Performance audit report

Ministry of Education: Management of the school property portfolio

Ministry of Education: Management of the school property portfolio

Foreword

School property is the second largest publicly owned property portfolio in the country, with a capital value of $7,000 million. Ensuring that this property is sufficient, suitable, and well-maintained is important for supporting effective teaching and learning.

The way school property is managed is unique, and unlike other public sector property portfolios. School Boards of Trustees, which are legal entities in their own right, are responsible for maintaining the school property they occupy and managing the school's capital projects, even though they do not own the property. The Ministry of Education is responsible for the long-term planning of the school property portfolio, and for managing the risks related to the Crown's ownership interest.

During the last 5 years, the Ministry has introduced new processes for planning and funding school property as part of the Government's policy to give school boards greater control over the way their schools are managed.

The Ministry of Education has better controls in place through the guidance and the policy incentives it provides to school boards than when we last audited school property management in 2001. However, it has only partly addressed our recommendations for improving its overview of the overall condition of the school property portfolio and the maintenance that school boards undertake.

I am concerned that there is no strategic plan for managing the school property portfolio that demonstrates how school property supports the achievement of the Ministry's wider education aims.

The planning and operations functions for the school property portfolio are carried out by different groups within the Ministry. This arrangement works well now, largely because of the good working relationships between the 2 sets of staff involved. However, the Ministry needs to introduce clearer business processes for operations staff. These will be matters for the Deputy Secretary – Schooling of the Ministry to consider once appointed to this newly established position.

We are aware that investigations are being carried out after serious allegations of fraud were made against a contractor. Depending on the outcome of these investigations, we may wish to undertake more work on the Ministry's management of school property.

I thank the staff at the Ministry of Education, trustees and staff at schools that we visited, and the New Zealand Schools Trustees Association for their co-operation during this performance audit.

K B Brady
Controller and Auditor-General

22 June 2006

Contents

Summary

School property is the second largest publicly owned property portfolio in the country. It includes land, buildings (such as classrooms and gymnasiums), facilities (such as playgrounds), and infrastructure (such as boilers and drains). The portfolio has a capital value of $7,000 million.

Having sufficient, suitable, and well-maintained school property is important for supporting effective teaching and learning. In 2004-05, $250 million was allocated for upgrading existing buildings and a little more than $62 million was allocated for maintenance.

The Ministry of Education (the Ministry) is responsible for the long-term planning of the school property portfolio, and for managing risks to the Crown's ownership interest. It provides property to school Boards of Trustees (school boards) under the conditions set out in a *Property Occupancy Document*. The *Property Occupancy Document* identifies the respective obligations of the Ministry and school boards for managing school property.

School boards are responsible for maintaining their school property. They are also responsible for managing their own capital projects. However, they must comply with project management requirements set by the Ministry.

The Ministry allocates funding to school boards for maintaining school property. It also funds capital projects that it has agreed with school boards.

We have previously undertaken a number of audits of school property management. Our last audit in 2001 looked at how well the Ministry was managing the Crown's ownership interests in school property. In the main, accountability arrangements for school property management met our expectations. However, we were less than satisfied with the arrangements for maintenance.

At the time of our 2001 audit, the Ministry was introducing new processes for planning and funding school property as part of the Government's policy to give school boards greater management control. It was too early to assess the effectiveness of these new processes.

The objective of our current audit was to assess the effectiveness of the Ministry's organisational arrangements, systems, and processes for providing and maintaining school property and for managing the school property portfolio in general.

We concentrated on 3 aspects of school property management by the Ministry:

- organisational arrangements;
- strategic management; and
- overseeing of capital projects and maintenance.

We decided to concentrate on property management by the Ministry because it is responsible for protecting and managing risks to the Crown's investment. We therefore did not look at property management by individual school boards. Nor did we examine property management of integrated schools, because the Crown does not own this property.

Organisational arrangements

We looked at the Ministry's arrangements for managing school property at national and local levels, and the support provided by the Ministry to school boards.

Relationship between the Ministry of Education's policy and operations arms

The Ministry's policy arm – the Property Management Group – is responsible for the long-term planning of the school property portfolio. The operations arm – National Operations – is part of Education Improvement and Support, and is responsible for implementing the Ministry's policies and for providing guidance and support about property matters to individual school boards.

Robust formal and informal communications channels have been put in place between the Property Management Group and National Operations, and there was evidence the 2 arms were working closely on a day-to-day basis. There was also evidence of them working together on the preparation of specific policy initiatives.

However, collaboration could be better targeted to common goals. In particular, the strategic goals that are set by the Property Management Group need to be clearly aligned with the targets for property management set by National Operations.

The Ministry also needs to improve the effectiveness of the property management work of its operations staff by introducing documented business processes and by using management controls to ensure that these processes are complied with.

Operations management at a local level

Property management at a local level is carried out by Network Development Officers and Network Facilitators (network provision staff), who are part of National Operations.

Network provision staff need to have flexibility in how they carry out their role, and we recognise that priorities differ between regions. However, the work

practices of network provision staff in local offices need to be more consistent, their work priorities need to be set nationally, and documented business processes, including record-keeping requirements, need to be introduced.

Ministry of Education support to school Boards of Trustees

School boards have been given greater control of property management during the last 5 years. This has meant that school boards have needed to understand their new responsibilities and their changed relationship with the Ministry with regard to school property management.

The Ministry supports school boards in a number of ways, including by providing written guidance about property management that, overall, complies with good practice in the public sector. It also organises regular meetings for schools at a regional level to introduce new policies and to cover specific property management topics.

The role of network provision staff in providing advice to individual schools, including interpreting Ministry policy and assessing property entitlements, is of fundamental importance.

However, the capability and capacity of school boards to manage their school property is always going to be a risk that needs to be managed. We consider that the Ministry needs to regularly review and evaluate the training in property management provided to school board trustees, and that existing training needs to be enhanced.

The Ministry also needs to be more active in encouraging schools to share facilities and jointly contract for capital and maintenance work.

Strategic management of the school property portfolio

We looked at the alignment of the Ministry's school property management strategies and plans with its education aims as described in its *Statement of Intent 2005-2010*. The 3 aims or "vital outcomes" are:

* effective teaching for all students;
* family and community engagement in education; and
* development of quality providers of education.

We also looked at the Ministry's property management performance, the availability of information about the school property portfolio to inform strategic asset management planning and day-to-day property management, and how quickly the Ministry disposes of surplus property.

Alignment of strategies and plans for managing school property with wider education aims

Clear, comprehensive, and co-ordinated strategic planning is essential in managing a large public property portfolio like school property. We expected to find a strategic plan for the school property portfolio that sets out objectives that support the Ministry's wider education aims, and that is used by both the Property Management Group and National Operations to identify activities, responsibilities, targets, and performance measures as part of their annual planning processes.

The Ministry has had no strategic plan for school property for the last 4 years. This is a significant gap.

The Ministry recognises that it needs to address this situation, and is taking steps to produce a strategic plan for the school property portfolio.

We also acknowledge that the Ministry's strategic plan for 1998-2002 contained objectives for introducing a major policy change that took until 2005 to implement. A range of strategic initiatives, such as the Performing Classrooms Initiative and Area Strategies, are also described in the *School Property Business Case 2005/06*.

Property management performance

The Ministry's national office actively monitors and reports on performance targets for property management. Most of the targets are specific and measurable. However, a new strategic plan will need to identify performance standards and targets that are linked to strategic objectives.

Availability of information to support strategic and day-to-day property management

The Ministry's principal source of asset management information is the Property Management Information System (PMIS), which records data about property at every state school.

Network provision staff consider the PMIS to be an excellent resource that assists them with the day-to-day management of capital projects. However, the Ministry recognises that there is a need for documented processes for users and an ongoing programme of formal training to ensure that users make the best use of the system.

Several interviewees expressed concerns that a significant amount of information held in the PMIS is inaccurate. We did not assess the extent of any inaccuracy,

though we were given 2 specific examples where schools received incorrect funding based on inaccurate information in the PMIS.

The Ministry needs to arrange for regular, independent validations of data held in the PMIS to provide assurance that information used to make decisions about school property is up to date and accurate.

In our view, the overview of the entire school property portfolio provided by PMIS needs to be enhanced. For example, it does not contain information on the condition of property, and it has reporting limitations. The Ministry recognises that it needs to determine how systems to hold information about school property can be improved to assist its planning for, and decisions about, the school property portfolio.

Disposal of surplus property

In 2004-05 the Ministry exceeded its financial target for disposing of surplus school property, though the rate of disposal of this property was slower than planned. The Ministry has identified a number of reasons why this is the case, such as multiple titles and compliance with Treaty of Waitangi obligations. We consider that the Ministry should identify separate targets for property that can be disposed of quickly and for property that will take longer to dispose of because of complications.

Overseeing of capital projects and maintenance

We looked at the effectiveness of the Ministry's overseeing of capital projects and maintenance. We also looked at how far the Ministry encourages environmental and economic sustainability in school property.

Overseeing capital projects

Schools are required to follow the Ministry's Project Management System. This system complies in all significant respects with good practice for undertaking capital projects. The Ministry monitors the progress of capital projects, and payments to schools depend on the Ministry being satisfied that its requirements have been met.

Recently, the Ministry has begun a review to identify parts of the process where greater controls are required. This includes reviewing the checks by network provision staff that schools have complied with the Ministry's requirements. The documented business processes that we have recommended for network provision staff should describe these checks. Management controls should be introduced to ensure that network provision staff comply with these processes, and to identify areas for improvement.

Each school is required to employ a professional project manager for projects costing more than $250,000. We consider that, in addition to this financial threshold, schools should be required to employ a professional project manager for any project where the Ministry considers there is a significant risk, whatever the project's value.

The Ministry undertakes reviews of completed "good practice" capital projects to assess the reasons why the projects have been carried out effectively, and how staff and students view their success. It should now expand this to include reviews of the effect of completed capital projects on the overall condition of the school property portfolio, and the broader contribution of completed projects to the achievement of the Ministry's objectives for property and vital outcomes.

