

Education Report: Proposed changes to the Partnership Schools funding model and establishing a contingency for round three Partnership Schools

Recommendations

We recommend that Joint Ministers:

- a. **note** that the Parliamentary Under-Secretary to the Minister of Education has proposed a new Partnership Schools funding model to:
- move risk from the Government toward the sponsor so that there is a better incentive for the sponsor to reach desired outcomes in the most efficient way
 - reduce the start-up costs of new schools which will also increase the sponsor's incentives to secure external funding

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

b.



- c. **note** that we propose to provide further advice on the proposed funding model, and on Round Three and related matters, in early July 2015

- d. **note** that we propose to provide a draft Cabinet paper by 13 July 2015, reporting on the results of Partnership Schools monitoring and evaluation, and confirming the new funding model and Round Three of Partnership Schools applications, for the SOC meeting on 29 July 2015



Graham Stoop
Deputy Secretary
Student Achievement

NOTED / APPROVED



Hon Bill English
Minister of Finance

115115

NOTED / APPROVED



Hon Hekia Parata
Minister of Education

30.4.15

NOTED



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

30.04.15

Education Report: Proposed changes to the Partnership Schools funding model and establishing a contingency for round three Partnership Schools

Purpose of report

1. This paper seeks approval for the establishment of a contingency fund for a third Partnership Schools | Kura Hourua (Partnership Schools) application round. It outlines a proposed new Partnership Schools funding model for this purpose as discussed at your meeting with the Parliamentary Under-Secretary to the Minister of Education (the Under-Secretary) on 29 April 2015.

Background

2. The recent Budget Cabinet paper included a standard recommendation that delegates authority to Joint Ministers (the Minister of Finance and the Responsible Minister) to resolve outstanding issues.
3. In 2013 Cabinet agreed to the components of a funding model for Partnership Schools that gave them broadly the same amount of funding as an equivalent state school [Cab Min (13) 5/9 refers]. In practice this has resulted in high per-student costs, especially in the years when the school is building up its roll. It has provided little incentive for potential sponsors to seek partnerships with business or non-government organisations in the way which the model originally envisaged because the state is providing sufficient funding.
4. The Under-Secretary has been delegated responsibility for developing options for a revised funding model.

Proposed amendments

Objectives

5. The Under-Secretary proposes to make some alterations to the funding model that will:
 - move risk from the Government toward the sponsor so that there is a better incentive for the sponsor to reach desired outcomes in the most efficient way
 - reduce the start-up costs of new schools which will also increase the sponsor's incentives to secure external funding.
6. In particular, this will be done by:
 - moving to a true 'per-student' funding model rather than a 'per school' model
 - ensuring that the property funding flow is aligned with the current enrolment.
7. The following proposed model is based on exploratory analysis. The Ministry will undertake further analysis to develop and refine the components.

Proposed changes to set-up funding

8. The existing model provides the sponsor with:
 - a set-up grant based on the maximum roll of the school, calculated according to the type of school. This grant is to cover administrative set-up costs, establishing a library; and purchasing curriculum material and other teaching resources
 - six months of property funding based on the maximum roll of the school so that leases can be arranged and renovations completed before students enrol
 - six months' salary to employ a principal to establish the teaching and learning approaches.
9. It is proposed that the set-up grant be replaced with a fixed contribution to these costs. This would include six months of property funding and principal's salary, plus a fixed contribution of \$100,000 for primary schools and \$200,000 for secondary schools to cover other set-up costs. Sponsors will also be encouraged to submit competitive tenders up to this amount.
10. The schools will still have to provide adequate conditions and resources to the standard required by the Education Review Office. Potential sponsors will have certainty over the level of set-up funding they would receive but would have to contribute to the costs.
11. Property costs would be calculated on the new per-student rate (see below) for the number of students proposed to be enrolled in the first year of operation.

Per-student rate for property

12. A per-student rate for property has been calculated by taking the Cash for Buildings amount for the school's maximum roll and dividing it by that roll number. This per student rate is then multiplied by actual enrolments, meaning that property funding will be sensitive to changes in student numbers.

