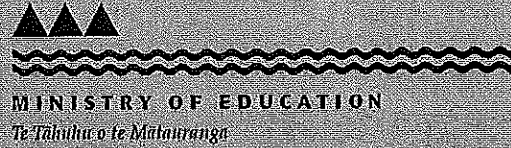


SECRETARY'S OFFICE



Briefing Note: Partnership Schools funding model review: further advice on the teaching and operating rate

Date:	5 June 2015	Priority:	High	SEEN APPROVED MINISTER
Security Level:	In Confidence	METIS No:	932173	
To:	Hon Hekia Parata, Minister of Education			
Copy to:	David Seymour MP, Parliamentary Under-Secretary to the Minister of Education			
Approved by:	Lesley Hoskin	DDI / Mob	[REDACTED]	

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Purpose

1. This briefing note provides you with further advice on developing a methodology for the teaching and operating rate for Partnership Schools. It builds on advice provided in the Partnership Schools work programme update of 18 May 2015 [Metis 928289 refers].
2. We have also included some preliminary options for ensuring that the sponsor has sufficient non-government funding to manage risk to the Crown.
3. This is the last of three working papers on the Partnership Schools funding model.¹ An Education Report summing up proposed changes to the funding model and covering off any outstanding issues is due on 19 June 2015, with the final Education Report due to you on 2 July 2015.

A per-student teaching and operating rate

4. We understand that the Parliamentary Under-Secretary to the Minister of Education (the Under-Secretary) wishes to have a new funding model for Partnership Schools that is no more expensive than the existing model, with:
 - a teaching and operating rate or rates that enable Partnership Schools of differing sizes and types to deliver an effective education
 - a per-student funding formula for the teaching and operating rate that allows small schools to be viable but does not over-fund larger schools
 testing of the model for schools of various sizes and types to ensure that it is sustainable [Metis 928289 refers].



¹ The first two papers were "Partnership Schools work programme update – funding model, contract review and round three applications" [Metis 928289] and "Further advice on Partnership Schools property funding" [Metis 929555]

5. In the work programme update report of 18 May, we asked you to note that we are working on options to develop a per-student teaching and operating rate that is proportionately higher for smaller schools, reducing progressively as school rolls increase.
6. To achieve this, we have used a new methodology for the teaching and operating rate that is based on average salary and operational costs for state schools. It constructs a teacher salary rate that is applied to the staffing entitlement of a state school of a particular roll size. It then adds an average operational grant figure for a decile 3 school of the same roll size. This figure is then divided by the roll to reach a per-student amount. (Further detail on the assumptions is provided in paragraph 9.)
7. For modelling purposes we have chosen six roll sizes which mean different rates would apply as schools' rolls build up or shrink. We think this number provides a reasonable balance between having a large number of rates with small steps between them and having fewer rates with larger changes between rates.
8. The table below sets out the resulting series of teaching and operating rates using this methodology:

Teaching and operating rates based on average salaries and decile 3 operational funding			
Primary roll	Rate	Secondary roll	Rate
50	8,579	75	14,606
75	7,541	100	12,585
100	7,022	150	11,105
125	6,665	200	10,000
150	6,354	250	9,337
175	6,199	300	8,892

9. These rates were arrived at using the following assumptions. These assumptions could be altered if required:

Staffing

- the salary rates are the average salary across all primary teachers and all secondary teachers based on 2014 rates and including allowances such as management units
- principals' positions were costed at U4 for both primary and secondary as this is the U grade for principals of schools of between 151 and 300 students²

² For your information, U grade 3 is for principals of schools of between 101 and 150 students and the remuneration is \$91,557. The remuneration for U4 is \$98,731.

- staffing entitlements were then calculated based on what state schools are entitled to for the following rolls –
 - **Primary:** Roll: 50; 75; 100; 125; 150; 175
 - **Secondary:** Roll: 75; 100; 150; 200; 250; 300
- ACC and a Kiwisaver proxy of 3% on all salaries were added.