Encouraging environmental and economic sustainability

Incorporating sustainable features into new or modernised properties can help to improve the environmental performance of those properties and significantly reduce ongoing operational costs. The Ministry needs to do more to encourage schools to improve the economic and environmental performance of their property by requiring them to calculate whole-of-life costs for capital projects. It also needs to provide guidance to schools on improving that performance through the decisions they make about maintenance.

Overseeing maintenance

The way that the Ministry oversees the maintenance of school property does not provide it with assurance that property is being adequately maintained.

The Ministry is confident that school property is being well maintained. However, because it lacks information about the condition of school property and what maintenance is being undertaken, it has no firm evidence to support this confidence.

The Ministry seeks some assurance about the standard of maintenance through the legislative requirement for schools to have a Building Warrant of Fitness. The Ministry is aware that it needs to improve information about how well schools are maintained and is taking action to improve its overseeing, initially through a pilot audit of a sample of schools. We consider that it is important for this pilot audit to provide information about the condition of school property.

The Ministry needs to systematically monitor how schools use maintenance funding, to ensure that maintenance is not being deferred and that the Ministry achieves value for money.

The Ministry also needs to monitor the tendering of maintenance contracts by schools to ensure that they comply with the Ministry's tendering requirements. We would expect this to be done in the case of high-value contracts or when a large number of small contracts are awarded to one contractor by one or more schools.

The Ministry also needs to provide guidance to schools on assessing whether long-term maintenance contracts offer value for money.

Our recommendations

Our key recommendations are for the Ministry to:

- devise common goals for managing school property within the organisation, to ensure that policy objectives are translated into operations performance targets;

- produce a strategic plan for school property management that is clearly linked to the Ministry of Education's wider education aims, including its vital outcomes;

- determine how to improve systems that are used to hold information about property so that it has a better overview of the entire school property portfolio, to assist it in planning and making decisions about property at a portfolio level;

- monitor how schools are spending their maintenance funding to identify schools that are significantly under-spending, and to ensure that it achieves value for money; and

- ensure that the pilot audit of schools' maintenance (or another mechanism) provides adequate information about the condition of school property.

Our other recommendations for the Ministry are set out in the report.

Part 1
Introduction

1.1   In this Part, we describe:

- the organisational arrangements within the Ministry of Education (the Ministry);
- the planning and funding arrangements for capital projects and maintenance;
- why we undertook the audit;
- the objectives and scope of our audit; and
- how we undertook our audit.

1.2   The Government's "Tomorrow's Schools" policy, implemented as part of the Education Act 1989, gives schools significant responsibilities and control over the way in which they operate. Section 75 of the Education Act 1989 states that –

> *Except to the extent that any enactment or the general law of New Zealand provides otherwise, a school's board has complete discretion to control the management of the school as it thinks fit.*

1.3   Elected school Boards of Trustees (school boards) have responsibility for overseeing management of the curriculum, staff employment, finance, and the property the school occupies, within overall guidelines set by the Ministry.

1.4   The Ministry is responsible to the Government for recommending and implementing policy to protect the Crown's investment in school property and to actively manage risks to this investment. The Ministry allocates funding to school boards for maintaining school property, and provides funds for capital projects that it has agreed with school boards.

1.5   School boards and principals are expected to follow sound governance and management practices, defined in the *National Administration Guidelines*. The *Health and Safety Code of Practice for State Primary, Composite and Secondary Schools* specifies the health and safety requirements that school boards must comply with. The Ministry is responsible for ensuring that school boards are provided with the necessary support to do so.

Organisational arrangements within the Ministry of Education

1.6   The organisational arrangements for school property management within the Ministry are set out in Figure 1. Since our audit, the Ministry has begun to implement new organisational arrangements as part of an organisational development programme. Property management will become one of the responsibilities of the newly created post of Deputy Secretary – Schooling.

1.7   The Property Management Group, located in the Ministry's national office, is the policy arm of school property management.

1.8   The *School Property Business Case 2005/6* states that the Property Management Group is responsible for long-term planning for the school property portfolio. The business case is produced annually by the Property Management Group to identify funding priorities. It is presented to Cabinet for approval as part of the budget cycle. In preparing the business case, the Property Management Group "considers the issues facing the school property portfolio, and together with other parts of the Ministry and input from the sector, prepares a long term view to guide decision-making, including future funding requirements".

1.9   The Property Management Group has 15 staff.

1.10   In 2001 the Ministry reviewed property management at a local level to achieve greater co-ordination between property and other operational activities.

1.11   This led to National Operations, which is within the Ministry's Education Improvement and Support Group, acquiring operational responsibilities for school property management.

1.12   The Senior Manager, National Operations, has overall responsibility for property management services to schools. At a local level, operational responsibilities are carried out by network provision[1] staff located in 4 regional and 6 district offices. They report to the Senior Manager, National Operations.

1.13   Network provision staff employed at a district level include Network Development Officers and Network Facilitators. Network Facilitators provide guidance and support about property matters to individual school boards. Network Development Officers have other property management responsibilities – such as managing school reorganisations, mergers, and closures; dealing with issues between schools; and overseeing major capital projects.

1.14   Network Development Officers and Network Facilitators are the main point of contact between individual school boards and the Ministry (see paragraphs 2.15-2.30).

1.15   Additional network provision staff are appointed in areas of population growth as and when required. For example, 4 additional staff were appointed in the Auckland office in January 2005 to support roll growth work.

1.16   Network provision staff have other responsibilities as well as property management (see paragraph 2.6).

---

1   "Network" is the term that the Ministry of Education uses to describe the system of education provision as a whole, rather than viewing schools as a series of isolated entities.

Figure 1
Ministry of Education's organisational structure for the management of school property
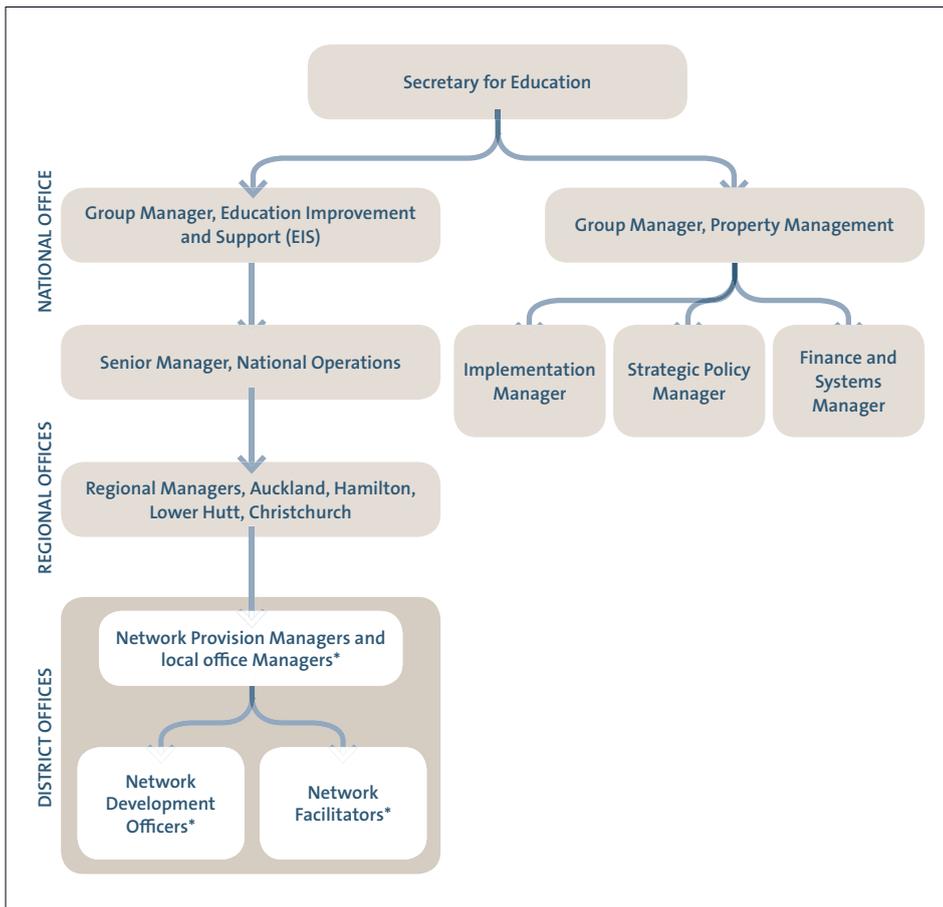
Shaded roles on the chart are the main points of contact about property matters that school boards have with staff of the Ministry.

* There are 5 Network Provision Managers, 6 local office Managers, 8 Network Development Officers, and 24 Network Facilitators employed throughout the country.

Planning and funding of capital projects and maintenance

1.17   The Ministry requires schools, as part of their management of property, to produce 10-year property plans that include two 5-year cycles of capital works and a cyclical maintenance plan.[2] These plans must reflect educational goals, including the goals in the school's strategic plan and charter. Schools are required

---

2   The process of producing 10- and 5-year property plans was introduced in 2000, with a phased introduction throughout the state (non-integrated) schools sector. By July 2004, all schools had 10- and 5-year property plans, and were therefore all able to access funds from their 5-year capital programme budget.

to formally review and update these plans every third year, or when significant changes need to be made.

1.18   Schools are also responsible for producing 5-year property plans for improvements to their existing property up to their entitlement under the School Property Guide.[3] For example, this can be for modernisation or to meet health and safety requirements. These are essentially the capital items included in the first half of the 10-year property plan. The plans form the basis of an agreement for 5-year funding of capital projects by the Ministry.

1.19   The 5-year property plans can be reviewed by schools at any time, such as when new education policy requires additional spaces or forecast roll increases do not happen. The school must agree any changes with the Ministry through a revision to its 10-year property plan.

1.20   Additional capital funding[4] is available to schools facing major non-discretionary capital expenditure that will exceed or have a significant effect on the school's 5-year property plan budget, such as boiler replacement. However, any additional funding received may be deducted from the funding the school can receive under future 5-year property plans.

