

## Education Report: Partnership Schools work programme update – funding model, contract review and round three applications

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This paper defines new terminology to describe different components of the new funding model, outlines how we propose to apply agreed funding model objectives to the new funding model, and describes our proposed approach for ensuring the viability of small Partnership Schools.

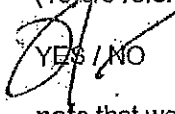
It also sets out a proposed approach to a review of the Partnership Schools contract and round three applications.

### Recommendations

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#### We recommend that you:

##### Partnership Schools funding model

- a. **note** that we propose the following new terms to describe the components of the funding model to avoid confusion now that the components are on a per-student basis:
  - *establishment rate* – this term avoids confusion with the set-up grant in the state system
  - *property rate* – this can now combine the property and the insurance into one per-student rate
  - *teaching and operating rate* – this reflects the two components that make up this rate – teachers' salaries and operating costs
  - *professional development and resources rate* – this is the cashed-up central support of \$276 per student
- b. **note** that Cabinet approved six objectives to underpin a Partnership Schools' resourcing model – flexibility, neutrality, equity, fiscal control over future costs, transparency, and management of risk [CAB Min (13)5/9 refers]
- c. **confirm** that you do not wish to change the agreed funding model objectives [CAB Min (13)5/9 refers], but are looking for a more cost-effective way to achieve them  

- d. **note** that we are working on options to address the viability of small Partnership Schools by developing a per-student teaching and operating rate that is proportionately higher for smaller schools, reducing progressively as school rolls increase toward the viability point, and flattening out once the viability point is achieved
- e. **note** that we propose to set viability points of 175 students for primary Partnership Schools and 300 students for secondary Partnership Schools as part of our modelling of options, and will provide further advice if we discover through modelling that these proposed viability points are not optimal

### Review of Partnership Schools contracts

- f. **note** that we propose a review of the Partnership Schools contract to ensure it is current and takes into account experience to date
- g. **note** that we propose focusing on four specific areas – ensuring the contract is up to date, fit for purpose, reflects policy and funding changes, and addresses identified issues
- h. **provide feedback** on any other areas that you wish to be considered as part of the contract review
- i. **note** that we propose engaging Bell Gully and consulting with the Partnership Schools Authorisation Board as part of the contract review
- j. **indicate** whether you would like us to engage with existing sponsors as part of the contract review

*YES / NO*

### Round three applications

- k. **note** that we propose to continue with a similar application process as the first two rounds, but will work with the Authorisation Board to identify opportunities to streamline the process without compromising rigour
- l. **note** that we have provided an indicative timeline that sets out milestones for two options – a fast track process and a standard process
- m. **note** that you have asked the Under-Secretary to review the continued relevance of the government preferences and evaluation criteria, especially in light of the new funding model
- n. **Indicate** whether government preferences will be used for round three, and if so, whether it would be helpful for us to provide advice on what the specific preferences might be  
*YES / NO* *& that this is not the policy funding route for private schools*
- o. **note** that the Ministry's view is that the evaluation criteria and weightings continue to be suitable and we suggest that it would be useful to seek the Authorisation Board's views on this matter
- p. **note** that changes to the funding model and indicative funding levels will need to be communicated in the Request for Application (RFA) for round three
- q. **note** we propose to seek the Authorisation Board's views on whether price should become a preference, an evaluation criterion or factored into the process in some other way

**Next steps**

- r. **note** that subject to your feedback on this paper, we propose to provide further papers with more detailed advice on proposed changes to the Partnership Schools:
- teaching and operating rate, and on managing risks, on 5 June 2015
  - contract, application process and timeline, on 15 June 2015.



Graham Stoop  
Deputy Secretary  
Student Achievement

APPROVED / NOTED



Hon Hekia Parata  
Minister of Education

27, 5, 15

NOTED

David Seymour MP  
Parliamentary Under-Secretary  
to the Minister of Education

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**Education Report: Partnership Schools work programme update –  
funding model, contract review and round three  
applications**

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Purpose of report

1. The purpose of this report is to:
  - provide further advice on a new funding model for Partnership Schools
  - set out a proposed approach for reviewing the Partnership Schools contract
  - set out a proposed process and timeline for round three applications, and provide initial advice on government preferences and the evaluation criteria for this round.

