



DISCUSSION DOCUMENT: Partnership Schools Expansion Funding

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To:	David Seymour MP, Parliamentary Under-Secretary to the Minister of Education		
Copy to:	Hon Nikki Kaye, Minister of Education		
Approved by:	Ellen MacGregor-Reid, Deputy Secretary, Early Learning and Student Achievement	DDI:	
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s 9(2)(a) OIA

Purpose

1. Your Office has requested further advice on a potential new funding component for Partnership Schools Kura Hourua (PSKH) to encourage roll growth.
2. In May 2017, we provided advice on the potential change (METIS 1057535). In that paper we presented two options: a “roll-build up” option and a “maximum roll” option.
3. You asked officials to further explore an option that would incentivise both the situation where a PSKH expands its roll beyond its previous maximum roll and where it is still building up to achieve its maximum roll.
4. This paper sets out an option that would achieve this, and we have considered how the new funding component would be implemented. It requires a contract change that PSKH sponsors would need to agree to (by contract variation).

Background

5. As at 28 June 2017, there were 1,245 students enrolled across three primary, two restricted composite and five secondary PSKH. Total operational funding in 2017 is expected to be about \$ million (based on projected rolls).

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

6. Out of this total funding, the rough split between the different types of PSKH payments is as follows (the splits are based on actual funding in 2016, and exclude establishment funding):
 - a. teaching and operating funding - 73%;
 - b. property and insurance funding - 25%;
 - c. professional development funding (previously Centrally Funded Support) - 2%.
7. The PSKH funding model provides a level of funding that is viable for both small and large schools overall. However, in both State and PSKH it is possible to achieve better economies of scale in larger schools than in smaller schools.

Current PSKH property funding

8. Under current policy, PSKH sponsors are paid a property funding contribution to establish the school and they receive an ongoing property funding stream as a component of their operational funding.
9. Round One and Two schools received establishment property funding based on their maximum roll. From Round Three onwards, establishment property funding is calculated

based on the projected first year roll only. The amount payable is equivalent to six months (50%) of the annual property funding, calculated on the maximum roll or projected first year roll, as applicable.

10. All PSKH property funding is calculated using the Cash for Buildings methodology. This ensures equivalence to what a State school might have received.
11. PSKH sponsors have “total funding flexibility”. This means that while the property entitlement should be sufficient for sponsors to lease the required accommodation (from what is available on the market or through the sponsor’s partnerships), they are not limited by the entitlement. They may choose any suitable property and fund it by using some or all of the Crown funding plus external funding sources.

Expanding existing PSKH property

12. In practice, PSKH build their rolls incrementally each year up to their maximum roll. Sponsors are required to seek the Minister’s approval to increase the maximum roll; such applications are considered on a case-by-case basis.
13. Sponsors are likely to face additional up-front costs when they expand their maximum roll as they may need to fit out additional property. There are risks involved with making significant property changes. There can also be unexpected delays or constraints imposed on them when sponsors are required to apply for consents from local authorities.
14. A change was made recently to the standard form contract to indicate that there will be ‘principal considerations’ for maximum roll reviews. The considerations are ‘student enrolment demand’ and ‘student achievement’ (or both) [METIS 1064290 refers].
15. No additional establishment funding is currently payable when a school increases its maximum roll. Sponsors have argued that this is a disincentive to expansion.

