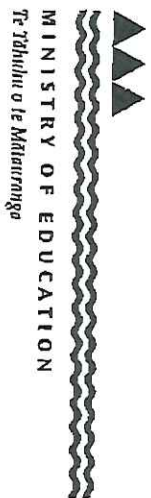


ORIGINAL SENT TO
2 JAN 2011
MINISTERS OFFICE



Education Report: Protecting and enhancing private schools

Date: 25 January 2011 Priority: High
 Security Level: In Confidence METIS No: 535747

Action Sought

Addressee
 Associate Minister of Education

Action Sought
 Note you requested advice on funding and regulatory policy options to protect and enhance the role of the private school sector in New Zealand. Note this report provides you with background information on this issue to inform discussion with your colleagues.

Minister of Education
 Enclosure: No

Round robin: No

Deadline

Contact for telephone discussion (if required)

Name	Position	Telephone	1 st Contact
Wendell Saker	Senior Manager	51(7)(4)	✓
Saker (aka)	Director	51(2)(7)(in)	

The following department/agencies have seen this report:

- CCMAU
- MORST
- FRST
- NZQA
- MED
- TPK
- MOH
- Treasury

Minister's Office to Complete:

- Approved
- Noted
- Seen
- See Minister's notes
- Defined
- Needs change
- Overlaken by events
- Withdrawn

Comments:

2102/2011
 - Robin Ministers notes
 - WPCENT

25 January 2011

Education Report: Protecting and enhancing private schools

Executive summary

This report provides you with information on the issues that need to be considered if we are to protect and enhance the private school sector.

The report includes an overview of the current settings under which all schools in New Zealand operate, and outlines the State's relationship with the integrated and private sectors.

Illustrative funding levels for an increased private school subsidy are included in the paper. Alongside this, the paper outlines the following key considerations for Government if it were to adjust the current settings:

- fiscal implications and funding
- accountability and autonomy
- equity
- the value for money of the network
- quality.

Potential regulatory barriers for enhancing and protecting private schools are examined. The paper also discusses the reasons why using Section 156 of the Education Act 1989 to establish private schools is inappropriate.

Finally, the paper provides a discussion of other options to protect and enhance the role of private schools.

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Recommendations

We recommend that you

- a. **note** you requested advice on funding and regulatory policy options to protect and enhance the role of the private school sector in New Zealand
- b. **note** this report provides you with information on this issue to inform discussion with your colleagues
- c. **indicate** if you would like officials to provide you with any further information on any aspect of this report.

V. McLeish
S 9(2)(c)
S 9(2)(f)(iii)

Acting Group Manager
Schooling Policy

NOTED / APPROVED

Hon Rodney Hide
Associate Minister of Education

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Education Report: Protecting and enhancing private schools

Purpose of report

1. You requested advice on funding and regulatory policy options to protect and enhance the role of the private school sector in New Zealand.

2. This report provides you with information on this issue to inform discussion with your colleagues.

Background

3. The State has an obligation to provide a free, accessible and secular education for New Zealand students. The State also allows provision of private education, which operates with few regulations and controls, beyond minimal controls for quality. Between the two ends of the spectrum are State integrated schools.

4. There are currently 96 private schools, 328 State integrated schools and 2153 State schools in New Zealand.

State schools

5. New Zealand State schools operate in a highly developed environment, with high levels of autonomy by international standards. The Tomorrow's Schools policy is explicitly designed to allow local level autonomy and diversity within a broad national framework. The combination of a locally elected board of trustees and a competence-based (rather than prescriptive) curriculum has contributed to a diverse schooling sector which offers parents choice.

6. For example, Hagley Community College is internationally recognised as a leader in innovation and educational change. Among other innovative ideas, Hagley Community College has extended its school day to allow flexibility for students to maximise students' learning opportunities.

7. A further example is Remarkables Primary School in the Queenstown Lakes district. This primary school has a focus on using e-learning devices within the classroom. Students use e-tools, including ipods, laptops and interactive whiteboards within the reading, writing and mathematics curriculum to share ideas, capture the learning process and make connections with the global interactive world.

