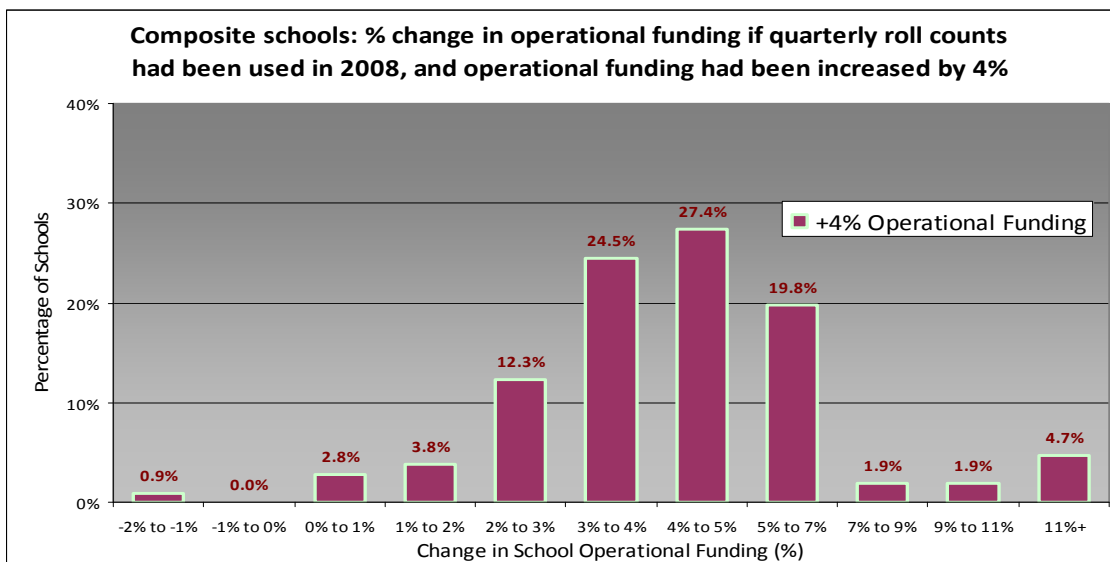
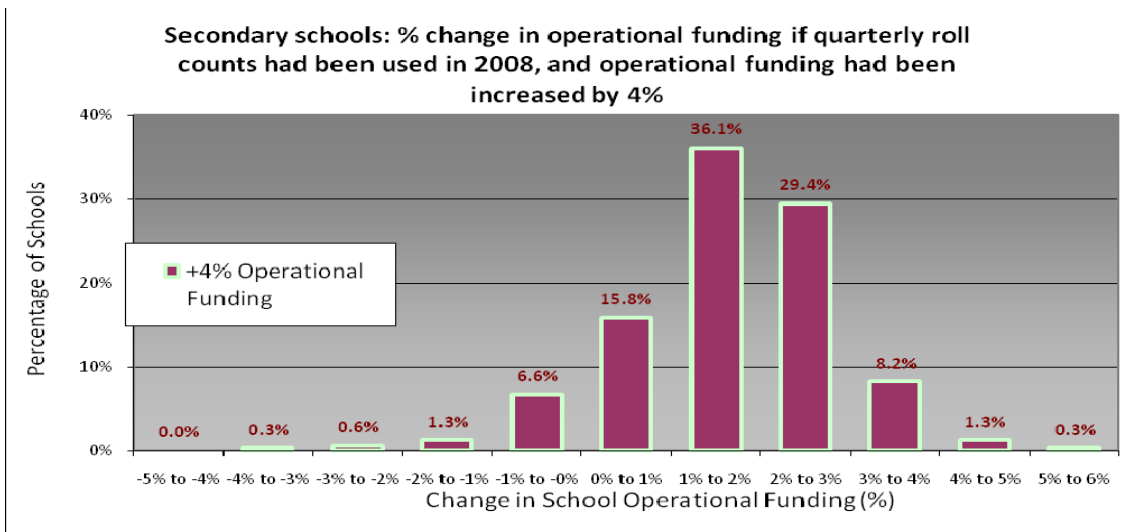
19. This change will not apply to primary schools. The purpose of this policy is to provide an incentive for schools to keep students engaged in education all year. Primary school rolls tend to increase during the year as new Year 1 students enrol, meaning that this incentive is not relevant for primary schools. In composite schools and others that have both primary and secondary students quarterly roll counts will be used for their students in Years 9 – 13 only.
20. Basing operational funding on quarterly roll counts will achieve the following benefits:
- a. Provide an incentive for schools to keep students engaged all year, and reward schools that pick up students during the year who have been excluded from other schools.
    - i. For example, in 2008 a decile 2 school that lost 50 students between March and November (one of the poorest rates of student retention) would have received \$63,000 less had quarterly roll counts been in place. Under the current system, this school continued to receive funding for these students, leaving more funding per head for their remaining students, effectively rewarding them for low student retention.
  - b. Support popular schools to grow. Secondary schools whose rolls grow after 1 March will automatically receive extra funding.
    - i. In 2008, a decile 3 school where the roll grew by 16 students during the year would have received an additional \$8,000 to support these students had quarterly roll counts been in place; under the current system this school received no extra funding.
  - c. Minimise double-funding, as schools will not continue to receive operational funding for students who leave during the year. Currently, if students leave school to take up a Youth Guarantee place in tertiary education, for the rest of that year the Government effectively pays for them twice. This proposal will therefore support the affordability of the Youth Guarantee and Trades Academies.
21. Quarterly roll counts will mean that the Government will no longer keep paying schools for students who leave school during the year. In 2008, on average secondary schools lost 5% of their students. Therefore, I estimate that this policy will result in a reduction in expenditure on operational funding for the Government of an estimated \$6 million in 2011 (note that as student retention improves this saving will reduce). The purpose of this change is to create the right incentives for schools, not to cut their funding. To ensure that school funding increases overall in 2011 I intend to increase school operational funding by 4% in Budget 2010 (see modelling below).
22. Implementing quarterly roll counts requires changes to the Ministry of Education's internal systems. The one-off cost of these systems changes is estimated at \$1.4 million. I intend to fund this cost in the Budget 2010 Baseline Alignment Proposal for Vote Education.

