

12 July 2013

## Education Report: Determining At Risk Payments for Partnership Schools

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### Executive summary

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Cabinet has authorised the Minister of Finance, the Minister of Education, and the Associate Minister of Education (Hon John Banks) to approve any necessary changes to the funding model [CAB Min (13) 5/9 refers]. This report asks Joint Ministers to make decisions on the nature of “at risk” payments to be included in the contract for Partnership Schools | Kura Hourua (Partnership Schools).

### Recommendations

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**We recommend that the Minister of Finance, the Minister of Education and Associate Minister of Education:**

- a. **note** that Cabinet agreed that a small percentage of the Partnership Schools’ contract price be at risk in the first years of the contract, rising in later years [CAB Min (13) 5/9 refers]
- b. **note** that the purpose of the at-risk payment is to signal that this is a different type of funding system where good performance is financially rewarded and poor performance results in termination of the contract
- c. **note** that there are three possibilities for defining “at-risk”:
  - the schools could lose a percentage of their funding for poor performance (i.e. a penalty)
  - schools could have some funding withheld initially to be paid out if they meet or exceed their targets
  - schools could receive a one percent performance payment, over and above the resourcing model, for exceeding their National Standards or NCEA student achievement targets

#### ***Financial penalty***

- d. **note** that a financial penalty is unlikely to be a successful intervention to improve student achievement outcomes

#### ***Withholding a performance payment***

- e. **note** that the amount paid to schools could be set at a percentage of the amount generated by the resourcing formula approved by Cabinet, say 99 percent, leaving a small percentage to be paid for meeting or exceeding targets
- f. **note** that, since we do not have research or modelling for state schools that identifies how much it costs to run a well-managed school, it is difficult to set the percentage at a level where a school is still viable

#### **A one percent performance payment**

- g. **note** that a further option is to provide a small percentage above the amount generated by the resourcing formula, say one percent that would be available for exceeding the targets
- h. **note** that this would result in a slight, but manageable budget pressure
- i. **note** that there could be adverse comment from the state school sector, especially where there are for-profit Partnership Schools
- j. **agree to** a one percent performance payment above the amount generated by the resourcing formula, available for schools that exceed their National Standards and/or NCEA performance targets and meet all other targets, to give effect to Cabinet's intention for an at-risk payment in the initial years of partnership schools.

AGREE / DISAGREE

AGREE / DISAGREE

AGREE / DISAGREE

- k. **agree** that, if the at-risk payment is increased in the future, the policy settings associated with the larger payment will be set at that time.

AGREE / DISAGREE

AGREE / DISAGREE

AGREE / DISAGREE



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Ben O'Meara  
Group Manager  
Schooling Policy

NOTED / APPROVED

NOTED / APPROVED

NOTED/APPROVED

Hon Bill English

Hon Hekia Parata

Hon John Banks

Minister of Finance

Minister of Education

Associate Minister of Education

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18.7.13

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Discussion please

# Education Report: Determining At Risk Payments for Partnership Schools

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## Purpose of report

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1. This report asks Joint Ministers to make a decision on the parameters of what is meant by “at risk” payments in the contracts for Partnership Schools | Kura Hourua.

## Background

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2. On 25 February 2013, Cabinet considered the paper “Resourcing Partnership Schools” and authorised the Minister of Finance, the Minister of Education and the Associate Minister of Education (Hon John Banks) to approve any necessary changes to the funding model [CAB Min (13) 5/9 refers].
3. The Cabinet paper recommended that Cabinet:  
  
    “**note** that, although Partnership Schools will need stability to get established, it is important to establish that delivery is through an outcomes-based purchasing model contract  
  
    **agree** that a small percentage of the contract price be at risk in the first years of the contract, rising in later years”.
4. The text of the Cabinet paper talked about an at risk component of one or two percent.

## Options

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5. In considering how Cabinet’s decision should be implemented, we have identified three possibilities for defining “at risk”:
  - the schools could lose a percentage of their funding for poor performance (i.e. a penalty)
  - schools could have some funding withheld initially, to be paid out if they meet or exceed their targets
  - schools could receive a small performance payment over and above the amount generated by the resourcing formula if they exceed their student achievement targets.

### Option 1: losing a percentage of funding for poor performance

6. A financial penalty is unlikely to be a successful incentive in a school setting. This is because, to manage the risk of incurring the penalty, schools would be likely to spend less of their funding on teaching and learning, student safety, and other important elements of their provision. This would not benefit the priority learners that the school is aiming to assist.
7. The outcomes being purchased are student growth, achievement and well-being. Interventions, such as requiring the school to hire an adviser or undertaking appropriate teacher professional development, will be more directly effective than a financial penalty.