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Cost Per Child: Rethinking Government Reimbursement In PPP Models

By

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In order *"to be able to ensure inclusive growth and an equitable socio-economic order, affirmative action's necessary to accelerate the provision of quality…."* through PPPs

Schools run through partnerships between the government and non-profits (PPP schools) present an opportunity to offer high-quality education to the less privileged. In India, government-aided schools are the oldest form of PPP, where the government finances a large part of the school's operational expenses, and the non-profit manages its day-to-day affairs. However, this model is limited in the degree of autonomy and flexibility it provides to school operators, and there is no evidence that this model has delivered significantly improved learning for students. In this article, we argue for a restructuring of government reimbursements, moving from the traditional grant-in-aid model, to the international best practice model of 'cost-per-child reimbursement (CPC)'. Reimbursements based on CPC, particularly when combined with strong accountability / performance-linked payments and operational autonomy to school operators, have several advantages: they align incentives of the operating partner to drive enrolment and quality; they offer flexibility on operating models, and greater efficiency and transparency w.r.t. fund management. Through greater autonomy, innovation and accountability, this model has the potential to significantly improve student learning.

The Need for PPPs in Education

Due to the vast geography and large population of India; providing high quality universal school education can be a task of gigantic proportions. Therefore, to make it easier to cover such a range, it becomes essential to explore alternative options for providing and financing school education that are in accordance with the education goals and policies of the government; PPP (Public Private Partnerships) schools are one such option. In order "*to be able to ensure inclusive growth and an equitable socio-economic order, affirmative action's necessary to accelerate the provision of quality….*"[1].

The PPP model in education is a mechanism used by the government to deliver quality services/ education to the population by engaging the expertise of the private non-profit sector. In this article, we are referring to a specific PPP model, i.e., school management PPPs, where existing government schools are managed end-to-end by a non-profit partner, who in turn receive reimbursements from the government based on pre-defined terms and conditions, including meeting pre-set performance criteria.

Woessmann (2005), in a study of student-level data across 35 countries, found that public funding and private operation of schools are positively associated with student outcomes. Some of the advocates of this model believe that this is a more flexible way of imparting education as the government can overcome inflexible costs like salaries, and other civic restrictions.

[1] Unknown. (2010). Scheme for Augmenting School Education through Public Private Partnership. Available: http://www.infrastructure.gov.in/consultation-papers.php.

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This model also increases transparency of government spending by making the cost of education services more visible through the services of the private operators (LaRocque, 2005 in Kingdon,G). Additionally, the set-up of a more decentralised decision making model in PPPs is argued to be more responsive to the needs of the parents whilst instilling better local level accountability.[2]

To elaborate, the rationale for operating a PPP model in education is as follows:

- Efficiency: Education non-profits bring specialised knowledge and work experience in the sector, thus leading to greater efficiency.
- Performance accountability: Performance accountability in public sector schools is scattered for various reasons. Therefore there are many examples of failed public schools. However, in the case of PPP schools, reimbursement is linked to performance, and accountability is strongly built into the model.
- Quality of monitoring: in the context of PPP schools, payment is based on quality; as a result, strong performance monitoring is a key component of the model. In addition, the non-profit partner has incentives to raise quality as well.
- Flexibility: The PPP model allows for greater autonomy and flexibility at the school level. The non-profit partner has the authority to choose teachers as well as modify processes in the school. This system is different from government schools which function with a lot more rigidity.

The Grant-in-Aid Model

In India, privately operated and publicly funded schools have been in operation for several decades, in the form of aided schools. These schools are managed by private trusts, and a large part of their funding comes from the government, i.e., they receive funding towards 95% of teacher salaries, and a small non-recurring grant (a fixed amount) towards other expenses such as maintenance.

Historically, aided schools helped expand access to education; however, there is no systematic evidence that shows these schools outperform government-run schools on student learning indicators. There are several inherent limitations in the aided schools model, which could be potential reasons for this lack of performance. One, since payments are made directly to teachers in the form of salaries, there is limited flexibility in the operating model, and in teacher pay and incentives.

2Kindgdon, G. (2010). Public Private Partnerships in School Education: Some Policy Questions. Student First!. (2), 2-4.

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A conscious shift from the grant-in-aid model to a cost-per-child model, combined with accountability-based government reimbursement, is the need of the hour.

In addition, the government is closely involved in teacher recruitment, thus limiting the operator's control on the quality of teachers hired. Since the grants are dependent only on teacher numbers, and not on student enrolment numbers or performance, capacity is often under-utilised, and there is no incentive to improve student or teacher performance. Furthermore, since payments are made directly to teachers, there is a risk of poor teacher performance as teachers may think of themselves as employees of the government and not the school operator. In essence, the funding mechanism in the grant-in-aid model does not work to align incentives of school operators with those of the government, i.e., expanding enrolment and improving quality.

