

Education Report: 2025 Property funding rate-setting for charter schools

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|---|--|---------------------|----------------------------|
| To: | Hon David Seymour, Associate Minister of Education | | |
| CC: | Hon Erica Stanford, Minister of Education | | |
| Date: | 26 July 2024 | Priority: | Medium |
| Security Level: | In-Confidence | METIS No: | 1332981 |
| Drafter: | Gerald Dreaver Elliot Jones | DDI: | 04 463 8860 04 463 8712 |
| Deadline Date: | 31 July 2024 | | |
| Key Contact: | Jacqueline Sheppard | DDI: | 9(2)(a) [REDACTED] |
| Seen by the Communications Team: | No | Round Robin: | No |

Purpose of Report

This report seeks your agreement to the 2025 rates for property funding for charter schools, and the implementation of a five-year transition from the current capital maintenance funding methodology to full funding for capital maintenance funding for schools on Ministry-owned property.

Alignment with Government priorities

The establishment of charter schools is a commitment under the National-ACT coalition agreement.

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. On 24 June 2024, Cabinet agreed to the proposed funding approach for charter schools, but authorised joint Ministers (the Prime Minister, Minister of Finance, Minister of Education, and Associate Minister of Education) to make decisions on property funding matters [CAB-24-MIN-0217]. Your office provided the Ministry with joint Ministers' decisions on 8 July. Cabinet delegated decisions on funding rates to you, as Associate Minister of Education.
3. This paper seeks your agreement to the proposed 2025 property funding rates for ongoing funding including:
 - a. Property maintenance grants (a component of operational grant funding) for all charter schools (one per student formula for each school type, with higher rates for the first 100 or 200 students);

- b. Capital maintenance funding for:
 - i. schools on Ministry property (a full (Year 5) rate based on three-year average annual capital maintenance funding, and a Year 1 rate of 20% of the Year 5 rate); and
 - ii. schools on sponsors' property (Policy One funding rate as per integrated schools – currently \$1,388/student, 2025 rate to be finalised by the end of November).
 - c. Funding to enable sponsors to use sponsor-leased sites: we set out a range of options for you to consider;
 - d. Furniture and equipment renewal funding for all charter schools to be based on a percentage of Year 1 capital maintenance funding for charter schools in Ministry-owned property.
4. This paper also seeks your agreement on two aspects of funding for the establishment of new charter schools:
- a. The provision of establishment property funding to sponsor-owned schools;
 - b. Initial furniture and equipment funding for new charter schools, broadly equivalent to that for new State schools.

Recommended Actions

The Ministry of Education recommends you:

- a. **note** that Cabinet has authorised you 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 refers];

Noted

- b. **note** that, by authority of Cabinet [CAB-24-MIN-0217 refers], the Prime Minister, Minister of Finance, Minister of Education and Associate Minister of Education (joint Ministers) have made a number of decisions about property-based funding matters;

Noted

Operational maintenance funding

- c. **agree** to the following operational property maintenance funding for charter schools, with EITHER option (i) the same rates for all charter schools of the same type OR option (ii) different rates depending on the school's property arrangement, as follows:

| | | Primary schools | | Secondary schools | | Composite schools | | |
|-----------|-----|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|------------------|
| | | First 100 students | Additional students | First 200 students | Additional students | First 200 students | Additional students | |
| Option i) | All | \$166.12 | \$77.21 | \$357.92 | \$70.28 | \$189.64 | \$67.95 | Agree / Disagree |

| | | | | | | | | |
|------------|-------------------------|----------|---------|----------|---------|----------|----------|------------------|
| Option ii) | Ministry-owned | \$175.95 | \$76.57 | \$416.54 | \$64.28 | \$213.41 | \$105.50 | Agree / Disagree |
| | Leased or sponsor-owned | \$117.45 | \$54.10 | \$238.99 | \$57.86 | \$114.09 | \$63.96 | |

Capital maintenance and sponsor lease-based funding

- d. **note** that joint Ministers have agreed that capital maintenance funding rates for charter schools in Ministry property be calculated based on a stepped per student rate that reflects the current capital maintenance and renewal of furniture and equipment funding for State schools, and takes into account economies of scale;

