

Information Being Released
OIA 20130063

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From: John MacCormick
Sent: Thursday, 15 September 2011 12:33 p.m.
To: Margaret Galt; Anne-Marie Brook; Rohan Biggs; Warwick Terry; Ruth Isaac; Nick Carroll
Cc: §9(2)(g)(i) Sheryl Chase; Barbara Annesley; Nic Blakeley
Subject: RE: the schooling system - an A3 to engage the MoF in conversation...
Attachments: An Alternative Approach to School Deciles.doc

Hi

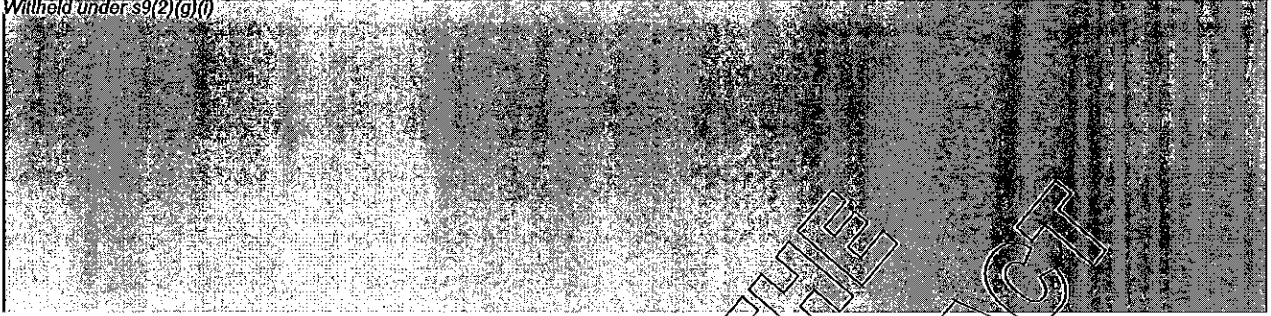
I gave Rohan some comments yesterday

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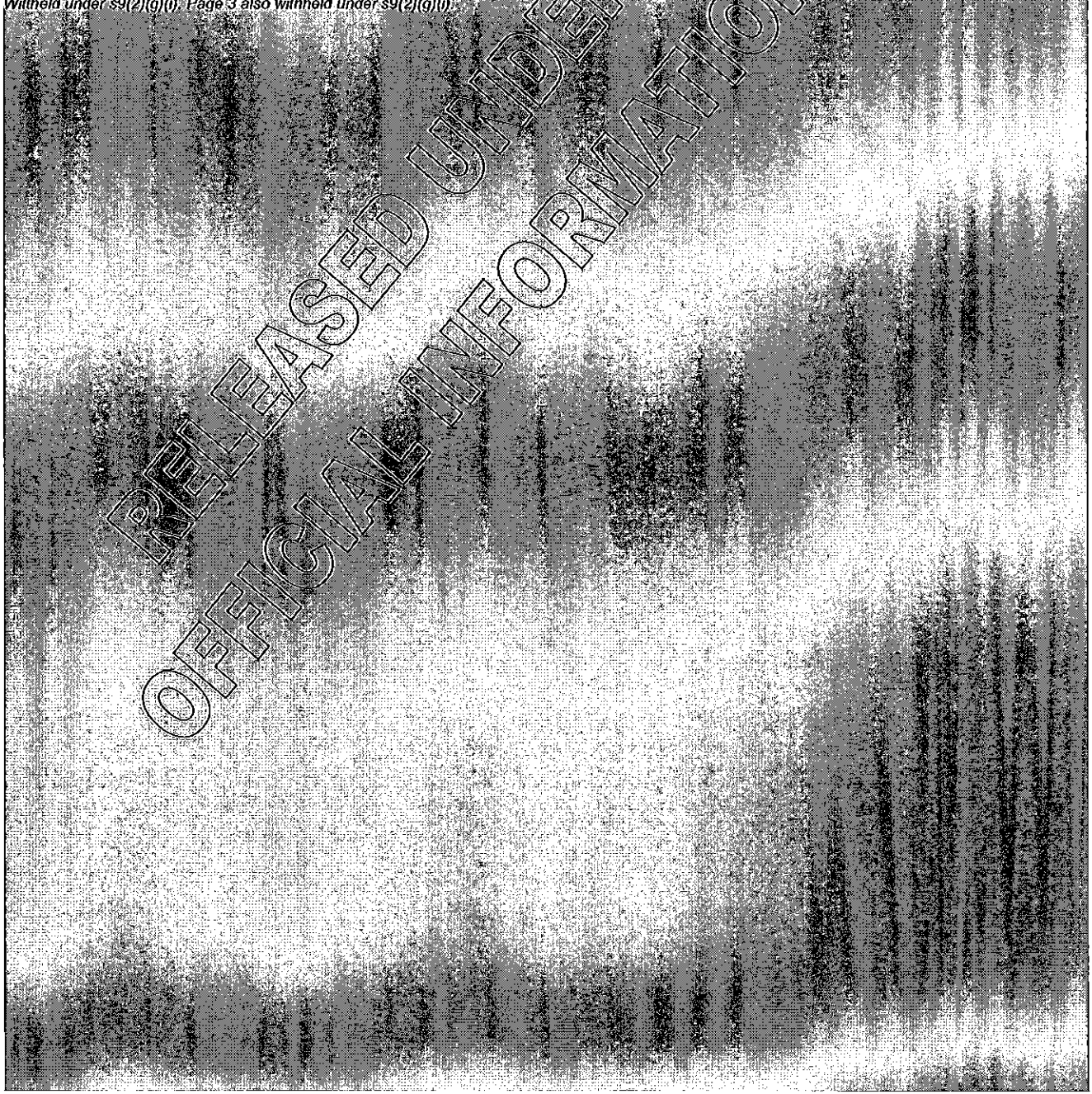
- School choice:

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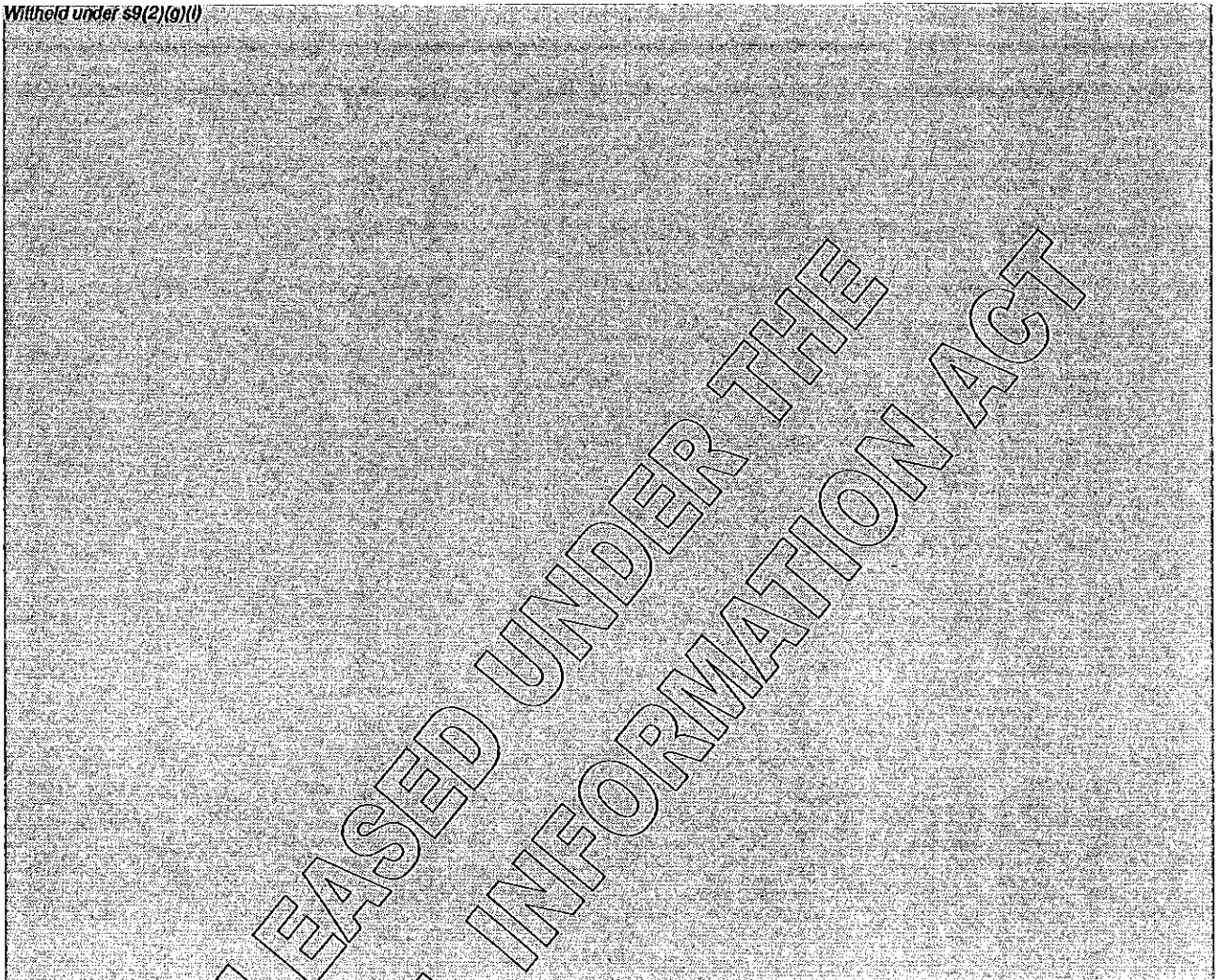


- o It could also require more choice in terms of different "models" of schooling, rather than just between state schools all regulated and funded and staffed on the same formula. We could make a stronger case for supporting some kind of non-state "charter school" model as a way of enabling innovation by getting around the constraints of state school regulatory and industrial constraints.

Withheld under s9(2)(g)(i). Page 3 also withheld under s9(2)(g)(i).

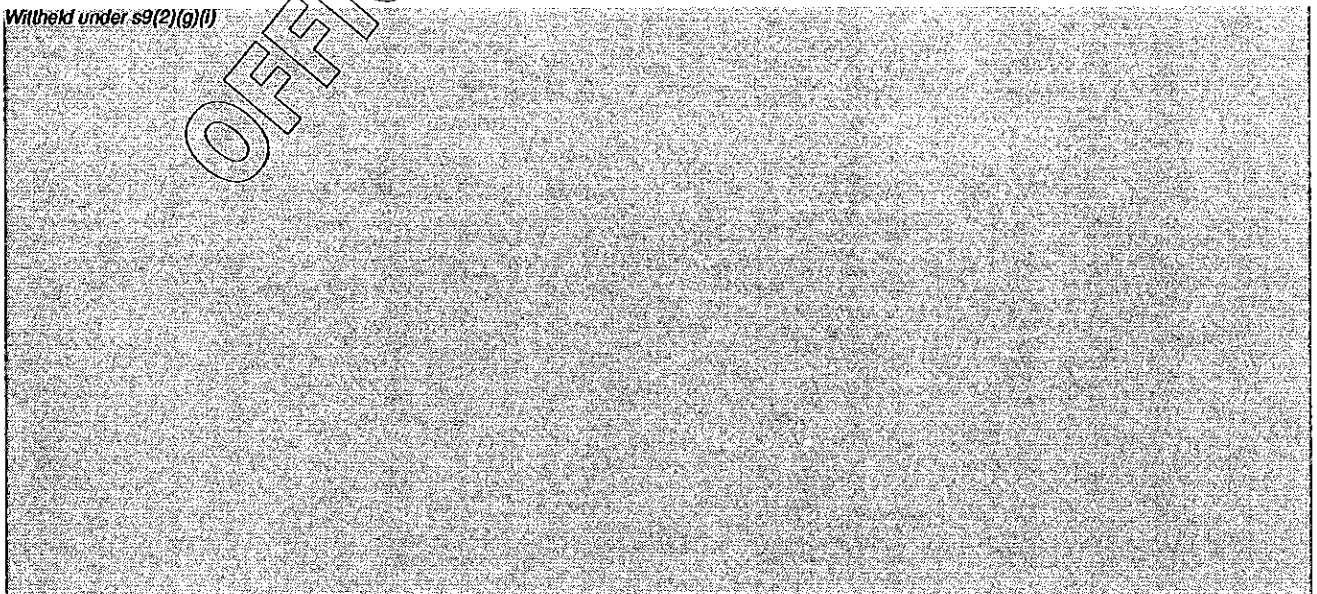


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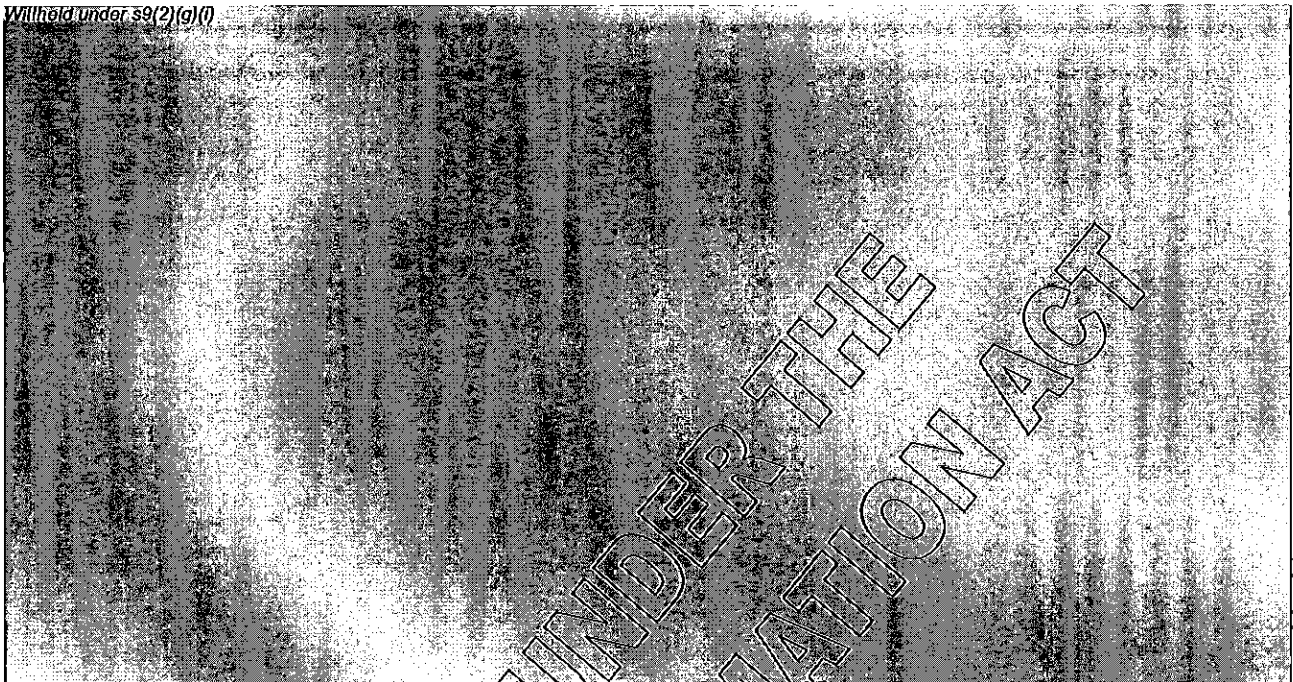


From: Anne-Marie Brook
Sent: Wednesday, 14 September 2011 4:21 p.m.
To: Margaret Galt; Rohan Biggs; Warwick Terry; John MacCormick; Ruth Isaac; Nick Carroll
Cc: s9(2)(g)(i); Sheryl Chase; Barbara Annesley; Nic Blakeley
Subject: RE: the schooling system - an A3 to engage the MoF in conversation...