Background

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

2. On 29 April 2015 we provided the report *Proposed changes to the Partnership Schools funding model* [METIS 924404 refers]. In the report we advised that we would provide further advice on the proposed funding model, and on round three and related matters in early July 2015.
3. You have assigned duties for developing options for a revised funding model to the Parliamentary Under-Secretary to the Minister of Education (the Under-Secretary).
4. On 11 May 2015 we provided a briefing note to the Under-Secretary, copied to you, with a proposed process and timeline for the immediate Partnership Schools work programme [METIS 927178 refers].
5. This is the first of the proposed series of papers that provides a basis for ongoing discussions between the Ministry and the Under-Secretary. The paper aims to keep you informed of progress, and to give you the opportunity to provide early feedback should you wish.
6. We will provide you with consolidated advice on 2 July 2015, at which time we will seek feedback and key decisions to inform the development of a draft Cabinet paper.

Partnership Schools funding model

7. This paper defines new terminology to describe different components of the new funding model, outlines how we propose to apply agreed funding model objectives to the new funding model, and describes our proposed approach for ensuring the viability of small Partnership Schools.
8. Subsequent papers will provide more detail on the teaching and operating rate and the establishment rate, including analysis of what state schools might use the equivalent funding to purchase and therefore whether the proposed capped amounts are

appropriate. We will also provide a paper on the property rate, with more detailed analysis of the Cash-for-Buildings formula and further investigation of a regional adjustment formula.

#### **New terms defined**

9. Under the new funding model all of the components will be expressed as a per-student rate. This makes it necessary to redefine the terminology used to describe particular components to ensure clarity. We propose to use the following terms:
  - *establishment rate* – this term avoids confusion with the set-up grant in the state system
  - *property rate* – this now combines the property and the insurance into one per-student rate
  - *teaching and operating rate* – this reflects the two components that make up this rate; teachers' salaries and operating costs, which were the old base funding and per-student rates
  - *professional development and resources rate* – this is the cashed up central support of \$276 per-student.

#### **Funding model objectives**

10. In 2012 Cabinet approved six objectives to underpin the Partnership Schools' resourcing model [CAB Min (13)5/9 refers]. Our understanding is that you do not wish to change these objectives, but are looking for a more cost-effective way to achieve them.
11. The current objectives are:
  - *flexibility* – this relates to the ability of sponsors to use funding for any purpose providing that outcomes are achieved. This is one of the main freedoms provided by the Partnership School policy and is valued by sponsors
  - *neutrality* – the objective is to ensure that the level of funding given to a Partnership School is broadly equivalent to a similar school in the state system
  - *equity* – the objective is to ensure that every student is supported to have the same opportunity to achieve good educational outcomes
  - *fiscal control over future costs* – the current mechanism to manage cost increases in the teaching and operating rate is an annual adjustment using movement in the Consumer Price Index and the Labour Market Index
  - *transparency* – the model should be easily understood, and provide sponsors and potential sponsors with some ability to predict future funding
  - *management of risk by both the government and the sponsor* – the objective is to manage the government's risk of overfunding or underfunding; some schools through a robust and defensible funding model; and any risk to the sponsor that teaching and learning is unduly constrained by the amount of funding available.

### *Comment*

12. There are a number of ways to achieve the current objectives. For example, the existing funding model achieves the neutrality objective by benchmarking funding levels for Partnership Schools to decile 3 state schools through regression analysis. There are other valid and justifiable methods for choosing different benchmarks. This might include, for example, selecting state schools from a wider range of deciles and roll sizes to establish broadly equivalent funding levels.
13. As the funding model review progresses, we propose to report on how the options under consideration align with the current objectives.

### **Teaching and operating rate**

14. We understand that the Under-Secretary is seeking a model 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.

### *Need to ensure the viability of small schools*

15. When rolls are low, schools need extra resourcing to ensure that they are viable. There are certain costs entailed in providing appropriate education that are to some extent independent of roll numbers. This is particularly acute for secondary schools, which need to employ specialist teachers to provide teaching across a range of subject areas if student achievement and career choices are not to be unduly compromised.
16. Low rolls are most likely to occur when the schools are newly established and are building up their rolls, but some Partnership Schools will be small even at maximum planned roll. Moreover, linking funding directly to per-student rates makes both primary and secondary schools vulnerable to fluctuating student numbers, especially when the roll is small.

### *Ensuring viability via the teaching and operating rate*

17. The viability of smaller primary schools is addressed in the state school system through a mechanism that provides increased staffing for small schools. This abates until it cuts out at a roll of 175 – the point at which primary schools are deemed to have a sufficient roll to be viable.
18. There is no such mechanism for state secondary schools because new secondary schools are usually in areas of roll growth and have relatively large rolls even at start-up. Ministry advice is that a Year 9-13 secondary school with a roll of about 300 is at the point to be able to offer an adequate selection of subject choices to support students' career pathways.

