



Education Report: Further decisions on property funding rates for charter schools

To:	Hon David Seymour, Associate Minister of Education		
Cc:	Hon Erica Stanford, Minister of Education		
Date:	16 August 2024	Priority:	High
Security Level:	In-Confidence	METIS No:	1334014
Drafter:	Lawrence Brett	DDI:	+64444638975
Deadline Date:	19 August 2024		
Key Contact:	Alanna Sullivan-Vaughan	DDI:	9(2)(a)
Seen by the Communications Team:	No	Round Robin:	No

Purpose of Report

This report seeks your agreement to revised funding rates for sponsor-leased property to account for variations in lease costs by location. It also seeks agreement to two establishment funding rates for new charter schools.

Summary

1. The funding model for Charter Schools | Kura Hourua is intended to provide broadly equivalent resourcing to that of similar state schools, but emphasising per-student funding and funding following students as they move between schools, including between state and charter schools.
2. You previously agreed that the equivalent of capital maintenance funding for charter schools, in property leased from a party other than the Ministry, will be based on the notional lease rates for Ministry-owned school properties, varying by school type and based on a percentage of book values (METIS 1332981 refers).
3. You have since indicated that you are interested in seeing revised rates that take account of geographical variations in leasing costs. However, your previous agreement was to a flat rate that only differentiates by size of school. As such, we have undertaken a more sophisticated regression approach to incorporate a geographical split, which has increased most of the rates slightly. This report seeks your agreement to this new approach.
4. We have identified two additional establishment funding rates that require your agreement.



Recommended Actions

The Ministry of Education recommends you:

- a. **note** that you previously agreed to the below rates of capital maintenance/lease-based funding for charter schools (METIS 1332981 refers):

Primary schools		Secondary schools		Composite schools	
First 100 students	Additional students	First 200 students	Additional students	First 200 students	Additional students
\$2,508.06	\$1,942.72	\$3,580.99	\$2,162.06	\$3,327.43	\$2,292.26

Noted

- b. **note** that you have requested our advice on revised rates that took account of geographical variations in leasing costs;

Noted

- c. **agree** to the following rates of capital maintenance/lease-based funding for charter schools, in property leased from a party other than the Ministry:

	Primary schools		Secondary schools		Composite schools	
	First 100 students	Additional students	First 200 students	Additional students	First 200 students	Additional students
Major urban centre	\$4,125.04	\$1,738.70	\$4,687.64	\$2,151.62	\$3,909.86	\$2,744.36
Other areas	\$2,313.28	\$1,676.07	\$4,083.02	\$1,714.62	\$3,497.94	\$1,767.45

Agree / Disagree

Additional property establishment funding for new charter schools

- d. **agree** that the per-student funding rate for establishment fit-out for new charter schools opening in 2025 in non-Ministry property be as follows:

Primary schools		Secondary schools		Composite schools	
First 100 students	Additional students	First 200 students	Additional students	First 200 students	Additional students
\$1,042.02	\$754.99	\$1,839.20	\$772.35	\$1,575.65	\$796.15

Agree / Disagree

- e. **agree** that the per-student funding rate for establishment ICT for new charter schools opening in 2025 in non-Ministry property be as follows:

Primary schools	Secondary schools	Composite schools
\$690.00	\$753.00	\$837.00

Agree / Disagree

Property funding in the first year of a new charter school

- f. **agree** that property-based funding for the first year of any new charter school be based on its contracted establishment roll, in line with the approach for establishment funding and staffing-based funding;

Agree / Disagree

Proactive Release

- g. **agree** that the Ministry of Education release this paper once it has been considered by you, subject to any redactions needed under the Official Information Act 1982.

Agree / Disagree



Alanna Sullivan-Vaughan
Senior Policy Manager
Te Pou Kaupapahere | Policy
Ministry of Education

16/08/2024



Hon David Seymour
Associate Minister of Education

18/8/24

Background

1. The funding model for Charter Schools | Kura Hourua is intended to provide broadly equivalent resourcing to that of similar state schools, but emphasising per-student funding and funding following students as they move between schools, including between state and charter schools.
2. Sponsors of charter schools situated on property leased from commercial landlords will need the equivalent of capital maintenance funding to pay rent. Cabinet agreed the Associate Minister of Education could consider different rates for sponsor-leased and sponsor-owned property.
3. On 24 June 2024, Cabinet authorised the Associate Minister of Education to set funding rates and make further detailed decisions on the funding model as necessary, in accordance with Cabinet's decisions on the charter school funding model and within the funding appropriated for charter schools [CAB-24-MIN-0217]. Your office provided the Ministry with joint Ministers' decisions on 8 July.
4. The property funding rates you initially approved for charter schools in sponsor-leased property are as follows:

Primary schools		Secondary schools		Composite schools	
First 100 students	Additional students	First 200 students	Additional students	First 200 students	Additional students
\$2,508.06	\$1,942.72	\$3,580.99	\$2,162.06	\$3,327.43	\$2,292.26

5. These rates were based on the capital charge, or "notional lease" paid by state (non-integrated) schools. These charges were set at 5% of the book value of the property. This is the closest approximation to a commercial lease rate in the state system, as the capital charge set by the Treasury is close to expected commercial (gross) returns on capital. Per student funding rates were estimated for each school type.
6. You have requested that we consider changes to these rates, so that schools in more expensive locations are not underfunded for property.
7. We have also identified two more property funding rates for establishing new charter schools that require your agreement.

