Report of the Ministerial Inquiry into School Property

June 2024

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Executive summary

Introduction

On 2 April 2024, the Minister of Education, Hon Erica Stanford, established a Ministerial inquiry to address problems within the school property system (the inquiry). Upon assuming office in November 2023, the Minister became aware that there were many complaints from schools regarding the performance of the Ministry of Education's school property function and thereafter several individual cases received widespread media coverage.

School property has been the focus of at least five separate reviews since 2012. We have drawn from these reviews and their findings as appropriate, and a timeline of relevant reviews is provided in Appendix 4. We have also drawn on the Ministry's documentary record and data regarding delivery processes and costs, though we note an absence of robust data to support a benchmarked view of the group's performance. For the most part, therefore, we have formed our views based on the many compelling narratives we received from schools, principals, and board members, as well as employees of the Ministry itself and consultants. Ministry staff were generally happy to engage with us, and many are clearly seeking to bring about constructive change.

We are grateful to everyone who took the time to share their knowledge and experience with us. By the very nature of this inquiry, we expected the loudest voices to come from the system's strongest critics, especially schools on the receiving end of poor service from the Ministry. However, we found widespread consensus among the sector and Ministry staff that current arrangements are failing to deliver on expectations, and that change is required if the school property system is to meet the significant challenges it faces.

We were impressed by a number of Ministry employees and by some initiatives that have been taken to improve specific aspects of delivery, and we describe some of these in our report. For the benefits of these initiatives to be fully realised, there will need to be further coordination, integration and scaling up applied consistently across the portfolio.

The timeframe for the inquiry was deliberately constrained, with our final report and recommendations due to be delivered to the Government within three months of our appointment, or no later than 2 July 2024. The inquiry was not designed to deliver a comprehensive catalogue of the failings of the current system and a detailed assessment of the costs associated with those failings. Instead, our report provides an overview of the shortcomings of the current system, identifies some of their causes, and recommends structural changes that will create the right environment for improvement. The problems in the school property system are significant and the need for solutions is urgent. The early delivery of our report recognises this urgency.

What we heard

The Inquiry Panel heard from a wide range of school principals, tumuaki, board members, and property managers, as well as Ministry staff, senior leaders and construction sector experts. Schools were consistently critical of a lack of transparency, unclear prioritisation of projects, and generally inefficient project planning and delivery. This was exacerbated by a high degree of turnover among frontline staff.

Planning

Schools told us that Ministry requirements for school property planning are cumbersome and bureaucratic, resulting in slow and often repetitive processes.

We heard that the Ministry is often slow to plan for and respond to roll growth demands across the state school network. The Ministry's Network function undertakes demand analysis from a range of data sources, which in turn drives property investment planning. There is a widely expressed view, however, that this analysis is inadequately tested against 'on the ground' assessments from schools and frontline staff and that it provides an insufficient basis for demand management.

Schools criticised the Ministry's use of architects and designers and extensive consultation with stakeholders, often without adequate regard for budget constraints. The Ministry's use of architects who had failed in earlier school projects received regular comment. Schools provided examples of projects with protracted planning and design activities, including multiple master-planning exercises and geotech surveys over many years, and of lengthy delays and cost escalations as a result of the Ministry's internal approval processes.

There was a strong consensus that school buildings funded by taxpayers should be simple, functional, cost efficient, and based on repeatable or standardised designs. The Ministry's failure to execute in line with these principles drew strong criticism, with the Marlborough school's re-location and many offsite-manufactured buildings projects raised as extreme examples that are symptomatic of a more systemic malaise.

Funding

Schools were highly critical of a lack of transparency around the prioritisation of projects and funding, with some noting that the ability for some schools to jump the queue cast doubt on the Ministry's processes. We heard many times that there appeared to be no solid foundation to the Ministry's prioritisation of projects, and that the most effective way to secure funding is to go public through the media or local politicians.

The Inquiry Panel met with some schools who were invited to participate in discussions about high-quality and sometimes elaborate designs for new facilities, only for their projects to be cancelled or rescoped significantly due to high costs. While these schools were not resentful that their grand design would not eventuate, they were understandably frustrated that they had been encouraged to engage in a process that had always appeared 'too good to be true'. Most school representatives we spoke to were pragmatic and realistic about the limited funding available but simply wanted transparency and an accurate view of achievable scope from the Ministry during these conversations.

Delivery

Many schools told us about significant delays in delivery, with predictable impacts on costs. We heard examples of minor projects which might require two months of construction work, but with approval processes taking two years. Several principals told us that their attempts to secure property modifications for students with high needs resulted in solutions that were delivered by the Ministry well after the relevant students had left their schools.

Some people we spoke to in the sector pointed to the uneven track record of schools in maintaining public assets under the devolved Tomorrow's Schools model. They suggested that some principals and boards lack the inclination or capability to act as custodians of significant Crown assets.

A very clear message to emerge from our engagement was that the Ministry's current 'one size fits all' approach to delivery of school property fails to recognise the diverse needs of different schools across New Zealand. Many smaller and rural schools were clear that they wanted to devote all their resources to teaching, leaving school property services to be provided by the Ministry. Some larger, mostly urban schools were adamant that they could meet their property needs more efficiently and effectively than the Ministry. The inability of the Ministry to respond with sufficient flexibility to these different needs was a key theme of our engagements

Pricing and procurement

We heard consistently that prices charged by consultants, project managers, and contractors for Ministry-led projects were excessive. It was not clear to us whether this tendency is a market response to the inefficiency of Ministry processes or genuine over-pricing aimed at a captured client. Some procurement initiatives to achieve better value for money are promising, but these need to be tested and implemented at scale.

There was strong criticism of the Ministry's procurement of offsite-manufactured buildings (OMBs). We were told that schools hoping to benefit from simple, repeatable, OMB solutions were disappointed to find costs exceeding $1.2 million per teaching space. Schools told us they had contracted local housing companies to supply classrooms of similar quality for $400,000.[1] The current procurement approach, involving a small panel of suppliers, is not delivering the necessary competitive tension and cost efficiencies. The Ministry's failure to secure legal ownership of the OMB designs has compounded cost and pricing issues.

What we found

Structure, process, and leadership

The Ministry's current property function was established in 2012 and has grown at pace to reflect the rapidly expanding scope and scale of its task. It was designed to support greater Ministry control over high-value investments and a more centralised approach to the planning and delivery of school property. This has resulted in an internal organisational structure that is complex, confusing, and over-engineered. We found that accountabilities and processes for school property planning and delivery were spread across multiple business groups, with inadequate integration or coordination. It is easy to see how such a design could require officials to spend a lot of their time communicating with each other at the cost of communicating with their customers.

At the same time, many critical business processes are excessively centralised and there are limited delegations in place to enable frontline staff to do their jobs. Delivery managers (who are responsible for delivering large capital works projects led by the Ministry) noted that they were routinely required to secure as many as nine approvals and more than 100 signatures (including approvals and endorsements) before a project can enter construction, sometimes because funding for one project would be provided through multiple funding streams.

Consequently, despite the best efforts of individuals, the operating model for the Ministry's school property function might be described as a lose-lose-lose scenario:

[1] The Ministry told us that the average manufacturing cost per teaching space for OMBs was $300,000 but suppliers have offered prices as low as $220,000 for volume discounts. Additional or variable costs come from bespoke modifications, site works, infrastructure upgrades and transport. The budget for OMB siteworks is typically around $500,000 per teaching space.

- Schools lose by being denied transparent and timely information that would allow them to properly engage in planning processes, undermining their ability to secure the best value from money spent on their behalf.

- Ministry staff lose in a highly centralised, low trust, risk averse, and bureaucratic system in which they are unable to deliver simple and common-sense solutions, are unable to secure timely approvals, and are therefore unable to provide efficient or effective service to schools.

- Taxpayers lose as the owners of a $30 billion portfolio where maintenance and capital spending have been administered inefficiently, and where there is a significant backlog of deferred maintenance due to historic underinvestment and changing responsibilities.

There will likely never be enough funding to meet the needs or aspirations of all schools. This requires difficult decisions that accurately reflect relative needs and priorities. The lack of a full property condition data set—due to the age of the portfolio and the distribution of key documents across schools, consultants, architects, engineers, and the Ministry itself—makes a full and accurate assessment of schools' needs difficult.

The lack of data reflects the evolving and loosely defined nature of the Ministry's role as an asset manager, and means that the conditions for an effective asset management system are not yet in place. A more robust evidence base is needed to support clearsighted investment prioritisation and drive value for money. While there has been some progress and greater efficiency in some areas, the existing funding needs to go much further.

We found that current institutional arrangements for school property, which developed in response to the Christchurch earthquakes and the emergence of severe weathertightness failure across the portfolio in the same period, are designed to promote caution and a low tolerance for risk. Ministry staff described a risk averse culture focused on 'stopping the noise'. Frontline staff, in particular, told us that they frequently felt disempowered when holding the line on unjustifiable expenditure, only to be overruled in the face of political or media pressure.

While some independent assessments rate the Ministry's performance as an asset manager highly relative to other agencies across the state sector,[2] the Inquiry Panel found that current institutional arrangements have not provided acceptable levels of service to the sector that the system is there to serve. It is our view that this approach is not delivering the right outcomes and a different organisational form is required.

Responsibility

We have been direct in assessing the shortcomings of the current school property system and the institutional arrangements that support it. It naturally follows that some will wish to attribute responsibility, especially for extreme examples such as the Marlborough schools project. The current system—riddled as it is with levels of management overlap, thin governance and systemic opacity, punctuated by occasional ministerial interventions—makes the attribution of responsibility for specific outcomes difficult.

However, examples like the Marlborough schools project speak to the need for a system that is more transparent, in which responsibilities are clear and accountabilities are real. The recommendations we make in this report are designed to achieve this.

[2] See, for example, NZ Infrastructure Commission's forthcoming *Asset Management State of Play* Report, 2024.

Context for change

The wider system and context for our inquiry is dynamic, with further changes on the horizon. The Minister was clear that she wanted this inquiry to propose improvements to the current operating model, and potential pathways to such a model. In developing our reporting and recommendations, we have considered several significant shifts underway across the education system, including the introduction of charter schools and increasing iwi ownership of school land.

Key findings

The Inquiry Panel has determined that the current system for delivering school property is not fit for purpose and that:

- The Ministry's organisational structure does not provide the right focus or level of accountability for a $30 billion property portfolio.
- Internal governance structures for property investments are not robust, and do not provide any external oversight of decision making.
- The Ministry's processes from planning to delivery are bureaucratic, overly risk averse, and inefficient.
- Too many new school buildings are based on bespoke designs that exceed what is necessary for simple, fit-for-purpose, and functional facilities.
- The Ministry's iterative, highly consultative approach to project initiation and scope-setting raises expectations without clear budget constraints at the outset, and this has contributed to scope creep and cost blowouts on some projects.
- Funding decisions by the Ministry lack transparency, with schools often remaining unclear on the basis for investment or the criteria for priority-setting.
- There is now a significant and unsustainable gap between expectations and funding available for delivery, with $6.5 billion in funding required to complete the 488 projects in the Ministry's capital works pipeline. Only 153 of these projects are fully funded, requiring $2.8 billion of additional capital funding and difficult decisions regarding future priorities.
- Kura Kaupapa Māori are not well served by the current system, and many kura want greater autonomy to manage their own capital investment and funding.
- Asset management practices require improvement, including more reliable and comprehensive data on the Crown's assets.
- A significant part of the sector, as well as some Ministry staff, have lost confidence in the current system.

We therefore recommend that the management of school property be moved to a new entity, separate from the Ministry of Education, that is:

- Led by a chief executive, appointed by a board of directors, in turn appointed by Ministers.
- Charged with overseeing a future school property system that is accountable, transparent, sustainable, flexible and based upon sound data and evidence.

- Responsible for managing the network and physical assets of state schools; planning, prioritising, and delivering new schools and capital works; allocating property funding to schools; and working closely with schools to manage, maintain and upgrade their facilities.

- Responsible for determining which schools should be able to manage their own property within Ministry parameters and guidelines.

The transition to these new arrangements should commence as soon as possible, beginning with the appointment of a Transition Board.

A range of urgent improvements to school property planning and delivery should be implemented during the transition period, prior to the formal establishment of the new school property entity. These improvements should include the integration of the existing Network and Infrastructure Procurement functions with the Property group, the establishment of a 'self-management' option for capable schools, an overhaul of the OMB programme, and revised processes for the engagement of architects and consultants.

