



## DISCUSSION DOCUMENT: Potential Change in Establishment Property Funding for Partnership Schools

<b>Date:</b>	11/5/2017	<b>Priority:</b>	Medium
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1057535
<b>To:</b>	David Seymour MP, Parliamentary Under-Secretary to the Minister of Education		
<b>Copy to:</b>	Hon Nikki Kaye, Minister of Education		
<b>Approved by:</b>	Karl Le Quesne, Acting Deputy Secretary, Early Learning and Student Achievement	<b>DDI:</b>	[REDACTED]

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### Purpose

1. You have asked for advice on a potential policy change in relation to establishment property funding for Partnership Schools | Kura Hourua.

### Background

2. Establishment funding is paid to new Partnership Schools before they open, so that the sponsor can have a school ready to teach students on the first day. Establishment funding has three components:
  - a one-off grant which contributes towards pre-opening costs such as recruiting teachers and students; connecting to services such as internet; and classroom resources. This is currently \$250,000 for primary schools and \$400,000 for secondary schools;
  - a payment to allow a principal to be engaged to set the school up. This is currently a grant of up to one year's salary for primary schools and up to five terms for secondary schools [SOC-16-MIN-0186 refers];
  - a payment for property (and insurance) for the school. Most Partnership Schools lease property, and the funding contributes to lease costs and the cost of making necessary modifications to bring the premises up to the required standard. The amount is six months property funding.
3. New state schools get establishment funding but not the same payment for property. This is because the Crown or the Proprietor of an integrated school provides the property, usually in the form of a purpose-built school.
4. Property funding for Partnership Schools is based on the state school Cash for Buildings formula. That formula 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. This allows the calculation of an annual payment.

5. In 2013 Cabinet agreed that the Crown should not provide Partnership Schools with a capital funding stream sufficient to purchase land and build a new school. Property establishment funding was calculated on the basis of Cash for Buildings, and based on the maximum roll set for the Partnership School. This was based on the analogy with state schools, which get a school built for the maximum roll, even though the school will not open with such a roll.
6. Basing establishment funding on the maximum roll for the school was subsequently identified as one of the possible contributing factors to slow roll growth and generous per-student funding amounts. It did not incentivise sponsors to partner with third parties in the way that the model originally envisaged.
7. In 2015 Cabinet approved a number of changes to PSKH property funding. It agreed to calculate establishment funding based on a school's estimated opening roll (a Guaranteed Minimum Roll or GMR) rather than its final maximum roll [CAB Min (15) 26/4A refers]. This carried the risk that schools might have to move sites when the school builds up its roll, and that sponsors would require sufficient resources to cover the possibility of falling or fluctuating rolls.

### **Issues with the property establishment funding for Partnership Schools**

8. There are two situations in which the current policy settings could create issues for Partnership Schools.

#### *Roll Build-up (applies to PSKH on 2015 funding policy only)*

- Partnership Schools do not currently receive property establishment funding in respect of those students enrolled after the school exceeds its GMR, and builds to its maximum roll. For example, a school with a maximum roll of 300 and a GMR roll of 100, will not receive establishment funding for 200 students, only for 100. The school is likely, however, to have to acquire additional leased area to accommodate those 200 additional students

#### *Maximum roll increase*

- a sponsor whose school has reached its maximum roll cannot currently apply for any extra establishment funding to enable an increased size to match any approved maximum roll increase.

### **Discussion of options**

9. Policy settings should strike a balance between equity with the state school system and the desirability of incentivising roll growth and financial contributions by sponsors and third parties.

#### *Roll Build-up from GMR to maximum roll (applies to 2015 funding policy only)*

10. A possible change to deal with this would be to provide a school with an entitlement to six months of property funding on a per student basis, once the roll has exceeded its GMR. This establishment property funding would be in addition to the increased funding (including property) that the school would receive for each additional student enrolled. This option would still tie the funding to actual students enrolled, and therefore still provide incentives for schools to grow their rolls quickly.

11. Operational decisions would be needed to determine when such a payment should be made, given the fluctuations in rolls that occur in all schools during the school year. Many state schools do not get extra property immediately following a roll rise, until it can be determined whether or not the increase is likely to be permanent.
12. The previously agreed changes in policy have applied to schools from Round Three. In Rounds Three and Four, and potentially in Round Five, we have seen an increased focus on sponsors partnering with third parties and/or contributing to funding themselves. One potential Round Four sponsor, for example, is providing property for the proposed schools.
13. This indicates that the policy changes are having the desired effect. Round Five has shown a high level of interest from groups willing to make applications as there were eleven that were invited to submit applications.

*Maximum roll increases*

14. Where a Partnership School is granted an increase in its maximum roll, policy settings could be changed to provide an extra six months property establishment funding, based on expected enrolments towards the agreed maximum roll increase. For example, if a school of 300 students applied for a roll increase to 500 students, it might be agreed that it would enrol 100 extra students in the first year of its expanded roll. The property establishment funding would be based on these 100 students, in order to provide a parallel with the funding given for the establishment of the original school. To receive the additional payment the sponsor would be required to enrol students over and above its previous maximum roll level, which would mitigate the risk that, after the increase was agreed, the school actually lost enrolments.
15. There is a stronger argument for added property establishment funding when Partnership Schools are granted a maximum roll increase. This is particularly the case if a primary school is changing class to add secondary level tuition, where property is more specialised. It is not a situation that has been previously included in policy considerations. More work would need to be done on the timing of the payments.
16. Retaining the requirement that the extra funding is only based on the agreed roll in year one after the roll increases means that there is still an incentive for a contribution from sponsors or third parties.

**Indicative costings**

17. Six months establishment funding has been used in both scenarios to be consistent with the policy for establishment funding for a new school. The following tables set out indicative costings for two hypothetical scenarios:

**Roll build-up Primary School of 300 (assumes the roll increases by 50 each year)**

Year	1	2	3	4	5	Total
Students	100	150	200	250	300	

<b>Additional Establishment payment for roll build up</b>	0	18,780	18,302	18,029	24,448	79,558
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**Roll increase. Secondary school of 300 with a maximum roll increase to 500 and an agreed increase in roll of 100 in the first year after the maximum roll has been agreed to.**

	<b>300</b>	<b>400</b>	<b>Roll increase payment</b>
<b>Students</b>			
<b>Establishment payment</b>	402,954	467,314	64,359

### **Conclusion**

18. We could proceed to investigate either of these options further, or a combination of the two.
19. Providing additional funding for Round Three and subsequent sponsors is less compelling in the circumstances of standard roll growth as compared to maximum roll or year level increases. If the policy intent is to encourage expansion, then extra funding for an increase in maximum roll numbers will be more of an incentive than increasing funding for the school to reach a maximum roll that it should already be aiming for.
20. If you wished to proceed with one or both of these changes, Cabinet approval would be required, due to the potential fiscal implications and potentially a Budget bid. Costings could then be done based on the likelihood of existing schools meeting the new policy parameters.