

19 January 2017

## Education Report: Partnership Schools - Implementing Policy Decisions

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### Recommendations

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We recommend that the Minister of Education:

- a. **note** that in Budget 2016, Cabinet agreed to an operating contingency for additional Partnership Schools Kura Hourua (PSKH) in Rounds Four and Five, enough for approximately seven new secondary schools, and that further funding is also available due to the withdrawal of Waipareira Trust's application from Round Three;
- b. **note** that Round Four is currently in the final stages before the Ministry and the Authorisation Board will provide advice to you on the applicants recommended to be approved to the preferred applicant stage;
- c. **note** that the approved Round Four schools are expected to open in 2018 and the Round Five schools in 2019;
- d. **note** that a Cabinet paper is scheduled to be provided to you in late March, for submission in April before the Budget moratorium, to note your intentions to approve preferred applicants for Round Four and approve associated funding,

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

- e. **note** that in December 2016, Cabinet agreed to policy changes ahead of Round Five [SOC-16-MIN-0186 refers], the decisions included:
  - i. that provision be made in each application round to focus on a government preference;
  - ii. that for Round Five, the focus be on Science Technology Engineering and Mathematics (STEM) education;
  - iii. that funding, performance standards and accountabilities will be negotiated by the Ministry according to the successful applicants with the parameters of the Budget provision;
  - iv. that, for Rounds Four and Five, the principal's salary component of the establishment grant be increased to up to one year for primary schools and up to five terms/quarters for secondary schools;
  - v. that, for Rounds Three, Four and Five, the minimum roll be extended from one term up to one year;
- f. **note** that the following decisions are sought to confirm the high-level parameters that will apply for Round Five and associated matters;

Round Five – a focus on Science, Technology, Engineering and Mathematics (STEM)

- g. **agree** that the scope of STEM PSKH be permissive but that a valid application must indicate that the proposed school will provide its students with access to all of the following education subjects: Science, Technology (including digital technology), Engineering and Mathematics;

AGREE/DISAGREE

- h. **note** that in terms of Engineering and the transition from schooling to university, the key subjects in the *New Zealand Curriculum* include Calculus (in the Mathematics learning area) and Physics (in the Science learning area);

- i. **note** that we recommend that the previous preference factor to 'make effective use of the flexibilities offered by the model' be adopted as part of the ongoing PSKH model, rather than continue as a preference factor (recommendation k refers);

- j. **note** that we also recommend that when you consider this, it should be made clear that the learning pathways for students into future education (should the students choose it) will also be assessed (recommendation k refers);

- k. **agree** that all applications will be considered on the basis of how effectively they propose to use the flexibilities of the PSKH model, and how well the applicant demonstrates that it will provide learning pathways for its students into future education (should the students choose it);

AGREE/DISAGREE

- l. **note** that there will be two tracks and an applicant would be able to apply for both a potential STEM PSKH and/or a potential PSKH for priority learners;

- m. **confirm** the following existing preference factors will apply for Round Five, including whether they apply for both tracks, for the Board to consider when assessing applications:

- i. bring together education, business and/or community sector partnerships; and/or

PSKH for Priority Learners  
YES/NO

STEM PSKH  
YES/NO

- ii. be located in an area or areas where there are students who are not being well-served by the education system; and/or

PSKH for Priority Learners  
YES/NO

STEM PSKH  
YES/NO

- iii. offer innovative options for 0-8 year olds; and/or

PSKH for Priority Learners  
YES/NO

STEM PSKH  
YES/NO

- iv. are not existing private schools seeking to convert to a PSKH;

PSKH for Priority Learners  
YES/NO

STEM PSKH  
YES/NO

to be included in regulatory operational framework



- n. **note** that the previous preference factor for schools to be large enough to be comfortably viable is no longer recommended as the Ministry considers that the revised PSKH funding model accommodates small schools equitably;

*Changes to the Performance Standards for Round Five*

- o. **note** that currently the performance management system includes standards for student achievement, student engagement, financial performance and enrolment of priority learners;
- p. **agree** that for STEM PSKH, STEM-related student achievement standards will, in general, be set at a higher level but other standards will remain consistent with the levels set for PSKH for Priority Learners;