Our full recommendations are set out on page 1.

Hon Murray McCully
Lead Independent Reviewer

Mark Binns
Independent Reviewer

Recommendations

1 Establish a new entity (the 'school property entity'), separate from the Ministry of Education, to assume ownership and asset management responsibility for the school property portfolio. The school property entity should:

a. Be led by a chief executive who is accountable to an independent board of directors.

b. Take the form of a Crown agent, Crown entity company, schedule 4A company, statutory entity, public benefit entity, or state-owned enterprise, based on further advice from the Treasury and the Public Service Commission and following discussions between Ministers and the Transition Board.

c. Report to the Minister of Education and the Minister of Finance as responsible or shareholding ministers and be monitored by Treasury.

2 Clarify roles and responsibilities for the funding, planning and delivery of school property by:

a. Transferring responsibility for property delivery (including maintenance and facilities management), capital investment, portfolio management, and existing network and demand forecasting and infrastructure procurement functions from the Ministry of Education to the new school property entity.

b. Defining the role of the school property entity as a commercially focused funder and/or provider of asset management services and capital works to state school boards, tasked with lifting the condition of the existing building stock and providing simple functional facilities to meet demand across the state school network.

c. Redefining the Ministry of Education's role in the school property system as a provider of policy advice for Ministers relating to education infrastructure, as well as advice relating to capital injections through the Budget process.

3 Review and simplify the current funding model for state schools to enable greater transparency and flexibility. This should include reconsideration of school boards' responsibilities and the establishment of a flexible or differentiated funding model where capable state school boards may choose to assume complete responsibility for their asset management and capital delivery, funded or subsidised by the Crown at levels consistent with other state schools. Any new funding model should include practical measures to prevent the use of property funding to relieve other operational pressures.

4 Implement clear processes for regular reporting and priority-setting to promote accountability, transparency, clarity of expectations, and value for money. To this end, the new school property entity should:

a. Work towards priorities set out in an annual letter of expectations from shareholding and/or responsible Ministers.

b. Report regularly to responsible and/or shareholding Ministers on programme expenditure, milestones, and delivery.

c. Publish an annual statement of corporate intent.

d. Publish a detailed and transparent capital works pipeline and maintenance funding plan, with projects listed in order of priority within key delivery programmes.

5 As soon as possible, establish a Transition Board and Transition Unit to oversee and coordinate the establishment of the new school property entity. Overall accountability for existing property delivery, capital investment, portfolio management, network, and infrastructure procurement functions should be transferred from the Secretary for Education to the Transition Board during the transition period.

6 Direct the Transition Board to undertake a range of immediate actions during the transition period to simplify the operating model and ensure value for money, set out in further detail on page 33 of this report.

Background

Purpose

The terms of reference for the Ministerial inquiry were issued by the Minister of Education on 2 April 2024 and are set out in Appendix 2.

The purpose of the inquiry is to ensure we can deliver the school property our children and teachers deserve, while protecting taxpayers from inefficiencies and poor value for money. As independent reviewers, we were tasked with making recommendations for immediate actions and for a future approach to property funding, planning and delivery that is sustainable, efficient and effective.

Scope

The scope of this inquiry as set out in the terms of reference is broad. It includes:

- The efficiency and effectiveness of current arrangements and operational practice (including prioritisation processes, internal governance and accountabilities, relationships with schools, and funding arrangements with the Crown).
- Building more effective and efficient arrangements for the future (including changes to funding and institutional arrangements, improving clarity of expectations, and delivering value for money).

Our report places current institutional arrangements and practices for school property in context, sets out our key findings, and describes immediate and long-term actions to lift the performance of the system, improve accountability, and promote greater clarity of expectations among schools and communities.

Approach

The Minister of Education initially intended to establish a reference group of school principals, education peak body representatives, and school board representatives to provide us with insights into the education sector's views and experiences. Due to the level of interest in the inquiry, we instead chose to engage directly with principals, administrators, and sector representatives, both individually and as part of group discussions. We sought input from stakeholders across the sector, and the Minister wrote to school principals inviting them to contribute to the inquiry.

We held sessions with schools in Auckland, Tauranga, Wellington and Christchurch and also visited a number of schools and kura between 18 April and 20 May 2024. We met with forty-nine principals, sector representatives, and school board members throughout this period, as well as many Ministry of Education staff and contractors. Seventy-two schools, administrators, peak bodies, Ministry of Education staff, consultants, contractors, and members of the public took the opportunity to share their views and perspectives with us through written submissions.

A summary of groups we engaged with during the inquiry is provided as Appendix 3.

How the system works

System context

The school property portfolio is the second-largest social property portfolio in New Zealand. It consists of 2,117 state schools, more than 16,000 school buildings, and total assets with a book value of over $30 billion at the end of the 2022/23 financial year. It is significantly larger than any private property portfolio in New Zealand.[3]

Management of the school property portfolio has changed considerably in recent decades, particularly since 2010, and roles and accountabilities are distributed over a range of actors across the Ministry and the education sector.

Successive reforms have shaped the current system

The Tomorrow's Schools reforms, beginning in 1989, set the overall direction for the management of school property until the present day. Under Tomorrow's Schools, schools became self-governing, autonomous entities with responsibility for management of their own property, capital renewal and day-to-day operational maintenance. The newly established Ministry of Education provided bulk funding based on enrolment but applied a light touch to monitoring or compliance. In place of centralised oversight, the Ministry implemented a high-trust model that relied on the competence and local knowledge of school staff and boards. It assumed that individuals and invested parents were in the best position to understand and act in the best interests of their local communities.

While the Ministry had previously funded schools to plan and deliver large capital projects, the Christchurch Earthquakes of 2010 and 2011, as well as the emergence of significant weathertightness failure across the portfolio during the same period, prompted a change in approach. In response, the Ministry introduced the *School Property Strategy 2011–2021* and established the Education Infrastructure Service (EIS) as a business unit within the Ministry. From 2011 to 2021, EIS was responsible for managing infrastructure procurement and major capital works projects on behalf of schools, including the newly-created Christchurch Schools Rebuild programme, and for supporting schools to undertake their asset management and property planning roles.

EIS developed internal business functions in anticipation of becoming an independent entity, but a change of government in 2017 led the Ministry to stop work on a separate entity. In 2021, in response to the recommendations delivered through the independent review of Tomorrow's Schools, the Ministry replaced EIS with a new business unit, Infrastructure and Digital | Te Pou Hanganga, Matahiko, which absorbed existing property delivery and ICT functions. Network, demand assessment, and planning decisions are managed through the Ministry's regional office structure.

The portfolio is aging and in poor condition

Many school buildings were built between 1950 and 1970 and are functional but dated, and will require significant ongoing investment to maintain, rejuvenate or replace. As of June 2024, 42 percent of buildings are more than 50 years old, and 37 percent are between 20 and 50 years old. Many school buildings designed and constructed between 1994 and 2005 have significant weathertightness issues,

[3] By comparison, New Zealand's largest publicly listed real estate entity, Goodman Property Trust, has approximately $4.5 billion in property assets under management. Other examples include Kiwi Property Group Ltd (total assets of $3.2 billion) or Precinct Properties Group (total assets of $3.7 billion).

requiring the Ministry to stand up a programme of remediation work and pursue litigation against several construction firms.

School Visit Condition Assessments (SVCAs) indicate that 16 percent of buildings at state schools have major condition issues.[4] However, the lack of detailed and reliable system-wide data makes it difficult to assess the current level of deferred maintenance across the portfolio.[5]

The buildings within the portfolio are a mix of standardised and highly bespoke designs. While the Ministry has introduced guidelines and standards for new builds and refurbishments,[6] there is significant variation in the design and configuration of classrooms and other facilities. There is disagreement regarding the relative merits of cellular teaching spaces versus the current fashion for open plan Modern Learning Environments, typical of facilities built between 2011 and 2024. Many existing buildings are not accessible to learners with high needs, requiring $70 million in retrofitting and property modifications in 2022/23 alone.

Roles and responsibilities

School property is managed through a semi-devolved model

The Ministry owns buildings and land for state schools and maintains a landlord-tenant relationship with school boards on behalf of the Crown, with some exceptions.[7] Broadly, school boards are responsible for day-to-day maintenance and management of their property, while the Ministry's role is focused on operational planning, funding allocation and investment, and undertaking major capital works or redevelopment projects that are perceived as too large or complex for schools to manage on their own. Table 1 below sets out high-level roles and responsibilities for boards and the Ministry.

Table 1: High-level responsibilities for school property (Ministry and school boards)

	School boards	Ministry of Education
Network forecasts, planning, demand assessment, and prioritisation		✓
Budget, funding allocation, and investment		✓
Procurement and management of new schools projects and major redevelopments		✓
Preparing 10-Year Property Plans	✓	
Five Year Agreement (5YA)	✓	
Day-to-day management of school property, including cyclical maintenance	✓	
Minor capital works and upgrades	✓	

[4] SVCAs are quick visual assessments of school buildings by Property Advisors during annual site visits.

[5] The absence of data has a range of causes, including inconsistent record keeping by both school boards and the Ministry, and insufficient handover or continuity of business information throughout structural changes within the Ministry.

[6] The key documents and work programmes are *Designing Schools in Aotearoa New Zealand* (DSNZ), *Designing Quality Learning Spaces* (DQNZ), and a suite of reference designs released in 2021.

[7] Some school buildings are owned directly by the boards of state schools or are administered through a mixed-ownership model. The proprietors of state-integrated schools own their own buildings and land and receive some government funding to maintain or upgrade their buildings.

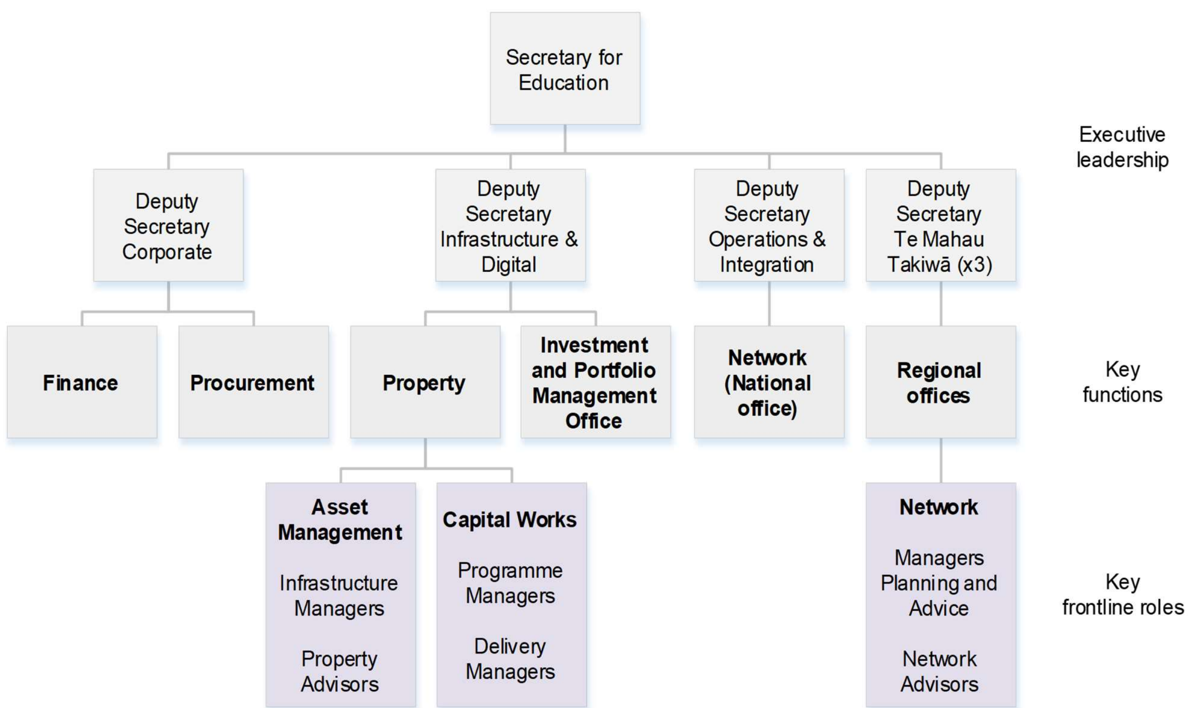
School boards are responsible for developing a 10-Year Property Plan (10YPP) that sets out property work to be completed over a 10-year timeframe. Schools then are funded for capital upgrades identified through the 10YPP process over a five-year cycle through their 5-Year Agreement (5YA), a formula-driven funding scheme based on their current roll and the physical area of the school. 5YA funding is provided for maintaining and upgrading existing facilities and does not provide funding for new buildings or expansions. Between 2011 and 2016, the Ministry implemented tighter requirements and rules for how 5YA funding may be spent and introduced a panel of approved project managers for school-led capital works projects. Schools are allocated a notional budget for their 5YA but must apply to draw down funding for specific projects.