Noted

- e. **agree** to the following per student rates for 2025 capital maintenance funding for schools in Ministry-owned property, based on budgeted depreciation-based funding for 2024/25, with schools in the first year of their transition to full-funding receiving 20% of the “fifth year” amount;

| | Primary schools | | Secondary schools | | Composite schools | |
|---------------------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
| | First 100 students | Additional students | First 200 students | Additional students | First 200 students | Additional students |
| Fifth year of transition | \$2,483.01 | \$624.04 | \$4,778.85 | \$602.68 | \$2,940.16 | \$360.87 |
| First year of transition (20%) | \$496.60 | \$124.81 | \$955.77 | \$120.54 | \$588.03 | \$72.17 |

Agree / Disagree

- f. **note** that joint Ministers agreed that the funding rate for charter schools in sponsor-owned property be based on the approach for capital maintenance funding for State integrated schools, with the new rate to be published by the end of November;

Noted

- g. **agree** that the 2025 capital maintenance funding rate for charter schools in sponsor-owned property be the same as that for State integrated schools, and be published when that is finalised;

Agree / Disagree

- h. **agree** that the equivalent of capital maintenance funding for charter schools in property leased from a party other than the Ministry be one of the following options:

| Option i) | The sponsor-owned/State integrated capital maintenance rate for 2025 , being the rate for Policy One funding for State integrated schools, to be finalised by the end of November (noting that the 2024 rate is \$1,388 per student). | Agree / Disagree | | | | | | | | | | | | | | | | | | |
|--|--|-------------------------|-----------------------------------|--------------------|---------------------|--------------------|---------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|------------|------------|------------|------------|------------|------------|--|
| Option ii) | Rates based on the full (fifth year) capital maintenance funding rates for charter schools on Ministry property | Agree / Disagree | | | | | | | | | | | | | | | | | | |
| <table border="1"> <thead> <tr> <th colspan="2">Primary schools</th> <th colspan="2">Secondary schools</th> <th colspan="2">Composite schools</th> </tr> <tr> <th>First 100 students</th> <th>Additional students</th> <th>First 200 students</th> <th>Additional students</th> <th>First 200 students</th> <th>Additional students</th> </tr> </thead> <tbody> <tr> <td>\$2,483.01</td> <td>\$624.04</td> <td>\$4,778.85</td> <td>\$602.68</td> <td>\$2,940.16</td> <td>\$360.87</td> </tr> </tbody> </table> | | Primary schools | | Secondary schools | | Composite schools | | First 100 students | Additional students | First 200 students | Additional students | First 200 students | Additional students | \$2,483.01 | \$624.04 | \$4,778.85 | \$602.68 | \$2,940.16 | \$360.87 | |
| Primary schools | | Secondary schools | | Composite schools | | | | | | | | | | | | | | | | |
| First 100 students | Additional students | First 200 students | Additional students | First 200 students | Additional students | | | | | | | | | | | | | | | |
| \$2,483.01 | \$624.04 | \$4,778.85 | \$602.68 | \$2,940.16 | \$360.87 | | | | | | | | | | | | | | | |
| Option iii) | Rates based on the notional lease rates for Ministry-owned school properties, varying by school type, based on a percentage of book values. | Agree / Disagree | | | | | | | | | | | | | | | | | | |
| <table border="1"> <thead> <tr> <th colspan="2">Primary schools</th> <th colspan="2">Secondary schools</th> <th colspan="2">Composite schools</th> </tr> <tr> <th>First 100 students</th> <th>Additional students</th> <th>First 200 students</th> <th>Additional students</th> <th>First 200 students</th> <th>Additional students</th> </tr> </thead> <tbody> <tr> <td>\$2,508.06</td> <td>\$1,942.72</td> <td>\$3,580.99</td> <td>\$2,162.06</td> <td>\$3,327.43</td> <td>\$2,292.26</td> </tr> </tbody> </table> | | 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 | |
| Primary schools | | Secondary schools | | Composite schools | | | | | | | | | | | | | | | | |
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| \$2,508.06 | \$1,942.72 | \$3,580.99 | \$2,162.06 | \$3,327.43 | \$2,292.26 | | | | | | | | | | | | | | | |
| Option iv) | Market-referenced rates varying by location (but not based on school type) based on the lower quartiles of 2023/24 commercial lease rates for offices in provincial towns, provincial centres, and the main centres: | Agree / Disagree | | | | | | | | | | | | | | | | | | |
| <table border="1"> <thead> <tr> <th></th> <th>Proposed 2025 charter school rate</th> </tr> </thead> <tbody> <tr> <td>Provincial town:</td> <td>\$1,500</td> </tr> <tr> <td>Provincial centre:</td> <td>\$3,000</td> </tr> <tr> <td>Main centre:</td> <td>\$4,000</td> </tr> </tbody> </table> | | | Proposed 2025 charter school rate | Provincial town: | \$1,500 | Provincial centre: | \$3,000 | Main centre: | \$4,000 | | | | | | | | | | | |
| | Proposed 2025 charter school rate | | | | | | | | | | | | | | | | | | | |
| Provincial town: | \$1,500 | | | | | | | | | | | | | | | | | | | |
| Provincial centre: | \$3,000 | | | | | | | | | | | | | | | | | | | |
| Main centre: | \$4,000 | | | | | | | | | | | | | | | | | | | |