1.21   Separate funding for capital projects is also available to a school that needs new space, either because of roll growth or because it is operating with less than its School Property Guide entitlement.

1.22   Maintenance funding is based on the area of the school, and is the amount that the Ministry assesses that school boards need to adequately maintain their property. The Ministry uses information held in its Property Management Information System to make its assessment.

1.23   Each school is allocated a fixed amount for maintenance as part of its annual operations grant funding (which is the funding given to the school board for the operational expenses of running the school).

Why we undertook our audit

1.24   Sufficient, suitable, and well-maintained property is important for supporting effective teaching and learning. The Crown has an interest in knowing that school property is managed effectively and efficiently, because poor property management can negatively affect the delivery of education services.

---

3   A guide produced by the Ministry to assess property funding entitlements of individual schools, based on roll number and existing space.

4   This is through "5-Year Budget Plus", which is a separate fund held by the Ministry for capital projects.

1.25   School property[5] is the second largest publicly owned property portfolio in the country. Our assessment is that it comprises about 2125 state schools,[6] and about 325 sites occupied by early childhood education services. According to the Ministry's annual report for 2005, the portfolio has a total capital value of $7,000 million, including $5,500 million of improvements, and a total replacement value of about $11,000 million. According to the Ministry's *Statement of Intent 2005-2010*, costs associated with providing school property and houses owned by the Crown that are rented to teachers, principals, and caretakers account for about 72% of the Ministry's operating budget. Based on figures provided by the Ministry, a little more than $62 million was allocated for maintenance in 2004-05.[7]

1.26   Poor management of a portfolio of this size can result in a significant financial cost. For example, poor maintenance can mean that additional expenditure is needed to improve or replace buildings that have fallen into a state of disrepair. This, in turn, can reduce the amount of funding available for other elements of children's education.

1.27   We have undertaken a number of audits of school property in the past. Our 2 most recent audits were undertaken in 1998 and 2001.

1.28   In 1998,[8] we examined the maintenance responsibilities of school boards, and found that a little more than half had comprehensive maintenance plans.

1.29   Our audit in 2001[9] examined how well the Ministry was managing the Crown's ownership interests in school property in the compulsory education sector. We looked at 2 main aspects: accountability arrangements for school property management, and systems and processes for managing school property. In the main, the accountability arrangements – including the way relationships, roles, and responsibilities between the Ministry and school boards were defined – met our expectations.

1.30   At the time of our 2001 audit, the Ministry was implementing new systems for planning and funding school property. It was too early to assess their effectiveness, though we commented on the potential effect of the new regime and made some recommendations.

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

6   This does not include integrated schools, which are private schools that (under the Private Schools Conditional Integration Act 1975) can integrate into the state school system while still retaining their special philosophical character. They receive some property funding from the Crown. However, the Crown does not own the property.

7   This does not include maintenance funding provided to state integrated schools.

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

9   *Providing and Caring for School Property*, August 2001, ISBN 0-477-02882-9.

1.31   However, we were less than satisfied with the arrangements for maintenance, concluding that the Ministry needed to significantly improve the information it had about the maintenance undertaken by school boards and the condition of school property.

Objectives and scope of our audit

1.32   The objective of this audit was to assess the effectiveness of the Ministry's organisational arrangements, systems, and processes for providing and maintaining school property, and for managing the school property portfolio in general. We concentrated on 3 important aspects of property management:

- the effectiveness of organisational arrangements in place for property management within the Ministry, including the relationship between the policy-setting and operations arms of the Ministry, the role of Network Development Officers and Network Facilitators, and the support provided by the Ministry to school boards;

- the effectiveness of the Ministry's strategic management of the school property portfolio, including the alignment of property management with the Ministry's wider education aims, and performance management; and

- the effectiveness of the Ministry's overseeing of schools' capital projects and maintenance.

1.33   The effectiveness of property management by individual school boards was outside the scope of our audit. We decided to concentrate on property management by the Ministry because it is responsible for protecting and managing risks to the Crown's investment in school property. We also did not examine the effectiveness of property management of integrated schools, because the Crown does not own this property.

How we undertook our audit

1.34   We examined documents, including Cabinet papers, Ministry strategic plans and business cases, Ministry procedures and guidelines, and other relevant documents provided to school boards by the Ministry's policy arm.

1.35   We interviewed staff from the Property Management Group and National Operations. Our interviews included staff in the Ministry's national office, and staff based in regional and district offices in Auckland, Napier, Lower Hutt, Christchurch, and Dunedin. We also spoke to representatives of the New Zealand Schools Trustees Association.

1.36   We visited schools, spoke to trustees of school boards and principals, and observed the interaction between Ministry and school staff.

Part 2
Effectiveness of organisational arrangements

2.1   In this Part, we examine:

- the relationship between the Property Management Group and National Operations;
- the role of Network Development Officers and Network Facilitators; and
- the support provided by the Ministry to school boards.

Relationship between the Property Management Group and National Operations

2.2   We expected the Ministry's policy arm – the Property Management Group – and the operations arm – National Operations – to be working collaboratively at both national and local levels. Working collaboratively is important for ensuring that staff understand, and work together towards, common goals for property management.

2.3   We also expected that property management activities would be implemented in a way that supports the Ministry's wider education aims and its 3 vital outcomes of:

- effective teaching for all students;
- family and community engagement in education; and
- development of quality providers of education.

2.4   We found that day-to-day relationships work well in practice, but that there needs to be better collaboration between the 2 groups in setting common goals.

2.5   In the national office, the Property Management Group and National Operations function separately. However, we saw evidence that staff within the 2 groups were working closely on a day-to-day basis. There is ongoing informal communication between senior managers of the 2 groups, and the senior managers are part of a Regional Overview Group that meets every quarter to share information.

2.6   Network provision staff in regional and district offices have responsibilities for property as part of a wider role of "education improvement and support" (for example, contributing to the preparation of area strategies, monitoring demographic changes and their likely future effect on planning for schools, and advising on enrolment schemes). From a property management perspective, this integration of responsibilities appears to work well because it means that these staff understand and can address property issues as part of their wider role.

2.7   Network provision staff in regional and district offices report, and are accountable, to the Senior Manager, National Operations, with informal reporting lines to the Group Manager, Property Management Group. There are also a number of communication lines between staff in the 2 groups.

2.8   The organisational structure is complex, although it appears to work well now. This is largely because of the strong relationships that exist between the 2 sets of staff involved and because of robust formal and informal communication channels put in place by the Property Management Group. For example, the Property Management Group organises regional forums 4 times a year where policy is discussed, the Property Management Group and local offices hold fortnightly telephone conferences, and the Implementation Manager from the Property Management Group chairs a Best Practice Committee that involves representatives from the local offices and that meets every 2 to 3 months.

2.9   We consider that the ongoing effectiveness of the structure needs to be monitored.

2.10   There is evidence of the 2 groups working together on specific policy initiatives. For example, 2 Education Improvement and Support managers are members of the steering group that has been set up to develop the Performing Classrooms initiative, and an Education Improvement and Support manager has been seconded to the Property Management Group to support work on an initiative focused on facilities for children with special needs.

2.11   Although relationships between the Property Management Group and National Operations are strong, collaboration needs to be better targeted towards common goals. We expected that strategic goals set by the Property Management Group would be translated into operational targets by National Operations.

2.12   However, the Ministry has had no strategic plan for property for 4 years. Because of this, the strategic goals set by the Property Management Group have not been aligned with the targets for property management set by National Operations. We discuss this further in paragraphs 3.2-3.11.

2.13   The Property Management Group has produced a draft "Business Partnership Agreement", which describes the class of outputs (Output Class D8) for providing the school property portfolio and includes managing the school property portfolio, purchasing and constructing new property, and disposing of surplus property.[1]

2.14   The draft agreement defines the respective responsibilities of the Property Management Group and local offices of National Operations for achieving each of these outputs, and includes specific and quantifiable performance targets. We consider this document to be an important first step towards improving collaboration towards common goals. However, a number of local office staff were unaware of the draft agreement, and those local staff that were aware of it were not sure of its status.

---

1   This description originates from the estimates of expenditure for Vote Education.

Recommendation 1

We recommend that the Ministry of Education devise common goals for managing school property within the organisation, to ensure that policy objectives are translated into operations performance targets.

Network Development Officers and Network Facilitators

2.15   Network Development Officers and Network Facilitators oversee rather than directly manage property. Essentially, their job is to facilitate property management by school boards. They do not have an inspection or regulatory role and are not expected to be technical property experts. Schools are expected to employ property experts to provide technical advice and support when necessary.

2.16   We expected the property management role of Network Development Officers and Network Facilitators to have been clearly defined in writing, and that there would be documented processes for carrying out that role.

2.17   Neither of those expectations were met:

- Network Development Officers and Network Facilitators appear to be committed and responsive, and schools value the service that they provide; but

- while these staff have job descriptions, setting work priorities needs to be more consistent, and documented processes and guidance need to be introduced.

2.18   The job descriptions of Network Development Officers and Network Facilitators set out their main achievement areas for property management. Network Facilitators are responsible for negotiating 10- and 5-year property plans for schools, and ensuring that projects are implemented in accordance with the Ministry's *Property Management Guidelines* (see Figure 2). Network Development Officers have other property management responsibilities, described in paragraph 1.13.

2.19   We interviewed a number of Network Development Officers and Network Facilitators working in different offices, and observed the interaction between these staff and principals and school board trustees on our site visits to schools.

2.20   We observed that Network Development Officers and Network Facilitators were committed to providing a good service to schools, and that they prioritised responding to enquiries and requests from individual schools.