8. Special character schools further diversify the sector. Section 155 of the Education Act 1989 provides for the creation of Kura Kaupapa Māori schools; and section 156 provides for the creation of designated character schools.

9. Schools established under these two sections of the Act must provide a significantly different education than is available at any nearby State school. For example, schools established under section 155, must have te reo Māori as the principal language of instruction.

where from? state integrated - common

2, 577

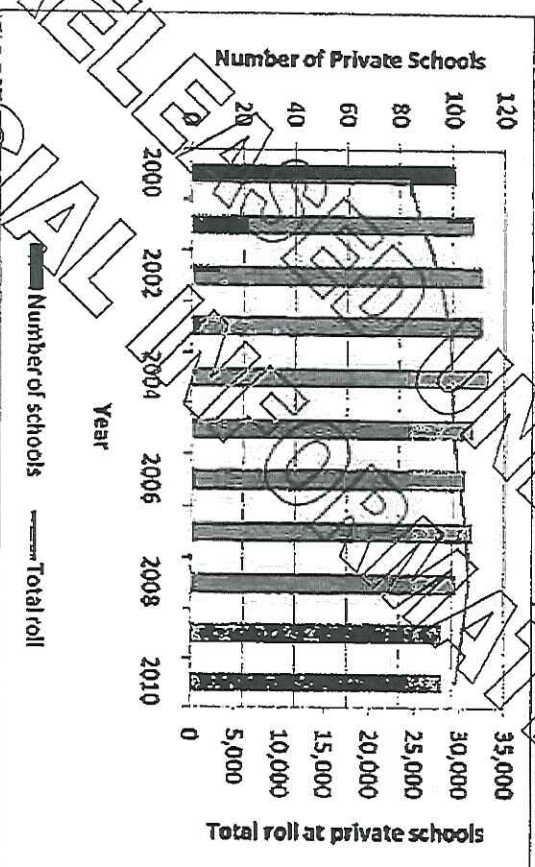
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1092 money? - what does it mean?

Private schools

10. Private schools educate approximately 30,000 students, or 4% of the total school population.
11. Private schools are private businesses and enjoy more freedom than State schools. They may choose their own curriculum, qualifications framework, and assessment methods, and they may offer education within an educational environment of their own design.
12. Private schools receive a per-pupil subsidy from the Government. This subsidy currently represents an average of 24% of the funding received by a student in the State system.
13. The graph below shows the number of private schools and the total private school roll. Numbers of students grew steadily in the early-mid 2000s with concomitant roll growth. In the latter 2000s, the number of schools dropped but rolls maintained an increase, albeit at a slower rate.

Figure one: The number of private schools, and the total roll at private schools, 2000-2010



State integrated schools

14. A State integrated school is a school with a special (usually religious) character, which has been 'integrated' into the State system. An integrated school is essentially a State school but the proprietor, rather than the Crown, owns the land and buildings.
15. Approximately 86,000 students attend an integrated school, or 11% of the school population. The proprietor is responsible for setting and maintaining a school's special character. The proprietor may charge attendance dues to meet capital costs of improvements and to meet loans. The attendance dues charged currently range from \$400 to \$3,000 per year. In addition to attendance dues, integrated schools can also request a donation from parents, in some cases this is as much as \$6,000 per year.

16. Many aspects of the school, including the nature of the school's special character and property, plus the maximum roll of the school, are set out in an integration agreement between the Minister and the proprietor.
17. State integrated schools receive the same operational funding and staffing entitlements as State schools. Property funding differs from State schools, with the proprietor responsible for the land and buildings. Integrated schools do receive some property funding; currently approximately \$500 per student per year for major maintenance and modernisation of buildings.
18. In all other respects, integrated schools are treated as State schools. They must meet all the curriculum, assessment and other requirements as State schools, and do not enjoy the additional freedom that private schools do.
19. While a number of private schools have recently applied to the Ministry of Education for integration due to their fiscal situation, the number of students attending private schools in New Zealand has remained largely steady for many years.
20. Currently, the Ministry of Education is aware of three private schools seeking to integrate.