Over time, the Ministry's role in the school property system has shifted from being primarily a funder to an asset manager, and the Ministry's internal resources and staffing levels increased to match this shift in its role and the size of its task. Approximately half of all capital projects are still delivered directly by schools. However, the Ministry directly manages all large and complex capital projects—including new schools, expansions, and redevelopments—accounting for 74 percent of capital spending on school property in 2022/23, up from an estimated 32 percent in 2013/14.

The Ministry's organisational structure

Responsibility for property planning, funding, investment, and delivery within the Ministry is distributed across several distinct business units in the current structure and operating model (see Figure 1).

Figure 1: Schematic view of internal Ministry property structure and key roles



Accountability for the management of school property rests with the Secretary for Education, who is also ultimately accountable for the management of all other aspects of the Education portfolio. In practice, responsibility for school property is delegated to the Deputy Secretary – Infrastructure and Digital, who is one of ten direct reports to the Secretary and is also responsible for digital services to the education sector and for school transport.

The Ministry has a dedicated Property team within its Infrastructure and Digital business unit, including 365 full-time equivalent roles (as of February 2024). The Property team is primarily a delivery and asset management function. Its responsibilities include growing, maintaining and replacing assets and delivering new facilities to meet demand, preserving and extending the life of assets, distributing property funding to schools, and undertaking major capital works programmes. It sets school design standards and guidelines for school property.

The Property group currently comprises two main delivery functions—Asset Management and Capital Works—and a range of national property service teams, such as a school design team and a land planning and acquisitions team. The Ministry is proposing to reduce its workforce by bringing its frontline property delivery functions together into three regional teams.

There are two key frontline roles within the Property group:

- Property Advisors are the primary relationship holders with schools regarding their property, and work with around 35–50 schools each to undertake condition assessments, property planning and compliance, and to identify and define investment needs and priorities for each school. The size of their workload varies, and one Property Advisor has a portfolio of 75 schools.

- Delivery Managers oversee up to 12 minor capital works projects or 6 major projects at any time and are responsible for supplier delivery and monitoring, project costs and financial oversight, and project-level reporting against key milestones.

Assessment of roll growth and demand across local schooling networks is managed by regionally based School Network teams, who each report to Te Mahau regional offices and have dotted-line relationships to a national network team within the Operations and Integration group of Te Mahau. Network analysis and advice is used to inform regional and national-level property investment decisions, including investment in land for new schools, and to inform other interventions to manage student demand (such as enrolment schemes and zoning).

Overall funding and investment settings across the portfolio, including capital injection through the annual Budget process, are managed by a central Investment and Portfolio Management Office (IPMO) that is itself separate from either the Property or Network functions. The IPMO consists of 62 full-time equivalent staff, which is expected to decrease to 56 by 1 July 2024. By its own description, the team is responsible for improving the transparency and accountability of school property investment, preparing business cases for new investments or projects, data and reporting on portfolio performance, lifting operational practice, preparing analysis and advice for Ministers, and internal governance.

As Property has become more integrated with the rest of the Ministry since 2017, other specialised teams that previously sat within EIS—including infrastructure policy, finance and procurement—have been incorporated into other centralised functions across the Ministry.

Internal governance, decision-making and reporting

The Ministry's Investment Board is tasked with setting the overall investment direction for school property and scrutinising investment decisions. It is chaired by the Deputy Secretary – Infrastructure and Digital and includes three regional Deputy Secretaries but no external members. The Investment Board devolves many of its day-to-day responsibilities to the Investment Board Steering Group (IBSG), which reviews business cases and variations to project budgets for all capital investments over $3 million and provides endorsements for delegated financial authority holders.[8] Secretariat and governance support is provided by the IPMO.

Since late 2023, the Ministry has taken steps towards greater regional governance of property investment decisions and to clarify the degree of regional influence on national prioritisation and investment decisions. This includes establishing three regional Governance Boards with oversight of programme delivery at a regional level. The Ministry has also created regional property plans setting out forecast growth, planned investments to respond to demand, and overall assessments of asset performance within each of the Ministry's three regions. However, the regional governance model has not yet matured or been fully implemented.

Other jurisdictions have different institutional arrangements for school property

There are different structures and institutional arrangements in place for managing school property in other jurisdictions (see Table 4), and we have considered these arrangements in developing our findings and recommendations, noting that there are important differences in the institutional form and function of departments and statutory entities in New Zealand.

Table 4: Comparative approaches to managing school property and education infrastructure

	Victoria	New South Wales	New Zealand
Number of state schools	1,613	2,209	2,117
Responsible agency	Victorian School Building Authority	School Infrastructure NSW	Ministry of Education
Type of agency	Departmental agency equivalent	Departmental agency equivalent	Government department
Leadership	Chief Executive, reporting to Secretary	Chief Executive, reporting to Secretary	Deputy Secretary

Agencies responsible for school property funding and delivery in the Australian states of Victoria and New South Wales sit within host departments, but are led by a Chief Executive (similar to the Departmental Agency model in New Zealand).

Funding, investment and financing

The Ministry is funded for school property through a mix of depreciation and capital injection

The Ministry receives two types of funding for school property:

- Depreciation – funding to maintain and upgrade existing assets (disbursed to schools through 5YA, supplementary funding, or Property Maintenance Grants; or used by the Ministry to fund redevelopment projects).

- Capital injection – funding appropriated through the Budget process for a specific purpose, such new schools and roll growth projects, regeneration, targeted maintenance or upgrade programmes, and other specific initiatives.

[8] Cabinet has delegated financial authority to the Ministry to approve school property projects up to $25m, while projects above this threshold must be approved by Ministers and projects worth $35 million or above must be approved by Cabinet.

Depreciation is allocated to different funding streams, with around $350m going towards 5YA, supplementary and targeted funding for school-led projects and $400m towards redevelopment projects to improve the condition of existing schools each year.

Historically, the Ministry has taken a formula-driven approach to distributing depreciation through 5YA funding, but this has been supplemented by a condition-driven asset management approach in recent years. The 5YA programme was established in 2000, but the funding rate per square metre has not been adjusted since 2010. While more depreciation funding has become available to the Ministry, increases in depreciation have not kept pace with the need for asset renewal across the portfolio and have not been consistently passed on to schools.

The Ministry relies on capital injections through the Budget process to support renewal, growth, and transformational investments across several flagship investment programmes, set out in Table 2.

Table 2: Flagship capital programmes and funding streams

Programme	Purpose
Roll Growth	New schools and teaching spaces, land acquisition and investment.
Christchurch Schools Rebuild	Fixing and renewing earthquake-damaged schools.
Learning Support Property Modifications	Modifications for students with learning support needs.
Transformation	Regeneration and transformative projects (e.g. Marlborough, Hāwera regeneration project).
Kura Kaupapa Māori programme	New schools and teaching spaces.
Other	E.g. North Island Weather Events remediation, decarbonisation, specialist schools, upgrades to small and remote schools.

Individual projects may be funded through a mix of multiple funding streams (e.g. roll growth and redevelopment) and therefore a mix of capital injection and depreciation. For significant capital investments, the Ministry uses a two-stage business case process based on Treasury's Better Business Case framework.

The Ministry has limited control over the use of maintenance funding by schools

In addition to their 5YA and supplementary property funding, schools receive a modest Property Maintenance Grant as part of their operational funding. The grant is provided for minor repairs and cyclical or preventative maintenance (such as painting). Schools can decide how to spend this funding. Except through routine condition assessments and the 5YA or 10YPP processes, the Ministry does not monitor schools' maintenance activities, their use of maintenance funding, or whether spending by schools on maintenance represents value for money.

Investment in school property has increased but so have costs and demand

Annual capital expenditure on the portfolio has increased significantly in the previous decade, reaching $1.77 billion in 2023/24. School property is the single largest departmental expense output in the Ministry. The book value of the portfolio has consistently increased through revaluation in recent years, but annual increases in depreciation funding have been low relative to increases in the book value of the portfolio. This has placed considerable pressure on investment.

Table 3: Size of school property portfolio, investment and staffing, 2012–2024

	2012[9]	2017[10]	2024
Number of state schools	2,300	2,100	2,117
Annual capital investment	$486m	$633.8m	$1.77 billion
Book value	$10.3 billion	$14 billion	$30 billion+
Property staff within Ministry	90	337	440+

While successive governments have invested significantly in the portfolio, the scale of delivery has not kept pace with demand and the portfolio faces significant affordability pressures. Unit costs for delivering school property projects have also increased, with the average cost for new teaching spaces now sitting at $1.2 million.[11]

Land acquisition, ownership, and leasing are becoming more complex

Land acquisition for new schools is currently funded from Ministry baselines and reimbursed through the annual Budget process, though this process may change.[12] However, in some cases, the Ministry leases rather than owns the land. The inclusion of school property in some Treaty of Waitangi settlements is expected to significantly increase the extent of leasing arrangements.

Through Treaty of Waitangi settlements with the Crown, iwi have entered arrangements to purchase and lease over 193 school sites back to the Ministry, comprising 644 hectares of land and resulting in $44.9m in leasing costs per annum. We were advised that around a third of historical claims have been settled so far and up to a fifth of school sites could be iwi owned and leased based on the current trajectory.

This development would have significant implications regarding the future management and operating costs of the portfolio. Existing funding for leasing commitments is already insufficient. While annual leasing operating costs should be funded from baselines, in recent years the Ministry has met leasing costs from roll growth funding through capital to operating swaps sought through the baseline update process.

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[9] Beca, *Review of Frameworks for School Property Management – Final Report*, September 2012.

[10] Office of the Auditor-General, *Managing the school property portfolio*, July 2017.

[11] This figure is calculated using total project costs, which includes the base build, all professional and consenting fees, and any site works required. Cost per teaching space is a blunt and arguably flawed metric for measuring construction costs as the Ministry does not maintain a fixed definition of a teaching space or classroom. However, the cost of delivering school property has demonstrably increased along with the rest of the non-residential construction sector. According to Ministry data, the average national net build cost for New Build and Roll Growth Teaching Spaces increased from $4.24k per square metre to $5.88k per square metre, noting that a greater proportion of multi-storey buildings were constructed in 2023 compared to 2021 (34% in 2021 to 56% in 2023). .

[12] Cabinet Office circular 23(9) places greater restrictions on the use of depreciation funding. As a result, the Ministry will likely need to develop alternative financing arrangements and shift away from the reimbursement model.

Charter schools will have different funding arrangements

The coalition Government's plan to develop charter schools will have some funding and financing arrangements relating to school property. If a state school converts to a charter school, the Ministry will retain ownership of existing land and buildings. Sponsors of charter schools will be responsible for their property and have discretion to determine leasing arrangements. However, decisions relating to property funding for charter schools, as well as the property arrangements for converted state schools, have not yet been finalised by Ministers.