In this context, the cost-per-child model offers a fundamental rethink of the way government reimbursement is structured, and when combined with accountability-linked payments, and operational autonomy to school operators, this model has the potential to have a greater impact on educational quality.

Cost-per Child Model: Understanding the basics

Cost per child = amount that the government should ideally spend per pupil in the country which includes all the different heads under which the expenditure is distributed.

In the CPC model, the government reimburses a 'fee per student' to the non-profit school operator, and the total fund allocation is calculated on the basis of total enrolment. CPC *"….can be understood to be the amount that the government should ideally spend per pupil in the country, which includes all the different heads under which the expenditure is distributed".*[3] This needs to be combined with operational flexibility to school operators in managing these funds and allocating them to various heads (with transparent reporting of this expenditure to the government).

Additionally, the non-profit partner should have complete autonomy over the management of the school and hiring of staff/teachers. Finally, payments should be linked to performance and strong accountability mechanisms built in. When these elements are combined, the model strongly promotes educational quality.

Such a model represents international best practice and is the approach used in the charter schools in the US and the Academies in UK. This model is most suited to increase and support efficiency in a school due to its focused approach towards allocation and expenditure of funds.

[3] Nath, N. (2014). Per Child Funding Formula in Indian Education: Analysis and Applications. Centre for Civic Society. 315

The CPC model incentivizes schools to maximize capacity utilization, improve teacher and school performance and maintain enrolment.

Under a CPC model there are economies of scale that act as a driver to motivate the school management to market the school better. Because funding follows the child, there is an increase in government efficiency. Also, transparency in functioning and service delivery for the school's stakeholders is enhanced. This model creates incentives for operators to retain children. Finally, the model has the potential to foster greater innovation as it offers far more operational flexibility and autonomy to non-profits, thereby facilitating the adoption of multiple approaches.

Benefits of the CPC Model

There are various reasons why the 'per-child funding' or 'cost per child' funding is more efficient than grant-in-aid (total allocation)[4]:

- With a cost per child model, there is an incentive to maximise capacity utilisation, as additional funding comes in for each additional child enrolled. (This is in contrast to the GIA model, where funding is based on the number of teachers. Even if a few students leave, that teacher continues to be funded. As a result, there are often inefficiencies in aided schools, with each classroom being under-enrolled, and no incentives to fill them to capacity.)
- When reimbursements are structured on the basis of cost per child, it incentivises schools in two ways to improve performance:
    a. The school would be encouraged to perform better in order to increase the number of children enrolled. On the other hand, in the extreme case, an inefficient or poor-performing school where there are very few students would be forced to shut down, as there would be inadequate funding to operate. This ensures that the system is consistently delivering quality.
    b. With more children, there is increased funding, combined with the autonomy to the school management to decide how and under which heads to spend the allocated funds. As a result of this autonomy, there is an increased sense of accountability toward expenditure of funds. This is because the SMC's and parent body can hold the principal/management accountable for any misappropriation of funds.
- As a result of increased accountability, there is increased pressure on the school management to prevent any leakages

4Nath, N. (2014). Per Child Funding Formula in Indian Education: Analysis and Applications. Centre for Civic Society. 316

Under the CPC model government still plays an important role, albeit that of a facilitator while the non-profits are the implementers.

- It was observed in a study by Accountability Initiative that in India there is a problem of increase in budgetary allocations with a successive decline in the learning levels/outcomes of the children. In this model where payments are tied to performance, the amounts of funds invested/allocated per child are closely linked to the learning outcomes of children.

Anticipating the Future

The involvement of non-profit operators in the delivery of education as part of a PPP school, does not suggest the withdrawal of the government by any means. It indicates that the government will now take up the role of facilitator/funder rather than an implementer, funder and facilitator. In addition, a model where government reimbursement is structured on a CPC basis, and is combined with operational autonomy and strong accountability, holds the potential to directly enhance the quality of education being offered to the underprivileged – by bringing in greater efficiency in fund utilisation, autonomy and innovation, and transparency and accountability.

The MCGM PPP Policy and the Gujarat EMRS PPP policy introduced CPC reimbursement, and are examples of progressive thinking. Recent news of local governments in Delhi and Chennai in India short listing non-profits to take over under-performing government schools through the PPP model, and using a CPC-based reimbursement, is an indication of the growing awareness of its benefits. There is potential for this momentum to grow into a revolution, which will transform the quality of education in schools in India.