

Out of scope

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Education Report: Funding review – draft stock-takes and next steps

Executive summary

This report provides you with draft stock-takes for the early childhood education (ECE) and schooling funding systems. It also proposes key lines of work and criteria for the review.

This is one of two stock-takes that you are receiving today as initial steps in progressing two of your priorities – the review of the Education Act and the review of the education funding system for 0-18 year olds. Cabinet agreed to review funding as one of the work programme priorities [SOC Min (14) 17/1 refers].

Funding systems are an integral part of the education infrastructure and as such should be reviewed from time to time. Our current ECE and schooling funding systems have been in place for a considerable time and have evolved through multiple policy changes. It is timely to review whether the funding system supports achievement and progress for all learners as well as it could. In addition, challenges and opportunities arise in our current system from learners moving through the system and providers seeking to work across boundaries.

The draft stock-takes reveal similarities and fundamental differences between the ECE and schooling funding systems. Similarities include that they fund providers and inputs to enable participation. The differences are more fundamental, including the compulsion to attend school compared with parental choice about participation in ECE and the guarantee to free accessible schooling in the state school system compared to a limited guarantee of funding if a place is available in ECE.

We recommend the overall adequacy of government funding for education should be excluded from the review, and that, within this constraint, the funding review should proceed along the following three broad lines:

1. exploring the issues which arise from the funding systems collectively to support and enable learning for all from 0-18 years
2. progressing the ECE funding system review based on previous work
3. confirming the scope for reviewing the schooling funding system by June of this year, and then undertaking the agreed review.

We propose the following criteria to guide the review:

- Achievement – does the funding system support achievement goals and outcomes for all learners
- Efficiency - does the system encourage the use of resources where they make the greatest contribution to achieving the Government's goals
- Fairness – does the system promote horizontal equity (there is similar expenditure on students in similar circumstances) and vertical equity (where there is greater expenditure on students in greatest need)
- Simplicity / transparency – is the system practically administrable, able to handle changing policy priorities over time, and able to be understood by those in it and those it serves
- Transitional costs and sustainability – what costs would arise from changes to the new systems and could the transition be sustained.

Proposed immediate next steps in the review are to complete the stock-takes and then to:

1. carry on consultation with the Sector Advisory Group on ECE funding to finalise feedback on the earlier recommendations, which together with the stock-take could form the basis for proposing wider public consultation on the proposed changes;
2. commission a review of the schooling funding stock-take, and then provide options for the scope of the review for consideration by Cabinet.

We are doing further work on options for sequencing, consultation and engagement across the funding review.

Recommendations

We recommend that you:

- a. **note** this report responds to your request for a stock-take of the funding systems as a precursor to the funding review work approved by Cabinet in December 2014
- b. **note** the draft funding stock-takes for schooling and early childhood education funding systems
- c. **agree** that the funding review will consist of three interrelated work streams:
 - i. identifying options to better connect the funding systems to support and enable learning from 0-18 years, including:
 - opportunities for common funding criteria (e.g. for disadvantage)
 - options for common support across sectors (e.g. for special education needs)
 - opportunities to smooth the funding supports for transitions between stages of learning (eg. early years and later years)
 - options to better support integrated learning pathways (e.g. funding a single provider to operate across the 0-18 continuum)

AGREE / DISAGREE

- ii. progressing the early childhood education funding system review based on previous work, to:
 - move towards child-based rather than child place funding
 - improve the effectiveness of targeted funding to achieve education goals
 - improve efficiency of administration of the ECE funding system

AGREE / DISAGREE

- iii. confirm the scope for the schooling funding system review, including to:
- simplify the system
 - direct resources to where needed most to achieve education goals
 - ensure greater coherence within the funding system, so components reinforce rather than work against or cancel each other out

AGREE / DISAGREE

- d. **agree** that, across the review work, we should consider the degree to which funding systems are, can and should be linked explicitly to education goals and outcomes

AGREE / DISAGREE

- e. **agree** that the overall adequacy of education funding should be excluded from the review

AGREE / DISAGREE

- f. **note** immediate next steps are to complete the stock-takes and give further consideration to the sequencing and timing of the work streams across the review

- g. **indicate** whether you wish to discuss the basis of the review and next steps with officials

AGREE / DISAGREE

Dr. Andrea Schöllmann
Deputy Secretary

Hon Hekia Parata
Minister of Education

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Education Report: Funding review – draft stock-takes and next steps

Purpose of report

1. This report provides draft stock-takes of the school and early childhood funding (ECE) systems. We start to draw out the similarities and differences on the basis of the draft stock-take, propose key lines of work and criteria for the review.