AGREE/DISAGREE

- q. **note** that we will provide advice, during the contract discussion/negotiation stage for Round Five, so appropriate student achievement targets can be set for STEM subjects;
- r. **note** that for STEM PSKH, the performance standard: *enrolment of priority learners* will not be applied;

*Selection Process for Round Five*

- s. **note** that the Ministry will undertake the procurement selection process, with the Authorisation Board, as per previous rounds;
- t. **note** that all applicants will be ranked by the Authorisation Board based on the strength of the applications, and the best STEM PSKH and the best PSKH for priority learners will be identified;
- u. **note** that the indicative 2017 timeline for Round Five is:

Early Feb to early March	Expression of Interest (EOIs) in market (3 weeks)
Mid March to end March	EOIs evaluated (3 weeks)
Early April	Request for Application launched to market on basis of successful EOI (4 weeks)
Early May to late June	Evaluation of applications (8 weeks) Due diligence commences (4 weeks)
Late June	Advice on preferred applicants (Authorisation Board recommendations)
July	Contract discussion/negotiation stage
Early August	Contracts executed

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

s 9(2)(g)(i) OIA

v.



w.



x.



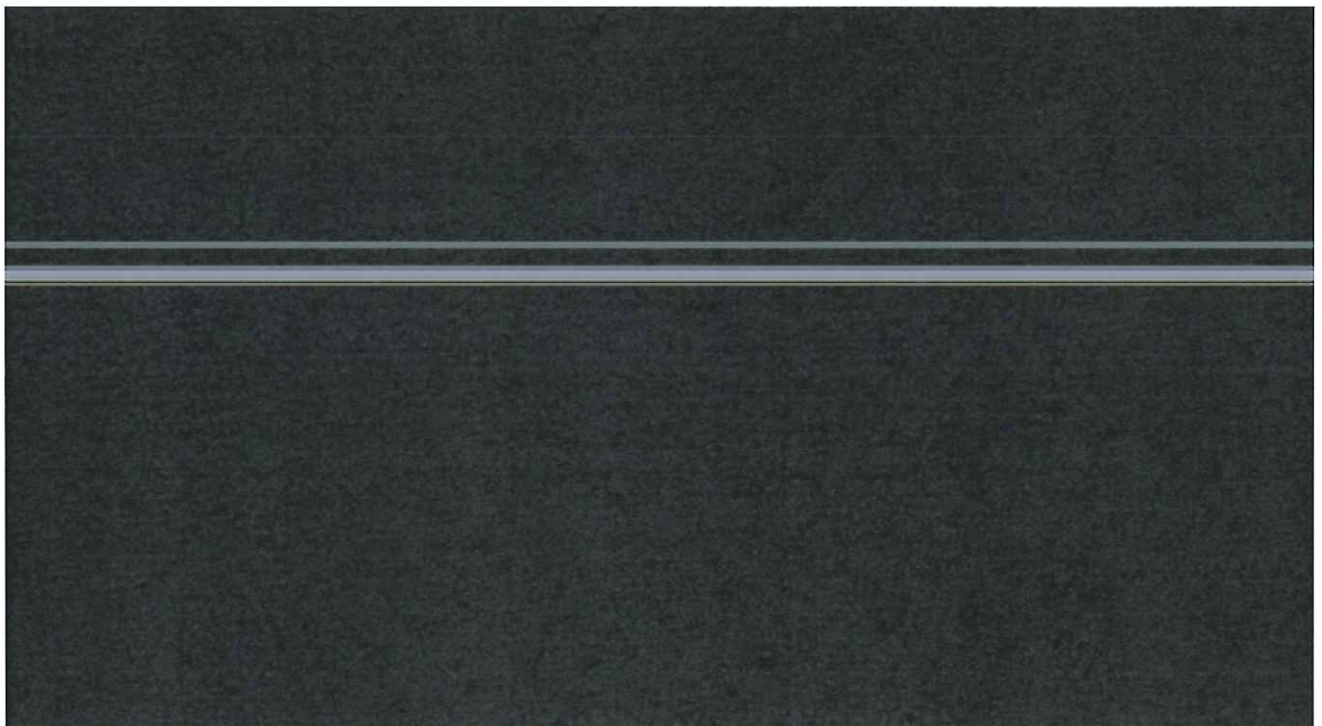
s 9(2)(f)(iv) OIA

- y. **indicate** if you have any feedback on our recommended selection process for Round Five as outlined above;

