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Managing the school property portfolio



Photo acknowledgement: Chris Tse,
Office of the Auditor-General

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Presented to the House of
Representatives under section 20 of
the Public Audit Act 2001.

July 2017

ISBN 978-0-478-44270-0

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Overview

The school property portfolio, valued at about \$14 billion at 30 June 2016, is one of the largest publicly owned portfolios of property assets. It is also arguably the most complex. Although the Crown owns the school property and the Ministry of Education has overall responsibility for its management, some of the responsibilities for managing school property rest with more than 2100 school boards of trustees.

The learning environment is a critical component of a student's educational success. The assets that make up the school property portfolio are inextricably tied to providing effective education. It is important that the school property portfolio is well managed and everyone involved clearly understands how to best invest in the school property portfolio to support educational outcomes.

We last looked at how the Ministry of Education manages school property in 2006. The Ministry did not have a strategic plan for managing the school property portfolio, did not have information on the condition of school property, and did not know how well schools were maintaining their buildings.

For this report, my staff looked at the effectiveness of the Ministry's property strategy and the Ministry's role as an asset manager.

The Ministry has considerably strengthened its approach to managing school property in the last 10 years. In 2013, the Ministry set up Education Infrastructure Services (a business unit in the Ministry) to manage the school property portfolio, which has improved the way the Ministry manages the portfolio and interacts with schools. Education Infrastructure Services has increased the Ministry's capacity and capability, particularly in planning and directing major programmes of work, providing high-quality technical guidance to those providing professional services to the sector, and communicating more clearly with schools. However, there is room for further improvement.

There is only limited consideration of property matters in the Ministry's accountability documents, strategic planning, risk management, and performance information framework. Property is seen by the Ministry as infrastructure supporting schools. There is no direct link made by the Ministry to how good property management can positively affect educational outcomes. We consider that property is more than bricks and mortar. It is critical to educational success. The Ministry needs to better integrate its property function with the rest of its core business.

The Ministry requires school boards of trustees to look after the land and buildings they use and have responsibility for planning and managing certain Ministry-approved school property projects. Because of the important role school

boards of trustees play in managing school property, we asked a small sample of 39 schools for their views on school property matters and the support the Ministry gives them.

Schools have a limited understanding of the Ministry's property strategy, but are generally clear on their day-to-day responsibilities for managing school property. Some of the responsibilities are often delegated to external property planners and project managers. However, most schools we talked to felt they needed more training and support in property matters. Property is an important part of the school boards' and principals' role, and they need to be better equipped to carry out this role.

In my view, the following factors may prevent the Ministry from making the best use of the Crown's property investments:

- We saw no evidence that the Ministry uses its whole-of-portfolio view of the condition of school property for decision-making. Instead, it has relied on its staff putting business cases forward for the schools most in need of investment.
- The property funding given directly to schools for annual maintenance and renewals does not consider the type, age, condition, or use of buildings. This restricts the Ministry's ability to make the best use of these funds because funding does not take account of actual maintenance needs.

Our report includes eight recommendations for the Ministry, one of which was also a recommendation in our 2006 report.

I thank the Ministry of Education, the school boards of trustees and principals who completed questionnaires with their school auditors, and other stakeholders we interviewed, for their time and co-operation. I also thank Ernst and Young for carrying out the audit fieldwork on our behalf.



Greg Schollum
Deputy Controller and Auditor-General
21 July 2017

Our recommendations

Investing in and maintaining school property is important for creating an effective educational environment for students. To recognise this, we recommend that the Ministry of Education:

1. fully integrate school property matters with the rest of its functions to recognise the contribution of school property to its educational outcomes.
Priority should be given to:
 - aligning its property strategy with other key accountability documents;
 - ensuring that all of its functions support the implementation of the property strategy;
 - having measures showing how investment in, and management of, school property contributes to its educational outcomes; and
 - including property risks in the Ministry-wide risk management framework;
2. further develop and promote the use of its whole-of-portfolio view of the school property portfolio's condition, to support effective evidence-based investment decisions;
3. collect information and feedback from schools and property advisors on completed projects so that lessons can be shared, including the educational benefits achieved;
4. consider the way annual maintenance and renewal funding is allocated to schools so that it responds better to different property types, age, condition, and purpose of buildings;
5. identify schools not maintaining their property to the required standards, find out why, and establish interventions to remedy the situation;¹
6. with the school sector, more clearly define the roles and responsibilities of the Ministry, principals, and boards of trustees for managing school property and recognise that these may differ between schools;
7. enhance the relevant training, tools, and support provided to schools to allow them to carry out their property management responsibilities; and
8. increase the capability and capacity of school property advisors so that frontline services to schools can be improved.

¹ This was a recommendation in our 2006 report, *Ministry of Education: Management of the school property portfolio* (Recommendation 21).

1

Introduction

- 1.1 In this Part, we discuss:
- the purpose of our audit;
 - what we audited;
 - what we did not audit;
 - how we carried out our audit; and
 - the structure of this report.

The purpose of our audit

- 1.2 The student’s learning environment is critical to their success. Given the nature and scale of the school property portfolio, the portfolio needs to be well managed to support the education outcomes that students, parents, schools, and the Ministry of Education (the Ministry) wants.
- 1.3 The school property portfolio is one of the largest publicly owned portfolios of property assets and arguably the most complex. From Te Hapua School in the north to Halfmoon Bay School in the south, each school is at the heart of its community. As at 30 June 2016, the school property portfolio included more than 2100 operational state schools,² with total land and buildings valued at about \$14 billion.
- 1.4 Managing each school property involves a multi-layered relationship between school boards of trustees (school boards), school leaders, and the Ministry. Although school boards own and manage some property, the Ministry owns most school land and buildings. School boards are required to keep the buildings they use in good condition. The Ministry provides maintenance funding to school boards annually to maintain school property. Capital investment in school property can be through either school-led projects or national interventions managed by the Ministry.
- 1.5 This report sets out the results of a performance audit that considered how well the Ministry is managing the school property portfolio and supporting schools with their responsibilities for property.
- 1.6 We have carried out several performance audits on school property. Our last report, *Ministry of Education: Management of the school property portfolio*, was published in 2006 and included 24 recommendations.

² This excludes state-integrated schools, which are former private schools now part of the state education system that provide education within the framework of a religious or philosophical belief. Proprietors provide and maintain the school land and buildings.

What we audited

- 1.7 In this report, we look at the Ministry as an asset manager and how it works with schools to maintain and improve the school property portfolio. We wanted to see:
- the effectiveness of *The New Zealand School Property Strategy 2011-2021* (the Property Strategy);
 - the effectiveness of the Ministry as an asset manager;
 - how well the Ministry supports schools in property matters; and
 - whether the Ministry provides schools with the right information and tools to plan for and manage their property.
- 1.8 We focused on how the Ministry works with the more than 2100 school boards of state (non-integrated) schools around the country. The Ministry, through its role as asset manager, wants to ensure that school property is in the right location and right condition, so school boards can provide a suitable learning environment for their students and meet the needs of future generations.
- 1.9 Where still relevant, we followed up the recommendations from our 2006 report. There have been significant changes at the Ministry since then. Appendix 1 sets out the Ministry's progress against these recommendations.

What we did not audit

- 1.10 We did not seek to assess the physical state of the school property in the portfolio, nor seek to quantify future investment needs.
- 1.11 We have excluded the following from our review because their circumstances are different from the rest of the portfolio:
- reviewing and rebuilding of schools affected by the 2010 and 2011 Canterbury earthquakes, which are covered by the Christchurch School Rebuild Programme; and
 - funding and managing of state-integrated school property throughout the country.

How we carried out our audit

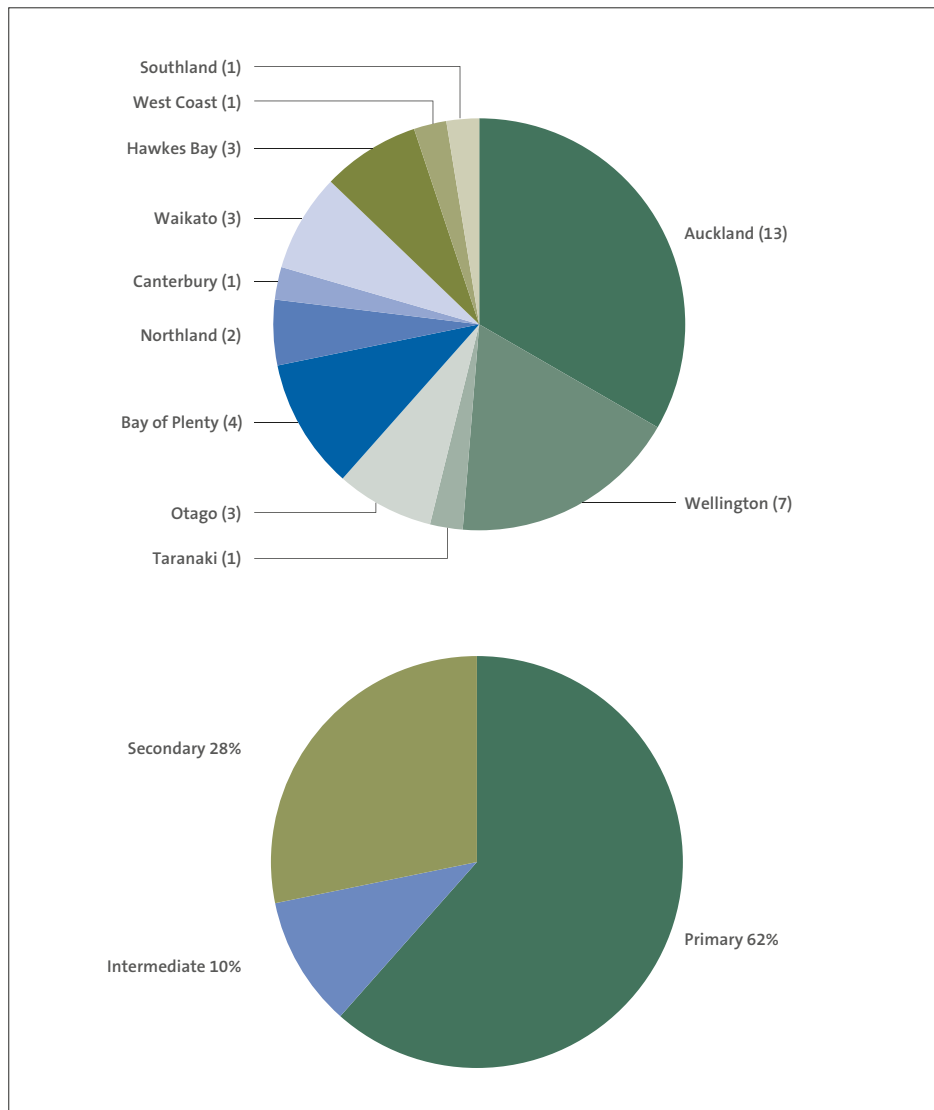
- 1.12 We interviewed staff in the Ministry, including staff in:
- national leadership positions;
 - specialist areas, such as procurement, risk, health and safety, and engineering;
 - regional leadership positions;
 - programme leadership positions; and
 - regional operating positions, including Ministry Advisors.

- 1.13 The Ministry's management of assets, in particular the school property portfolio, has been the subject of recent external reviews. We considered the scope and findings of these reviews and refer to them where appropriate.
- 1.14 We gained an understanding of schools' perspectives on property-related matters by interviewing principals and board members from 39 schools throughout the country (see Figure 1). We selected a cross-section of schools with different property needs, collected property information about each school, and used it to prepare a questionnaire for each school. These questionnaires were the basis for the interviews, which took place between April 2016 and June 2016.
- 1.15 Although 39 schools from a portfolio of more than 2100 schools does not represent a statistically significant sample, it has provided an insight into how schools deal with property management and the daily issues that schools face.
- 1.16 We also spoke with representatives from the New Zealand Principals' Federation, New Zealand School Trustees Association, and members of the Ministry's property "focus groups", including principals and school-appointed property planners and project managers. We also visited a school that has had significant property issues in recent years.

The structure of this report

- 1.17 In Part 2, we describe the school property portfolio and how it is managed.
- 1.18 In Part 3, we discuss the Ministry's Property Strategy and how well the Ministry plans, monitors, and reports on its performance against the strategy.
- 1.19 In Part 4, we discuss the Ministry's effectiveness at managing the school property portfolio.
- 1.20 In Part 5, we discuss how well the Ministry supports schools in property matters and whether schools have the right information and tools to plan for and manage their property.

Figure 1
Sample of schools by location and type



2

The school property portfolio

- 2.1 In this Part, we discuss:
- the nature of the school property portfolio;
 - the role of the Ministry;
 - how the Ministry funds capital investments;
 - how the Ministry manages the school property portfolio;
 - the responsibilities of school boards; and
 - some of the challenges the Ministry faces.

