

Memo

To: Minister of Education

From: Dr. Andrea Schöllmann, Deputy Secretary

Date: 20 February 2015

Subject: Education work programme: Reviewing the Funding Systems: Objectives, scope and timing

METIS: 911290

The purpose of this note is to enable a discussion about the objectives, scope and timing for the review of funding systems work. A stock-take of the school and early childhood education (ECE) funding systems has informed this. As part of preparing this note, we have undertaken an analysis, attached, that sets out how the systems work and emerging issues.

Funding systems are an integral part of well performing education systems

Our current funding systems have been in place for a considerable time and have evolved through multiple policy changes. It is important that we understand the impact of these cumulative changes and how they are shaping the functioning of the funding systems.

The funding systems are also an important operational interface between Government and children, students, families and whānau, business and education providers. The good functioning of the funding systems is important to learners' experiences of the education system as a whole.

For these reasons it is timely to consider the ongoing fitness for purpose of our funding systems.

History and background to a review of the funding systems

Over the past 3-5 years, Government has made changes to the funding systems and undertaken to consider funding system settings. Significant developments include:

- changes to funding arrangements at the interface between schooling and tertiary providers
- the review of ECE funding as part of the scope of the work of the ECE Taskforce in 2011. The allocation of funds, compliance and administrative costs and managing rising demand have been the focus of work and sector engagement.

Our preliminary analysis of schooling funding system has identified a range of issues, including funding to address educational disadvantage, that make a more comprehensive review worthwhile.

What we know about the funding systems

The table below sets out the key take outs looking across the funding systems. The current ECE and schooling funding systems were designed to respond to particular challenges and have been amended over time to address issues when they have emerged. For further information refer to Annex 1.

	Early childhood education	Schooling
Key design features	<ul style="list-style-type: none"> • Fund provision (inputs) • Largely in cash with little restriction on spending • Enables broad participation in quality ECE learning (where teacher qualifications are used as a proxy for quality) by funding children and places • Balances sharing of costs through government contribution and parental fees 	<ul style="list-style-type: none"> • Fund provision (inputs) • In cash and kind with some restrictions on spending • Meets the requirement for mandated free education provision from ages 5 to 19 through access to a network of state schools • Some recognition that particular students (or groups of students) have greater barriers to learning and that differing circumstances of individual schools affect the costs of provision
How the funding system has shaped the ECE or schooling systems	<ul style="list-style-type: none"> • Has led to increased participation in ECE • Has increased qualification and registration levels in the teacher workforce • Has shaped both the quality of and access to ECE • 20 hours has driven a universal per child element, in addition to funding child places 	<ul style="list-style-type: none"> • Has attempted to ensure that all schools within the State network are adequately resourced to deliver the curriculum (incorporating such factors as type of school, school size, isolation etc.)
Preliminary view of issues in the funding system:	<ul style="list-style-type: none"> • Objectives have been achieved: settings have been effective at driving participation in higher quality services, but reaching limits in terms of driving service quality • Spending to address disadvantage is not as effective as desired: there is a need to consider, for example, how subsidies to support access are targeted • Tension about the purpose: tensions arise about the purposes of system – i.e. labour market participation and early learning • System is complex: iterative changes have increased operational complexity for administrators and providers 	<ul style="list-style-type: none"> • Spending to address disadvantage is not obviously effective • Potential for funding to more strongly promote student achievement or allow new delivery models • System is complex: iterative changes have led to layers of components of resourcing
from a 0-18 perspective	<ul style="list-style-type: none"> • Funding system is based around concept of separate ECE and schooling providers • Coherence might be lacking in some aspects e.g. basis for approach to funding for disadvantage • Dual funding of students on occasion • Limited flexibility e.g. funding groups of providers, and sharing of resources • Funding does not link to student achievement 	

Can educational achievement be central to a funding system?

Funding systems in themselves will not change educational achievement. Funding systems can be effective in enabling achievement when they:

1. **help providers focus on achievement** – by being understandable and transparent
2. **effectively target resources** – directing funding to learners, providers and communities where it has the most potential to add most value to achieve education outcomes
3. **enable innovation** – providing the flexibility to allow delivery in a way that best meets the learners' needs

It matters not only how funding is provided, but how it is used by recipients. Changes in funding need to be reflected in changes in leadership and teaching in order to affect achievement.

Enhancing the focus on educational achievement could be an objective of the review.

Setting the objectives for the review of funding systems

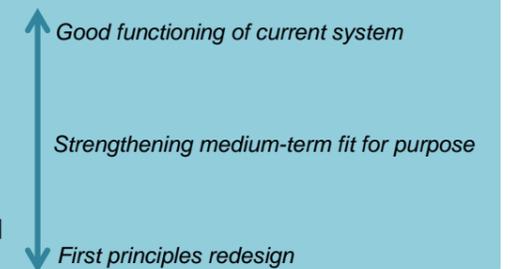
The objectives for a review of the funding systems can be narrow or broad. We have set out 5 possible objectives in the box below that could be covered in a review of the funding systems. The objectives range from narrowly focused on ensuring good operation of current systems through to those which would demand a first principles redesign.

