

Working Paper: Scope of the Partnership Schools | Kura Hourua Funding Model Review

Purpose of report

1. This report sets out a proposed scope and approach for the review of the Partnership Schools | Kura Hourua funding model.

Background

2. The Minister of Education has asked for a review of the Partnership Schools | Kura Hourua (Partnership Schools) funding model. The Parliamentary Under-Secretary to the Minister of Education (Under-Secretary) is to lead engagement with the Ministry of Education (the Ministry) on the funding model review, and is required to take into account:
 - insights and experience from the first two Partnership Schools application rounds
 - the significant capital expenditure
 - the comparative costs of mainstream education
 - the incentive for performance and growth.¹
3. The Under-Secretary has also indicated his interest in:
 - use of the guaranteed minimum roll, base grants and property funding
 - fixed versus per student payments
 - establishment funding.
4. The funding model review is to be cognisant of the wider review of funding systems (0-18).
5. Any proposed changes to the current funding model will require Cabinet approval.

Overview of the current funding model

6. The current funding model was developed by the Ministry, with assistance from the Treasury, to support Government's objectives for Partnership Schools. The funding model is evidence-based, drawing on contemporary literature on innovative public sector funding models, such as the 2011 Gonski Report into future funding of the Australian education system.²
7. Figure 1 below provides an overview of the key elements of the current funding model.

¹ http://www.dpmc.govt.nz/sites/all/files/schedule_of_responsibilities_delegated_to_associate_ministers_and_parliamentary_under-secretaries_as_at_9_december_2014.pdf

² <http://www.appa.asn.au/content/gonski-report/Review-of-Funding-for-Schooling-Final-Report-Dec-2011.pdf>

Figure 1: Partnership Schools | Kura Hourua Funding Model

Essential characteristics of Partnership Schools | Kura Hourua

- Will be fully-funded schools outside the state system
- Sponsors have more freedom over how they run their school than Boards of Trustees, to enable innovation
- Are accountable to the Crown for raising student achievement via a contract to deliver a range of specified school-level targets
- Will focus on improving outcomes for Government's priority groups of Māori, Pasifika, students with special education needs and students from those areas traditionally underserved by education.
[Cab Min (12) 26/6 refers]

Objectives underpinning the funding model

- *flexibility* to ensure that the model enables a partnership school to have flexibility over how it uses resources in order to maximise outcomes for students
- *neutrality* to ensure that the level of funding given to a partnership school is broadly equivalent to a similar school in the state system (horizontal equity)
- *equity* to ensure that all students have the opportunity to achieve good educational outcomes (vertical equity)
- *fiscal control* to ensure that the model enables the government to have some control over future costs
- *transparency* to ensure that the model is able to be easily understood by potential sponsors, the education sector and the public, and provide sponsors with some ability to predict future funding
- *risk management* to ensure the government and the sponsor are able to manage any risks, especially to the outcomes for students. [Cab Min (13) 5/9 refers]

Design principles

- a single funding model is applied to all Partnership Schools
- uses a mostly cashed-up funding approach
- is based on a top-down averages model, that provides maximum flexibility
- Uses expenditure for decile 3 state schools as the benchmark for equivalence with state schools
- includes an at-risk payment to incentivise high performance
[Cab Min (13) 5/9 refers]

Funding formula components

- set-up funding
 - property
 - administration
- property support
 - cash for buildings
 - contribution to insurance
- operations and staffing
 - base funding
 - per student funding
- some centrally funded support
 - per student funding

[Cab Min (13) 5/9 refers]

Broad scope of the Partnership Schools funding model review

8. Key Cabinet decisions were made in 2012 in anticipation of the first Partnership Schools application round. These decisions flowed through the development of the funding model, including the objectives underpinning the funding model, which in turn drove the design principles and funding formula.
9. Across the funding model there are interrelationships and inter-dependencies. In developing a workable funding model for Partnership Schools trade-offs were made between competing objectives (e.g. flexibility vs. fiscal control and risk management).
10. In scoping the funding model review, we have sought to design an approach that is broad and non-prescriptive.
11. The funding model review could examine:
 - whether the objectives underpinning the funding model, the design principles, and the funding formula are fit for purpose, and any changes or additions that may be needed.

Opportunities to improve the funding model

12. We have identified a range of opportunities to improve the Partnership Schools funding model in light of emerging insights and experience. Other opportunities to improve the funding model may emerge during the course of the review, and will be duly considered.
13. For ease, we have grouped our analysis into four parts below.

