



Report of the

Controller and Auditor-General

Tumuaki o te Mana Arotake

Providing and Caring For School Property

August 2001

ISBN 0 477 02882 9

Foreword

State-owned school property is one of the Crown's largest capital investments. The Ministry of Education manages this investment on behalf of the Crown, and the Crown has a clear interest in ensuring that it is managed in an efficient and effective manner. Well-managed school property provides an environment which is conducive to learning, and also enhances the value of the Crown's investment in school buildings and facilities.

This is our report of a study to assess the Ministry's performance in managing the property portfolio. It follows a number of reviews undertaken and reports produced since the introduction of the *Tomorrow's Schools* policy in 1989.

Our study focused on:

- the management arrangements in place between the Ministry and School Boards of Trustees (Boards); and
- the systems and processes for managing (including funding) the provision and maintenance of school property.



D J D Macdonald
Controller and Auditor-General
24 August 2001



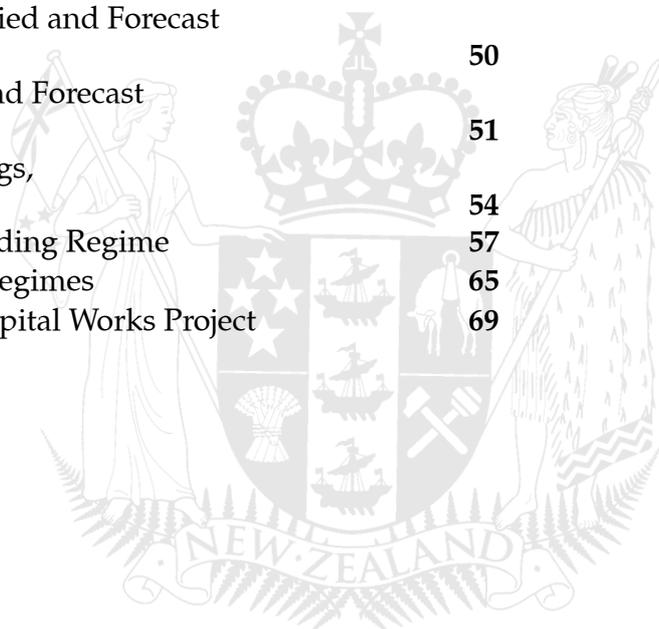
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One

Overall Conclusions



101 We undertook our study at a time when the Ministry of Education (the Ministry) was introducing a new capital funding framework and planning process for school property. In this report we comment on the Ministry's new system and the benefits it aims to achieve.

Capital Works

102 We conclude that the Ministry is:

- taking positive steps with respect to planning and funding capital works which aim to meet the needs of schools and students; and
- ensuring that the provision of property is well planned and appropriate.

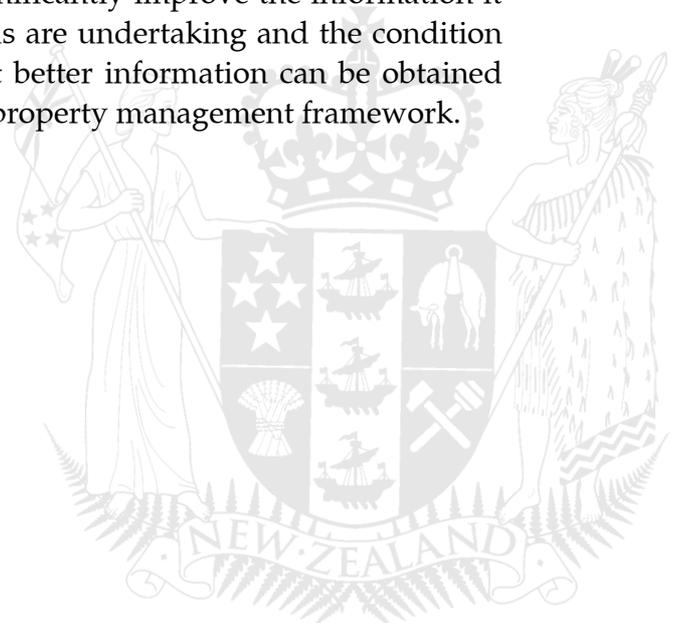
103 These steps represent a substantial improvement on what was found in previous reviews.

Maintenance

104 We are less satisfied with the arrangements for maintenance. The Ministry is responsible for ensuring that School Boards of Trustees (Boards) meet their responsibility to ensure that schools are properly maintained.

105 If schools are not properly maintained there is a risk that deferred maintenance will build up, requiring additional future expenditure by the Crown – a risk that needs to be managed.

106 In our view, the Ministry needs to significantly improve the information it has about the maintenance that Boards are undertaking and the condition of the school estate. We suggest that better information can be obtained through enhancements to the current property management framework.



Two

Main Findings and Recommendations



201 Our study examined two main aspects of the Ministry's management of school property in the compulsory education sector:

- accountability arrangements for school property management; and
- systems and processes for managing school property.

Accountability Arrangements for School Property Management

202 *We expected to find:*

- *documented agreements; and*
- *clearly defined roles and responsibilities*

between the Ministry and Boards with respect to the management of school property.

203 Board members are not required to be property experts. *We therefore also expected to find:*

- *evidence that the Ministry is providing practical and timely advice and support to Boards to assist them carry out their property management obligations.*

204 Our detailed findings are set out in Part 5 on pages 37-44.

205 We found that, in the main, accountability arrangements were as we expected. In particular:

- The relationship, roles, and responsibilities between the Ministry of Education and Boards are clearly articulated in the Property Occupancy Document and the supporting *Property Management Guidelines*.
- Local office staff provide useful further guidance and support to Boards that are undertaking capital works projects. However, the involvement with Boards on property maintenance issues could be improved.
- Policy and curriculum developments can affect the facilities that schools need to deliver education. Therefore, the Ministry's property staff need to work closely with other parts of the Ministry, and to this end the Ministry is working to improve coordination, nationally and locally. For example, it is improving procedures for internal consultation and joint work, and it is restructuring the local office network.

Systems and Processes for Managing School Property

206 *We expected to find:*

- *strategies for ensuring the appropriate quantity of school property – including processes for forecasting demand;*
- *information systems that support asset management by providing up-to-date information on property; and*
- *processes for planning and managing capital works and maintenance of property.*

207 Our detailed findings are set out in Parts 6, 7 and 8 on pages 45-80.

- Part 6 looks at the strategies in place for ensuring the appropriate quantity of school property, property management information, and the planning for and managing capital works and maintenance of property;
- Parts 7 and 8 cover in more detail the processes for managing capital works and property maintenance respectively.

Strategies for Ensuring the Appropriate Quantity of School Property

Paragraphs 603-622, pages 47-53

208 The Ministry has a system for determining the amount of funds required nationally for school property. An independent review of the 2000-01 School Accommodation Business Case (see paragraph 616) concluded that the Ministry's system offered a sound foundation for determining school capacity requirements, and was based on reasonable information and methodology.

209 However, forecasting the roll at individual schools is difficult. The Ministry continues to work to improve its collection and analysis of roll forecasts in support of its property planning. Recent changes to enrolment legislation are intended to make individual school roll forecasting easier.

Property Management Information

Paragraphs 623-633, pages 53-55

- 210 The Ministry has a Property Management Information System which has been used mainly as an asset register and payment system. Recent enhancements include a capability to support the management of capital projects. The System will also enable all schools to access information on their funding entitlements.
- 211 The timeliness of information held in the Property Management Information System – such as age of school property – has been a problem. The enhancements are designed to address this issue and the Ministry needs to ensure that information in the System is kept up-to-date. We consider that the Ministry should report annually on this.
- 212 The Ministry plans to include a valuation model in the Property Management Information System, and it will implement a process for ensuring that the useful lives of school property are consistent when used for both valuation and depreciation purposes. We will consider the effectiveness of this process during our annual audit of the Ministry.

Planning

Paragraphs 634-652, pages 55-59

- 213 A Board's 10-Year Property Plan enables investment in property to be linked with, and support, the school's strategic plan, and align its property plans more directly with its educational priorities.
- 214 A Board must include both capital projects and maintenance needs in its 10-Year Property Plan. A 5-Year Property Programme for capital works agreed between the Ministry and the Board (see paragraph 631 and Figure 4 on page 27) should improve the level of certainty for the Board regarding the start-times for capital projects.
- 215 The use of 10-Year Property Plans, and the adoption of 5-Year Property Programmes, should reduce the risk of Boards spending maintenance funds on buildings that are subsequently upgraded under the capital works programme.



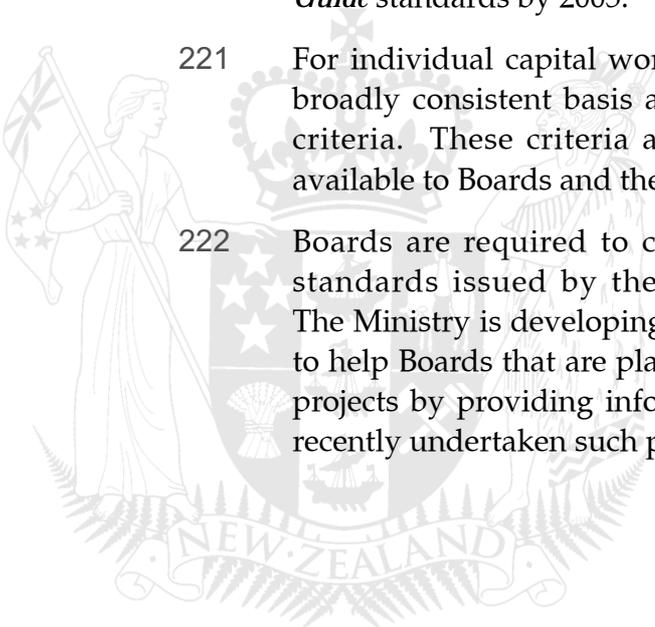
MAIN FINDINGS AND RECOMMENDATIONS

- 216 The 5-Year Property Programme has the potential to encourage Boards to develop cost-effective property solutions, because they will need to meet all their capital requirements over a 5-year period from a fixed allocation of funds.

Processes Specific to Capital Works

Part 7, pages 61-70

- 217 Funding for capital works on the basis of school rolls (rather than some measure of the physical size of a school) provides an incentive for schools to identify surplus property for disposal, rather than spread their funding more thinly across a larger estate.
- 218 The Ministry is encouraging Boards to manage capital works projects efficiently by allowing them to reinvest savings in other future projects. This funding method allows the Ministry to adopt a more hands-off approach, leaving the day-to-day management of capital works projects to Boards.
- 219 Capital works funding allocations under a 5-Year Property Programme are simpler than under the system it replaces, since most of the funding comes within a counterpart 5-Year Funding Agreement.
- 220 As part of its strategy to improve the quality and consistency of school property, the Ministry is updating its *School Property Guides*, which set the standards for school property. The updated *Primary School Guide* has been issued and funding has been approved to bring all primary schools up to *Guide* standards by 2005.
- 221 For individual capital works projects, the Ministry assesses funding on a broadly consistent basis against established quantitative and qualitative criteria. These criteria are transparent and the Ministry makes them available to Boards and the public.
- 222 Boards are required to comply with project management and design standards issued by the Ministry when undertaking capital works. The Ministry is developing a Post Occupancy Evaluation process designed to help Boards that are planning, or are about to embark on, capital works projects by providing information and experience from Boards that have recently undertaken such projects.



Processes Specific to Maintenance

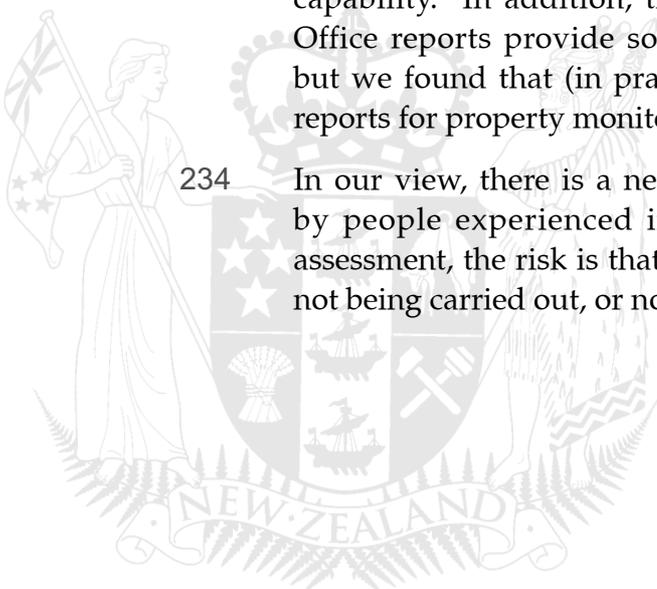
Part 8, pages 71-80

- 223 While Boards are accountable for the state of the property in their care, they are (but see paragraph 227) free to use the maintenance element of operational funding received from the Ministry on other operational items.
- 224 This flexibility is consistent with the principle of the *Tomorrow's Schools* policy that Boards should be responsible for running schools. However, a consequence is that the provision or use of funding for maintenance cannot provide an indicator of whether a Board is maintaining the school property in good order and repair.
- 225 Generally, the Ministry does not hold information on the condition of school property in a way that enables it to know whether or not maintenance has been carried out. Further, the Ministry has issued no clear articulation of the terms “good state of repair” and “good order and repair” which it uses to advise Boards of the expected standard of maintenance. A clear articulation of these terms, in the form of standards, would help Boards to assess their own performance and also provide benchmarks for the Ministry.
- 226 Over the last 10 years, in excess of \$500 million has been spent catching up on deferred maintenance. The potential for deferred maintenance – and, thus, additional future costs – to build up again is a known risk to the Ministry. Until recently, Boards which built up maintenance backlogs could be ‘rewarded’ by eventually receiving funding for capital works to bring the school back to an acceptable state of repair.
- 227 The new arrangements for 10-Year Property Plans and 5-Year Property Programmes address this perverse incentive. The Ministry now has the ability to penalise Boards that neglect their maintenance responsibilities by recognising any consequential expenditure in an adjustment to their 5-Year Funding Agreement.
- 228 However, in our view this mechanism is unlikely, on its own, to be sustainable in the long term. Boards’ capital budgets are specifically assessed to reflect their capital requirements. Using capital funds (that would otherwise be spent on assessed capital projects) to pay for works arising from deferred maintenance is likely to reduce Boards’ ability to sustain the quality and functionality of school property.