Renewal of furniture and equipment funding

- i. **agree** that the 2025 funding rate for furniture and equipment renewal for all charter schools be as follows:

| School type | % of Year 1 capital maintenance funding for charter schools on Ministry-owned property |
|-------------|--|
| Primary | 11.44% (approximately \$65/first 100 students, \$17/additional students) |
| Composite | 11.97% (approximately \$76/first 100 students, \$33/additional students) |
| Secondary: | 13.30% (approximately \$123/first 100 students, \$27/additional students) |

Agree / Disagree

Establishment funding for new charter schools

- j. **agree** that sponsor-owned property for new charter schools be eligible for capital maintenance funding for the period between the commencement of sponsor contracts and the year the school opens, at the standard rate for sponsor-owned charter schools;

Agree / Disagree

- k. **agree** that the funding rate for initial furniture and equipment for new charter schools opening in 2025 in non-Ministry property be as follows:

| Primary schools | Secondary schools | Composite schools |
|-----------------|-------------------|-------------------|
| \$2,135.41 | \$2,490.30 | \$2,312.86 |

Agree / Disagree

Next steps

- l. **agree** that the Ministry may make minor adjustments to the proposed rates, by 2 August and prior to their publication, based on further quality assurance and consistent with joint Ministers' decisions and your other decisions on this report;

Agree / Disagree

- m. **note** we will monitor the feedback and implementation of the rates and intend to provide you with an update in 2025 for implementation of any changes in 2026;

Noted

Proactive Release:

- n. **agree** that this paper will be proactively released once final decisions are made.

Agree / Disagree



Jennifer Fraser
General Manager, Schools Policy
Te Pou Kaupapahere

26/07/2024

Hon David Seymour
Associate Minister of Education

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Background

1. On 24 June 2024, Cabinet agreed to the proposed funding approach for charter schools and authorised the Associate Minister of Education to set funding rates, but authorised joint Ministers (the Prime Minister, Minister of Finance, Minister of Education, and Associate Minister of Education) to make decisions on property-based funding matters [CAB-24-MIN-0217].
2. On 8 July, your office provided the Ministry with a copy of Ministers' decisions. Ministers agreed it was important to both drive efficiencies and reduce impacts on the Crown's balance sheet. Key decisions are noted under the relevant sections of this report.
3. In line with the decisions following the charter school funding cabinet paper, the basis for calculating some of the components of property funding differs depending on the three different property arrangements: schools on Ministry property; schools with their own property; and schools on leased sites.