YES/NO

*Funding*

- z. **note** that the current funding model for PSKH provides a level of funding that is comparable to the rate similar state schools would receive, and includes cashed-up funding for salaries and property provision [CAB Min (15) 26/4A and CAB Min (13) 5/9 refer];
- aa. **note** that within the contracted amounts calculated by the Ministry, targeted funding is delivered to PSKH based on a notional decile 3;



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



*Establishment Grant changes for Rounds Four and Five*

- ee. **note** that the Establishment Grant for Rounds Four and Five will include increased principal funding, to be decided during negotiations and in consideration of the length of the expected establishment period (for up to 12 months for primary schools, and five terms/quarters for secondary schools);
- ff. **note** that, considering the changes, we have estimated that an Establishment Grant for a secondary PSKH in Round Four or Five may amount to [REDACTED]  
[REDACTED] s 9(2)(f)(iv) OIA, s 9(2)(j) OIA
- gg. **note** that we consider one-off Establishment Grants are no longer optimal considering the longer establishment period for both Round Four and Five schools; so payment on achievement of milestones in agreed Establishment Plans is recommended because milestones linked to payments will provide financial incentives for sponsors to achieve;
- hh. **agree** that payment of the Establishment Grant be split, and tied to the achievement of two to four establishment milestones contained in Establishment Plans, dependent on the risk profile of each applicant, and agreed during the contract discussion/negotiations phase;
- AGREE/DISAGREE
- ii. **note** that milestones linked to payments will provide financial incentives for sponsors to achieve. In agreeing Establishment Plans we will consider the following risk factors, for example: confirmation of property, appointment of school principal, development of operational policies, ability to pass readiness reviews, and significant changes to the likely level of enrolments;

*Changes to the Minimum Roll*

- jj. **note** that the Ministry will set minimum rolls for 12 months for Round Four and Five sponsors;
- kk. **note** that the Ministry will initiate discussions with [REDACTED]  
[REDACTED]

*Property funding changes for Rounds Three, Four and Five*

s 9(2)(b)(ii) OIA

- ll. **note** that the Ministry has adopted an updated approach to calculating property funding entitlements for PSKH, as advised in March 2016 (METIS 985458 refers), that is expected to result in a small net increase for Round Three schools;
- mm. **note** that our updated approach will continue to provide incentives for PSKH to build rapidly towards their maximum roll, by calculating property entitlements based on the actual or minimum roll they have (whichever is higher), instead of based on their maximum roll. This means that similar PSKH that have the same actual or minimum roll will be funded at the same level for property, and that every actual increase in student numbers will bring additional funding;

nn.

*Tertiary Education Institutions as sponsors of PSKH*

oo. **note** that if we receive valid PSKH applications from any Tertiary Education Institutions (TEIs) then we intend to seek information from the Tertiary Education Commission as part of the procurement process, as appropriate, to assist with due diligence;

pp. **note** that we have considered whether there are any impediments to sharing information between TEC and the Ministry, should a TEI make an application to open a PSKH, and we have identified none;

qq.

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

rr. **forward** this Education Report to the Minister for Tertiary Education, Skills and Employment;

AGREE/DISAGREE

*Further general issues*

ss. **note** that existing PSKH sponsors have the ability to initiate discussions with the Minister to vary their contracts to allow them to take on the STEM PSKH flexibilities and accountabilities (including the notional decile used), however we consider it relatively unlikely that an existing PSKH for priority learners would undertake such option as it carries little benefit to the sponsor;

tt. **note** that a Contract Review for all PSKH is planned,

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

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Karl Le Quesne  
Deputy Secretary (Acting)  
Early Learning and Student Achievement

NOTED



Hon Hekia Parata  
Minister of Education

29/1/17

David Seymour  
Under-Secretary to the  
Minister of Education

1/1



## Education Report: Partnership Schools - Implementing Policy Decisions

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### Purpose of report

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1. Cabinet approved policy changes in December 2016 [CAB-16-MIN-0682 and SOC-16-MIN-0186 refer].
2. This Education Report recommends how to implement policy decisions mostly for Round Five, so that procurement can be commenced early in 2017 and reflected in more detailed information for the market to respond to the new focus on Science, Technology, Engineering and Mathematics Partnership Schools Kura Hourua (STEM PSKH). This report also includes further operational decisions required for Rounds Three and Four.