What we found

The scale of the problem

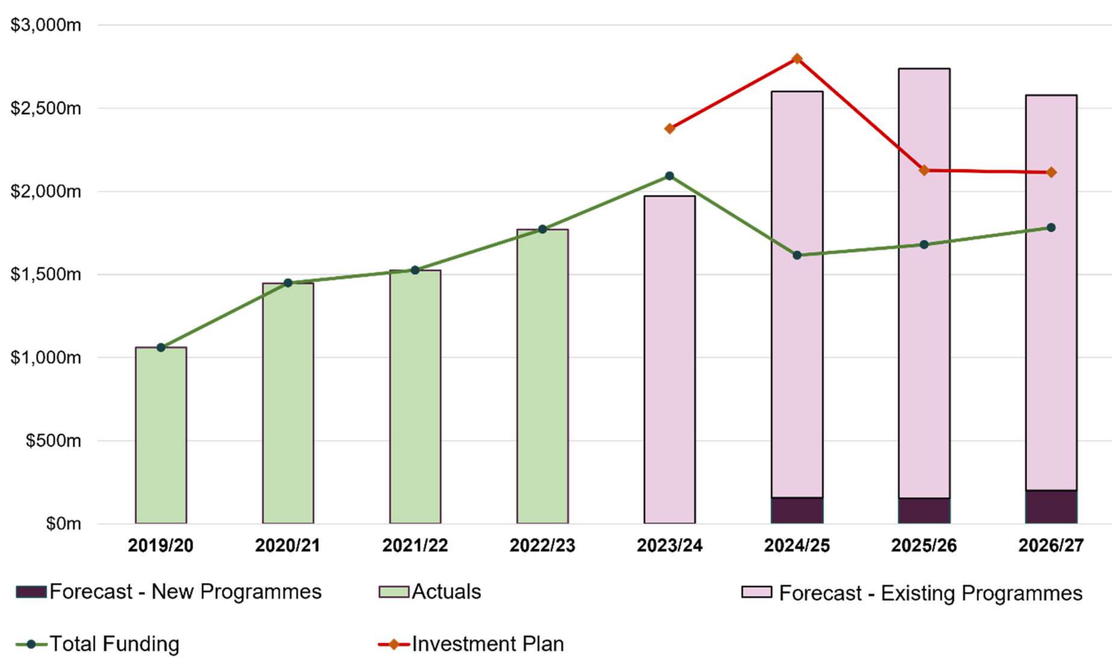
In reviewing the Ministry of Education's school property function, we found a complex structure, inefficient processes, inflexible funding, an overly risk averse culture, leadership focused on managing political risk, and a lack of accountability and transparency. This has come at the expense of optimising for outcomes and value for money.

Despite significant investment in the school property portfolio in the last decade, these factors have led to an unbridgeable gap between expectation and delivery. In particular, the Ministry told us that:

- As of February 2024, $6.5 billion in funding will be required to complete the 488 projects in the Ministry's major works pipeline, of which only 153 are currently fully funded.
- This will require $2.8 billion of additional capital funding (in addition to the $3 billion already allocated to projects, and not including capital charge or depreciation) across major programmes and a further $700 million from baseline depreciation for condition-driven projects.
- The Ministry faces a steep increase in compliance costs associated with water services and seismic strengthening, as well as increased leasing costs due to ongoing Treaty of Waitangi settlements.
- The average cost of a new classroom, already at $1.2 million, is projected to increase to $1.8 million for projects started between October 2023 and June 2026.

This is unsustainable. By November 2023, the Ministry was projecting a significant shortfall in funding for planned investments across its investment programmes (see Figure 2).

Figure 2: Forecast investments and funding for school property by year, as at November 2023 (2019-2027)



The graph in Figure 2 does not include a further $1.5 billion (including $608 million in capital funding) across four years appropriated through Budget 2024. The Ministry could not tell us how far this uplift in funding would go towards closing the gap between forecast spending and available funding, and that further analysis is required to understand the impact of additional capital funding provided through Budget 2024.

Ministry officials were candid with us about the significant investment required to bring the school property portfolio up to an acceptable standard and meet the expectations of the sector. However, in the absence of reliable data on the condition of the current building stock, we are unable to quantify the exact shortfall in investment. Anecdotal estimates that we sought from Ministry staff ranged from $5 billion to $15 billion.

What we heard from schools

Many schools and kura across New Zealand shared their school property experiences with us. While each story was different, several clear themes emerged. School leaders told us that while there are many capable and hard-working people within the Ministry's property function, the system is not delivering the right outcomes for schools and value for taxpayers.

Schools and boards have varying levels of capability

We were consistently told that that school boards have widely varying levels of capability when it comes to managing their property. Many schools (especially smaller or remote schools) do not have the capacity, skills, or resources to plan for multi-year capital works programmes and undertake preventative and reactive maintenance to keep their properties in good condition. Some compliance requirements, such as water testing, can create an undue administrative burden for schools.

School boards, whose members are typically parents appointed for a three-year term, are not always actively engaged in managing school property or in a position to make effective decisions on the long-term viability of intergenerational Crown assets. We heard many examples of preventative maintenance being deferred because boards use maintenance funding to relieve other operational pressures that have a more direct effect on student outcomes (such as staffing or curriculum). Some school leaders told us that they had inherited schools in poor condition due to decisions made by successive boards.

While boards, not principals, are nominally responsible for management and administration of school property, in practice this task often falls to principals. Managing school property can be time and resource intensive for principals and can easily become a distraction from their core focus on teaching and learning. As a group, principals also have varying levels of experience and knowledge: nearly two-thirds of the current workforce have been in the role for less than ten years and more than half have less than five years of experience. As a result, many principals are not adequately equipped to manage complex capital works programmes or coordinate cyclical maintenance for their schools, and there are limited opportunities for sharing resources or expertise among schools except through informal channels.

Schools want different kinds and levels of support

Some schools can manage their property effectively on their own and want minimal intervention or support from the Ministry to do so. There are many examples of effective property management by schools across the system and some schools can draw on a wealth of expertise and resources in their boards and wider communities. In general, these schools want greater autonomy to manage their property according to their individual needs and capability.

Many principals were of a different opinion. They told us that school property is an administrative burden, and that they want more support from the Ministry and their board to manage school property. There are varying views on the right level of support or intervention from the Ministry, but there is broad agreement that the current system provides an insufficient degree of flexibility.

Kura Kaupapa Māori are not well served by the current system

A lack of flexibility within the school property system is also an issue for kura. We heard that a formula-driven approach to school property investment has not worked well for Kura Kaupapa Māori, which consist of smaller kura and have different demand and growth patterns compared with English medium schools.

While there has been significant capital investment in Kura Kaupapa Māori property in recent years, with more than $145 million spent on growth and condition projects since Budget 2019, we heard that a combination of inadequate asset management and a lack of investment remains a barrier to the growth of the sectors and that many kura have a significant deferred maintenance backlog due to historic underfunding.

We also heard that there is limited capacity and capability within the Ministry to engage meaningfully with Kura Kaupapa Māori, with inflexible processes and funding mechanisms. For this reason, much of the sector wants more latitude to manage capital investment and funding in property according to its own needs and priorities.

There is low trust between the Ministry and the sector

A consistent theme in our discussions with principals and boards was the low trust schools place in the Ministry's property function to deliver the timely solutions they need. There is a sense of wariness and mistrust towards Ministry leadership among some school leaders, many of whom feel that they need to advocate strongly—sometimes through public channels—on behalf of their schools to get the right support or investments at the right time.

Some school leaders noted that high turnover and workloads among frontline Ministry staff prevent them from developing durable, trusting and effective relationships with the Ministry's property team. School leaders we talked to told us that siloes and personnel changes within the Ministry create an additional administrative burden for them and their schools, as it requires them to tell their story multiple times to different frontline staff.

While there are many effective and capable staff working within the system, frontline property staff carry excessive workloads and do not always have equal capability or skill levels. Each Property Advisor manages a portfolio of 40-60 schools, making it difficult to get the right property support to schools when and where it is needed. We even heard that some schools choose not to use their Property Advisor at all because they do not believe frontline staff are equipped with the right skills, influence, or authority to do their jobs.

Schools receive different levels of service from the Ministry

Understandably, there is frustration and mistrust among school leaders about how resources are allocated and the logic that underpins the Ministry's investment decisions. Principals and teachers told us about their frustration with teaching in aging or rundown buildings while other schools (including many schools in affluent communities) get new, bespoke, or expensive facilities.

There is a widespread perception that allocation of school property funding is a postcode lottery and that schools do not have equal opportunities to upgrade their facilities or access to the same levels of service. This is particularly true of schools in areas with stable or declining populations, where there may not be the case for investment in new facilities.

Schools experience a lack of transparency and poor communication from the Ministry

Schools consistently told us that they wanted greater clarity about the Ministry's prioritisation methodology and decision making, which they perceive as inward-looking and opaque. Schools involved in planning major redevelopments or expansions are rarely given clear and consistent advice regarding project budget or where they sit as a priority relative to other projects. Schools consider that investment decisions are based on their ability to influence Ministers, local politicians, and senior leaders rather than a set of defensible, consistent and equitable criteria.

Schools experience poor communication about the status of their projects and the overall pressures on the portfolio. There is a pattern of obfuscation around the Ministry's commitment to individual projects, as well as a handful of recent examples where schools were informed about scope changes or delays to their projects only weeks before they were due to break ground. While the Ministry must manage a large pipeline of projects and relies on capital injections through the annual Budget process, and must therefore exercise judgement in setting (and sometimes resetting) investment priorities, the rationale and evidential basis for prioritising, staging, and allocating funding to projects are not well understood by the sector.

Case study: Kaipara College Innovation Centre	The Ministry had been working with Kaipara College on a planned 'innovation centre' project since 2017. The scope of works for the project included 14 technology classrooms and a range of other property improvements across the College site, including an upgrade of the special education unit and a new whare ako. The design of the innovation centre was aspirational, and the planning and design phase of the project involved substantial input from the College's board chair and principal. The project and initial design plans were endorsed by the board in December 2022. The project was due to be funded through a mix of roll growth and redevelopment funding, with a total budget of $25.5 million. The case for investment in the new facilities was based on roll growth projections prior to the Covid-19 pandemic. Kaipara College is also a significant hub for technology classes for neighbouring contributing schools, and the Ministry recognised a need for strengthened technology provision in the area. A business case for the innovation centre was approved by the Ministry's Investment Board in March 2023 and then by Cabinet on 26 July 2023. In August 2023, the Ministry's delivery manager informed the College that Cabinet had approved funding and that funding would be drawn down so the project could progress to construction. Once the project had been fully designed and consented, the Ministry sought revised pricing from the contractor, which was received on 3 November 2023. While the tendered price was not inconsistent with the original project budget, the Ministry notified the College that the project would be paused just weeks before enabling works were due to start, citing the high cost of the project and a decline in new enrolments and student numbers in upper year levels. It pointed out that the expected roll growth identified in the business case had not materialised.

In December 2023, the Secretary for Education apologised to the College for the Ministry's handling of the decision and communication regarding the project. The letter acknowledged that "the high costs of the Innovation Centre project relative to other builds have been known about since early this year, and should have been raised with your Board as a potential risk to the project at that point. Instead, the right level of scrutiny of these costs was not applied until late in the process, when the contract was about to be let."

There are several aspects of this case that strike us as significant:

- Poor communication with the College, driven by a lack of transparency around funding, prioritisation, and risk.
- The relatively siloed approach within the Ministry to the assessment of enrolment numbers and future demand (which sits with the Network team), the case for investment and business case development (which sits with the Investment Office), and project delivery and accountability (which sits with the Capital Works team).
- The absence of meaningful project oversight and cost controls, so that the relatively high costs of delivering the project were not flagged as a risk until the point of contract award.
- The general lack of accountability from the Ministry.
- The aspirational nature of the project, reflecting the significant involvement of the board and the school in defining the scope of works and specifications for the design.
- The lack of incentives in place for the College to limit the scope of the project and bring costs down, and the lack of fiscal discipline applied by the Ministry in assessing the affordability of the proposed solution.

Funding for school property is inflexible and insufficient

The current funding provided to schools and kura to maintain, upgrade and modernise their buildings is too low, and this has contributed to the variable and often poor condition of assets in the portfolio. We heard that some schools resort to using their operational grants on property maintenance, meaning that routine maintenance comes directly at the expense of teaching and learning.

While the Ministry has put clear rules and processes in place to ensure that 5YA funding is used for its intended purpose (i.e. capital upgrades and modernisation of existing facilities), principals also described lengthy and bureaucratic processes to draw down funding and appoint suppliers for school-led projects, which in turn adds time and cost to individual projects. Over time, the Ministry has introduced other discretionary funding mechanisms—such as Supplementary 5YA funding—to address the limited funding available through the 5YA.[13] However, this has added further complexity into an already complex system.

[13] Supplementary 5YA funding has existed in various forms since 2002 and is an amalgamation of Budget Plus (introduced in 2002) and Supplementary Funding (introduced in 2016).