Withheld under s9(2)(g)(i)



Withheld under s9(2)(g)(i)



- Charter schools: I don't think you have explained how charter schools would help to achieve the priorities. I am not saying that they won't, just noting that no evidence on this is provided.

Withheld under s9(2)(g)(i)



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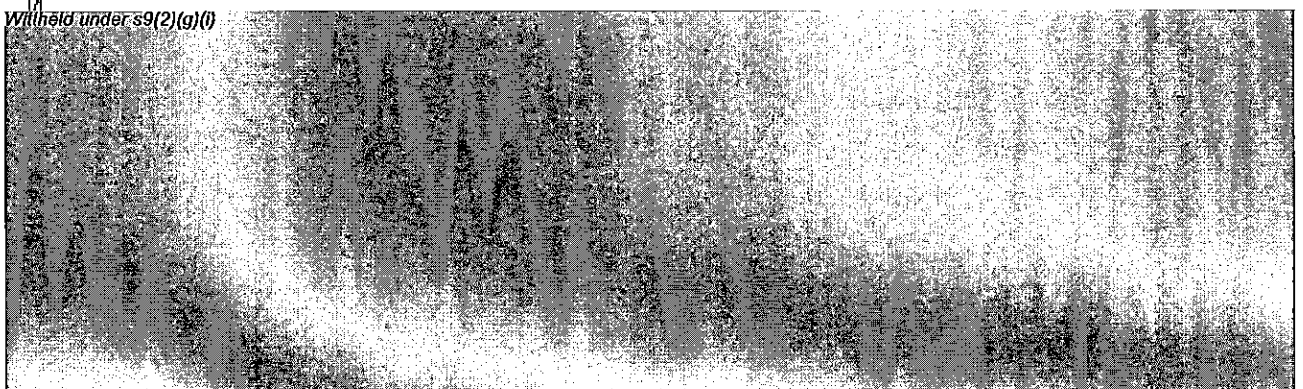
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From: Margaret Galt
Sent: Wednesday, 14 September 2011 1:36 p.m.
To: Rohan Biggs; Warwick Terry; Anne-Marie Brook; John MacCormick; Ruth Isaac; Nick Carroll
Cc: [s9(2)(g)(i)] Sheryl Chase; Barbara Annesley; Nic Blakeley
Subject: RE: the schooling system - an A3 to engage the MoF in conversation...

Hi Rohan

Withheld under s9(2)(g)(i)



Withheld under s9(2)(g)(i)



Margaret

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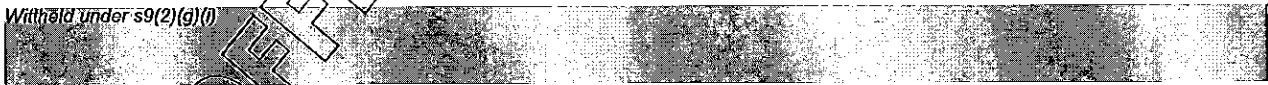
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From: Rohan Biggs
Sent: Wednesday, 14 September 2011 11:59 am.
To: Warwick Terry; Anne-Marie Brook; John MacCormick; Ruth Isaac; Nick Carroll; Margaret Galt
Cc: s9(2)(g)(i) Sheryl Chase; Barbara Annesley; Nic Blakeley
Subject: the schooling system - an A3 to engage the MoF in conversation...

Hello All

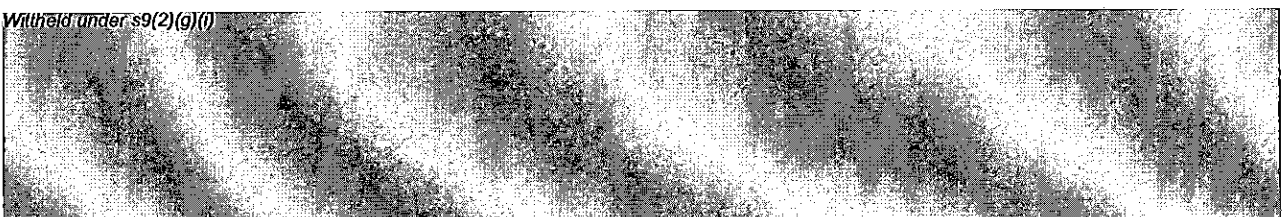
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- The first page sets out key influences on student achievement. Withheld under s9(2)(g)(i)
- The second page sets out:
 - What we would recommend doing (and not doing) and
 - Mechanisms for implementing change

The purpose is to reengage with the Minister of Finance on some bigger picture schooling issues (we have not done so for some time) and to get a sense of his reaction so we can focus our efforts.

Withheld under s9(2)(g)(i)



Withheld under s9(2)(g)(i)

Regards

Rohan

[Priorities for change in compulsory education team version 1 \(Treasury:2164727y1\)](#) [Add to worklist](#)

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AN ALTERNATIVE WAY TO TARGET SCHOOL RESOURCING BY SOCIO-ECONOMIC STATUS

Key Points

Decile-based funding is an important equity component of NZ's school resourcing system.

For school resourcing, deciles (and TFEA) aren't a bad policy tool.

- "International best practice" favours including broad socio-economic weightings in school resourcing systems;
- While not based on individual SES data, deciles are built from fairly fine-grained, consistent, objective and auditable data from census;
- Deciles are based on a set of indicators all correlated with student achievement/need;
- The TFEA funding curve reflects the extent of SES disadvantage in lowest-decile schools.

But deciles are now much more than a way of funding schools.

- Decile ratings are being used to target many govt and non-govt programmes for which they aren't designed or well suited. Programmes to address individual needs can't be well targeted using decile ratings that measure socio-economic mix at the school level.
 - You get too much targeting error with needy kids in higher decile schools missing out while middle class kids in low decile schools get "help" they don't need.
 - Examples include: Books in Homes, Fruit in Schools, free breakfasts, raincoats, etc...).
- Worst, in the absence of meaningful student achievement data, deciles are widely misused as a proxy for "school quality" - by the public, by the media, real estate agents, the Ministry, and by some schools themselves.
 - Decile 10 perceived as "prestigious" and "good",
 - "Low decile" seen as "struggling", "tough" and "risky".

Now could be the right time to review the decile rating system.

- We should make changes before deciles become entrenched in how the new national standards are measured, reported and understood by politicians, the public, schools and education officials;
- The new government supports targeted funding but some influential ministers have previously criticised the decile system (eg: 2005 select committee review)
- Tight fiscal conditions mean Ministers are more focussed on better use of existing resources, and more open to funding system reforms that could create both winners and losers.

The current funding system could be improved:

- Our system is based on data and research nearly 20 years old. We now have better evidence about the SES factors that matter for education, better student achievement and SES data, better international models, and improved statistical methods and computing power.
- We destroy lots of useful information: - by focusing only on deprivation (measuring only the tail of the SES distribution in each school community); by rank-ordering schools (losing information about dispersion about the average); and assigning schools into 10 categories (creating steps and thresholds from previously continuous variables).
- The current system has no targeted staffing component (though we know teaching quality matters most).
- We treat primary and secondary schools the same (but we know the effects of low SES are greater and more remediable at younger ages).
- We lose sight of the extent to which most schools are basically almost average - only the lowest and highest decile schools stand out as really different.

How many students are in each decile?

There are fewer students in low decile schools and more in high decile schools – the difference is greatest for secondary students.

Low-decile secondary schools are generally small and/or area schools.

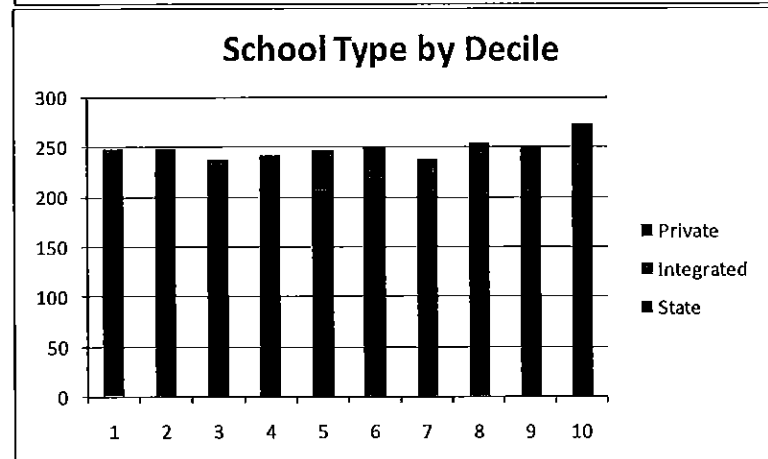
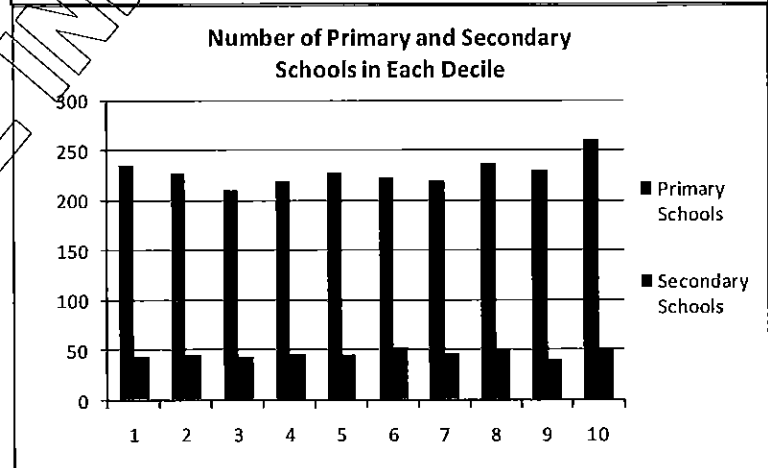
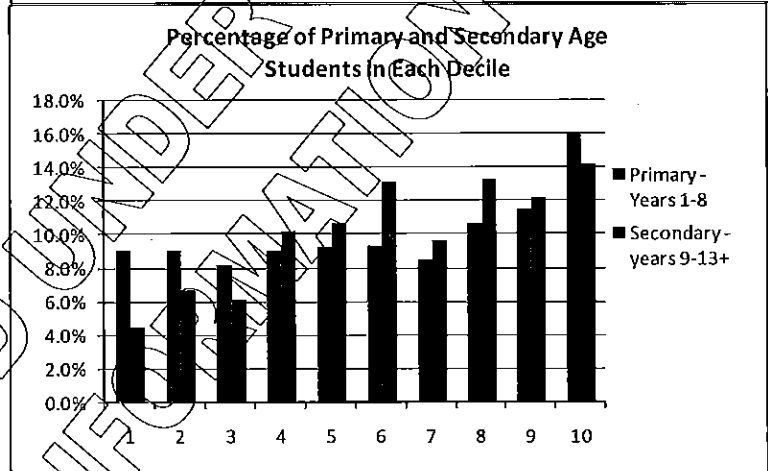
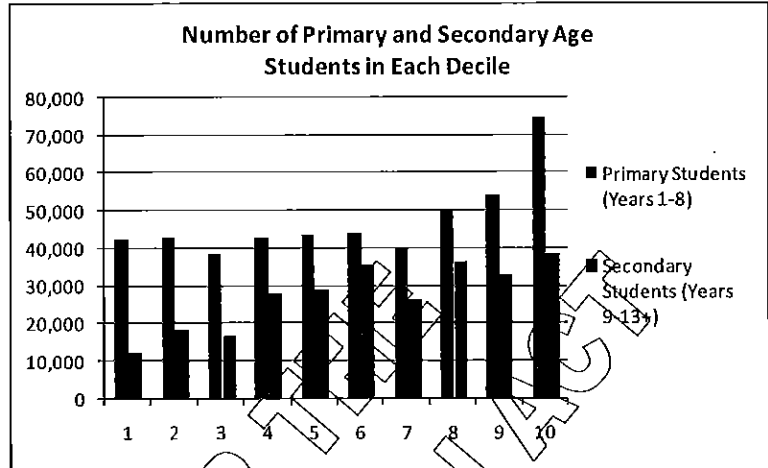
Decile 10 schools tend to be considerably larger and more urban.

A smaller proportion of secondary students are in low decile schools because:

- Hard for large schools to score in the lowest decile as large catchments tend to be more diverse;
- Parents of older children are less likely to be low income, benefit dependent and unqualified.
- ? School choice dynamics are stronger in secondary and lead to more selection?