### Background

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3. In 2012, Cabinet established Partnership Schools Kura Hourua (PSKH) as a new type of school in our education system [CAB Min (12) 26/6 refers]. The PSKH model extended the schooling options available for parents and students to choose by giving the schools greater freedom and flexibility to enable them to provide quality education outcomes and to innovate. In exchange, a performance regime was created that includes strong accountabilities for the sponsors who operate the schools.
4. As at January 2017, three Requests for Application selection rounds (Rounds) have been completed. Currently, there are eight PSKH operating in New Zealand with 884 students, and two more schools are set to open at the beginning of 2017 (February), to take the total schools to 10. One school, Te Pumanawa o Te Wairua, was closed due to performance issues.
5. Round Four is currently in the final stages of selection, and the Ministry and the Authorisation Board is due to provide you with advice shortly on the applicants recommended to progress into the final stage (contract discussions/negotiations).
6. The timeline we are following for Round Four will have assessment and due diligence completed in early 2017, and funding drawn-down with Cabinet approval ahead of the Budget 2017 moratorium that will be in place from late April. Contracts with successful applicants would then be executed in May 2017. Once approved, the schools would open in 2018, approximately eight months later.

### Recent Policy Changes

7. In December 2016, Cabinet agreed to policy changes ahead of Round Five. The decisions included: making provision in each application round to focus on a Government preference; and that for Round Five, that the focus would be on: Science, Technology, Engineering and Mathematics (STEM) education [SOC-16-MIN-0186 refers].
8. Funding, performance standards and accountabilities were agreed to be negotiated by the Ministry according to the successful applicants and within the parameters of the Budget provision.
9. The principal's salary component of the establishment grant was increased to up to one year for primary schools and up to five terms/quarters for secondary schools. This applies from Round Four onwards.



10. The Minimum Roll, that provides certainty to new PSKH as their rolls establish, was increased from one term/quarter (as currently applies for Round Three schools) to 12 months.
11. The remainder of this paper deals with the decisions required to implement the policy decisions above.

## Round Five

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### *Focus on Science, Technology, Engineering and Science (STEM)*

12. We recommend that the scope of STEM PSKH be permissive but that a valid application must indicate that the proposed school will provide its students with access to all of the following subjects: Science, Technology (including digital technologies), Engineering and Mathematics. In making this recommendation, we considered whether provision of all subjects would be overly restrictive, but concluded that it was essential to ensure the clearest focus on STEM.
13. In terms of Engineering and the transition from schooling to university, the key subjects in the *New Zealand Curriculum* are Calculus (in the Mathematics learning area) and Physics (in the Science learning area). PSKH may exercise flexibility in the curriculum they deliver, but the minimum is that the curriculum will be in line with any Foundation Curriculum Policy Statement.
14. If no suitable applications are received for STEM PSKH, then all applications that proceed will be focused on priority learners. As the final selection is limited by the responses we receive from the market, [REDACTED] The basis for selection of applications that satisfy preferences other than STEM would be the strength of applications.
15. Round Three and Four preference factors were for schools that:
  - a. will make effective use of the flexibilities offered by the model;
  - b. offer innovative options for 0-8 year olds;
  - c. are large enough to be comfortably viable;
  - d. are located in an area or areas where there are students who are not being well-served by the education system;
  - e. bring together education, business and/or community sector partnerships;
  - f. have a focus on science, technology, engineering and mathematics (STEM);
  - g. are not existing private schools seeking to convert to a PSKH.
16. For Round Five, we recommend that you consider the preference factors below, in addition to the main focus on STEM, and whether they apply to both tracks (ie STEM PSKH and/or PSKH for priority learners):
  - a. bring together education, business and/or community sector partnerships;
  - b. are located in an area or areas where there are students who are not being well-served by the education system;
  - c. offer innovative options for 0-8 year olds;
  - d. are not existing private schools seeking to convert to a PSKH.
17. We also recommend that the previous preference factor to 'make effective use of the flexibilities offered by the model' be adopted as part of the ongoing PSKH model, rather than be a preference factor. We advise it should also be made clear that the learning pathways for students into future education (should the students choose it) will also be assessed. This reinforces the requirement in the

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

Foundational Curriculum Policy Statements (which apply to PSKH) that progress and achievement of student learning throughout schooling are enabled.