### **Modelling the Effect on Schools**

23. The following graphs show the likely effect of quarterly roll counts on schools' funding in the context of a 4% increase to operational funding. The graphs show the percentage of schools according to the difference quarterly roll counts would have made to their total operational funding had this system been used in 2008 (2008 roll data and funding rates have been used because 2009 data was not yet available when this modelling commenced). Note that this modelling provides an illustration only of the likely effect in 2011.

24. As shown in the graphs below, if secondary and composite school operational funding had been allocated using quarterly roll counts in 2008, and operational funding rates were increased by 4%:

- a. 91% of secondary schools and 99% of composite schools would have seen an increase in funding (56% of composite schools would have seen an increase in funding of more than 4%)
- b. seven secondary schools would have seen a reduction of more than 1%, the largest reduction being 3.8%
- c. one composite school would have seen a reduction in funding of 1.1%.



25. Quarterly roll counts will have a greater effect on funding levels for low decile schools than high decile schools. This is because total per student funding makes up a greater proportion of operational funding for low decile schools<sup>2</sup>, and because low decile schools have poorer student retention on average. While low decile schools have the most to lose if a student drops out, they also have the most to gain by improving their student retention, and receive significant additional funding to compensate for educational disadvantage associated with low socioeconomic status.

## Risks and mitigations

26. Secondary schools are likely to react negatively to quarterly roll counts, as they risk losing funding if they cannot improve their student retention. It is likely that this change could be construed as a way of cutting funding to schools, particularly because of the greater impact on low decile schools, regardless of any increase to school operational funding provided through Budget 2010. There may also be claims that quarterly roll counts will make it difficult for schools to budget on an annual basis.

27. The introduction of quarterly roll counts represents a change from funding being provided for a school's estimated maximum roll to its actual roll through the year. There may be a negative reaction to this shift in approach, and concerns may be voiced that this approach will also be applied to school staffing entitlements in the future.

28. I propose to mitigate this likely negative reaction by announcing quarterly roll counts as part of Budget 2010 alongside a 4% increase to operational funding and other changes to improve the way schools are funded. I will emphasise the importance of this change in the context of the changing nature of secondary education to realise the vision of the Youth Guarantee.