MAIN FINDINGS AND RECOMMENDATIONS

- 229 In our view, to work effectively this regime needs to be supplemented by an assessment that schools are being adequately maintained. Without such an assessment, the Ministry has insufficient information to manage the risk that maintenance backlogs will develop. As part of the review of Boards' 10-Year Property Plans, the Ministry's district property officers could compare maintenance plans against maintenance actually undertaken, and ensure that Boards account for their management of maintenance responsibilities.
- 230 However, the Ministry told us that it does not require its district property officers to formally review Boards' plans for maintenance, or to monitor maintenance – even though the Ministry's 2000-01 School Accommodation Business Case stated that the officers would review, among other things, the current state of school property. The Ministry cannot, therefore, rely on the visits for assurance on maintenance.
- 231 Some external assessments of school property are undertaken – but they have specific purposes, and are not intended to provide a comprehensive assessment of the management of school property or the quality of general maintenance. Therefore, those assessments provide only limited general assurance that property is being maintained.
- 232 Furthermore, the Ministry's guidance to Boards that *auditors from* [the Audit Office] *will be checking each year* [to] *ensure* [that every Board] *has a Property Plan and is keeping to it*, could lead to inappropriate reliance being placed on the Audit Office's audits as to the quality of property management.
- 233 And while reports of the Education Review Office include comment on school property management, these comments are general observations and the Education Review Office does not have any specialist property capability. In addition, the Ministry suggested that Education Review Office reports provide some assurance on the state of school property, but we found that (in practice) the Ministry makes no formal use of the reports for property monitoring.
- 234 In our view, there is a need for periodic physical inspections of schools by people experienced in property management. Without qualified assessment, the risk is that backlogs could arise as a result of maintenance not being carried out, or not being carried out to an acceptable standard.



Recommendations

- 235 The Ministry should enhance its systems for monitoring school property by:
- setting standards that clearly define “good state of repair” and “good order and repair” in relation to school property;
 - including a requirement that the Ministry’s district property officers assess maintenance plans against actual maintenance activity during their annual visits to schools; and
 - establishing a mechanism for periodic physical inspections of schools to –
 - assess whether maintenance is being adequately undertaken; and
 - ensure that backlogs are not building up.
- 236 Physical inspections could be undertaken by the Ministry’s own staff – suitably trained and using clearly defined standards. Alternatively, the Ministry could require Boards to provide evidence of periodic assessments by a suitably qualified professional person.
- 237 The Ministry should also make available to its property staff particulars of property issues raised in reports by the Education Review Office, and the property staff should ensure that the issues are followed up.
- 238 The Ministry needs to clarify the guidance it provides to Boards on the extent of the Audit Office’s annual audit of property management and what that means in terms of the Boards meeting their responsibilities.
- 239 The annual report of the Minister of Education on the performance of the schools’ sector¹ should include information on the extent to which the asset register of school property (in the Ministry’s Property Management Information System) is being kept to date.

1 Annual report required under section 44b of the Public Finance Act 1989.

Three

School Property and Why We Are Interested In It



Introduction

301 The Education Act 1989 provides that:

- each New Zealand child is entitled to free enrolment and free education at any state school during the period from the day of their fifth birthday until the 1st of January following their 19th birthday; and
- each New Zealand child aged from six to 16 must be enrolled at, and attend, a registered state or private school.

302 The provision of school education by the State brings with it responsibilities to provide the facilities with which education will be delivered. Under the governance structure in New Zealand the Crown owns most school property.² In a few cases the Crown leases school land and buildings.

303 School property represents one of the largest property portfolios in the country. The Ministry's Forecast Report for 2001-02 says that the school sector property portfolio has a capital value of \$6,000 million, including \$5,000 million worth of improvements, and a replacement value of approximately \$8,000 million.³ Thus, the Crown has a clear interest in the management of its investment. Figure 1 on the next page gives a physical profile of school property at October 2000.

304 Funding for capital works and school property maintenance was estimated to be \$424 million in 2000-01. The funding breakdown is shown in Figure 2 on the next page.

305 Good property management offers both financial and operational benefits. If good use is made of property resources, funding for other elements of children's education can be maximised. And school property that is effective and efficient contributes to the provision of high-quality education by making available the facilities that children and their teachers need.

306 Poor property management can affect the delivery of education services, or can result in a significant fiscal cost. For example, opportunities to rationalise property may be missed, resulting in a build up of surplus and uneconomic property.

2 "School property" is a general term for the physical assets of a school. It includes land, buildings, facilities such as playgrounds, and infrastructure such as boilers and drains. It excludes school contents, such as teaching materials.

3 Parliamentary paper E.1FR(2001), page 54.



SCHOOL PROPERTY AND WHY WE ARE INTERESTED IN IT

*Figure 1
Profile of School Property Owned by the Crown,
October 2000*

2,311	Schools
16,000	School buildings
31,734	Classrooms
1,821	Swimming pools
2,631	School houses



Total site area (hectares)	8,728
Total school area (gross square metres)	5,450,000
Total school houses area (gross square metres)	311,120
Forecast annual depreciation	\$204 million

Source: Ministry of Education

*Figure 2
Funding for Capital Works and Maintenance of
School Property, 2000-01*

Maintenance	\$60 million
Modernisation	\$204 million
New capital projects	\$160 million
Total	\$424 million

Source: Ministry of Education



How Is School Property Managed?

307 Figure 3 on the next page shows the key stakeholders in managing and using school property:

- **The Crown** – the owner of the property.
- **The Ministry of Education** – the Crown’s representative. The Ministry has ownership, purchasing, regulatory, and advisory roles for school property. It allocates funds for property maintenance and capital works, and has overall responsibility to ensure that school property is properly administered and managed.
- **Boards** – each school has a Board of Trustees, established under the Education Act 1989, which has day-to-day responsibility for maintaining the school property and managing capital works projects.
- **Students, families, whanau, and iwi** – the consumers of education services.

308 The Ministry describes the management arrangements between it and Boards for the management of school property as similar to a landlord and tenant relationship. That is, the Ministry is landlord and Boards are tenants.

309 However, instead of a tenancy agreement the terms of occupancy are defined in a Property Occupancy Document. Unlike most tenants, Boards do not pay rent, and they receive funds directly to administer and maintain the property they occupy.

310 Boards are allocated funds for major capital works projects that they have agreed with the Ministry. They receive separate funding for maintenance and minor capital works as part of the total annual operational budget for the school. Boards may use their operational budget flexibly. In any one year, a Board is free to spend the element that is earmarked for maintenance on other items if it wishes to do so.

311 Figure 4 on page 27 shows the key players and elements of the management of school property, and how they relate to each other, including:

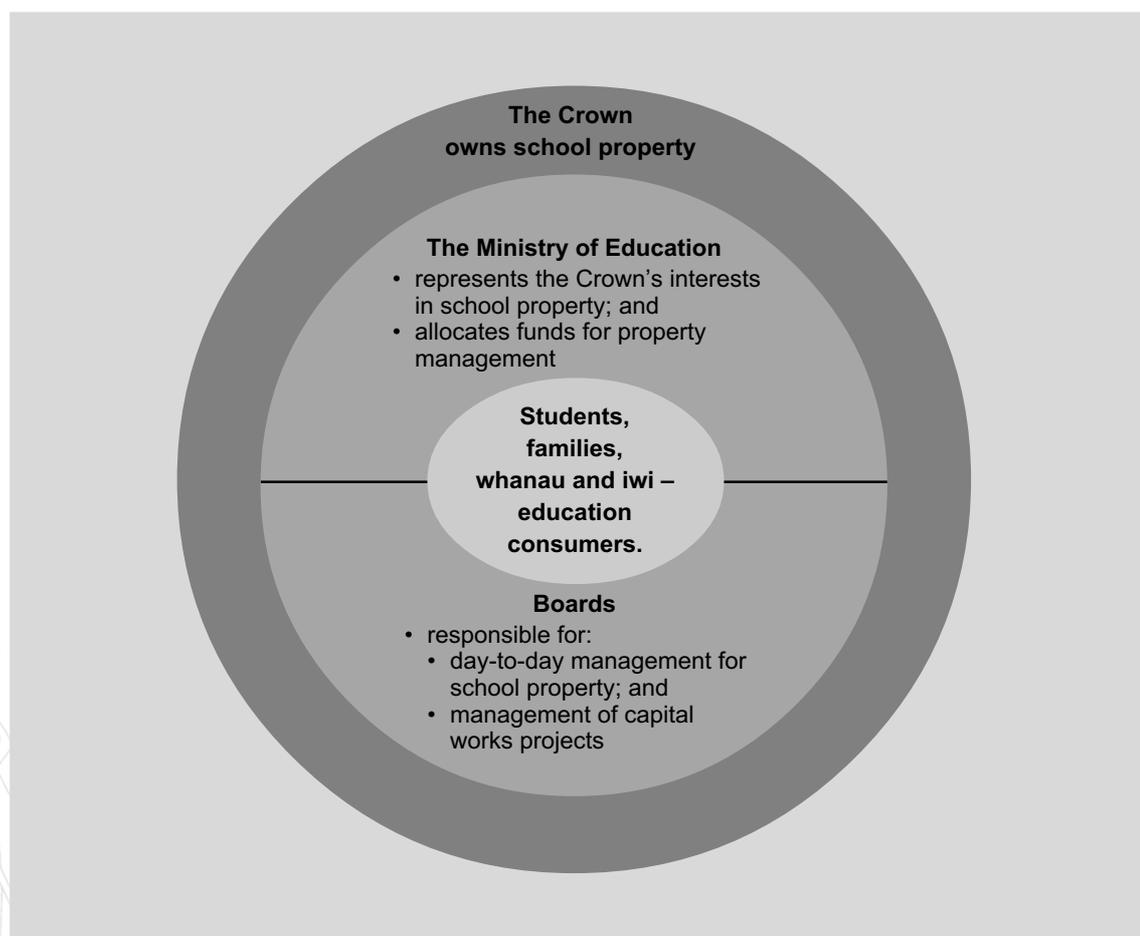
- the Ministry’s 10-year Strategic Business Plan, which forecasts investment in school property;
- the Ministry’s Annual Accommodation Business Case, which identifies the capital required in the upcoming year;
- the Property Occupancy Document, which sets out (among other things) the responsibilities of the Ministry and the Board;



SCHOOL PROPERTY AND WHY WE ARE INTERESTED IN IT

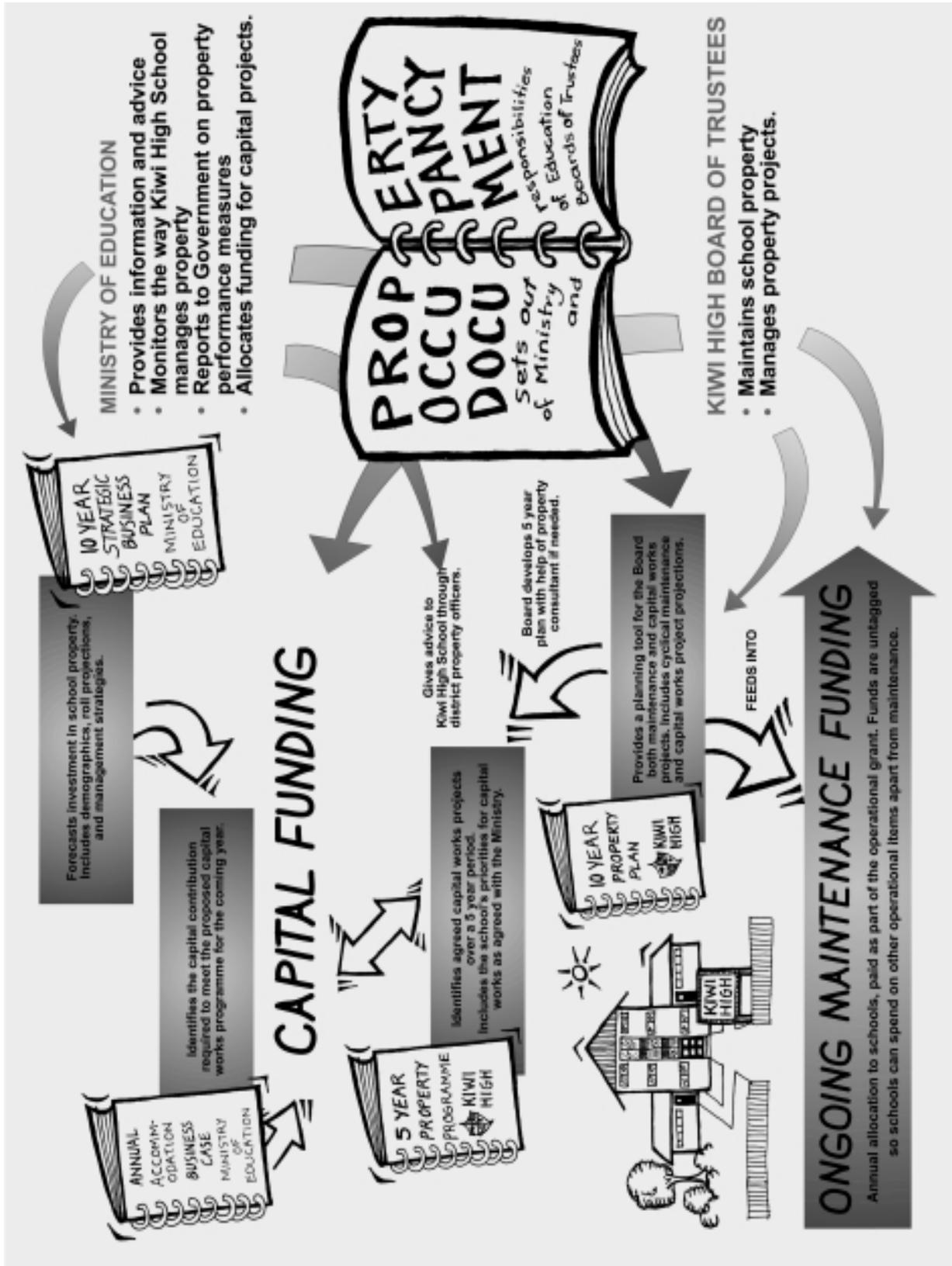
- the Ministry's local property officers, who are part of its Property Management Group and visit schools annually to review property issues and provide advice;
- individual schools' 10-Year Property Plans, which set out annual maintenance expenditure and proposed capital projects for that period; and
- the 5-Year Property Programme that started in 2000 – schools in the programme can come to a 5-Year Funding Agreement with the Ministry for capital projects.