Approach

4. We have proposed 2025 funding rates for the following components of property funding in line with Cabinet decisions:
 - a. Operational maintenance
 - b. Capital maintenance/lease-related funding
 - i. Ministry-owned property
 - ii. sponsor-owned property
 - iii. sponsor-leased property
 - c. Renewal of furniture and equipment
 - d. Initial funding for furniture and equipment for new charter schools.
5. While we have done some quality assurance on these figures, we have not had time to undertake our usual standard of quality assurance. Therefore, we seek your agreement to the Ministry making minor adjustments to the rates prior to their publication, consistent with joint Ministers' decisions and your other decisions on this report. We will advise you of any significant changes or issues should they arise from this quality assurance process.
6. The proposed funding rates are based on equivalent funding approaches in the State system. Property funding in the State system is based on multiple factors, including formula driven funding, needs-based funding, and area-based funding. While a school's roll has an influence, there is not a direct correlation between roll and property funding.
7. The structure of the proposed rates is consistent with that for other charter school funding rates. For primary schools this means a different rate for the first 100 students and for secondary students this means a different rate for the first 200 students.
8. We have used regression analysis to estimate funding rates for charter schools that are broadly equivalent to those in the State system. The degree of equivalency depends on the profile of the charter schools that are established, and the simple per student model used to estimate capital maintenance funding for Ministry-owned property averages across wide variations in actual funding. For 2026, the rates should

be reviewed for their equivalency and their effectiveness in supporting the goals of the charter school system.

9. The cost of charter school funding and how it compares to State school funding will depend on the nature and profile of the converted and new charter schools. As previously advised, over the coming year we intend to monitor and report to you on the extent of any fiscal risks and potential mitigations.
10. As part of our analysis, we also undertook modelling of differentiated funding for Māori immersion students. The modelling gave mixed results. In some cases Māori medium schools would receive less funding than other schools, while in others we did not consider the results reliable. We intend to explore this further as part of further quality assurance, and in the review of the rates for 2026.

Operational maintenance

Current approach for State schools

11. The property maintenance grant (PMG), costing around \$90m per year for all State schools, is a component of the operational grants for State schools. The purpose is to fund general maintenance tasks such as washdowns, clearing of gutters, and painting.
12. The funding is based on the actual area of a school or the integrated space in a State integrated school. Factors include total building area, swimming pool volume, and site area. There is a component for “minor capital works” that State integrated schools are not eligible for. Combined with other differences in property characteristics, this means integrated schools receive lower property maintenance grants in their operational funding than other State schools do.

Proposed rate for charter schools

13. We have undertaken simple linear regressions on 2023 property maintenance funding, converted the implied base-funding amounts to higher per student rates for the first 100 or 200 students, and adjusted to 2025 funding rates based on the 2024 and 2025 general adjustments to the operational grants.
14. We propose adopting one of two options:

Option i) provides the same rate for all charter schools of each type (i.e., primary, secondary composite) and size.

Option ii) has separate rates for charter schools on Ministry-owned property, based on funding for Ministry-owned schools, from the rates for other schools, based on the funding for integrated schools.

Table 11: Proposed 2025 property maintenance grant rates for charter schools in Ministry-owned properties, based on per student funding in 2023, adjusted based on general operational grant adjustments

| Option | | Primary schools | | Secondary schools | | Composite schools | |
|--------|-------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
| | | First 100 students | Additional students | First 200 students | Additional students | First 200 students | Additional students |
| i) | All | \$166.12 | \$77.21 | \$357.92 | \$70.28 | \$189.64 | \$67.95 |
| ii) | Ministry-owned | \$175.95 | \$76.57 | \$416.54 | \$64.28 | \$213.41 | \$105.50 |
| | Leased or sponsor-owned | \$117.45 | \$54.10 | \$238.99 | \$57.86 | \$114.09 | \$63.96 |

15. We recommend option ii) as it more accurately reflects the property maintenance funding that State schools (integrated and non-integrated) receive. For charter schools in sponsor-leased property, it recognises that landlords tend to carry the larger property maintenance costs and pass them on through lease rates. This split is also reflected in the proposed capital maintenance funding rates below.

Capital maintenance funding – Ministry-owned property

State school equivalent funding

16. Capital maintenance funding is provided through the capital depreciation component of the School Property Portfolio Management appropriation. The amount of funding is determined through the annual Budget process, based on the actual depreciation of Ministry-owned property. In recent years, depreciation has not been fully funded.
17. Approximately 20% of the capital depreciation funding is provided to State schools in the form of the Five-Year-Agreement funding (5YA). This funding is paid to schools at \$30/m², for the lesser of actual or entitled space. The remainder is distributed by the Ministry based on need.