The nature of the school property portfolio

- 2.2 In our 2013 report *Managing public assets*, we define significant assets as those that are important to an entity in delivering its services. The Ministry is listed by the Treasury as a “Tier 1 investment intensive entity”.³ Investments by agencies in Tier 1 involve the “commitment of capital or balance sheet resources to the delivery of government services with the expectation of receiving future benefits”.⁴ From an educational perspective, the Ministry funds the capital, or land and buildings, to enable schools to deliver educational services that achieve educational benefits for students.
- 2.3 As at 30 June 2016, the school property portfolio included more than 2100 operational state schools and was valued at about \$14 billion. This includes:
- \$4,522 million in land;
 - \$1,655 million in site improvements, including car parking, drainage, and retaining walls;
 - \$7,519 million in buildings and services, including plumbing, heating, ventilation, and electrics; and
 - \$392 million for capital projects not yet completed (excluding public-private partnership assets under construction).
- 2.4 The school property portfolio includes many small schools. Almost half of the schools in the portfolio have fewer than 200 students, and more than a quarter of schools have fewer than 100 students. Schools with more than 1000 students make up 20% of the total students in all schools, but they represent only 4% of schools.

3 See www.treasury.govt.nz for the list of investment-intensive agencies.

4 Cabinet Office Circular CO (15) 5, *Investment Management and Asset Performance in the State Services*.

The Ministry of Education's role

- 2.5 The Ministry's asset management role is broad and includes:
- calculating and paying operations grants, which includes maintenance funding;
 - maintaining core assets' condition and financial information;
 - approving school property plans and funding school-led property renewal projects;
 - liaising with schools through its network of property advisors;
 - forecasting demand growth and decline;
 - planning, managing, and funding national programmes, including major redevelopments, extra classrooms needed for increases in student numbers, earthquake-prone building improvements, and new schools; and
 - providing training and resources for the school sector.
- 2.6 The two groups in the Ministry that have the main day-to-day responsibilities for managing school property are:
- **Education Infrastructure Services** (Infrastructure Services). This group manages the core infrastructure that the Ministry provides for schools – school property, school transport, and school payroll.
 - **Sector Enablement and Support Group** (Sector Support Group). This group supports all schools' operational needs.
- 2.7 For property matters, the Sector Support Group makes, or supports, all management decisions about where schools are needed throughout the country, with a focus on educational achievement and managing the effect of increase in student numbers and forecast demographic change. The Sector Support Group is involved in all significant property investment decisions.

How the Ministry of Education funds capital investments

- 2.8 During the year to 30 June 2016, the Crown invested a total of \$634 million in the construction, renewal, and redevelopment of assets. The Ministry also gives schools around \$76 million in maintenance funding each year as part of their operations grants. This funding is for basic maintenance, such as minor repairs and painting.
- 2.9 The Ministry gives each school a budget, called the Five-Year Agreement funding, every five years to renew and upgrade existing buildings. The Five-Year Agreement funding is determined by the school's base area.⁵ The funding calculation does not take account of the condition or the type of materials used in the construction of

⁵ Base area is the lesser of (1) the actual area of Ministry-owned buildings at the school; or (2) the area the school is entitled to, based on the number of students on its roll.

the school. There is a minimum budget of \$45,000 so each school receives at least this much. The Ministry provided about \$195 million to all schools as Five-Year Agreement Funding in 2015/16.

- 2.10 The Ministry has established clear policies and procedures about how this property funding will be provided to, and used by, schools. Five-Year Agreement funding is provided to help achieve longer-term objectives set out in a 10-Year Property Plan. How projects are prioritised is critical to ensuring that schools invest their property funding wisely. We explain this further in paragraph 2.25.
- 2.11 The Ministry also provides funding to schools where the Five-Year Agreement funding is not enough to resolve property issues. In 2015/16, the Ministry spent about \$394 million on these national-funded programmes (often referred to as national interventions). These interventions may be needed because of:
- issues in school property that the Ministry are already aware of, such as weathertightness problems;
 - school property needing substantial investment to fix significant issues;
 - network or demographic pressure on roll growth and teaching capacity; or
 - significant damage from a natural disaster or an event, such as a fire.
- 2.12 In the last 10 years, capital expenditure in the school sector has grown significantly in response to issues in the current school property portfolio. These issues include the investment needed:
- to repair and rebuild schools in Canterbury;
 - to restore school property damaged by weathertightness problems; and
 - to respond to the increase in student numbers and movements in population.
- 2.13 Figure 2 shows how capital expenditure in the year ended 30 June 2016 was divided between funding provided directly to schools (Five-Year Agreement funding) and funding provided to the different national programmes of work. National programmes account for more than 60% of the Ministry's annual capital expenditure.

How the Ministry of Education manages the school property portfolio

- 2.14 School property management takes place at a local level and a national level. Locally, schools plan for, and manage, capital projects and works funded by the Five-Year Agreement funding. Nationally, the Ministry leads work that is part of national programmes. This work includes interventions to fix asset failure or pro-actively manage major property problems or increases in demand.

Figure 2
How capital expenditure in 2015/2016 is split between funding directly to school and national programmes

2016 capital expenditure \$million	National programmes	School funding
Five-Year Agreement		194.9
Other existing property		45.4
Total maintaining the portfolio		240.3
Redevelopments	83.8	
Weathertightness	66.6	
Christchurch Schools Rebuild Programme	89.1	
Total improving the portfolio	239.5	
Technology in schools	14.6	
Additional classrooms	63.8	
New schools	75.6	
Total expanding the portfolio*	154.0	
Total capital expenditure	393.5	240.3

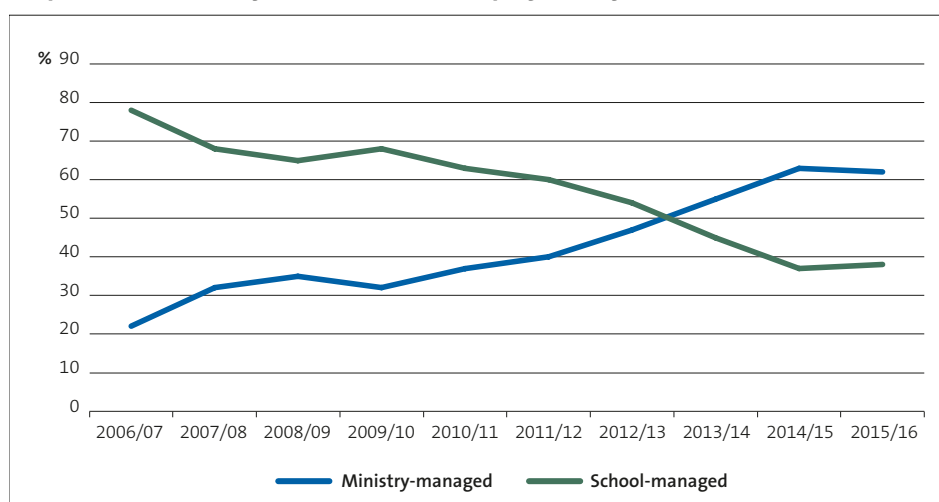
* Funds provided specifically for expansion, additional to the Ministry's base-line funding for maintaining and improving the portfolio.

Change in roles in the last 10 years

- 2.15 The Ministry used to fund schools to carry out projects of varying levels of scale. Schools managed significant capital investment or renewal projects as well as projects covered by their Five-Year Agreement funding.
- 2.16 Since 2006/07, there has been a progressive change in the number of projects that schools are responsible for, compared to those directly managed by the Ministry. Schools are now largely only responsible for managing agreed capital projects funded by their Five-Year Agreement funding. This change was partly because the Ministry needed to respond to the significant challenges of weathertightness problems and earthquake-prone buildings. The Ministry also realised that many projects were too complex, high risk, and capital intensive for school boards, with sometimes limited property skills and capacity, to manage.
- 2.17 This change has increased the need for the Ministry to work more closely with schools. Figure 3 shows the proportion of Ministry and school-led projects and the significant shift towards Ministry-led projects. As Five-Year Agreement funding

has remained relatively static through this period, particularly in the last five years, the main reason for the change is the significant additional expenditure the Ministry has incurred on Ministry-led national interventions.

Figure 3
Proportion of Ministry-led and school-led projects (by value), 2006/07 to 2015/16



Infrastructure Services

- 2.18 In 2013, after an independent review of school property management, the Minister of Education, with advice from the Ministry, prepared an *Eight-Point Plan* to transform school property services by setting up Infrastructure Services (see paragraph 2.6). The Ministry's aim was to provide schools with better property services to help improve levels of student achievement and address existing issues affecting school property.
- 2.19 Infrastructure Services has about 337 full-time equivalent staff with responsibilities for property matters located throughout the country. This is an increase from the 15 staff the Property Management Group had in 2006 when we reviewed the Ministry's management of school property. Figure 4 sets out the main roles and responsibilities for property matters in the Ministry (staff work in Infrastructure Services unless otherwise stated).

Figure 4
Main roles and responsibilities for property matters in the Ministry of Education

Ministry position	Role
Capital works programme managers	Managers of the two capital works programme teams, one based in Auckland and the other based in Wellington to cover all programmes south of Auckland. The managers are responsible for all national programmes, including weathertightness, major redevelopments, and roll growth.
National office specialists	National office has a broad range of specialists whose skills include procurement, health and safety, engineering, business case development, assurance, and risk. The main role of the national office specialists are to support the sector, reduce the cost of repetition, and improve the use of good practice throughout the schools sector.
Regional-based capital works programme teams	Each capital works programme team has several staff located alongside Ministry staff in the regional offices. These staff interact with schools and regional staff regularly to initiate and complete projects throughout the schools network.
Regional managers	There are four Regional Managers throughout the country. They work closely with schools to ensure that funding is used in a way that is consistent with Ministry priorities and are responsible for approving School Property Plans.
Regional network staff (in Sector Support Group)	Staff directly responsible for understanding the demand side of the schools network and identifying the most suitable educational outcome. They focus on the needs of the schools in their region with a particular focus on understanding the demographic demands in communities. Regional network staff work with Infrastructure Services to identify the most suitable response to the demand.
School property advisors (Ministry advisors)	Ministry Advisors are based in regional offices, and each have between 35 and 55 schools in their portfolio. They are responsible for the day-to-day monitoring of school property, co-ordinating completion of School Property Plans, and assessing whether the Ministry needs to intervene outside projects approved as part of the normal school property planning process.
Regional specialists	Each region has specialists focused on co-ordinating broader Ministry resources and supporting Ministry Advisors with schools that have high-risk projects or significant property condition challenges. These staff support schools through all projects, irrespective of how they are funded.

- 2.20 Increases in student numbers, new schools, or significant issues with the condition of school property usually result in national interventions. In December 2015, the Ministry established capital works programme teams (based in regional offices) to manage these interventions, as opposed to having them managed by specific programme teams (such as the weathertightness response team).
- 2.21 The role of the capital works programme teams is to liaise with regional staff to intervene where there are known issues with the condition of school property. This includes extreme cases where, if schools continue to be directly responsible for completing or funding projects, significant property failure could affect the school's ability to teach its students.
- 2.22 Regionally, Infrastructure Services focuses on ensuring that schools complete their School Property Plans. They achieve this by ensuring that assessments of the condition of school property and the prioritisation of projects is carried out in an effective and timely way. They are also responsible for putting forward investment bids for work thought to be necessary to keep property conditions at an acceptable standard, unless schools have weathertightness problems or earthquake-prone buildings.

The responsibilities of school boards

- 2.23 School boards are responsible for looking after school property and will often be the first to notice when any issues arise. The Ministry sets out its expectations of schools boards in the Property Occupancy Document in Appendix 2 (the Occupancy Document).
- 2.24 The Occupancy Document requires each school to prepare a 10-Year Property Plan (School Property Plan) that addresses the school's property needs for the next 10 years. The school appoints a Ministry-approved property planner who updates the information the Ministry holds on the condition of the school property, and then uses this information to prepare the School Property Plan in consultation with the school. However, the school board is ultimately responsible for its School Property Plan and the plan should be consistent with the school charter, which sets out the school's educational goals and strategic plans.
- 2.25 When the Ministry approves a School Property Plan, it also agrees to specific projects for the next five years. These projects are funded by the school's Five-Year Agreement funding. Representing almost \$200 million of the Ministry's capital spending each year, this funding is available to all schools to renew assets and put in place flexible learning spaces. Schools must consider their potential building projects against the following four priorities:
- Health and safety.

