



AIDE MEMOIRE: FURTHER ADVICE ON AT-RISK PAYMENTS FOR PARTNERSHIP SCHOOLS

J 30/7

Date:	25 July 2013	Priority:	High
Security Level:	In Confidence	Metis:	797314

1. This aide memoire provides further advice on the options for at-risk payments for Partnership Schools.

Option suggested by Hon John Banks

2. Minister Banks has suggested that Partnership Schools get paid 100% of the resourcing provided by the funding model, and that roll growth could be used to reward good performance.

3. The first Cabinet paper, "Developing and implementing a New Zealand model of charter school" addressed the policy around increased rolls. The paper stated:

"The working group advised me that the sponsor should be free to expand to meet market demand.

I favour an approach where there is a maximum roll for any given year negotiated by the Crown and the sponsor as part of the contract. This will be renegotiated annually with consideration of evidence of parental demand for the school and successful delivery of agreed outcomes for existing students. This would preserve the principle that successful schools should be able to help as many students as they are able without external restraint, but allow the Crown to budget each year.

Negotiating a maximum number of students would also enable the Crown to make best use of the network of schools, so charter schools complement the existing provision. For example, the Crown has a responsibility to ensure that parents can continue to choose for their child to attend a state secular school if a charter school has a particular characteristic (e.g. religious affiliation)."

4. The relevant recommendation was:
'agree that the Crown negotiates the maximum number of students that a charter school can enrol with the sponsor as part of the contract with annual reviews that consider evidence of parental demand and successful delivery of contracted outcomes for existing students'.

5. This decision enables roll growth to be based not only on past performance, but also on student demand. A school may be meeting most but not all its targets but have considerable parental demand. It may also be the best network decision, for instance, to add places to a year 11-13 Partnership School rather than to establish a new Trades Academy. If the ability to have an expanded roll is restricted to rewarding schools that meet their targets, both these opportunities could be lost.

6. An annual review of the maximum roll is already included in the contract.

7. A number of the applicants indicated that they wished to keep their schools small as this was an intrinsic part of their educational approach. Roll growth may therefore not be useful to incentivise good performance if the school does not want to expand its roll.

Outcomes-based contracting

8. The Cabinet paper "Resourcing Partnership Schools" stated:

"Outcomes-based contracting

Contracts sometimes contain payments to incentivise performance or have a part of their funding at risk if they do not meet their targets. While it is important that Partnership Schools have some stability while they get established, it will also be important to set up expectations that this is an outcomes-based purchasing model. To balance these two issues, I propose that a small percentage of funding (for example 1-2 percent) is at risk in the first few years of the contract, rising in later years."

9. The relevant recommendation agreed by Cabinet was:

"Performance-based outcomes

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".

10. The policy intent is to develop an outcomes-based purchasing system. Cabinet has therefore agreed to a small at risk component in the funding model to recognise the achievement of outcomes.
11. We consider that a decision not to have a small proportion of funding at risk would require returning to Cabinet, because of the explicit wording of the "Resourcing Partnership Schools" paper.

Options compared

12. Possible options are:

Option 1: Roll growth as a reward for meeting targets

Option 2: Roll growth for good performance, parental demand or network reasons, and an outcomes-based purchasing system with 1% of the resourcing formula withheld and paid only if the targets are met.

Option 3: Roll growth for good performance, parental demand or network reasons and an outcomes-based purchasing system with 1% available above the resourcing formula for exceeding targets

2A
2A
2A

Option	Advantages	Disadvantages
Option 1	No financial uncertainty for Partnership Schools.	Does not allow consideration of other reasons for expanding the rolls. Does not provide a financial reward for meeting or exceeding targets. Will not be an incentive if schools do not want to grow. May create fiscal uncertainty around how many extra places will be needed.
Option 2	Allows wider considerations for permitting roll growth. Creates a small financial incentive to achieve targets. Cannot be criticised by state sector schools. Does not carry any fiscal risk.	Reduces the amount of up front funding available to achieve student outcomes. Could result in financial uncertainty for schools given that we don't know the true costs of running a school.
Option 3	Allows wider considerations for permitting roll growth. Schools would be guaranteed to receive at least the amount derived from the funding model. Would make use of financial incentives for exceeding targets.	A small additional fiscal cost, particularly as rolls increase. May be regarded unfavourably by schools in the state sector that cannot access a 1% performance payment for exceeding targets.

13. Option 1 would require Cabinet approval as it would be a policy change from the agreed recommendations in the "Resourcing Partnership Schools" paper. Urgent Cabinet consideration would be needed to fit within the contract negotiation timetable.

Comment

14. In our original advice, we favoured Option 3 because of the unknown impact on the viability of Partnership Schools if a percentage of the funding from the resourcing formula was withheld. In order to manage the fiscal risk, we recommended that if the at-risk payment increased in the future, the policy settings associated with the larger payment would be reviewed at that time.
15. If Ministers wish to minimise the possible sector reaction associated with paying a 1% performance payment over and above the resourcing formula for Partnership Schools, adopting Option 2 instead of option 3 is unlikely to seriously affect viability for those schools that do not receive 1% of the funding formula. The main impact would be that schools would have 1% less up front funding to spend on achieving student outcomes. As recommended in our previous advice, a policy review would be necessary as a part of future increases in the at-risk payment in line with the Cabinet recommendation.