Set-up funding

14. Prior to opening, Partnership Schools currently receive set-up funding comprising establishment funding, a principal's salary, and property funding.
15. The set-up funding is currently based on parity with the support given to new state schools. This level of funding takes into account that sponsors have tended to be smaller not-for-profit organisations that will not have ready access to significant funds or potential funders. Moreover, Partnership Schools are targeting priority learners so the resources should not be less than those that priority learners might access in a comparable state school. In future, however, some sponsors may be able to access significant private or philanthropic resources, possibly indicating the need for a more differentiated response.
16. Sponsors currently have freedom to do what they wish with the funding provided to meet basic set-up requirements. Whether they have met basic set-up requirements is confirmed through ERO review and Ministry judgments.
17. A central feature of the Partnership Schools policy is that Partnership Schools that do not perform well will be closed. By comparison, risk with new state schools is relatively low. Moreover, Partnership Schools are intended to innovate and are currently focusing on priority learners, further increasing risk. Accordingly, there is a risk that the Crown's investment in set-up costs will not provide a return on investment even in the longer-term.

18. The funding model review could examine:
- options for determining the appropriate level of Crown contribution to set-up costs
 - how set-up funding may be used.

Property support

19. Property support currently aims for parity with non-integrated state schools, rather than integrated state schools, again taking into account the nature of the sponsors and their focus on priority learners. Risk to the Crown is managed by averaging the funding costs over a forty year period, and providing a transparent link to state schools funding through use of the Cash-for-Buildings formula.
20. Cabinet agreed that the Crown should not provide Partnership Schools with a capital funding stream sufficient for them to purchase land and build a new school, as this would be a significant cost for an asset that the Crown does not own. However, no restrictions were placed on schools' use of the property funding provided.
21. To date Partnership Schools have been located in Auckland and Northland. Future Partnership Schools may be more geographically dispersed, suggesting that regional variations in property costs could be taken into account in the funding model.
22. Currently, property is funded on estimated maximum rolls. This provides parity with arrangements for state schools, and is intended to enable schools to secure favourable long-term leases and avoid the costs involved in relocating as rolls grow. It is timely to review whether this is a cost-effective strategy.
23. The funding model review could examine:
- options for the provision of property resourcing to Partnership Schools
 - options for managing any fiscal and reputational risks to the Crown around property.

Operations and staffing

24. Funding covering operations and staffing is currently based on parity with state schools (decile 3) and an averages model derived from regression analyses. It includes base funding and per-student funding components. The funding is cashed up and can be used as the sponsor sees fit.
25. The nature of an averages model means that direct comparisons with individual state schools is difficult. The benefit of it is that the formula used is transparent and applied across the board, so Partnership Schools know that they are being treated similarly.
26. As there are relatively few secondary schools with rolls under 300 in the state school system, the current averages-based funding formula results in an advantage to small secondary Partnership Schools.

27. We have also identified an issue relating to guaranteed minimum rolls. Guaranteed minimum rolls provide parity with the treatment of new state schools and certainty during the establishment phase, when steady growth is expected. However, they have also provided a perverse incentive to minimise roll growth, at a fiscal and reputational cost to the Crown.
28. The funding model review could examine:
 - options for determining operations and staffing funding, including whether the averages model is an appropriate approach
 - whether the balance between base funding and per-student funding needs to be adjusted
 - options for refining the guaranteed minimum roll policy.

Future directions

29. We propose that the Partnership Schools funding model review also considers the potential impact of future directions and policy development on the funding model. Some of these are discussed briefly below.
30. A wider review of funding systems (0-18) is scheduled. The Partnership Schools funding model review will dovetail with the wider review as far as possible. Changes that may be considered in the wider review, such mechanisms to address disadvantage, will have significant implications for the review of the Partnership Schools funding model, as parity with the state system is currently a fundamental objective of the model.
31. The design of the current funding model is predicated on Partnership Schools focusing on priority learners. Government may wish to change the focus of Partnership Schools in the future to address other education priorities (e.g. STEM pathways). Reconsideration of the funding model's objectives, design features and funding formula components is likely to be desirable as a result of any significant change to Government's objectives for Partnership Schools.
32. New state school policy initiatives are likely to emerge over time. A decision will be required on whether it is appropriate for Partnership Schools to be included in those initiatives, and on what basis, but there is currently no explicit policy or process for making such determinations. This creates a risk that the implications for Partnership Schools may be overlooked when developing new initiatives, and that decisions about their inclusion or otherwise may be contested by stakeholders.
33. At present the only formal mechanism for incentivising performance is the one percent at-risk payment. It is too soon to know what the impact of the at-risk payments is on performance. The at-risk payment does not relate to roll growth.
34. Any changes to the Partnership Schools funding model are likely to create discrepancies in funding between existing Partnership Schools and new Partnership Schools. A determination will need to be made about how changes to the funding model are applied to existing schools (such as the possible need to grandfather some arrangements).
35. The funding model review could examine:
 - implications for the funding model, should the Government change the focus of the Partnership Schools in the future to address other education priorities

- policy and process options for deciding whether or not any new policy initiatives apply to Partnership Schools
 - options for strengthening funding model incentives for performance and roll growth
 - options for managing the impact of changes to the funding model on existing Partnership Schools.
36. Proposed Terms of Reference for the Partnership Schools funding model review, which take into account insights, experience, and known issues as outlined above, are attached as Appendix A.