- Essential infrastructure work.
 - Investing in flexible learning spaces.⁶
 - Other discretionary project(s).
- 2.26 Schools and the Ministry often challenge each other’s views about prioritisation.
- 2.27 With Ministry approval, school boards can contribute their own funds to supplement their Five-Year Agreement funding. Any assets (or part of an asset) built using these contributed funds will be owned by the school board.
- 2.28 Five-Year Agreement funding is paid directly to schools, and they manage the approved projects. Although the school can ask the Ministry to manage the projects on its behalf, they usually appoint external project managers to manage the projects for them.
- 2.29 Figure 5 summarises the roles and responsibilities for managing property in schools.

Figure 5
Roles and responsibilities for managing property matters in schools

Position	Role
School board	School leadership including strategic and property planning, community engagement, and management of community and student stakeholder interests. Specific trustees may be nominated to focus on school property matters. The school board is ultimately responsible for preparing the School Property Plan.
School principal	The principal is a member of the board and is also responsible for ensuring that the school follows its Occupancy Document. Principals are usually responsible for day-to-day maintenance of school property.
Property planner	External advisors employed by schools to complete a condition assessment of the school’s property and prepare the School Property Plan. Property planners need to be pre-approved by the Ministry. They have access to the Ministry’s property condition database and are crucial to the integrity of asset condition information and project prioritisation planning. Schools often depend on property planners to take all responsibility for property matters and liaise with the Ministry Advisors, who manage day-to-day property matters.
Project manager	Employed by schools to manage one or more school-led property projects. These project managers are now meant to be separate from those preparing the School Property Plans. However, this change has not fully come into effect because of a number of legacy arrangements and that in some locations it is difficult to secure the services of a separate property planner and project manager.

⁶ A flexible learning space focuses on creating teaching spaces that can be easily reconfigured and used in a variety of ways to support different ways of teaching and learning.

2.30 Appendix 2 sets out the different roles of schools and the Ministry.

Challenges faced by the Ministry of Education

2.31 Challenges faced by the Ministry in managing the school property portfolio in recent years have included:

- demographic growth in certain main centres, such as Auckland;
- properties with weathertightness problems;
- the implications of new health and safety legislation; and
- the Canterbury earthquakes in September 2010 and February 2011.

2.32 The school property portfolio has seen significant investment in response to these issues, with the Ministry having to improve capability to manage this work. The investment has sought to not simply replace school property, but also improve learning environments.

Increase in student numbers and demographic changes

2.33 One of the Ministry's important responsibilities is managing increases in student numbers and responding to changing trends in demand for schools. Although there is school zoning in many communities, parents' decisions about which school they want their children to attend remains an important factor in changing trends.

2.34 Changing trends have a significant effect on the Ministry's investment decisions. The two opposing demographic drivers affecting the school property portfolio are:

- significant population growth in urban areas, particularly Auckland; and
- declining numbers of students in mainly rural areas, resulting in significant underutilisation of classrooms.

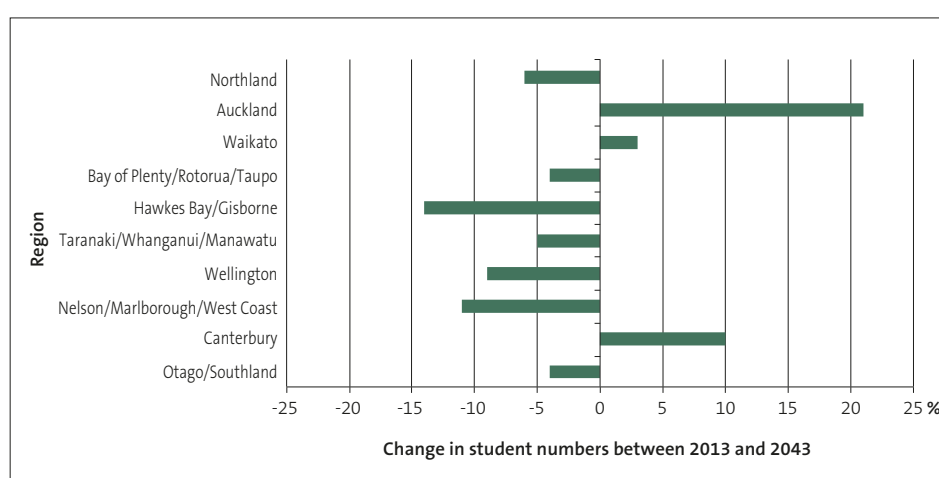
2.35 The Ministry uses several layers of forecasting for population growth. Statistics New Zealand census figures show the forecast total growth in student numbers as 3.8% for 2015-2025. Figure 6 shows the current estimates of growth/decline in student numbers regionally for 2013-2043, using Statistics New Zealand data.

2.36 The demographic trends throughout the country have placed significant pressure on teaching capacity in particular areas. Although population increases in Auckland are well publicised, the Western Bay of Plenty, Hamilton, Queenstown Lakes District, and areas around Christchurch have also had significant increases in student numbers.

2.37 Internal migration is harder to predict than overall population growth. The Ministry can usually manage increased demand for existing schools using non-property measures, such as enrolment zones. However, parents' decisions about

which school they want their children to attend means that demand can quickly move from a school that parents perceive as under-achieving.

Figure 6
Estimates of regional changes in student numbers between 2013 and 2043

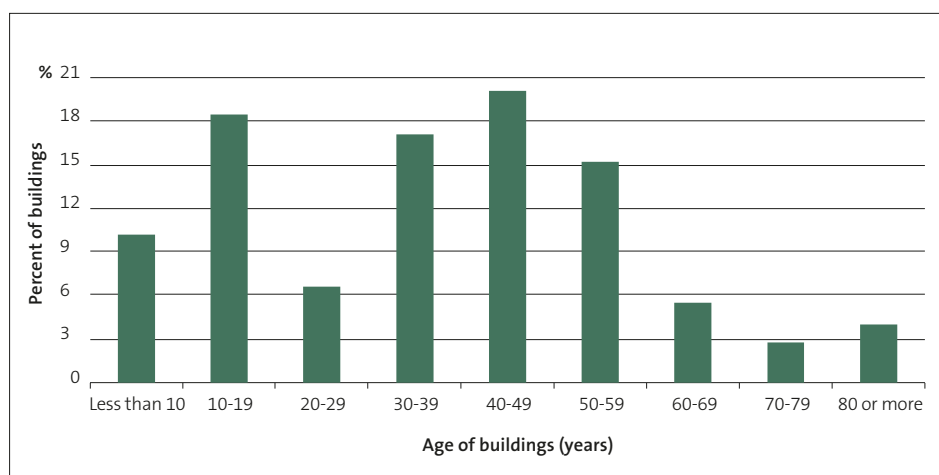


- 2.38 The Ministry has a number of choices in response to a growth in demand for schools. As a new school is usually the most expensive choice, the Ministry will consider both property and non-property solutions, such as adjusting enrolment schemes.
- 2.39 When the Ministry decides that a new school is the solution, it buys land. It will then use information from territorial authorities and developers to work out the property mix in the area, understand the potential age and number of students, and when to begin construction of the school. The timing of the construction of the school is usually the most difficult to predict. There is usually a significant time lag between the land purchase and construction. The cost and availability of construction resources is also currently a challenge for the Ministry.

Age profile of school buildings

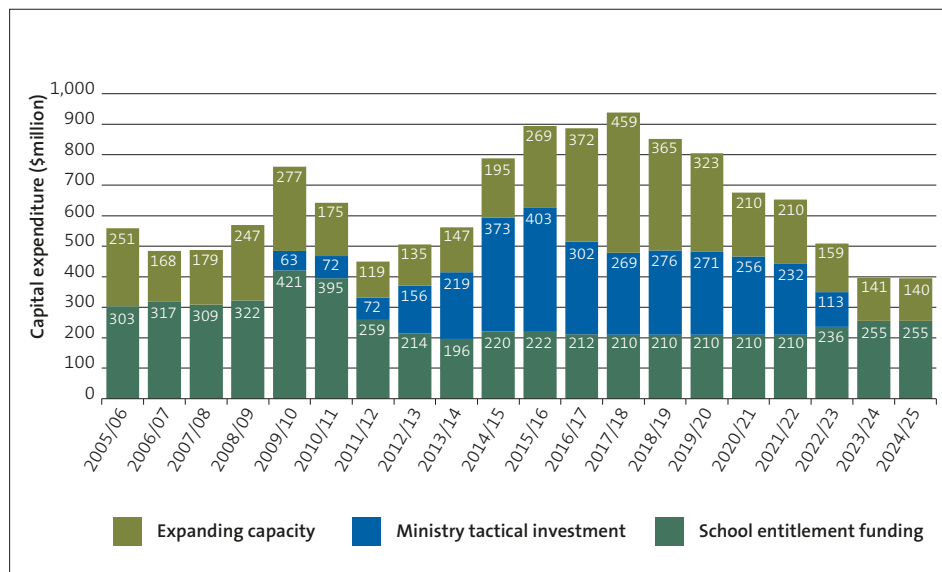
- 2.40 Figure 7 shows the general age profile of school buildings. Because many school buildings were built between the 1950s and 1970s, much of the school property portfolio is reaching a point where it needs significant investment to keep it in a suitable condition for the schools to be able to continue to operate effectively. Many of the properties that are 30-40 years old are in a tired state, and many buildings constructed between 1994 and 2004 have been significantly affected by weathertightness problems.

Figure 7
Age distribution of school buildings



- 2.41 The age of many of the school buildings means that many teaching spaces do not support modern teaching and learning practices. Most schools were built with a traditional approach to schooling in mind and need to be modified to support modern teaching practices. The Ministry requires schools to consider investing in flexible learning spaces using their Five-Year Agreement funding, after resolving any essential renewal work.
- 2.42 Although it is not a perfect indication of the level of capital renewal expenditure needed on a portfolio of assets, the Ministry charged \$461.5 million in depreciation against school building assets in the year to 30 June 2016. In comparison, \$342.1 million was spent on maintaining the school property portfolio and redevelopments. We also note that the \$155.7 million spent in 2015/16 on weathertightness problems and on the Christchurch Rebuild Program will also have included some renewal expenditure.
- 2.43 Forecasts show that significant capital funding is expected to continue. Figure 8 shows the increase in capital investment during the past 10 years and that forecast for the next 10 years. “Ministry Tactical Investment” relates to national programmes such as fixing weathertightness problems and the Christchurch Rebuild Programme, which are expected to be completed in 2023. “Expanding Capacity” also relates to national programmes and includes investment in new schools, buildings, and other infrastructure to meet increased demand. “School Entitlement” covers all property-related funding programmes available to schools (the bulk of this is Five-Year Agreement funding).

Figure 8
Increase in capital spending in the last 10 years and forecast spending in the next 10 years



3

School property strategy and performance

- 3.1 In this Part, we discuss:
- the Property Strategy;
 - how well the Property Strategy and other property plans align with the Ministry's other key planning documents;
 - how the Ministry monitors and reports on its performance in relation to property; and
 - how school boards give effect to the Property Strategy when planning for their property needs.

Summary of our findings

- 3.2 Given the significance of the school property portfolio, in terms of its value to the Crown and its importance to the day-to-day operations of schools, we expected the property function to be integral to the Ministry's operations. Instead, property is not well integrated with other parts of the Ministry. The importance of property investment and maintenance in creating an environment that supports modern teaching and learning practices and provides effective education to students could be better recognised.
- 3.3 We expected the Ministry's property strategy to align with the Ministry's other key accountability documents, with robust measures showing how investment and management of school property contributes to educational outcomes. Also, although Infrastructure Services has a strong risk focus, we expected property risks, given their size and nature, to be integrated into the Ministry's risk register. We found no evidence of either.

The Property Strategy

- 3.4 The Ministry manages a significant part of the Crown's estate and is responsible for more than 2100 state (non-integrated) school sites. Given this responsibility, it is critical that the Ministry has a school property strategy. In our 2006 report, we recommended that the Ministry produce a strategic plan for school property that was clearly linked to its wider education outcomes. We also recommended that the Ministry have common property management goals for school property throughout the different parts of the Ministry.
- 3.5 In July 2011, the Ministry published its Property Strategy. The Property Strategy set out three strategic goals that provided the vision and goals for Infrastructure Services:
- **School property is well managed** through proactive management of the portfolio, focusing on value for money and establishing a property service model that recognises the property needs of individual schools.

- **School property is fit for purpose** by ensuring that schools are in good condition and deliver internal environments that support educational achievement.
- **A high-performing portfolio of schools** by ensuring that new schools and additional capacity is delivered in a timely and cost effective way. Also, by identifying ways to minimise extra property and optimise the number of schools needed to deliver educational services.