Figure 3
Key Stakeholders in Managing and Using School Property



SCHOOL PROPERTY AND WHY WE ARE INTERESTED IN IT

Figure 4
Key Players and Elements of the Management of School Property





SCHOOL PROPERTY AND WHY WE ARE INTERESTED IN IT

What Did Our Study Involve?

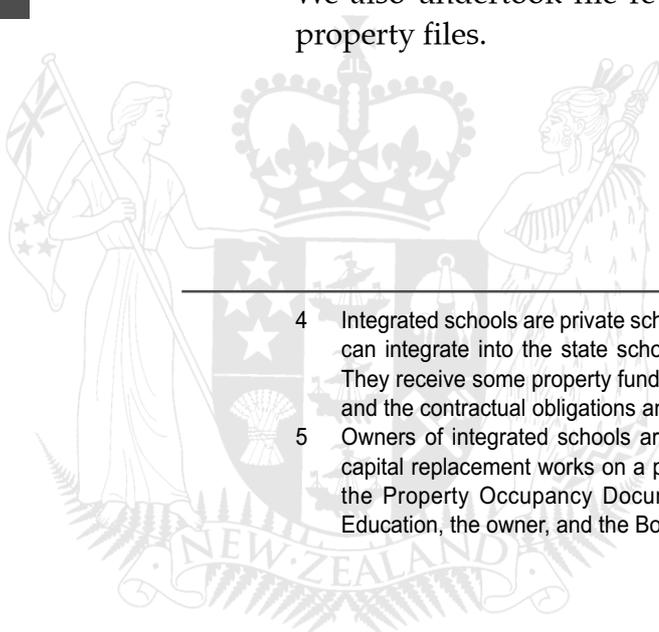
- 312 We examined how well the Ministry was managing the Crown’s ownership interests in school property in the compulsory education sector.
- 313 Our focus was on state schools. The Crown does not have an ownership interest in the property of integrated schools,⁴ and their capital resourcing framework is different. However, the Crown does have an interest in ensuring that integrated schools have an effective learning environment.⁵ Therefore, where relevant, the Ministry should also apply the lessons in this report to integrated schools.
- 314 At the time we were undertaking our study, the Ministry was in the process of implementing new systems for planning and funding education property. We describe these new systems in Part 6 (see pages 45-59) and, while it is too early to assess their effectiveness, we have commented in Part 2 on the potential effect of the new regime (paragraphs 208-216 on pages 14-15).

How Did We Undertake Our Study?

- 315 To undertake our study we established expectations as benchmarks for assessing the Ministry’s performance. These expectations were based on international best practice, and previous audits and reviews of the Ministry’s property management functions (described in Part 4 on pages 31-35).
- 316 We interviewed staff in the Ministry’s national office, and district property officers based in Auckland, Hamilton, Rotorua, Nelson and Christchurch. We also undertook file reviews, including a sample of individual school property files.

4 Integrated schools are private schools that (under the Private Schools Conditional Integration Act 1975) can integrate into the state school system while still retaining their special philosophical character. They receive some property funding from the Crown. However, the Crown does not own the property, and the contractual obligations and undertakings differ from those of state schools.

5 Owners of integrated schools are responsible for capital works projects, but the Ministry does fund capital replacement works on a per pupil basis. A Property Maintenance Schedule (the equivalent to the Property Occupancy Document for state schools) is negotiated between the Secretary for Education, the owner, and the Board.





SCHOOL PROPERTY AND WHY WE ARE INTERESTED IN IT

- 317 While on our site visits we also had the opportunity to visit some schools and observe the interaction between Ministry and school staff.
- 318 We interviewed representatives from the Education Review Office and Serco Group NZ Ltd,⁶ and undertook some analysis of relevant documentation from these organisations.
- 319 We met with representatives from education sector organisations, such as the New Zealand School Trustees Association.



⁶ Serco provides property services on contract to the Ministry. These services include annual inspections of schools under Section 44 of the Building Act 1991, as required by Compliance Schedules issued by territorial local authorities.

Four

Previous Reviews



1988 Audit Office Audit⁷

- 401 In 1988, we audited the provision and management of state primary and secondary school buildings by the Ministry (then known as the Department of Education). The audit looked at the design, construction, and management of state school buildings.
- 402 At the time of our 1988 audit, the Department’s former Property Division provided and managed school buildings. The Department’s three regional offices carried out the responsibilities (including property management) for secondary schools. Ten Education Boards were responsible for the administration (including property management) of primary schools.

*Figure 5
Our 1988 Audit Expectations and Main Findings*

We expected that the Department of Education would:	Our main findings were that:
Evaluate the need for school buildings.	The Department’s performance in evaluating the need for school buildings was uneven and inadequate; and the Department’s evaluation criteria did not reflect curriculum and policy developments.
Design school buildings that appropriately met the identified need.	Recurring design flaws in buildings of similar design signalled inadequate design evaluation. As a result, significant expenditure was required to repair design faults. The Department rarely evaluated completed building projects.
Construct school buildings in an efficient manner.	Poor planning and project management resulted in continual cost and time over-runs.
Ensure the efficient and effective management of school buildings.	<p>The process for funding operating costs provided inadequate incentives for the efficient management of school property, and did not provide sanctions for inefficient management. In addition, there were no qualitative maintenance standards.</p> <p>The unwieldy nature of the system for allocating resources resulted in the unequal allocation of building funds; a lack of incentive to obtain best value for money in applying those funds; a reluctance by those involved to take responsibility; and a bureaucracy which caused delays and therefore increased project costs.</p>

⁷ Report of the Audit Office 1988, *Department of Education: Provision and Management of School Buildings*, ISBN 0 477 02806 3.

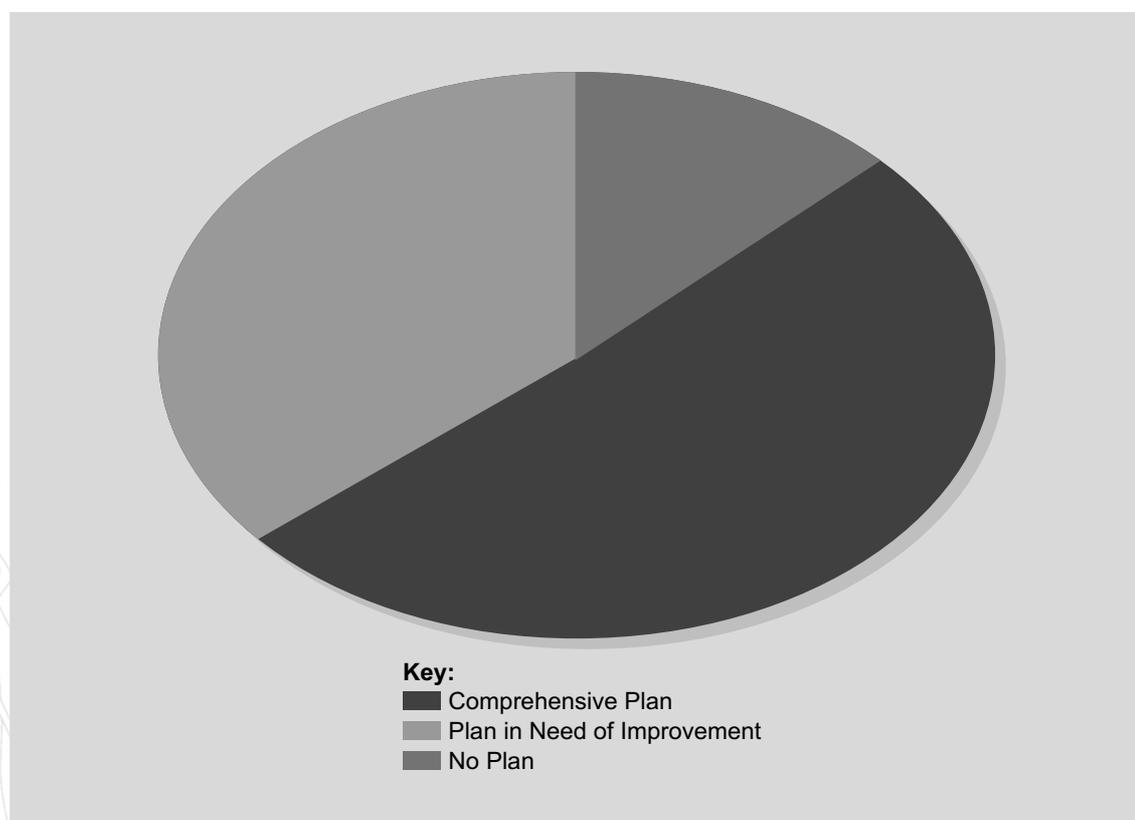
PREVIOUS REVIEWS

- 403 We made a number of recommendations as a result of the 1988 audit. We consider those issues again in this report.

1998 Audit Office Review⁸

- 404 In 1998, we examined the maintenance responsibilities of Boards. We surveyed 93% (2,492) of state and integrated school Boards to identify whether or not they had a 10-year property maintenance plan, as required by the Property Occupancy Document or Property Maintenance Schedule.
- 405 We found that just over half of the Boards surveyed had comprehensive plans, 36% had plans that needed improvement, and 13% had no maintenance plan at all.

*Figure 6
Existence of Property Maintenance Plans in 1998*



⁸ Report of the Controller and Auditor-General, *Third Report for 1998 – Long-term Maintenance of School Property*, parliamentary paper B.29[98c], pages 13-22.

- 406 A large majority of the Boards surveyed (78%) had assigned responsibility for implementing the maintenance plan. A similar number (79%) were monitoring, at least annually, progress in implementing the plan.
- 407 Around a quarter of schools with comprehensive plans (309 schools – just 12% of all schools surveyed) recognised a maintenance liability in their financial statements. The total liability recognised was \$12.5 million. We estimated that the total maintenance required for all schools at that time was approximately \$100 million.
- 408 We discuss ongoing matters relating to the Ministry's management and monitoring of school maintenance later in this report.

1997 Review of the Ministry's Arrangements and Capability for Managing School Property

- 409 In 1997, the Ministry of Education commissioned the Deloitte & Touche Consulting Group (Deloitte) to review its management systems, staff capabilities and resourcing for school property. In particular, the review focused on the ability of the Ministry to:
- strategically plan for property provision;
 - develop robust forecasting and reporting systems; and
 - ensure that resources are used effectively.
- 410 Deloitte was also required to design a property management regime which:
- managed the Crown's short-term risk;
 - ensured capability to deal with longer-term issues; and
 - anticipated and responded to future issues.
- 411 Deloitte found that processes that had been adequate in the past were no longer adequate in the new environment, and made detailed recommendations. Recent changes to the Ministry's structure and arrangements for managing school property – which we cover in Part 5 of this report – have been made in response to these recommendations.

Five

Accountability Arrangements for School Property Management



Introduction

501 In this part we discuss in detail our findings relating to the management of school property in terms of structure, roles and responsibilities. It supports the conclusions in paragraph 205 on page 13.

Tomorrow's Schools Reforms

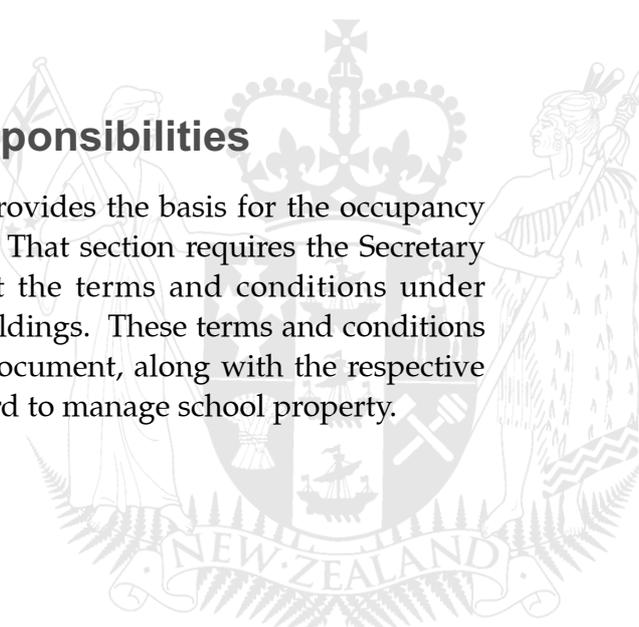
502 The Education Act 1989 gave effect to the regime of school management embodied in the *Tomorrow's Schools* policy. A key principle of the policy was that schools would have greater control over their resources to use as they determined – within the overall guidelines for education set by the State. Elected Boards were established with responsibility for the broad policy objectives, and for the efficient and effective running of their school.

503 The *Tomorrow's Schools* policy envisaged that the Boards would take an increased responsibility for managing school property. Boards would be responsible for all maintenance that could be expected to occur within a 10-year cycle. Capital works would continue to be the Ministry's responsibility – although the precise responsibilities of the Boards and the Ministry were to be set out in an occupancy document.

504 The new arrangements placed a premium on the Boards' capability to carry out their responsibilities for property management. In 1990, a taskforce of school principals set up to help implement the changes produced *A Guide to Property Management*, which was designed to help Boards fulfil those responsibilities.

Agreements, and Roles and Responsibilities

505 Section 70 of the Education Act 1989 provides the basis for the occupancy of land and property by state schools. That section requires the Secretary for Education to notify Boards about the terms and conditions under which they occupy school land and buildings. These terms and conditions are set out in a Property Occupancy Document, along with the respective obligations of the Ministry and the Board to manage school property.



ACCOUNTABILITY ARRANGEMENTS FOR SCHOOL PROPERTY MANAGEMENT

- 506 Notification of the general form of the Property Occupancy Document is by way of publication in the *New Zealand Gazette*. Once this has occurred, Boards are legally required to comply with the terms and conditions set out in the Document.
- 507 The first version of the Property Occupancy Document was ‘signed’ (see paragraph 511) with Boards following the implementation of *Tomorrow’s Schools* in 1989.
- 508 A revised version of the Document took effect on 4 November 1999, which:
- provides greater clarity than its predecessor on the specific roles and responsibilities of the Ministry and Boards for property management; and
 - reflects the Ministry’s continuing shift of focus from prescribing how education providers are to operate, to implementing a framework designed to give Boards more flexibility, balanced by tighter accountability arrangements.
- 509 The revised Property Occupancy Document gives each Board a greater ability to determine its future capital works needs through the development of a 10-Year Property Plan, and allows it to manage its own building projects. This increased responsibility is balanced by increased accountability of the Board for property management – such as the mandatory requirements for project management of capital works.
- 510 The key elements of the Property Occupancy Document relate to:
- operational and capital works responsibilities;
 - 10-Year Property Plans (which we discuss in paragraphs 638-643 on pages 57-58);
 - project management methodology;
 - rights of the Crown as owner of school property;
 - rights and responsibilities of the Boards for any Board-owned property;
 - statutory compliance (e.g. with building regulations);
 - health and safety responsibilities;
 - risk management;⁹ and
 - dispute resolution.