Property funding rates for charter schools in sponsor-leased property

8. Using a more sophisticated regression method we have developed the following proposed rates. As with the previous proposed property funding rates, we seek your agreements to make minor changes to these rates following final quality assurance.

	Primary schools		Secondary schools		Composite schools	
	First 100 students	Additional students	First 200 students	Additional students	First 200 students	Additional students
Major urban centre	\$4,125.04	\$1,738.70	\$4,687.64	\$2,151.62	\$3,909.86	\$2,744.36
Other areas	\$2,313.28	\$1,676.07	\$4,083.02	\$1,714.62	\$3,497.94	\$1,767.45

9. With these rates, a secondary school of 200 students in Horowhenua or Napier would receive \$816,604 annually, and one in Auckland or Hamilton would receive \$937,528.

A secondary school of 500 would receive \$1,330,990 or \$1,583,014 in these locations, respectively.

10. The “first 200 students” rate for secondary schools in major urban centres is higher than our Budget assumption for the average cost of new school property (\$4,439). In 2025, if there were three schools of 200 students in a major urban area, one would need to be a composite or primary school to fit within our Budget costings.
11. We explored various ways of grouping schools geographically using the Statistics New Zealand Urban Rural categories that the Ministry has adopted from 2024. As shown in the table below, there are six ‘urban type’ categories. Our proposed funding rate separates ‘major urban area’ and groups all other locations together under the term ‘General’. We investigated other groupings but consider them unnecessarily complex, as the differences between neighbouring categories were often quite small, and some categories would have rates based on only a very small number of schools (e.g., there are a combined total of 11 secondary schools in the rural and small categories).

Urban type	Grouping for funding
Major urban area	Major urban area
Large urban area	General
Medium urban area	
Small urban area	
Rural other	
Rural settlement	

Comparison with former partnership school rates

12. We have considered the possible impacts of these rates on the former partnership schools in commercially leased properties. In most cases the proposed funding would more than cover their current leases. For two schools, their current leases will not be met by the proposed rates.
13. We are looking into the implications of this. Once we know of the former partnership schools, if any, that may convert in 2025, our understanding will be better informed.

Additional property establishment funding rates for new charter schools

14. There are two rates of establishment funding for new charter schools (that is, schools that are not converted state schools) that are yet to be finalised.

Fit-out

15. Buildings will require fixtures, fittings, and services to be installed to make them suitable for new charter schools before they open.
16. We recommend funding fit-out for new charter schools at half the value of the annual notional lease-based funding that would apply to the school if it were operating in a “General” area (that is, not in a major urban area) in the school year before the school opens. This is broadly equivalent to the fit-out funding for a new state (non-integrated) school. The rates would apply to any new charter school. We do not expect fit-out to cost more in a major urban centre than in any other location.
17. The proposed rates are set out in the following table.

Primary schools		Secondary schools		Composite schools	
First 100 students	Additional students	First 200 students	Additional students	First 200 students	Additional students
\$1,042.02	\$754.99	\$1,839.20	\$772.35	\$1,575.65	\$796.15

Information and Communication Technology (ICT)

18. New state schools are provided with establishment ICT funding to enable them to purchase ICT equipment needed across the school such as servers, wireless access points, printers, and monitors.
19. In line with other charter school funding rates, we propose grouping the per student funding rates for new charter schools into three broad types. As in state schools, this funding would be provided to charter schools at a flat per-student rate, not a stepped rate.

Type of School	New state school ICT per student funding	Proposed new charter school ICT per student funding rate
Primary School (Year 1-6)	\$670.00	\$690 (all primary sector)
Full Primary (Year 1-8)	\$720.00	
Composite (Year 1-15)	\$753.00	\$753
Secondary School	\$837.00	\$837

Financial Implications

20. We have used these rates in calculating the drawdown of funding for charter schools. In all cases the proposed rates are affordable within the Budgeted funding for charter schools, given our Budget assumptions about school numbers, rolls and types.
21. We will be submitting a report to you on the drawdown on Monday, 19 August.

Next Steps

22. Following your decisions on this paper and our final quality assurance of the rates, the Charter Schools Agency (CSA) will make the rates available to interested parties.
23. You indicated that you would like advice on a transitional funding model for converted charter schools on Ministry-leased property. We will include this as part of our advice on how Ministry property, including leased property, will be managed at conversion and during the transition period.
24. We will monitor the impact of the funding rates as part of the implementation of charter schools and intend to provide you with advice on any findings next year.
25. We are seeking final decisions on this paper by Monday 19 August to enable the CSA to inform potential sponsors of the new rates.