3.6 The Property Strategy was published when the Ministry was starting to build its capacity to be an asset manager. The Property Strategy is an important document for Infrastructure Services because it sets out what the Ministry was seeking to achieve for school property. The Property Strategy includes initiatives and performance measures set for the initial period of its introduction only. The vision and goals remain relevant (in particular the emphasis on linking school property management to value for money and educational achievement), but because many of the initiatives and measures did not extend beyond 2012, it is difficult to see how this Property Strategy can still inform the Ministry's direction.

3.7 During our review, the Ministry was preparing a replacement for the Property Strategy. The draft *Infrastructure Services Strategy 2016-2025* reflects Infrastructure Services' increasing maturity as an asset manager and its wider responsibilities for school transport, Information Communication and Technology (ICT) infrastructure in schools, and school payroll. It now aims:

To advance educational achievement by managing school infrastructure as an inter-connected whole" with the focus on transitioning from school property funder to asset manager to generate safe, inspiring, ICT enabled state school spaces supporting improved education.

3.8 The draft Infrastructure Services Strategy sets out initiatives to address challenges in the management of school property. The initiatives include setting service-level expectations, meeting the demand challenges in Auckland, completing major programmes of repair work, and improving maintenance provision throughout the portfolio.

3.9 The draft Infrastructure Services Strategy also includes performance measures with an intermediate set of targets for 2019 and targets for 2025. It is encouraging to see this level of strategic planning. However, the Ministry is yet to put in place this new strategy and we do not know when it will be published.

Alignment with other planning documents

Four-year plan

- 3.10 The Ministry uses a range of accountability documents to set its direction and assess its performance. Along with its Statement of Intent, the *Four-Year Plan 2016-2020* (the Four-Year Plan) sets out the Ministry's long-term vision, what it is trying to achieve in the medium term, and how it is going to do it. The Four-Year Plan summarises the Ministry's aims, including its aims for the school sector on its "Plan on a Page".⁷ The Ministry's long-term outcomes are:
- The education system is relevant and reaches all children and students.
 - Every child and student achieves educational success.
 - New Zealanders have skills and knowledge for work and life.
- 3.11 The Four-Year Plan identifies indicators to measure the Ministry's success in raising educational achievement, including the three Better Public Service Results the Ministry is responsible for. The plan then focuses on the initiatives that are under way in the Ministry's work programme and throughout the school sector to achieve the targets set for these indicators. Although infrastructure, including school property, is considered in the delivery part of the Four-Year Plan, there is limited connection to the initiatives set out in the plan for achieving the Ministry's outcomes.
- 3.12 The Four-Year Plan considers school property as a part of the wider infrastructure supporting schools. As a result, school property receives limited discussion in the plan:
- The infrastructure portfolio is a key enabler of the Ministry's strategic intentions: supporting 21st century learning practices through the provision of flexible learning environments, improving evidence-based investment decisions, increasing efficiencies, and supporting the system to reach students through the provision of transport services.*
- We used to see our property role as funding school property, but are now managing the property portfolio as an asset, with the long-term health of the portfolio in mind.*⁸
- 3.13 The Four-Year Plan reflects the direction in which Infrastructure Services is taking school property. However, it is light on detail, given the expected level of investment in school property in the short to medium term.

7 Ministry of Education, *Four Year Plan 2016-2020*, page 8.

8 Ministry of Education, *Four-Year Plan 2016-2020*, page 30.

Long-term property planning

- 3.14 In 2015, the Ministry prepared its long-term investment plan (the Long-Term Plan), following the Treasury's guidance. The Ministry's long-term view of investment planning will enable it to maximise the benefits of resources and respond to demands arising in the school sector. Although the document covers ICT-related matters, office accommodation, and other asset matters, the principal focus is the school property portfolio.
- 3.15 The Long-Term Plan provides information on the current state and scale of the school property portfolio, with a particular focus on the age and estimated condition of property. The Long-Term Plan uses the best available information provided by external property planners on the condition and fitness for purpose of the school property portfolio. However, given the scale of the portfolio and the limitations of the different information systems the Ministry uses, having accurate information is a significant challenge. The Long-Term Plan also includes an assessment of future growth and trends in student demographics and expected demand for schools. By bringing these factors together, the Long-Term Plan identifies where there is under-use and over-use of classrooms.
- 3.16 The Long-Term Plan sets out the forecast expenditure in the next 10 years that is needed to maintain, improve, and expand school property. The Ministry uses these capital expenditure plans to support its projections to the Treasury.
- 3.17 The Long-Term Plan also includes:
- a broad assessment of opportunities in the school sector that would enable the Ministry to manage the portfolio in a more effective and efficient way;
 - key risks in the school sector and in managing the school property portfolio; and
 - the key assumptions, constraints, and dependencies in the school sector.
- 3.18 The Ministry's Long-Term Plan is new and will continue to mature. It represents a strong starting point for summarising the current and future state of planning for capital expenditure and broader investment in the school sector. The Treasury's Investor Confidence Rating highlighted that the separate parts of the Long-Term Plan needed to be more closely integrated. The Ministry intends to update the Long-Term Plan.

Annual business plans

- 3.19 All of the Ministry's operational groups, including Infrastructure Services, carry out detailed business planning. These plans become part of the Ministry's annual business plan, which it uses internally for operational purposes.

- 3.20 The most important part of business planning for Infrastructure Services is the capital works programme, in particular the timing of the projects and demands on capital funding. In recent years, there has been a significant increase in forecast capital expenditure as capital programmes have progressed through planning stages to capital works phases.
- 3.21 Infrastructure Services creates the capital works business plan from continuing projects and business cases that are under development. The demand for capital works throughout the regions is then balanced by capacity and capability considerations. Capital funding that is allocated directly to schools is relatively stable each year.
- 3.22 The Deputy Secretary for Infrastructure Services and other senior leaders need to sign off all business cases for growth in student numbers and other initiatives. All projects worth more than \$3 million need to be supported by a robust business case and be approved by the Investment Board. The Investment Board includes the Deputy Secretary for the Sector Support Group, which ensures that the person responsible for network demand agrees the physical property solution is the right one. All projects with whole-of-life costs greater than \$15 million need to be signed off by the Minister of Education.
- 3.23 The format of the Infrastructure Services business plan is consistent with other Ministry plans. Infrastructure Services seeks to align its planning with the Ministry's planning, although much of the Ministry's planning is from a sector policy perspective and Infrastructure Services' plan is focused on capital expenditure demands. All business cases for major projects include consideration of forecast demographic or school roll changes. Sector Support Group prepares this part of the business case and it is the main area where different parts of the Ministry must operate together effectively.

Does the property strategy align with other Ministry planning documents?

- 3.24 The Ministry's strategic planning continues to evolve. School property is not currently considered to be central to the Ministry's intended outcomes for educational achievement, as shown by its Four-Year Plan. However, we note that *The Ministry of Education Statement of Intent 2014-2018* has creating flexible learning spaces as one of its six priorities. In our view, the Ministry's Property Strategy appears to have been written in isolation and ahead of the broader Ministry planning documents. It is difficult to see how the Property Strategy connects with what the Ministry as a whole is trying to achieve.

- 3.25 We expect the Property Strategy to give clearer consideration to the outcomes the Crown is seeking to achieve in education. Otherwise, it appears as though the Ministry's role in managing school property is isolated from its range of initiatives for achieving its outcomes.

Monitoring and reporting on property matters

Monitoring

- 3.26 The Ministry keeps a register of high-risk projects and monitors them at both a regional and a national level. It uses a series of different reports to assess project performance, including physical progress, financial matters, and stakeholder matters.
- 3.27 The Deputy Secretary for Infrastructure Services is given broad reporting details on high-risk projects. The Infrastructure Services Risk and Assurance Committee also gets regular updates on major projects and those that meet certain risk factors, including over-spending, time delays, contractor risk, design issues, and stakeholder interests. However, these risks are not included on the Ministry-wide risk register.
- 3.28 The risk to the Ministry largely sits with the small- to medium-sized projects that can have an effect locally but do not necessarily warrant national attention until problems arise. Also, we consider that both operational and strategic property risks, such as the increase in demand for schools in main centres, should have greater visibility at a Ministry level, given the value of the school property portfolio and the part it plays in schools' day-to-day operations.

Performance reporting

- 3.29 The performance measures about school property in the Ministry's current accountability documents mainly focus at an output level. The Ministry's measures are changing to focus more on the Ministry's capability as an asset manager. This is consistent with the strategic direction the Ministry is taking.
- 3.30 The school property-related performance measures in the Ministry's 2016 annual report are:
- The Ministry is seen as a high-quality property manager and advisor to the Government, as measured by the Asset Management Maturity Index.
 - The School Property Capital Plan is delivered with a variance of less than 20%.
 - Eighty percent of scheduled 10-Year Property Plans are signed by the end of the financial year.

- Major redevelopment and modernisation projects are delivered on, or ahead of, scheduled completion dates.
- Post-occupancy evaluations of school buildings show the Ministry has achieved its standards and specifications.

3.31 The last two measures show how the Ministry is carrying out its role as the manager of major projects. The 2016 annual report classified five projects as “major” and reported that three evaluations were carried out. This represents a small portion of the more than 6000 Ministry-led national programmes and school-led projects that could be under way in a year.

3.32 In 2015, the Ministry went through an exercise to update its performance measures for 2017 by holding workshops with a wide group of Infrastructure Services stakeholders. The measures were included in the Ministry’s 2016/17 Estimates and Output Plan. They are:

- The Ministry is seen as a high-quality property manager for the Government as measured by the Asset Management Maturity Index for the school property portfolio.
- Seventy five percent of state schools with a utilisation ratio between 75% and 105%, based on the number of actual school classrooms against those allowed for the number of students, as an indicator of the effective use of the school property portfolio.
- Eighty percent of state schools with a property condition of “fair” or better, indicating the condition of the school property portfolio.
- Number of schools receiving furniture and equipment grants for expansion projects.
- Number of schools receiving furniture and equipment grants for maintenance projects through their Five-Year Agreements.

3.33 These measures reflect continued progress towards reporting on the condition of school property and the effectiveness of the Ministry’s management of the school property portfolio. However, these measures do not cover the breadth of quality, quantity, and timeliness that is the expectation of good performance reporting. Also, the challenge for the Ministry is linking those measures to wider Ministry objectives.

Planning for property by schools

3.34 Each school must prepare a school charter that sets out its aims and goals for the next three to five years. Educational growth and success, and community priorities, will normally be the focus of these documents. Property is considered

as an important enabler to this success. The School Property Plan should be consistent with the school's charter. Our discussions with schools and review of a small sample of charters shows that most schools do cover property objectives in their charters, which follow through to their property plans.

- 3.35 However, schools' awareness of the Ministry's property strategy is variable. Some schools interviewed are not aware of its existence. The goal of the Ministry's Property Strategy is to provide property that is fit for purpose and deliver learning environments that support educational achievement. The Ministry has effectively pushed this focus down to schools through the Ministry's priorities in the school property planning process, but there is currently no way for the Ministry to measure how its investment is supporting its educational goals.
- 3.36 Our interviews with schools show that school boards consider property matters each month. However, the school boards' attention on property matters can vary. This can depend on where the school is in its property planning cycle and whether the Ministry is doing work as part of a national programme. The extent of planning and reporting on property matters varies significantly between schools. It depends on the immediacy of property matters and the degree of interest the principal and school board have in them. Schools often rely on their external property planner and project manager. We talk more about the roles and responsibilities of school boards in Part 5.

Recommendation 1

We recommend that the Ministry of Education fully integrate school property matters with the rest of its functions to recognise the contribution of school property to its educational outcomes. Priority should be given to:

- aligning its property strategy with other key accountability documents;
- ensuring that all of its functions support the implementation of the property strategy;
- having measures showing how investment in, and management of, school property contributes to its educational outcomes; and
- including property risks in the Ministry-wide risk management framework.

4

The Ministry of Education as an asset manager

- 4.1 In this Part, we discuss:
- the effectiveness of Infrastructure Services as an asset manager;
 - whether the Ministry has the necessary information for effective decision-making;
 - the results of other reviews of the Ministry as an asset manager; and
 - the barriers to good asset management.

Summary of our findings

- 4.2 Although we have seen considerable improvement in how the Ministry manages school property since our 2006 report, there are still areas for improvement. This was also the finding from the Treasury's Investor Confidence Rating (ICR) assessment.
- 4.3 There will always be a limited amount of funding available. The Ministry is not using its whole-of-portfolio view of property condition for decision-making to optimise its capital investment. The Ministry depends too much on individuals' knowledge of individual schools. It also does not know whether schools are spending their annual maintenance funding wisely or getting value for money.
- 4.4 We acknowledge that there are currently some barriers to the Ministry making the best use of the Crown's school property investments. These include current funding mechanisms and how it deals with the large amount of underutilised classrooms. However, the Ministry needs to consider how it can better use information from schools, such as monitoring the use of maintenance funding and sharing the lessons from projects of all sizes. The Ministry should also consider how it uses the levers available to it to ensure that schools are using the annual maintenance funding provided effectively and efficiently.