The more comprehensive the review, the more complexity and risk is likely to arise. We recommend the overall adequacy of government funding for education be excluded from the review.

Possible objectives for review of funding systems

There are a range of possible overlapping objectives for the review of the funding systems, including:

1. tidying up known points of friction or dysfunction within the current systems *and / or*
2. addressing transitional issues *and / or*
3. improving the flexibility of the funding systems *and / or*
4. ensuring conceptual coherence between the funding systems *and / or*
5. considering options for shifting the balance between funding inputs and outcomes.



Key considerations in choosing the objectives for the review are:

- complexity
- timing and sequencing
- risks likely to arise, e.g. stakeholders' interest in adequacy of funding, ability to deliver complex changes etc.

The table on the following page sets out three options.

Scope of the objectives for the review of funding systems

Options	Key steps	Pros / cons
<p>Preferred option</p> <p>1. A medium-term objectives approach that focuses on developing a shared platform to guide the development of the ECE and schooling funding systems. Covers objectives 1 – 4.</p>	<ul style="list-style-type: none"> develop medium-term objectives for education funding systems take stock of ECE funding review work to date in light of broader system external review and / or stakeholder engagement of objectives scope ECE and schooling reviews in light of objectives conduct reviews and engage with stakeholders about issues and responses 	<p><i>Pros</i></p> <ul style="list-style-type: none"> balances addressing practical issues and conceptual questions (objectives 1 – 3 and key coherence issues, such as assessment of disadvantage) creates pathway to build integration and alignment between systems allows issues to be addressed in sequence within a framework of objectives solutions likely to be durable for medium term <p><i>Cons</i></p> <ul style="list-style-type: none"> work to date on ECE funding system might need to be adapted in light of objectives interactions with work underway (e.g. Act review) will impact on wider programme requires sophisticated cross-sector engagement around cross-cutting issues
<p>2. A narrowly focused approach, focused on:</p> <ul style="list-style-type: none"> a limited number of cross-cutting issues progressing the ECE funding work defining and addressing specific issues in the schooling funding system. <p>Covers objectives 1 and 2.</p>	<ul style="list-style-type: none"> develop the scope for each strand external review of the scope of the reviews simultaneously undertaking the review strands structured engagement with stakeholders about identified issues and possible responses 	<p><i>Pros</i></p> <ul style="list-style-type: none"> practical and focused on limited objectives (1 and 2) manageable scope, risk, and stakeholder engagement minimal linkages or dependencies with other education work programme areas <p><i>Cons</i></p> <ul style="list-style-type: none"> limited potential to build integration between systems implications of changes in one funding system for another may be missed or not understood
<p>3. A broad approach that considers the funding systems from first principles (e.g. no starting assumption of different sectors). Covers objectives 1 – 5.</p>	<ul style="list-style-type: none"> scope a first principles design for a new funding system subsequent steps to be determined through design / analysis phase 	<p><i>Pros</i></p> <ul style="list-style-type: none"> opportunity to consider funding different angles (achievement and progression, learner transitions, providers etc) if successful, will provide a reformed funding system with medium- to long-term durability <p><i>Cons</i></p> <ul style="list-style-type: none"> high complexity linkages are wide and deep, chosen direction will impact widely across current programme sequencing will be a challenge because of time required and breadth of interdependencies most difficult to deliver practical change in short term