2.21   Network Development Officers and Network Facilitators that we interviewed identified the main day-to-day property management tasks that they undertake:

- managing internal and external relationships between the Ministry and schools at a local level;

- implementing Ministry policies through managing delivery of the capital works programme, ensuring that schools receive the right amount of funding, and other relevant policies;

- providing advice to schools on Ministry policies, and on how to deal with issues such as capacity and growth;

- having a good overview of education provision throughout the district;

- encouraging schools to "look at the bigger picture" – for example, the effect that the introduction of an enrolment scheme at a neighbouring school might have on them;

- dealing with issues between schools;

- handling the paperwork necessary to fulfil the Ministry's property ownership role; and

- keeping Ministry systems up to date, including the Property Management Information System, and recording expenditure appropriately.

2.22   However, Network Development Officers and Network Facilitators that we interviewed had different views on the way that they should carry out their job. For example, on average, each Network Facilitator is responsible for 80 schools, though this number varies at different local offices. We found that the frequency of contact Network Facilitators had with these schools varied. Some said that they visited all their schools at least once a year, and others said that they only visited their schools on the basis of need.

2.23   Network Facilitators told us that, rather than actively contacting schools, they respond to enquiries from individual schools. They also said that they spend a great deal of time dealing with the paperwork required for setting up capital projects and processing invoices.

2.24   Network Facilitators said that, if they had the opportunity, they would spend more time:

- visiting schools;

- looking at schools' strategic plans and how capital projects link to them;

- supporting the preparation of 10- and 5-year property plans;

- helping schools to make the best use of their property, such as through rationalisation;

- spreading examples of good practice;

- advising on property entitlements; and

- providing other advice and solutions to schools to enable them to manage themselves.

2.25   We recognise that Network Development Officers and Network Facilitators need to have flexibility in how they carry out their role, and that priorities differ between regions. However, we consider that the Ministry needs to define in writing the main expectations and priorities of network provision staff nationally. We understand that a research project is analysing the working practices of network provision staff throughout the country, with a view to improving consistency.

2.26   The Ministry also needs to produce documented business processes and supporting guidance for Network Development Officers and Network Facilitators. This needs to include the responsibilities of these staff and their managers. These processes should be subject to quality control by, for example, authorising changes and withdrawing out-of-date versions of documents. We are aware that the Lower Hutt office has produced flowcharts of the main procedures carried out by network provision staff. In our view, they provide a useful basis for producing documented procedures and supporting guidance.

2.27   The standard of record-keeping also varies considerably between local offices. The Ministry needs to incorporate the main requirements for record-keeping when it produces documented business processes. These should apply nationally.

2.28   At the time of our audit, there was no formal induction or ongoing training programme for Network Development Officers and Network Facilitators. A number of those we interviewed considered that this would be useful. We note that a programme of competency-based personal development sessions has been introduced at quarterly staff forums since our audit.

2.29   There are also no arrangements for knowledge management. A number of interviewees commented that Network Development Officers and Network Facilitators retain knowledge in their heads. Adopting documented business processes and record-keeping requirements would help to address this.

2.30   The Ministry is responding to an identified need to increase the capability of local network provision staff in areas where significant roll growth is forecast. The Area Strategies initiative has been piloted in Auckland, which is one of the main areas of population growth. The Ministry has provided funding of $1.25 million to support this initiative, and has appointed a project manager. The Area Strategy framework is now being introduced in other regions with forecast roll growth.

Recommendation 2

We recommend that the Ministry of Education identify the main expectations of Network Development Officers and Network Facilitators nationally and ensure that these are reflected in their job descriptions.

Recommendation 3

We recommend that the Ministry of Education introduce documented business processes for Network Development Officers and Network Facilitators that define responsibilities and record-keeping requirements and that are subject to quality control. This would include:

• management controls to ensure that these processes are complied with; and
• arrangements for identifying ways in which processes can be continually improved.

Recommendation 4

We recommend that the Ministry of Education review the training needs of Network Development Officers and Network Facilitators in property management and introduce a formal training programme, including induction training for new staff and ongoing training for existing staff.

Support provided to school Boards of Trustees

2.31   We expected that school boards would be provided with support from the Ministry, so that they had a clear understanding of their role in managing school property and were able to carry it out effectively.

2.32   We found that:

- The Ministry supports school boards in a number of ways, including providing clear written guidance about school property management that complies overall with good practice in the industry.

- The degree of capability and capacity of school boards to manage their school property is always going to be a risk that needs managing. The Ministry needs to regularly evaluate and review the training on school property management provided to school boards.

- The Ministry also needs to be more active in encouraging schools to share facilities and jointly contract for capital and maintenance work.

Existing support provided to school Boards of Trustees

2.33   After new arrangements for increased self-management of property by school boards were introduced 5 years ago, school boards have had to understand their new responsibilities and their changed relationship with the Ministry.

2.34   A number of documents govern the relationship between the Ministry and school boards, and provide guidance to school boards on their responsibilities. We show the hierarchy of documents in Figure 2.

Figure 2

Hierarchy of documents governing the relationship between the Ministry of Education and school Boards of Trustees
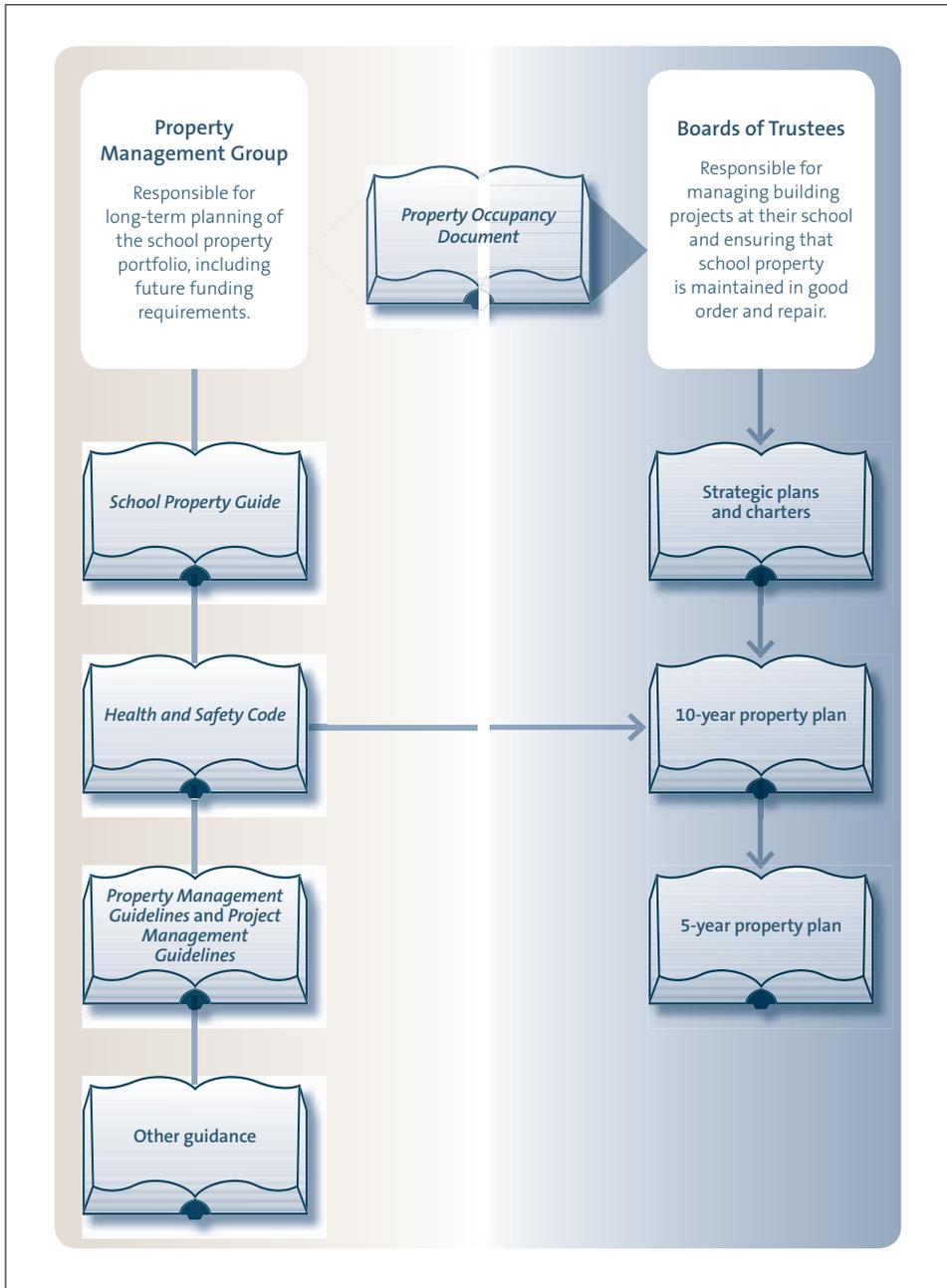
Property Occupancy Document: The principal document governing the relationship between the Ministry and school boards. It includes the respective obligations of the Ministry and school boards for managing school property. The *Property Occupancy Document* sets out the requirements for compliance with the Ministry's Project Management System for capital projects (see paragraph 4.6).

School Property Guide: The basis for assessing property funding entitlements of individual schools, based on roll number and existing space.

Health and Safety Code: Outlines all the health and safety requirements that school boards must comply with to ensure that schools are safe for everyone, including students, staff, visitors, and contractors.

Property Management Guidelines and *Project Management Guidelines*: The *Property Management Guidelines* elaborate on terms and conditions of the *Property Occupancy Document*, and provide guidance on managing property projects, including capital upgrades and maintenance, and how to comply with the Ministry's Project Management System. They are supplemented by the *Project Management Guidelines*, which provide detailed, comprehensive guidance on project management. These guidelines include an emphasis on the need for effective and efficient purchasing through a transparent competitive tendering process.

10-year property plan: Describes cyclical maintenance plan for the next 10 years and proposed capital projects for the next two 5-year cycles.

5-year property plan: Describes programme for capital refurbishment and replacement projects for the next 5 years. It is used as a basis for the 5-year funding agreement for capital properties between the Ministry and school boards.

Other guidance: For example, *Building Design Standards*, *Consultants and Construction Contracts Guidelines*, and *Fire and Safety Design*. These documents set out legislative requirements and other special requirements of the Ministry.