The mix of primary and secondary schools in each decile is fairly constant. (Here area schools serving Y1-8 and Y9-13+ - eg Area Schools - are counted twice).

Private school deciles are calculated *after* state and integrated deciles are determined – so having more high decile private schools *does not* “squeeze out” state schools into lower deciles.



How are deciles calculated?

5 Socio Economic Indicators – all taken from the census

- i. Low income (in bottom 20% on household equivalised income)
- ii. Social welfare benefit as main income source
- iii. No parental qualifications
- iv. Low parental occupational classification
- v. Household crowding index

Data is collected at meshblock level (not for individual students and their families). Meshblock incidence rates are calculated using only families with children aged 5-15 and 16-17 studying full-time.

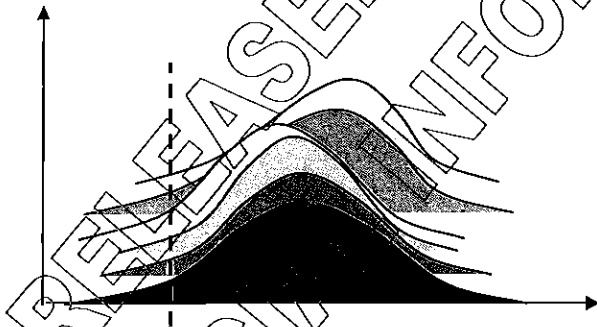
School incidence rate = weighted average of meshblocks where the school's students live.

Note:

We only measure the "tail" of these SES indicators for each school

- not the average, not the full spread, not the top

So two schools may have similar SES indicators, but quite different community profiles (eg: one may have many more parents with degree and/or in professional occupations). Using multiple indicators mitigates this problem, but there is value in the information we don't use (eg: links between high parental education and expectations for kids, access to governance capability, fundraising capacity, etc).



Until 2005, a 6th indicator was included: Maori and Pasifika as a % of each school's roll. What were the effects of removing this ethnic indicator?

- Relatively little change in decile rating for most schools – the other 5 indicators are closely correlated with ethnicity and more likely to be "causally" linked to achievement
- Some schools with mostly Maori/Pasifika students drawn from middle income communities lost funding (after grandparenting) as they moved up 2-3 deciles.
- *Withheld under s9(2)(g)(i)*

Each school then, has 5 incidence measures – one for each SES indicator.

These incidence measures, of course, have different means and distributions. So we can't just add up the 5 measures into a single index. First we have to transform them into a consistent shape.

At present, we do this in a way that unnecessarily destroys useful information and distorts the relative socio-economic position of schools: the percentile ranking bulldozer.

The percentile ranking bulldozer

Current practice is to convert each school's raw incidence measure on each SES measure into a simple percentile ranking (0-100).

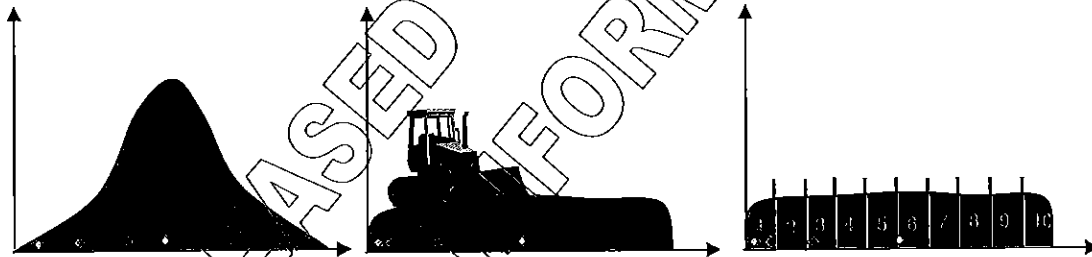
Then we add up schools' rankings on the 5 indicators to get a "decile index" score (0-500)

- o We could assign different weights to each indicator, using some evidence of their relative significance for school performance, student achievement, fundraising capacity etc. But we don't.

With schools lined up in order on this aggregate percentile measure, we assign an equal number of schools (not an equal number of students) to each of the 10 deciles.

That's nice and simple. But it destroys a lot of useful information about how different schools really are from one another.

For example, consider four schools represented by yellow, green, red and white dots in the diagram below. When we "bulldoze" the census incidence data into a percentile ranking, we lose all the information we had about how much each school differs from the average. The majority of schools clustered around the mean are spread out across the middle deciles. The few schools in the tail of the distributions are bunched up into the lowest (and highest) deciles.



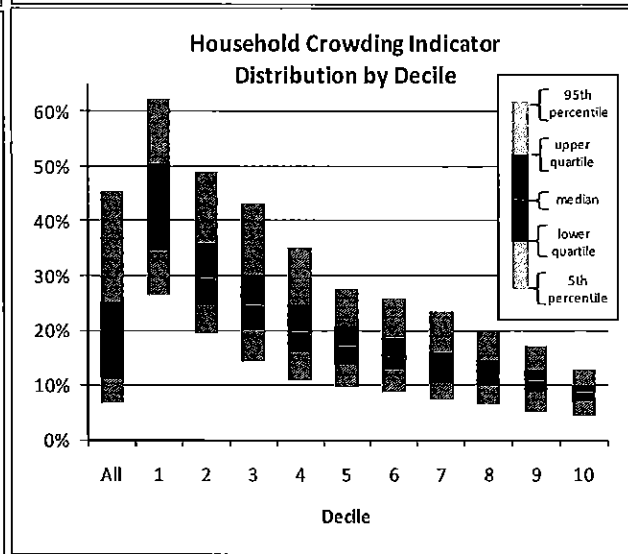
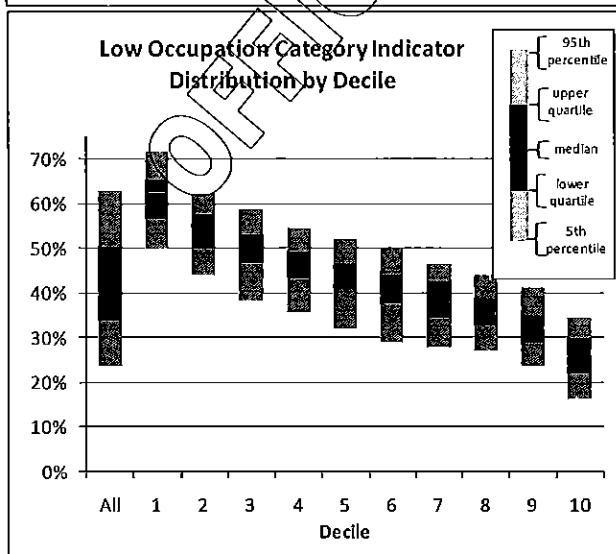
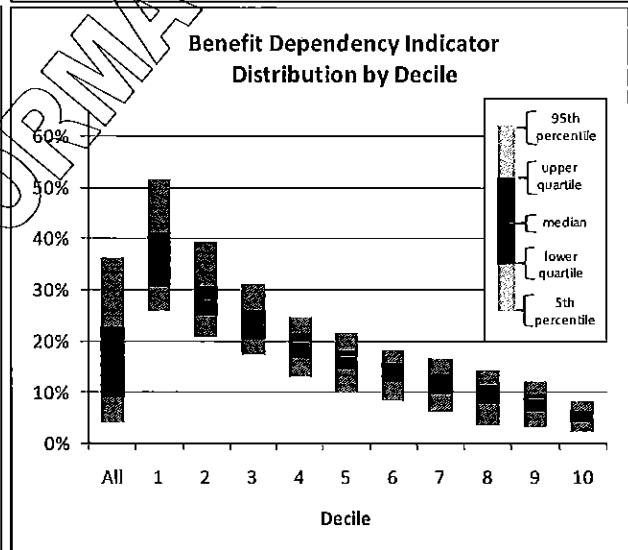
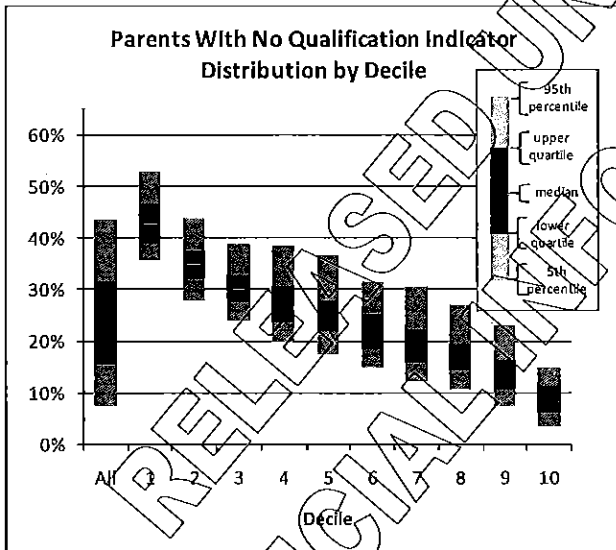
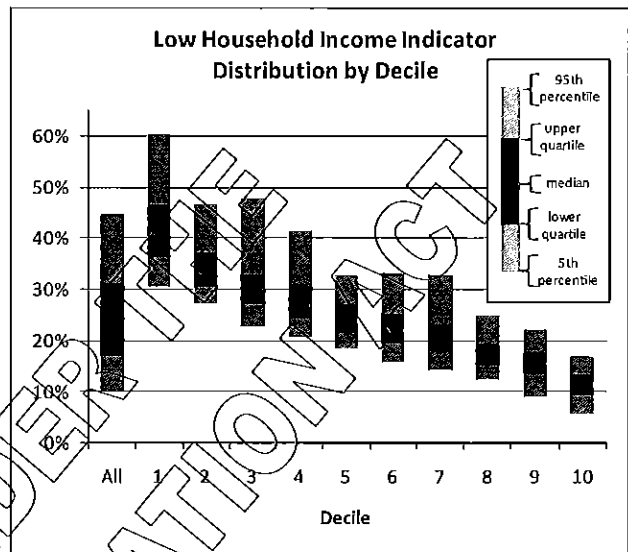
The following pages show the distribution of the 5 SES indicators on which the 2008 school decile ratings were based. In these charts, the pale red bars show the range from 5th percentile school to 95th percentile school in each decile. The darker red bars show the "middle half" of schools in each decile— from the 25th percentile to 75th percentile. The black lines show median values.

Fortunately, we then break each of the lowest 4 deciles into 3 steps to get additional funding steps for TFEA: 1A, 1B, 1C, 2D, ... 4L. And then we use a convex funding curve to reintroduce some of the dispersion information that our percentile ranking bulldozer destroyed.

Distribution of the Raw Incidence Measures for Low-SES Indicators in Each Decile.

Decile One is Different

- Within-decile variation is greatest in decile 1
- The inter-quartile range in decile 1 (spanning 5% of schools) is generally as large as the gap between medians for decile 5 and 8 (spanning 30% of schools)
- Decile 1 lower quartile barely overlaps the upper quartile of decile 2
- The 5th percentile for decile 1 schools seldom overlaps the 75th percentile for all schools.