⁹ Risk management activities include insurance and prevention of catastrophic loss (for example, by installing security systems).



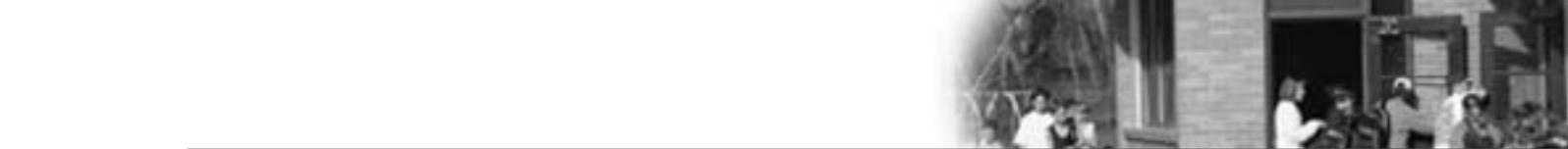
ACCOUNTABILITY ARRANGEMENTS FOR SCHOOL PROPERTY MANAGEMENT

- 511 The revised Property Occupancy Document is generic, and Boards are not required to physically sign up to it. However, the Minister of Education can set specific terms and conditions by writing to an individual Board.
- 512 The Ministry issued its *Property Management Guidelines* (the *Guidelines*) at the same time that it issued the revised Property Occupancy Document. The *Guidelines*:
- set out the terms and conditions of each Board’s occupation of Crown land and buildings;
 - provide information and advice to assist Boards in complying with the terms and conditions of the Property Occupancy Document;
 - set out a system for identifying and listing ownership of school assets;
 - inform Boards of school property management policies; and
 - suggest models of good practice in property management.
- 513 The *Guidelines*:
- explain how the Property Occupancy Document works in practice, and provide further information and guidance; and
 - set out clearly and simply the roles and responsibilities of the Ministry as landlord and the Board as tenant – describing the Ministry as “like a landlord”, the Board as “like a tenant”, and the Property Occupancy Document as “like a lease”.
- 514 In addition to the Property Occupancy Document framework, there are other accountability requirements for Boards, including:
- the elements of the 1993 *National Administration Guidelines*¹⁰ that refer to property management – including a requirement for a maintenance programme to ensure that school buildings and facilities provide a safe, healthy learning environment for students;
 - the *Health and Safety Code of Practice for State Primary, Composite and Secondary Schools*, which specifies the health and safety requirements that Boards must comply with; and
 - the negotiated conditions of any current asset management agreement.

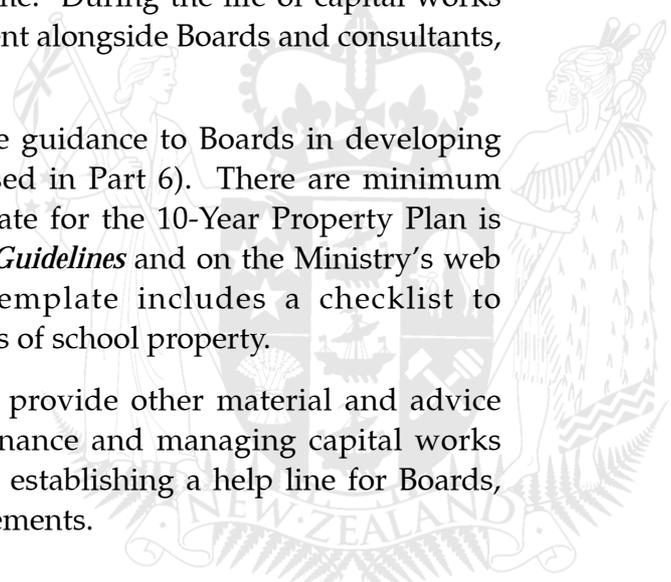
10 The purpose of the National Administration Guidelines is to assist Boards of Trustees and Principals to follow sound governance and management practices with respect to curriculum, employment of staff, financial management, and property management.

Working with Boards

- 515 While the Ministry has overall responsibility for school property, the performance of Boards in relation to property is critically important. Members of Boards are not expected to be property experts, and the Ministry recognises that the capability of Boards to deal with property management varies from school to school. Lack of Board capability is a risk area for the Ministry, and it is developing a strategy to address Boards' capability to meet their responsibilities in the devolved regime.
- 516 The Ministry encourages Boards to supplement their skills in property management by seeking independent advice from a property consultant to assist in drafting or reviewing plans.
- 517 Boards also receive direct support from the Ministry's network of local property officers. At the time we undertook our field work, the Ministry's Property Management Group (the Property Group) employed 95 staff in 12 property management centres in Whangarei, Auckland, Hamilton, Rotorua, Wanganui, Napier, Lower Hutt, Nelson, Christchurch, Dunedin, and Invercargill.
- 518 Although it has a strong local base, the Property Group also needs to have an effective relationship with other parts of the Ministry responsible for education and curriculum changes – since these will often affect the facilities that schools require.
- 519 The Deloitte review of the Ministry's arrangements and capability for managing school property (see paragraphs 409 to 411) recommended that the Property Group's work should be better integrated with education policy. The Group's Implementation Manager and the Ministry's Strategic Planning and Policy Manager are facilitating this integration with regular (three or six monthly) formal meetings with the appropriate policy managers.
- 520 Consultation between the two parts of the Ministry has been improved, with education policy staff now required to consult with the Property Group when developing policy that has potential property implications. For example, a new *School Property Guide for Primary Schools* (see paragraphs 714-716) now includes multipurpose space to support the new arts curriculum.
- 521 There have also been moves to integrate property and operational functions at the local office level. At the start of our study, the Property Group had its network of local offices. Within those offices was a smaller network of national operations staff who, while sharing the premises, tended to operate in isolation from the property staff.



ACCOUNTABILITY ARRANGEMENTS FOR SCHOOL PROPERTY MANAGEMENT

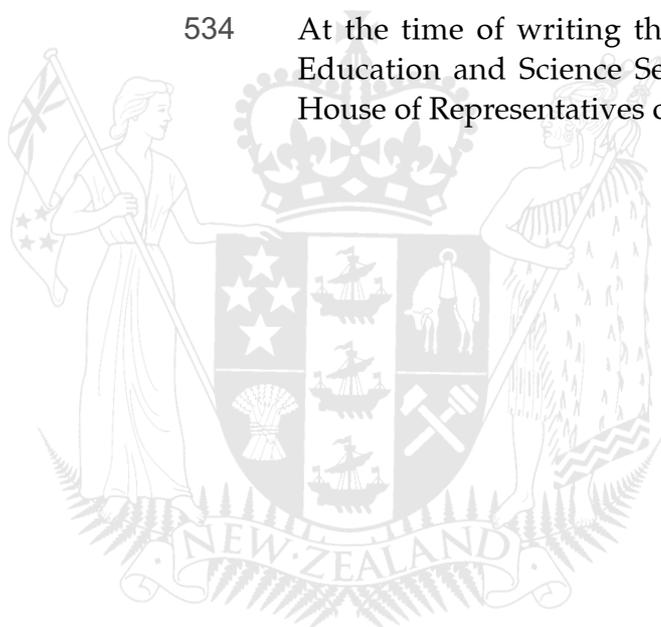
- 522 By the end of our study, the Ministry had reviewed its local office network and was in the process of restructuring it. The restructuring will see the local offices based on three functions:
- network provision (which includes property functions);
 - schools and early childhood; and
 - student support.
- 523 Each local office will now cover all three functions, and the restructuring seeks to:
- achieve greater co-ordination between property and operational functions;
 - achieve greater strategic capability;
 - enhance relationships with schools; and
 - increase staff capability.
- 524 The Ministry sees its role as ensuring that capital works funding is appropriately spent and the associated property legislation is complied with. Since 1999, district property officers have been required to visit schools annually to review property issues.
- 525 District property officers are responsible for ensuring that Boards have copies of the property information held on the Ministry's Property Management Information System. The officers are required to use this information, along with site plans and other relevant information, in planning and undertaking a school visit.
- 526 We found that district property officers did not generally limit their activities to the annual visit programme. During the life of capital works projects they have an active involvement alongside Boards and consultants, and they visit schools as issues arise.
- 527 District property officers also provide guidance to Boards in developing their 10-Year Property Plans (discussed in Part 6). There are minimum standards for the plans, and a template for the 10-Year Property Plan is available in the *Property Management Guidelines* and on the Ministry's web site www.minedu.govt.nz. The template includes a checklist to prompt Boards to consider core aspects of school property.
- 528 The *Guidelines* and the web site also provide other material and advice on best practice for property maintenance and managing capital works projects. The Ministry is considering establishing a help line for Boards, together with further web site enhancements.
- 

ACCOUNTABILITY ARRANGEMENTS FOR SCHOOL PROPERTY MANAGEMENT

- 529 The Ministry has some sanctions available to it if Boards are not meeting their responsibilities for managing school property. For example, the Ministry may withhold capital works project administration fees until a Board submits a completion certificate for capital works.
- 530 The *Guidelines* also indicate that Boards that do not maintain school property in accordance with their 10-Year Property Plan will not be eligible for some types of capital funding.
- 531 However, the difficulties with these types of sanctions are that they:
- penalise the school, not the Board; and
 - may not provide a sufficient disincentive to some Boards to prevent them diverting maintenance funding towards other areas of expenditure, even when maintenance work is required.

Proposed New Legislation

- 532 The Education Amendment Bill (No. 2) proposes to consolidate and simplify school planning and reporting requirements. Instead of the current requirement on schools to have a charter and a number of plans specified by various pieces of legislation, the Bill requires Boards to prepare a school plan and update it annually. Boards will be required to provide a copy of the school plan to the Secretary for Education, who will have the power to vary it.
- 533 The school plan must include the directions, objectives and priorities, and targets for the management of school property. The plan will have an annual component and a long-term strategic component.
- 534 At the time of writing this report, the Bill had been considered by the Education and Science Select Committee and was reported back to the House of Representatives on 24 July 2001 for further consideration.



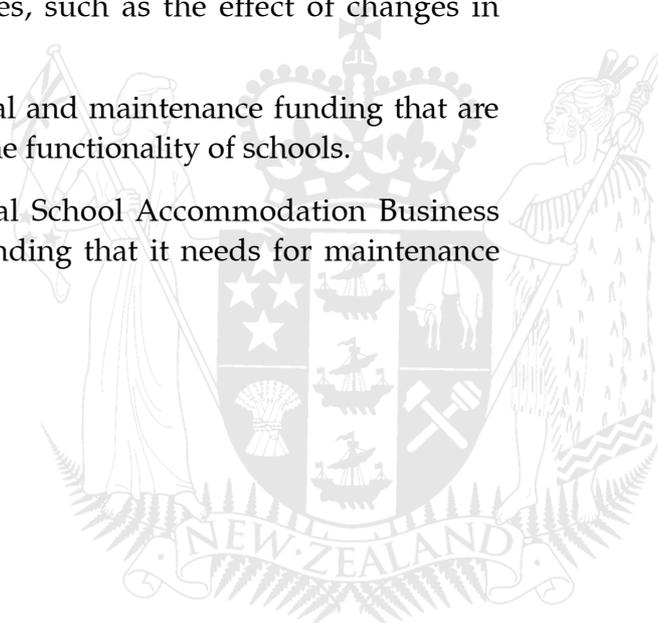
Introduction

- 601 In this chapter we discuss our detailed findings with respect to:
- the Ministry's strategies for ensuring provision of the appropriate quantity of school property;
 - the information systems that support management of the school property asset; and
 - how the Ministry plans for capital works and property maintenance activities.
- 602 The discussion supports our conclusions contained in paragraphs 208 to 216 on pages 14-16.

Strategies for Ensuring the Appropriate Quantity of School Property

Determining Funds for School Property Management

- 603 The Ministry needs to ensure that the supply of school property meets demand, including the provision of facilities that support up-to-date methods of teaching and learning.
- 604 The Ministry produces a 10-year Strategic Business Plan for property that:
- identifies long-term property issues, such as the effect of changes in curriculum and demography; and
 - takes account of the levels of capital and maintenance funding that are assessed as necessary to maintain the functionality of schools.
- 605 The Ministry also produces an annual School Accommodation Business Case to help quantify the level of funding that it needs for maintenance and capital works.





PLANNING AND INFORMATION SYSTEMS

- 606 The 10-year Strategic Business Plan and the annual Business Case use population and school roll projections based on the most recent census, as well as individual school roll projections over the next five years, to assess future property requirements. The plans identify requirements for:
- additional classrooms and land;
 - further development of educational facilities; and
 - the need for future new schools.
- 607 The planning process involves three main stages:
- forecasting the likely school-age population in the short and long terms;
 - identifying the capacity of current schools to meet the education needs of the population, including the provision of facilities that support up-to-date education methods; and
 - developing a response.
- 608 The Ministry's Data Management and Analysis Division uses three sources of roll estimates for input into the annual Business Case:
- the Local Area Roll Projection System;
 - principals' predictions for roll growth; and
 - evaluations by district property managers of predicted roll growth.¹¹
- 609 The Local Area Roll Projection System projects school rolls based on population, demographic changes, migration, and current roll data. However, the System was only designed to signal roll trends, particularly at the school cluster level. Local conditions – such as schools that have reached capacity – are not factored into the projections.



¹¹ The process differs slightly in the Auckland region because of faster population growth and urban intensification.

- 610 Over the last few years, the Ministry has focused on improving the forecasting of roll growth to assist in planning for the provision of school property. In 2000, the Ministry commissioned an external review of the 1997-98 School Accommodation Business Case.
- 611 The review aimed to provide assurance on the accuracy of the roll projections during that period, to determine the value of the Local Area Roll Projection System, and to verify the accuracy of district property managers' estimates of roll growth. The review found that:
- projections for the number of classrooms for primary schools were accurate, or one classroom out, in 80% of cases;
 - projections for the number of classrooms for secondary schools were less accurate, and the equivalent figure was 45%; and
 - roll projections by district property managers were generally more accurate – because, for example, they take account of local factors such as schools that have reached capacity, which the Local Area Roll Projection System does not.