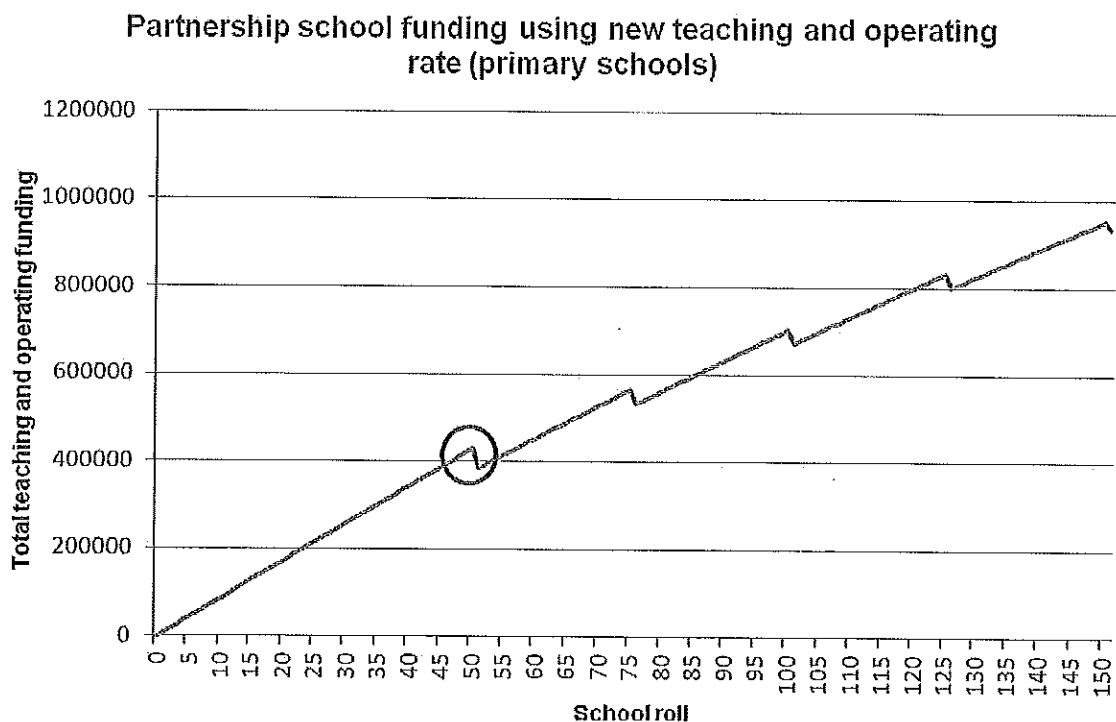
Operational funding

- based on average operational funding for decile 3H schools with an average for the heat, light and water component calculated across all primary schools and all secondary schools. Vandalism has been set at the highest rate
- operational funding does not include:
 - maintenance (this is provided as part of Cash for Buildings)
 - ESOL and Māori Language Programme funding (these are provided separately if Partnership School students are eligible)
 - isolation allowance (this is provided separately if the Partnership School is eligible).

10. Calculations are GST exclusive.

Moving between rates

11. The graph below shows how a primary school's teaching and operating funding would change as its roll grows or declines. The effect is the same for secondary schools.



12. This indicates that, at the points where the teaching and operating rate changes, the total funding generated by that rate will fall until the roll builds up by about five students.
13. There are three possible options for dealing with this effect. All create the potential for incentivising some perverse behaviour by schools in order to get the maximum rate during this period:
- **guarantee that the schools will get no less funding during this period.** This is fairer for schools whose rolls are rising but it means that where a roll is falling the school would get the higher rate earlier. It would also be fair if a school's roll is fluctuating around the change point during any year. It does introduce elements of discretion and complexity into a strictly formula-driven process
 - **have an average of the two rates during the dip.** This would add a number of further rates into the model moving it away from a simple transparent model
 - **make no accommodation.** This preserves the simplicity of the model but may be regarded as unfair by the schools.

Comparison with existing rates

14. The table below compares the per-student rate derived from the base funding and per student rates of the existing formula with the teaching and operating rates calculated above (the new formula).

Comparison of existing and new formula for teaching and operating rate		
Primary Roll	Per-student amount under existing formula	Per-student amount under new formula
50	7,676	8,579
75	6,692	7,541
100	6,200	7,023
125	5,905	6,665
150	5,709	6,354
175+	5,568	6,199
Secondary Roll	Per-student amount under existing formula	Per-student amount under new formula
75	18,866	14,606
100	15,504	12,585
150	12,142	11,105

200	10,462	10,000
250	9,453	9,337
300	8,781	8,892

15. The new primary rates are somewhat higher than the existing rates, but there are considerable savings in the secondary sector.
16. For the purposes of comparison, Appendix 1 sets out the rates under the new formula when the operational part of the funding is based on deciles 1, 3, 5 and 10 schools.

Advice on options for ensuring that the sponsor has sufficient non-government funding to manage risk to the Crown

17. The current Partnership Schools policy is predicated on a fully-funded cashed-up funding model with sponsors managing their resources as they see fit. In moving to shared funding responsibility, especially in the establishment phase, government will want to be confident that sponsors have access to sufficient set-up and ongoing funding (or other resources) in addition to that provided by the Crown, to manage risk to the Crown that could arise from funding shortfalls [Metis 927178 refers].
18. As potential changes to the funding model are still under consideration, we will need to evaluate the net impact on sponsors when all the components are brought together in the Education Report of 19 June 2015.

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Appendix 1: Comparison of teaching and operating rates based on average salaries and decile 1, 3, 5 and 10 operating rates

Teaching and Operating Rates based on average salaries and specified decile operating rates				
Primary roll	Decile 1	Decile 3	Decile 5	Decile 10
50	9,150	8,579	8,409	8,272
75	8,112	7,541	7,371	7,234
100	7,594	7,022	6,852	6,716
125	7,236	6,665	6,495	6,358
150	6,925	6,354	6,184	6,047
175	6,770	6,199	6,029	5,892
Secondary roll	Decile 1	Decile 3	Decile 5	Decile 10
75	15,181	14,606	14,431	14,285
100	13,160	12,585	12,410	12,264
150	11,680	11,105	10,931	10,785
200	10,575	10,000	9,825	9,679
250	9,912	9,337	9,162	9,016
300	9,466	8,892	8,717	8,571