18. The previous preference factor for schools to be large enough to be comfortably viable is no longer recommended as the Ministry considers that the revised PSKH funding model accommodates small schools equitably.

### *Performance Standards*

19. The current performance management system includes standards for student achievement, student engagement, financial performance and enrolment of priority learners.
20. We recommend you agree that for STEM PSKH, STEM-related student achievement standards will, in general, be set at a higher level but other standards will remain consistent with the levels previously set, to align with the Better Public Services target of 85% of 18-year olds achieving NCEA Level 2, or equivalent, by 2017. We will provide further advice during the contract discussions/negotiations phase to set specific STEM standards. Agreement to this general position that STEM standards will be higher is required to allow us to provide a clear indication of this to the market.
21. The performance standard relating to the enrolment of priority learners will not be applied to STEM PSKH. As discussed above and in your Cabinet paper in December 2016, the focus on STEM education does not require it.

### *Selection Process*

22. We have determined the following 2017 timeline for Round Five:

Early Feb to early March	Expression of Interest (EOIs) in market (3 weeks)
Mid March to end March	EOIs evaluated (3 weeks)
Early April	Request for Application launched to market on basis of successful EOI (4 weeks)
Early May to late June	Evaluation of applications (8 weeks) Due diligence commences (4 weeks)
Late June	Advice on preferred applicants (Authorisation Board recommendations)
July	Contract discussion/negotiation stage
Early August	Contracts executed

23. There will be two tracks and an applicant would be able to apply for both a potential STEM PSKH and/or a potential PSKH for priority learners. All applicants will be ranked by the Authorisation Board based on the strength of the applications.





25. Also to help mitigate for unexpected delays, we recommend that you consider providing a letter of expectation to the Authorisation Board to request that it provides you with recommendations for Round Five that:

- a. rank all applicants based on the strength of the applications, and with the best STEM PSKH and the best PSKH for priority learners identified, and following an approved assessment methodology, and;
- b. fit within the total available funding.

26. As it is your advisory board, a letter of expectation is an appropriate step and will help inform the advice required from it against the current timeline. This will also allow you as Minister making the final decision about the sponsors to be approved to make the most effective use of the investment available. Should you agree, a draft letter will be provided in March.

27.



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

#### *Tertiary Education Institutions as sponsors of PSKH*

28. Tertiary Education Institutions (TEIs) are now legally permitted to be sponsors of PSKH (section 29, Education Legislation Act 2016 refers).

29. If we receive valid PSKH applications from any TEIs, then we intend to seek information from the Tertiary Education Commission (TEC) as part of the procurement process, as appropriate, to assist with due diligence.

30. We have considered whether there are any impediments to sharing information between TEC and the Ministry, should a TEI make an application to open a PSKH, and we have identified none.

31



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

#### Funding

32. The current funding model for PSKH provides a level of funding that is comparable to the rate similar state schools would receive, and includes cashed-up funding for salaries and property provision [CAB Min (15) 26/4A and CAB Min (13) 5/9 refer].

33. In Budget 2016, Cabinet agreed an operating contingency to fund the additional cost of new PSKH in both Rounds Four and Five. In May 2016, the Under-Secretary announced publicly that the available funding would be sufficient for approximately seven new PSKH. So far none of that funding has been drawn-down (METIS 924404 refers).

34.



35.

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

Once the cost implications of Round Four are more certain, we will prepare advice for you on the financial implications so arrangements can be made for drawing-down funding from the operating contingency. This will be included in the upcoming Cabinet paper.