Matching Supply with Demand

- 612 Figures 7.1, 7.2, and 7.3 on the next two pages show the actual number of new classrooms supplied to primary and secondary schools since 1995, and forecast supply to 2003-2004. The supply of new classrooms peaked in 1997-98 for both primary and secondary schools.
- 613 The rate of primary school roll growth has declined steeply since 1998, but there is still a need for a programme of investment to cater for temporary roll bulges over the next few years.



Figure 7.1
 New Primary Classrooms Supplied and Forecast
 1995-96 to 2003-04

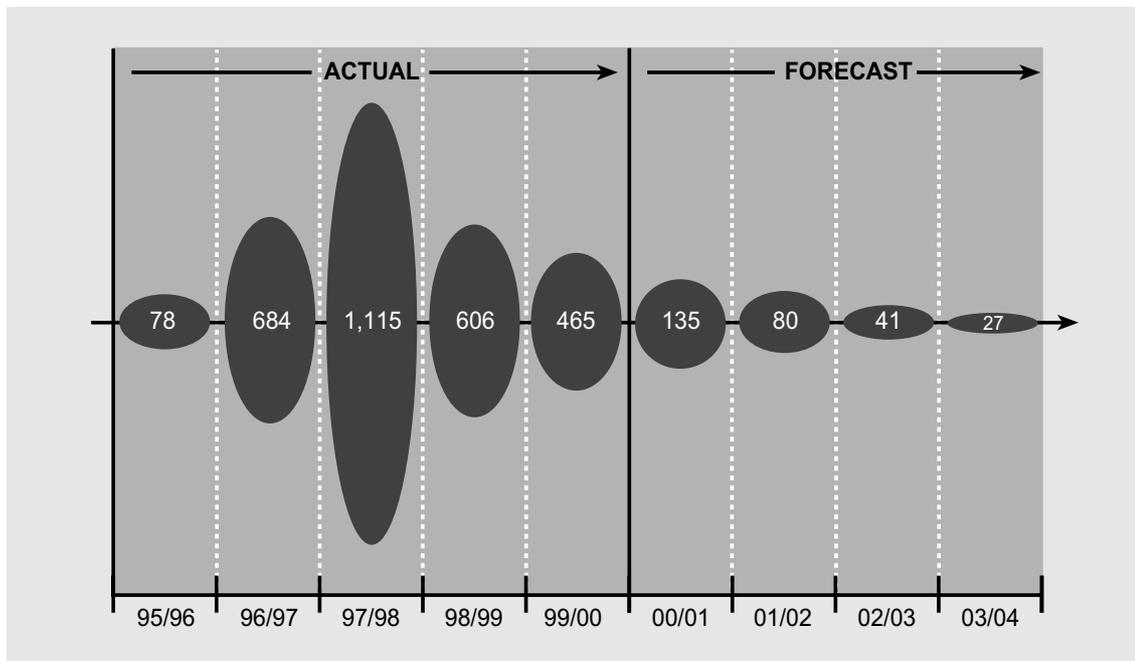


Figure 7.2
 New Secondary Classrooms Supplied and Forecast
 1995-96 to 2003-04

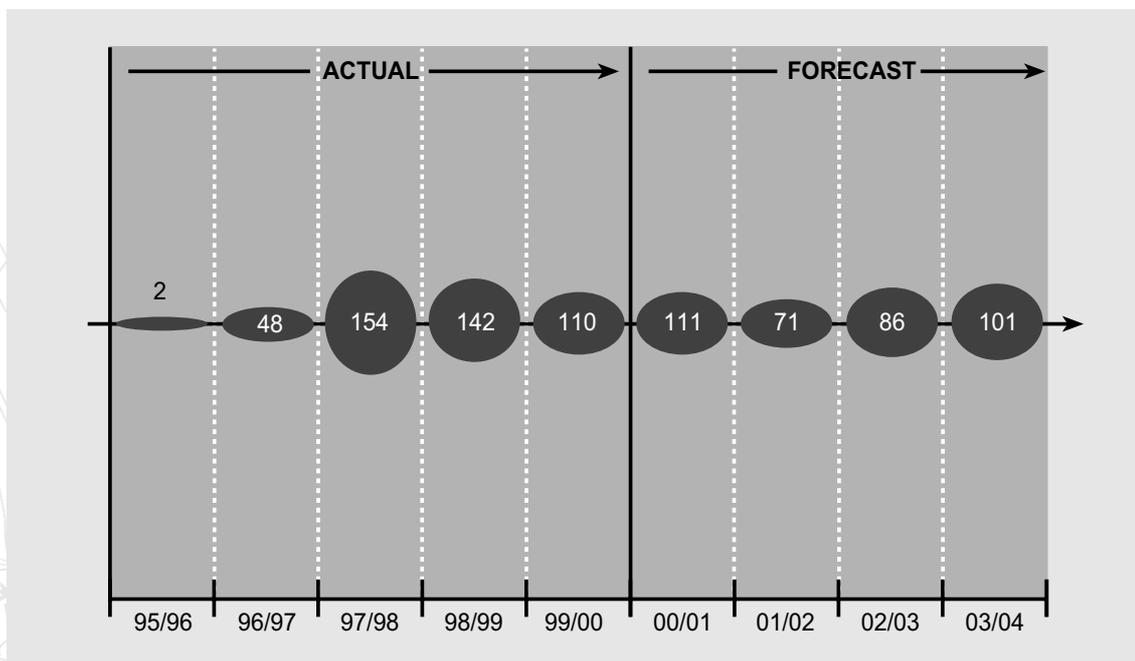
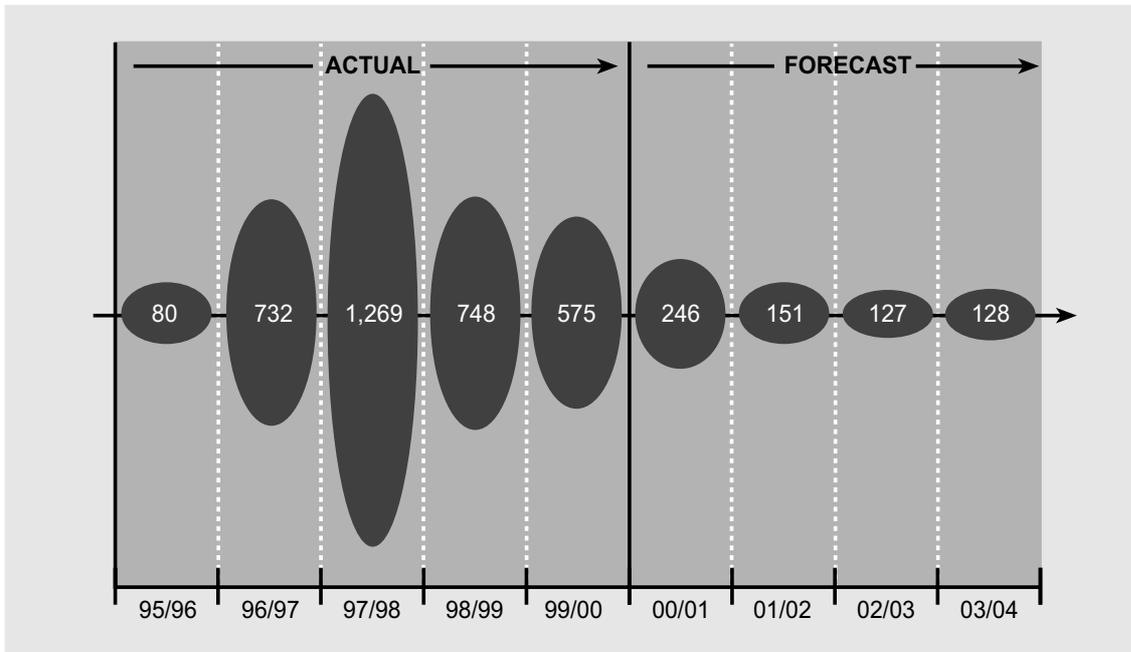


Figure 7.3
 Total New Classrooms Supplied and Forecast
 1995-96 to 2003-04

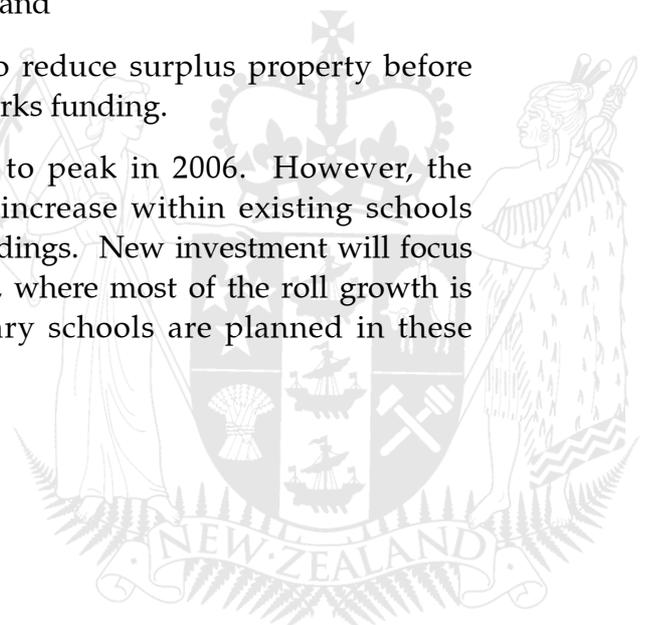


Data Source: Ministry of Education

614 The Ministry has the following two key strategies for mitigating the risk of oversupply of schools:

- it has increased the threshold for provision of a new classroom from 13 to 20 pupils – which, for example, reduced the number of new classrooms required in 1998-99 by 52; and
- it requires schools to have a plan to reduce surplus property before they are eligible for further capital works funding.

615 Secondary school rolls are predicted to peak in 2006. However, the Ministry plans to meet much of this increase within existing schools and through the use of re-locatable buildings. New investment will focus on the Auckland and Tauranga regions, where most of the roll growth is expected to occur. Five new secondary schools are planned in these two regions.



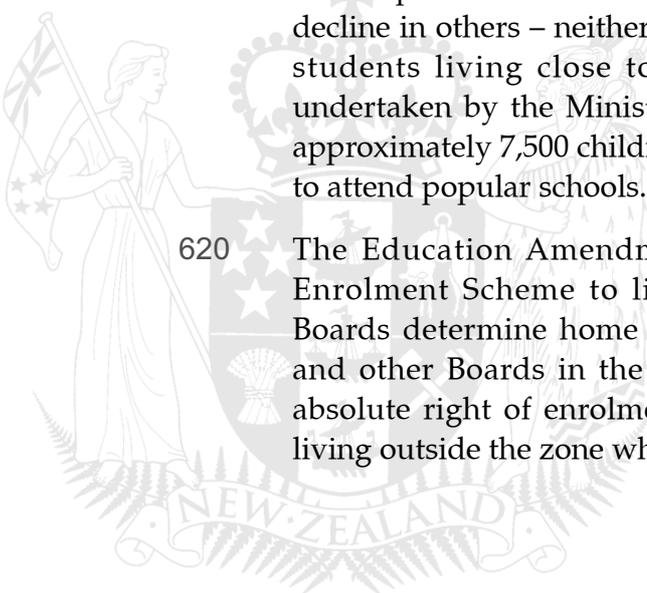


PLANNING AND INFORMATION SYSTEMS

- 616 The Treasury engaged consultants McDermott Fairgray Limited to independently review the 2000-01 School Accommodation Business Case. The purpose of the review was to provide assurance that the investment sought:
- was warranted;
 - was based on viable projects; and
 - took account of existing capacity.
- 617 The review:
- found that the Business Case offered a sound foundation for determining school capacity requirements, and was based on reasonable information and methodology; and
 - assessed the risks associated with inaccuracy of roll projections as low, because of good information and methods and the existence of surplus accommodation.

Managing Demand

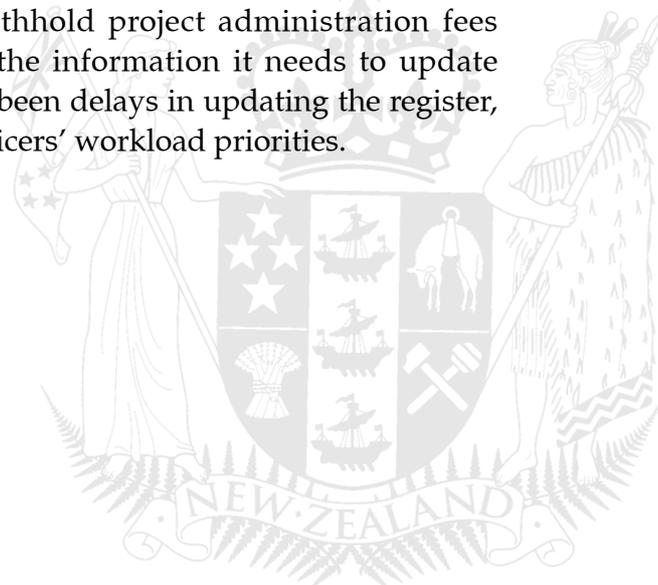
- 618 An important factor in predicting roll growth at local level is school popularity. Under current legislation the Government aims to give parents the right to enrol their children at their neighbourhood school, and its demand/supply relationships are based primarily on this premise. However, parents also have the right to choose the school their children attend, and children can attend schools outside their local area provided there is space at the school.
- 619 The impact of those factors has been roll growth in some schools and decline in others – neither necessarily linked to the population of potential students living close to the school. An Enrolment Pattern Survey undertaken by the Ministry of Education’s Auckland office showed that approximately 7,500 children migrate across Auckland City on a daily basis to attend popular schools.
- 620 The Education Amendment Act 2000 requires a school to adopt an Enrolment Scheme to limit student entry if overcrowding is likely. Boards determine home zones, in consultation with their communities and other Boards in the area. Students living in those zones have an absolute right of enrolment. A ranking system is in place for students living outside the zone who seek enrolment.