Proposed rates for charter schools in Ministry property

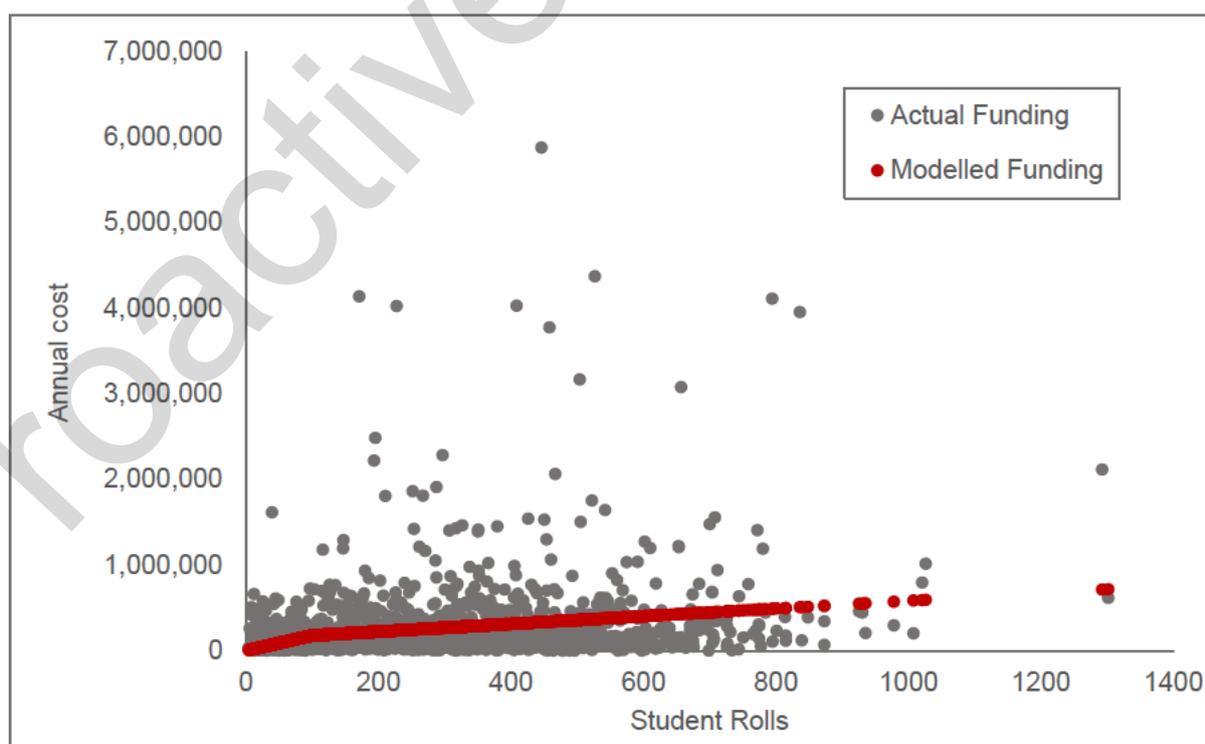
18. Joint Ministers agreed that charter schools in Ministry-owned property will receive a stepped per-student funding rate for capital maintenance and renewal, taking account of economies of scale, based on, and sourced from the capital depreciation component of the School Property Management Portfolio appropriation.
19. Ministers have agreed to a five-year transition to full capital maintenance funding for charter schools in Ministry property. Accordingly, these schools will receive one-fifth of the final-year amounts in 2025, plus any needs-based funding that is approved. The proposed 'fifth year' and 'first year' per student capital maintenance funding rates for charter schools in Ministry-owned property are shown in the following table. Due to the five-year transition Ministers have adopted, these schools will receive one-fifth of the final-year amounts in 2025, plus any needs-based funding that is approved.