2.35   In our view, these documents, and the other property management guidelines produced by the Ministry that we reviewed, are written in clear, non-technical language and overall are comprehensive.

2.36   In addition to producing written guidance, the Ministry organises regular "cluster meetings" for schools in each region. For example, special meetings are held for schools that are due to submit their 5-year property plans. The Ministry also holds sector group meetings 4 times a year, which representatives with a range of educational interests are invited to. At these meetings, the Ministry introduces new policies on property and receives feedback.

2.37   Network provision staff also provide advice to individual schools, usually in response to specific requests from schools (see paragraph 2.23). We accompanied Network Facilitators on visits to schools, and it was evident that their role in interpreting Ministry policy and assessing property entitlements was of considerable help to schools.

Managing ongoing risks

2.38   Despite the Ministry's good guidance and support, not all school boards may have the capability and capacity to manage property effectively. This is always going to be a risk that the Ministry needs to manage. The types of skills required of school board trustees can range from those needed for client management of large capital projects to a high level of contract management and financial skills. Several

network provision staff told us that capability often depended on uncontrollable factors, such as the community from which trustees were drawn and the size of the school.

2.39   Even in those schools where capability exists, property management is a challenging task for part-time school board trustees. Elections every 3 years result in new, inexperienced people becoming trustees.

2.40   School boards are also operating in a constantly changing environment. They must respond to a variety of events that can have implications for property – for example, changes in the curriculum (such as the increased use of information and communications technology), demographic changes, and new regulatory requirements (such as health and safety requirements). School boards also must juggle property management with their other responsibilities for school governance.

2.41   A number of network provision staff told us that, during the last 5 years, school boards have become increasingly confident in their changed role. However, the interviewees still had concerns that principals and school boards often struggled with property management that was complex and involved a lot of money.

2.42   The Ministry has contracts with providers to train new school board trustees in carrying out their role. One of these contracts is with the New Zealand Schools Trustees Association (STA). The STA also provides training in response to requests from individual school boards. This includes training in property management. Additional, extensive training in property management was provided 5 years ago when the 5-year property plan and School Property Guide policies were introduced. This training has been reduced as school boards and principals become more knowledgeable about their new responsibilities.

2.43   Training is also focused on the "bottom 10% of schools", though neither the Ministry nor the STA was able to define that term for us.

2.44   A number of network provision staff we interviewed considered that there would be a major benefit in providing additional intensive training in school property management to both school boards and principals.

2.45   The Ministry's evaluation of the training currently undertaken by the STA is limited. We consider that the Ministry should assess how far existing training helps school boards to exercise their property management responsibilities, and trustees' levels of satisfaction with the training.

2.46   The results of this evaluation should inform a review of the training in school property management provided to both school boards and principals to ensure that it is sufficient and relevant.

Recommendation 5

We recommend that the Ministry of Education regularly evaluate and review training provided to school Boards of Trustees and principals in school property management, to ensure that the training is sufficient and relevant.

Encouraging collaboration

2.47   Collaboration between schools by, for example, jointly hiring contractors and sharing resources such as sports and arts facilities should result in efficiency savings and release capital for schools to spend on other projects.

2.48   One risk identified by the Treasury[2] at the time the 5-year property plans were introduced was that the policy was inconsistent with attempts to get schools to act in a collaborative manner. It encouraged schools to focus on their individual property needs rather than those of groups of neighbouring schools.

2.49   There is some evidence of collaboration. For example, clusters of schools in Palmerston North and Northland have appointed property managers to take responsibility for specific aspects of school property, such as health and safety, and preventative and remedial maintenance.

2.50   However, a number of network provision staff we interviewed gave examples of schools in their regions where they felt that further collaboration could happen. We agree that the Ministry should do more to encourage collaboration, possibly by providing incentives such as additional funding for shared facilities.

Recommendation 6

We recommend that the Ministry of Education actively encourage schools to share facilities and jointly contract for capital and maintenance work.

2   *Report of Minister of Education to Cabinet Strategy Subcommittee on Expenditure Control and Government Administration.*

Part 3
# Strategic management of the school property portfolio

3.1   In this Part, we examine:

- the alignment of the Ministry's strategy and plans for managing property with the Ministry's wider education aims, including its vital outcomes;
- performance management;
- the availability of information about the school property portfolio to support asset management planning; and
- how quickly the Ministry disposes of surplus property.

Alignment of strategy and plans for managing property with the Ministry of Education's wider aims

3.2   Clear, comprehensive, and co-ordinated strategic planning is essential to managing a large public property portfolio like school property. It serves a number of purposes, including identifying strategic objectives for the property portfolio, defining roles and responsibilities, providing for consistency and co-ordination in planning and managing the property portfolio, and, in this case, providing information and guidance to schools and other external stakeholders about the Ministry's school property portfolio objectives.

3.3   We expected that:

- the Ministry would have a long-term strategic plan for managing the school property portfolio that supported (and was explicitly linked to) the Ministry's wider education aims, including its 3 vital outcomes;
- there would be a clear alignment between the strategic plans produced by the Property Management Group and Education Improvement and Support Group;
- the long-term strategic plan for managing school property would be translated into annual plans for both the Property Management Group and National Operations that identified activities, responsibilities, targets, and performance measures;
- the long-term strategic plan would form the basis for preparing the annual school property business case and for planning and implementing the various strategic initiatives that are being carried out by the Ministry;
- the long-term strategic plan would have been prepared after consultation with other stakeholders, including other groups within the Ministry, regional and district offices, and schools (school boards, principals, teaching staff, and the wider school community); and
- the Ministry would dispose of surplus property promptly.

3.4   We found that:

- The Ministry has a strategic planning framework in place. It has 3 vital outcomes (see paragraph 2.3), which are translated into objectives and targets for each function within the Ministry.

- The Ministry has had no strategic plan for the school property portfolio for the last 4 years.

- There are policies and initiatives for the school property portfolio and these appear sound. However, these have not been linked through the strategic planning framework to the Ministry's vital outcomes.

- The Ministry recognises that it needs to address property strategic planning and is taking steps to do so. We acknowledge that the Property Management Group has been primarily focused on implementing new capital funding arrangements for schools during the last 5 years. This is a major policy initiative, and was a key objective of the Ministry's strategic plan for 1998-2002.

3.5   Figure 3 sets out the Ministry's strategic planning process. The lack of a strategic plan for property management is a significant gap (see paragraph 2.12).

3.6   The Education Improvement and Support Group (EIS), of which National Operations is part, has an Annual Business Plan for 2005-06. This is clearly linked to the Ministry's vital outcomes.

3.7   National Operations' Annual Business Plan for 2005-06 shows how it supports the objectives described in the EIS Annual Business Plan. Each of the regional and district offices that are part of National Operations has produced an Operating Plan. These plans are linked to higher-level plans within EIS.

3.8   The EIS and National Operations plans include some objectives and targets for school property operations management. However, without a strategic plan for school property, it is not clear how plans produced by the property operations arm support high-level strategic objectives for school property management.

3.9   Policies and initiatives have been produced by the Property Management Group, such as the Performing Classrooms Policy, property for children with special needs, and the Area Strategies initiative, which are described in the School Property Business Case 2005/6. These policies and initiatives appear sound. However, again, without a strategic plan for school property management, it is difficult to determine how far they support overall Ministry policies and plans, and the links that may exist between them. In addition, these policies and initiatives for property are not referred to in the current business plans of EIS or National Operations, even though the operations arm has an important role to play in their delivery.

Figure 3
The Ministry of Education's strategic planning framework
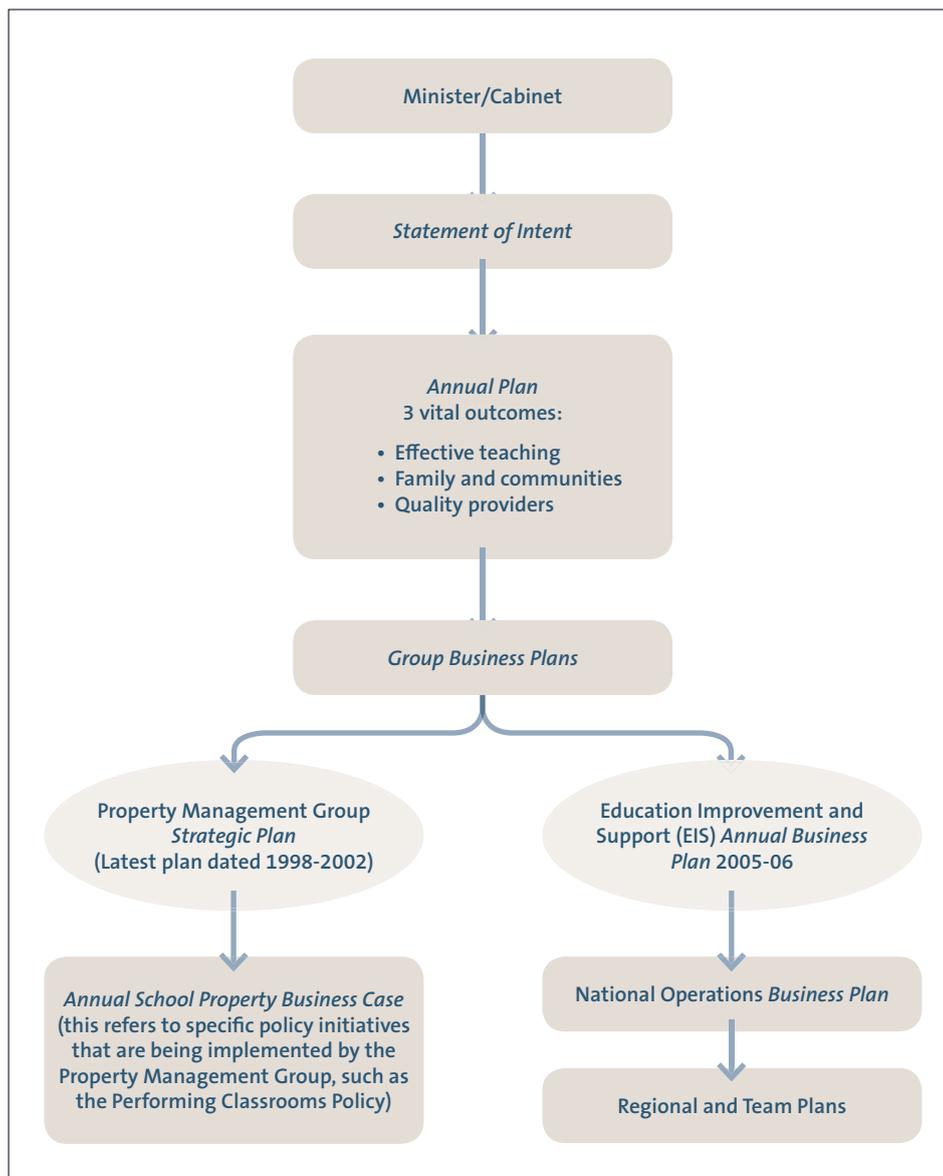
3.10   We recognise that, during the last 5 years, the Property Management Group has focused principally on implementing changes to the way that capital funding is provided to schools. This is a major policy change introduced as part of schools' self-management under the "Tomorrow's Schools" policy. This has included introducing the 5-year property planning process to all schools and producing the School Property Guide (see Figure 2). These were important objectives of the last strategic plan for school property (1998-2002).