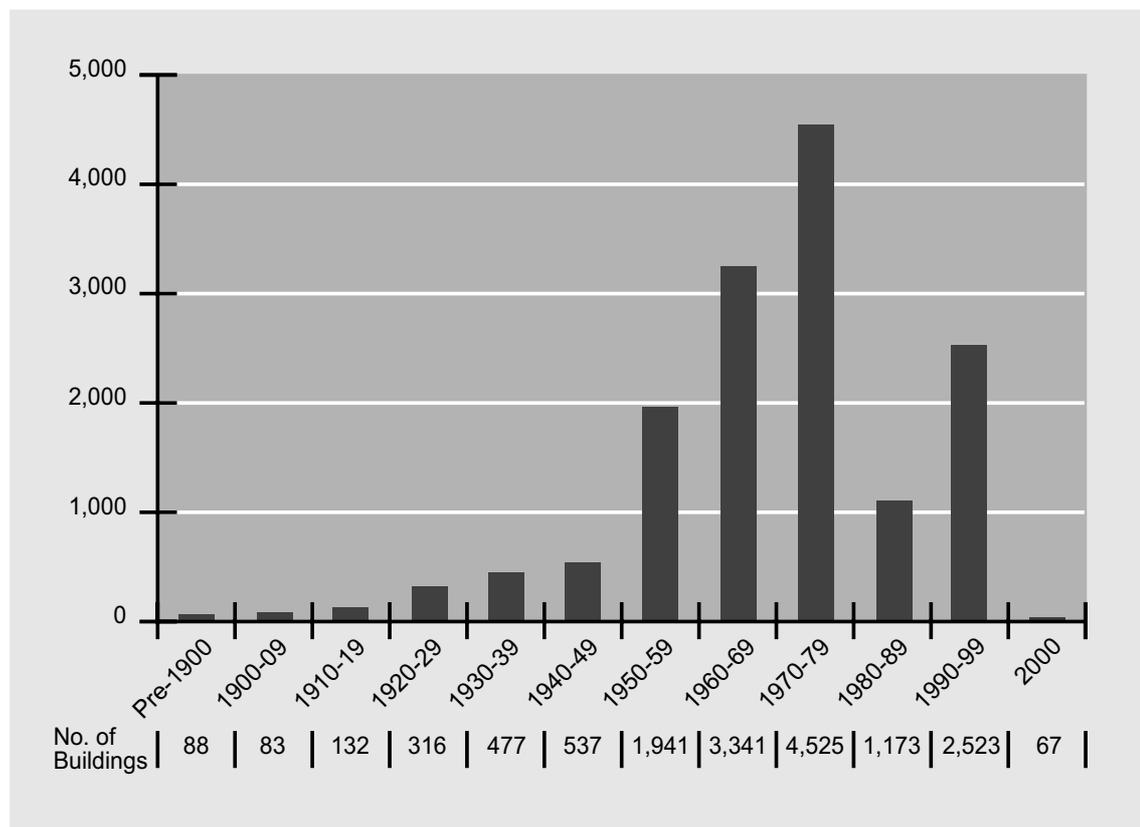
- 621 Schools can elect to introduce Enrolment Schemes, or the Ministry can impose them. Enrolment Schemes restrict parental choice for those living outside a home zone. However, the only alternative might be to build new classrooms, even though other schools with potential students living in the area have vacant space. This would result in sub-optimal use of property in a geographical area.
- 622 Enrolment Schemes are designed to ensure that no child is denied access to a reasonably convenient school when demand exceeds capacity. It is too early to assess the impact of these schemes on the demand for school property.

Property Management Information

- 623 We considered the quality, appropriateness, and timeliness of information supporting school property management.
- 624 The Ministry operates a Property Management Information System that provides a computerised asset register containing building and land asset information (such as type and age of buildings, the number of classrooms, and total school area for all state schools). The asset register also records expenditure – capital and operating – on individual school projects. The information on the register provides the basis for calculating property maintenance budgets. School ground plans for all schools with 5 classrooms or more are available on a separate system.
- 625 Figure 8 on the next page shows the age of school property as at February 2000. The majority of buildings were constructed between 1950 and 1979, with a further smaller burst of building activity in the 1990s.
- 626 The Ministry's local property officers are responsible for updating the asset register, using information on completed projects that Boards must provide. The Ministry can withhold project administration fees payable to a Board until it receives the information it needs to update the register. Nevertheless, there have been delays in updating the register, primarily because of local property officers' workload priorities.



*Figure 8
Age Profile of State School Buildings, February 2000*



Source: Ministry of Education.

627 In 1999, the Ministry reassessed all schools' property to verify the ownership status of all the buildings on school sites and to confirm the total gross area. The asset register has been updated to reflect this assessment.

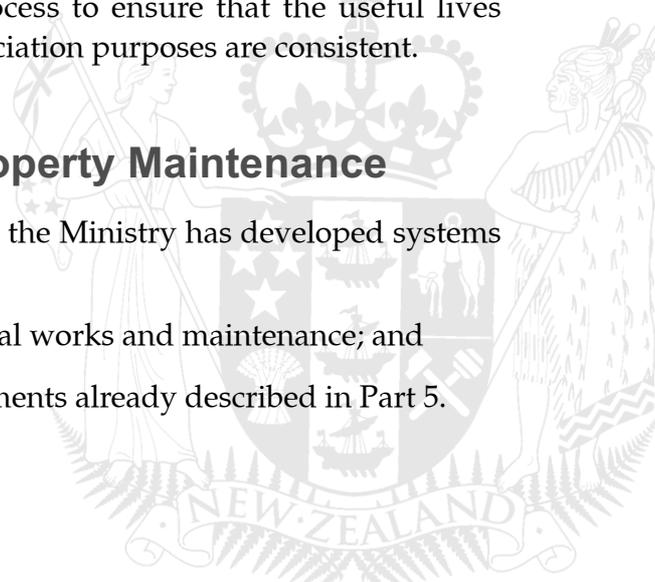
628 The Ministry is expanding its Property Management Information System. The new features will include, among other things, project management capabilities. The first stage of the expansion was implemented in December 2000 and added:

- a facility to track programme and project management details, expenditure, and project milestones;
- an asset database;
- the template for 10-Year Property Plans; and
- a facility for on-line authorisation of projects and expenditure.

- 629 Stage two of the expansion was implemented in May 2001 and added:
- a capitalisation system – which will transfer completed project information from work in progress to fixed assets;
 - a maintenance calculator – which will be used to calculate annual maintenance funding for individual schools;
 - a facility for holding and tracking progress against 5-Year Funding Agreements; and
 - other property information (e.g. lease agreements and licences to occupy) – which is accessible on-line.
- 630 The expanded system requires asset records to be updated whenever project-based financial information is changed. Property officers will therefore have to update the register before projects are closed on the system.
- 631 The system is not intended to record maintenance or minor capital works, because these will generally not affect the size of the asset base. The system can hold information on the condition of school property, but condition is not currently assessed.
- 632 A valuation model – which will enable the Ministry to undertake property valuations in compliance with financial reporting standards, and to assess building obsolescence – is scheduled for inclusion in the Property Management Information System in September 2001.
- 633 The valuation model will contain information relating to the remaining useful life of property assets. However, the model will not be used as the basis for the Ministry's calculation of depreciation for accounting purposes, which will be performed within the Ministry's financial systems. The Ministry told us that it is implementing a process to ensure that the useful lives of assets used for valuation and depreciation purposes are consistent.

Planning Capital Works and Property Maintenance

- 634 Since the advent of *Tomorrow's Schools*, the Ministry has developed systems to enable Ministry staff and Boards to:
- plan, implement, and monitor capital works and maintenance; and
 - support the accountability arrangements already described in Part 5.



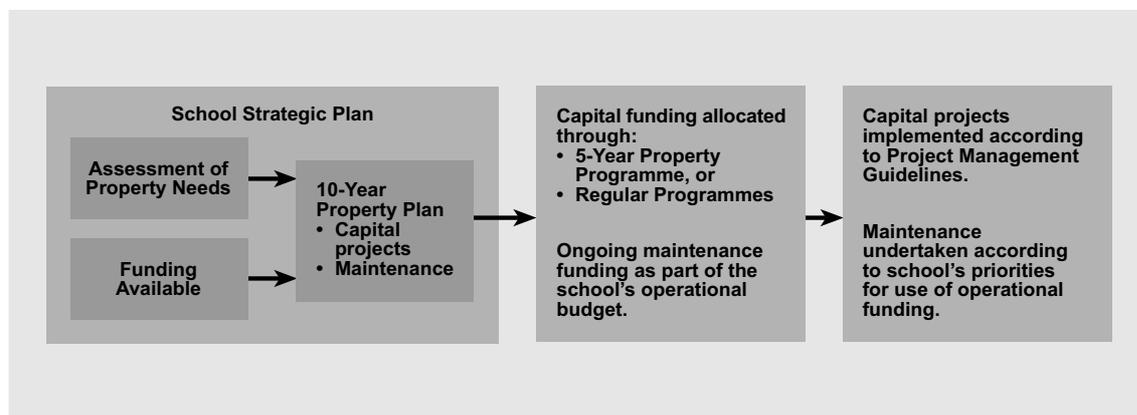


PLANNING AND INFORMATION SYSTEMS

- 635 The most recent major new systems were put in place during 2000. A new funding regime called the 5-Year Property Programme was introduced to address the following issues:
- Property planning and management were still not fully integrated with Boards' overall strategic plans for education. And new processes were needed to ensure that property investments were fully in line with the Boards' strategic direction for their schools.
 - The Ministry recognised that the arrangements for formulating the schools' annual capital works programmes created uncertainty for schools and Boards. Decisions on capital funding were not sufficiently prompt to enable Boards to make reliable medium and long-term plans for property improvement. Inefficiencies could arise – for example, where a Board improved buildings in anticipation of a delay in a more extensive upgrading project, only to find that the project was approved sooner than expected.
 - Boards had limited incentive to look for cost-effective property solutions, because funding was project-based. The Ministry considered that this encouraged Boards to inflate the scope of capital projects.
- 636 A planning and budgeting methodology for schools – the 10-Year Property Plan – complements the 5-year Property Programme and associated funding agreement.
- 637 The new combined planning and funding regime began in 2000. It is designed to link medium and long-term property planning and funding with the overall strategic plan of the Board and wider education plans. It is further complemented by the planning changes being proposed in the Education Amendment Bill (No.2) (see paragraphs 532-534 on page 44). A simplified outline of the regime, from the perspective of an individual school, is shown in Figure 9 on the opposite page.

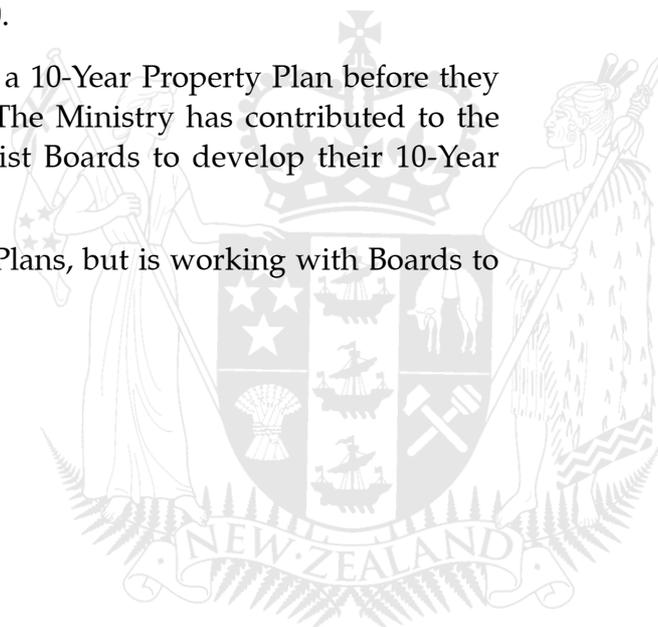


*Figure 9
New Combined Planning and Funding Regime*



10-Year Property Plans

- 638 10-Year Property Plans were introduced for all schools in 2000. They are primarily a planning tool and largely overlay – though they are designed to considerably enhance – existing planning arrangements.
- 639 The 10-Year Property Plans are intended to encourage Boards to take a strategic approach to property planning. Boards must forecast annual maintenance expenditure and proposed capital projects for a 10-year period.
- 640 The Ministry required the Boards that were part of the 5-Year Property Programme for 2000-01 to have their 10-Year Property Plans completed by 30 September 2000. Boards with capital funding approved for 2000-01 under the Ministry’s Modernisation Programme were required to have their Plans completed by 30 November 2000.
- 641 All other Boards are required to have a 10-Year Property Plan before they can have access to capital funding. The Ministry has contributed to the cost of employing consultants to assist Boards to develop their 10-Year Property Plans.
- 642 The Ministry does not “approve” the Plans, but is working with Boards to reach agreement on them.





PLANNING AND INFORMATION SYSTEMS

643 A “best practice” template for the 10-year Property Plan is contained on the Ministry’s web site (see paragraph 527). Boards are expected to use it – or at least to follow the standard format of the template. Within that constraint, Boards can tailor the content of their Plans according to their needs. At the same time, each Plan must meet, and will be assessed against, three criteria. The Plan must:

- evaluate the suitability of property for all known future changes at the school, such as roll and curriculum changes;
- include maintenance requirements; and
- be affordable.

5-Year Property Programme for Capital Works

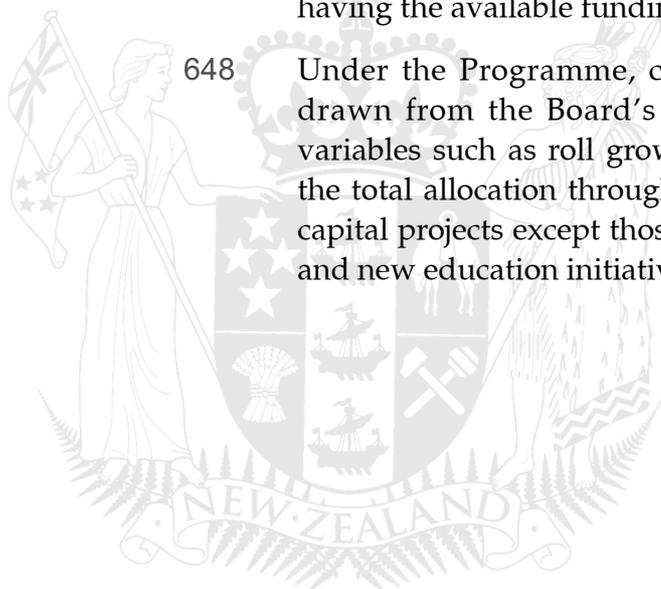
644 In June 2000, the 5-Year Property Programme was introduced for capital works. This Programme takes the first five years of a Board’s 10-Year Property Plan as the basis of a 5-Year Funding Agreement for capital works between the Ministry and the Board.

645 Sixty Boards were initially selected to sign up to the Programme. The total budget to be allocated to these first 60 Boards is \$40 million over five years.