Demand forecasting, investment, and delivery are not well connected

Many schools and kura were critical of the Ministry's ability to plan for and meet future need, especially with respect to roll growth. While we found that the Ministry has clear frameworks and methodologies in place to forecast demand and manage utilisation across the network, these are not consistently applied. There is often a significant lag between the identification of roll growth pressures and the delivery of additional teaching spaces to prevent overcrowding, with some schools waiting up to 18 months for the delivery of prefabricated teaching spaces. We are concerned that delays in delivering school property solutions may be used as a mechanism to manage roll growth pressures at high-performing schools.

There is a view among many schools and kura—particularly in high growth areas like Ormiston, Rolleston, and Pōkeno—that the Ministry's roll growth forecasts and catchment modelling do not always reflect the facts on the ground. We heard that there needs to be a more joined up approach to network planning and provision both nationally and regionally, as well as greater collaboration between the Ministry and local councils, developers, and social housing providers to ensure that capacity is delivered in the right place at the right time, and that land for new schools is purchased as early as possible.

Where there is a material dispute between the Ministry's Network function and schools, there should be a clear process for resolving these disagreements, moderating between the different interests and areas of focus of the groups. The current arrangements run the risk of leaving a school's property needs unattended for a significant period. The fact that Network operates outside the Property division of the Ministry clearly contributes to the current problems and we recommend creating an organisational structure that brings these business groups together.

Case study: Ōmokoroa new schools project	The Inquiry Panel reviewed the history of a proposed new primary school and a secondary school on Prole Road in Ōmokoroa, Bay of Plenty. The then-Minister of Education announced that construction of the new schools would begin in March 2023. Ōmokoroa includes several housing developments and forms part of a fast-growing catchment in the Ministry's National Education Growth Plan, which was developed in 2019 to plan for the delivery of 100,000 additional student places by 2030 and manage growing demand across the network. There is significant community interest in the project due to the long travel times for students to access other secondary schools in Tauranga. The new schools were expected to provide capacity for 350 students in the primary school (Years 1-6) and 800 students in the secondary school (Years 7-13). Seed funding for the project was provided through Budget 2022, with funding for construction due to be provided through future budgets. New schools are typically supported by an Establishment Board, but by 2024 an establishment board for the new Ōmokoroa schools had not been appointed. Nevertheless, a masterplan for the schools was developed and existing dwellings on the site were demolished to make way for future construction. At the same time, in early 2023 the Ministry began a review of its New Schools commitments according to need, roll growth demand projections and supply-side projections (such as the availability of short-term roll growth teaching spaces at neighbouring schools). This review identified

that there is sufficient capacity at nearby secondary schools in the near term and that the Ōmokoroa new schools project should therefore be deprioritised. As a result, the Ministry recently announced that the project would be put on hold.

In reviewing this case in the context of the Ministry's revised New Schools prioritisation framework, we observed that:

- There was a significant degree of political influence in setting and raising community expectations around the project, and Ministers were able to announce a timeframe for construction before funding for this stage of the project had been secured or committed.
- Ōmokoroa is one of 29 projects in the New Schools Programme that have no construction funding, reflecting an assumption of continuous capital injection through future Budgets.
- This degree of uncertainty over future funding or investment, combined with elevated community and school expectations, has created an unsustainable pipeline of New Schools projects in planning and design that the Ministry cannot deliver.
- There is a lack of proactive and transparent communications to manage community and school expectations around project delivery.
- The project should not have been considered an immediate priority in the first place, considering that the Ministry's analysis showed sufficient capacity at nearby schools.
- There is a disconnect between demand assessment and investment. Moreover, the Ministry has not implemented a mature or integrated approach to network planning, land acquisition, delivery, and interventions to manage student demand or enrolments.

There is excessive time spent on planning and design

The Ministry has tended to invest in the initiation, planning, scoping and design of school property projects at the expense of timely and efficient delivery. We heard numerous stories about projects that were years in planning and design, often with significant spending on architects or consultants, without ever breaking ground. At least one secondary school we spoke to has been waiting since 2008 for its planned redevelopment. Many projects have had multiple masterplans, concept designs or Geotech reports commissioned without substantial changes to the design or assumptions behind the project. This issue has been exacerbated by high turnover among Ministry staff.

School leaders told us that, historically, the Ministry has given considerable latitude to them and their boards to define their own requirements and needs, and that there tends to be prolonged engagement with schools during project scoping and problem definition. We reviewed several examples of elaborate 'education briefs' used to define the schools' vision and aspirations for teaching and learning. While delivery managers and Ministry-appointed architects have often been extremely receptive and responsive to the stated needs or aspirations of individual schools, this has added significant cost, time, and complexity into relatively simple projects that may have been delivered through a standardised or repeatable solution.

The role of architects in the system needs to change

We heard that architects contribute to scope creep and their involvement in projects can generate significantly higher build costs, on top of high professional fees. Schools feel they have limited visibility of the process for appointing architects for Ministry-led projects, and that many architects are appointed to projects without significant experience in designing school buildings. For many years, architects appointed to Ministry-led projects have shown a tendency to produce designs that are over-scoped or over-specified, and frontline property staff do not always have the technical knowledge or ability to challenge these practices or apply the right level of scrutiny early in the process. The absence of an identifiable budget holder function has contributed to outcomes that represent poor value for money.

Many bespoke designs exceed what is necessary for simple, functional and fit-for-purpose facilities. We heard that schools have been engaged in producing detailed briefs on their aspirations and pedagogical approaches during planning and design. Some new builds based on a bespoke design carefully reflect the needs or aspirations of their schools and perform well in many respects. However, we also heard that bespoke or high-specification designs can create unexpected operational issues, as well as a significant ongoing maintenance burden for schools. This approach has also repeatedly set high expectations that could not be met.

Even where new projects are based on a standard or reference design, there can still be significant intervention or bespoke elements which add time and cost to the project and prevent the Ministry from realising efficiencies or economies of scale. Some all-of-government requirements for new builds, such as Green Star design standards for projects over $9 million, can add further costs that outweigh relative benefits.[14] There is a clear desire among principals and boards we spoke to for simple, functional, and healthy facilities rather than award-winning architecture.

Internal structure and processes

We were presented with consistent evidence that the Ministry, as it is currently configured, is not delivering value for money for taxpayers or the timely solutions that schools need. Its organisational structure for managing school property is overly complex, which has created unclear accountabilities and slow, inefficient processes involving multiple business units. The prioritisation frameworks in place are not robust, transparent, or well established, and these problems are compounded by a lack of external scrutiny and oversight of investment decisions. Where the Ministry has identified opportunities to achieve better value through its investments, it has not managed to scale these up to deliver their full potential.

It is clear to us that these issues are systemic rather than isolated, and structural rather than based on individual actions.

The Ministry's organisational structure is complex

As the Ministry's role in school property has grown and evolved since 2012, supported by significant increases in the scale of investment in the portfolio, the Ministry's internal structure for managing this task has become more complex. We found that accountabilities for managing different aspects of

[14] The Ministry told us that it does not have sufficient cost management data to quantify the impact of Green Star standards or certification on new school buildings. However, the UK Green Building Council estimated the potential cost uplift to meet Greenstar at 3–17 percent.

property planning and delivery are spread across many distinct business groups, with little integration or coordination of the overall task or end-to-end processes.

Some aspects of the organisational design are intended to create productive tension in the system, such as the status of regional offices as the internal ‘customer’ of national delivery functions. One example of this is the separation of Network teams from the Investment and Portfolio Management Office. In our view this has created an unhelpful disconnection between the analysis of demand and any consideration of the affordability of property solutions, which in turn leads to a lack of transparency and accountability within the Ministry for both investment decisions and communications with the sector. This separation of responsibilities also means that non-property solutions to managing roll growth pressures (such as enrolment zones) are not always fully considered.

Because the Ministry’s infrastructure procurement and capital financing are managed by central corporate teams rather than specialised teams within the Property group, as had previously been the case, no single group maintains end-to-end ownership of—and accountability for—individual projects within the Ministry’s capital works pipeline. In this way, the Ministry’s internal structure for managing school property diffuses accountability, reinforces organisational siloes, and prevents the Ministry from developing an integrated and coherent view of its investments and priorities.

Internal processes are time consuming and inefficient

The Ministry’s internal processes for endorsing and approving individual projects at key stages of initiation, planning and delivery are lengthy and complex. We found that the Ministry has developed elaborate and involved internal processes that add time to projects without necessarily providing adequate assurance or controls to manage the risk of time or cost overruns. Staff told us about siloed teams and the inefficiencies they encountered during interactions with multiple disconnected business units and internal stakeholders, each of whom has different and often misaligned objectives, priorities, and interests.

The Ministry uses a six-stage process from initiation through to handover and project close-out. In 2021, the Ministry assessed its end-to-end delivery process for capital projects and found that over one hundred individual endorsements or signatures were required in typical projects.[15] The complex authorising environment within the Ministry has added significant time and cost for all school property projects, but particularly for Ministry-led projects. Paradoxically, a reliance on excessive approval chains seems to have decreased scrutiny applied to individual funding or investment decisions.

One of the approval steps for capital projects is a design review by an external panel of architects, structural engineers, geotechnical engineers, building services engineers, and quantity surveyors. Design reviews are mandatory for all Ministry-led capital projects over $3 million. The stated purpose of the design review process is to provide quality assurance and promote consistent standards across the portfolio, and the Ministry told us that this process has resulted in savings in a range of projects. However, we heard consistently that this process is labour and resource intensive for frontline Delivery Managers, adding up to six months to the timeframe for a project and substantial cost. While there is a clear need for assurance and compliance, as well as external scrutiny of project costs, the design review process has been ineffective due to the Ministry’s over-reliance on bespoke architectural designs.

Procurement processes add considerable time and cost to projects

Many staff raised procurement as an example of an area where procedure and process appear to have been prioritised at the expense of focus on outcomes, efficiency, and value for money. Of the over 100

[15] Aurecon and Ministry of Education, *Capital Works Delivery Process and Quality Assurance Review*, November 2020.

signatures or endorsements required in a typical Ministry-led project, 70 percent of endorsements or approvals occur during procurement of construction services or professional services. (By comparison, fewer than 10 percent of approvals occur during the business case stage.)

There is a perception that a pedantic and bureaucratic approach to applying the Government Procurement Rules has hindered the proactive management of construction suppliers, and that the Ministry has not implemented clear feedback loops to account for suppliers' previous performance during future tender processes. There is also anecdotal evidence of complex subcontracting arrangements that carry significant transactional costs.

Stewardship of the portfolio has been suboptimal

While ownership of school property largely sits with the Ministry, stewardship of the portfolio is shared with school boards. The Ministry's role as an asset manager has not been well defined or translated into clear and consistent systems and practices, and this has meant that overall stewardship of the portfolio has been suboptimal. The 10YPP and 5YA processes are largely outsourced to third party consultants, giving the Ministry little control over condition assessments, problem definition and scoping. The quality of 10YPP documents is also highly variable, and individual plans may not accurately capture the condition of existing assets or the need for current and future investment. The whole-of-life costs of specific property interventions or investments are not consistently considered.

The quality of data held by the Ministry on its current building stock and the condition of assets within its portfolio is poor, exacerbated by a lack of asset information at both the school and portfolio levels. We found that the Ministry does not maintain a comprehensive asset register or hold sufficiently granular data on the condition of the portfolio, preventing clear planning for current and future needs. Property Advisors undertake basic visual assessments of building stock during annual site visits, but the Ministry typically relies on reactive rather than systemic condition assessments to inform significant investment decisions.

The Ministry has a programme underway to improve the quality, availability, and consistency of asset condition information, but these systems need further investment and are several years away from being rolled out to all schools. In the meantime, simple data on asset condition and performance (such as the number of teaching spaces at a school) is sometimes not readily available or reliable, and there are often multiple data sources for condition information with no single source of truth. Many staff and senior leaders we spoke to told us that the low quality of data on existing building stock is a persistent barrier to effective planning and delivery. Given the size and condition of the portfolio and the limited of funds available for refurbishment or replacement, reliable evidence and data is necessary to ensure that interventions represent value for money.

Investment has been focused on replacement rather than maintenance or refurbishment

The system and investment settings for school property in recent years have been oriented towards replacement or new builds rather than maintaining and refurbishing existing buildings, and this has contributed to a significant backlog of deferred maintenance and an over-reliance on significant redevelopment projects. While there is recognition among many Ministry staff that the Ministry's focus needs to shift towards improving and extending the usable life of existing assets instead of building new facilities, flagship investment programmes such as the National School Redevelopment Programme (NSRP) have concentrated investment in a series of large interventions and redevelopments at a small number of schools.