Property expansion payment (PEP)

16. The proposed new funding component is designed as an incentive for sponsors to expand their roll levels, and do so more quickly than currently. In this paper the new component is referred to as the “property expansion payment” (PEP for short).
17. PEP would be based on Cash for Buildings, and would provide the PSKH with one-off funding equal to the property component of establishment funding for each additional student enrolled above the roll it was funded for in its original establishment payment.
18. Unlike establishment funding, PEP would not provide a lump sum or be paid up-front. PEP would become a separate operational funding component in the Quarterly Operational Payment, paid for based on the actual increase in the roll over the previous quarter. It would only result in a payment if an entitlement was generated from the previous quarter. Table 2 in Annex 1 shows how PEP is calculated.
19. The PEP entitlement would diminish as payments were made and it would be exhausted when the PSKH reached its maximum roll. Negative payments or wash-ups are not advised, should a school roll reduce during a quarter. No further payments would be made, though, until the roll increased beyond its previous high point.
20. New PEP entitlements would be generated when an increase to a school’s maximum roll was approved.
21. If PEP proves effective it will contribute to an increase in the number of students that can be enrolled in PSKH, as sponsors will have more incentive to apply and become able to accommodate more students.

Implementing PEP

22. Multiple funding policies apply currently across Rounds One to Four. We are also in the final stage of the Round Five approval process. Contract variations would be required to implement PEP across the PSKH.

Round One (four schools)

23. Round One sponsors received a higher factor of establishment property funding than all subsequent rounds, calculated based on their maximum roll. They are currently also entitled to operational property funding based on their maximum roll level.
24. PEP would be extended to Round One sponsors that applied for maximum roll increases.
25. We propose setting a clear expectation that extending PEP to Round One will mean sponsors agreeing to switch over operational property funding arrangements so they match with other Rounds. It is possible to extend PEP to Round One schools without the switch, but we recommend against it on the basis of maintaining equity between PSKH. As maximum roll increases require additional funding, the Minister has discretion to approve such applications subject to conditions like this.
26. Round One PSKH would only generate PEP if it was granted a maximum roll increase. This cost would be calculated as part of the maximum roll increase application process.

Round Two (four schools)

27. Similar to Round One, the Round Two sponsors received establishment property funding based on their maximum roll and are entitled to operational property funding at their maximum roll level, irrespective of actual enrolments.
28. Extending PEP to Round Two would be on the same basis as for Round One, set out above.

Round Three (two schools)

29. Unlike Round One and Two schools, Round Three schools only received establishment property funding based on their projected year one roll.
30. Operational property funding for Round 3 schools is calculated based on the maximum roll as for Rounds One and Two, but it is paid on the actual student count (or on the Guaranteed Minimum Roll if higher), so that there is an incentive to grow the roll up to the maximum roll.

Round Four (two schools, and subsequent rounds)

31. Round Four schools, like Round Three schools, only receive establishment property funding based on their projected year one roll. Round 5 is currently proceeding on the same basis.
32. A policy change was, however, agreed for Round Four, which amended the calculation methodology for operational property funding, so as to provide the same level of funding to different schools with the same actual roll numbers, irrespective of their maximum roll. (This is not the case currently for Round Three schools). This change is currently being applied to Round Three schools. Once implemented, the revised approach will result in a small net increase in their property funding (METIS 1039668 refers).
33. The introduction of PEP would result in Round Three, Four and Five sponsors receiving additional establishment funding as they grow beyond their projected year one roll towards their maximum roll. Once they have reached their maximum roll, funding for any increase in maximum roll would be exactly as for Round One and Two sponsors.

Financial implications

34. Additional funding would be required to implement PEP because it would generate costs that have not been funded.
35. We expect the additional direct cost of the PEP to be up to \$1.6m over rounds three to five, although we can't accurately predict the timing of these costs as this would depend on how schools rolls increase over time.
36. It is also expected that PEP will result in Round One and Two sponsors applying to increase their maximum roll levels. The schools most likely to be in a position to seek an increase in their maximum rolls in the foreseeable future are South Auckland Middle School, Middle School West Auckland, Te Kapehu Whetu (Teina) and Vanguard Military School. It is difficult to quantify the value of a maximum roll increase. A maximum roll increase for a secondary PSKH of 50 would require approximately [REDACTED] funding per annum. s 9(2)(f)(iv) OIA
37. Given the uncertainty of the timing of costs, it is prudent to seek slightly higher funding than the expected cost of PEP
38. The implementation of PEP could be supported by re-purposing funding available in the PSKH operating contingency. We advise that Cabinet approval would be required to do this because the purpose of the contingency was to provide for additional PSKH to open in 2018 and 2019. If the Round Five drawdown is confirmed, this would leave the following contingency balance (METIS 1071949, annex 3 refers)