19. To address the viability of small schools the teaching and operating rate needs to be proportionately higher for smaller schools, reducing progressively as school rolls increase toward the viability point, and flattening out once the viability point is achieved.
20. We will need to strike a range of stepped rates, or a sliding scale of rates, that is neutral from a school's perspective to avoid an incentive to maintain small rolls.
21. We ask you to note that we propose to set viability points of 175 students for primary schools and 300 students for secondary schools as part of our modelling of options for progressively reducing the teaching and operating rate as student rolls increase until the viability point is reached. We will provide further advice if we discover through modelling that these proposed viability points are not optimal.

#### Review of Partnership Schools contracts

22. In 2012 Cabinet agreed that Partnership Schools would be held to account through a fixed term contract to deliver specific school-level targets negotiated with the Crown. [Cab Min (12) 26/6 refers]. It was expected that the contract would contain milestones for reviewing Partnership Schools' progress and achievement against the targets, and would be renewed or revoked depending on the sponsor's performance.
23. A standardised Partnership Schools contract was designed with independent professional advice from Bell Gully.
24. There is a need to review the Partnership Schools contract to ensure it is current and takes into account experience to date. An overarching consideration will be the need to balance compliance costs with robust accountability for outcomes.

#### **Proposed Approach**

25. We propose an approach to the contract review that ensures the contract:
  - is up-to-date
  - is fit for purpose
  - reflects any policy and funding changes
  - addresses identified issues.
26. Ensuring the contract is up to date involves checking that references are current (e.g. Education Circulars), and relevant legislative changes are included (e.g. Vulnerable Children Act 2014).
27. Ensuring the contract is fit for purpose involves considering whether it is working well based on experience from the first two rounds. Matters we propose to look at include:
  - confirming the list of 20 minimum requirements (section 16.1)
  - ensuring the information on which Partnership Schools are required to report meets Ministerial and Ministry needs (section 18)

- considering whether a greater degree of prescription is needed in some areas of the contract (e.g. the choice of assessment tool to enable performance to be reliably compared)
  - ensuring the status of various documents is commensurate with their importance (e.g. the schools' Curriculum Handbook could be made an Operative Document so that adherence to it can be ensured under the contract)
  - considering whether there is scope for more customisation, especially for Partnership Schools with a track record of success.
28. Policy and funding changes, such as the new funding model, will also need to be reflected in the contract.
29. There are a number of identified issues that we propose to consider as part of the review. These issues include:
- whether 90 days between a performance event and termination are sufficient time to carry out required processes, conduct an investigation, implement potential remedies and exhaust remedial options
  - whether the Crown should be able to recover a proportion of a school's establishment funding or unused funding should it close, and how an appropriate amount would be determined
  - whether there is a need to address some sponsors' concerns about reconciling the requirement of open enrolment with the performance target of at least 75% priority learners.
30. We seek your feedback on these and any other areas that you wish to be considered as part of the Partnership Schools contract review.

#### **Proposed process**

31. We propose to reengage Bell Gully to assist with the review. Subject to your agreement to proposed changes, we would then engage Bell Gully to make the agreed changes to the standardised contract.
32. We propose to consult with the Partnership Schools Authorisation Board as part of the review.
33. We seek your guidance on whether we should consult with existing sponsors as part of the review. The existing sponsors would bring first-hand experience of working with the contract to the review. Involving them could however raise sponsors' concerns (and expectations) about the status of, and possible changes to, their existing contracts with the Crown.

#### **Round three applications**

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#### **Application process and timing**

34. A rigorous process was followed in the first two Partnership Schools application rounds. The Ministry proposes to continue with a similar process, but will work with the Authorisation Board to identify opportunities for streamlining the process without compromising rigour.



35. We have provided a proposed indicative timeline for the round three application process in Appendix A. The timeline assumes the round will commence shortly after Cabinet approval is received (currently scheduled for 3 August 2015). The timeline sets out milestones for two options – a fast track process and a standard process.

**Advice on government preferences and the evaluation criteria**

36. You have asked the Under-Secretary to review the continued relevance of the government preferences and the evaluation criteria, especially in light of the new funding model.
37. Together these provide important signals to potential sponsors, and are critical for objective and transparent decision-making.
38. Following is some preliminary advice on the preferences and evaluation criteria as a starting point for the Under-Secretary's consideration.