Conclusion

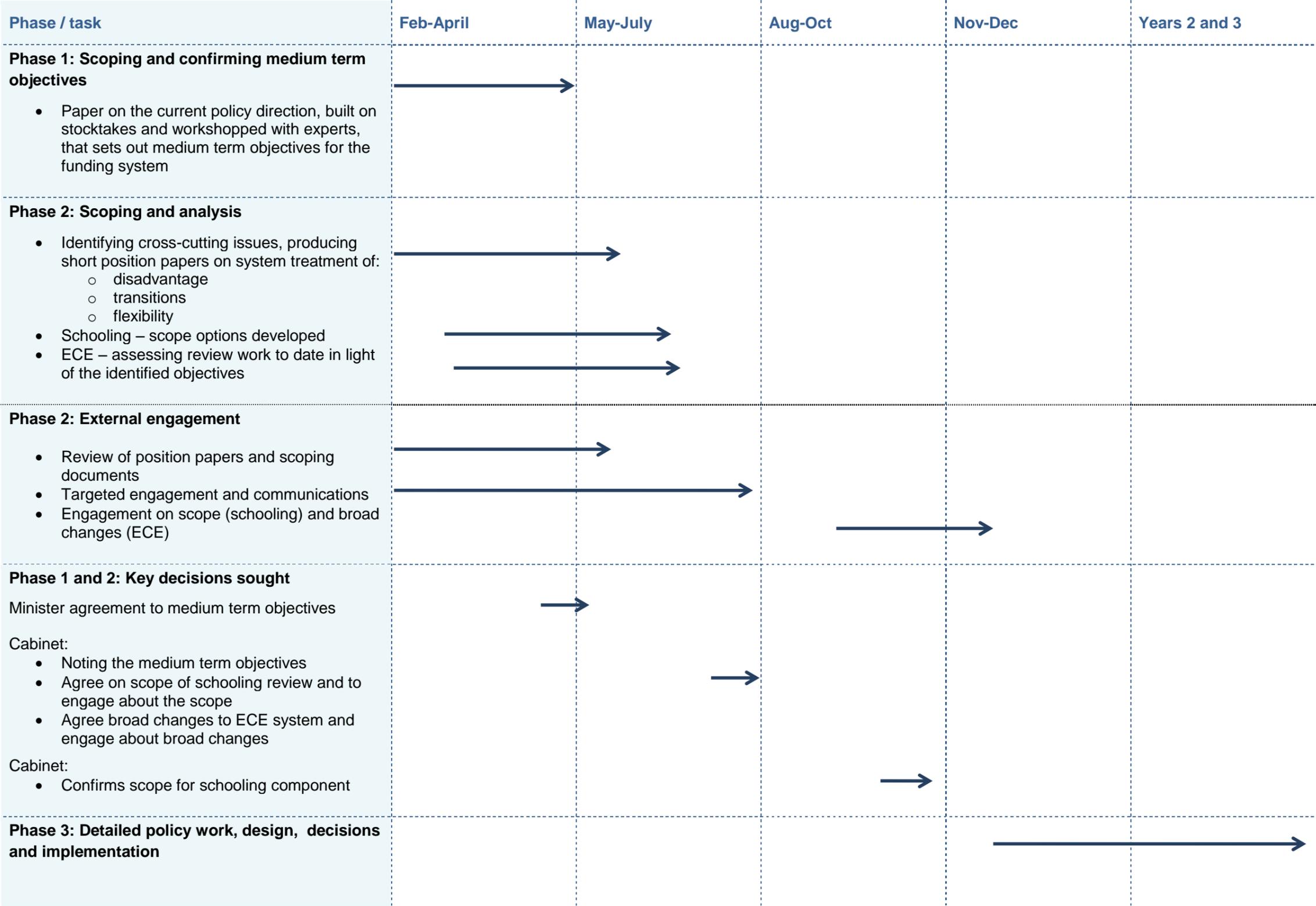
We **recommend** an approach based on identifying a set of **medium-term objectives** (option 1) for the funding system, that can inform reviews of the ECE and schooling systems and new issues as identified (eg. funding providers across sub-sectors).

We consider this option will provide the opportunity to direct changes over the medium term at a pace that can be sustained. This approach provides a sound basis for addressing issues across sectors while keeping the impact on learners in focus.

However, it will mean reassessing the work to date on the ECE funding review as it currently framed.

We have provided a more detailed timeline for this option overleaf.

Key tasks and timelines for preferred option



Annex 1: Overview: Early childhood education and Schooling funding systems overview

Dimension	Early childhood education	Schooling	Known issues	Is there an opportunity through a review of the funding systems to: <ul style="list-style-type: none"> • achieve greater coherence • address the achievement challenge • better position the system to meet future needs
Funding policy settings				
Nature of education provision (including legislative settings / nature of government role)	<p>Non-compulsory attendance; largely funded through universal government subsidies and parental fees.</p> <p>Objectives are for increased ECE participation, improved outcomes, and improved workforce participation.</p>	<p>Compulsory that domestic students attend a registered school from the ages of 6 to 16. There is a legal requirement that the Government make available free enrolment and education in a State or Partnership school for all domestic students aged 5-19.</p> <p>The Government meets this requirement by providing a large network of State schools, transport and boarding assistance, and correspondence schooling.</p> <p>Objectives are to:</p> <ul style="list-style-type: none"> • provide sufficient resources for all schools within the network of state and state integrated schools to deliver a programme of learning that fully meets the requirement of the curriculum (enabling students to develop the required competencies and values and achieve the specified learning objectives across the eight learning areas), and through this to meet specific achievement objectives (such as the Better Public Services NCEA Level 2 target) • provide some choice in the provision of schooling. 	<p><i>Early childhood</i></p> <p>-</p> <p><i>Schooling</i></p> <p>Frequent complaints from schools that funding is inadequate to provide a free education. A lack of clarity about what is included and not included in the mandated “free education”.</p>	<p><i>No – regulatory</i></p>
Who we fund on what basis	<p>Funding is paid directly to service providers and contributes to services’ operating costs by paying for part of each hour each child spends in ECE, to a maximum of six hours per-child-place per day, 30 hours per child-place per week</p> <p>20 Hours Early Childhood Education (ECE) is a higher rate of funding than the ECE Subsidy. It enables ECE services to provide early childhood education to three-year-olds, four-year-olds and five-year-olds for up to a maximum of six hours per day for 20 hours per week per child without charging fees.</p>	<p>In most cases funding (staffing, property, cash grants) is provided directly by the Government to Boards of Trustees which run single schools (Boards can combine to run multiple schools, but it is uncommon). The amount of funding is determined by measures of need, including the number and year level of students (which are related to school size and school type), the level of socio-economic disadvantage in the school, and school location.</p>	<p><i>Early childhood</i></p> <p>Funding is on basis of quality of inputs (e.g. qualified and registered teachers, teacher:child ratios, etc), and increasing participation and access. Funding for ECE is not directly linked to the quality of outputs and learner outcomes.</p> <p>There is a mix of per-child-place and per-child-based funding (20 hours ECE). Child-place funding means that a child’s overall entitlement is determined by the number of providers they are enrolled with. A child enrolled with 2 providers can receive up to 60 hrs per week of subsidised ECE. A child enrolled with one provider may share a child-place, meaning that they receive as little as 15 hrs per week of subsidised ECE.</p> <p>Child-place funding does not allow the Government to direct resources to particular children or to incentivise improvements in participation rates for priority children.</p> <p>For parents, the funding system lacks transparency</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>System could move to funding on a per-child basis. This would allow current inconsistencies to be addressed, and would also create potential for funding to be differentiated in future based on needs of children rather than only on the cost structure of services.</p> <p><i>Schooling</i></p> <p>Opportunities to increase coherence, improve focus on achievement, and allow for alternative operating models (see more specific comments in relation to other dimensions below). Changes to funding could increase efficiency, and make the system simpler and more transparent (see specific comments in relation to other dimensions below).</p>