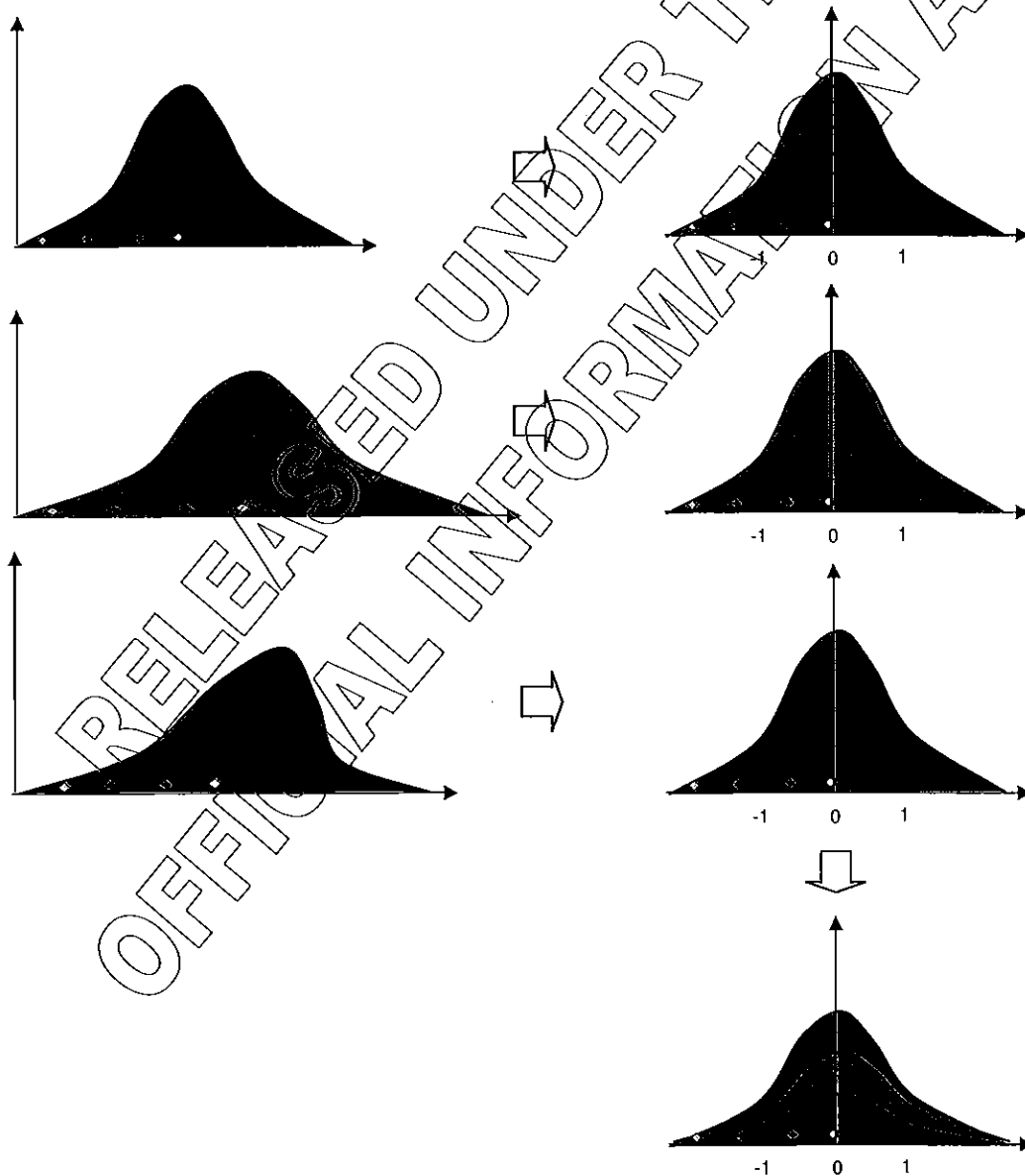


A Better Way: Standardised Distributions

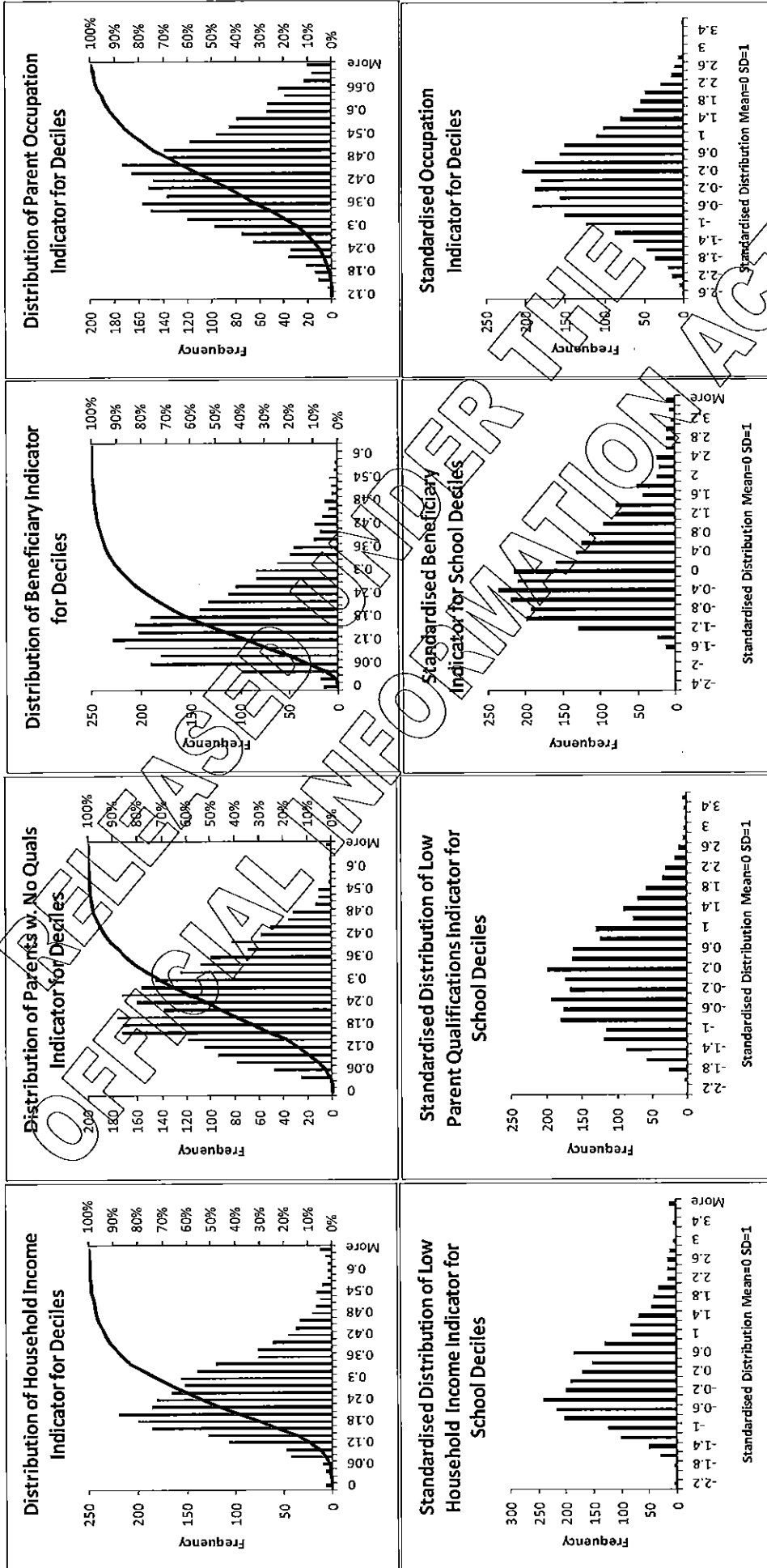
We don't need to destroy the distributional information in these SES indicators when we add them together to make an overall SES index.

Instead of converting the original data into percentile rankings (and adding these up), we can use a standard statistical technique to "standardise" each indicator's distribution to a mean of zero and a standard deviation of 1.

These distributions can then be added up and standardised again so we have a socio-economic indicator with mean value of zero, and SD of 1.



Frequency Distributions of Decile Index SES Indicators – Raw and Standardised



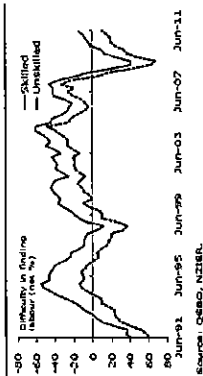
Decile ratings measure % of kids drawn from "decile 1 and 2" meshblocks... not % of decile 10 families...

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LABOUR MARKET AND SKILLS STRATEGY FOR NEW ZEALAND – EMERGING ISSUES

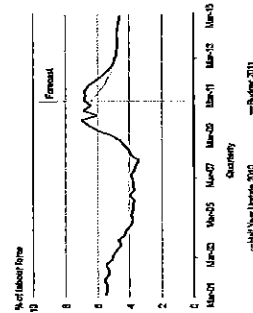
Short-run pressures on labour supply and wages may become apparent...

Skills constraints are emerging again... and we can expect demand for skilled labour to rise as the Canterbury rebuild begins in 2012 and the economy strengthens. ..



...demand for skilled labour to grow, with unemployment forecast to fall to 5% by early 2013...

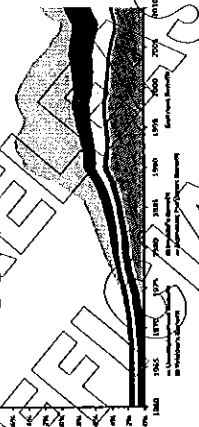
...and we face increasingly strong competition for skilled migrants.



Government should further support vulnerable groups to achieve better labour market outcomes...

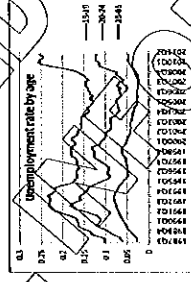
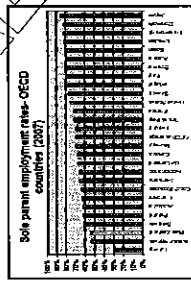
Many people who could be contributing to the labour market are on welfare...

Growth in the prevalence of benefit receipt in the working age population, 1980-2006



We have low rates of safe parent employment...

...and young people were hit hard by the recession...



... increasing the need to ensure policies which impact on the participation and productivity of vulnerable groups are aligned.

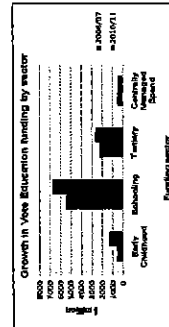
Education – an opportunity for better targeting of investment...

The evidence is strong for public benefits from ECE, especially for children from disadvantaged backgrounds...

...but participation is lowest for these groups and current targeting is low.

• 1.5% increase in overall ECE participation over last 5 years (2.5% for Maori and 3.9% for Pacifica), while Government funding has more than doubled.

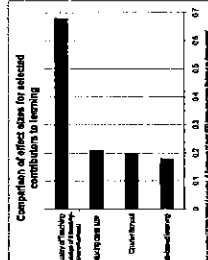
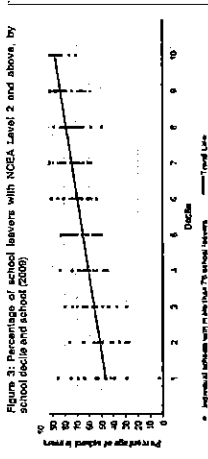
• 82% ECE participation by decile 1 children, compared to 95% overall



Schooling outcomes vary widely, especially within schools, and correlated with socioeconomic background...

...and the evidence points to teacher quality (underpinned by effective leadership) as the strongest lever to improve outcomes.

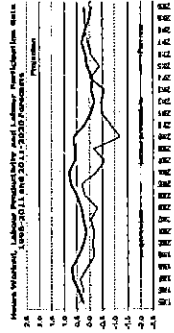
Parts of the tertiary system deliver relatively low completion rates and progression to higher levels... whilst the eight-year completion rate for full-time bachelors students is 77%, when part-time students are included this rate falls to 58%



Lifting labour productivity is increasingly important as New Zealand's population ages...

Labour productivity has been low, while growth in participation is expected to moderate

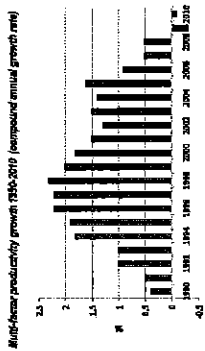
- Improving to labour productivity will become increasingly important for lifting growth...



A number of factors influence labour productivity including – capital investment, competition, innovation, human capital development and improved infrastructure...

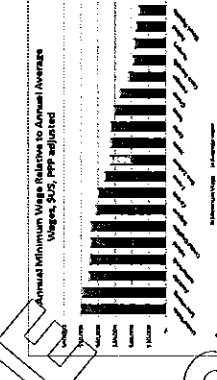
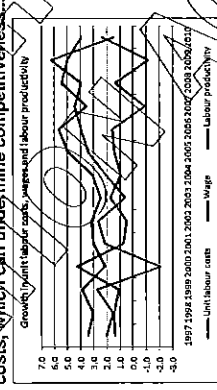
...and education and skills development are important for innovation and human capital and lifting productivity:

- Higher qualifications are associated with better labour market outcomes - provided they are a good proxy for skills (this may not always be the case)
- Developing cognitive skills, supported by non-cognitive skills, is a key focus of compulsory education
- Research shows quality early childhood education for disadvantaged children and teacher quality are key levers to achieving better educational outcomes



While labour market policies should support competitiveness by not institutionalising higher wage costs...

Wage growth has been higher than growth in labour productivity, leading to higher unit labour costs, which can undermine competitiveness.



Government plays an important role in setting wage rates and establishing rigidities through:

- Minimum wage settings
- Collective bargaining
- Occupational licensing

The Government as an employer has the ability to influence wage growth... The public sector employs 15% of NZ's labour force, with 3% in health and 8% in education...

LABOUR MARKET AND SKILLS STRATEGY FOR NEW ZEALAND – POLICY DIRECTIONS

Pre-labour market: Skills Supply
Lift skills supply out of schools...

Key points:

- Teacher quality is the biggest in-school influence on student achievement
- Data can be better used to lift performance at all levels of the system (student, classroom, school etc)

Policy Directions:

- Introduce system-wide changes to ensure consistently high teacher quality. These could include:
 - Mandatory pre-appointment training for aspiring principals / middle management
 - Changes to initial teacher education
 - Strengthening the performance management system
 - More targeted and effective professional development
 - Greater options for recognition and reward of expert and highly skilled teachers
- Improve the use of data to lift student achievement. This could include:
 - Setting clearer expectations and robust measures expectations (including but not limited to National Standards)
 - Better information flows, to enable key stakeholders to identify and address poor student performance.

Pre-labour market: Returns to Skills
Target education funding to areas of highest public return...

Key points:

- Evidence suggests greater returns from investment in the early years, and from more targeted spending approaches
- Consider rebalancing education funding more towards younger ages and at-risk groups

Policy Directions:

- Ensure changes to ECE funding arrangements promote participation in quality ECE by low SES, disadvantaged Maori and Pasifika children
- Target tertiary subsidies, student allowances and/or student loan borrowing more tightly to where there are higher returns on Government spending
- Take a wider look at student tuition subsidies, allowances and loans (alongside access & entry policies), to consider how these can be used to incentivise participation by young people
- consider future increases to 5% tertiary performance linked funding post 2012
- Review current arrangements for the approval and monitoring of tertiary education providers

Within-labour market: Welfare Reform
Increase participation, while reducing long-term benefit dependencies

Key points:

- Focus on investment approach and early intervention to get people into employment, which may include:
 - Gateways and assessments
 - Support services (e.g. mental health, disability and childcare)
 - Create financial incentives to move into work (i.e. 'in work' payments)
 - Managing work uncertainty
 - Skills training in some cases
- Implementing a work focus approach to all benefit categories, including disability beneficiaries with some ability to work
- Outcomes: Increased labour supply, estimated to be +50,000 people over the next 10 years.

Policy Directions:

- Creating incentives to employ lower-skilled individuals (through minimum wage and training)
- Employing immigrants versus beneficiaries
- Tradeoffs where potential tensions may arise
- Coordination of the links to education policy
- Role of childcare and the quality of ECE
- Gender and intergenerational impacts

Key Linkages

Welfare reform needs to be strongly supported with labour market, immigration and skills objectives

ECE, when well targeted and high quality, supports increased participation initially and longer-term skills development

Education/skills performance improvements underpins increases in longer-term labour productivity and youth outcomes

Labour market regulation supports flexibility and the employment of vulnerable groups, particularly youth

Wage growth linked with labour productivity, to increase competitiveness and growth outcomes

Within-labour market: Immigration Policy
Immigration policy balances short-run labour supply issues with long-run growth and productivity objectives

Key Points:

- In the short-run immigration policy is flexible to the demands of employers and meeting labour market (skills) gaps
- Long-run objectives of growth and productivity are supported through a focus on skilled migrants, entrepreneurs and investors
- But short-run policy implementation (migrant skill level issues) may be in tension with achieving long-run goals.
- Immigration policy also needs to balance New Zealand's social and international objectives with labour market objectives.