Background

2. You have asked us to undertake a review of the funding system across 0-18 years. This is one of the agreed priorities in your 0-18 years work programme [SOC Min (14) 17/1 refers].
3. Funding systems are an integral part of the education infrastructure and as such should be reviewed from time to time. Our current ECE and schooling funding systems have been in place for a considerable time and have evolved through multiple policy changes. It is timely to review whether the funding system supports achievement and progress for all learners as well as it could.
4. ECE funding has been under review over the last 3 years. Funding was part of the scope of the work of the Minister-appointed ECE Taskforce in 2011. The allocation of funds, administrative costs and managing rising demand have been the focus of work and sector engagement.
5. More recently the review of school sector funding has begun. Our analysis of schooling funding so far suggests the system does not measure up well when considered against the criteria of supporting achievement for all, efficiency, fairness, simplicity and transparency [refer METIS 893956].

The draft stock-takes

6. The first deliverable for 2015 is the draft stock-takes of the current funding systems. The stock-takes will provide the basis for reviewers to be up to speed with the ECE and schooling funding systems, drivers and underpinning principles as they stand. They help us understand the differences and similarities between the systems. We attach the draft stock-takes for your information.
7. The draft stock-takes set out overall funding levels, and key policy settings for ECE and schooling. The schooling funding stock-take goes into greater depth about how the funding elements work and interact in practice. The ECE stock-take poses some questions about problems in the system.
8. The following table provides easy reference key facts and figures for the two systems.

	Early childhood education funding	School funding
Underpinning basis	Parent choice - non-compulsory participation	Compulsory participation from the age of 6 to a child's 16 th birthday
	Nature of guarantee: <ul style="list-style-type: none"> - limited by availability - limited by affordability, but subsidies are largely universal 	Nature of guarantee: <ul style="list-style-type: none"> - guarantee of place of provision in a state school - regulated that provision in a state and state integrated school (with specific exception for property) and partnership school will be free from a person's 5th birthday until 1 January after a person's 19th birthday
	Service currently provided by a mix of private and community organisations	Provision dominated by state schools (Crown Entities), supplemented by state integrated schools, partnership and private schools.
	Very small Government ownership interest	Significant Crown ownership interest
	Funded through universal government subsidies and parental fees	Is funded by government
	Subsidies effectively purchase ECE against a set of minimum licensing standards for education, care, health and safety	State schools and partnership schools are not generally permitted to charge any compulsory fee State integrated schools may charge attendance dues Private school education is not free
Main funding components	Government subsidies are made up of: <ul style="list-style-type: none"> - Subsidies for under and over 2 year olds <u>per child place</u> - 20 hours funding for eligible 3, 4 and 5 year olds <u>per child</u> - Equity funding targeted to reduce disparities, paid to eligible services 	Structure of government funding is dependent on type of provider. Government funding for state schools is made up of: <ul style="list-style-type: none"> - Teacher salaries (provided in kind) - Operational grants (provided in cash) - Property - Other programmes and support (eg. social works in schools, curriculum support etc)

Provided through	5,100 ECE services (2013)	2456 state and state integrated schools, 87 private school, 9 partnership schools
\$	\$1.5 billion government ECE subsidies in 2013/14, up from over \$800 million in 2005/06	\$6.7 billion per annum
	\$186 million childcare subsidy (Vote Social Welfare 2012/13), in support of labour market participation	\$43m per annum for the school portion of secondary tertiary and service academy programmes
	\$92 million since 2010/11 for targeted initiatives to raise participation in priority areas	Total funding has increased substantially since the middle of the last decade, even taking account of inflation and school rolls
	\$9 million in 2013/14 for lifting quality of ECE service delivery through professional development (Strengthening Early Learning Opportunities).	
	\$16 million in 2013/14 for the Targeted Assistance for Participation programme to support service provision	

9. The two funding systems have some common elements and purposes. Both funding systems:
 - i. support the delivery of education goals:
 - in schooling the National Education Goals
 - in ECE through standards of education and care
 - ii. predominantly direct funds to providers, rather than families or students
 - iii. fund inputs not outcomes
 - iv. enable access, although different levels of guarantee
 - v. have evolved over a number of decades, with significant iterative policy changes
 - vi. have core funding components which interact with other significant funding streams (ECE funding and childcare subsidy, schooling funding streams with secondary/tertiary interface programmes).

10. The draft stock-takes also reveal differences between the systems. Key differences are:
 - i. the underpinning bases:
 - compulsion to attend school between a particular age compared to non-compulsory ECE
 - a legislated entitlement to free school education in specified settings
 - access to free schooling through a network of Crown-owned schools versus access to ECE through a mix of private and not for profit providers
 - a significant and explicit contribution to labour market participation in the case of ECE
 - ii. full funding for schooling provision versus partial subsidy for ECE
 - iii. funding to state schools being made up of cash, in kind (eg teacher entitlements) and capital versus ECE funding being almost exclusively cash subsidies and grants.

Key questions and lines of work

11. We are completing the stock-takes to inform the review. These are due to be completed by the end of February. At the same time we want to consider the basis for the review going forward and how best to make progress between now and April, when the next report on the review is due to Cabinet.