Dimension	Early childhood education	Schooling	Known issues	Is there an opportunity through a review of the funding systems to: <ul style="list-style-type: none"> • achieve greater coherence • address the achievement challenge • better position the system to meet future needs
			<p>around the allocation of subsidised ECE.</p> <p><i>Schooling</i></p> <p>Funding is on the basis of numerous proxies for need. These proxies are likely to be imperfect, and it is no longer clear why they are combined exactly in the way they are. Funding for State schools is not directly linked to outcomes (or outputs).</p>	
Ownership of providers	<p>The ECE sector is predominantly made up of private, for-profit, and community-based providers. Crown ownership interest limited to hospital-based services (through DHBs), and the correspondence service (Te Aho o Te Kura Pounamu).</p> <p>Mix of private and community-based providers totalling 5,100 ECE services (4,255 licensed ECE services and 845 playgroups) in 2013.</p>	<p>Most schools are owned and funded by the Crown. <i>Land and buildings</i> at State Integrated schools are owned by proprietors but the Government has agreements in place to fund their maintenance. Private and partnership schools (approximately 4% of total school provision) are owned by non-Government bodies; private schools receive a modest Government subsidy, and partnership schools receive approximately as much Government funding as a comparable State school.</p> <p>In 2014 there were 2,439 State (including State Integrated) schools, 88 private schools, and 5 Partnership schools. Of the State schools, 149 (6%) had fewer than 25 students, 687 (29%) had fewer than 100 students, and 84 (4%) had more than 1,000 students. Most of the smallest schools were primary schools.</p>	<p><i>Early childhood</i></p> <p>-</p> <p><i>Schooling</i></p> <p>There is not a clear basis for the differences in funding between State, State Integrated, and private schools. There is frequent lobbying from the State Integrated and private school sectors for increased funding.</p> <p>Small schools are relatively expensive to operate, but are currently required to be open to meet the legal responsibility to provide a free education to all domestic students aged 5-19. They are also a feature of Māori medium provision and a consequence of the policy choice to facilitate access to government funded schooling of a particular character.</p>	<p>Yes</p> <p><i>Schooling</i></p> <p>Opportunities to increase coherence, improve focus on achievement, and allow for alternative operating models. Changes to funding could increase efficiency, and make the system simpler and more transparent.</p>
Addressing disadvantage	<p>Equity Funding is a targeted funding mechanism paid to eligible services in addition to the ECE Funding Subsidy and 20 Hours ECE.</p> <p>There are four components:</p> <p>A. Low socio-economic communities B. Special needs and non-English speaking backgrounds C. Language and culture other than English D. Isolation.</p> <p>89% of total equity funding is spent on Components A & B. Eligibility is based on the Equity Index (EQI) which measures the extent to which a service draws its children from low socio-economic communities. The EQI is calculated using a children's mesh address and mesh block date. Services with an EQI of 1 – 4 (approx 40% of services) are eligible to receive Components A & B.</p> <p>Equity Funding must be spent with the equity objectives for participation and quality in mind. Guidelines for expenditure of each component are listed in the ECE</p>	<p>State schools receive some cash funding which is based on the concentration of socio-economic disadvantage in the school. This component of funding is about 2-3% of funding across all schools, but can be 10% or more of total funding for the most disadvantaged schools.</p> <p>The current measure of disadvantage is the decile rating, which is based on Census measures in the areas where students live (income, benefit dependency, parental qualifications and occupation, household crowding).</p> <p>Principals' salaries are linked to the decile rating.</p> <p>There are other components of funding which are linked to disadvantage, but they are generally less significant.</p>	<p><i>Early childhood</i></p> <p>Equity funding is paid directly to providers who are not required to allocate that funding to the children who made the service eligible for equity funding. All children attending these services may effectively access the benefits arising from the equity funding. Conversely, highly deprived children may attend services not receiving equity funding.</p> <p>ERO reported on the use of Equity Funding in ECE services in 2013. The report noted that 61% of the services reviewed were highly effective or effective in their use of Equity Funding. In 27% the use of Equity Funding was of limited effectiveness and in 12% it was not used effectively.</p> <p><i>Schooling</i></p> <p>The decile system, as one particular means of targeting disadvantage, is unpopular and changes to decile ratings after each Census are disruptive. Issues have been raised about the appropriateness of particular</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Could improve efficiency of delivery mechanism for targeted funding and could also look to change balance of targeted funding as a component of total funding.</p> <p><i>Schooling</i></p> <p>Current funding has not been obviously effective. It is possible that the money could be better spent elsewhere (e.g. on specific effective programmes, if such programmes exist or can be developed at an appropriate scale).</p> <p>An alternative system might be more easily understood and accepted by parents, schools, and ECE centres.</p> <p>Opportunity to consider coherence across ECE and schooling, in the context of the different aims of the two systems.</p>