3.11   The Ministry now recognises that it needs to resume strategic planning of school property management. We acknowledge that it has recently employed a consultant to assist it. In preparing the strategic plan for school property management, it will be important for the Ministry to consult with other stakeholders, including other groups within the Ministry, regional and district offices, and schools.

Recommendation 7
We recommend that the Ministry of Education produce a strategic plan for school property management that is clearly linked to the Ministry of Education's wider education aims, including its vital outcomes.

Recommendation 8
We recommend that the Ministry of Education explicitly link delivery targets included in the Education and Improvement Support Annual Plan to aims and objectives in the school property management strategic plan.

Property management performance

3.12   We expected that the Ministry:
- would have property management performance standards and targets based on objectives for property set out in the strategic plan for school property management; and
- would be actively monitoring and reporting actual performance against its targets.

3.13   The national office actively monitors and reports on property management performance against targets. This monitoring includes producing a monthly monitoring report by the Group Manager, Property.

3.14   Property performance targets are included within the performance agreements of Network Development Officers and Network Facilitators, and used as part of their performance assessment.

3.15   Most performance targets are specific and measurable – for example, the date is in place by which all schools must have a signed 5-year property plan.

3.16   However, the Ministry needs to explicitly demonstrate how performance targets are based on the strategic objectives and outcomes sought for school property management. This is something that the Ministry will need to address when it produces a strategic plan for school property management.

Recommendation 9

We recommend that the Ministry of Education, as part of its strategic planning for school property management, identify performance targets to use as a basis for measuring the achievement of objectives and outcomes.

Availability of information about the school property portfolio to support strategic and day-to-day property management

3.17   We expected that:

- the Ministry would have up-to-date and accurate information about the whole of its property portfolio that had been independently validated;

- this information would underpin strategic asset management planning at a top level; and

- network provision staff would use this information as part of day-to-day management of school property.

3.18   We found that:

- The principal asset management database used by the Ministry is the Property Management Information System (PMIS).

- There is currently no independent validation of the information within the database, and its accuracy needs to be improved.

- The PMIS is used for asset management planning at Ministry level, but it does not contain property condition information. Its ability to provide reports about the whole property portfolio needs to be improved, and it needs to be better integrated with the Ministry's financial management system.

- Network Development Officers and Network Facilitators consider the PMIS to be an excellent resource to assist them with day-to-day management of capital projects. However, there is a need to improve consistency in the way data is entered. This could be achieved through documented processes for users and an ongoing programme of formal training.

The Property Management Information System

3.19   The PMIS is a computerised database kept by the Ministry that records assets, including buildings and land, at every state school.

3.20   Fixed assets are also recorded in another database.

3.21   The PMIS is used for a number of purposes: to calculate a number of budget allocations, including the maintenance funding of individual schools; to

value property, calculate depreciation charges, and determine new property requirements; and to support the management of capital projects by network provision staff.

3.22   To undertake revaluations, valuations must be downloaded from the PMIS to a spreadsheet, and then loaded back into the PMIS and the other database. Adjustments to 5-year property plans also have to be done manually.

Use of the Property Management Information System by network provision staff in local offices

3.23   Network provision staff use the PMIS primarily to record information about capital projects and to process payments. Overall, the Network Facilitators we interviewed considered the PMIS to be an excellent resource, with a good on-screen help facility.

3.24   However, we were told that there were inconsistencies in the way that staff enter data. There is currently no ongoing training programme, and new staff are instructed in the use of the PMIS through a "buddy" assigned to them. However, the Ministry tells us that it has scheduled training at regional forums for staff later this year, and that this will be followed by a more detailed analysis of training needs so that individual training can be provided.

3.25   There are also no documented procedures for using the PMIS. However, we understand that the Ministry plans to incorporate core procedures for PMIS as part of the written procedures for network provision staff that it is producing.

3.26   There is a long process from creating projects to processing invoices through the PMIS. A large number of approvals are required, which creates the risk that staff will try to find ways to bypass control mechanisms. However, this has been recognised by the Ministry, and the Finance and Systems Manager is devising new procedures based on identifying controls for activities that carry a high risk.

Accuracy of data

3.27   Schools are responsible for informing the Ministry of any amendments that need to be made to information held in the PMIS once changes to property have taken place (for example, alterations to existing buildings or demolition of old buildings), and for submitting Completion Certificates to the Ministry for new buildings. Network provision staff then use this information to update the PMIS records. It is important that schools do this, so that information about the school property portfolio held by the Ministry is up to date and accurate. A number of funding allocation decisions, including the maintenance funding component of the operations grant for individual schools, are based on the information held in the PMIS.

3.28   A number of Network Facilitators commented that it was often difficult to get schools to submit information in a timely way. Information is entered into PMIS by staff at local offices, and they have responsibility for ensuring that it is accurate. However, network provision staff that we interviewed observed that they had seen a lot of information that was inaccurate or out of date – for example, information about buildings that was duplicated or missing, wrong calculations, and capital works claims for maintenance. We were also provided with 2 specific examples where schools had received incorrect funding based on inaccurate information held in the PMIS.

3.29   We did not make an assessment of the extent of inaccuracy of the information held in the PMIS as part of our audit. However, we found that currently no independent, external validation of data held in the PMIS is undertaken, and local offices have adopted different approaches to checking data.

Interface of information in the Property Management Information System with other Ministry of Education information management systems

3.30   Interfaces exist between the PMIS and the Ministry's financial management system and the database that holds information about fixed assets.

3.31   Information entered into the PMIS is automatically updated in the fixed assets database. However, the Ministry considers that the PMIS and the financial management system could be better integrated.

3.32   We consider that the Ministry should prepare a plan to improve the integration of the PMIS with the financial management system. As far as possible, there should be one main source of asset data. This would improve the speed at which information can be extracted and help to ensure its accuracy.

Property Management Information System reporting function

3.33   We expected to find that information about property held in the PMIS is used to underpin asset management planning at a top level, including preparing and implementing a strategic plan for school property management. For example, we expected the PMIS data to be used to provide information about the overall condition of school property, to assess the maintenance backlog, and to determine the funding required for implementing new policies.

3.34   The PMIS is used to provide information to support specific policy initiatives (for example, the Replacement Buildings Policy) and to review the effect on property of planned changes to teacher and student ratios for junior classes. However, a number of interviewees in local offices considered that the PMIS reporting function is limited and very transaction-based (for example, recording

buildings and the money spent on them). Network Development Officers and Network Facilitators made suggestions for how they would improve the reporting functionality of the PMIS — for example, by enabling it to identify the proportion of schools that have 5- and 10-year property plans, and to analyse schools' spending against capital budgets.

3.35   We are concerned that no information is held about the condition of school property. This hampers the ability of the Ministry to have an ongoing overview of the whole school property portfolio that can be used both for strategic planning and to make decisions about the school property portfolio.

3.36   The PMIS was enhanced in 2000 as a project management system, when the Ministry was directly responsible for managing capital projects. The Ministry told us that it would be possible for the PMIS to be enhanced to further improve its functionality. However, this would be costly and take time. The Ministry recognises that there is a need for an infrastructure management system with a strategic reporting function. It plans to undertake an assessment of user requirements with a view to either improving the functionality of the PMIS or replacing it with a system that meets the Ministry's current business needs.

Recommendation 10
We recommend that the Ministry of Education arrange regular independent validations of information held in the Property Management Information System, and introduce consistent internal procedures for checking data.

Recommendation 11
We recommend that the Ministry of Education determine how to improve systems that are used to hold information about property so that it has a better overview of the entire school property portfolio, to assist it in planning and making decisions about property at a portfolio level.

Recommendation 12
We recommend that the Ministry of Education determine how to improve the integration of property information with its financial management system.

Disposal of surplus property

3.37   The Ministry is responsible for the sale of surplus school property. Surplus school property is described in the Ministry's 2005 Annual Report as closed schools and bare land properties. We expected that the Ministry would dispose of surplus school property as quickly as possible.

3.38   In 2004-05, the Ministry exceeded its financial target for disposing of surplus school property, though the rate of disposal of this property was slower than the targeted rate.

3.39   The Ministry states in its School Property Business Case 2005/6 that in 2004-05 it had surplus school property worth $52 million. It achieved sales of $8.7 million against a target of $5.4 million. However, these sales took 32 months on average to complete, against a target of selling this property within 20 months of it being declared surplus.

3.40   The Ministry has identified a number of reasons why it has not been able to meet its target – for example, complications caused by subdivisions, multiple titles, and compliance with Treaty of Waitangi obligations.

3.41   The Ministry has measures in place to discourage schools from retaining surplus property. For example, schools with more than 4 classrooms above their School Property Guide entitlement will not receive 5-year property plan funding unless they have a Ministry-approved plan to reduce surplus property.