Per-student rate for operations and salaries

13. Under the current funding model, funding equivalent to salaries and operations grants comprises a base funding amount that attaches to the school and a per-student amount.
14. The proposed new model has been arrived at by identifying:
 - all secondary schools (7-13 and 9-13) from deciles 2-4 (inclusive) that have 2014 rolls up to 450 and are on a 3 year or 4-5 year ERO review cycle
 - all primary schools (years 1-8) from deciles 2-4 (inclusive) that have 2014 rolls of up to 300 and are on a 4-5 year ERO review cycle.
15. From this we drew a small sample of schools that had:
 - good NCEA/National Standards results (with a focus on the BPS targets)
 - low rates of suspensions and exclusions, and unjustified absences.
16. These items line up with many of the requirements of the Partnership Schools performance management system.

17. Once we confirmed the sample, we obtained costs based on the selected state schools' operations grants and the salary costs charged to entitlement staffing, and divided this by the number of students in each school.
18. However, we have identified that, for larger schools, the new per-student rate results in increased costs compared to the current model. We will continue to work on the methodology for the per-student rate.

Indicative costings

19. Table 1 below sets out indicative costings, provided by the Under-Secretary, which are based on the proposed funding model for one secondary school opening in 2016, and total costs for two secondary schools opening in 2016.
20. In reaching these costings, the Under-Secretary has counteracted the increased costs for larger schools identified in paragraph 18 by reducing the per-student funding rate once a school reaches a certain size and achieves economies of scale.

| Component | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 4 Year Total |
|---------------------------|------------------|-------------------|-------------------|-------------------|---------------------|
| | (roll 90) | (roll 150) | (roll 200) | (roll 250) | |
| Set-up funding | 392,947 | - | - | - | 392,947 |
| Property | 114,615 | 305,640 | 445,725 | 573,075 | 1,439,055 |
| Insurance | 2,790 | 7,440 | 10,850 | 13,950 | 35,030 |
| Per student | 255,915 | 682,440 | 930,781 | 1,008,511 | 2,877,647 |
| Cashed-up central funding | 12,420 | 33,120 | 48,300 | 62,100 | 155,940 |
| Total one school | 778,687 | 1,028,640 | 1,435,656 | 1,657,636 | 4,900,619 |
| Total two schools | 1,557,374 | 2,057,280 | 2,871,312 | 3,315,272 | 9,801,238 |

21. Table 2 below sets out indicative costings based on the current funding model for one secondary school opening in 2016, and total costs for two secondary schools opening in 2016.

| Table 2: Costs over 4 years for a secondary school with a maximum roll of 250 under the current funding model | | | | | |
|--|------------------|------------------|------------------|------------------|-------------------|
| Component | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 4 Year Total |
| | (roll 90) | (roll 150) | (roll 200) | (roll 250) | |
| Set-up funding | 1,136,445 | - | - | - | 1,136,445 |
| Property | 318,330 | 636,660 | 636,660 | 636,660 | 2,228,310 |
| Insurance | 9,000 | 17,999 | 17,999 | 17,999 | 62,997 |
| Base funding | 504,256 | 1,008,511 | 1,008,511 | 1,008,511 | 3,529,789 |
| Cashed-up central funding | 12,420 | 33,120 | 48,300 | 62,100 | 155,940 |
| Total one school | 1,980,451 | 1,696,290 | 1,711,470 | 1,725,270 | 7,113,481 |
| Total two schools | 3,960,902 | 3,392,580 | 3,422,940 | 3,450,540 | 14,226,962 |

22. Table 3 below compares indicative costings under the proposed and current funding models, based on two secondary schools opening in 2016.

| Table 3: Comparison of costs for proposed and current funding models over 4 years for two secondary schools | | | | | |
|--|------------------|------------------|------------------|------------------|-------------------|
| Component | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 4 Year Total |
| | (roll 90) | (roll 150) | (roll 200) | (roll 250) | |
| Proposed formula | 1,557,374 | 2,057,280 | 2,871,312 | 3,315,272 | 9,801,238 |
| Current formula | 3,960,902 | 3,392,580 | 3,422,940 | 3,450,540 | 14,226,962 |