Changing current policy settings

21. The Crown meets its obligation to provide free, secular and accessible education through its network of State schools. As noted earlier, the broad policy settings of the education system provide for local autonomy and diversity.
22. Historically, integrated schools were initially established at a time when many private predominately Catholic schools, were struggling with rising costs. Integration provided a way to maintain these schools and the choice they offer parents at a time when the State network would have struggled to absorb large numbers of new students.
23. Ongoing integration needs to be carefully considered, because in many places in New Zealand we now have surplus capacity.
24. Governments over time have had a relatively neutral policy stance in respect of private schools. Minimal controls have been in place for safety and quality. Funding has varied according to the government of the day. Private schools have received automatic adjustments, one-off increases, funding caps, and funding decreases. This has meant little certainty of funding for the sector.
25. Changing the current policy and funding settings to enhance and protect the private school sector raises a number of complex costs, benefits and implications. In particular, if Government altered policy settings, this could impact on the relationship between the State and the private sector. The following issues require careful consideration:
 - fiscal implications and funding
 - accountability and autonomy

*M. Williams
Minister*

- equity
- the value for money of the network
- quality.

Fiscal Implications and funding

26. Private schools receive a subsidy at the rate of 24% of the average funding of a student in the State system. No adjustments are made for decile or isolation.
27. You have asked us to investigate increasing the subsidy rate. The table below outlines three illustrative funding levels for funding private schools using a per student subsidy, based on the current number of private school students.

Illustrative funding levels	Estimated new funding required (per year, ongoing) (\$m)
100% of average cost of integrated school student.	150,000
50% of average cost of State school student.	55,900
Years 1-13 funded at 40% and Years 1-10 funded at 30% of average cost of State school student.	30,000

28. The Treasury has advised Ministers and departments they must pay careful attention to containing and managing cost and demand pressures within existing baselines. Preference for new spending must go to meeting Government priorities for increasing student achievement.
29. We predict that obtaining levels of additional funding would be very difficult within the current constrained financial environment. Further, in the short-term we consider that this provides very little value for money, as we would see the same outcomes for the same number of students.
30. The Minister of Education has already submitted a four-year Budget plan, detailing how the Ministry of Education will align baselines to meet Government priorities. Plans will be resubmitted one final time before the Budget, and the deadline for this is 10 February 2011. If a change to policy is to be implemented in Budget 2011, we would need to include any potential increase to private school funding in the resubmitted plan.

31. There are no immediately obvious sources of funding of the magnitude indicated in the table above. However, we have identified the Aspire Scholarship fund as an option for reprioritisation. Currently, the Government has appropriated \$3.77 million, rising to 4.18 million in 2012 ongoing, to Aspire. Unless all scholarships are cancelled immediately, this money would be recovered over several years. (Current students on scholarships still have up to five years to complete their schooling.)

32. You asked us to advise on the long-term fiscal impacts of students moving into the private system, if private schools received higher funding levels. This is difficult because we cannot predict how many students may move to private schooling. Any movement would be, in part, dependent on the behaviour of private schools in respect of fee levels and on parental choice.

Why does the Ministry of Education want more?

33. If private schools lowered their fees to encourage more students to attend, we may see an increase in private school student numbers. However, unless Government requires fee reductions, there is no certainty of this happening.

34. Because of the uncertainty historically associated with government funding, many private schools may be hesitant to change their business practice and lower fees. Many will be wary that a new government may cap or remove any new funding.

35. Private schools experienced a funding cap that did not increase from 2000 until 2010. However, the number and proportion of students in private schooling still grew in this period.

36. Regardless of the cost of private schooling, many families choose not to send their children to a private school. This may be for a number of reasons including preferring a consistent national curriculum and wanting to ensure their children are attending school with children from their local community.