*Minor changes to funding STEM PSKH*

36. The PSKH funding model includes a component of targeted funding that is calculated by the Ministry using a notional decile three. Cabinet decided the rate for STEM PSKH will be negotiated with preferred applicants.

37. For example, a decile three secondary school with 200 students would receive total operational funding (provided quarterly) of \$2.546 million per annum. However, for a decile five secondary school with 200 students the total operational funding (provided quarterly) would amount to \$2.515 million per annum (a reduction of 1.2%, or \$31k).

38. There are two further options to choose from below.

*Option A – decile 5, with the ability to review after one year*

- a. Use decile five and include in the contract the ability to review the decile after the first year of operation. This would ensure that STEM PSKH are treated equitably considering the student populations they will serve is currently unknown, while giving potential sponsors a reasonable level of certainty over total funding.

*Option B – decile 5, with no review*

- b. Use decile five with no option for review included in the contract. This would provide potential sponsors with more certainty over total funding. It would also be simpler to administer for the Ministry, and reduce transaction costs for both parties considering the amount at stake is relatively small.

*Establishment Grant changes – Rounds Four and Five*

39. With the changes to extend the principal component in the Establishment Grant, we consider one-off Establishment Grants are no longer optimal considering the longer establishment period for both Round Four and Five schools.
40. We have estimated that an Establishment Grant for a secondary PSKH in Round Four or Five may amount to between \$700k-\$900k per school (rolls of 250-300).
41. The Crown's risk is that a one-off payment could be made and the sponsor may fail to carry out its side of the agreement. We would then be in a process to recover the whole amount, when a lesser amount could have been at stake.
42. Round Four schools are expected to have up to eight months to establish (so will not be eligible for the fully increased entitlement to principal funding) and Round Five schools may have well over a year (and are expected to be eligible for the fully increased entitlement).
43. We recommend payment of the Establishment Grant be split, tied to the achievement of two to four establishment milestones contained in Establishment Plans, dependent on the risk profile of each applicant, and agreed during the contract discussion/negotiations phase.
44. Milestones linked to payments will provide financial incentives for sponsors to achieve. In agreeing Establishment Plans we will consider the following risk factors, for example: confirmation of property, appointment of school principal, development of operational policies, ability to pass readiness reviews, and significant changes to the likely level of enrolments.



*Changes to the Minimum Roll for Rounds Three, Four and Five*

45. For Round Four and Five, we will set minimum rolls for 12 months.

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

46.

*Property funding changes for Rounds Three, Four and Five*

47. The Ministry has adopted an updated approach to calculating property funding entitlements for PSKH, as advised in March 2016 (METIS 985458 refers). It is expected to result in a small net increase for Round Three schools. Because the technical change was made after the Request for Application for Round Three went to the market, we have deferred implementation until now.

48. Our updated approach will continue to provide incentives for PSKH to build rapidly towards their maximum roll, by calculating property entitlements based on the actual or minimum roll they have (whichever is higher), instead of based on their maximum roll. This means that schools with the same actual or minimum roll will be funded at the same level for property, and that every actual increase in student numbers will bring additional funding.

49.

50.

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

51. We will prepare a Cabinet paper due to your Office in late March, for submission in April before the Budget moratorium, to note your intentions to approve preferred applicants for Round Four and approve associated funding. We also recommend you use this Cabinet paper to seek all necessary Cabinet considerations for Round Five.

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

*Further general issues*

53. One existing PSKH sponsor has made contact with us, following the announcement of the STEM-focus, asking how they could take on the STEM focus.

54. Existing PSKH sponsors have the ability to initiate discussions with the Minister to vary their contracts to allow them to take on the STEM PSKH flexibilities and accountabilities (including the notional decile used). However, we consider it relatively unlikely that an existing PSKH for priority learners would undertake such option. It would become clear that it actually means a significant change in focus for the school, its student population and teaching staff, while also being a time-consuming process to complete with little benefit to the sponsor.

### *Contract Review*

55. In the first stage we will undertake a more targeted review of the contracts ahead of Round Four. This work is intended to culminate in external certification by external legal experts that the contracts are fit to be executed by you. Some form of review is unavoidable due to the recent policy changes. We will identify what changes may be required, and will inform you of what they will be.



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