*Government preferences*

39. The preferences were introduced for round two to address lessons learnt from the previous round. They are factors that the Government specified will be given preference in determining successful applications.
40. The preferences give stronger direction to potential sponsors about where and what types of schools are being sought. While they enable the Government to steer the decisions about the schools that get selected, they also do not rule out the selection of any proposal that is outstanding, but does not fit within the factors.
41. The preferences for round two were for Partnership Schools that:
- catered for primary-age students
  - made effective use of the flexibilities offered by the model
  - were based in areas of roll growth
  - were large enough to be comfortably viable
  - demonstrated a strong case for their location in relation to areas where students are not being well served by the education system
  - offered innovative options for 0-8 year olds<sup>1</sup>.
42. We are seeking confirmation that preferences will be used in round three and, if so, whether it would be helpful for us to provide advice on what the specific preferences might be.

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<sup>1</sup> Request for Application 2014 (from section 4.3 Government preferences)

*Evaluation Criteria*

43. The table below sets out the criteria used to evaluate applications in round two, including the weight assigned to each of the criteria.

<b>Evaluation Criteria for Partnership Schools applications</b>		
<b>Category</b>	<b>Information</b>	<b>Weight</b>
<b>Applicant Profile</b>	General information about the applicant and its partners, describing the nature of business, commitments, and established quality and related systems.	Risk Assessment
<b>Purpose and Goals</b>	Describes the applicant's reasons for wanting to operate a school, and provides the distinctive purpose and the performance goals it plans to achieve.	15%
<b>Education Plan</b>	Details around how the school will be structured, the learning experience students will have there; and how the sponsor intends to evaluate the performance of both individual students and the school as a whole.	35%
<b>Business Plan</b>	Details of how the school will be managed, and how students will be recruited, accommodated, and funded.	17.5%
<b>Operational Plan</b>	Details covering the applicant's proposed student policies and procedures, personnel, and quality health and safety systems.	17.5%
<b>Financial</b>	Details of proposed 3-year budget and associated financial considerations.	15%
<b>Agreement</b>	Feedback from applicant in relation to the draft agreement provided with or soon after release of the Request for Application.	Nil

44. The Ministry's view is that these criteria and weightings continue to be suitable. We suggest that it would be useful to seek the Authorisation Board's views on this matter.

*Communicating funding model changes*

45. The Partnership Schools funding model is described in the Request for Application (RFA) document. The RFA for round two indicated that Partnership Schools would be funded on a similar basis to state schools, but there would be more flexibility in how the funding could be used. Components of the funding models were described in some detail. It also set out the levels of funding that different types of schools might expect for set-up, property support, operations and staffing, and cashed-up centrally funded support.

46. Changes to the funding model and indicative funding levels will need to be communicated in the RFA for round three.
47. It will be also be important to signal to potential sponsors that changes to the funding model may result in price becoming a factor in choosing among high quality applications. We propose to seek the Authorisation Board's views on whether price becomes a Government preference, an evaluation criterion or is factored into the process in some other way.

#### Next steps

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48. Subject to your feedback on this paper, we propose to provide further papers with more detailed advice on proposed changes to the Partnership Schools:
  - teaching and operating rate, and on managing risks on 5 June 2015
  - contract, application process and timeline on 15 June 2015.
49. We will provide a paper on property-related matters on 22 May 2015.

Appendix A: Indicative timeline for the procurement process			
Milestone	Description	End Date (Fast track)	End Date (Standard)
RFA In Market	<ul style="list-style-type: none"> <li>• 4-6 week duration</li> <li>• Assumes issued day after Cabinet approval</li> <li>• Does not allow for any pre-tender market development activity (+1-2 months)</li> </ul>	4 September 2015	18 September 2015
Assessment/Interview	<ul style="list-style-type: none"> <li>• 6 week duration</li> <li>• Covers               <ul style="list-style-type: none"> <li>○ Short listing</li> <li>○ Interim advice to Minister</li> <li>○ Interviews</li> <li>○ Due Diligence</li> </ul> </li> </ul>	16 October 2015	30 October 2015
Approval to negotiate	<ul style="list-style-type: none"> <li>• Development of advice to Minister</li> <li>• Assumes 4 weeks for approval including Cabinet consultation</li> </ul>	13 November 2015	27 November 2015
Negotiation	<ul style="list-style-type: none"> <li>• Minimum 4 weeks</li> <li>• Development of negotiation plan</li> <li>• Execute negotiations</li> <li>• Finalise contract schedules</li> </ul>	11 December 2015	5 February 2016
Execution of agreements	<ul style="list-style-type: none"> <li>• 2 weeks (assuming no Cabinet actions required)</li> <li>• Prepare advice to Minister, including Cabinet paper if required</li> <li>• Contracts executed</li> </ul>	24 December 2015	26 February 2016
Establishment period	<ul style="list-style-type: none"> <li>• As negotiated</li> </ul>		
Schools open	<ul style="list-style-type: none"> <li>• As negotiated</li> </ul>		