The effectiveness of Infrastructure Services

- 4.5 The 2013 *Eight-Point Plan* to transform school property services led to the establishment of a special group within the Ministry – Infrastructure Services. The Ministry aimed to move from being a property funder to also being an asset manager, providing better support to schools on property matters.
- 4.6 In the last five years, Infrastructure Services has significantly increased its capability to manage the school property portfolio in a way that reflects the portfolio's size, complexity, and scale. Infrastructure Services now has more than 330 full-time-equivalent staff responsible for property matters. There were 15 staff in the Property Management Group in 2006. The Ministry wants to build capability so it can achieve consistent service, quality design, and value for money.

- 4.7 Infrastructure Services' capability has increased in:
- Planning and directing the major programmes of work.
 - Providing consistent high-quality technical guidance to contractors and those providing professional services to the school sector.
 - Improving stakeholder relationships and communicating more clearly with schools.
- 4.8 Examples of the effect of this increased capability include:
- Putting in place more rigorous requirements for external school property planners, who now must be part of an approved panel.
 - Using procurement panels, including, critically, appointing project managers to manage school-led property projects.
 - Responding to the increased focus on compliance with health and safety legislation.
 - Providing more guidance material to the sector, including specific engineering and building design guidelines.
 - Improving the information on the condition of assets.
 - Embedding capital works programme personnel in regional offices to maximise the alignment of regional operations, school-led projects, and the national capital programme.
 - Giving schools examples of best practices and improved materials to understand the current environment and the Ministry's expectations about flexible learning spaces.
- 4.9 Infrastructure Services has been investing in capability in the last four years and has progressively improved staff skills and experience, including recruiting staff with skills in facilities management and procurement. This expertise is supported by standardised documentation and guidance material, as well as greater levels of review for project investment decisions, planning, and progress management. In our view, this investment is bringing efficiencies and schools told us that they have more confidence in the Ministry.
- 4.10 There is now significant property experience and capability in the Ministry. However, an increase in capital works programmes in recent years has tested the capacity of Infrastructure Services and the school sector. This has been due to the scale of redevelopments, increases in demand (particularly in Auckland), and responses to earthquake-prone buildings and weathertightness problems.
- 4.11 There is a lack of visibility of this improved capability at a regional or school level. Schools correctly see the role of Ministry Advisor as the main client-facing role. It

is the view of stakeholders and schools that Ministry Advisors have variable skills and abilities.

Management of asset information

- 4.12 To effectively manage the school property portfolio, the Ministry needs a significant amount of information that is manageable and accessible to a number of parties. The Ministry is mainly responsible for managing the information on school property assets. However, external property planners, employed jointly by schools and the Ministry to prepare School Property Plans, also have a significant role.

Information sources and responsibilities

- 4.13 Figure 9 sets out the Ministry's several sources of asset information.

Quality of information

- 4.14 The financial information kept in the Property Management Information System (PMIS) has had a high degree of integrity. We did not expect that this would change when the Ministry switched to Helios. However, in the first six months of Helios' operational use, there has been a delay in uploading project information requirements, restricting the Ministry's ability to recognise all completed projects as assets in its financial statements.
- 4.15 Helios can receive more information at a property project level than the PMIS. However, the Ministry is still working on its approach to recording information in Helios. The Ministry intends to continue rolling out increased functionality, focusing particularly on enabling more mobility and allowing external project managers to provide project updates directly into the system, rather than requiring Ministry staff to input this data.
- 4.16 The financial management information system and fixed asset register (Oracle) holds the Ministry's financial information from which its financial statements are prepared. Oracle holds an accurate record of the Ministry's school property assets but depends on projects from Helios being updated in a timely manner. Oracle is not integrated with the database holding information on the condition of school property, so this information cannot be fed into the calculation of the Ministry's depreciation charge for school property. The age and expected life of assets (on which depreciation charges are based) in Oracle is updated manually when information about the property condition of specific buildings is provided or a decision is made to demolish a building.

Figure 9
The Ministry of Education’s sources of asset information

Information source	Responsibility	Access and use of information
WebFM		
A database that holds information about the condition of school property for each school building, and relevant documents, including historic reports from engineers and other providers.	Information was first established in 2011 from a sector-wide asset condition stocktake. The Ministry manages the database centrally, ensuring that it is updated and managing the access rights. School property planners are directly responsible for updating the condition information each time a school updates its School Property Plan.	Ministry Advisors have access and can make changes. However, School property planners have the lead responsibility for updating this information. Schools have access to the information indirectly through their property planners.
Helios / Property management information system (PMIS)		
Helios records all open and closed capital projects, whether Ministry or school led. Helios replaced PMIS in April 2016 and includes all historic PMIS project information.	Ministry Advisors and other Ministry staff are responsible for updating Helios with all project related information. Every change or transaction related to a school's property is documented in Helios.	Only Ministry staff have access rights to Helios but it is intended that school project managers will have access in the future. Helios supports the school property valuation carried out for financial reporting purposes.
Oracle financial management information system and fixed asset register		
All assets are recorded in Helios and then capitalised in the Oracle fixed asset register. The Oracle asset register generates all depreciation charges and records the annual valuation of the portfolio.	The Oracle general ledger and asset register is maintained by the Ministry.	The Oracle general ledger and asset register is not available to any external parties. All payments for project costs initiated in Helios are paid through Oracle.
10-Year Property Plans (School Property Plans)		
School Property Plans are the school's agreement with the Ministry about how it will use capital funding. Projects to be funded by the schools Five-Year Agreement funding are ranked against four priorities.	School Property Plans are the responsibility of the school board. Schools must use a property planner approved by the Ministry to prepare their plan including updating the information on the condition of school property.	School Property Plans set out and clarify the expectations and understanding of the Ministry and schools about property. The Ministry receives a copy of all School Property Plans but does not collate the information in the individual plans.

- 4.17 The Ministry relies on external Ministry-approved property planners to confirm and update the information on the condition of school property. The Ministry also depends on the Ministry Advisors being sufficiently aware of the condition of the school property to be able to challenge the property planners' assessments. This is especially important when a property planner considers an asset to be in a poor physical condition. Ministry Advisors have checklists designed to help them collate the findings from school visits and to ensure that as much available information as possible is used.
- 4.18 The Ministry carries out some checks of the accuracy of the property information centrally. However, the team responsible for the information on the condition of school property is small and its audits of the information's integrity is irregular. The Ministry carries out 5-10 audits each year and therefore relies on the capability of the property planners. The Ministry has mitigated the risk of this reliance by requiring property planners to be pre-approved by the Ministry, and they are formally trained on using the Ministry's condition assessment system.
- 4.19 Although we have not sought to audit the integrity and completeness of the information on the condition of school property, we have:
- confirmed (for a small sample of schools) that the school-led projects align with the property condition issues identified at the school; and
 - confirmed that information on the condition of school property is being progressively updated in the database and these updates relate to identified property issues, updated School Property Plans, or completed property projects.

Use of asset information

- 4.20 Collectively, the Ministry, schools, and property planners have enough information to make informed decisions when preparing School Property Plans. The Ministry's database records condition information at an individual building level. Although condition information can be collated to give a complete national view, we did not see any evidence that this kind of data is being used at a regional or national level for decision-making.
- 4.21 The Ministry relies heavily on Ministry Advisors, regional Ministry staff, and School property planners to identify high-risk schools' property issues and update property information between planning cycles. If a school does not actively engage with a property planner, or if a Ministry Advisor does not realise the significance of issues during a visit and put a business case forward, property matters may not be acted on in a timely way. Also there could be a failure to identify schools that are not using their maintenance funding for the assets most in need of it.

- 4.22 Discussions with regional staff show that their knowledge is strong. The regional managers we spoke to told us that Ministry Advisors understand which schools have serious property issues. However, this local knowledge is not collated at a regional or national level, and a Ministry Advisor's ability to be fully aware of the condition of up to 50 schools is limited. Also, although information about the condition of school property is always available to regional staff through the Ministry's database, changes in Ministry Advisors, which schools believe happen too often, results in a loss of knowledge and the ability to prioritise schools issues.
- 4.23 If Ministry staff are not using collated portfolio data for decision-making, there is a risk that schools will not be prioritised in an effective way. However, our discussions with the Ministry showed that it is normally aware of potential school property issues. The national office team considers all significant investment projects, and the Investment Board signs off all major projects. Once business cases have been raised, all major projects are considered and go through the same process for approval.
- 4.24 As with any building-related project, it can take time to identify, and get all parties to agree on, the most suitable solution. Requiring at least two parties to agree on matters means this process may not always be carried out in a timely way. This is unlikely to change under the current model, but the Ministry needs to ensure that it communicates well with schools to make this process as simple and transparent as possible.

Recommendation 2

We recommend that the Ministry of Education further develop and promote the use of its whole-of-portfolio view of the school property portfolio's condition, to support effective evidence-based investment decisions.

Post-development reviews

- 4.25 There can be up to 6000 active projects at schools at any one time. Lessons collected from the Ministry's investment decisions and the completion of its projects will help it become more successful in capital investment. Given the scale of capital spending (\$634 million in the year to 30 June 2016), it is critical that the Ministry learns from successful and unsuccessful projects.
- 4.26 The Ministry carries out some post-project reviews. These formal in-depth reviews are done by various specialists, including architects, construction experts and educational designers, and mainly focus on the engineering and architectural

success of large projects, such as major reconstructions or new schools. There were only three such reviews in 2015/16.

- 4.27 The findings from reviews provide useful insights for future large-scale projects and provide general lessons for the Ministry. However, most schools are only involved in smaller school-led projects. Also, the post-development reviews give limited consideration to whether the design or construction features have given schools any educational benefits.
- 4.28 Schools we spoke to do consider that projects make a difference. When schools carry out projects that are more than basic health and safety work, they appear to have positive experiences. Schools told us that the Ministry does not ask them for their views about whether a project has been a success. Schools will often assess the success of projects, but they usually do not share the results with the Ministry or other schools. Also, changes in principals or school board members often leads to the loss of project experience.

Recommendation 3

We recommend the Ministry of Education collect information and feedback from schools and property advisors on completed projects so that lessons can be shared, including the educational benefits achieved.

Other reviews of the Ministry of Education

- 4.29 The Ministry's management of assets, in particular the school property portfolio, has been the subject of several external reviews. One such review is the Investor Confidence Ratings (ICR), which is led by the Treasury. The ICR looks at the performance of individual agencies managing investments and assets. The ICR provides an indication of the level of confidence that investors, such as Cabinet and Ministers, can have in an agency's ability to realise a promised investment result if funding was committed. The ICR shows where agencies can improve their investment management capability and performance.
- 4.30 The ICR is conducted every two years on agencies that have large asset portfolios, significant investments planned or under way, or a role managing assets that are service-critical to the Government. The two component reports of the ICR are an Asset Management Maturity Report and a P3M3 Maturity Report.
- 4.31 We summarise the findings of these reports below, but it is important to note the following points:
- Although reviewed and moderated externally, they are principally based on the Ministry's self-reviews.

- The reports are focused on the capabilities of the Ministry, and do not incorporate schools' views.
 - The reports cover all aspects of the Ministry's role as an asset manager, so they include other projects, such as Information Technology capital investment, which are not related to school property.
- 4.32 The Asset Management Maturity report was completed in December 2015. It assessed the level of asset management capability and processes in the Ministry. The report found that the Ministry's school property asset management has matured significantly since 2011, and the Infrastructure Governance Board provided strong strategic direction. The main concerns reported were a lack of visibility over maintenance activities at schools and the need for improvement in the amount of information held on each asset and in lifecycle analysis.
- 4.33 The report's main recommendations were that the Ministry:
- improve the way it assesses the condition of school property assets to ensure that it assesses against consistent and well-defined standards;
 - have risk management as a part of workplace culture and processes;
 - roll out the facilities management contract pilot nationally;
 - increase visibility and monitoring of maintenance spending by schools;
 - establish lifecycle analysis capability and reporting; and
 - provide more resources to support Ministry Advisors and schools, including more operational funding to support greater capacity for front line services.
- 4.34 Portfolio, programme, and project management (P3M3) are core capabilities for Infrastructure Services in managing investments. The Ministry's ratings (on a 5-point scale)⁹ against a target of Level 3 are:
- Portfolio Management Level 1.83
 - Programme Management Level 1.92
 - Project Management Level 1.76.
- 4.35 The Ministry's Investor Confidence Rating is "C".¹⁰ The ICR assessment recognises gains made by the Ministry in recent years and highlights the need for some further improvement. Cabinet expects that most asset-intensive agencies should achieve at least a "B" rating.

