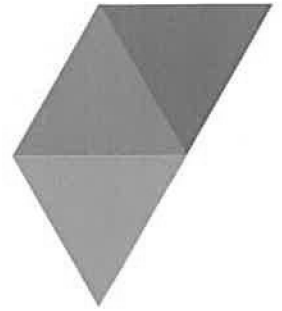
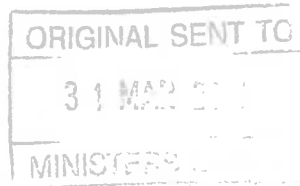


31 MAR 2016 - 65



BRIEFING NOTE: Partnership School Property Funding – Formulae Comparisons

Date:	30 March 2016	Priority:	High
Security Level:	In Confidence	METIS No:	985458
To:	David Seymour MP, Parliamentary Under-Secretary to the Minister of Education		
Copy to:	Minister of Education, Hon Hekia Parata		
Approved by:	Karl Le Quesne, Associate Deputy Secretary, Early Learning and Student Achievement	DDI:	[REDACTED]

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Purpose

1. This paper provides advice on the formula used for calculating Partnership Schools property funding in response to your requests of 26 February and 3 March 2016. It compares the current formula for the property rate with an alternative formula and identifies the implications of adopting that alternative formula.

Background

2. In 2013 Cabinet agreed that Partnership Schools would be fully-funded, with funding based on actual funding in the state system, cashed up to give sponsors flexibility to manage their resources. Property funding was calculated using 'Cash for Buildings', a methodology for cashed-up property funding that is equivalent to comparable state school property entitlements. It converts capital costs, maintenance costs and modernisation costs into an annualised rate over 40 years, which is estimated to be the life of a school building.
3. In the first two application rounds for Partnership Schools, schools received Cash for Buildings funding based on their maximum school rolls. This approach reflected the model used within the state system, where new schools are provided with property for their projected maximum rolls. It achieved one of the key objectives for the original funding model, that funding for Partnership Schools be broadly equivalent to funding in the state system (CAB Min (13) 5/9 refers).
4. In 2015, Cabinet agreed to a new property funding model as the existing model had not incentivised roll growth (CAB Min (15) 26/4A refers). It was intended that the new funding model would apply to the third and any subsequent application rounds.
5. The new funding model determines the property rate by taking the total Cash for Buildings amount for the school at its maximum roll, and dividing by the maximum number of students. This results in a per student funding rate which is multiplied by the actual number of students to reach the school's property funding amount. This means that schools have an incentive to grow their rolls, and receive property funding more closely aligned with actual student numbers.

Consequences of new model for schools with different maximum rolls

6. One consequence of the new funding model is that two otherwise identical schools, with different maximum rolls, are funded at a different property rate.

Table One: Per student property funding for year 9-13 schools with different maximum rolls

Maximum Roll	Cash for Buildings & Insurance Amount ¹	\$ / Student
50	\$209,812.35	\$4,196.25
100	\$339,299.40	\$3,392.99
200	\$590,440.95	\$2,952.20
300	\$716,761.65	\$2,389.21

7. Under the new funding model, a secondary school with a maximum roll of 200 would receive \$573,966 at 200 students. A school with a maximum roll of 300 students would receive \$464,508 at 200 students. Fixing the property rate to a school's maximum roll means that the lower rate will be applied throughout the school's entire growth phase, causing property funding levels to track below what would be expected under the Cash for Buildings formula as it applies to state schools.
8. This consequence of the new funding model raises the possibility that applicants might submit applications with lower maximum rolls than they otherwise would, in order to attract the higher property rate. However, it is worth noting that a school would only benefit from that higher property rate while it was building towards its maximum roll. The reason for altering the funding model in 2015 was to incentivise schools to build quickly to their maximum roll.

Current request for applications

9. The third application round for Partnership Schools is currently underway. Twenty-six applications were received with proposed maximum rolls ranging from 43 to 460 students. The four applications currently under active consideration are year 7-13 schools with proposed maximum rolls of between 200 and 360 students. Those likely to benefit the most from the property rate under the new funding model are those with very small maximum rolls.
10. However, it is unlikely that schools with very small maximum rolls would satisfy the Government's preference that applications involve schools that are large enough to be comfortably viable. These schools have benefits of scale for students, including broader curriculum options and greater teaching specialisation.²

¹ This amount has been calculated on the assumption that the roll of the school is evenly split across year levels 9-13. If the school is not a year 9-13, or the roll is not evenly spread across year levels, the amount at each maximum roll level will be different. For example, the Cash for Buildings and Insurance amount for the school with a Maximum Roll of 200 (\$590,499.95) is calculated on the assumption that there are 40 students at each year, 9-13. By comparison, School C in Table Four, maximum roll 200, year 11-13 with approximately 66 students at each year level, would receive Cash for Buildings and Insurance amount of \$527,614.