37. There are also other long-term costs that must be considered as other policies change. If the private school subsidy was linked to a specific percentage of State or integrated school funding, each time the operations grant was increased, the private school subsidy would also have to increase.

Accountability and autonomy

38. Currently there is minimal interaction between government, such as the Ministry of Education, and private schools. The Government has basic quality requirements and provides some funding. Private schools have more freedom to choose the students they accept, the curriculum they teach, and how they teach it. Changing current settings, particularly funding levels, changes this basic relationship and questions the relationship between State integrated schools and private schools.

39. Increased public funding carries with it a requirement to be more accountable to Government priorities. If government were to fund private schools at an increased rate, it could also expect a greater say over:

- how government funding is used, for example curriculum requirements and methods of teaching
- the numbers and types of students accepted into private schools
- the location of private schools and the network considerations.

40. If government adjusts the current settings, the distinction between State integrated schools and private schools will become blurred. In particular, if funding levels were equal, there appears, prima facie, no difference between State integrated and private schools, except accountability and autonomy considerations. The Government could wish to apply the same controls on private schools as State integrated at this funding level.

41. Importantly, the Government would want to consider how funding is linked to student outcomes and equity of access.

Are the private schools now set up for success?

Equity

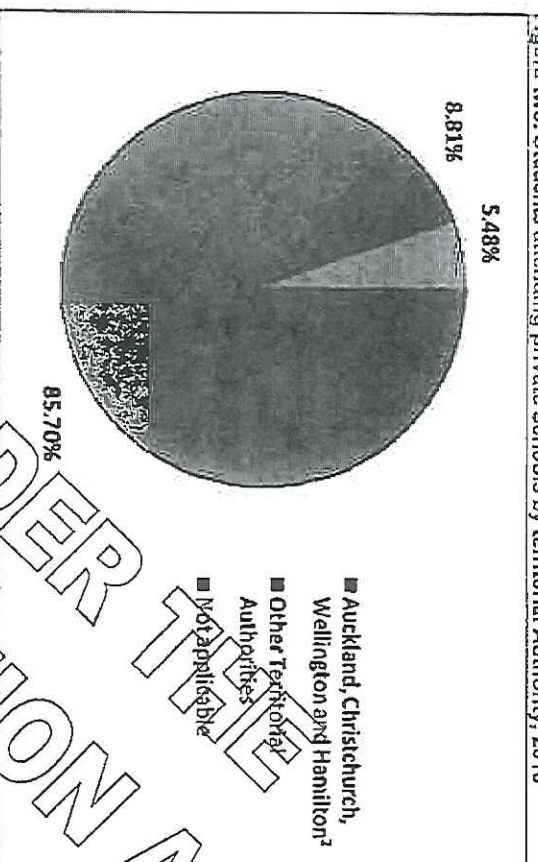
42. Changing the current setting also raises a number of equity considerations:
- provision
 - location and isolation
 - access.
43. As noted above, if private schools are funded at a higher rate, the government can expect to have a greater say in ensuring equity of access and equity of provision for all students. Government may wish to place restrictions on requirements on the ability of private schools to choose which students they enrol.
44. For many students, private school fees are a barrier to equal access. Many families cannot afford the fees charged by private schools. Without a requirement to decrease fees, equity of access barriers would remain. This is currently the case with some integrated schools that request significant donations from parents.
45. State and State integrated schools receive targeted funding based on the socio-economic status of the children at the school. Schools with students from lower socio-economic areas receive a higher level of per-student funding than schools with students from higher socio-economic areas.
46. If you wanted to explore encouraging private schools to draw students from low socio-economic areas, the Ministry of Education could analyse whether targeting the private school subsidy in this way would be effective.
47. Physical access is also an equity consideration. The majority of private schools in New Zealand are located in large urban centres, predominately Auckland, Wellington, and Christchurch.
48. The graph below demonstrates that private schools are disproportionately concentrated in certain urban areas.