It is our view that a more active facilities management and maintenance approach—focused on small, simple and repeatable maintenance solutions at a large number of schools—would minimise the need for significant and expensive redevelopments and rebuilds.

The Ministry has not leveraged opportunities to achieve value for money

We observed some pockets of good practice within the Ministry, as well as some innovative approaches to delivering school property solutions that are minimal, functional and cost-effective. For example, we were impressed by the Ngā Iti Kahurangi programme, which provides upgrades to internal learning environments at around 760 small and isolated schools. The programme offers a clear example of how economies of scale can be leveraged to lower unit costs while extending the useable life of existing assets. However, it is clear to us that the Ministry has not managed to scale up this approach or replicate its success in its larger investment and delivery programmes.

The Ministry has also rolled out a facilities management pilot in Waikato to centralise some maintenance services and leverage scale to achieve cost efficiencies. This approach appears promising but is yet to be tested at scale.

Case study: Upgrades for small and remote schools	The Ngā Iti Kahurangi programme was introduced in January 2022 to upgrade small and remote schools, who often struggle to access professional services and trades at a competitive rate. The programme helps rural schools improve lighting, noise, temperature, and energy efficiency. Improvements include LED lighting, acoustic panels and thermal insulation in ceilings. The programme also installs residual current devices and supports state primary schools to update their Asbestos Management Plans. As of March 2024, the programme has delivered 358 upgrades, with 332 further projects underway. The programme uses a centralised procurement and delivery model, and analysis shows that this model is twice as cost-effective as a school-by-school led delivery approach.

Other opportunities to drive value for money and leverage economies of scale have not been adequately exploited or are not delivering the efficiencies or savings that they should deliver. The Ministry introduced a suite of reference designs for schools in 2021 but could not tell us how many projects in 2023 were delivered through a repeatable or standardised solution.[16]

The Ministry has also scaled up its Offsite Manufactured Buildings (OMB) programme considerably since it was established in 2016.[17] OMBs are demonstrably cheaper than so-called 'traditional' builds, with average net build rates coming in 14.8 percent lower than the national average for other construction methods.[18] Projects with OMB components typically have shorter on-site construction timeframes and fewer contract variations.

However, without bulk purchasing and cost-effective, standardised designs in place, the Ministry is unlikely to realise the potential savings of these methods and there is a great deal of anecdotal evidence that schools are still able to deliver teaching spaces at lower cost through direct sourcing from OMB suppliers (in some cases, for as low as $400,000 per classroom). We found that the Ministry does

[16] Reference designs are easily repeatable designs which can be referred to, depending on the specific project need. A standard (or standardised) design is a fully resolved design to be copied, with little or no adjustment. Reference designs imply flexibility to address site-specific constraints and the educational requirements of the school.

[17] In 2023, there were 62 completed projects in the OMB programme, delivering 191 new teaching spaces in total.

[18] Based on single-level buildings with teaching spaces as the primary function. MoE Cost Management Initiative, *Construction Cost Report 2023*.

not own the intellectual property associated with its OMB programme, and that it has not been able to control the supply chain, procure components or products in bulk, implement standardised designs, or effectively manage its commercial relationships with suppliers.

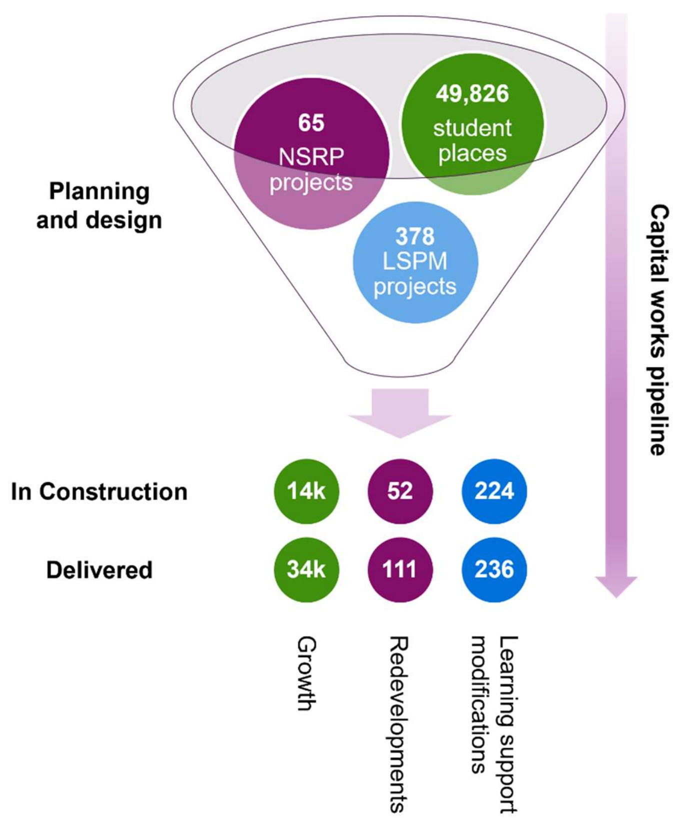
Prioritisation and pipeline management approaches are not sufficiently robust

We found that the Ministry uses a 'hopper' approach to property investment and delivery, with more projects in planning and design than in construction at any given time (see Figure 3 below). Shovel-ready projects are released into construction once funding becomes available.

While projects in planning and design are typically subject to future Budget decisions, the Ministry's pipeline management approach and investment planning have typically assumed an abundance of future capital supported by significant year-on-year capital injections into the portfolio. The Ministry has historically relied on baseline reserves to smooth cashflows and underwrite growth and regeneration, with spending from baselines reimbursed through subsequent Budget injections.

This approach was always going to be unsustainable. The assumption of consistent capital injection through future Budgets, combined with a large number of projects in planning and design relative to the number of projects in construction, has undoubtedly contributed to a widening gap between expectation and delivery within the system. While a 'hopper' approach may be effective and provide a steady supply of shovel ready projects, it needs to be supported by robust forecasting and cost management at both a project and programme level. This has not happened. Inadequate project reporting and forecasting has exacerbated uncertainty around future cashflow and investment, leading to an unsustainable capital works pipeline and a large backlog of unfunded projects.

Figure 3: 'Hopper' approach to pipeline management, by investment programme (as at 31 March 2024)



These problems have been compounded by a lack of clear frameworks and methodologies for prioritising projects against key metrics (such as asset utilisation or condition). We reviewed the current prioritisation frameworks for growth or condition-driven projects and noted that Ministry is taking steps towards a more robust national prioritisation framework across its flagship investment programmes. However, this is yet to be fully embedded in its processes or clearly communicated to schools.

Although the Ministry uses a two-stage business case process for moderate or major investments, we were not satisfied that these decisions are based on quantification of need, costs, benefits, and risks. Rather, many major investments—including in costly transformational projects—are justified by ad hoc assessments of community demand, school aspirations, roll growth, or asset condition. This is especially true of investments that are politically driven or based on Ministerial intervention, such as the Marlborough schools co-location project.

Leadership and culture

A greater focus on value for money is needed

In view of the limited funding available for school property, Ministers, taxpayers, and schools need confidence that the existing funding for school property is being used efficiently and that future investments in the portfolio represent value for money.

In September 2023, the Ministry initiated ‘value for money’ reviews of 352 projects in the pre-construction phase at 305 schools. The focus of these reviews was on driving down costs by substituting components, greater use of repeatable designs, using network solutions, or scrutinising demand forecasts. Officials told us that the initial results have been promising, with around $900 million in potential savings and deferrals identified across 200 reviews completed so far (as at 12 June 2024).

However, we are concerned that the Ministry did not prioritise value for money in its planning for these projects from their inception. Both senior leaders and frontline staff told us that the Ministry is moving in the right direction, and that staff were more inclined to apply scrutiny to costs and ensure the disciplined use of public funds than they may have been in the past. However, we heard that a focus on value for money has not been core to the culture of the Ministry’s property group, partly due to the ready availability of capital funding in recent years.

Accountabilities are not clear or well understood

As we note above, the Ministry’s organisational structure has created diffuse responsibilities and accountabilities for different aspects of school property planning and delivery. While a complex structure is not necessarily a problem, it was not clear to us that the Ministry’s property staff understood their roles in relation to an overall structure or distribution of responsibilities and accountabilities.

For instance, while most staff identified frontline Delivery Managers as responsible for the delivery of Ministry-led capital works projects, there was a degree of confusion or disagreement among staff about which roles were budget holders or ultimately accountable for ensuring projects were delivered on time and within budget. Conversely, Delivery Managers themselves find their capacity to deliver projects stifled by multiple layers of governance and approvals that add little value.

There is a lack of external oversight and scrutiny

We found that although the Ministry has a range of governance structures in place to scrutinise investment decisions, these processes are not always adhered to and the overall maturity of internal governance for property within the Ministry needs improvement. For example, we were surprised that there is no external representation on the Ministry’s Investment Board, and that the board is chaired by the Ministry's Deputy Secretary – Infrastructure and Digital. Given the significant investment in school property (over $1.7 billion annually) and material risk to educational outcomes posed by poor investment decisions, ineffective planning, or under-delivery, we would expect to see a greater degree of external scrutiny and oversight.

The progressive shift towards greater regional governance and accountabilities is encouraging but is unlikely to be sufficient to ensure that national investment decisions reflect both evidence on the ground and a set of nationally consistent and defensible criteria. However, a persistent tension between regionalism and centralisation is a significant factor in the Ministry's internal culture and differences in perspective between regional and national office staff can contribute to inconsistent priorities and differences in operational practice.

The Ministry is risk averse and focused on minimising noise

A system focused on efficient delivery, particularly if it has a significant commercial component, thrives on innovation and some tolerance for risk. However, a clear theme in our engagements with both Ministry staff and schools was the Ministry's highly risk averse and hierarchical culture which, in emphasising compliance and minimising reputational damage, slows decision making and increases transaction costs. One significant example of this is the Ministry's land acquisition and investments programme, where the Ministry is often forced to purchase land in high-growth areas at substantial additional cost because it is unwilling to secure new sites early, largely out of an abundance of caution regarding demographic growth patterns.

The Ministry is not unusual among Government departments in displaying a risk averse culture or an interest in minimising negative press and political risk. However, both schools and Ministry staff we spoke to found senior leaders overly responsive to external media or political pressure. This incentivises school boards and principals to escalate to Ministers, local Members of Parliament or senior officials when faced with delays, reductions in scope, or unwanted changes to their projects. In our discussions with schools, many noted that those who were able to mobilise local politicians or media in support of their case were the most likely to see progress with their projects.

We frequently heard that there is a culture of fear around escalation from schools among staff, who told us that if the property group had an organisational mantra, it would be 'stop the noise'. This places frontline staff in an invidious position. They need to maintain positive and credible relationships with schools, while holding the line on some unwelcome decisions. Staff told us that their credibility is undermined and that they feel disempowered when decisions made at a regional level are reversed by senior leaders. This unhealthy organisational dynamic has clearly had a detrimental effect on the openness and transparency of the Ministry's decision making and routine interactions with schools.

Case study: Marlborough schools co-location project	The plan to co-locate three Marlborough schools is in some ways an atypical and extreme case, yet it is also entirely symptomatic of a system that lacks clear accountabilities and cost controls, is susceptible to political pressure, and displays limited transparency. The Ministry identified a range of condition issues at Marlborough Boys' College and Marlborough Girls' College between 2011 and 2013. Up to 60 percent of the buildings at each school were identified as requiring extensive investment. The Ministry consulted with the community in 2013 on a range of different options for secondary education in the region, with 63 percent supporting co-location on a single site.

In 2015, the then Minister of Education announced that the Colleges will be co-located. The co-location was described as a ‘transformative’ opportunity to improve collaboration, education delivery and increase curriculum offerings, while addressing existing condition issues.

A range of decisions were taken by Ministers to proceed with the project over the next few years, despite steadily increasing costs, complexity, and scope:

- In 2015, the Ministry prepared a business case setting out multiple options, ranging from remediation of existing facilities to co-location on a single site.

- In October 2015, Cabinet approved the Ministry spending $63.5 million on the project, subject to the acquisition of a suitable site.