	\$ (m)						
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Operating Contingency: Additional partnership schools in 2018 and 2019	[REDACTED]						
Drawdown for Round Five schools							
Balance remaining							

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

39. We recommend seeking an initial drawdown from contingency as detailed in the table below. This would provide sufficient funding to cover the cost of PEP in the short term and allow for some schools to apply for an increase in maximum roll. From 2023/24 we would be limited to the remaining balance of the contingency. The ongoing fiscal implications of PEP would be reassessed through the Budget process.

	\$ (m)						
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Additional cost of PEP	[REDACTED]						
additional quarterly operational payments/max roll increases (extra 100 students)							
Potential cost							

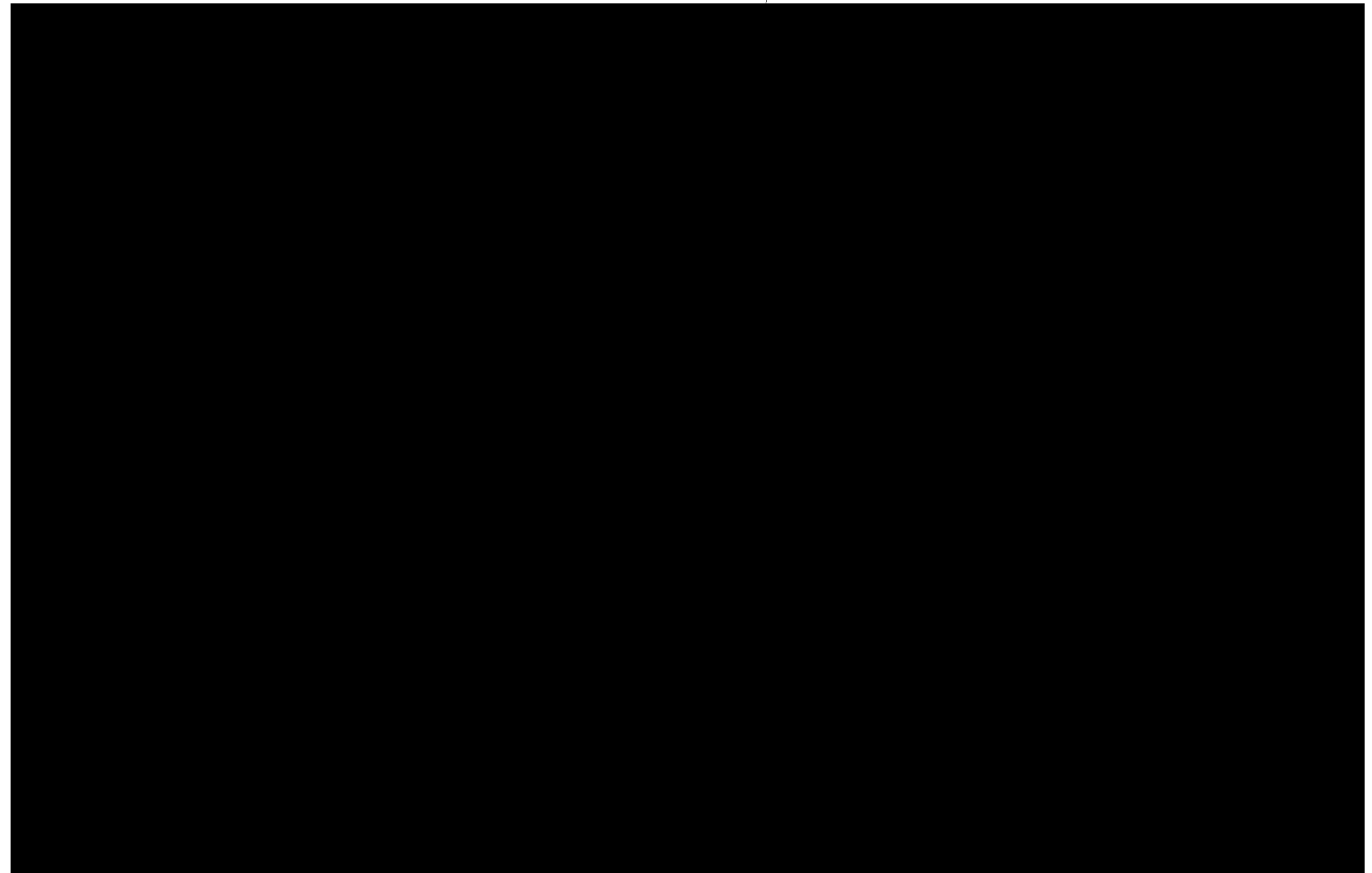
s 9(2)(f)(iv) OIA, s 9(2)(j) OIA

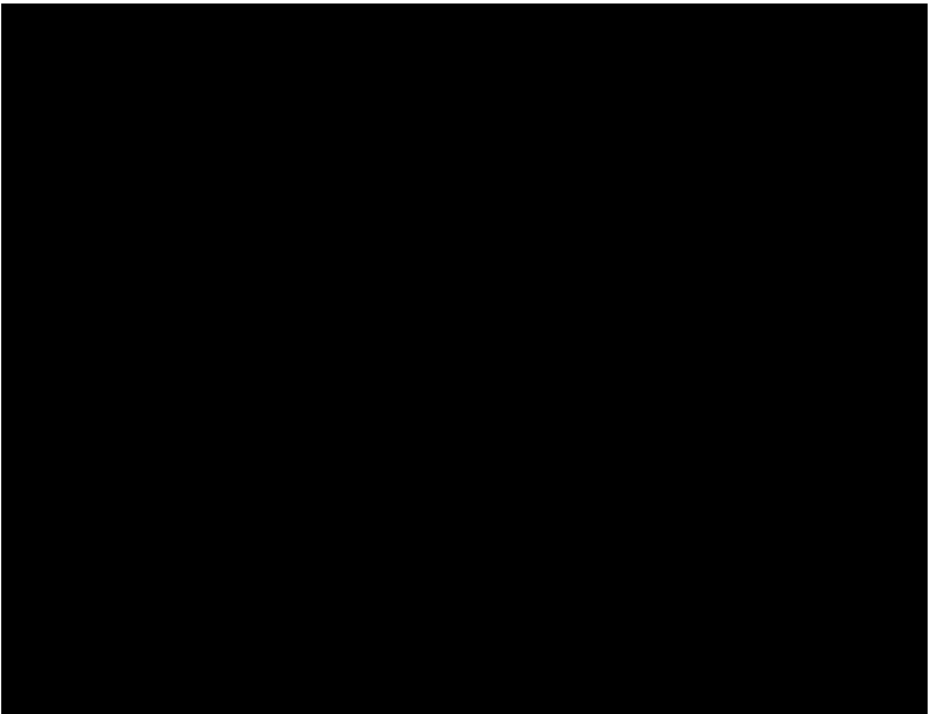
40. The impact on the contingency would be as follows:

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

	\$ (m)						
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Balance remaining (after Round 5)							
Proposed drawdown to fund PEP							
Balance remaining							

41. When funding recent rounds of PSKH we have sought funding for the cost of increased enrolments based on sponsors' projections and we create a modest provision as enrolments may increase faster than expected. In the future, PEP can be factored into the initial budget for new PSKH.





s 9(2)(f)(iv) OIA, s 9(2)(b)(ii) OIA