

The Treasury

Budget 2024 Information Release

September 2024

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Date: 5 April 2024

To: Minister of Finance (Hon Nicola Willis)

Deadline: Sunday 7 April 2024

Aide Memoire: Charter Schools supporting information

This Aide Memoire provides supporting information ahead of your call this weekend to discuss Charter Schools (initiative 15799) with the Associate Minister for Education (Partnership Schools), in line with your request at this week's Budget Matters meeting. It provides an updated Treasury-recommended funding option that reflects the additional cost of creating and operating a Departmental Agency (DA) and sets out key implementation considerations at this early stage of implementing the policy.

Key considerations for the discussion

- Treasury has increased its recommended scaled option to \$153.900 million across the forecast period (an increase of \$16.000 million to reflect the additional costs of establishing a DA). This is the one of highest funded non-capital initiatives in the education package.
- Treasury's option is designed to balance giving momentum to the programme with affordability and deliverability.
- You may wish to seek the Associate Minister's view on implementation challenges noting that under the previous model, 11 schools opened over 4 years and levels of demand for the new programme are currently uncertain.
- Funding at this budget establishes the programme. There will be an opportunity at future Budgets to seek more funding once demand is better understood and if it proves higher than what is assumed in this scaled option.

Please note: This figure is a typo. Correct figure is \$153.090.

Current recommendations and further options

Treasury's updated scaled option

We have increased our scaled option for the Charter Schools Initiative [15799] to \$153.090 million across the forecast period, an increase of \$16 million (\$4 million p.a.).¹ This additional funding is exclusively to support Cabinet's recent agreement to implement the DA to support Partnership schools (SOU-24-MIN-0018 refers).

¹ Additional funding to establish and operate the DA is focused on:

- Meeting the core establishment and operating costs of the DA.
- Additional funding to recognise the cost of the DA engaging with sponsors, both to stimulate demand and take schools through the agreement of contracts.
- Additional FTE to provide further specialist support (contract negotiation/management, assume up to 5 FTE).

Given that policy development is still at an early stage, there is some uncertainty around the costing assumptions for the DA. However, this additional recommended funding offers an appropriate balance of recognising the additional costs of a DA and setting it up to succeed with the wider fiscal context and high bar for funding new FTE.

This update does not increase the number of Charter Schools covered by our previous scaled option which remains at up to 50 schools (up to 15 new and 35 convertor schools) across the forecast period. Our key considerations in making this assessment are deliverability and affordability, as we set out in more detail below. We note that even at the level of our revised scaled option the Charter Schools initiative would still be the one of the highest funded non-capital initiatives in the education package.

Ministry of Education's submitted option

[33]

Possible further scaling options/options for additional funding

As we note above, we consider our recommended option for up to 50 schools gives an appropriate balance between affordability and deliverability. However, there are further options available to you to change the level of funding for the initiative:

- *Changing the number of new schools:* If you wish to increase the number of schools, based on MoE's costings for the initiative, each additional new school would have set up costs of approximately ^[33]
Reducing the number of new schools would reduce the overall cost by a corresponding amount.
- *Changing the balance of schools:* Increasing the number of converted schools would offer a more affordable option as MoE estimates transition costs of approximately ^[33] although the convertor school model is as yet untested in New Zealand (as we discuss further below).
- *Scaling the funding for the DA:* Scope to scale the funding for the DA is limited. We would only recommend limited variation from our recommended \$4 million p.a. (between the range of \$3 million and \$5 million p.a.) to reflect the additional costs of operating a DA and delivering its support functions for the programme.

[33]

Implementation considerations

Meeting the Associate Minister's aspiration to see ^[33]
appears challenging

Our assessment of the level of challenge is based on:

- *The precedent from the previous Charter Schools programme:* Under the previous model, only 11 schools were open across four years (with contracts signed for a further five schools). Our scaled option of up to 15 new schools is consistent with the number under the previous model but would still be challenging to implement.
- *Uncertain levels of demand:* MoE has not yet been able to undertake detailed market testing, and levels of potential demand for the initiative, both for new and convertor schools, are unclear at this stage.
- *The need to implement support structures at pace:* For new schools, MoE will be reintroducing a tested model, so there may be scope to rationalise processes based on previous experience and speed up implementation. However, this also requires rapid progress on establishing key support structures (e.g. the Authorisation Board and DA) and application processes. The model of convertor schools is new to New Zealand and brings an additional level of challenge. The evidence for convertor schools is based on other jurisdictions with different governance, oversight and operational arrangements (in particular, England and the US) and we recommend caution in assuming that the outcomes of these programmes would apply in a New Zealand context.

There are other key implementation issues that will need to be worked through at pace, including the design and implementation of funding arrangements, in particular the proposed “funding follows the student” model. We will continue to work with MoE as it designs these processes, with a particular focus on mitigating any risks of disruption to wider school funding processes from funding transfers to Charter Schools.

Considerations for the Departmental Agency

We recommend you use this discussion to note the importance of having certainty around accountabilities and decision-making responsibilities between MoE and the DA before the DA is fully operational. The paper approved by Cabinet includes high-level timelines for establishing the DA. When more detailed proposals are developed by MoE, we will be recommending a staged approach to transitioning to full functionality of the DA following the appointment of the Chief Executive in July. This will help to manage implementation risks, for example, ensuring correct appropriation responsibilities and structures are in place. This would be a similar approach to how the transfer of responsibilities to the new Ministry of Regulation is being progressed.

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