² As contained in *Partnership Schools | Kura Hourua – Request for Application Round Three – Requirements and Rules*.

An alternative formula

11. An alternative formula could be applied to more closely tie property funding to the actual number of students in a school. This formula would use the maximum roll figure for Cash for Buildings for any particular roll number regardless of whether the school has reached its maximum roll. This would mean that two otherwise similar schools would receive the same property funding irrespective of their maximum rolls.
12. The tables below demonstrate the difference in funding that would result from applying the new and the alternative formulae to the four Partnership Schools currently under active consideration as they build to their maximum roll.

Table Two: School A (Years 9-13)

Year	2017	2018	2019	2020	2021	2022	Total
Projected Roll	150	185	200	315	340	360	
Alternative formula	\$423,791	\$497,450	\$529,447	\$740,259	\$772,256	\$785,421	
Current formula	\$327,260	\$403,620	\$436,346	\$687,245	\$741,788	\$785,423	
Difference	\$96,531	\$93,830	\$93,101	\$53,014	\$30,468	-\$1	\$366,944

Table Three: School B (Years 7-13)

Year	2017	2018	2019	2020	2021	2022	Total
Projected Roll	90	150	210	255	300	300	
Alternative formula	\$229,220	\$356,923	\$495,457	\$601,176	\$713,523	\$713,523	
Current formula	\$214,057	\$356,762	\$499,466	\$606,495	\$713,523	\$713,523	
Difference	\$15,163	\$162	-\$4,009	-\$5,318	\$0	\$0	\$5,998

Table Four: School C (Years 11-13)

Year	2017	2018	2019	2020	2021	2022	Total
Projected Roll	67	134	200	200	200	200	
Alternative formula	\$224,978	\$377,462	\$527,614	\$527,614	\$527,614	\$527,614	
Current formula	\$176,751	\$353,501	\$527,614	\$527,614	\$527,614	\$527,614	
Difference	\$48,227	\$23,961	-\$0	-\$0	-\$0	-\$0	\$72,187

Table Five: School D (Years 9-13)

Year	2017	2018	2019	2020	2021	2022	Total
Projected roll	100	200	300	300	300	300	
Alternative formula	\$252,975	\$574,443	\$724,761	\$724,761	\$724,761	\$724,761	
Current formula	\$241,587	\$483,174	\$724,761	\$724,761	\$724,761	\$724,761	
Difference	\$11,388	\$91,269	-\$0	-\$0	-\$0	-\$0	\$102,656

Table Six: Total Increase in Cost from Alternative Formula

School	Extra cost of alternative formula
School A	\$366,944
School B	\$5,998
School C	\$72,187
School D	\$102,656
Total extra cost	\$547,785

13. Table Two shows that the majority of the increased cost of applying the alternative formula (\$366,944) would come from the cost of funding one school, school A. School A receives significantly more each year under the alternative formula than it does under the new formula because it projects a very slow rise towards its maximum roll.
14. Table Three shows that for school B, there is only a small difference (\$5,998) in property funding for the school over the four year period as a result of a change in the property rate. However, it is significant that this school would receive less funding in total under the alternative formula than under the new formula in 2019 and 2020.
15. There are two possible explanations for this. One relates to the stepped nature of Cash for Buildings. The maximum roll may be just above a significant change in the allocation of property. The second relates to how a school builds its roll. This is particularly relevant to secondary education where senior students attract more property funding than years 9 and 10.

Consequences of change

16. The analysis of these four schools indicates that the alternative method can also have anomalies that arise from the way that Cash for Buildings reflects the variables in the state system. The alternative formula provides more funding for schools that slowly grow their rolls, compared to the new formula. It therefore creates a perverse incentive to build rolls slowly as is demonstrated by the example of School A.

17. Our analysis of the applications in the third round indicates that, as far as we can tell, school size has been determined by the need to offer the full curriculum range and other considerations, rather than a desire to maximise property funding.
18. As the alternative formula would lead to one school receiving less than under the new formula, there is a risk that changing the formula at this stage of the application round would be seen as unfair by that school.
19. On 3 August 2015, Cabinet agreed that the property rate be altered to make the rate more sensitive to actual student numbers. Any change to the funding formula would need to be drawn to the attention of Cabinet. This could be included in the paper currently being prepared to inform Cabinet of the Minister's decisions in the third application round.
20. The new property funding formula as agreed by Cabinet is intended to incentivise schools to grow quickly to attain their maximum roll. This formula is more likely to achieve this objective than the alternative formula.

Budget implications

21. There is likely to be sufficient funding in baselines to cover the cost of applying the alternative formula.
22. A change in the property funding formula would mean extra expense in Budget bids for future rounds.