Policy # funds

Private primary schools

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Figure two: Students attending private schools by territorial Authority, 2010



49. Government provides additional funding for isolated State schools. The Ministry could explore the impact of targeting the private school subsidy to isolated private schools, to support those outside of the main urban centres.

The value for money of the network

50. Protecting and enhancing the private schools sector has implications for how efficiently government funding is used to provide educational services. Notably, it is not desirable to build additional schools in some areas of New Zealand, and replicating school services where it is not necessary represents poor value for money.

51. Where to provide educational services should be considered in the context of forecast demographic change:

- Over the next 20 years, the national school-aged population of New Zealand (aged 5 to 19) is projected to grow by 2.8%.
- This growth is projected to occur in only 25% of the country², predominantly in urban areas.

• For approximately 75% of the country, the school-aged population is expected to fall over the next 20 years. In some cases, this decline is significant. For example, the school-aged population of 27 Territorial Authorities¹ are forecast to decline by more than 20%.

52. Because school-aged population growth is concentrated in some areas and not others, any new schools built in some parts of New Zealand will not be sustainable. This is currently an issue when schools seek to integrate.

¹ Auckland, Christchurch and Wellington includes the Territorial Authorities of Auckland City, Christchurch City, North Shore City, Wellington City, Manukau City, Hamilton City, Papakura District, Lower Hutt City, Wanganui District, Waitakeke City, Rodney District, Franklin District, Porirua City, and Upper Hutt City. Not applicable refers to those schools that do not align with territorial authority borders.

² By territorial authority.

53. For example, Wanganui Collegiate has applied for integration. However, Ministry of Education demographic analysis shows there is no immediate or long-term need for additional student spaces in this network. The network is operating at 67% capacity, with declining rolls at primary and secondary levels.

54. Incentivising additional private schools in areas of population decline also has value for money implications. Because access to free and regular education must always exist, private school facilities replicate those already provided by the State within a geographic area. This is acceptable to some degree as it provides choice, but with a fixed or shrinking pool of students in an area, such replication is inefficient and expensive, particularly if the Government substantially increases its funding contribution.

55. This inefficiency occurs because small schools do not benefit from economies of scale, and generally cost more to run per student than larger schools. Any additional construction that is not needed in the long term also leads to increased costs, as empty classrooms require maintenance and are difficult to dispose of.

56. If Government funding were to increase substantially, the Government would have to examine the location of current private schools and have the ability to approve or decline the development of new private school sites.

Quality

57. If increased funding is provided and the private school sector grows, consideration should be given to dynamic effects this could have on the quality of education provided by other schools. It is likely that competition between private and State schools, and parental choice of school is beneficial for improving and maintaining quality education. However it is not a given that private schools necessarily provide higher quality education for every student. If competition is used as a mechanism for improving quality, its benefits must be balanced against the risks of duplication and any impact on the quality of other schools.

58. Competition can motivate schools to perform better and reward good performance, as schools that perform well will often experience increasing rolls. However, a school's popularity with parents is not necessarily based on its ability to add value for students, and popularity can fluctuate over time.

59. When a choice of schools exists, unpopular schools can fall into a cycle of decline that is difficult to reverse regardless of performance. Declining schools place additional cost pressures on the Crown. Student performance becomes compromised when the only students left at a school are those who are unable to go anywhere else. Such students are more likely to have learning difficulties, behavioural problems, or for some other reason be difficult and/or expensive to educate.

60. Schools with a disproportionate number of these students are likely to find it difficult to attract good teachers. There is evidence that students perform better in groups of mixed ability.

61. The likelihood of this cascade occurring at the expense of student performance is increased by the way in which private schools can choose which students they

accept. Unlike State schools, private schools are not currently under any obligation to admit students who are expensive to educate or have difficulty in achieving, for example those with special educational needs.

62. If a private school takes a share of a State school's students but excludes the most difficult/expensive to educate students, then the private school is increasing the proportion of difficult/expensive students at State schools.