646 5-Year Property Programmes are being introduced for all Boards over a five-year period, and will largely replace existing arrangements for the allocation of funds.

647 One of the key goals of a 5-Year Property Programme is to give the Board some certainty about when it can expect its capital projects to be undertaken (although actual receipt of funds will still be subject to the Ministry having the available funding allocation).

648 Under the Programme, capital allocation is based on specific projects drawn from the Board’s 10-Year Property Plan, and consideration of variables such as roll growth and new education policy. The aim is that the total allocation through the 5-Year Property Programme will cover all capital projects except those required for risk management, rationalisation, and new education initiatives.



- 649 The Government required an evaluation of the process used to put the first 60 Boards onto the Programme before agreeing to its extension to other Boards. The Ministry contracted independent evaluators to undertake this work. Their evaluation found that:
- 82% of Boards that had signed on, or that were about to sign on, to the Programme were very satisfied with it; and
 - most Boards indicated that they had sufficient information on the budget allocation process.
- 650 As a result of this evaluation, the Government has approved the transition of all Boards onto the Programme over the next five years. The capital funding regime that has been operating for all Boards up to 2000 will continue to operate until the transition is complete.
- 651 Discussions with education sector representatives, and feedback from district property officers, suggest that Boards generally support the adoption of 10-Year Property Plans and the 5-Year Property Programme. The approach is considered to fit well with the policy of school self-management expressed in the *Tomorrow's Schools* policy.
- 652 As at July 2001, the Ministry had 5-Year Funding Agreements with 58 of the first 60 Boards on the 5-Year Property Programme. In total, 378 Boards now have 5-Year Funding Agreements, and this figure continues to rise.



Seven

Managing Capital Projects



Introduction

- 701 The Ministry defines “capital projects” as:
- any investments in school property that add value to an existing asset in terms of upgrading, remodelling, or enlargement; and
 - the purchase and creation of new assets, such as classrooms.
- 702 This definition is consistent with Generally Accepted Accounting Practice.
- 703 In this part we discuss in detail our findings with respect to managing capital works projects. It supports our conclusions contained in paragraphs 217-222 on page 16.

Funding Allocation for Capital Projects

- 704 The Ministry receives appropriated funding through Vote Education and is responsible for all capital expenditure on school property. Its Property Group allocates the annual budget for new capital works.
- 705 Because (under the Public Finance Act 1989) this appropriation¹² can only be used for school property projects, Boards must return savings on individual projects to the Ministry. However, funds returned can be made available to Boards for other current or future property projects.
- 706 Capital funding falls into two main categories:
- **“Baseline funding”** – which sustains the quality and functionality of existing school property. Baseline funding is set at 4% of the capital value of the building stock, and is allocated to Boards on the basis of their area entitlement (see paragraph 712) taking account of past funding.
 - **“Capital injection funding”** – for additional property to cater for roll growth and new education policy and initiatives. This funding is allocated to schools on the basis of need.
- 707 Proceeds from sales of surplus property as a result of school closures and other factors are used to reduce the level of new funds required for capital injection funding.¹³

12 Vote Education 2001-02, Output Class D8 (*Estimates of Appropriations*, Vol. 1, page 366).

13 Boards may also independently raise funds from fund-raising and community sources.



MANAGING CAPITAL PROJECTS

- 708 Figure 10 on the opposite page illustrates the nature of expenditure under the two capital funding regimes now operating – one for Boards that do not yet have a 5-Year Property Programme and the other for Boards that do.
- 709 For Boards that have a 5-year Property Programme the expenditure categories are essentially collapsed into one and funding is by project (in accordance with the Programme), rather than through the annual baseline and capital injection funding. The exceptions are funding for risk management, rationalisation, and any new initiatives that could not have been envisaged for the 5-year period of the Programme – which will continue to be allocated separately.
- 710 The Ministry also has a limited pool of funds available for unprogrammed or unforeseen emergency work that needs to be done urgently to ensure that a school remains open (such as boiler replacement). Where Boards have signed 5-Year Funding Agreements under the 5-Year Property Programme, the Agreement will be adjusted to ensure that the Board's capital works allocation absorbs the cost of the unprogrammed works.

Planning for Capital Projects

- 711 The Ministry's annual capital works programme involves arranging detailed planning, financial programmes, and funding approvals. Individual Boards negotiate capital works projects for their school with the Ministry's local property staff.

Quantity of School Property

- 712 Quantitative needs for capital funding are defined according to:
- the number of classrooms and any need for additional rooms due to increased rolls (taking account of the availability of schools locally);
 - total gross area of the school; and
 - the provision of additional space for specific educational programmes.

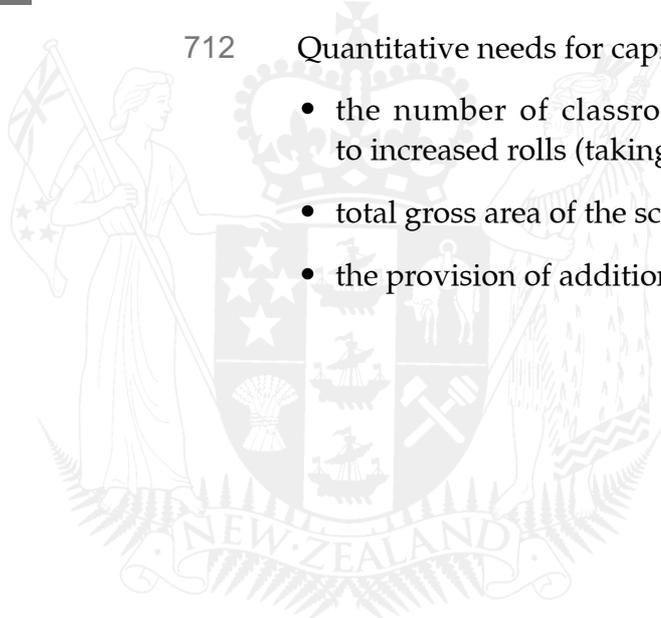


Figure 10
The Two Capital Works Funding Regimes

Boards Without a 5-Year Property Agreement	Boards With a 5-Year Property Agreement
<p><i>Capital Injection Funding</i></p> <p>New projects to meet demands for:</p> <ul style="list-style-type: none"> • new classrooms; • new schools; • land acquisition; and • school property guide and other education initiatives. <p><i>Baseline Funding</i></p> <p>Works under the Health and Safety Programme that, if not completed, pose a risk that the school, or part of the school, may have to be closed.</p> <p>Upgrading of property under schemes for:</p> <ul style="list-style-type: none"> • General Modernisation for the refurbishment of existing property and provision of additional property to bring it up to the standards required by current resource guidelines; and • Financial Assistance, which enables Boards to share the cost of building projects between the Ministry, the Board and the community. <p>Risk Management works and replacements in the event of catastrophic events such as floods.</p> <p>Property Rationalisation, including education development initiatives such as decommissioning or demolishing surplus buildings, merging facilities and amalgamating schools.</p>	<p>Works covered by the 5-Year Funding Agreement.</p> <p>Risk Management works and replacements.</p> <p>Property Rationalisation.</p>

Source: Ministry of Education

713 The Ministry is in the process of updating its *School Property Guides*, which set out entitlements for primary, intermediate, and secondary schools. In 1999, the Ministry issued a new *Guide* for primary schools, which sets a minimum area of 2.5m² net for each student – the equivalent of one classroom for every 26 students – representing an approximate average increase of 48% compared with the area set by the previous *Guide*. The method of calculating this entitlement is transparent, and is available on the Ministry’s web site (see paragraph 527).



MANAGING CAPITAL PROJECTS

- 714 The previous primary school *Guide* dated back to 1970 and was criticised as inflexible. The new *Guide*:
- sets increased space for administration, library, and resource areas, as well as the teaching space area to provide for needs such as information technology; and
 - includes a provision for multipurpose space that may be used for a number of purposes (such as a gymnasium area or a Wharenui).
- 715 The 1999 primary school *Guide* should enable Boards to adapt their school property to suit their needs, and provide more space to deliver the curriculum. Boards have greater freedom under the new *Guide* to choose how they use their space allocation.
- 716 Some funding (currently \$20 million) is made available each year specifically for investing in primary school property that falls short of the standards in the 1999 *Guide*. Taking account of the amount and timing of likely available funds for this investment, the Ministry aims to have brought all primary schools up to the new standards by 2005.
- 717 A new *Property Guide* for secondary schools is currently being circulated for consultation. A copy is available on the Ministry's web site (see paragraph 527). A new *Property Guide* for intermediate schools is planned for completion by 30 June 2002.
- 718 Boards of schools experiencing declining rolls and having more than five surplus classrooms are required to produce a plan to reduce surplus space before new capital works are approved. A number of options are available to these Boards. They may:
- seek approval to use the classrooms for other educational uses – generally educational activities that the Ministry funds (such as satellites of Kura Kaupapa Maori);
 - agree to any relocatable units being moved to another school site;
 - decommission or demolish buildings that have passed their economic life;
 - agree to the sale of the surplus property under a scheme whereby the Board receives 50% of the net proceeds of the sale;¹⁴ or
 - purchase the surplus buildings themselves (out of locally raised funds), provided the buildings are not required for other educational purposes or to meet property deficiencies at other schools.

¹⁴ All property offered for disposal is subject to the requirements of the Public Works Act 1981 and the Protection Mechanism for Maori Interests and Surplus Crown Owned Land.

Quality of School Property

719 Qualitative needs are assessed against:

- legislative requirements, such as building warrants of fitness;
- Ministry design standards; and
- measures of whether school buildings are ‘fit for purpose’.

720 Boards (whether or not they have a 5-Year Property Programme) are required to ensure that capital projects meet these standards and requirements, using the funds from the Ministry according to the following formulae:

- ***Baseline funding to maintain the functionality and quality of existing property*** – For buildings older than 10 years, a year a rate of \$20/m² a year.¹⁵ This figure is based on the lesser of gross m² entitlement,¹⁶ or actual gross m² assessed at the latest actual July roll. That is, Boards will only receive capital works funding for property that is warranted by the size of their school roll. The Ministry adjusts the funding entitlement for schools that have received more or less than \$20/m² a year over the past 25 years.
- ***Capital injection funding to expand property*** – Classroom funding is based on roll projections. Qualifying schools have funding agreed for the provision of additional classrooms for the next 5 years. The minimum budget for a classroom is \$70,000, which is based on the cost of relocating classrooms between schools. If a Board can provide a classroom that meets Ministry standards for less than \$70,000, the Board may retain the savings to spend on another property project.

The Ministry has a budget (currently limited to primary schools) for investing in schools where the gross area (in m²) falls short of the standards in the 1999 Guide. The need for funding is based on the school’s past July actual roll. Timing of these projects is planned according to the Ministry’s overall priorities for addressing national deficiencies.

721 The Ministry takes account of past funding for capital projects when it undertakes each Board’s overall funding assessment.

15 This sum takes into account industry benchmarks and the funds available from baseline funding for the ongoing refurbishment of the property stock.

16 “Square metre entitlement” is the *School Property Guide* entitlement, plus square metres being used for educational activities eligible for specific Government funding – for example, early childhood education.

Procedures for Specific Capital Projects

- 722 For Boards that do not yet have a 5-Year Property Programme, proposed projects are ranked. The Ministry indicates to a Board whether or not its project is included on the annual capital works programme, and its priority. At this point, the Ministry is still unable to give Boards a firm date for starting a project, and local property officers work with Boards to establish a start date.
- 723 Boards entering into a 5-Year Property Programme must have an agreed 10-Year Property Plan. All capital works projects will continue to require individual approval by the Ministry's district property managers before they can start.
- 724 In 1994-95, a new scheme was introduced that enabled Boards to manage new capital projects. Under this scheme (which was reviewed in 1999) it is essential that the Ministry has adequate controls in place to monitor the use of capital funding by the Boards.
- 725 The Ministry's comprehensive requirements of Boards undertaking capital works projects include:
- Under the Property Occupancy Document, the Board must comply with the Ministry's Project Management System.
 - The more detailed guidance in the *Property Management Guidelines* on the main stages of the Project Management System – planning, implementation, and completion – as well as general practical advice about managing capital works projects.
 - Boards must keep accurate records and evidence to show that they have followed the project management methodology.
 - The promotion of efficient and effective purchasing by Boards through tendering and negotiation with preferred suppliers.
- 726 At certain points during the life of a project, the Project Management System requires the Board to seek approval to proceed from the Ministry as shown in Figure 11 on the next page.
- 727 In 2001 the Ministry issued *Building Design Standards* to Boards. The *Standards* outline legislative requirements, special requirements set out by the Ministry, and non-mandatory (but recommended) standards. The purpose of the *Standards* is to ensure that school buildings are safe and fit for purpose.

*Figure 11
Approval Points in the Life of a Capital Works Project*

Capital Works Project Management System		
<p>Planning</p> <ul style="list-style-type: none"> • identify the need • get agreement to the scope of the work ✓ • get approval for the budget ✓ • keep accurate records • engage a project manager ✓ • engage other construction professionals 	<p>Implementation/ Construction</p> <ul style="list-style-type: none"> • prepare tender documentation and call for tenders ✓ • arrange insurance ✓ • let the contract ✓ • determine construction period ✓ • provide completion certificate ✓ 	<p>Completion/Close Off</p> <ul style="list-style-type: none"> • provide the Property Management Information System update forms ✓ • provide the final “as built” plans ✓ • discharge project manager • conduct the post occupancy evaluation ✓
<p>✓ Approval required before projects can progress further.</p>		

Source: Ministry of Education

Post-occupancy Evaluations

- 728 The Ministry is introducing a process called Post-occupancy Evaluation, to assess Board satisfaction with a completed capital works project. The evaluation is user-oriented rather than an exercise by technical experts.
- 729 A trial evaluation was undertaken in 2000. It involved:
- interviewing school staff to determine how well the building met expectations and curriculum needs; and
 - working with the project team to identify good practice and possible improvements in the way projects are carried out.
- 730 The next stage of implementing post-occupancy evaluations is to develop a standard template to enable Boards to undertake their own evaluations, and send the results electronically to the Ministry.



MANAGING CAPITAL PROJECTS

- 731 The Ministry also intends to undertake further specific evaluations of, for example, library and technical centre projects. The information will be used to develop a comprehensive web-based best practice design database of capital works projects, for use by all Boards when planning their own capital projects.