Table 22: Proposed per student capital maintenance funding rates for charter schools in Ministry-owned properties, based on average per student funding over the period 2020/21 to 2022/23, to be adjusted for 2025 based on the forecast average increase in per student capital maintenance funding from 2022/23 to 2024/25

| | Primary schools | | Secondary schools | | Composite schools | |
|---------------------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
| | First 100 students | Additional students | First 200 students | Additional students | First 200 students | Additional students |
| Fifth year of transition | \$2,483.01 | \$624.04 | \$4,778.85 | \$602.68 | \$2,940.16 | \$360.87 |
| First year of transition (20%) | \$496.60 | \$124.81 | \$955.77 | \$120.54 | \$588.03 | \$72.17 |

20. The proposed per student funding for the first 100 or 200 students is much higher than for additional students. This reflects economies of scale and the relatively weak correlation between current school roll and annual needs-based capital maintenance spending.
21. Figure 1, below, compares three-year-average capital maintenance funding for State (non-integrated) secondary schools, by three-year-average school roll. We have not adjusted prior-year funding because the level of funding provided changed little over this period.
22. For most schools there are large differences between actual funding and modelled funding based on regression analysis of this data. Some schools have had average funding close to zero. They may be new schools or have had funding from other sources, such as the Christchurch Rebuild Programme. Other schools have received major redevelopments equivalent to multiple years of annual funding.

Figure 1: Average annual depreciation-based capital maintenance funding for State (non-integrated) secondary schools by average roll, 2020/21 to 2022/23



Learning support property modifications and insurable damage

23. As part of the development of the 2025 rate, we have based it on the full value of the capital depreciation funding stream. Within this stream, there are two targeted components:
 - a. Funding for property modifications to support students with learning support needs.
 - b. Funding to repairs due to insurable damage (eg fire or flood).
24. For the first year, the targeted approach will still apply, as the Ministry will still be responsible for a significant portion of the capital maintenance.
25. We have discussed with you the possibility of an insurance-type approach to disaster recovery once sponsors assume full funding and responsibility for property. As part of this we would also like to consider the possibility of continuing to target funding for property modifications to support students with learning support needs.

Capital maintenance funding – sponsor-owned property

26. Proprietors are the owners of the property occupied by State integrated schools. Proprietors are funded for capital maintenance on a per student basis. The rate is based on a portion of the value of the Crown school property portfolio, divided by the number of State school students. There is no stepped approach.
27. We recommend using the same 2025 rate as that for State integrated schools. This rate will be published by the end of November 2024. In the meantime, sponsors can be advised of the 2024 rate (\$1,388 per student), and that the 2025 rate will be higher.

Property-based funding for sponsor-leased property

28. Sponsors of charter schools on property they lease from commercial landlords will need the equivalent of capital maintenance funding to pay rent. Cabinet agreed the Associate Minister of Education could consider a differentiated rate for sponsor-leased property compared to sponsor-owned property. These schools' rent is likely to cover the landlord's capital maintenance costs and a return on capital.

Current approach for State schools in leased property

29. The Ministry currently funds the actual lease costs for State schools in leased accommodation. The amount of space leased is based on general entitlement policies, but the actual rate varies significantly. Lease costs are highly dependent on location and general space requirements. We do not recommend funding actual costs for charter schools as it would provide no incentive for efficiency and creates uncertainty around future costs for the Crown.

Leasing costs at former partnership schools

30. We estimate the average rent for former partnership schools to be \$3,189 per student. These schools are in Auckland, Whangārei, Hamilton, and Rotorua. Based on Ministry guidelines for building area, four of these schools could accommodate more students, which could reduce their lease costs per student. This figure is lower than the initial estimate used for the Budget costings as it has been updated to reflect some schools' increases in rolls.

31. These estimates obscure wide variations by location and scale. However, we expect new charter schools to be concentrated in the main centres. Scale economies may be difficult for some to achieve due to the rarity of suitable large properties. We know of two former partnership schools which use multiple sites.

Proposed rates of funding for sponsor-leased property

32. We present four options for funding for sponsors to use sponsor leased sites, starting with the least targeted and ending with the most targeted:

Option i): The sponsor-owned/State integrated capital maintenance rate

The 2024 rate is \$1,388 per student. The 2025 rate will be higher and will be set by the end of November. Few sponsors are likely to be able to source suitable premises with this level of lease funding.