Regulatory options

63. You asked us to identify any regulatory barriers to integrated schools exiting the integrated system, specifically linked to the Private Schools Conditional Integration Act 1975.
64. The Private Schools Conditional Integration Act 1975 makes provision for the conditional and voluntary integration of private schools into the state education system. The Act preserves and safeguards the special character of the education provided by these schools through an integration agreement.
65. The Private Schools Conditional Integration Act 1975 allows the Minister and a school's proprietor to cancel an integration agreement by mutual agreement. This provision is generally used when an integrated school seeks to close, but could also be used if an integrated school wished to revert to private school status.
66. While the Minister could disagree to an integrated school cancelling its agreement, this is highly unlikely. The Ministry of Education would be likely to advise against the Minister doing so.
67. However, we consider that there are few incentives for integrated schools to revert to the private system. Private schools do enjoy more freedoms than integrated schools, but integrated schools are still able to offer a significantly different education to State schools, and enjoy doing so at a higher level of funding.
68. The preferences of parents are also unlikely to influence whether schools wish to be private or integrated. From the perspective of parents, many integrated schools are indistinguishable from private schools.
69. We consider that the Private Schools Conditional Integration Act 1975 would benefit from a review and modernisation of its language. However, we do not consider the Act to be a barrier to integrated schools reverting to be private schools.

Section 156

70. You requested advice on the possibility of using section 156 of the Education Act 1989 more broadly. Section 156 allows the Minister to establish a State school as a designated character school. Using section 156 for private schools would be impractical for a number of reasons, outlined below.

71. A section 156 designated character school does not have a proprietor; it is a full State school with the Crown responsible for land and buildings. A board of trustees governs a section 156 school, in the same way as a State school.

72. It is Ministry policy that schools with philosophies based on religious beliefs and traditions are integrated into the state system under the Private Schools Conditional Integration Act 1975, and schools that have a non-religious based philosophy are established as designated character schools under section 156 of the Education Act 1989. *Who is responsible over this? over the PSCIS? New Zealand? Ministry of Education?*

73. The Education Act 1964 requires that state primary schooling of non-integrated schools must be secular. In secondary schools there is no explicit ban on religious teaching, however secondary schools must still take care not to discriminate and to comply with the New Zealand Bill of Rights Act 1990

74. The establishment of a section 156 composite or secondary school with a designated character based upon religious beliefs or teaching while not explicitly unlawful, would be inappropriate. The establishment of such a secondary school is likely to lead to discrimination on religious grounds. Further, there is no clear mandate in statute for such a school. *How's Mary?*

75. The Private Schools Conditional Integration Act 1975 specifically allows for the integration of schools with a religious based philosophy into the State system.

International comparisons

76. The United Kingdom White Paper, *The Importance of Teaching*, calls for schools to have a more active role in their own governance. The UK Government considers the Academy and Free School models as the best way to achieve this. These schools are full State schools.

77. However, while schools will have more autonomy, the UK Government will continue to ensure a level playing field on admissions, particularly in relation to children with Special Educational Needs.

78. Private schools in the United Kingdom do not receive any government funding. The United Kingdom Government has not indicated any intention to provide private schools with a subsidy.

79. Private schools in Australia receive a significantly higher proportion of government funding than New Zealand private schools and are a significantly larger part of the education sector. While not necessarily a direct effect of the increase in private school funding, the latest Programme for International Student Assessment (PISA) indicated that results for Australian students have dropped. *Was that the point? Was that the point? Was that the point? Was that the point?*

Other aspects to explore

80. There are other issues and aspects of private school funding and regulation that we could explore:

- We could explore the benefits of, and how to, provide a mechanism to ensure private schools have greater certainty over their long-term funding levels. This could include incentivising private schools to lower fees and maintain them at a lower level.
- We could look at the fitness-for-purpose of future integration agreements. This may involve a thorough review of the Private Schools Conditional Integration Act 1975.

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