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	<p>Funding Handbook. Services are required to report to parents and the local community about how they have spent their Equity Funding.</p> <p>The forecast spend on Equity funding in 2013/14 was \$42.5 million (approx. 3% of the total Vote Education ECE spend).</p> <p>Disadvantage is also addressed through additional programmes such as Targeted Assistance for Participation (TAP) grants and MSD's childcare subsidy (\$186 million in 2012/13).</p>		<p>measures used to assess disadvantage, and the focus on targeting the concentration of disadvantage. It is unclear that the funding has been effective. The decile rating may be used, inappropriately, as a measure of school quality, to excuse poor performance, or as a marketing device.</p>	
Flexibility	<p>There are no restrictions on how ECE services use their funding with the following exceptions:</p> <ul style="list-style-type: none"> • Equity funding must be spent with the equity objectives for participation and quality in mind • Teacher-led centre-based services must pay all registered teachers employed by their service at least at the levels stated in the current Education Circular Attestation - Registered Teachers' Salaries. 	<p>Boards of Trustees face few restrictions on how their cash operational grants can be spent, and schools can share cash resources.</p> <p>In contrast, Boards' teaching entitlements and property are provided in kind, and cannot generally be exchanged for cash, which restricts flexibility. Boards do have considerable flexibility about how they deploy teachers within the school and make use of property, though are subject to conditions in collective agreements and Property Occupancy agreements.</p> <p>Teachers can be shared between schools in certain circumstances.</p>	<p><i>Early childhood</i></p> <p>How each service spends their equity funding will depend on the components the service is eligible for. Services must report directly to parents and the local community on how they spend their equity funding. These reports may also be subject to external review by the Ministry of Education and/or ERO. As noted above equity funding is not always used effectively.</p> <p><i>Schooling</i></p> <p>The provision of resources in kind, while reducing administrative and financial risk for Boards of Trustees, may restrict innovative approaches to the delivery of education. It also means schools do not face the true costs of these resources, which can lead to perverse outcomes (such as higher-paid teachers clustering in some schools at the expense of other schools).</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Could review whether the current requirements around the use of equity funding are well-aligned with the objectives and funding.</p> <p><i>Schooling</i></p> <p>Opportunity to achieve greater coherence (e.g. current staffing provision seems to work against equity funding). Possibility of allowing for alternative operating models in future. Efficiency is likely to be improved if there is change in this area. Resourcing system could be simplified.</p>
Incentives	<p>The funding system incentivises quality (using teacher qualifications as a proxy) by providing a higher level of funding for a greater proportion of qualified and registered teachers.</p>	<p>The funding system itself is not explicitly designed to create incentives. Other parts of the education system impose accountability and governance requirements, which are intended to provide incentives for effective use of resources.</p> <p>It has been argued that schools have incentives to increase the number of students attending. Principals' salaries increase as student numbers rise, and the school's funding goes up, which creates the potential – if there are sufficient economies of scale – for reduced staff workloads and richer resources. This incentive may promote competition between schools for students (in some instances, such incentives might have encouraged schools to apply to increase the number of year levels they offer, so that the pool of potential students is larger).</p>	<p><i>Early childhood</i></p> <p>Core ECE funding does not incentivise key desirable behaviours, such as: enrolling and retaining children from low socio-economic and/or isolated areas; lifting the quality of learner outcomes (except through moving to a more qualified workforce); or working with schools to lift system performance.</p> <p><i>Schooling</i></p> <p>The incentive to increase student numbers (if the argument that such an incentive exists is correct) may distract the focus from student achievement (though in the medium-term achievement is likely to be a factor in attractiveness to potential students).</p> <p>There is a minimal focus on outcomes in the funding system (though it is implicit in the current system that the funding formula gives schools what they need to</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Could look to incentivise enrolment of priority children in quality service delivery.</p> <p><i>Schooling</i></p> <p>Opportunity to create incentives to improve achievement (would require further work and possibly improved standardised measures of achievement). Possibility of allowing for alternative operating models in future.</p> <p>Efficiency possibly improved by change in this area, if appropriate incentive mechanisms can be designed and there is support for these.</p>