29. Allocating school operational funding on quarterly roll counts will mean that when a student leaves school during the year to enrol in a Trades Academy or to take up a Youth Guarantee place the school will no longer continue to receive funding for that student. This change improves the affordability of Trades Academies and the Youth Guarantee for the Government. The estimated cost of Trades Academies is based on the assumption that quarterly roll counts will be implemented from 2011.

## Consultation

30. The Treasury and the Education Review Office (ERO) were asked to comment on this paper. ERO supports the proposal to introduce quarterly roll counts, commenting that such a change to the funding system is long overdue.

31. The Treasury does not think that there is any need to compensate schools for the introduction of quarterly roll counts by increasing school operational funding. The Treasury commented that an increase to school operational funding is inconsistent with the need for fiscal restraint in the public sector, undermines the incentive to retain students that quarterly roll counts is intended to create, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.

<sup>2</sup> Low decile schools receive significantly more funding per student than high decile schools, because of the Targeted Funding for Educational Achievement (TFEA) component of operational funding. For example, TFEA funding for a decile 2 school is \$548.42 per student (funding step D), compared to \$28.68 per student in decile 9.

## **Financial Implications**

32. The introduction of quarterly roll counts will result in a decrease in expenditure on school operational funding of approximately \$6 million in 2011 (this amount will decrease over time as student retention improves). I have included this change in expenditure in the package for Budget 2010 for Vote Education.

33. I intend to fund the one-off cost of Ministry of Education systems changes to implement quarterly roll counts in the Budget 2010 Baseline Alignment Proposal for Vote Education.

## **Human Rights**

34. The proposal in this paper has no human rights implications.

## **Legislative Implications**

35. The proposal in this paper has no legislative implications.

## **Regulatory Impact Analysis**

36. This paper does not propose changes to regulations. A regulatory impact statement is therefore not required.

## **Gender Implications**

37. On average, boys have lower rates of NCEA achievement than girls. The proposal in this paper will create an incentive for schools to meet the needs of all their students. This will have a positive effect on boys' achievement.

## **Disability Perspective**

38. The proposal in this paper will create an incentive for schools to meet the needs of all their students, including those with disabilities.

## **Publicity**

39. As discussed above, I intend to make announcements regarding changes to the way schools are funded as part of Budget 2010.

## Recommendations

The Minister of Education recommends that the Committee:

1. **note** that fully realising the vision of the Youth Guarantee will require significant system-level changes and that the way schools are resourced is an important part of this
2. **note** that I propose a staged process for changes to the school resourcing system to create the right incentives and increase flexibility for schools to enable them to meet the needs of all their students
3. **note** that as part of the changes required, I propose that secondary school operational funding be allocated using quarterly roll counts, rather than one roll count at the start of the year only, to create an incentive for schools to keep students engaged in education
4. **agree** that from 2011, operational funding for Years 9 – 13 in composite and secondary schools will be allocated using quarterly roll counts
5. **note** that if you agree to recommendation 4, I will include the estimated reduction in expenditure on school operational funding resulting from quarterly roll counts in the Budget 2010 package for Vote Education
6. **note** that implementing quarterly roll counts will result in a one-off cost (departmental capital) in Vote Education of \$1.4 million in 2010/11 only, and that I propose to fund this from the Budget 2010 Baseline Alignment Proposal for Vote Education
7. **note** that there is a risk of a negative reaction to the introduction of quarterly roll counts, as this may be construed as a way of cutting funding to schools
8. **note** that I intend to announce the introduction of quarterly roll counts as part of Budget 2010 announcements to mitigate the risk of a negative reaction by positioning this change as part of wider changes needed to realise the Youth Guarantee, and in the context of a 4% increase to school operational funding.

Hon Anne Tolley  
Minister of Education

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## Appendix A: Quarterly Roll Counts Implementation Details

The table below sums up the current and proposed funding systems for secondary schools.

Month	Current		Proposed System
October	Provisional roll for following year confirmed.		No change.
November			
December			
January	Payment made based on provisional roll.		No change.
February	<i>School year begins</i>		
March	Roll count.		No change.
April	Payment made based on March roll count (includes adjustment if provisional roll incorrect).		No change.
May			
June			Roll count.
July	Roll count (statistics purposes only for years 9 – 13).	Payment made based on March roll count.	Payment made based on June roll count.
August			
September			Roll count.
October	Payment made based on March roll count.		Payment made based on September roll count.
November			
December	<i>School year ends</i>		