Eight

Maintaining School Property



Introduction

801 The Ministry – as the representative of the Crown, which owns school property and funds its maintenance – has an interest in how effectively and efficiently Boards are maintaining school property. Where maintenance is inadequate or poorly done, there is a risk that:

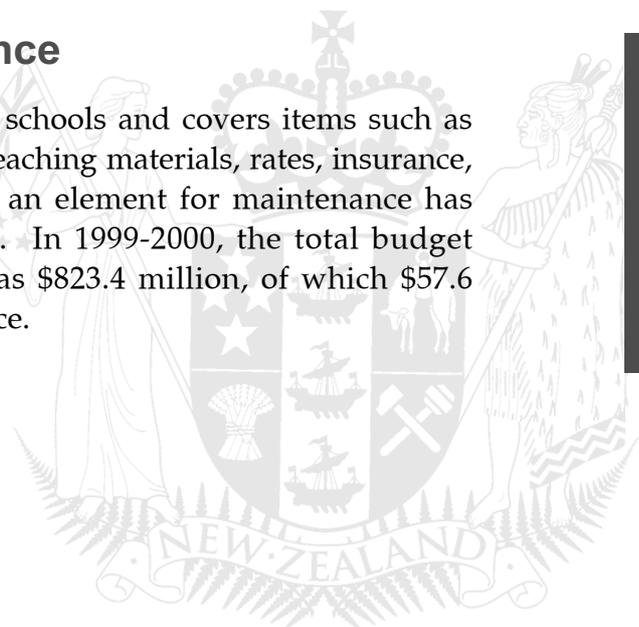
- educational programmes may be disrupted because the required facilities are inadequate or unavailable;
- a maintenance backlog may build up – which will eventually have to be rectified by the Ministry either meeting the cost of the deferred maintenance or paying for a capital project to restore or replace the property; and
- the health and safety of pupils and staff may be compromised.

802 As part of the planning and implementation of *Tomorrow's Schools*, the Ministry assessed the extent of deferred maintenance across the whole school estate – on the basis that the property should be upgraded before expecting Boards to accept full responsibility for ongoing maintenance. The result was an extensive catch-up programme over the 10 years to 2000, at a cost of over \$500 million.

803 In this part we discuss in detail our findings with respect to property maintenance. It supports the conclusions contained in paragraphs 223-234 on pages 17-18 and the recommendations contained in paragraphs 235-238 on page 19.

Funding Allocation for Maintenance

804 Operational funding is paid directly to schools and covers items such as equipment and furniture replacement, teaching materials, rates, insurance, and minor capital works. Since 1989, an element for maintenance has been included in operational funding. In 1999-2000, the total budget for operational funding for schools was \$823.4 million, of which \$57.6 million (7%) was allocated to maintenance.





MAINTAINING SCHOOL PROPERTY

- 805 The Ministry issues an annual Grant Advice Notice to each Board, which:
- includes baseline information about the school that is used to assess the Board's funding for maintenance and minor works;¹⁷ and
 - indicates the portion of the operational grant that is allocated for maintenance and minor capital works.
- 806 Boards receive funding for maintenance costs based on an assessment of factors, such as the school's site area, building area, swimming pool facilities, and painted area. Nationally, the rate of funding averages \$10/m² a year. Funding assessments for remote schools – defined as schools between 30km and 150km from a town with a population of 2000 or more – are adjusted upwards to take account of the impact of isolation. Specific adjustments are also made for island schools, such as those on the Chatham Islands.
- 807 In response to a recent report on the costs of school maintenance by Building Research Association of New Zealand, the Ministry is considering options for increasing the maintenance grant to Auckland schools to address the region's higher maintenance costs.
- 808 The age of property has not been found to be a significant influence on maintenance costs. That is, older schools do not tend to cost any more to maintain than newer schools.

Managing and Monitoring Maintenance

- 809 Boards are responsible for managing all maintenance of land, buildings, and other facilities on the school's site. Maintenance includes painting, landscaping, and repairs to essential services such as boilers.
- 810 The Property Occupancy Document (see paragraphs 505-514 on pages 39-41):
- requires Crown-owned school property to be *maintained in good order and repair at all times and to a standard that meets current trade standards of workmanship and complies with all relevant New Zealand legislation and codes; and*
 - defines maintenance as *all the work necessary to keep the site, buildings and facilities at the school in a good state of repair.*

¹⁷ The Ministry's web site www.minedu.govt.nz contains a template for the maintenance grant calculation.

- 811 However, the Ministry has not defined what is meant by the terms “good order and repair” and “good state of repair”.
- 812 The *Property Management Guidelines* state that the Ministry will monitor how Boards manage school property, and we looked for evidence that the Ministry is fulfilling this function.
- 813 The Ministry considers that it fulfils its monitoring responsibilities, and is able to measure *good order and repair* and *good state of repair*, through:
- the formula for maintenance funding (the Ministry suggests that the annual m² allocation is the benchmark for schools to plan their maintenance activity against);
 - from 2001, schools’ 10-Year Property Plans;
 - district property officers’ annual visits to schools; and
 - external assessments.
- 814 We examined the validity each of these possible ways of assessing the state of repair of school property.

Formula for Maintenance Funding

- 815 The formula for calculating the maintenance grant enables the Ministry to allocate maintenance funds to schools on a consistent, transparent basis. However, when or whether the grant is spent on maintenance is at the discretion of the Board – the money can be used for other purposes.
- 816 The Ministry states that the main benefit of this approach is that it gives Boards the freedom to manage their overall funds in a way that brings the greatest benefit to the school, in line with the principles of *Tomorrow’s Schools*.
- 817 In our view, there are significant limitations in the Ministry relying on the formula as a way of measuring whether school property is being maintained to an acceptable standard. Expenditure of the maintenance grant is not a reliable indicator that school property is being adequately maintained.
- 818 A low amount of maintenance expenditure might indicate that not enough maintenance is being done, but equally it might derive from lower costs. For example, a school may have access to free materials and labour from parents and supporters, or the low costs in one year may result from the cyclical nature of some maintenance activities, such as painting.



MAINTAINING SCHOOL PROPERTY

- 819 The Ministry does not, in any case, hold records on how Boards have used their maintenance and minor capital works funds. The Ministry therefore has no systematic way of knowing what resources Boards have used – either in cash or in kind – on maintenance.
- 820 By giving Boards the flexibility to decide their own priorities for spending the maintenance grant, the Ministry creates risks that need to be managed. Where maintenance is not undertaken and the money is used for school operations, deferred maintenance or remedial capital works may eventually be required. The Board may obtain capital funds for these works, but this would in turn reduce the funds available for other capital projects not arising from deferred maintenance. Therefore, the risk is that the Ministry will at some stage have to step in with additional funds for capital works.

10-Year Property Plans

- 821 A Board's 10-Year Property Plan covers maintenance as well as capital projects. The Plan can provide annually updated information on the Board's intentions regarding maintenance, and what work has been carried out.
- 822 Under the new capital funding arrangements, the Ministry retains a source of funding for urgent, unplanned work (see paragraph 710 on page 64). However, where a Board receives these funds, it will be required to adjust its 5-Year Property Programme, deducting the amount spent from future capital entitlements. This approach is intended to provide an incentive to schools to maintain school property adequately, so that the capital budget can be spent on planned capital projects.

District Property Officers' Annual Visits

- 823 District property officers are required to visit schools annually. The Ministry's 2000-01 School Accommodation Business Case stated that (as part of these visits) the officers would review, among other things, the current state of school property and Board property plans. However, we found that property officers are not formally required to:

- monitor actual maintenance expenditure or activity against the 10-Year Property Plan; or
- identify uncompleted maintenance work and any recurring maintenance issues.

- 824 Maintenance monitoring was not included in instructions to property officers for visits in 1999-2000, and the Ministry told us that it does not expect its staff to undertake such monitoring.
- 825 We found during our visits to district property offices that some officers nevertheless raise maintenance issues and, on occasions, carry out physical inspections of the work that has been done – but they do this without any framework or benchmarks to inform their assessments. If the Ministry wishes to formally rely on these assessments, we consider that a systematic framework and measures would need to be put in place – especially since the officers are not required to possess any technical property management experience or skills.

External Assessments

- 826 The Ministry relies on external assessments to provide further assurance that Boards have developed and implemented maintenance plans, and are undertaking property maintenance. These external assessments comprise:
- reviews by the Education Review Office;
 - Serco compliance and owner’s inspections;¹⁸
 - Audit Office annual external audits; and
 - reviews of specific issues.
- 827 We assessed the reasonableness of the Ministry’s reliance on each type of assessment.

Education Review Office Accountability Reviews

- 828 The core function of the Education Review Office (ERO) is to undertake school accountability reviews.¹⁹ Findings are reported to the Government, the Ministry of Education, and other key education stakeholders. ERO reviews schools approximately every four years.

18 Serco undertakes property services on contract to the Ministry. These services include annual inspections of schools under Section 44 of the Building Act 1991, as required by Compliance Schedules issued by territorial authorities.

19 An accountability review is an external evaluation of the education provided to school students and children at early childhood centres.



MAINTAINING SCHOOL PROPERTY

- 829 ERO assesses schools against evaluative criteria, which include a requirement that schools implement a maintenance programme in compliance with the *National Administration Guidelines*. However, the ERO reviewers are only required to report on straightforward non-compliance – such as the lack of a maintenance plan.
- 830 ERO staff are not specialists in property management and, therefore, any views they might express on the quality or adequacy of maintenance would not have a professional basis. We analysed a sample of ERO accountability review reports and found that most comments were limited to whether or not maintenance plans exist.
- 831 The Ministry makes no formal use of the ERO accountability reports for property monitoring. For example, the Property Management Group is not expected to respond to any property-related issues raised, and there are no procedures for passing on reports containing issues (including lack of maintenance plans) to the relevant Ministry district office staff.

Serco Inspections

Compliance Inspections

- 832 Serco's compliance inspections are specifically targeted at the more technical aspects of property – features such as emergency lighting, means of escape, and fire protection systems. The inspections provide assurance on legislative compliance for those particular aspects, but they are not intended to provide any wider assurance on the adequacy of maintenance generally.

Owner's Inspections

- 833 The Ministry needs to ensure that the less complex systems and features listed in the Compliance Schedule – relating to fire safety, emergency lighting and access – are regularly inspected and maintained. Boards perform this task, known as the owner's inspection, on behalf of the Ministry. Boards are required to record their inspections, and Serco (as an Independent Qualified Person under contract to the Ministry) reports annually to the Ministry on whether or not these inspections have been undertaken.

834 We analysed a random sample of Serco's reports issued since 1998. None of the Boards in the sample were recording that they had undertaken the owner's inspections. Serco, on behalf of the Ministry, has implemented a strategy and training programme to ensure that Boards complete the inspections as required. As at June 2001, 90% of Boards had recorded owner's inspection data.

Audit Office Annual External Audits

835 As part of the annual audit, our auditors now check that a Board has a comprehensive 10-Year Property Plan and that the Board is monitoring the Plan. The Ministry's *Property Management Guidelines* tell Boards that our auditors will also check that Boards are keeping to the Plan. However, this is not necessarily the case.

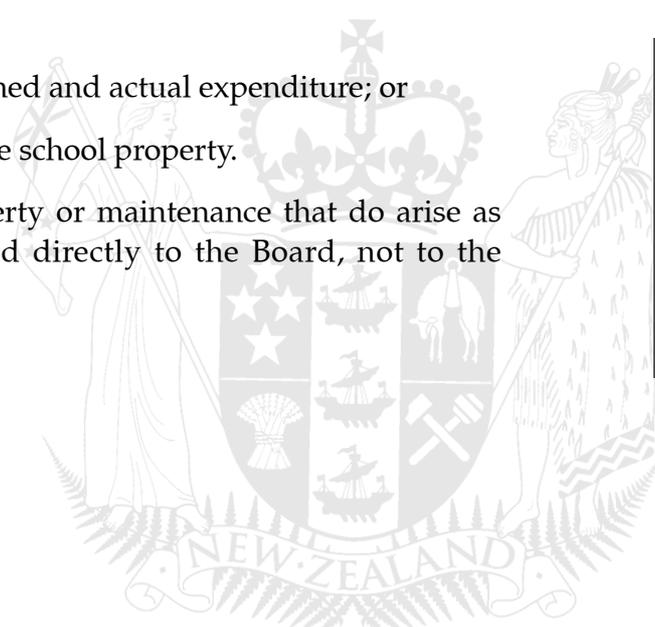
836 The main focus of our annual external audit is on providing a report and opinion on the Board's financial statements. Where the financial statements contain numerical disclosures that are based on information contained in a 10-Year Property Plan, the auditor will have an interest in verifying these disclosures.

837 The auditor will therefore review the 10-Year Property Plan, as well as the actual maintenance expenditure incurred. However, the purpose of the auditor's review is not to ensure that the Board is following the Plan but, rather, to ascertain the reasonableness of the numerical disclosures in the financial statements.

838 Like the ERO reviewers, our auditors are not specialists in property management. Consequently, it is not appropriate for them to:

- comment on the adequacy of plans;
- challenge differences between planned and actual expenditure; or
- comment on the physical state of the school property.

839 Any financial issues relating to property or maintenance that do arise as part of the annual audit are reported directly to the Board, not to the Ministry.



Reviews of Specific Issues

- 840 From time to time, the Ministry initiates reviews of specific issues relating to the condition of school property. For example, in 1998 it commissioned a Structural Standards and Glazing Survey to:
- identify buildings that contained structural hazards in terms of seismic resistance standards; and
 - consider specific safety matters such as glass and playground structures.
- 841 The survey concluded that school property is generally in sound condition given the size and diversity of the portfolio. However, the review was not a systematic assessment of maintenance against Ministry standards.
- 842 Also in 1998, the Ministry commissioned Building Research Association of New Zealand (BRANZ) to undertake research into maintenance costs, based on a survey of four Wellington schools. BRANZ concluded that the overall condition of the schools was adequate. However, it noted that all four schools had some deferred or inadequate maintenance. BRANZ also found that three out of the four schools did not have formal maintenance programmes in place.
- 843 The need to manage health and safety risks in schools reinforces the case for ensuring that adequate maintenance is being undertaken. The Health and Safety Employment Act 1992 places certain obligations on Boards as employers. These are set out in the *Health and Safety Code of Practice for State Primary, Composite and Secondary Schools*. Obligations include ensuring that there is adequate lighting, ventilation and heating in classrooms. Failure to adequately maintain school property could pose health and safety risks for which the Board would be liable.