Policy Directions:

- Strengthening the economic focus of immigration – the role that people flows can play in supporting internationally focussed economic agenda through underpinning other dimensions of international competitiveness (trade, investment, innovation)
- At the same time, needing to ensure that short-run immigration does not undermine longer-run workforce development (eg training New Zealanders, displacing New Zealanders)
- Improve evidence base and monitoring on displacement effects, and incentives on firms to employ and up-skill domestic workers.

Within-labour market: Labour Regulation
Labour market settings support flexibility, competitiveness and minimum wage objectives

Key Points:

- Policy settings generally support flexibility, but marginal improvements can still be made
- Minimum wages:
 - Are important to set a wage floor, but changes need to reflect labour productivity growth
 - Facilitate employment of vulnerable groups (youth and beneficiaries)
- Collective Bargaining:
 - Could have an enhanced role in the Employment Relations framework to further improve flexibility

Policy Directions:

- Minimum wage:
 - Expand link to median wage to improve alignment with productivity growth
 - Youth of transition: wage policy supports employment outcomes for vulnerable groups (youth and beneficiaries)
 - Tradeoffs are likely between employment and education due to incentives of a youth minimum wage
- Collective Bargaining:
 - Continue with decisions on collective bargaining from STB in April, and further review collective bargaining policy (including non-union bargaining)

Proposed process beyond STR
Linkages to wider work programmes:

Economic Growth Agenda

Internationally Focused Growth Strategy
EGI February 2012 - Policy Actions

Labour Market and Skills Driver
Skills Growth Driver extension

Labour Market and Skills Strategy
EGI February 2012 - Policy Actions

Roles
Ownership of Labour market and Skills Driver

Joint Agency Lead
Ministry of Education
Department of Labour

Support
Treasury
MED
MSD
SSC
DPAC

Economic Growth Agenda
Labour market and skills strategy supports, and is supported by growth pillars:

- Removing red tape and unnecessary regulation
- Strengthening the tax system
- Lifting education and skills
- Productive infrastructure
- Better, smarter public services
- Improving science, innovation and trade

From: Zoe Wyatt
Sent: Wednesday, 26 October 2011 9:35 a.m.
To: Rohan Biggs
Subject: RE: Increasing use of the private sector in schooling

Hi Rohan

Re: Free Schools, [Withheld under s9(2)(g)(i)] While in the US charter schools often have to lease their facilities and in Sweden the state provides no capital funding, the UK does provide some capital funding, [Withheld under s9(2)(g)(i)]

[Withheld under s9(2)(g)(i)]

Once operational, Free Schools are eligible for capital funding for Basic Need (to provide school places where needed) like all taxpayer-funded schools. The Department for Education is also funding their set up (the acquisition and refurbishment of premises) on a case by case basis. [Withheld under s9(2)(g)(i)]

[Withheld under s9(2)(g)(i)]

The ASCL recently said "Half of the free schools established this year are not in highly deprived communities and many are in areas that do not have a shortage of places. This creates unaffordable surplus places in neighbouring schools, taking away resources from the young people there and affecting schools' capacity to afford a high quality curriculum and the staffing they need. Free schools will also make disproportionate demands on scarce capital funding. As small schools, they will have diseconomies of scale which will make them more expensive to run."

[Withheld under s9(2)(g)(i)]

Possibly also worth noting that while it is too soon to see the impact on student outcomes, there is a lot of scope for pedagogical innovation under the Free School set up.

Hope that helps

Zoe

Zoe Wyatt | State Sector Reform | The Treasury
Tel: +64 4 917 6201 | Zoe.Wyatt@treasury.govt.nz

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From: Rohan Biggs
Sent: Tuesday, 25 October 2011 4:39 p.m.
To: Zoe Wyatt
Subject: FW: Increasing use of the private sector in schooling

Hi Zoe – Nic suggested I add you to this consultation list. If you have time I'd be keen to get your view on whether I've misrepresented 'free schools' on the A3 element.

Regards

Rohan

Rohan Biggs | Senior Analyst | The Treasury

Tel: +64 4 917 6892 | Rohan.Biggs@treasury.govt.nz

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From: Rohan Biggs

Sent: Friday, 21 October 2011 3:26 p.m.

To: @Education & Skills; David Snell; Ruth Isaac; Kirsten Jensen

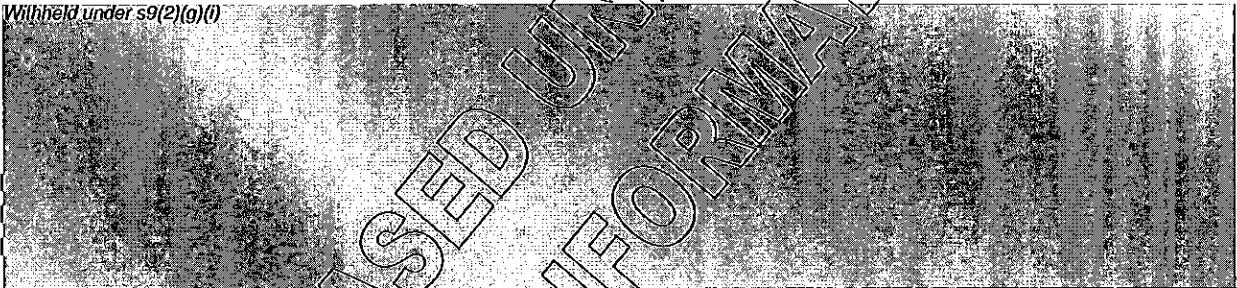
Withheld under s9(2)(g)(i)

Subject: Increasing use of the private sector in schooling

Hi Team and people interested in capital

Please see below a rough cut of a TR that we are hoping to discuss with MoF on 1 November at the weekly catch up.

Withheld under s9(2)(g)(i)



Regards

Rohan

[Increasing use of the private sector in schooling \(Treasury:2189610v2\)](#) [Add to worklist](#)

Rohan Biggs | Senior Analyst | The Treasury

Tel: +64 4 917 6892 | Rohan.Biggs@treasury.govt.nz

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Treasury Report: Treasury Views on Competition/Contestability in the Provision of ACC, Education and Health Services

Date:	4 November 2011	Report No:	T2011/2375
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Discuss the contents of this report at your meeting with Treasury at 3:30pm on 8 November	8 November 2011

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Hamish Grant-Fargie	Senior Analyst, Economic Performance Overview and Coordination	917 7034 (wk)	Withheld under s9(2)(a) ✓
Nic Blakeley	Manager, Education and Skills	917 6896 (wk)	

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

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4 November 2011

SH-11-2-2

Treasury Report: Treasury Views on Competition/Contestability in the Provision of ACC, Education and Health Services

Executive Summary

You are meeting with Treasury at 3:30pm on 8 November to discuss the role of competition and contestability in the provision of Government services. This note summarises Treasury's views and is designed as a basis for discussion.

Treasury sees competition as an essential condition for economic growth by encouraging resources to flow to their most productive uses. There is strong evidence that competition drives stronger efficiency, quality, entrepreneurialism and innovation. However, New Zealand's small size and distance from key markets makes it harder to achieve the full benefits that flow from competition in many other OECD countries. A case can be made that the relative lack of competition in our private sector means that the public sector needs to be more efficient than our trading partners.

The Better Public Services programme has identified three principles for achieving the public service for the 21st century:

- i Clear priorities (the Government only doing what it needs to do)
- ii High quality services (modern, responsive and good value for money), and
- iii Reduced waste (efficient, well organised, resilient government).

Our starting point is that competition and contestability are tools for achieving all three of these goals in those areas where they can be applied. Competition and contestability focus the government on doing only what it can do most efficiently and uses others when they can do the work better; they provide incentives for continuous improvement in the quality of services (through consumer choice or allocating money to the best provider); and they reduce waste by providing incentives for innovation to continuously improve the price and quality of the service.

The government has in many areas already moved to using more contestable approaches, with policies such as the PPPs in Corrections and schools; the greater use of private sector and NGO delivery in social services, including Whanau Ora; and increasing the use of others to increase the incentives on delivery in social housing. We think that success for this area would be if:

- The public sector automatically advised on whether it was best to "make", "buy" or "regulate" to achieve a policy goal, and when they did "make it" they knew the costs of doing so and could demonstrate to Ministers that this was indeed the most effective
- Funding from the government was allocated between competing state agencies on the basis of performance, with performance measured in terms of effectiveness and efficiency, and
- The consumer has a choice (even if that choice is limited) and the system is designed to respond to the performance incentives that consumer choice brings.

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We understand that you are interested in better understanding the Treasury position on increasing contestability in Health, Education and ACC and other areas where we have in the past highlighted significant risks associated with increasing contestability. Our overall position across all three areas is that performance can be significantly improved from the current situation, including through:

- Better targeting resources and expenditure to improve outcomes
- Improved accountability and performance management within existing arrangements, and
- Greater contestability to drive better accountability, including through the greater use of market mechanisms.

Our view across these sectors is that we need to maintain momentum across all three policy areas to lift performance, but that contestability is important. Nevertheless we are also aware that competitive markets for health, education and ACC are associated with some significant risks:

- Thin markets and loss of critical mass through fragmentation of service delivery
- Transactions costs, costs of duplication and additional private sector costs
- Lack of information on service quality and optimal prices, and
- Loss of control of inputs and outputs.

In many cases these risks can be managed through the suitable design of contestability arrangements (such as well-designed regulatory and market settings and incentives and strong performance management arrangements). However, in mitigating risks, the benefits of introducing contestability may also be reduced in some instances. In each of these areas we think the detailed design of contestability arrangements will be important. Our thoughts on some options for further work in these sectors are outlined below.

Education

The evidence suggests that schooling systems that use strongly competitive elements such as vouchers, avoiding school zoning and 'charter' schools do not produce systematically better outcomes.¹ This is driven by the risks associated with proliferation of small schools, lack of information for parents and government to assess quality and cost-effectiveness and drive competitive pressures in the right areas, and the use of market power by schools in the selection of students ("cherry picking").

While some of the evidence is mixed about the role that strongly competitive markets can play in the education system, there are a number of areas where we can push harder to improve contestability:

- better measurement and management of performance to enable new models to be developed that put real competitive pressure on schools (particularly in larger population centres) to raise student achievement (rather than simply attract high performing students)

¹ OECD Programme for International Student Assessment.

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- improving the market for teachers by introducing value add measures of performance and consistent teacher appraisal
- a contestable fund that schools can compete for on the basis of improved educational achievement for targeted groups of students may be an idea worth pursuing in the future after the introduction of better performance management tools
- pricing incentives for providers to target ECE provision to at risk groups, and
- the management of school property assets.

Health

As in the education system, generally the evidence has pointed to a number of risks associated with simple competitive markets in health services. This is because there are underlying information and insurance problems in health markets and many markets can only support a single provider, because of high minimum efficient scale. Our view is that the most promising areas to look into have the following characteristics:

- service areas where there is already a level of consumer or purchaser choice, but where some action on the supply side is needed for this to support competitive pressure on providers
- intermediate services where there is a relatively high level of product specificity, and
- services where there appears to be potential for greater use of contestable contracting-out, but where there are barriers that constrain purchasers.

ACC

Evidence from overseas is that the long tail nature of injury compensation advantages economies of scale (for example, it allows specialisation in service provision to manage the small number of high cost claims that drive a very high percentage of costs). Actuarial analysis of ACC costs in comparison with private sector provision has concluded that the additional costs faced by private providers mean that private sector provision would be more expensive than current provision. The areas where we think that contestability could be pushed further are either:

- the creation of a level playing field in the current model proposed for the work account to encourage insurer participation (this is likely to preclude the participation of the state), or
- to introduce competition within the scheme (the Accredited Employer Programme is the only current example), and introduce contestability by expanding the use of private sector.

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Recommended Action

We recommend that you:

- a **indicate** which of the following areas you consider that Treasury should undertake further work in consultation with relevant departments:

Portfolio	Service Area/Component	Should be progressed? (✓ or x)
Potential Quick Wins		
Education	Investigate the merits centralising and outsourcing the management of school property (underway with report back in December 2011)	
<i>Withheld under s9(2)(f)(iv)</i>		
Potential Medium Term Options		
Education	Consider the introduction of a contestable fund to improve the performance of targeted groups of students	
<i>Withheld under s9(2)(f)(iv)</i>		
ACC	Introduce competition within the insurance scheme and other measures to sustain performance over the longer term	
Potential Longer Term Options		
Generic	Investigate the threat of increased competition or contestability as a means to drive improved performance. For example, children that are two years behind on national standards at the end of primary school have preferential access to any state secondary school of their choice regardless of zone	

Nic Blakeley
Manager, Education and Skills

Hon Bill English
Minister of Finance

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Treasury Report: Treasury Views on Competition/Contestability in the Provision of ACC, Education and Health Services

Purpose of Report

1. You are meeting with Treasury at 3:30pm on 8 November to discuss the role of competition and contestability in the provision of government services. This note summarises Treasury's views and is designed as a basis for discussion.

Treasury's Views on Competition² and Contestability³

2. Treasury sees competition as an essential condition for economic growth by encouraging resources to flow to their most productive uses. There is strong evidence that competition drives stronger efficiency, quality, entrepreneurialism and innovation. However, New Zealand's small size and distance from key markets makes it harder to achieve the full benefits that flow from competition in many other OECD countries. A case can be made that the relative lack of competition in our private sector means that the public sector needs to be more efficient than our trading partners.
3. The Better Public Services programme has identified three principles for achieving the public service for the 21st century:
 - i Clear priorities (the Government only doing what it needs to do)
 - ii High quality services (modern, responsive and good value for money), and
 - iii Reduced waste (efficient, well organised, resilient government).
4. Our starting point is that competition and contestability are tools for achieving all three of these goals by
 - driving efficiency in the provision of Government services and the management of public assets
 - acting as a benchmark for efficiency and effectiveness of Government delivered services (e.g. privately run prisons), and
 - acting as a catalyst for innovation and change.
5. Where markets are created for the provision of services to be provided by the private sector, incentives and accountability arrangements can be put in place to drive better outcomes and reprioritise funding from low performing services to high performing services.