Option ii): The full (fifth year) capital maintenance funding rates for charter schools on Ministry property (see paragraph 18)

We expect that the per student rates for the first 100 (primary school) or 200 (secondary or composite school) students under this option would be sufficient for sponsors to secure property for schools up to these sizes but, if larger schools have to rent multiple sites with few economies of scale, the funding may not be sufficient. The property funding we assumed for Budget 2024 costings (\$4,439 per student) was less than the rate for the first 200 secondary school students.

Table 33: Option ii - 2025 per-student property funding rates for charter schools in sponsor-leased properties based on capital maintenance funding for schools on Ministry property

| Primary schools | | Secondary schools | | Composite schools | |
|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
| First 100 students | Additional students | First 200 students | Additional students | First 200 students | Additional students |
| \$2,483.01 | \$624.04 | \$4,778.85 | \$602.68 | \$2,940.16 | \$360.87 |

Option iii): Rates based on the capital charge, or “notional lease” paid by State (non-integrated) schools

These charges are set at 5% of the book value of the property. This is the closed 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. We have estimated per student funding rates for each school type.

Table 445: Option iii - 2025 per-student property funding rates for charter schools in commercially leased properties based on capital charges/notional lease rates

| 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 |

Option iv): Market-referenced rates varying by location

We have data on the lower and upper quartiles of commercial property rents in a variety of locations in 2023/24. We have estimated possible funding rates based on the range of lower quartiles across locations on the grounds that charter schools do

not need to be in prime retail or office locations, as demonstrated by the former partnership schools.¹

Table 56: Option iv - Proposed property funding rates for charter schools in commercially leased properties, based on the lower quartiles of office rentals in a sample of locations

| | Lowest lower quartile | Highest lower quartile | Estimated 2025 charter school rate |
|---------------------------------|------------------------------|-------------------------------|---|
| Provincial town: ² | \$1,385 | \$2,308 | \$1,500 |
| Provincial centre: ³ | \$2,308 | \$5,769 | \$3,000 |
| Main centre: ⁴ | \$3,231 | \$4,615 | \$4,000 |

33. In the review of rates for 2026, we intend to explore the option of the Charter School Agency having more flexibility in the setting of lease funding rates, and/or providing a more nuanced set of rates. These could simultaneously account for variations in locality and school type.

Selecting an option

34. Generally, the options are affordable within the property funding we assumed when costing charter schools for Budget 2024. As noted above, the funding rate for the first 200 students in a secondary school under option ii) exceeds our Budget assumption. If you select this option and most of the 15 new charter schools are secondary schools with close to 200 students, the Charter Schools | Kura Hourua MCA could come under pressure and there could be a risk of breaching the appropriation.
35. Key criteria for deciding between the options are whether the funding is likely to cover the expected cost for charter schools to lease property of adequate quality, and whether the funding rates are appropriate for sponsors of a range of types and sizes and in a range of locations.
36. In our view, the funding under option i) is not adequate while the other options are likely to be adequate for most sponsors. Options ii) and iii) could over-fund property in provincial towns. Option iv) avoids this risk, but may over-fund some schools, especially primary schools, and any larger schools (more than 200 students). In general, the stepped rates in option ii) are best for enabling and encouraging sponsors to secure sufficient space for future growth, but the CSA would need to take care to stay within budget if (as expected) most new schools are secondary schools.

¹ The estimates targeted building areas of 1,500m². This could accommodate around 65 secondary students based on Ministry guidelines, which include components sponsors may choose not to lease such as halls and gyms. These rates do not provide for outdoor space. Larger spaces may be available at lower per student cost.

² Te Kuiti, Masterton, Blenheim, and Geraldine.

³ Whangārei, Hamilton, Tauranga, New Plymouth, Napier, Palmerston North, Nelson, and Dunedin.

⁴ Auckland, Wellington, and Christchurch.

Furniture and equipment renewal funding

State and State integrated schools equivalent funding

37. State and State integrated schools receive regular funding to renew and replace their furniture and equipment such as whiteboards, chairs, tables, and other items that cannot be capitalised as an asset and are not consumables.
38. For State schools, the funding is a proportion of a component (5YA)⁵ of their capital maintenance funding and varies by school type. If a school undergoes significant redevelopment, it receives a higher rate for the space that is being redeveloped.
39. State integrated schools receive renewal funding for their furniture and equipment as a proportion of their capital maintenance funding (Policy one). The proportion is the same as State schools, but the amount tends to be disproportionately high on a per student basis. This is a feature of State school funding that merits review, and not necessarily the best use of funding for charter schools. Therefore, we propose a general approach based on that for State (non-integrated) schools.