3.42   The Surplus Property Disposal Incentive Scheme, in which schools receive a proportion of the proceeds of a sale, also provides them with an incentive to identify surplus property for sale.

3.43   Schools may also seek approval to make use of surplus classrooms for "other educational uses or legitimate use". The Ministry's Five Year Property Programme Guidelines state that, as a "general rule of thumb", educational uses that will qualify are activities that receive specific funding from the Ministry, for example, special needs units and satellite kura kaupapa Māori.

3.44   Removing buildings for use by other schools, demolishing buildings, or decommissioning buildings (which the Ministry becomes responsible for maintaining) are other ways to dispose of surplus school property.

3.45   Disposing of surplus school property is contracted to an external agent, and recently the Ministry has appointed a new agent. The Ministry's view is that this has improved the rate of disposal of surplus property.

Recommendation 13
We recommend that the Ministry of Education, in determining targets for the disposal of surplus school property, identify separate targets for property that can be disposed of quickly and for property that will take longer to dispose of because of specific complications it has identified.

Part 4
Overseeing capital projects and maintenance

4.1   In this Part, we examine the Ministry's overseeing of capital projects and maintenance.

Overseeing capital projects

4.2   The Ministry raises capital funding for property from depreciation, additional funding through Vote Education, and proceeds from the sale of surplus school property.

4.3   Based on information provided by the Ministry, the total amount that has been allocated in 2005-06 for capital works is $405.5 million.

4.4   We expected that:

- the Ministry's framework for overseeing capital projects would provide adequate control, and give assurance that capital projects were managed in keeping with good practice in the public sector; and
- the Ministry would encourage schools to seek environmentally and economically sustainable solutions to desired capital projects.

4.5   We found that:

- The Ministry's framework for overseeing capital projects incorporates controls that on the whole meet standards of good practice for managing capital projects in the public sector.
- Network Development Officers and Network Facilitators are responsible for checking that schools follow the Ministry's written guidance for managing capital projects.
- Apart from financial thresholds, the Ministry does not have a risk-based approach to determining whether schools should be required to employ professional project management services.
- The Ministry has implemented a review of "good practice" capital projects. However, its capital project framework does not include reviews of completed capital projects to determine the effect on the overall condition of the property portfolio, and the broader contribution of completed projects to the achievement of the Ministry's strategic objectives for property and vital outcomes.
- School boards and principals find the 5-year property planning process useful, and the quality of 5-year property plans has improved since the plans were first introduced.
- The Ministry needs to do more to encourage schools to address environmental and economic sustainability issues.

4.6   The Ministry requires school boards, when undertaking capital projects, to:

- comply with the Ministry's Project Management System (this requirement is set out in the *Property Occupancy Document*);

- comply with more detailed guidance included in the *Property Management Guidelines* on the main stages of the Project Management System – planning, implementation, and completion – as well as general practical advice about managing capital works programmes;

- keep accurate records and evidence to show that they have followed the project management methodology;

- undertake effective and efficient purchasing through a transparent competitive tendering process; and

- comply with Design Standards Guidelines, which outline the legislative requirements and special requirements set by the Ministry for building design, to ensure that school buildings are safe and fit for their purpose.

4.7   As described in Figure 2, the Ministry has produced a number of guidance documents to assist school boards in managing a wide range of property projects, including capital upgrades.

Monitoring of capital projects by the Ministry

4.8   The *Property Management Guidelines* remind school boards that the Ministry is both the owner of school property (representing the Crown) and the project funder. The Ministry therefore has an interest in knowing that completed projects are safely constructed, that the money has been spent on the work for which it was allocated, and that the Ministry achieves value for money.

4.9   The *Property Management Guidelines* require school boards to contact the Ministry at specified milestones during the progress of capital projects, including when:

- setting the budget and planning the project;

- tendering and letting the contract; and

- the project has been completed.

4.10   Contact points and the information that school boards are required to supply to the Ministry are specified. Payments made to schools by the Ministry for the next part of the project depend on the Ministry being satisfied that its requirements have been met and that the school has complied with good practice.

4.11   Our interviews with Network Facilitators and review of records kept in the PMIS confirmed that the Ministry actively monitors compliance with these requirements. However, we found inconsistencies in the way that Network

Facilitators undertake this task. As stated in paragraph 2.26, we consider that documented business processes should be produced for Network Facilitators. We understand that the checks undertaken by the Ministry are being reviewed as part of its current review of its framework for overseeing capital projects. We consider that the required checks should be described within these documented business processes.

4.12   The Ministry has implemented reviews of completed "good practice" capital projects to assess the reasons for projects being carried out effectively and how staff and students view their success. The Ministry now needs to extend its overseeing of completed capital projects to review both their effect on the overall condition of the school property portfolio and their broader contribution to the achievement of the Ministry's strategic objectives for property and vital outcomes.

Recommendation 14
We recommend that the Ministry of Education extend its overseeing of capital projects to include reviews of completed projects that determine both their effect on the overall condition of the school property portfolio and their broader contribution to the achievement of its strategic objectives for property and vital outcomes.

Effectiveness of 5-year property planning from the schools' perspective

4.13   Since 5-year property plans, used as the basis of 5-year capital funding agreements between school boards and the Ministry, were introduced, school boards no longer have to lobby the Ministry annually for money.

4.14   Representatives of school boards and principals that we interviewed considered that 5-year property plans were useful documents. They require schools to plan ahead and link property projects to their strategic priorities.

4.15   Network provision staff considered that transparency had improved since the Ministry began using common formulas for determining the amount of capital funding provided to individual schools, and because information about the funding allocated to each school is posted on the Ministry's website.

4.16   School boards are also able to use 5-year property plans to measure their progress in implementing their capital programme.

4.17   Network provision staff considered that the quality of 5-year property plans submitted by school boards had improved since the policy was first introduced in 2000.

Use of property experts

4.18   School boards are not expected to be property experts. They are expected to employ property experts to assist with preparing their 5- and 10-year property plans, and the Ministry provides schools with a financial contribution towards the cost of doing so.

4.19   School boards are also required to employ professional project managers for large capital projects of more than $250,000, and are advised to employ them for medium projects costing between $50,000 and $250,000. However, this does not relieve school boards of their responsibilities to ensure that projects are managed in accordance with good practice in the public sector – such as the use of open and transparent contracting arrangements.

4.20   The Project Management Guidelines acknowledge that there may be individual school board trustees or other parents of children attending the school with the knowledge and experience to manage capital projects. The Project Management Guidelines clearly set out the legal and ethical implications of doing so, including a reference to the need to avoid conflicts of interest. For example, a conflict of interest might arise through someone acting as both a school board trustee and a project manager paid by the school board.

4.21   Some network provision staff we interviewed observed that projects are not always well managed when school boards do it themselves. They suggested that, in addition to the existing financial thresholds, the Ministry should take a risk-based approach to determining whether a school board should be required to employ a professional project manager. We support this view.

Recommendation 15
We recommend that the Ministry of Education identify the main risks for network provision staff to consider when determining whether a school should be required to appoint a professional project manager to manage capital projects, and review its policy to enable these risks to be taken into account as well as existing financial thresholds.

Encouraging environmental and economic sustainability

4.22   Considering the sustainable implications of a capital project involves assessing both the long-term and short-term environmental and economic effects of the project.

4.23   Incorporating sustainable features into new or modernised properties can help to improve the environmental performance of those properties and significantly

reduce ongoing operational costs. The Ministry does not require schools to make an assessment of whole-of-life costs when preparing proposals for capital projects. Nor does it require them to consider long-term maintenance requirements and how these might be reduced.

4.24   The Ministry allocates a percentage of the overall capital budget for sustainable features in new schools. This is not the case for capital projects at existing schools. We understand that the Ministry is currently undertaking a project to produce a sustainability policy for existing schools, and that it plans to incorporate sustainability as part of the preparation of its Performing Classrooms initiative. We suggest that the Ministry considers offering budgetary or other incentives to schools undertaking capital projects to improve environmental and economic performance.

Recommendation 16

We recommend that the Ministry of Education encourage all schools to improve the economic and environmental performance of their property by requiring them to calculate the whole-of-life costs of capital projects.

Overseeing maintenance

4.25   We expected that the Ministry would:

- have adequate arrangements to provide assurance that the school property portfolio is being maintained to standards that protect the property portfolio in the long term;

- monitor how schools are using maintenance funding to ensure that they achieve value for money;

- monitor the continuing validity of formulas used to allocate maintenance funding to schools;

- have adequate arrangements for ensuring that school boards comply with health and safety requirements;

- encourage school boards to improve the environmental and economic performance of their school property through regular maintenance; and

- provide guidance to schools about entering into maintenance contracts.

4.26   We found that:

- The Ministry's overseeing cannot provide it with assurance that school property is being adequately maintained. However, the Ministry is aware of this issue. It is taking action to improve this, initially through a pilot audit of a sample of 200 schools (see paragraphs 4.35-4.37).

- The Ministry does not systematically monitor how schools are using maintenance funding to ensure that they achieve value for money.
- The Ministry does not monitor the continuing sufficiency of the existing formulas used to allocate maintenance funding to schools.
- The Ministry has sound arrangements for ensuring that schools comply with health and safety requirements for property.
- The Ministry could provide more information to schools about how to improve the environmental and economic performance of school property through maintenance.
- The Ministry provides guidance to schools about entering into maintenance contracts, but needs to enhance this guidance by including information about the risks of entering into long-term contracts.

Adequacy of overseeing of maintenance

4.27   Our 2001 report found that the Ministry needed to significantly improve the information it had about the maintenance that school boards undertake and the overall condition of the school property portfolio. The Ministry still needs to address this.

4.28   Between 1990 and 2000, the Ministry spent more than $500 million on deferred maintenance. Although the Ministry is confident that schools are being well maintained and that this situation will not arise again, it has no firm evidence to support this confidence. The Ministry does not hold information about the maintenance that is being undertaken by school boards and the condition of school property at an individual school or aggregate portfolio level.