- In 2018, Cabinet approved the Ministry to spend $170 million from its own baselines to co-locate both schools on the current site of Marlborough Girls’ College and the adjacent Bohally Intermediate School; and to relocate Bohally intermediate to the site of Marlborough Boys’ College.

- In 2020, a revised Deloitte business case provided an updated cost estimate of $251 million. The business case nevertheless recommends continuing with the co-location to provide benefits such as ‘local workforce building’ and satisfy community aspirations.

- By 2022, the forecast cost had increased to over $400 million, leading the Project Governance Board to initiate a scope review and resulting in a revised cost estimate of $380 million.

In the meantime, the Ministry and its consultants were engaging with schools, iwi and the local community in a way that kept community and schools’ expectations high. The project was promoted using a public website, and milestones during the design phase were marked through public events (such as a blessing ceremony) that kept anticipation high. This no doubt made any change in direction or reduction in scope politically unpalatable.

While the Ministry decided to pause the co-location project in December 2023, the extended planning and design for the new facilities has been an expensive mistake, with up to $25 million in sunk costs so far.

During this inquiry, we asked many times how the budget for a project designed to provide school facilities for just 2,000 students could have ballooned from $65 million to over $400 million without robust analysis linking costs to measurable benefits and without tough decisions being taken, particularly when a feasible remediation option was available. The Inquiry Panel was not convinced by the use of the 2020 Deloitte business case as a robust basis for continuing with the project.

	There is no good answer. However, it is clear that the process for initiating, scoping, and funding the project was particularly susceptible to political priorities and influence. As a result, officials did not consider lower-cost solutions for relatively simple asset condition issues, or test and challenge assumptions, costings, and the overall case for investment. The project speaks to the need for greater transparency and a clearer separation of funding and delivery roles in the system.

How did we get here?

The system currently in place for managing school property is, in our view, set up to fail. This is not a criticism of the many competent and passionate people who work professionally to deliver school property to schools. Rather, they operate within a system which creates barriers to efficiency and transparency. There are several avoidable factors that have made their work much more difficult.

The Ministry's focus

School property is not core business for the Ministry. With a current book value that exceeds $30 billion, the school property function represents a significant portion of the Ministry's balance sheet but a relatively minor aspect of the overall education portfolio.

The Ministry itself is also unusual in that, as a core public service department, it is both the Government's lead advisor on the education system and a significant provider of frontline operational services to the system (such as learning support services for students). The Secretary for Education is ultimately accountable for the delivery of school property, but delegates responsibility to a Deputy Secretary who is one of ten direct reports to the Secretary. The Deputy Secretary – Infrastructure and Digital is responsible for school transport and IT services as well as property. This is a significant workload.

The process by which the Secretary exercises accountability on school property matters through such a structure is both unclear and inadequate. Although we were told that the Secretary receives dashboard-style reports on flagship investment programmes each quarter, as well as verbal updates on significant issues from the Deputy Secretary, the flow of regular reporting to the Secretary and the leadership team is not formally defined and examples that we reviewed do not display a mature and structured risk or budget management approach. This weak and opaque line of accountability has, in our view, contributed significantly to the absence of proper budget controls in relation to the Marlborough schools project, among others.

The oversight of a $30 billion portfolio is a serious and substantial undertaking. Compared with large property firms in the private sector, the school property portfolio lacks an appropriate level of dedicated leadership and oversight. Our view is that different institutional arrangements are required to provide a more direct line of accountability.

Insufficient separation of funding and delivery

The school property portfolio has been hamstrung by insufficient depreciation funding over many years and, consequently, an over-reliance on capital injection. Given that medium or long-term investments do not fit neatly within annual Budget cycles and any commitments to individual projects are typically subject to future decisions by Ministers, there are intractable problems around the way the Crown funds education infrastructure.

As a business unit within a government department, the Ministry's property function has limited options at its disposal to fund the urgent infrastructure that schools need. It has no ability to raise debt and few options for managing acute cash flow pressures. Alternative financing and delivery options for school builds, such as public-private partnerships (PPPs), have not always delivered value for money, partly because the Ministry has not been active in managing its contracts with suppliers to achieve optimal value.

The fact that the Ministry is currently both the funder and the primary delivery agent for school property is a fundamental problem, as it makes the Ministry its own client. The key to achieving greater transparency and value for money is separating the funding and delivery roles within the system.

A lack of flexibility

The Ministry's role as the primary delivery agent has also resulted in a prescriptive and inflexible model for schools and kura, with mixed results. It has not always been able to meet the diverse needs of the sector, understand and address the variable condition of the assets within the portfolio, or adapt its approach to reflect the different capabilities of school boards and principals. It has also been unable to meet the specific needs of the Māori medium and Kaupapa Māori education sectors.

While both Ministry staff and schools agree that a 'one size fits all' approach is insufficient, we found overwhelming evidence of a Ministry delivery system that is flexible in some respects but generally inefficient and unable to meet the needs of all schools. Where there is considerable flexibility in the system—for instance, delivering 5YA projects at a school-by-school level, or enabling highly bespoke solutions—the Ministry has tended to sacrifice economies of scale that it could achieve by bundling services or projects together and implementing a greater degree of standardisation.

We saw convincing examples of mostly larger urban schools with strong property management capabilities, highly experienced principals, and competent boards who see the Ministry as an impediment to timely and efficient delivery. On the other hand, other schools told us that they wanted more support to manage their property. The current model is not flexible enough to accommodate the varying levels of property management capability within the sector.

Opaque prioritisation and decision making

It is important that decisions taken by officials are contestable and able to be scrutinised. However, the widespread belief among schools that media pressure or lobbying from Members of Parliament are the only reliable ways to achieve progress is corrosive to the entire system. It also undermines the integrity of a prioritisation process that should be based on a sound case for investment.

In a context of limited funding and significant fiscal pressures, schools with facilities in poor condition or facing significant roll growth need to know where they stand as a priority relative to other schools. Schools must also be able to understand what funding they are entitled to receive, what they are not entitled to, and why. Ministry officials, on the other hand, need to know that their performance and fiscal discipline will be assessed by school principals and boards who can see what funding and prioritisation decisions have been made and how. Ministers also need to be able to scrutinise and assess the value for money of delivery programmes—and, where necessary, to intervene and adjust the settings for the system as a whole.

The future of school property

Where should we go from here?

We recommend that the future school property system should be based on the following design principles:

- **Accountable** – system design supports clear accountabilities and roles, creates separation between funding and delivery, and promotes transparency in decision-making and prioritisation.

- **Affordable and sustainable** – property solutions for schools are simple, functional, durable, maximise existing assets, and deliver value for money.

- **Flexible and responsive** – planning and delivery is locally driven and focused on efficiency; schools can exercise control and autonomy over their property using consistent supports and funding, depending on their capability and needs.

- **Evidence based** – decision making is based on robust data and local insights.

The current system and existing school property function within the Ministry do not have the right drivers or settings in place to achieve this.

A different organisational form is required to achieve these objectives. The organisation responsible for delivering school property will need a clear purpose, strengthened capabilities, strong leadership, and different kinds of relationships with schools. It also requires a significant cultural shift among both senior leaders and frontline property staff towards a more efficient and sustainable operating model.

A separate entity for school property

To ensure that school property receives the right level of leadership and focus, we recommend the establishment of a new entity, separate from the Ministry of Education, with responsibility for school property planning and delivery. The new delivery entity should be led by a Chief Executive who is accountable to an independent Board of Directors, appointed by Ministers.

A school property entity may take a range of statutory forms

The new entity may take a range of forms, including a Crown agent, Crown entity company, schedule 4A company, statutory entity, public benefit entity, state-owned enterprise.

Detailed analysis of the relative benefits of each model, including advice from the Treasury and the Public Service Commission, will be required to determine the right statutory form that will enable the new delivery entity to perform its role effectively. We expect that legislative changes will ultimately be necessary to achieve the desired future state.

The new school property entity should consolidate and assume responsibility for a range of functions

To create a strong mandate and clear authorising environment, it is important to consolidate existing functions and accountabilities within a single planning and delivery entity. The new entity should be a commercially focused asset management services and capital works provider to state school boards, and should:

- Own the Crown's portfolio of state school buildings and land.
- Monitor, measure and track the condition of the existing state school buildings, based on consistent data collection practices and systems.
- Track, analyse, and assess roll growth and enrolment demand patterns, and manage the implementation of network solutions to manage enrolment pressures and asset utilisation (including enrolment schemes).
- Define investment priorities, set criteria and requirements for funding, and allocate property funding to school boards.
- Provide simple, repeatable, functional, and fit-for-purpose facilities to meet growth or changes in demand across the state school network.
- Provide integrated facilities management to schools on an opt-in basis, working directly with schools to support their day-to-day property management (including cyclical and preventative maintenance).
- Develop and maintain reference designs, guidelines and standards for school property upgrades and new builds.
- Monitor compliance by boards with maintenance and funding requirements; and, where necessary, provide targeted interventions to ensure that the Crown's ownership interests are protected.

The new entity should replace the existing property delivery, capital investment, portfolio management, network, and infrastructure procurement functions within the Ministry of Education. It should operate at arm's length from the Ministry, and the board should have a degree of autonomy in how it fulfils its role and functions.

The new entity should have a refreshed focus and clear direction from Ministers

We recommend that the Government takes the opportunity to reset expectations for the delivery of school property. Ministers can set clear expectations and areas of long-term focus for the board. While Ministers and the board itself may make decisions on areas of focus, we suggest that the board and management of the new school property entity should focus on:

- Reducing the cost of delivery and driving value for money.
- Resetting expectations with the sector.
- Improving accountability, transparency, and governance maturity.
- Lifting commercial and contract management capability.

Alternative funding and financing arrangements can be explored

School property should continue to be funded through Vote Education. In establishing the new delivery entity, we recommend that opportunities for alternative financing arrangements for school property should be carefully considered. Ministers may consider whether the new delivery entity may raise debt and borrow against the book value of Crown assets on its balance sheet, though we are conscious of the risks of this approach. Ministers may also consider better use of multi-year appropriations or other public finance mechanisms to provide greater certainty around future investments and funding, with the aim of stabilising the Crown's ongoing investment in education infrastructure and minimising the risk of a stop-start approach to capital investments or the need for 'now or never' decisions.

As part of this work, we believe it will be necessary to review and streamline the current Five-Year Agreement and 10 Year Property Plan frameworks, processes, and funding rates. This should consider better mechanisms to ensure that maintenance and property funding is used for its intended purpose. Any future funding model should emphasise maintenance or refurbishment of existing assets and take concrete measures to prevent the use of property funding to relieve other operational pressures. Funding and investment settings for Kura Kaupapa Māori and Māori medium schools should also be reviewed.

Accountability, reporting, and monitoring should be improved

The future system will need to provide both schools and Ministers with greater clarity and transparency around prioritisation, investment and funding. To this end, we recommend that the new delivery entity should report regularly to its responsible or shareholding Ministers on programme expenditure, milestones, and delivery.

An open and transparent approach towards the sector will be critical to the success of this model. System priorities and investments should be set out in an annual statement of corporate intent, and the new delivery entity should publish a detailed and transparent capital works pipeline, with projects listed in order of priority against key delivery and funding programmes (e.g. roll growth, redevelopments and upgrades, new schools).

The role of school boards

The future role of school boards and kura in relation to property would not change substantially under this model. However, their relationship with the Ministry would change. School boards should continue to maintain a tenant-landlord relationship with the Crown but could have more flexibility to determine the right level of support from the new delivery entity to perform their role.

Some capable school boards may choose to assume complete responsibility for their maintenance, upgrades, and capital works. In this instance, the school property entity would fund boards at levels consistent with other state schools. Rather than a bulk funding model based on a per-capita entitlement, funding levels under this model should be subject to the same prioritisation and assessment of need as other state schools. Boards should be required to demonstrate that their use of Crown funding meets the requirements and standards set by the school property entity.

At the other end of the spectrum, smaller or less well-resourced schools may request more complete property management services from the school property entity, which will in turn allow those principals to focus on their core business of teaching and learning.

The Ministry's future role and function

Under this model, the Treasury would act as a monitoring agency for the school property entity and would provide advice to Ministers on the overall performance of the school property system.

In its role as the Government's lead advisor on the education system, the Ministry would continue to support the Minister with advice on the adequacy of education infrastructure as it affects educational outcomes.