12. At a high level the funding review seeks to answer the following questions:
 - i. What role do the current funding systems play in delivering education goals? What incentives do they create and how do they drive impacts on outcomes?
 - ii. Are there alternatives or possible changes to the systems that evidence tells us would work better?
 - iii. Are changes feasible?

13. We have already made progress on answering these questions in relation to the ECE funding system. Consideration of these questions from the schooling and 0-18 perspectives are more formative.

14. We propose that the overall *adequacy of education funding be excluded* from the review. This will be a natural point of focus, but is likely to dominate a review. We

want a review to unpack the extent to which the funding systems, rather than levels of funding, are supporting the Government's goals. This may create a risk of disengagement or dissatisfaction among stakeholders for the review. We are thinking about how we manage this through our stakeholder engagement.

15. We also propose the following criteria to guide work across the review:

- Achievement – does the funding system support achievement goals and outcomes for all learners
- Efficiency - does the system encourage the use of resources where they make the greatest contribution to achieving the Government's goals
- Fairness – does the system promote horizontal equity (there is similar expenditure on students in similar circumstances) and vertical equity (where there is greater expenditure on students in greatest need)
- Simplicity / transparency – is the system practically administrable, able to handle changing policy priorities over time, and able to be understood by those in it and those it serves
- Transitional costs and sustainability – what would arise from changes to the new systems and could the transition be sustained.

Proposed lines of work

16. Cabinet agreed to review funding for 0-18 year-olds in two parts, broadly along ECE and schooling sector lines [SOC Min (14) 17/1 refers]. We propose to add a further, overarching work stream to ensure that opportunities for integration across the two systems can be exploited.

Cross cutting work stream

17. We consider there is a range of issues to be explored across the system and stages of learning. We therefore propose a work stream focused on cross-cutting issues. This would explore funding system opportunities to support and enable learning from 0-18 years, including:

- opportunities for common funding criteria (eg. for disadvantage)
- options for common support across sectors (eg. for special education needs)
- opportunities to smooth the funding supports for transitions between stages of learning (eg. early years and later years)
- options to better support integrated learning pathways (eg. funding a single provider to operate across the 0-18 continuum).

18. Our immediate next step is to scope the work under this work stream in light of the stock-takes.

Early childhood funding system work stream

19. The ECE policy work stems from the 2011 Final Report of the ECE Taskforce and subsequent Cabinet decisions in 2011 and 2012 [refer CAB Min (12) 43/9]. Cabinet agreed to continue the work that has been done to date on reforming the ECE funding system. In continuing this work we propose the main work to be:

- moving towards child-based rather than child place funding
- improving the effectiveness of targeted funding to achieve specific goals
- improving efficiency of administration of the ECE funding system.

20. The next step for this work continuing consultation with the Sector Advisory Group on ECE funding to finalise feedback on the earlier recommendations. Together with the stock-take, this will form the basis for proposing wider public consultation. This will provide the input needed for the April 2015 Cabinet report back.

School funding system work stream

21. We propose the school funding system review build off the stock-take document. In broad terms, the review would ideally cover the high level questions set out earlier and explore opportunities and barriers to:
- simplify the system
 - direct resources to where needed most to achieve education goals
 - ensure greater coherence within the funding system, so components reinforce rather than work against or cancel each other.
22. We consider that the weaknesses of the current system justify a wide ranging and thorough review. A broad ranging review will allow consideration of the coherence of the system, the extent to which it delivers in aggregate toward education goals, as well as issues such as enabling successful transitions for learners between ECE and school.
23. A broad ranging review is not without risk. It will raise concerns about the extent of possible changes and increase the complexity of delivering any changes. Taking time now to carefully scope the review will mitigate some of the risk.
24. The immediate next step is to commission an external review of the stock-take. At the same time we will develop options for a scope for the school funding system review to be considered by Cabinet in April.

Sequencing and timing of work streams and next steps

25. We have set out the immediate next steps for the ECE and schooling funding work streams above. We are giving further consideration to the sequencing and timing of the work streams. In particular we are exploring the pros and cons of whether work on the cross cutting issues should progress ahead or alongside any consultation or engagement on the ECE and schools funding work streams. We considering when and how best to engage the sectors more broadly in the funding review work. In your Education Priorities work programme you have indicated you will return to Cabinet in April 2015 about both the school and ECE funding work.

Linkage to new funding platform

26. Current and future funding policy work is linked to our operational funding platforms. The current ECE and schooling funding platform, is inflexible, unable to host policy changes in a cost-effective manner, and is due to be unsupported in 2019. Subject to progression of a 2015 Budget bid, the development of a new funding platform will continue.
27. The proposed new platform, is an education-wide funding system. It is a flexible information technology platform that will be able to host changes to funding policy.