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			<p>achieve good outcomes, given their particular circumstances and the characteristics of their students).</p> <p>Even if there were a stronger, explicit link between resources and outcomes: the pay of teachers and principals is not directly affected by outcomes.</p>	
Key interdependencies that shape the funding system	Labour market participation, the supply of registered and qualified teachers, and the BPS target that in 2016, 98% of children starting school will have participated in quality ECE.	Most schools are State-owned and State-funded, and governed by elected volunteers with variable capability. Nationwide collective agreements for teaching staff (and some other staff) are agreed by the Government. The legal requirement to provide schooling in a State school means there is currently a necessity to maintain access to schools even in remote or sparsely populated regions. What constitutes “education” is determined by the Curriculum and other directions which are broad and enabling, rather than specific or prescriptive.	<p><i>Early childhood</i></p> <p>There is a lack of data on the impact of ECE and labour market participation (and income). There is a lack of data that shows the achievement and social outcomes from ECE in New Zealand.</p> <p><i>Schooling</i></p> <p>The influence of changes to funding on outcomes is likely to be limited unless there are changes in other features of the education system.</p> <p>The broad and enabling curriculum, while allowing flexibility, makes it difficult to determine what an acceptable level of provision is, and what amount of funding would be necessary to support this.</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Need to consider how participation will be maintained post-2016. Funding changes will need to avoid unintended consequences for labour market participation and other interdependencies.</p> <p><i>Schooling</i></p> <p>Opportunities to improve coherence between funding and other areas of education policy, leading to increased effectiveness (would require further policy work).</p> <p>Greater efficiency and transparency could be achieved by aligning funding systems and other systems (would require further policy work).</p>
Funding allocation				
Main funding components	<p>The ECE subsidy for children over two years is paid on a per-child-place basis, for a maximum of six hours per day, up to 30 hours per week. Rates are determined by the costs service providers face and differ by:</p> <ul style="list-style-type: none"> • Service type (teacher led services and parent/whanau led services); • Length of sessions (sessional services and all day services); and • The proportion of qualified and registered teachers employed by the service. <p>The ECE subsidy for children under two years is provided on the same per-child-place basis as the over two subsidy except at a higher rate (to account for the additional cost of higher regulated teacher:child ratios).</p> <p>20 Hours ECE is designed to meet the full average cost faced by providers for all eligible three, four and five year olds. It is a higher funding rate than the ECE Subsidy paid for a maximum of six hours per child per day and up to 20 hours per week. Parents must not be charged fees for hours claimed as 20 Hours ECE. Services can claim the ECE subsidy for the remaining ten hours (i.e. the difference between the capped 30</p>	Boards of Trustees receive a staffing entitlement (a number of teachers; the resulting salary bill is borne by the Government), a property entitlement (typically an agreement to occupy Government-owned land and school buildings); and a cash operational grant . A smaller amount of Government support is provided in the form of in-service training, advisory support, curriculum and qualifications frameworks, and so on.	<p><i>Early childhood</i></p> <p>The current system has complex funding rate categories with very detailed administrative rules. The current administrative model is heavy on transactional compliance resources, and poor on performance and quality targets/requirements. The system is complex to administer for services and the Ministry.</p> <p><i>Schooling</i></p> <p>Provision in kind can reduce flexibility and reduce efficiency (see above).</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Could consider further system simplification, in particular a reduction in the complexity of the rules in the funding handbook.</p> <p><i>Schooling</i></p> <p>Possibility of resources being used more flexibly to support student achievement. Greater efficiency might be possible if funding systems were altered.</p>

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	<p>hours ECE subsidy funding and 20 Hours ECE).</p> <p>Equity funding is paid to eligible services in addition to the above subsidies (see 'Addressing disadvantage' section).</p> <p>MSD provides the Childcare Subsidy aimed at increasing labour market participation by subsidising the costs of childcare. As with ECE subsidies, this subsidy is paid directly to services. It is capped at 50 hours per week. The Childcare Subsidy is paid in addition to the ECE Subsidy and Equity Funding (but not 20 Hours ECE).</p>			
Specialist support	Early intervention services are available in ECE services.	<p>The Ministry of Education's Severe Behaviour and Communications Services provide direct assistance to students requiring assistance with high-level special needs or behavioural difficulties.</p> <p>Staffing (roughly a thousand registered teachers), equipment, property alterations, and cash funding are also provided to schools through the Ongoing Resourcing Scheme, to provide assistance to students with a high level of special needs.</p> <p>The Resource Teachers of Learning and Behaviour scheme provides additional resources (around a thousand registered teachers and cash funding) to schools to address the particular needs of any student with special needs.</p>	<p><i>Early childhood</i></p> <p>-</p> <p><i>Schooling</i></p> <p>Some provision is sparse once students reach upper secondary school (severe behavioural service and resource teachers of learning and behaviour focus on younger children).</p> <p>Students may move in and out of special education programmes as their eligibility changes (particularly for behavioural programmes).</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Consider efficiency of equity funding for children with special needs.</p>
Allocation methods	<p>With the exception of 20 Hours ECE (see above), funding for all services is calculated using 'Funded Child Hours' (FCHs). FCHs are the hours for which a service may claim funding and are based on:</p> <ul style="list-style-type: none"> • the hours a child is enrolled to attend the service or • the hours a casually enrolled child attends the service. <p>There are 71 funding rates for different service types and characteristics.</p>	Funding is allocated mostly by formula, based on indicators of need (number and year-level of students, size and location of school, concentration of socio-economic disadvantage in the school, and so on).	<p><i>Early childhood</i></p> <p>-</p> <p><i>Schooling</i></p> <p>The indicators of need have not been comprehensively reviewed for some time. The decile rating is criticised as being a blunt proxy for need and stigmatising schools, the isolation rating is based on 2001 data which is now well out of date, the year-level-based indicators seem out of line with how schools allocate resources internally, the arrangements do not adequately provide for emerging school types (junior high schools, senior high schools and so on). The basis for combining the various indicators of need – the weights on the various indicators – is unclear. It is also the case that the indicators mostly exclude individual student characteristics and past achievement measures.</p> <p>Funding is not linked to outcomes so does not directly</p>	<p>Yes</p> <p><i>Schooling</i></p> <p>Opportunities to better target resources to the places they can be used effectively, using improved indicators of need (policy work required). Opportunities to sharpen incentives to improve achievement by linking funding to outcomes as well as need (also requires policy work, and possibly changes to other education policies).</p> <p>Greater efficiency and transparency might be possible if funding systems were altered.</p>