Transition and implementation

We recommend that a Transition Board is created to oversee the establishment of the new delivery entity and assume responsibility for school property in the interim. Given the urgent need for a change in approach and immediate steps towards the design and implementation of the new system, the Transition Board should be appointed as soon as possible. Over time, we expect that the Transition Board will assume responsibility for relevant functions within the Ministry, with the aim of establishing a fully independent entity by 1 July 2025.

Appointments to the Transition Board should be made based on property and infrastructure expertise. It will be important for Ministers to set the right level of remuneration to attract suitably qualified and skilled directors.

It is critical that the new delivery entity has the right structure and the right capabilities, processes, and systems in place to perform its role effectively. This cannot be achieved by simply transferring existing functions from the Ministry to a new entity. The Transition Board and Transition Unit will need to make decisions on what kind of organisational design, roles, and functions will be required to achieve the system shifts set out in this report.

There will be material costs associated with establishing the new entity, Ministers will need to identify a means of funding this establishment. However, we consider that the benefits of establishing the new entity will far exceed the up-front establishment costs.

Immediate actions

During the transition period, projects and spending on school property should continue to be reviewed to drive value for money and ensure that the existing funding for school property goes as far as possible.

There are a range of other areas where improvements should be made during the transition period to lift performance and deliver better outcomes. Immediate action should be taken to:

- Explore opportunities to simplify procurement requirements for both state schools and the new delivery entity.
- Review delegated financial authority levels and approval processes.
- Review the current Offsite-Manufactured Buildings programme with urgency and empower regional staff to deliver alternative low-cost solutions within defined parameters.
- Manage immediate fiscal or affordability pressures by taking concrete steps towards a low-cost delivery model based on repeatable and/or standardised designs and effective use of off-site manufacture.
- Review contingency management at a project and programme level.
- Begin work on the establishment of a ‘self-management’ model for capable school boards, including establishing standards and processes by which the Crown can satisfy itself that investment is appropriately directed.
- Review requirements for Green Star standards in new school buildings.
- Begin work to better integrate demand forecasting and property planning.

- Review consenting requirements for school property projects and explore opportunities for exceptions-based or streamlined consenting approaches to school property projects.

Measuring success

The new school property entity should take an evidence-based approach to measuring system performance and success, supported by clear performance metrics. While it will be for the Board and monitoring agencies to define performance metrics, we suggest that these metrics should focus on:

- Asset utilisation, availability, and surplus.
- Asset condition and fitness for purpose
- Cost efficiency of delivery (e.g. net build rate per square metre; cost per teaching space).

The entity would need to define detailed system metrics and key performance indicators to measure success against the design principles set out in this report.

Appendix 1: Glossary

10YPP	10-Year Property Plan
5YA	Five Year Agreement
Asset Management (function)	Frontline property team within the Ministry of Education responsible for maintaining relationships with schools regarding their property, supporting planning for maintenance and capital upgrades through the 10YPP and 5YA processes, undertaking condition assessments, and identifying and defining investment needs and priorities at a school-by-school-level.
Capital injection	Funding appropriated through the annual Budget process for a specific purpose, such new schools and roll growth projects, regeneration, targeted maintenance or upgrade programmes, and other specific initiatives.
Capital Works (function)	Frontline property team within the Ministry of Education responsible for the planning and delivery of minor and major capital works projects on behalf of schools.
Cyclical maintenance	Obligation of schools to maintain property provided by the Crown for their use in a good state of repair.
Depreciation	Baseline funding to maintain and upgrade existing assets (disbursed to schools through 5YA, supplementary funding, or Property Maintenance Grants; or used by the Ministry to fund redevelopment projects).
EIS	Education Infrastructure Service, predecessor to current Infrastructure & Digital function of the Ministry.
Enrolment scheme	Enrolment schemes are used to manage overcrowding and ensure local students can attend schools in their area. A school with an enrolment scheme has a home zone, which is a geographically defined area around the school. Students living inside the zone are guaranteed a place at the school.
IBSG	Investment Board Steering Group, responsible for providing approval recommendations to delegated financial authority holders for investment in capital property projects over $3 million or requiring growth or redevelopment funding.
Investment Board	Highest level governance board in the Ministry with specific responsibility for school property investment decisions.
Kura	Kura Kaupapa Māori are state schools where teaching is in te reo Māori and based on te ao Māori.
LSPM	Learning Support Property Modification
Network (function)	Regional and national office teams within the Ministry of Education responsible for analysis and planning for capacity across the network of state and state-integrated schools. Their role includes establishing or amending enrolment schemes
NSRP	National Schools Redevelopment Programme

OMB	Offsite-Manufactured Building
POD	Property Occupancy Document
Takiwā	One of three areas of New Zealand as defined by the Ministry of Education and used for Ministry administrative purposes: Te Tai Raro (North), Te Tai Whenua (Central), and Te Tai Runga (South).
Te Mahau	Regional office structure, including several frontline and sector-facing business units within the Ministry of Education. Te Mahau was established in 2021 following a recommendation of the independent review of Tomorrow’s Schools to create a new Education Service Agency.
TPHM	Te Pou Hanganga, Matihiko | Infrastructure & Digital, a business unit of the Ministry of Education.

Appendix 2: Terms of Reference

Background and Purpose

New Zealand school property is the second largest government social property portfolio. The portfolio is managed by the Ministry of Education (the Ministry).

The school property portfolio represents around 2,100 schools with total assets worth over $30 billion in 2022/23. The portfolio is aging – out of 16,000 buildings, around 65% are over thirty years old (42% are over 50 years old). In addition to the increase in the need for property investment both for maintenance and growth, the costs of meeting that need have also escalated. Annual expenditure on the portfolio has increased from around $750 million in 2016/17 to around $1.77 billion by early 2024. Despite this increased investment, there is often a considerable gap between expectations and delivery.

The Minister of Education has established this independent review as a non-statutory Ministerial inquiry (ref. Cabinet Manual pp 4.115-4.117).

Objective

The review will provide advice to the Minister of Education on efficiency and effectiveness of the property planning and delivery function of the Ministry. It will understand whether the capital spend has been well managed to date and inform a future approach to property funding, planning and delivery that is sustainable, efficient, and effective.

Scope

The review will include:

1. **Efficiency and effectiveness of current arrangements and operational practice**

   1.1. The assessment and prioritisation of school property needs by the Ministry, including how property decisions within the property development pipeline are identified, scoped and prioritised.

   1.2. The internal governance systems and how these contribute to quality assurance and alignment of the operating model with strategic objectives (e.g. National Education Growth Plan and School Property Strategy 2030), including the interface with external review (for example, Treasury's Gateway Review process).

   1.3. The Ministry's current relationships, engagement, and communication with schools in relation to property including how expectations are managed.

   1.4. Transformational projects: how these are initiated and scoped, how funding approaches are determined and how these projects are communicated with the Minister and Cabinet as key stakeholders and decision makers.

   1.5. Efficacy of school property funding arrangements with the Crown, including how the Ministry is funded for delivering the property development pipeline.

   1.6. The quality of asset, portfolio and programme management, including procurement and scope management and measures in place to prevent scope creep and cost escalation.

2. Building more effective and efficient arrangements for the future

2.1. Changes needed to Crown funding arrangements for the property portfolio so that the pipeline has greater certainty of delivery.

2.2. Institutional arrangements (i.e. machinery of government) for management of the portfolio to bring greater focus on infrastructure delivery, asset portfolio management while also delivering to educational needs.

2.3. Outlining what performance, accountability and delivery should look like, including what metrics should be used to measure performance and how prioritisation processes should work.

2.4. Changes that may be required to accountabilities, practice and/or relationships between school Boards of Trustees, the Ministry, and other potential agencies or partners and stakeholders, with a view of specifically establishing and meeting reasonable expectations.

2.5. Arrangements that provide for greater clarity of expectations (including for individual schools) and transparency in the management of large scale, system-wide infrastructure investment and delivery.

2.6. Value for money improvements, including sustainable, affordable, and repeatable solutions for school property, with a clear focus on how these changes are implemented.

3. The potential outcomes of this review could include changes to the accountabilities and practice of managing school property between school Boards of Trustees, the Ministry and other potential agencies or partners and stakeholders. This could include the potential benefits of taking a coordinated approach across government infrastructure provision more broadly.

4. Where the review makes recommendations as to an alternative future state, this will include advice as to how the transition is managed and how lessons from previous transitions will be incorporated.

Timeline

The independent review will report back to the Minister of Education within three months of a reviewer being appointed.

Appointment of the independent reviewer(s)

The independent review will be undertaken by reviewer(s) appointed by the Minister of Education.

Reference group

A reference group comprised of school principals, peak education body representatives and board of trustee representatives also be established to give the reviewers access to the education sector, to be appointed by the Minister of Education.

The views of Kaupapa Māori and Māori-Medium Education providers will also be sought.

Cost and Support

The cost of renumeration of the independent reviewer and administrative support will be covered by the Ministry of Education, who will ensure that relevant departments cooperate with the independent review.

Appendix 3: Summary of formal engagement

Interviews

Sector	Stakeholders	Number of interviewees
Education sector	Schools and kura (total)	39
	Auckland and Northland–Te Tai Tokerau	13
	Waikato, Bay of Plenty–Waiariki, Hawke's Bay–Tairāwhiti, Taranaki, Whanganui, Manawatū, and Wellington.	9
	Nelson, Marlborough, West Coast, Canterbury, Otago, and Southland	18
	Primary	16
	Secondary	19
	Intermediate/Composite	4
	Peak bodies, unions, and regional sector associations	10
Construction and real estate sector		2
Ministry of Education staff		32

Written submissions and correspondence

Sector	Stakeholders	Number of submissions
Education sector	Schools, kura and board members	52
	Peak bodies, unions, and regional sector associations	5
Construction and real estate sector		6
Ministry of Education staff		6
General public		3

Appendix 4: Timeline of previous reviews of school property

1989	**Tomorrow's Schools Reforms.** School boards assume accountability for school property from the disestablished Department of Education.
1998	Schools fully assume property responsibilities. $300m of deferred maintenance completed by the Ministry.
2000	5-year agreement (5YA) introduced for allocating capital works funding to schools.
2005	School demand for property support increases alongside the Government's increased broader focus on asset management.
2006–2011	**Office of the Auditor General undertakes performance audit of the school property portfolio (2006).** The Ministry splits out schools infrastructure from operations group to focus on national approaches and an overview of the entire school property portfolio. Changes include: • Start of National school property upgrade (ICT and weathertightness) • Establishment of the Schools Infrastructure Group • Establishment of Christchurch Schools rebuild programme • Development of the national *School Property Strategy 2011-2021*.
2012–2014	Cabinet agrees to undertake a review of school property, resulting in the **2012 BECA Review of Frameworks for School Property Management**. The report recommends improvements in eight key areas and that a statutory entity be established to manage the school property portfolio.
2012	Education Infrastructure Service (EIS) established within the Ministry. EIS establishes procurement and capital works teams and the major capital redevelopment project investments begins.
2015	**PwC commissioned by the Ministry to review school property function**. The final report finds greater benefit in incorporating infrastructure with other education functions rather than creating a separate Crown Entity, and recommends aligning network and infrastructure management and governance functions, improving information and knowledge sharing.
2017	**Office of the Auditor General delivers its *Managing the School Property portfolio* Performance Audit report.** The report recommends integrating property management more closely with the rest of Ministry functions, in recognition of school property's perceived connection to educational outcomes.
2017	Cabinet agrees in principle to creation of a Crown Agent to manage infrastructure services, due to be established 1 July 2018. EIS grows internal business functions in anticipation of becoming an independent entity. A change of Government stops work on a separate entity.
2018	School capital expenditure increases to $906m.
2019	Government announces *Supporting all schools to succeed* in response to the review of Tomorrow's Schools, which directs a redesign of the Ministry. It finds that devolution of property responsibilities to school boards "led to variability in the quality and condition of school infrastructure, high workloads for boards and

	principals, and duplication of effort and other inefficiencies across the schooling network as a whole." It signals changes to create better balance between local and national responsibility for school property.
2021	School property capital expenditure exceeds $1 billion.
2021–2022	Ministry restructure creates Infrastructure and Digital | Te Pou Hanganga Matahiko business group. This new function brings together digital and physical infrastructure, with the aim of aligning both functions more closely to frontline delivery education services and reducing duplication of back-office functions (including policy, finance, and procurement).