Financial implications

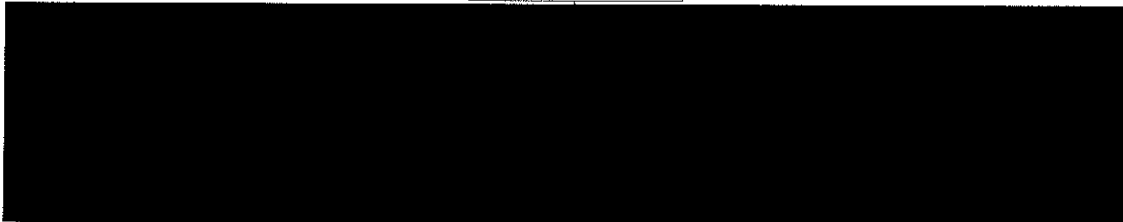
Proposed operating contingency

23. It is proposed that an operating contingency be established through Budget 2015 for a third round of Partnership Schools applications as set out in Table 4 below.

Independent Entity to support Partnership Schools

24. It is also proposed that the operating contingency includes \$500,000 as a one-off grant in 2015/16 towards an independent entity to support Partnership Schools. The entity will help ensure that sponsors get the support they need to establish high-quality schools, especially in the set-up phase, as well as provide advice and support to established schools and advocate on their behalf. The Government could contract with the entity for services in the same way as it does with other sector organisations.

25. The establishment of such an independent entity will ensure that roles and accountabilities remain transparent and separate, and protect the Authorisation Board against possible perceptions of conflict of interest. For example, the independent entity will work to identify potential sponsors and help them develop high-quality proposals. Once sponsors have been approved, the independent entity will support them to meet the performance expectations. This will enable the Authorisation Board to focus on its core functions of assessing and making recommendations on applications, and monitoring the educational performance of Partnership Schools. s 9(2)(f)(iv) OIA



| | | | | |
|------------------------------------|-------|---|---|---|
| Partnership Schools support entity | 0.500 | - | - | - |
|------------------------------------|-------|---|---|---|

Next steps

Further advice on the proposed funding model

26. The Ministry of Education will work with the Under-Secretary, and in consultation with Treasury, to further develop the components of the proposed funding model, paying particular attention to how the per-student rate is calculated and applied.
27. We propose to provide you with further advice on the proposed funding model in early July 2015.

Advice on Round Three and related matters

28. The application process needs to be redesigned to reflect changes to the funding model. For example, the selection criteria need to be reviewed, and changed expectations around funding to be clearly communicated. We will develop a mechanism for ensuring that sponsors have access to sufficient set-up and ongoing funding to manage risk to the Crown that could arise from funding shortfalls.
29. Contracts with sponsors need to be modified to reflect changes to the funding model. Consideration also needs to be given to the implications of a new funding model on existing Partnership Schools.
30. We propose to provide you with further advice on Round Three and related matters in early July 2015.

Cabinet paper

31. In November 2013 Cabinet:
- **invited** the Minister of Education to report to Cabinet Social Policy Committee on available monitoring information, including the initial results of the evaluation, early in 2015 before confirming Round Three in Budget 2015
 - **noted** that Round Three would commence, subject to Cabinet approval, with Partnership Schools opening in 2017. [SOC Min (13) 24/4 refers]

32. We propose to provide you with a draft Cabinet paper by 13 July 2015, reporting on the results of Partnership Schools monitoring and evaluation, and confirming the new funding model and application process for Round Three of Partnership Schools. Subject to your agreement this would result in:
- final Cabinet paper lodged with the Cabinet Office Thursday 23 July
 - consideration at SOC 29 July 2015
 - Cabinet approval 3 August 2015.

Publicity

33. As part of Budget 2015 announcements, we suggest that the Under-Secretary announce that funding has been approved for another Partnership Schools application round, and that further announcements about the timing and process of the application round will be made in due course.