9 Where 1 is "Aware – there are some capabilities, but they are largely people-based" and 2 is "Repeatable" – P3M3 approaches are localised and are repeatable in different areas of the business (success is not dependent upon talents of individuals).

10 ICR uses a rating from A to E with: a "C" rating meaning that the status quo investment management system arrangements remain in place; and an "A" rating signalling a high level of investment capability and performance, and trust in the agency delivering investments successfully.

- 4.36 The ICR reports show that the Ministry has strengths in asset management maturity and in completing projects to scope and on budget. It consistently meets its own asset performance targets, and its self-assessment shows strengths in organisational change management. There are gaps in aspects of its P3M3 (particularly benefits management, stakeholder management, and resource management) that may affect future performance.
- 4.37 The ICR reports also identified that performance information is limited or not yet available. In particular, the Ministry has limited evidence of asset performance or evidence to show the realisation of expected investment benefits (beyond project delivery to time, cost, and scope requirements).

Barriers to good asset management

Use of classrooms

- 4.38 The Ministry monitors how schools use classrooms. A school can have up to four classrooms more than is required to accommodate its students. If a school has more than four extra classrooms, it must include a rationalisation plan in its School Property Plan. Figure 10 sets out classroom use at the end of July 2016.

Figure 10
Schools' use of classrooms as at July 2016

Classrooms	34,520
Entitlement	30,220
Net surplus	4,300
Net utilisation	87.5%
% of schools with utilisation 75%-105%	62.1%
Surplus classrooms <4	1,811
Surplus classrooms >4	2,949
Total surplus classrooms	4,760
Total deficit classrooms	460

- 4.39 The Ministry's target is for all schools to have a classroom use ratio of between 75% and 105%. This is the ratio between the number of classrooms the Ministry considers the school needs to accommodate the current number of students, and the number of classrooms the school has. Currently, only 62% of schools meet this target (December 2014: just under 69%).
- 4.40 The critical challenge is the shortage of 460 classrooms at schools throughout the country, although this has reduced from a deficit of 660 classrooms in December 2014. At the same time, the 2949 extra classrooms represents an opportunity for

reducing the number of extra classrooms and cost-cutting. The Ministry's ability to improve classroom use depends on accurate growth forecasts, and it depends on schools and the Ministry having mutually acceptable rationalisation plans.

- 4.41 Extra classrooms also have a cost. For the 4760 extra classrooms throughout the school property portfolio, schools would have received more than \$5 million in annual maintenance grants. However, schools do not get funding to update and renew extra classrooms as part of their Five-Year Agreement funding. If schools choose to use their extra classrooms, they have to stretch their allocated renewal funding throughout all the classrooms in use. This can result in schools not being able to properly maintain all their buildings.
- 4.42 The Ministry's inability to direct how schools deal with surplus classrooms, to improve the use of its assets and reduce the effect of demographic movements, restricts the Ministry's ability to manage the school property portfolio efficiently.

Funding mechanisms

- 4.43 The Ministry's role as an asset manager is constrained by certain funding and policy decisions. The Five-Year Agreement funding and annual maintenance funding are determined by the number of students, the size of the school buildings, and the land occupied by the school, rather than the nature and condition of the assets. This means that this part of the Ministry's property funding does not target those schools with assets that are most in need of investment. This is in direct conflict with the aims of good asset management at a portfolio level.
- 4.44 The main problem is a lack of flexibility, which does not allow the use of the funding available over groups of schools, and may limit a school's ability to invest in good ideas or to fix multiple matters at the same time. Because funding is based on the school roll and does not take account of the age or condition of schools, it favours large, more modern schools without historical maintenance issues. However, it is usually smaller schools with low rolls that need greater support for property matters.
- 4.45 Schools and stakeholders we talked to also consider that the current funding model is not effective for all schools. Some schools believe that it is unfair that schools that have failed to use their funding wisely get national programme interventions to fix their property issues.
- 4.46 In the last five years, the Ministry has invested more into its national programmes, which it refers to as "Tactical Investment". These national programmes include remediating buildings with weathertightness problems and the Christchurch

Rebuild Programme. By investing more of its capital funds in national programmes, the Ministry is focusing on the highest need in the most stressed parts of the sector.

- 4.47 Spending on national programmes is more than 60% of the Ministry's capital investment, with the remaining spent on school-led projects. This means more than 30% of the Ministry's capital funding is not allocated to schools based on the parts of the portfolio most in need.
- 4.48 We understand that the Ministry's current review of the Education Funding system is considering changes to annual property maintenance funding that is currently paid directly to schools through their operations grants.

Recommendation 4

We recommend that the Ministry of Education consider the way annual maintenance and renewal funding is allocated to schools so that it responds better to different property types, age, condition, and purpose of buildings.

No monitoring of school maintenance activities

- 4.49 The Ministry provides schools with maintenance funding, which is based on the size of the school property. The Ministry does not monitor how schools use this funding, or whether schools are getting value for money for the maintenance services they buy. The Ministry depends on the assessment carried out for the School Property Plan every five years, to know whether the schools are maintaining their properties. The Ministry Advisors can also identify maintenance issues in the interim, during their inspections of schools.
- 4.50 The Ministry reviews the nature of the projects funded by the Five-Year Agreement Funding. If a school is using all of its Five-Year Agreement funding on health and safety matters, it indicates that the school is struggling. It is preferable for schools to fund all their basic health and safety and essential maintenance work from their annual maintenance funding, and use their Five-Year Agreement funding on flexible learning spaces. However, the Ministry does not monitor the number and value of projects in each of the four priority categories at a national level.
- 4.51 Figure 11 sets out our analysis of the School Property Plans and other property information for the schools that we interviewed for our report. This shows how the schools' Five-Year Agreement funding has been used throughout the four priority areas.

4.52 In our sample of schools, 61.2% of total funding was used for flexible learning spaces or discretionary projects and only 1.5% for health and safety matters. However, the \$4.6 million of discretionary projects includes a project for one school, which includes \$4.3 million of contributions from the school board. These funds can be raised specifically for the project or come from a school's operational funding. If this project is removed from our calculations, it reduces the percentage of funds spent on flexible learning spaces or discretionary projects to 56.8%.

Figure 11
How schools use their Five-Year Agreement funding

	Total		Excluding Board-funded discretionary projects	
	\$	%	\$	%
Funding:				
Five-Year Agreement funding				
Five-Year Agreement funding	23,145,968	53.6	23,145,968	59.7
Top-up funding	1,962,969	4.6	1,962,969	5.1
Previous Five-Year Agreement funding remaining	6,649,319	15.4	6,649,319	17.1
Other planned Ministry contributions				
Roll growth	3,122,283	7.2	3,122,283	8.0
Disposal of surplus school houses	222,853	0.5	222,853	0.6
Rationalisation	380,600	0.9	380,600	1.0
Building improvements	1,876,719	4.3	1,876,719	4.8
Other	58,732	0.2	58,732	0.2
Other planned contributions				
School boards contribution	5,713,965	13.2	1,332,465	3.4
Community/Other	16,219	0.1	16,219	0.1
Total	43,149,627	100.0	38,768,127	100.0
Project spending:				
Priority 1 – Health and safety	632,250	1.5	632,250	1.7
Priority 2 – Essential infrastructure/high operational risk	13,730,953	31.8	13,730,953	35.4
Priority 3 – Flexible learning spaces	21,818,265	50.6	21,818,265	56.3
Priority 4 – Discretionary projects	4,588,774	10.6	207,274	0.5
Contingency	2,379,385	5.5	2,379,385	6.1
Total	43,149,627	100.0	38,768,127	100.0

- 4.53 The Ministry considers that a high proportion of schools are proud of their property and will use the maintenance funding provided for basic maintenance work. This was supported by our conversations with schools, but many schools believe the maintenance funding is not sufficient. Because this funding is calculated mainly on the volume of buildings the school uses, it does not reflect actual property needs.
- 4.54 Schools told us that they have to use funding from other external sources to fund annual maintenance needs, so they can use the Five-Year Agreement funding for major renewals and creating flexible learning spaces. We have been told that schools can depend heavily on the community to support school maintenance issues. We encourage the Ministry to more fully understand how schools are using their allocated capital funding.
- 4.55 There are a number of reasons why a school may not be properly maintaining its buildings. The reasons include:
- the school has governance issues;
 - the principal and school board are not interested, or lack experience, in property matters;
 - the school has different spending priorities;
 - the school buildings have inherent and historical construction issues; or
 - the school buildings are all tiring and have not received material re-investment.
- 4.56 Before the recent update to the Education Act 1989, the Ministry had relatively limited powers to intervene when a school was not properly maintaining its buildings. The Ministry would ensure that the school used its allocated capital funding for priority projects and it would provide extra funding if needed. The Ministry had mainly used its statutory interventions for more significant governance or educational matters. However, the Ministry now has greater flexibility to intervene if it has reasonable cause for concern about the operation of the school.

Recommendation 5

We recommend that the Ministry of Education identify schools not maintaining their property to the required standards, find out why, and establish interventions to remedy the situation.

How well the Ministry of Education supports schools in property matters

5

5.1 In this Part, we discuss:

- the roles and responsibilities of school boards;
- training and tools available to school boards;
- how schools use asset information;
- how the Ministry interacts with schools;
- co-ordination between national, regional, and local investment decisions; and
- opportunities for the Ministry.

Summary of our findings

5.2 Schools told us that they generally understood their day-to-day roles and responsibilities for property. But the time schools gave to property matters varied greatly. Many schools rely heavily on their external property planners. Although these property planners are now Ministry-approved and have the necessary capability, there is a risk that school boards become disconnected from their property management responsibilities.

5.3 Although the Ministry's website provides support and a considerable amount of material, many schools do not find this easy to use and consider that they are not trained well enough to make decisions about property. This is another reason they rely heavily on external property planners. In our view, there needs to be improved role clarity and greater recognition that property matters are an important function for school boards and principals. The Ministry also needs to improve training and tools for school boards and principals to ensure that they have the capability to carry out these roles.

5.4 Although schools involved in the Ministry "focus-groups" considered that the Ministry communicates well, this is not the view of all schools. Ministry Advisors are the "face of the Ministry" to most schools but those we talked to did not feel that they saw their Ministry Advisor enough and that the person in that role changed too often. We suggest that the Ministry increase the capability and capacity of its regional property advisors.

Roles and responsibilities of school boards

5.5 The focus of the school sector is to keep school property in a good condition, invest in flexible learning spaces, and improve the educational experience of students.

5.6 Most schools and the Ministry are clear on their roles set out in the Occupancy Document. However, there are situations where schools are unclear on the role descriptions: particularly when schools do not have regular contact with their

Ministry Advisor; and when principals are uncertain about their responsibilities for property management. Small schools often rely heavily on their contracted property planner and may not understand how the Ministry and schools should interact about property matters.

- 5.7 In our view, there needs to be clarity about their roles and greater recognition that property matters are an important function for school boards and principals. Those responsibilities cannot be entirely managed by the Ministry and external property planners and project managers.

Property planning

- 5.8 As previously discussed, assessing the condition of school property and prioritising project work is the first step of the School Property Plan and crucial to the integrity of further investment. Once completed by the property planner and agreed by the school, the Ministry's regional managers approve the School Property Plan. Schools update their plans every five years, so about 20% of schools should be having their School Property Plans approved each year. There are some exceptions, such as new schools and schools that are not required to prepare School Property Plans (these are mainly Christchurch schools and a limited number of schools receiving funding for major redevelopment projects).
- 5.9 Schools told us that they can experience significant delays in signing off their School Property Plans because of disagreements between the Ministry and the school. For example, some schools wanted to invest in projects they considered necessary for health and safety or essential renewal work but the Ministry wanted to prioritise other projects, such as flexible learning spaces. There can often be tension between the views of the school and Ministry because of their different roles and responsibilities for property.
- 5.10 In the year to 30 June 2016, the Ministry reported that it signed off 63% of School Property Plans against a target of 80%. The Ministry's explanation for not meeting this target was:

The signing of ten-year property plans is a shared responsibility between schools and the Ministry. We signed a total of 374 ten-year property plans, an improvement of 60 compared with 2014/15. We did not achieve the target, however, due to internal capacity constraints, external provider training requirements and implementation of the Ministry's new property management system. Less system and organisational change in the coming financial year should allow for a stronger focus on the signing of ten-year plans.¹¹

Project management

- 5.11 Once the Ministry approves the School Property Plan, managing the approved projects effectively is critical to the school, because it is responsible for any significant overspending. To mitigate risks, schools usually hire project managers to manage their property projects. However, until the Ministry set up a panel in late 2015, there was no control over the quality of project managers. Schools do not have to use the project managers who are on the panel but they are encouraged to.
- 5.12 The extent of the project manager's role depends on the involvement of school principals and school boards in governing and managing projects. The success of projects can depend on a school's expertise and ability to manage contractors and its relationship with the Ministry. The Ministry is considering strengthening its risk assessment of schools capability to manage projects, but has not yet put in place these assessments. Schools can always get help from the Ministry but the Ministry Advisors are not necessarily actively involved during the planning and construction phase of projects.
- 5.13 When a project begins, the Ministry will set it up on its property management system and track the progress of the project. Regular reporting is available to Ministry staff at a national and regional level for all school-led projects. Regional staff monitor projects, focusing on the spending against set budgets and reporting from Ministry Advisors about the project's progress and technical compliance. After a recent internal review of school-led property projects, the Ministry will begin asking its Ministry Advisors to review costs incurred and approve final funding releases. However, we have not yet seen evidence of this being implemented beyond the region that established this level of monitoring.