² Competition refers to the ability for competing providers to deliver better outcomes.

³ Contestability relies on market pressures to deliver better outcomes for consumers (and Government). Contestability differs from competition in that it does not need multiple providers – the threat of entry by other suppliers can be sufficient.

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6. However, we are also aware that competitive markets for health, education and ACC are associated with some significant risks:
 - thin markets and loss of critical mass through fragmentation of service delivery
 - transactions costs, costs of duplication and additional private sector costs
 - lack of information on service quality and optimal prices, and
 - loss of control of inputs and outputs.
7. In this context, choosing the appropriate portion of the supply chain and careful design of the contestability/competition mechanism are critical to success.
8. New Zealand has already opened up many areas of the public sector to competition. Many services formerly provided by the state have been corporatised and/or vertically disintegrated to promote competition. According to the OECD, New Zealand has the 12th lowest level of state control in product markets. At the next level down, OECD measures suggest that New Zealand has one of the highest rates of outsourcing, although New Zealand's position has remained largely unchanged since 1995.⁴
9. Treasury's position on who should provide which services and under what level of contestability has been determined by our reading of the evidence of where private sector provision and contestability can be best used to drive better outcomes. In most cases the biggest gains from competition and contestability are likely to come from areas where services are currently or could be provided to some degree by the private sector (e.g. SOEs, social housing). These are both areas where the Government could go further. There are also areas where there are strong cases against private sector involvement (e.g. police, collection of tax revenue) and a number of areas where the decision about where to locate service delivery will depend on how well the risks of Government provision and private sector provision can be managed. Treasury has identified some areas where we think there is untapped potential for competition or contestable processes to improve the efficiency and effectiveness of public services.
10. Judgements on the areas where contestability is feasible and likely to deliver net benefits may change over time due to changes in technology and business models.

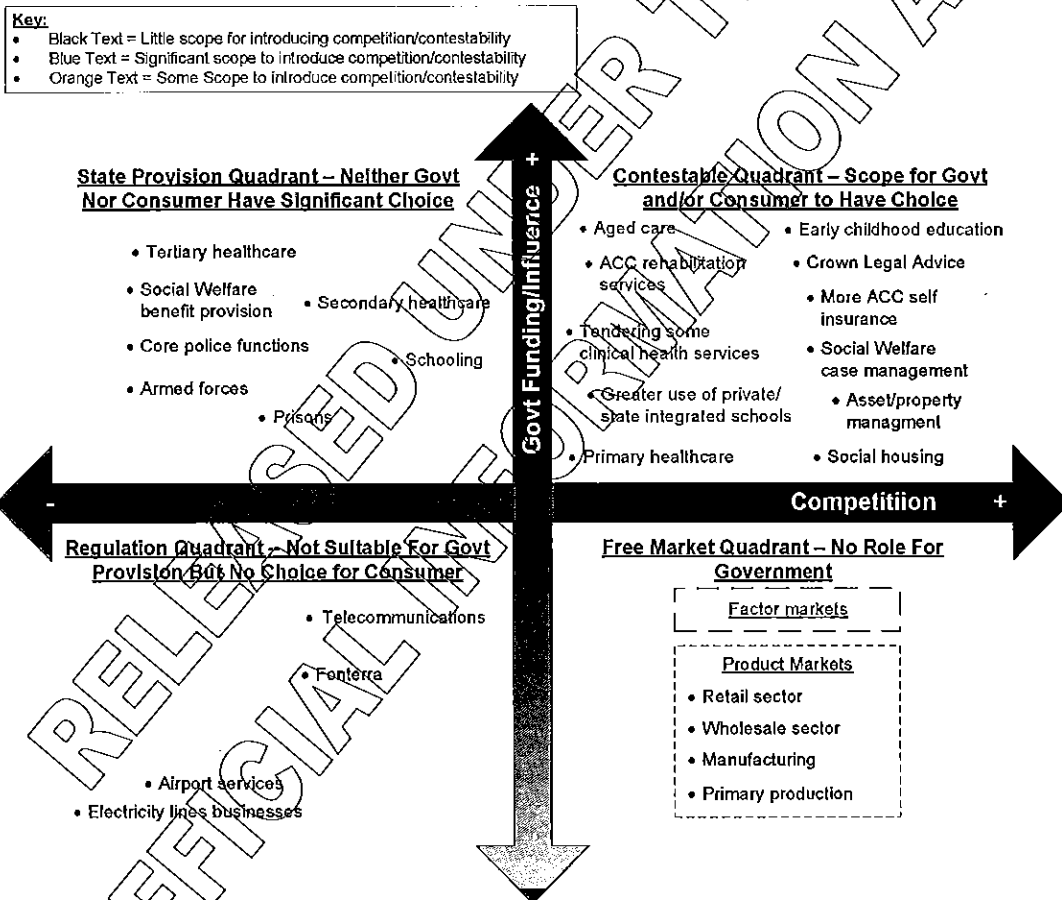
⁴ Based on Table 8.2 of OECD Government at a Glance (2009). This is the percentage of Government's goods and services purchased from others as a proportion of total Government sector production.

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Theoretical framework for thinking about competition/contestability in the provision of Government services

11. At a high level, the scope for competition in Government service provision depends on the degree of Government influence and the ability to feasibly introduce competition:

A framework for thinking about the scope for competition



12. Treasury considers that areas in the top right quadrant of this diagram are likely to have the greatest scope for the introduction of greater competition/contestability because there:

- are multiple providers (or significant scope for multiple suppliers to enter a given market over time) so there is scope for both consumer and Government to have choices to drive better performance, or
- is scope for the Government to provide funding in a way that allows the consumer to choose, or
- is scope for the Government to have choices over who provides a service while the consumer has no choice.

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13. Introducing contestability is more likely to be successful where:

- the Government knows what it wants (including quality and other "soft" areas) and is prepared to hold the supplier to account
- Ministers are willing to live with different outcomes as most of the potential gains from using a contestable process are lost if the government specifies the outcome so tightly that there is little chance for innovation and cost-saving change to be introduced
- there is a stable policy environment over the term of the contract as once a contestable process reaches a commitment and the government has a binding contract for the duration, and
- the nature of the services provided and the underlying market means that it is possible to significantly align the incentives of suppliers and Government.

14. Competition/contestability can be introduced or increased in a number of ways:

- private sector provision where there is a competitive market (or one that can be created efficiently)
- private sector participation where the government can play a role in creating contestable 'quasi' markets over time (e.g. NGO provision of social services)
- increasing competition between state providers (e.g. in policy advice via taskforces and advisory groups, competition in schooling)
- increasing the pressure on state agencies to perform by enabling consumer choice
- corporatisation (e.g. SOEs)
- contracting out (e.g. specialist consultancy contracts, RNZAF flight training, departmental property/asset management)
- agglomeration (e.g. Government procurement)
- competition for management/corporate control (e.g. some PPP's, statutory managers)
- auctions to maximise taxpayer value (e.g. radio/telecommunications spectrums, fishing quotas)
- contestable allocation of funding (e.g. Performance Based Research Fund), and
- PPPs (e.g. prisons, transport projects).

15. Decisions on the method of introducing competition/contestability will depend on:

- desired degree of Government control, risk aversion, and flexibility
- ability to align provider incentives
- transaction costs
- economies of scale

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- degree of inefficient duplication
- accountability mechanisms
- potential for supplier capture
- relative risk of government vs. market failure, and
- transition costs.

Empirical Evidence and Potential Areas for Further Work

16. With the above considerations in mind, Treasury has analysed the empirical evidence across the health, education and compulsory accident insurance sectors to identify some areas whether further work on introducing greater competition/contestability. The Treasury thinks that the best approach is to start in places where
- there is already a clear contestable option (quick wins)
 - introducing competition could materially improve outcomes including putting pressure on government services to improve outcomes, and
 - moving to a competitive system of allocation would increase the flexibility of resources to move to their most valuable use, thus having significant spill-over benefits for the economy as a whole.

Education Sector

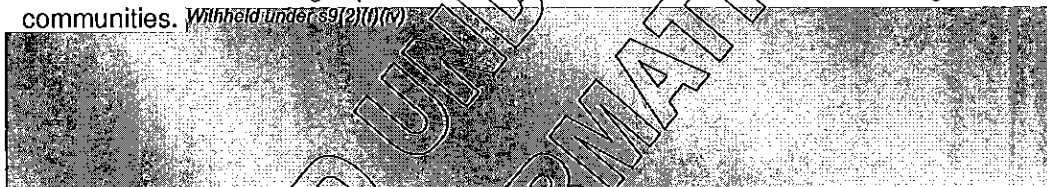
17. Opportunities for competition in schooling are generally limited to areas where there is high population density resulting in a number of schools being located within commutable distances, and excess capacity in some schools. Within these areas there is already a strong competitive element between state schools to attract students given both operational funding and principal salaries are determined by student numbers. This competition is non-binding on popular schools (e.g., Wellington College turns away 300 prospective third formers every year) but is 'cut throat' in other schools (e.g., within parts of the Hutt Valley where excess places exist).
18. This competition takes place in a context of parents having poor information on which to base their choice of school and empirical evidence that suggests the gains from competition are minimal or negative. Schools often promote themselves on non-academic features and raw performance results that can mask average value-add by a school's teachers. There is an opportunity for the MoE to develop value-add data to support informed choice. Education systems with a high degree of competition for students (voucher systems, 'charter' schools and no school zoning) do not tend to produce systemically better outcomes in PISA⁵. There are trade-offs between encouraging choice and managing fiscal costs, as well as keeping school sizes large enough to support economies of scale a diverse curriculum and a critical mass of teachers to provide collegial accountability and development.
19. One area of schooling where competition could yield performance improvements is the introduction of a contestable fund that schools can compete for on the basis of improved educational achievement for targeted groups of students. For example, schools who are able to demonstrate they've added the most years of schooling achievement to specified disadvantaged students may gain a fixed amount of funding or a share of a fixed pool of funding. A necessary pre-cursor to considering such an approach is value-add data that allows the value added by a school to be identified.

⁵ OECD Programme for International Student Assessment.

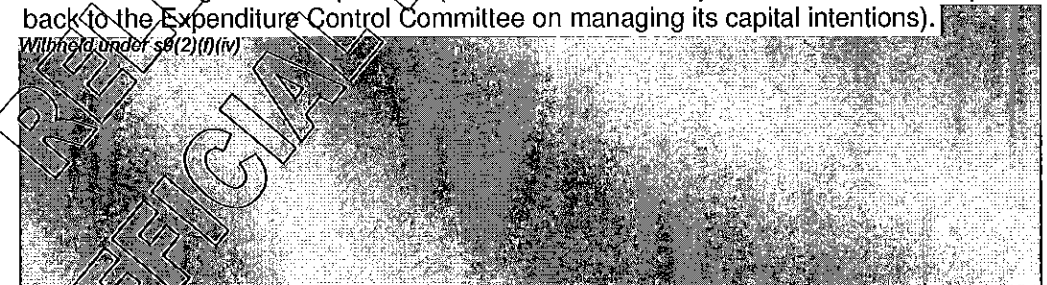
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This approach would provide an incentive for schools to work out how best to intervene in a way that works for disadvantaged students, rather than the current system where disadvantaged students can continue to fail with few consequences for the schools involved. However, we are yet to analyse this option in any detail.

20. The market for teachers could also be improved with the introduction of value-add data and consistent teacher appraisal processes. At present it is hard to differentiate teachers on the basis of quality, with tenure being used as a (poor) proxy. Similarly, teacher appraisal methods vary across schools, being non-existent in some instances. We consider improving teacher appraisal as a priority in the schooling sector.
21. There is considerable scope to introduce greater competition and contestability into other areas of the education sector. In particular, we think competition could be harnessed to achieve one of the Government's key priorities in Education – increased early childhood education (ECE) attendance amongst disadvantaged children. Significant disparities exist between the participation rates of Maori, Pasifika, and children with special needs compared to the general population. Interventions to date have focused on reducing capital costs for providers to establish in disadvantaged communities. *Withheld under s9(2)(f)(iv)*



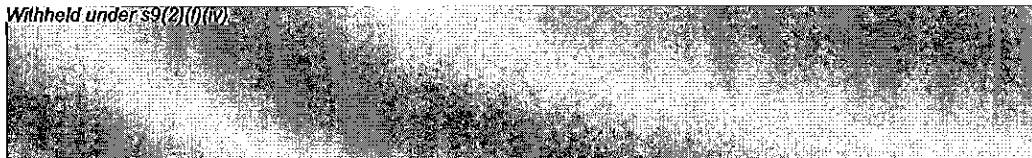
22. Another area where there is scope to introduce greater competition/contestability is the management of education property assets. The Ministry of Education currently manages around \$12 billion of school property, with a significant amount of decision making devolved to school boards. We have some concerns about the current management of school property and will be reporting to you in December 2011 with some analysis about changes that could be made to improve the incentives and decision making within the portfolio (in line with the Ministry of Education's next report back to the Expenditure Control Committee on managing its capital intentions).



Health and Disability Services

23. Extending contestability further into core primary and secondary health services, and creating markets for intermediate services, has the potential to deliver more cost efficient service delivery, greater choice, and innovation by providers.
24. Contestability already exists in many of the areas most amenable to it (aged care, primary care, disability support services, and private insurance). Generally, these are characterised by private ownership of providers and often a high level of choice and co-payment by individuals.

25. *Withheld under s9(2)(f)(iv)*



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Withheld under s9(2)(f)(iv)

26. Interventions to increase contestability need to be treated on their merits – whether they pay off or not is likely to be case-specific. In each case, we see there being three essential conditions for success:

- availability (either at the outset, or in the initial phases of introducing contestability) of performance and price information
- the possibility of establishing a realistic contestable dynamic (i.e. multiple participants in the market), and
- tolerance by the purchaser, and central government, of greater flexibility than there currently is for providers to change the way services are delivered.