4.29   We consider that the Ministry should hold this information, and regularly update it, to monitor any changes in condition over time, and to identify additional resources that may be required to maintain property to an acceptable standard in the future. This is particularly important because of the Ministry's responsibilities as guardian of the Crown's ownership interest (it recognises the value of the school property portfolio it has funded on its balance sheet), and because of risks associated with the fact that its responsibilities for carrying out maintenance have been delegated to school boards.

4.30   School boards are required to produce a cyclical maintenance plan as part of their 10-year property plan. The Ministry has identified a number of benefits of requiring schools to do this, including making sure that they budget for maintenance over a number of years, and providing continuity despite trustees on school boards changing.

4.31   Schools are allocated a fixed amount for maintenance as part of their annual operations funding. As stated in Part 1, this amount is a calculation of the entitlement of each school, based on the School Property Guide and information held in the PMIS. The cyclical maintenance plans produced by schools are not used in this calculation.

4.32   School boards have responsibilities under the *Property Occupancy Document* (see Figure 2 following paragraph 2.34) and Health and Safety Code to maintain their property to specified standards. "Maintenance" is defined in the *Property Occupancy Document* as "all work necessary to keep the site, buildings and facilities at the school in a good state of repair". The *Property Management Guidelines* also provide a collection of best practice examples that have proven to be effective in maintaining property, including preventative maintenance, painting, management of maintenance projects, and standards of work.

4.33   However, the Ministry has no mechanism to hold school boards accountable for undertaking the maintenance described in their 10-year property plan. Schools can legitimately divert funding for maintenance to other operational items. The Ministry does not monitor how much of the maintenance funding it provides to schools is in fact spent on maintenance. In our view, the Ministry should systematically monitor how schools are using maintenance funding to identify schools that under-spend significantly, and to ensure that the Ministry achieves value for money.

4.34   The Ministry has some assurance about the standard of maintenance, because the Building Act 2004 requires most schools to have a Building Warrant of Fitness (BWOF) issued by an Independently Qualified Person.[1] This involves regular checks of systems and features related to fire safety, emergency lighting, and access. All schools have independent checks for fire protection systems, regardless of whether they are required to have a BWOF.

4.35   The Ministry recognises that it needs to improve the information it has about how well schools are being maintained. It has appointed a consultant to undertake a pilot audit of 200 schools, including a review of their maintenance plans and a physical inspection of their property. The schools are selected randomly, with a representative cross-section of primary and secondary schools and schools of various sizes spread through all the Ministry's districts.

1   The Building Act 2004 defines the systems and features of properties that require them to have BWOF. The requirement currently applies to about 1750 school sites. A BWOF must be issued every year, and schools are required to publicly display it. Different provisions apply to new schools and schools recently issued with a compliance schedule, which are described in the *Property Management Guidelines*. The Independently Qualified Person is chosen by the Ministry. If repairs or defects are found, the Independently Qualified Person issues the school with a Work Requirement Notice.

4.36   The Ministry's pilot audit began in July 2005. Its purpose is to determine whether:

- schools have a 10-year property plan and BWOF;
- the 10-year property plan has been prepared in accordance with the Ministry's requirements;
- the 10-year property plan is a dynamic working document used to plan, guide, and monitor property management practices; and
- any areas of major non-conformance with the records and proposed actions in the 10-year property plan are identified through the physical inspection.

4.37   The Ministry plans to use the results of this pilot audit to prepare a future programme of audits.

4.38   The pilot audit focuses on schools' compliance with 10-year property plans. We consider that it (or another mechanism) should also provide information about the condition of school property.

4.39   The Ministry needs to determine how it will address maintenance concerns with schools that are failing to adequately maintain their property. Network provision staff had a number of suggestions, including "ring-fencing" maintenance funding for schools that were not meeting their maintenance targets, so that they could not divert it to other types of expenditure.

4.40   We also consider that the Ministry should monitor the continuing validity of its existing formulas for allocating maintenance funding. The formulas are currently based on actual square metres of buildings occupied by individual schools rather than on the condition of buildings. We understand that the Ministry is planning to review the application of the formulas to older schools that may have higher maintenance costs.

Recommendation 17

We recommend that the Ministry of Education monitor how schools are spending their maintenance funding to identify schools that are significantly under-spending, and to ensure that it achieves value for money.

Recommendation 18

We recommend that the Ministry of Education continue to monitor the suitability of its formulas for allocating maintenance funding to schools to ensure that all schools have sufficient funding to maintain their property in a good state of repair.

Recommendation 19

We recommend that the Ministry of Education ensure that the pilot audit of schools' maintenance (or another mechanism) provides adequate information about the condition of school property.

Recommendation 20

We recommend that the Ministry of Education determine how the results of the audit of schools' maintenance will be recorded, assessed, and acted upon. Ideally the results would be recorded within the Property Management Information System.

Recommendation 21

We recommend that the Ministry of Education, having identified schools that are failing to maintain their property to the required standards, establish the reasons and what action is required to remedy the situation.

Ensuring that schools comply with health and safety requirements

4.41   We are satisfied with the Ministry's arrangements for assisting schools to meet their health and safety obligations. It has produced written guidance for schools, which it regularly updates (see Figure 2 following paragraph 2.34).

4.42   The Ministry has extended BWOF requirements to include independent inspections of health and safety matters. In addition, schools will not receive funding for their 5-year property plan if they fail to undertake the owner's[2] inspections that are required for the annual issue of a BWOF, or if they have any Work Requirement Notices outstanding that have been issued after a BWOF inspection.

4.43   Schools are also required to set aside a contingency sum of 10% of their 5-year property plan funding to cover unforeseen health and safety issues. The Ministry will provide funding for emergency projects if they cost more than 50% of the 5-year property plan funding received by the school. However, remaining projects planned under existing and future 5-year property plans may need to be reduced because of the amount spent on any emergency project.

4.44   As part of our review of the Ministry's arrangements for health and safety, we specifically looked at the issue of water quality. We found that the Ministry has published a policy statement for drinking-water quality on its website, which includes guidelines for schools on how to comply with the Ministry of Health's Drinking-Water Standards for New Zealand 2000. However, this guidance needs

---

2   The Ministry has delegated this responsibility to school boards.

to be updated to reflect the new drinking-water standards that came into effect on 31 December 2005. The Ministry tells us that the delay has been caused by the need to clarify with the Ministry of Health whether some of the changes to drinking-water standards apply to schools.

4.45   Schools are required to include water management in their 10-year property plans. The Ministry has added checks to the BWOF requirements that schools that have their own water supply have a testing regime and are adhering to it.

Improving environmental and economic performance

4.46   We have commented on the need for the Ministry to encourage schools to improve the environmental and economic performance of their property (see paragraphs 4.22-4.24). In relation to the ongoing maintenance of school property, we consider that the Ministry should provide guidance to schools on how to improve environmental and economic performance of their property, such as by reducing energy consumption.

Recommendation 22
We recommend that the Ministry of Education provide guidance and consider other ways in which schools might be encouraged to improve the environmental and economic performance of their school property through decisions they make about maintenance.

Guidance about contracting for maintenance

4.47   The *Property Management Guidelines* include guidelines for managing maintenance projects, including the appointment of contractors.[3]

4.48   However, at present the Ministry does not monitor tendering of maintenance contracts by schools to ensure that schools comply with the Ministry's requirements. We consider that the Ministry should introduce monitoring arrangements for awarding maintenance contracts of a significant value, or when one or more schools award a large number of small-value contracts to one supplier.

4.49   A specific issue arose during the course of our audit in relation to long-term painting contracts. These are being entered into by an increasing number of schools.

4.50   At least 25% of schools have entered into these contracts for a period of up to 14 years. There is only limited market competition for these contracts, which may mean that schools are not being offered a fair price. These contracts also

---

3   This is covered in the Project Management System section of the *Property Management Guidelines*. This section refers principally to capital projects, although the contracting process described is also relevant to maintenance.

require schools to borrow and pay interest on money. Normally this would be unnecessary, because they receive funding for maintenance in advance. Schools may also experience problems if they are committed to payments due under their painting contract but their maintenance priorities change during this time.

4.51   As the auditor of state schools, we have already raised our concern that these contracts do not always offer value for money with the Ministry. A number of interviewees shared this concern.

Recommendation 23

We recommend that the Ministry of Education introduce monitoring of the selection process used by schools to award contracts for maintenance to ensure that schools comply with its requirements.

Recommendation 24

We recommend that the Ministry of Education provide guidance to schools about the issues they need to consider, including an assessment of value for money, before entering into long-term maintenance contracts.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Local government: Results of the 2004-05 audits – B.29[06b]
- Inquiry into certain allegations made about Housing New Zealand Corporation
- Department of Conservation: Planning for and managing publicly owned land
- Ministry of Agriculture and Forestry: Managing biosecurity risks associated with high-risk sea containers
- Annual Plan 2006-07 – B.28AP(06)
- Foundation for Research, Science and Technology: Administration of grant programmes
- Management of the West Coast Economic Development Funding Package
- Management of heritage collections in local museums and art galleries
- Central government: Results of the 2004-05 audits – B.29[06a]
- Progress with priorities for health information management and information technology
- The Treasury: Capability to recognise and respond to issues for Māori
- New Zealand Police: Dealing with dwelling burglary – follow-up report
- Achieving public sector outcomes with private sector partners
- Inquiry into the Ministry of Health's contracting with Allen and Clarke Policy and Regulatory Specialists Limited
- Maritime Safety Authority: Progress in implementing recommendations of the *Review of Safe Ship Management Systems*

Website

All these reports are available in PDF format on our website – www.oag.govt.nz. They can also be obtained in hard copy on request – reports@oag.govt.nz.

Subscription for notification of new reports

We offer a subscription facility for people to be notified by e-mail when new Reports and Latest News are added to our website. The link to this subscription service is in the Reports section and also in the Latest News section of the website.

Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system ISO 14001 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests. Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.