Maintenance

- 5.14 As part of the School Property Plan, schools prepare a plan for their maintenance spending in the next 10 years and consider capital projects. The plan should include maintenance that a school might periodically need to carry out, such as painting the school. The plan should be informed by the information about the condition of the school property and take into account the assets that are due to receive investment in the agreed school-led property projects.
- 5.15 School auditors consider that school boards do not give as much attention to their maintenance plans as they do to capital projects. This can mean that schools are not adequately planning for their maintenance needs. Also, because maintenance funding is provided annually, there is a risk that schools might not have the funds to carry out significant maintenance required in the future.

- 5.16 Other maintenance risks to schools are:
- The condition of the school’s assets has reached the point where the annual maintenance funding is no longer enough and other renewal funding might not be available, depending on where the school is in the five-year planning cycle.
 - There are other financial demands on a school and it decides to use the funds elsewhere to ensure that it meets its educational achievement objectives.
 - The school’s maintenance funding is not enough to cover the extent of maintenance needed because either it has extra classrooms or it has existing property issues, and the school might need to use a high proportion of its Five-Year Agreement funding allocation on health and safety work. This means that funding is not available to modernise or even renew property.

Recommendation 6

We recommend that the Ministry of Education, with the school sector, more clearly define the roles and responsibilities of the Ministry, principals, and boards of trustees for managing school property and recognise that these may differ between schools.

Property tools and training available to school boards

Training

- 5.17 The Ministry provides training in property-related matters for school board members and principals. However, the general view throughout the school sector is that the training is not adequate, considering the significant investment decisions that school board members and principals need to make and put in place. The capability of principals and school board members is critical.
- 5.18 Without enough training, opportunities can be missed or funding used in a way that does not reflect the best value for money or long-term solution to an issue. Stakeholder groups consider new principals should get substantially more training in property matters. If the Ministry continues to rely on schools to manage property projects, we support more training for principals and school boards. People we interviewed told us that informal peer support from more experienced principals to new principals without property management experience is critical to the success of school property projects.
- 5.19 Discussions with stakeholder groups reveal that property matters can take a lot of the school board’s time. Where the Ministry is considering issues that are affecting the school network strategically, such as high student numbers and

deciding whether to provide extra classrooms or a new school, school boards and principals will become heavily involved.

Guidance and other tools

- 5.20 The Ministry provides a broad range of tools and material that is available to schools through its website. Support is also available from regional staff should schools need help. Schools find these tools and material up-to-date, relevant, and practical. However, principals and school board members told us that it is hard to identify the right template or document to use for a particular circumstance.
- 5.21 The Ministry wants to make sure that it provides new tools and guidance in a timely way, and this forms part of regular communications with the school sector. The Ministry often uses regional forums to provide schools with updates on recent changes adopted by Infrastructure Services and the property tools and material available.
- 5.22 The Ministry's procurement tools and standard documentation are available to school project managers, who have an important role in property management. Our discussions with some of the project managers show that they know how to access the information and that they use the material provided by the Ministry.

Recommendation 7

We recommend that the Ministry of Education enhance the relevant training, tools, and support provided to schools to allow them to carry out their property management responsibilities.

How schools are using asset information

- 5.23 In our discussions with schools, it became clear that schools without principals or school board members with significant property experience have limited visibility or use of the Ministry's asset information. Most schools are not interested in the specific databases of information, mainly because of their reliance on external property planners and project managers. Although the Ministry keeps information about the condition of school property at a building level, schools mainly react to what they see on the ground, because day-to-day the school usually knows about the most immediate property issues.
- 5.24 Historically, PMIS was available to schools. It would show the capital projects for each school whether ongoing or completed, at a school or national level. However, the Ministry has not updated the property information in PMIS since 30 June 2016. The Ministry is planning to make this information available to schools from Helios.

- 5.25 Schools rely on external property planners to access necessary skills. However, if school staff or school board members lack experience in property matters, they may not be able to engage with the property planner in an effective way. Schools are vulnerable if they are not adequately engaged in property matters because it provides an environment where the school board may not receive the best advice for investing its allocated funding wisely. The Ministry has mitigated this in part by requiring schools to use an approved property planner, although this is not a requirement for project managers.

Interactions between the Ministry of Education and schools

- 5.26 Stakeholder management is an important part of the Ministry's approach to improving its performance as a school portfolio asset manager. Different stakeholders have different perspectives on the Ministry's success in managing the school property portfolio.
- 5.27 The principals' representatives generally believe the Ministry is unresponsive and not collaborative enough when providing the sector with solutions. However, these views are not held as strongly by school boards' representatives or by individual schools. An important part of the gap between what the school expects and what the Ministry can provide continues to be communication and the historical challenges represented by matters such as weathertightness problems and the general age profile of school property.
- 5.28 The Ministry Advisors are effectively the customer face of the Ministry for schools. It is critical that Ministry Advisors identify schools that need support or interventions by the Ministry in a timely way. Each Ministry Advisor looks after 35-55 schools. The large number of schools each Ministry Advisor has to look after means they are not able to make on-site visits as regularly as we would expect for such a large and complex portfolio. Some people we spoke to felt that they did not see their Ministry Advisors regularly enough and that Ministry Advisors change too often.
- 5.29 When experienced advisors leave the Ministry, another experienced advisor is given their complex schools. This shows a risk-based approach to allocating advisors to schools. However, it creates more changes in the portfolios of Ministry Advisors. One of the findings of the assessment of the Ministry as part of the Treasury's Investor Confidence Rating was that more resources should be provided to support Ministry Advisors.
- 5.30 Many schools feel that communication from the Ministry on school-specific property matters is poor, and there is often uncertainty about the timeline and

decision-making on projects. Although an appointed property planner or project manager will have a critical role, the Ministry needs to continue to establish relationships with principals and school boards. We would expect the Ministry Advisor to be the school's trusted advisor.

- 5.31 The Ministry's national team has regular phone interviews with all principals. We understand that although these conversations have allowed principals to communicate some issues of significance warranting attention to the Ministry, they have not identified a large backlog of concerns or incomplete work.
- 5.32 Infrastructure Services has set up focus groups for schools to discuss new initiatives in the sector and provide feedback to the Ministry. Schools have commented that this is an area other parts of the Ministry could learn from. However, schools that do not participate in these focus groups lack an understanding of the Ministry's direction and aims for school property.
- 5.33 Although the Ministry has done much work centrally to improve capability, standardisation, and support for the sector, schools that have limited interaction with the Ministry are not gaining the benefit of this work.

Recommendation 8

We recommend that the Ministry of Education increase the capability and capacity of its school property advisors so that frontline services to schools can be improved.

Co-ordination of investment decisions

- 5.34 Regional staff and capital works programme teams work together when schools need national intervention. Capital works teams take the lead in contract management and project monitoring. However, regional staff, mainly the Ministry Advisor, will eventually have to take over continuing operations once projects are complete. It is critical from a regional perspective that schools are satisfied with the outcome of the national intervention, or at least understand the nature of the property solution the Ministry has provided.
- 5.35 We noted from our interviews that schools have not noticed significant duplication of effort between different Ministry teams. However, schools do have concerns about the timeliness of projects, the number of parties involved, some Ministry appointments, and number of staff changes without enough communication. We were told these concerns were more the exception than the rule.

- 5.36 Some schools included in our sample had significant concerns about the timeliness of the Ministry's response to weathertightness issues and increases in student numbers. Concerns continue about how long projects take. Schools gave us some examples of where the Ministry first prioritises projects and then delays them significantly without adequately explaining why.

Opportunities for the Ministry of Education

Facilities management contract

- 5.37 Individual schools arrange and pay for their own maintenance work. This can create inefficiencies or exposure to contractors who may take advantage of schools not having robust procurement practices. Schools can also fail to maximise their value for money where few contractors are available.
- 5.38 The Ministry has piloted a facilities management contract in the last two years. Although we have not received a final benefits analysis of this work, we understand from the Ministry and from schools that it was well received and the services were of a high quality. Also, the facilities management contract reduced the principal's work load and significantly reduced the risk that schools were not receiving value for money for the work completed.
- 5.39 We understand the main challenge for schools arising from this facilities management contract is that the annual cost of the contract greatly exceeded their annual maintenance funding. Therefore, unless further savings were available, such a contract would be financially challenging to put in place. The other challenge is that the condition of all schools is not consistent. Therefore, it would only be possible to set up a service-level expectation once schools had resolved any issues of deferred maintenance, unless these issues were specifically excluded from contractual arrangements.
- 5.40 We understand the Ministry is still considering whether it is practical to roll out the facilities management contract pilot throughout a broader range of schools. This was a recommendation of the Treasury's Investor Confidence Rating assessment. Although we see that there could be a significant increase in the annual cost of maintenance funding, the benefits to the school property portfolio and in schools' capacity to provide education could provide a significant return on investment. Ensuring that schools are maintained at a consistent standard should reduce the need for extra capital funding, including significant interventions needed when deferred maintenance is allowed to build up, reducing total costs over the life of the assets.

- 5.41 In some areas of the country, a lack of contractor capability and resources available to schools presents a challenge. Without facilities management contracts or other solution, there is no way of reducing the risk for schools in rural or sparsely populated areas.

Procurement opportunities

- 5.42 Given the scale of expenditure in new builds, major redevelopments, and responding to the increase in student numbers, procurement represents a risk. However, it is also an opportunity for the Ministry to get value for money. The Infrastructure Services procurement team supports all national programme work and has set up a centre of excellence to support capital works teams throughout the country. The Ministry is one of the highest users of the Crown's online tender system and the sector has a strong understanding of the Ministry's property-focused procurement mechanisms.
- 5.43 The Ministry has increasingly focused on procurement in the last three years. The Ministry has recently set up panels for different types of services and used competitive bids to create increased participation in the sector. These panels have only recently been established, so we cannot yet determine their effectiveness. However, by concentrating the sector participants into pre-qualified areas of expertise, this should increase the capabilities of all providers who work in the sector. Also this should give better value for money and reduce the amount of time before a project starts.

Other opportunities

- 5.44 Other opportunities for the Ministry include bringing together schools' Five-Year Agreement funding to maximise group buying power and, in limited circumstances, reviews of education provision in specific geographic areas. However, these reviews normally occur only when there is a major event, such as natural disaster or fire. Current governance structures can result in situations where, if one school does not want to "opt in", it can result in district-based initiatives failing. The Ministry believes that more collaboration between schools in Communities of Learning will assist with this.

Appendix 1

Recommendations in our 2006 report

We last reviewed school property management in 2006. We focused on:

- the effectiveness of organisational arrangements;
- strategic management of the school property portfolio; and
- overseeing capital projects and maintenance.

The areas of focus in our 2006 report remain relevant today. However, the Ministry managed school property in a different environment in 2006. There have been substantial changes since 2006 in how the Ministry operates. The main difference, and the major exposure to risk in the sector in 2006, was the extent of capital projects managed directly by schools.

Many of the matters raised in 2006 have been partly addressed. We consider the steps taken in the last four to five years by the Ministry (particularly Infrastructure Services) are positive, but there are still opportunities for improvement.