27. Our view is that the most promising areas to look into have the following characteristics:

- service areas where there is already a level of consumer or purchaser choice, but where some action on the supply side is needed for this to support competitive pressure on providers
- intermediate services where there is a relatively high level of product specificity, and
- services where there appears to be potential for greater use of contestable contracting-out, but where there are (real or perceived) barriers that constrain purchasers.

28. The table below identifies a set of potential contestability measures that we have generated, and comments briefly on what they might be expected to achieve, and their feasibility. We have focussed on options that are achievable within the overall parameters of the current health system. Withheld under s9(2)(f)(iv)

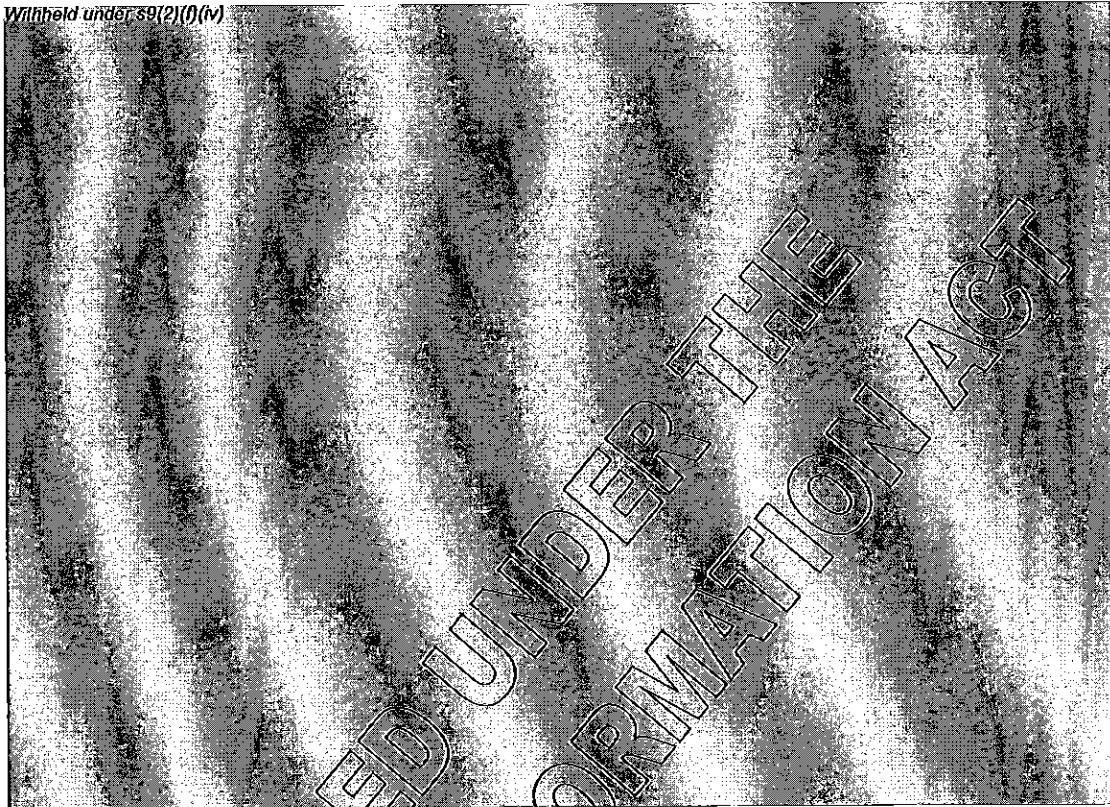
options. Withheld under s9(2)(f)(iv)

However, we can provide further advice on these

Measure	What it could achieve	Feasibility	Comment
Withheld under s9(2)(f)(iv). Page 19 also withheld under s9(2)(f)(iv)			

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Withheld under s9(2)(f)(iv)



Accident Compensation

29. Competition can operate at different levels of accident compensation provision. Most countries operate commercial models involving private underwriting, or a combination of commercial and government provision. Competition can also be a feature of government monopoly schemes.
30. There are a number of issues associated with these models that have a major bearing on the benefits that can be achieved. The most significant issue is the long tail nature of injury compensation (small numbers of claims driving a very high proportion of costs), which normally results in governments determining the policy settings. ACC's core policy settings – no-fault, universal cover at a minimum level of entitlement – require a comprehensive regulatory framework to ensure that claimants receive their entitlements, and to avoid health and welfare cost shifting to the Crown. Evidence from overseas is that the long tail nature also advantages economies of scale (e.g. it allows specialisation in service provision to manage the small number of high cost claims).
31. Competitive underwriting can reduce the volatility that has been a feature of the ACC scheme, although overseas experience of more competitive underwriting models show similar cycles of volatility. Competitive underwriting requires a level playing field to encourage insurer participation which is essential for the success of any market. However, this is likely to preclude the participation of the state (except, perhaps as an SOE). We have previously advised that to get as much benefits of competition as possible, all the levied accounts (Motor Vehicle, Earners and Work) should be considered for competition, without ACC participation. Changes to core policy settings may also be necessary to fully realise the benefits of competition, although this would need to be carefully considered in order to limit the risk of cost shifting to the Crown.

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32. Actuarial analysis of ACC costs in comparison with private sector provision has concluded that the additional costs faced by private providers (e.g. profit loading, overheads), mean that private sector provision would be considerably more expensive than current monopoly provision. The big problem with government provision of accident insurance is the high cost associated with the concentration of poor management and the lack of competitive pressure. On the other hand, ACC's recent turn around in performance (underlying claim costs and the employer levy are at historic lows) has shown that good management can effect change very quickly.
33. Competition within a scheme involves levels of self insurance (an ACC example is the Accredited Employer Programme), the use of private sector practices (e.g. risk pricing to send stronger price signals to motorists, individuals), and contestability in rehabilitation provision. The strong accountabilities on ACC, in which they are measured by changes to their liability, has meant that they have had an incentive to adopt contestable practices to drive their performance. For example, ACC has contracted out case management to four private sector providers as part of a trial to compare with their own provision (they first carried out a similar trial in 2000/01). The most significant point about this trial is that it was not undertaken at the direction of ministers, but because there was a strong business need.

RELEASED UNDER THE OFFICIAL INFORMATION ACT

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THE TREASURY
Kaitohutohu Kaupapa Rauwharua

Treasury Report: Bilateral with Minister of Education 21 December 2011

Date:	20 December 2011	Report No:	T2011/2575
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Read report prior to your meeting with the Minister of Education at 5.30pm, Wednesday 21 December 2011. Agree to share this report with the Minister of Education.	21 December 2011

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Nic Blakeley	Manager, Education and Skills	917 6896 (wk)	<i>(Withheld under s.9(2)(a))</i> ✓
Rohan Biggs	Senior Analyst, Education and Skills	917 6892 (wk)	

Minister of Finance's Office Actions (if required)

Forward a copy of this report to the Minister of Education's office if agreed by the Minister of Finance.

Enclosure: Bilateral agenda 21 December 2011 (Treasury:2231779v2) **Add to worklist**

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20 December 2011

SH-4-5-9

Treasury Report: Bilateral with Minister of Education 21 December 2011

Purpose of Report

1. You are meeting with the Minister of Education at 5.30pm on Wednesday 21 December 2011 to discuss schooling reform. We see the purpose of the meeting as twofold:
 - a. To outline the broad schooling reform agenda with a view to Ministers endorsing or correcting it, and
 - b. To seek some direction on policy parameters and priorities associated with charter schools and the schooling items of the *Post-election Action Plan* to aid officials in commencing implementation over January/February 2012.
2. A proposed annotated agenda is attached at Annex 1. We understand that the Ministry of Education (the Ministry) is working to the same agenda items, but in the time available we have not been able to produce one set of agreed briefing material. We recommend that you agree to forward this report to the Minister of Education prior to the meeting.

Agenda for schooling reform

3. The National Party Manifesto *Education in Schools*, the *Post-election Action Plan*, and the *Confidence and Supply Agreement with ACT New Zealand* collectively outline a bold reform programme for the schooling sector.
4. These documents are generally consistent with the directions for change signalled in the Ministry's draft Medium-term Strategy for Schooling and the Treasury's paper *Implementing change in schooling: Key levers over the next three years*. In particular:
 - a. Review and reform the **New Zealand Teachers Council** to create a genuine professional body that provides leadership of the sector.
 - b. Using information and data to:
 - o **Improve accountability** by publishing secondary schooling performance information.
 - o **Better target resources.**
 - o Allow teachers to **identify what works** and to share that practice.
 - c. Amend the **resourcing model** so it incentivises performance.
 - d. **More effective teacher and principal appraisal.**
 - e. Improvements to who can enter **teachers training** and what they are taught.
 - f. Continued evolution of the **Youth Guarantee** including specialist teachers without teaching qualifications.
 - g. Introduction of **charter schools** to lift student achievement in low decile areas.

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Implementing change: framing and policy parameters for key initiatives

Funding context – Four-year Budget Plan

5. Implementing the reform agenda in a time of fiscal restraint will be challenging. The Ministry's draft Four-year Budget Plan relies on amendments to teacher:pupil funding ratios

[Withheld under s.9(2)(i)(v)]
[Withheld under s.9(2)(i)(iv)] [Withheld under s.9(2)(i)]

6. The Ministry will be producing a final Four-year Budget Plan for 24 January 2011. An indication from Ministers of the acceptability of the current approach to reducing teacher numbers would help officials in this production.

7. [Withheld under s.9(2)(i)(v)]

Framing change

8. International experience suggests that successful change management in the schooling sector makes the case for change to the public but also taps the intrinsic motivation of teachers and uses them to drive change. This makes the *framing* of change management in schooling critical.

9. [Withheld under s.9(2)(i)(v)]

Charter schools

10. The *Confidence and Supply Agreement with ACT New Zealand* commits to implement a charter school system, possibly starting in South Auckland or Christchurch, with the aim of addressing educational underperformance in low decile / disadvantaged communities.

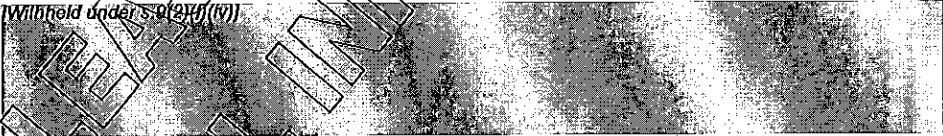
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11. The policy detail in the agreement suggests charter schools will have:
 - a. Public funding through operational grants.
 - b. Flexibility to: recruit and retain teachers, contract out management, raise their own revenue.
 - c. Restrictions on how they select students – they cannot select based on ability but may choose to conduct entrance on ballot if over-subscribed.
 - d. A contractual relationship between the school and the charter sponsor, with the latter responsible for ensuring student achievement goals, financial and operational standards etc are met.
 - e. External accountability of the school to the sponsor and via external review (e.g. by ERO).
12. These parameters are typical of overseas charter school design and appear to create settings which will allow greater flexibility for governance and management. However, there is less detail about how performance in relation to student achievement will be monitored.
13. We think charter schools could also be used to pilot initiatives that **increase accountability and keep the focus on increasing student achievement** (in ways that could be replicated in the whole system if they work), as well as increasing management flexibility. For example, charter schools could be required to demonstrate the yearly value added to students and use good practice teacher appraisal methods.
14. Charter schools could be started on **existing sites** (either through closing a struggling school, or a school electing to convert to charter school status), or they could add to the network of schooling provision by starting on a **new site**. The former approach has some appeal as it would allow existing infrastructure to be used and presents an opportunity to re-invigorate poorly performing school. However, it also brings with it greater complexity (e.g. current rules and procedures regarding school closure) and may catalyse resistance within a community. The latter approach risks over-investing in infrastructure and if successful may threaten the viability of neighbouring schools over time, but is a potentially less aggressive approach to initial implementation.
15. The agreement with ACT is silent on **the scale and pace of implementation of charter schools** that may be set up. Different implementation approaches might be taken depending on the scale envisaged. A lower number of charter schools allows more resources to be devoted to supporting success, and to manage initial risks and uncertainties.
16. The agreement with ACT commits to implementing charter schools before the end of the current parliamentary term. At the margin there could be trade-offs between implementing charter schools swiftly and other elements of the wider educational reform programme. Initial work by the Ministry suggests that legislative change will be required and 2014 appears the earliest feasible year for implementation. Officials will need to test Ministers sense of urgency around charter schools, and seek clarification of the role of the implementation group referred to in the Confidence and Supply Agreement, as this will have implications for the timeframes and process for implementation.
17. There are a number of risks that will require management during the development and implementation of charter schools. These include:
 - a. Upside financial risk of over-investing in capacity, as well as risks of poor financial management if providers are not carefully selected or inadequate financial accountability mechanisms are used.


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- b. Performance risks for nearby state schools if rolls and funding drop. While the decline of some state schools may be a means of creating genuine entry and exit from the schooling market, there could be significant risks for the cohorts of students involved in this process.
- c. Related to point b, there is a risk of increasing the stratification (sorting by socio-economic background) of schooling if nearby state schools decline but remain open. OECD PISA data suggests higher levels of stratification are correlated with lower average system performance.
- d. International experience suggests that many charter schools struggle either financially or in terms of student outcomes in their first years of operation. This suggests the need for robust standards for authorisation or selection of charter sponsors, tight specification of charter content and expectations and robust review and accountability requirements, at least initially.