Approach and timeline

37. We propose to provide a series of options papers:
1. **overarching framework** for the review, including:
 - key decisions about the essential characteristics of Partnership Schools (e.g. forward thinking on the implications of any changes to the focus of the Partnership Schools model (i.e. beyond priority learners))
 - the objectives underpinning the funding model
 - the design principles.
 2. **property funding**, including:
 - options for sponsor contribution
 - funding on actual rolls or guaranteed minimum rolls as an alternative to maximum rolls
 - greater sensitivity to local market rentals
 - opportunities to incentivise roll growth.
 3. **set-up funding**, including:
 - options for determining the appropriate level of Crown contribution to set-up costs
 - how set-up funding may be used
 - options for managing the fiscal and reputational risk to the Crown around property
 - options for refining the guaranteed minimum roll policy.
 4. **other funding issues**, including:
 - policy and process options for deciding whether or not any new policy initiatives apply to Partnership Schools
 - cashing-up of centralised funding.

5. **operations and staffing**, including:

- whether the averages model is an appropriate approach
- options for changing the balance of base funding and per-student funding
- the formula for establishing funding levels
- options for changes benchmarking by decile.

38. Work on operations and staffing funding involves sophisticated modelling and will therefore take longer to complete.

39. Each paper will describe:

- current policy settings
- current funding model – rationale, design, formulae
- rationale for change
- worked-up options (examples of variations to specified parameters)
- analysis of the options, including likely implications for
 - other elements of the funding model:
 - policy
 - budget
 - implementation, including likely impact on existing contracts and the potential effect on future application rounds.

40. We propose to provide the options papers progressively. Proposed key project milestones are outlined in the following table.

Project Milestone	Due by
April	
Ministry provides <i>overarching framework</i> paper	Thu 23 April
Ministry provides <i>property options</i> paper	Thu 23 April
May	
Ministry provides <i>set-up funding options</i> paper	Thu 30 April
Ministry provides <i>other issues funding options</i> paper	Thu 30 April
Ministry provides <i>operations and staffing funding options</i> paper	Thu 07 May
Report on proposed changes to the funding model	Thu 21 May

Purpose

The purpose of the review is to identify changes to the Partnership Schools | Kura Hourua (Partnership Schools) funding model that will enhance efficiency, economy and effectiveness of the funding model.

Proposed changes will be submitted to Cabinet for agreement and implemented prior to the next Partnership Schools application round.

Proposed scope

The review will look at the objectives underpinning the funding model, the design principles, funding formula components, and the potential impact of future directions and policy development on the funding model.

Objectives underpinning the funding model, including:

- whether the objectives underpinning the funding model are fit for purpose, and any changes or additions that may be needed.

Design principles, including

- whether the design principles are fit for purpose, and any changes or additions that may be needed
- options for determining operations and staffing funding, including whether the averages model is an appropriate approach
- how set-up funding may be used
- options for managing the fiscal and reputational risk to the Crown around property
- options for refining the guaranteed minimum roll policy.

Funding formula components, including:

- whether the funding formula is fit for purpose, and any changes or additions that may be needed
- options for determining the appropriate level of Crown contribution to set-up costs
- options for the provision of property support to Partnership Schools
- whether the balance between base funding and per-student funding needs to be adjusted.

Future directions, including:

- options for strengthening funding model incentives for performance and roll growth
- policy and process options for deciding whether or not any new policy initiatives apply to Partnership Schools
- forward thinking on the implications of any changes to the focus of the Partnership Schools model (i.e. beyond priority learners).

Consideration will also be given to any other opportunities to improve the funding model that may emerge during the course of the review.

The review will consider the implementation implications of any proposed changes to the funding model, such as how changes to the funding model will be applied to existing Partnership Schools, and the potential effect on future application rounds.

The review will be cognisant of the wider review of funding systems (0-18).

Out of scope for the purposes of this review are operational matters related to the Partnership Schools performance management system and contract terms, which will be reviewed through other processes.