2006 recommendation	Comments on 2016 position
(1) Effectiveness of organisational arrangements	
1. ... that the Ministry devise common goals for managing school property within the organisation, to ensure that policy objectives are translated into operations performance targets.	<p>The Ministry took a significant step to meeting this expectation through the Ministry's 2011-2021 School Property Strategy, which set out a vision and goals for school property. The strategy included performance measures but did not directly link to the broader Ministry's strategy. We have not seen consistent monitoring and external reporting on the performance measures and goals.</p> <p>The Ministry is developing a new strategy to continue to focus Infrastructure Services' development as an asset manager. The new strategy will collectively consider the outcomes for school property, transport, ICT infrastructure, and education payroll services. However, key Infrastructure Services documents still need to be linked to the broader strategy of the Ministry.</p>
2. ... that the Ministry identify the main expectations of Network Development Officers and Network Facilitators nationally and ensure that these are reflected in their job descriptions.	<p>School Property Advisors (Ministry Advisors) now work in Infrastructure Services, with a focus on ensuring that school property in their regional portfolio is maintained and sustained. They also look to co-ordinate the efforts of nationally led work through working alongside capital works teams based in regional offices.</p> <p>Regional staff work closely with network management staff from Sector Enablement and Support Group. All business cases for capital work include demographic and other operational considerations.</p>
3. ... that the Ministry introduce documented business processes for Network Development Officers and Network Facilitators that define responsibilities and record keeping requirements and that are subject to quality control.	<p>We received feedback from some schools interviewed that the portfolios managed by Ministry Advisors were too large, and a significant portion of the schools interviewed believed their Ministry Advisor did not visit often enough.</p>

2006 recommendation	Comments on 2016 position
(1) Effectiveness of organisational arrangements (continued)	
<p>4. ... that the Ministry review the training needs of Network Development Officers and Network Facilitators in property management and introduce a formal training programme, including induction training for new staff and ongoing training for existing staff.</p>	<p>Ministry Advisors can call on a range of tools and templates to help them fulfil their roles.</p> <p>Schools depend on contracted project managers and property planners who manage school-led property projects and prepare School Property Plans. Recent improvements have seen the Ministry setting up provider panels and basic training and experience requirements for property planners. Although schools still have significant input into the appointment of property planners and project managers, the Ministry is taking steps to ensure that they meet important quality criteria.</p>
<p>5. ... that the Ministry regularly evaluate and review training provided to school Boards of Trustees and principals in school property management, to ensure that the training is sufficient and relevant.</p>	<p>Significant amounts of material is available to school boards and principals. Newly appointed principals and school boards are eligible to attend Ministry-funding training programmes. However, comments from our school interviews were that the training is inadequate, does not explore key risks in-depth, and does not suitably equip new principals and Board members for the challenges of property. This increases the dependency on property planners and project managers.</p>
<p>6. ... that the Ministry actively encourage schools to share facilities and jointly contract for capital and maintenance work.</p>	<p>Although we were told about some trials of joint-contract relationships, either Ministry-led or co-ordinated by the Ministry, there has been no significant progress. The nature of school property funding does not encourage this behaviour and the condition of school property varies.</p> <p>There are some examples in the sector where schools seek to co-fund with the Ministry special educational facilities, using community-raised funds. However, this is not often carried out as a community of schools.</p> <p>The new Communities of Learning, although set up to improve educational outcomes for a range of schools in a community, could lead to enhanced relationships from a property perspective that will maximise the benefits of key property investments in several schools. The Ministry is considering how property funding can be managed through Communities of Learning.</p>

2006 recommendation	Comments on 2016 position
(2) Strategic management of the school property portfolio	
7. ... that the Ministry produce a strategic plan for school property management that is clearly linked to the Ministry's wider education aims, including its vital outcomes.	The Ministry produced a 2011-2021 School Property Strategy. This clarified the vision and goals for school property. However, it remains disconnected from broader Ministry planning documents. The potential risk is that Infrastructure Services prepares strategies ahead of the Ministry's planning documents. The Ministry's Four Year Plan and its "Plan on a Page" do not give any material reference to the significance of school property in providing an effective learning environment for students.
8. ... that the Ministry explicitly link delivery targets included in the Education and Improvement Support Annual Plan to aims and objectives in the school property management strategic plan.	Significant changes have occurred to key accountability documents since 2006. However, we continue to note that there is no consistent flow of performance information from Infrastructure Services' reporting and planning to Ministry-level documents and objectives. The Ministry has taken steps in recent years to improve the school property-related measures in its broader reporting documents. These have not yet been successful. Although progress has been made for the 2016/17 year, publicised measures need to have effective targets.
9. ... that the Ministry, as part of its strategic planning for school property management, identify performance targets to use as a basis for measuring the achievement of objectives and outcomes.	
10. ... that the Ministry arrange regular independent validations of information held in the Property Management Information System (PMIS), and introduce consistent internal procedures for checking data.	Helios replaced PMIS from 4 April 2016. Helios will allow better collection of information about school property assets. Before its replacement, PMIS mainly held financial information, with other databases holding asset condition information. PMIS data was updated on a project basis and through the ad hoc data updates from across the network. Now, school property consultants update the school property condition database at least once every five years as a part of the initial asset condition stocktake associated with School Property Plans.
11. ... that the Ministry determine how to improve systems that are used to hold information about property so that it has a better overview of the entire school property portfolio, to assist it in planning and making decisions about property at a portfolio level.	Property information is still drawn together from several sources. Although Helios has replaced PMIS, and the Ministry can access portfolio-level data from the database holding asset condition information, this is not used for decision-making. Helios and the Oracle Fixed Asset Register now keep asset age and financial information for every project, open (incomplete) or closed (complete). Despite these challenges, projects are reported on using data from various sources and appears robust and effective for programme management.

2006 recommendation	Comments on 2016 position
(2) Strategic management of the school property portfolio (continued)	
12. ... that the Ministry determine how to improve the integration of property information with its financial management system.	<p>The property management system (Helios) is reconciled with the Ministry's financial systems, but there remains no direct integration between the property condition information and the financial management systems.</p> <p>Information on forecast school-led capital projects funded by Five-Year Agreement funding is maintained within School Property Plans. However, there is no central summary of these documents showing the Ministry the projects that are planned across the four priorities of projects used in school property planning.</p>
13. ... that the Ministry, in determining targets for the disposal of surplus school property, identify separate targets for property that can be disposed of quickly and for property that will take longer to dispose of because of specific complications it has identified.	<p>The Ministry, with many other Crown agencies, has moved to using LINZ for selling surplus property. Although the sales process can still take some time due to legislative restraints and Treaty of Waitangi settlement responsibilities, we have not noted any concerns.</p> <p>The main aspect in need of attention is identifying under-used school teaching spaces, which cost money to maintain and renew. Although demand and demographic changes can result in the need to provide more classrooms in parts of the country, in others school rolls are declining.</p>
2006 recommendation	Comments on 2016 position
(3) Overseeing capital projects and maintenance	
14. ... that the Ministry extend its overseeing of capital projects to include reviews of completed projects that determine both their effect on the overall condition of the school property portfolio and their broader contribution to the achievement of its strategic objectives for property and vital outcomes.	<p>The Ministry is significantly closer to assessing the effect that capital projects can have on schools than it was 10 years ago. For large projects, the Ministry carries out Post Occupancy Evaluations. These detailed reviews mainly focus on the site and building design and highlight physical design attributes that are important to what is considered to be a Modern Learning Environment. However, we note that:</p> <ul style="list-style-type: none"> • The Ministry carried out only three post-occupancy reviews in 2016. • There is limited assessment on what is successful from an educational outcome perspective.

2006 recommendation	Comments on 2016 position
(3) Overseeing capital projects and maintenance (continued)	
<p>15. ... that the Ministry identify the main risks for network provision staff to consider when determining whether a school should be required to appoint a professional project manager to manage capital projects, and review its policy to enable these risks to be taken into account as well as existing financial thresholds.</p>	<p>Schools need to appoint a suitably qualified external project manager for all school-led projects. The Ministry manages all significant capital projects outside this programme, using in-house capability and contracted professional expertise. Role clarity is an issue.</p>
<p>16. ... that the Ministry encourage all schools to improve the economic and environmental performance of their property by requiring them to calculate the whole-of-life costs of capital projects.</p>	<p>Schools classify all property projects within the four priority project groups as part of the agreement with the Ministry on how they will spend their Five-Year Agreement funding. Schools cannot start projects with Ministry funding without Ministry approval, as a part of the School Property Plan. Each plan clearly outlines the need for the project and the desired result.</p> <p>The Ministry now has an Investment Board, which includes members from various parts of the Ministry. The Board reviews and approves detailed business cases for all major projects.</p>
<p>17. ... that the Ministry monitor how schools are spending their maintenance funding to identify schools that are significantly under-spending, and to ensure that it achieves value for money.</p>	<p>This remains a weakness. No statistical evidence is available about the nature and extent of maintenance spending. The Ministry relies on condition assessments and the proportion of work in each school's property plan that falls within the first two priorities of work, P1: Health & Safety, and P2: Essential Infrastructure. However, the Ministry does not collate this information from School Property Plans.</p>
<p>18. ... that the Ministry continue to monitor the suitability of its formulas for allocating maintenance funding to schools to ensure that all schools have sufficient funding to maintain their property in a good state of repair.</p>	<p>The Ministry is reviewing the funding for the schools sector.</p> <p>The Ministry has not carried out any recent reviews of the formulas for allocating maintenance funding.</p>
<p>19. ... that the Ministry ensure that the pilot audit of schools' maintenance (or another mechanism) provides adequate information about the condition of school property.</p>	<p>The Ministry does not carry out audits of school maintenance. The last major initiative to collect school property information was the nationwide condition assessment in 2011, which was the basis for the school property condition information database. Property planners update this condition information every time a new School Property Plan is agreed.</p> <p>The Ministry has carried out some sample audits of school property information to support PMIS data, such as a 2016 review of Site Improvements at schools and recent reviews of school size data.</p>

2006 recommendation	Comments on 2016 position
(3) Overseeing capital projects and maintenance (continued)	
<p>20. ... that the Ministry determine how the results of the audit of schools' maintenance will be recorded, assessed, and acted upon. Ideally the results would be recorded within the Property Management Information System (PMIS).</p>	<p>The Ministry does not carry out audits of schools maintenance.</p> <p>The Ministry keeps school condition information in its property condition database but there is no link to the property information in Helios (which replaced PMIS in April 2016).</p>
<p>21. ... that the Ministry, having identified schools that are failing to maintain their property to the required standards, establish the reasons and what action is required to remedy the situation.</p>	<p>The Ministry does limited work on this. The general view is that most schools maintain their properties to the extent they can. However, some schools have either far more capacity financially or through community help to carry out maintenance work or school boards or principals who prioritise these matters. Other schools place less emphasis on the physical environment in their school goals or do not have the capacity or capability to maintain their schools property.</p>
<p>22. ... that the Ministry provide guidance and consider other ways in which schools might be encouraged to improve the environmental and economic performance of their school property through decisions they make about maintenance.</p>	<p>The Ministry has a lot of guidance available online for schools to access. Our interviews with stakeholders showed that in some situations there is too much guidance or it is not always easy to find.</p>
<p>23. ... that the Ministry introduce monitoring of the selection process used by schools to award contracts for maintenance to ensure that schools comply with its requirements.</p>	<p>The Ministry requires a procurement plan for any contract worth more than \$50,000 but this guidance is provided for school property projects; it is not clear that it also relates to maintenance contracts. There is no formal monitoring of this process by the Ministry.</p>
<p>24. ... that the Ministry provide guidance to schools about the issues they need to consider, including an assessment of value for money, before entering into long-term maintenance contracts.</p>	<p>The Ministry provides advice about property procurement on its website.</p>

Appendix 2

Property responsibilities of the Ministry of Education and school boards

Long-term property plan			Short- to medium-term property plan			Other property processes		
Process	Frequency	Accountabilities	Process	Frequency	Accountabilities	Process	Frequency	Accountabilities
Property Occupancy Agreement			Maintenance			National programmes of work		
Signing of Property Occupancy Agreement		School Board Ministry	Payment of property maintenance grant	Quarterly	Ministry	Identification of property issue	As needed	Ministry Advisor Property planner
10-year property planning			Review of maintenance plan	Annually	School Board	Preparation of business case	As needed	Ministry Advisor
Assessment of property condition	Every 5 years	Property planner	Approval of day-to-day maintenance	As needed	Principal	Approval of business case	As needed	Ministry
Prioritisation of property projects	Every 5 years	Property planner School Board Ministry Advisor	Calculation of provision for cyclical maintenance	Annually	School finance	Management of national programme project	As needed	Ministry
Preparation of Maintenance Plan	Every 5 years	Property planner School Board	Approval of cyclical maintenance provision	Annually	School Board	Property inspections		
Preparation of final School Property Plan	Every 5 years	Property planner School Board	Annual report			Inspection of school property	Annually	Ministry Advisor
Approval of School Property Plan	Every 5 years	School Board Ministry Advisor	5YA projects					
10-Year Property Plan (School Property Plan)			Appointment of project manager	Every 5 years	School Board			
Maintenance Plan	5-Year Agreement		Payment of 5YA funding to school	Every 5 years	Ministry			
			Management of 5YA projects	Every 5 years	Project manager			
			Sign off completion of project	Every 5 years	Ministry Advisor			

KEY

- Ministry
- School
- External

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