Dimension	Early childhood education	Schooling	Known issues	Is there an opportunity through a review of the funding systems to: <ul style="list-style-type: none"> • achieve greater coherence • address the achievement challenge • better position the system to meet future needs
			provide incentives to improve outcomes.	
Scale and targeting	Overall ECE funding is about \$1.5 billion, increasing from over \$800 million in 2007/08. Targeted funding, less than 4% of overall funding, is comprised of equity funding and other mechanisms such as TAP funding. MSD provides additional targeted funding through its childcare subsidy.	Direct Government funding to schools (including the costs of property provision) is approximately \$7 billion per year. Most funding is provided directly to Boards of Trustees (staffing entitlement, which is a number of teachers whose salary will be borne by the Government, operational grant funding, and an agreement to occupy Government-owned school land and buildings). In broad terms all Government funding is targeted based on measures of need. This need is determined almost entirely by formula (major measures include the number of pupils, the mix of pupils across year levels, school type, socio-economic status of the student body, amount of Māori language provision, and the degree of isolation of the school). There is particularly noticeable additional support for smaller schools, and especially smaller schools with secondary students, to maintain their viability.	<p><i>Early childhood</i></p> <p>Increasing participation also increases the cost of ECE to government. Growth is driven by a combination of a higher proportion of children attending ECE, starting at earlier ages, and attending for longer hours.</p> <p><i>Schooling</i></p> <p>Direct Government funding supports institutions (schools), not communities or students. There is reliance on schools to then use the funding appropriately to support students.</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Need to consider proportion of targeted funding and a better delivery mechanism.</p> <p><i>Schooling</i></p> <p>Opportunities to:</p> <ul style="list-style-type: none"> • improve targeting by focusing more on individuals (if peer group effects can still be taken into account); and • improve achievement by focusing more on communities, strengthening accountability for the use of funding, or both.
When is funding disbursed and for what timeframes	Three bulk payments per year (March, July and November), providing advance funding for the forthcoming four-month period and a reconciliation with actual attendance from the previous period.	Staffing entitlements are determined for the school year, in advance, so that schools can engage their teaching workforce before students arrive. Entitlements can increase within the year if rolls are higher than expected, but not decrease. Teacher salaries are paid fortnightly in arrears. Operational grant funding is determined and paid quarterly in advance, with subsequent adjustments made if more up-to-date information becomes available. Schools have some flexibility to use their entitlements in anticipation or in arrears.	<p><i>Early childhood</i></p> <p>Funding services four months in advance has fiscal risks. This advance funding policy setting (i.e. forward payment on sector-derived forecasting data), creates fiscal risks and interest costs to the government.</p> <p><i>Schooling</i></p> <p>Unclear if we currently have the right balance between the capacity of schools to manage uncertainty and fiscal cost.</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Consider moving away from significant advance funding to system that has a more regular wash-ups based on actual attendance. This would allow better management of Vote expenditure and risk. Requires improved ICT systems to enable this.</p>
Accountability	To receive funding, services must be licensed.	Funding is provided to a Board of Trustees which is required by law follow the National Administration Guidelines, to prepare a charter which indicates how it will use resources to meet its responsibilities, and to prepare an annual report which assesses its performance against its charter (this report includes audited financial statements). In addition, school roll returns – which are key for determining funding – are audited by the School Resourcing team in the Ministry.	<p><i>Early childhood</i></p> <p>Services are licensed in perpetuity. Licensing focuses on attaining minimum standards (on health and safety issues) rather than education outcomes and quality of delivery. Services delivering poor outcomes continue to be funded, creating poor incentives for improving those outcomes.</p> <p><i>Schooling</i></p> <p>Accountability for the use of funding is currently relatively weak. The level of funding is not affected by past performance. Annual reports are not made publicly available as a matter of course.</p>	<p>Yes - linked to Review of Education Act</p> <p><i>Early childhood and schooling</i></p> <p>Could consider linking funding to outputs, outcomes, and quality more, and incentives and disincentives for level of quality (noting the schooling context in which there is a legal obligation to provide free schooling).</p>