Publishing secondary schools performance information

- 18. The National Party's *Post Election Action Plan* included a commitment to "make secondary school performance information available to parents, so they are informed about their child's learning environment."
- 19. Our view is that there are quick ways of implementing this and that improvements and additions to data can be made over time.
- 20. As a starting point a website could repackage and make more accessible existing NCEA data and ERO reports. This would allow for rapid implementation and would not require action by schools or the sector.
- 21. Subsequent improvements to such a website could include the following:
 - a.  Withheld under s 9(2)(f) (97)
 - b. Provision of **other 'learning environment' information** (e.g., truancy rates, asset condition, outcomes of graduating students, etc). This may require collecting new information or could involve using information already available within the Ministry.
 - c. **Explicit comparison of schooling performance** similar to that of the Australian 'myschool' website that compares groups of similar schools based on student attainment levels.
- 22. There is also a choice over which agency should implement the website:
 - a. The Ministry holds significant amounts of data on schools, has some data analysis capability and is responsible for school accountability arrangements.
 - b. ERO has a role in evaluating school performance and is a small responsive agency. However, its view is that the type of school performance reporting would not align well with its role in the sector (i.e. it wants to be an evaluation and not a monitoring agency).
 - c. We see no *prima facie* reason that the function could not be contracted out to a private provider, although issues around data-sharing and privacy may need to be worked through.
- 23. Other approaches to implementing reporting of secondary school performance information are possible, for example:
 - a. Enhanced requirements for the information provided in school charters or annual reports could be created.

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b.  [Withheld under s.9(2)(iv)]

Review of the New Zealand Teachers Council

24. Review of the New Zealand Teachers Council is a manifesto and *Post-election Action Plan* commitment. A draft Terms of Reference is being developed by the Ministry of Education and is due to be finalised in February 2012. We suggest that more detailed discussion of this action occur during its development process. At present it is planned to introduce legislation by the end of 2012 to be passed in 2013.

More effective teacher and principal appraisal

25. Improving teacher and principal appraisal is another *Post-election Action Plan* commitment and is strongly related to the review of the Teachers Council. A strong professional body has the potential to create and enforce teaching standards, possibly through an auditing and moderating approach to teacher appraisal mechanisms.

26. The recent OECD report *Creating Effective Teaching and Learning Environments: First results from the Teaching and Learning International Survey* distinguishes between development-focused appraisal and progression-focused appraisal. It may be possible to have a system that focuses principals primarily on development-focused appraisal while their judgements about progression are tested externally by a professional body charged with setting and maintaining standards.

27. Such an approach would be more likely to effectively gatekeep teacher progression and prevent 'time served' being the key variable affecting salary.

 [Withheld under s.9(2)(b)]

Recommended Action

We recommend that you:

a **agree** to share this report with the Minister of Education prior to your meeting at 5:30pm, Wednesday 21 December, and

Agree/disagree.

b **discuss** the matters raised in this report and the attached annotated agenda at this meeting.

Agree/disagree.

Nic Blakeley
Manager, Education and Skills

Hon Bill English
Minister of Finance

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Agenda for bilateral meeting between the Minister of Finance and the Minister of Education

5.30pm, Wednesday 21 December 2011

Purpose

- To outline the broad schooling reform agenda with a view to Ministers endorsing or correcting it.
- To seek some direction on policy parameters and priorities associated with charter schools and the schooling items of the *Post-election Action Plan* to aid officials in commencing implementation over January/February 2012.

The agenda for change

The National Party Manifesto *Education in Schools*, the *Post-election Action Plan*, and the *Confidence and Supply Agreement with ACT New Zealand* collectively outline a bold reform programme for the schooling sector, which is consistent with the desired directions of change identified by Treasury officials:

- Review and reform of the **New Zealand Teachers Council** to create a genuine teacher-led professional body with a leadership role in the sector.
- Using information and data to:
 - **Improve accountability** by publishing secondary schooling performance information.
 - **Better target resources.**
 - Allow teachers to **identify what works** and to share that practice.
- Amend the **resourcing model** so it incentivises performance.
- More effective teacher and principal **appraisal**.
- Improvements to who can enter **teachers training** and what they are taught.
- Continued evolution of the **Youth Guarantee** including specialist teachers without teaching qualifications.
- Introduction of **charter schools** to lift student achievement

1. While there are more detailed changes proposed to those outlined above in the various documents referred to, from Ministers' perspective is there anything significant missing?

Funding context – Four-year Budget Plan

The Ministry's draft Four-year Budget Plan relies on changes to teacher:student funding ratios to balance. [Withheld under s9(2)(f)(iv)]

2. Do you wish to provide officials with an indication of your views on the feasibility of this approach?
3. Do you want officials to provide alternative options [Withheld under s9(2)(f)(iv)]

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Framing of change

International experience suggests it is difficult to implement successful reforms without sector buy in. It may be possible to frame proposed reform positively as "enabling teachers to lead the changes we need to help the 1 in 5 students our system currently fails".

4. Do you have any immediate view on the framing of change that would help officials as they develop implementation planning?

Agreement with ACT to implement Charter schools

5. Would you like to see the policy design of charter schools linked closely to student achievement? I.e., could you see contracting for specific levels of measurable student performance being a key part of the policy, or is the policy more oriented towards flexibility of management, with existing accountability measures deemed sufficient?
6. Do Ministers have a view on the scale and pace for implementation? At the margin there could be trade-offs between implementing charter schools swiftly and other elements of the reform programme.
7. Is there a preference to set up a charter on an existing school site utilising existing physical infrastructure (and closing a poorly performing school) or to start a charter school on a new site?

Publishing secondary school performance information

Quick implementation could be achieved by creating a website that repackages existing NCEA data and Education Review Office reports. Enhancements could then be made over time.

8. Is the quick implementation/incremental enhancement approach outlined above consistent with your intent?
9. Do you want to move to reporting the performance of years 9 and 10 students over time? (this will require sector cooperation to implement)
10. Are you interested in reporting 'other learning environment information' such as truancy rates, condition of physical assets etc?
11. Is your goal to move towards explicit comparison of schooling performance over time? I.e., similar to the Australian 'myschool' website.

Review of the New Zealand Teachers Council, and more effective teacher and principal appraisal

Review of the New Zealand Teachers Council (NZTC) is a *Post-election Action Plan commitment*. A draft Terms of Reference is being developed by the Ministry of Education - we suggest Ministers schedule a discussion on this matter before it is finalised in February. Current planning suggests legislation will be introduced before the end of 2012 with a view to it passing into law during 2013. We consider more effective teacher and principal appraisal to be integral to the NZTC review and suggest advancing this action in that context.

12. Are you comfortable with the proposed timeframe for review of the Teachers Council and subsequent legislation?
13. Do you agree there is an integral link between the review of the NZTC and more effective teacher and principal appraisal, with the resulting need for an integrated approach to progressing these two actions?

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THE TREASURY
Kaitiaki Takekōwhiri

Date: 3 February 2012

To: Minister of Education

Aide Memoire: Agenda for meeting with the Treasury

3.30 – 4.15 pm, Wednesday 8 February 2012, Room 5.5, The Beehive

Attendees (Treasury):

Vicky Robertson, Deputy Secretary, Growth & Public Services

Nic Blakeley, Manager, Education and Skills

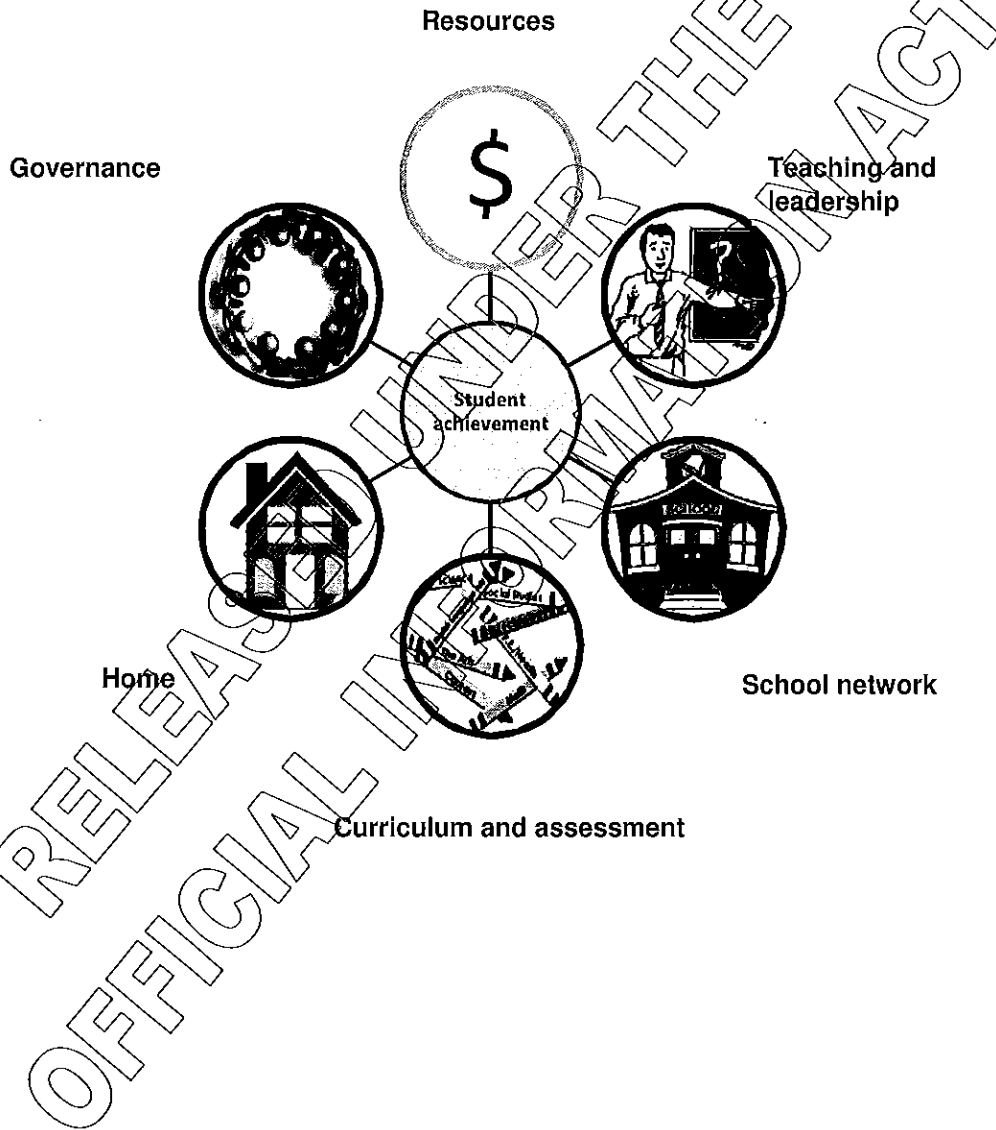
Rohan Biggs, Senior Analyst, Education and Skills

Proposed discussion items – to be adapted to Minister Parata's interests

1. How Treasury approaches the schooling sector (what matters and why)
2. Priorities and pace of change – Minister Parata's perspectives
3. Treasury – sharing our thinking
 - Workforce reform (training, careers, remuneration)
 - Teacher and principal appraisal
 - Performance data – creation and use
 - School property management
 - Charter schools
4. The 2012 work programme
 - What are the immediate priorities and how can Treasury help?
5. Four-year Budget Plan
 - Treasury perspective

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Item 1: How Treasury approaches the schooling sector (what matters and why)



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Item 2: Priorities and pace of change – Minister Parata's perspectives

Item 3: Treasury – Sharing our thinking

Workforce reform (training, careers, remuneration)

- *[Withheld under s.9(2)(f)(iv)]*
- A wide spectrum of reform would be beneficial:
 - improving gate-keeping into teacher training and principalship
 - providing a rewarding career path, and
 - recognition of sustained teaching excellence.

Teacher and principal appraisal – key element of workforce reform

- We need to acknowledge the distinction between appraisal for performance improvement and appraisal for pay progression.
- There is no consistent approach to teacher and principal appraisal within the schooling system.
- This limits the extent to which New Zealand's teaching excellence is identified, rewarded and shared for the benefit of all students.
- This also limits the extent to which a culture of high expectations and accountability can be created within the sector.

Performance data – creation and use

- There is a need for better use of performance data across the schooling system.
- Such data should help:
 - teachers to determine 'what works' in the classroom
 - principals to start student achievement oriented performance discussions with their staff
 - boards to hold principals to account for student performance
 - the Ministry to set expectations and monitor achievement, with a view to targeting resources and intervention, and

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- the public to hold local schools and the system as a whole to account.
- Change will require:
 - the creation of the necessary data
 - up-skilling of the sector, and
 - culture change in the use of performance data.



Charter schools

- Useful means of trialling interventions that could benefit the whole system.
- For example, an opportunity to use value add data as a means of accountability and as an input into contracting.

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Item 4: The 2012 work programme

We would value any views you have on which elements of the 2012 work programme Treasury could be most useful in advancing.

The National Party Manifesto - *Education in Schools*, the *Post-election Action Plan*, and the *Confidence and Supply Agreement with ACT New Zealand* collectively outline a bold reform programme for the schooling sector. This includes:

- Review and reform the **New Zealand Teachers Council** to create a genuine professional body that provides leadership of the sector.
- Using information and data to:
 - **Improve accountability** by publishing secondary schooling performance information.
 - **Better target resources.**
 - Allow teachers to **identify what works** and to share that practice.
- Amend the **resourcing model** so it incentivises performance.
- More effective **teacher and principal appraisal**.
- Changes to who can enter **teachers training** and what they are taught.
- Continued evolution of the **Youth Guarantee** including specialist teachers without teaching qualifications.
- Introduction of **charter schools** to lift student achievement in low decile areas.
- Revise **school property management** so we get the best facilities more efficiently.

Treasury currently plans to prioritise work on:

- Workforce reform (including teacher and principal appraisal), and
- School property management.

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Item 5: Four-year Budget Plan – Treasury perspective

[Withheld under s9(2)(f)(iv)]

- Current fiscal conditions support changes to teacher:student funding ratios and are likely to improve value for money. Changes likely to generate sector resistance.

[Withheld under s9(2)(f)(iv)]

[Withheld under s.9(2)(f)]

[Withheld under s.9(2)(f)(iv)]

Rohan Biggs, Senior Analyst, Education and Skills, 917 6892
Nic Blakeley, Manager, Education and Skills, 917 6896