Dimension	Early childhood education	Schooling	Known issues	Is there an opportunity through a review of the funding systems to: <ul style="list-style-type: none"> • achieve greater coherence • address the achievement challenge • better position the system to meet future needs
Infrastructure				
Funding infrastructure	EDUMIS is the existing IT system architecture. ELI, which collects and stores information on enrolment and attendance, is being rolled-out to services.	The Ministry runs the FIRST, STEER and EDUMIS systems to collect school roll information, calculate school staffing and operational grant entitlements, and distribute these. The Novopay system is used to pay teachers employed within schools' staffing entitlements (this is currently a legal requirement) and most other school staff members.	<p><i>Early childhood</i></p> <p>EDUMIS is inflexible, slow, and complex and costly to change. ELI's roll-out is still underway.</p> <p><i>Schooling</i></p> <p>STEER and EDUMIS are ageing (planned obsolescence in 2019, though with the possibility of an extension) and the need for a replacement needs to be considered. Novopay is a relatively new system; problems in its implementation were caused in part by the complexity of funding arrangements (including arrangements in collective agreements), and simplification of these arrangements could ease operation.</p>	<p><i>Infrastructure will need to be upgraded regardless of outcome of review</i></p> <p><i>Early childhood</i></p> <p>Move to an enterprise-wide IT architecture that can handle policy change quickly and at low cost.</p> <p><i>Schooling</i></p> <p>Opportunity to create new systems that would allow a greater diversity of funding arrangements.</p> <p>Sensible to plan for replacement systems if obsolescence is likely.</p>
Key information inputs used by the funding system	Service type, proportion of qualified and registered teachers, age of child, which subsidy is being applied, and duration of child's daily attendance, eligibility for funding (e.g. equity funding), and meeting licensing regulations	Many variables. Significant ones: school rolls at several points in the year (including student numbers by year level, number receiving various levels of Māori language provision, number of students visiting for technology education, number involved in trades academies), school decile (determined in turn by student addresses and Census data), school isolation index (determined by location relative to population centres), school vandalism risk, utility costs (heat, light & water), number of beginning or overseas-trained teachers, teacher qualifications, number of years of teaching experience.	<p><i>Early childhood</i></p> <p>Focus on inputs rather than outputs and outcomes. No linking of funding to quality of service delivery.</p> <p><i>Schooling</i></p> <p>A lot of information is currently required.</p> <p>At the same time, there is very little student-specific achievement information collected, and funding systems do not link to individual- or school-level achievement data.</p> <p>The information which is collected might be a poor proxy for actual need.</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Need to shift away from significant advance funding to a system that has regular wash ups based on actual attendance. This would allow better management of Vote expenditure and risk.</p> <p><i>Early childhood and schooling</i></p> <p>Opportunity, by using more or richer data, to improve the targeting of funding to the schools or students which most need it to improve achievement.</p>
Administrative overhead	Three bulk payment cycles per year. By June 2015 all eligible services will be required to submit their funding claim forms electronically.	Interpreted broadly, the school funding system requires more than 100 centrally employed staff members to operate. The School Resourcing team in the Ministry of Education calculates and distributes school resourcing. The Applications Delivery Funding Systems team maintains and develops the STEER, EDUMIS and FIRST systems (with the involvement of third-party contractors). Education Payroll Services and Education Payroll Limited run the Novopay system.	<p><i>Early childhood</i></p> <p>Bulk payment cycles have been paper-based, requiring up to 24 temporary staff to process the claim forms. This is highly resource intensive, time consuming, and the risk for errors is greater than a system-based approach.</p> <p><i>Schooling</i></p> <p>There may be opportunities in the future to reduce administrative overhead.</p>	<p>Yes</p> <p><i>Early childhood</i></p> <p>Consider more regular wash ups, which provide greater ability to manage Vote expenditure and risk.</p> <p>Move to an enterprise-wide IT architecture that can handle policy change quickly and at low cost.</p>
Audit / assurance	ECE services submit funding claims over which the Ministry performs basic checks (e.g. whether service size maximum is breached). It relies on funding claims being accurate and complete. Audits sample small proportion of services annually to check underlying claim documentation is valid. Ministry also requires	School roll returns – which are key for determining funding – are audited by the School Resourcing team in the Ministry. Boards of Trustees are required to prepare, and have audited, annual financial statements which comply with generally accepted accounting practice.	<p><i>Early childhood</i></p> <p>It is not feasible to check the accuracy and completeness of all funding claims and the underlying documentation. There is limited robust financial monitoring of services on an ongoing basis and the Ministry does not have the capacity or capability to do</p>	No

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	financial declarations to be made (e.g. audited financial statements).		so. <i>Schooling</i> -	