Proposed rate for furniture and equipment renewal

40. We propose that sponsors be provided with funding for furniture and equipment renewal based on the approach for State schools. However, instead of applying a percentage rate to 5YA funding, it would be calculated as a proportion of the Year 1 capital maintenance rate for charter schools in Ministry property, which we expect to be very similar to 5YA.
41. This approach could reduce furniture and equipment renewal funding for State integrated schools if they convert, because it would remove the disproportionality of the current funding of furniture and equipment for these schools. However, it would mean that charter schools of the same type (primary, secondary, or composite) and roll would receive the same level of funding for furniture and equipment renewal, regardless of their property arrangement. This is appropriate because a school's need to renew or replace their furniture and equipment is unlikely to be driven by who owns the property they occupy.
42. Among State schools, the percentage rates vary slightly depending on school type. For greater simplicity, we propose grouping these into three broad types in line with other charter school funding rates.

⁵ Five-year agreement funding, which is currently around 20% of capital maintenance funding.

Table 6: Proposed furniture and equipment funding rates as a percentage of Year 1 capital maintenance funding (20% of full capital maintenance funding for a charter school on Ministry property)

| Rates for State schools | | Proposed rates for charter schools | |
|-----------------------------------|------------------|------------------------------------|---|
| School type (narrow) | % of 5YA funding | School type (broad) | % of Year 1 capital maintenance for charter schools in Ministry property |
| Contributing primary (Years 1–6) | 10.64% | Primary | 11.44% (approximately \$65/first 100 students, \$17/additional students) |
| Full primary (Years 1–8) | 11.44% | | |
| Intermediate (Years 7–8) | 13.30% | | |
| Composite (Years 1–15) | 11.97% | Composite | 11.97% (approximately \$76/first 100 students, \$33/additional students) |
| Restricted composite (Years 7–10) | 13.30% | | |
| Secondary (Years 7–15) | 13.30% | Secondary | 13.30% (approximately \$123/first 100 students, \$27/additional students) |
| Secondary (Years 9–15) | 13.30% | | |

Establishment grants for new charter schools

Establishment funding for new schools in non-Ministry property

43. Ministers have agreed that new charter schools in sponsor-leased properties should receive up to six months of property funding for the period between the commencement of sponsor contracts and the year the school opens (METIS 1325020 refers). This paper seeks your agreement to extend this approach to sponsor-owned property for new charter schools (but using the capital maintenance funding rate for charter schools occupying sponsor-owned property). We do not want to disincentivise sponsors of new charter schools from bringing their own property where able.

Initial furniture and equipment funding for new schools in non-Ministry property

44. New State schools receive initial furniture and equipment funding based on the areas of their “standard” and “specialised” spaces. For Budget purposes, we assumed that 90% of the area of a school of 200 students would be at the lower, “standard” rate.
45. For 2025, we propose the following per student rates for initial furniture and equipment funding for new charter schools, assuming percentages of 95% standard (primary), 85% (secondary), and 90% (composite). These assumptions are intended to reflect the higher proportion of specialist teaching space entitlements in higher year levels. As we expect new charter schools to be relatively small, a single per student rate should be adequate for this purpose. A more detailed analysis could be undertaken for 2026. This could result in changes to the assumed specialist space by school type and could take account of economies of scale for larger schools.

Table 7: Proposed per student funding rates for initial furniture and equipment for new charter schools in non-Ministry property opening in 2025

| Primary schools | Secondary schools | Composite schools |
|------------------------|--------------------------|--------------------------|
| \$2,135.41 | \$2,490.30 | \$2,312.86 |

46. Establishment grants will be based on the school's agreed establishment roll (the expected Term 5 roll).

Next steps

47. Following your decisions on this paper and our final quality assurance of the rates, the Charter Schools Agency will make the rates available to interested parties.
48. We will be providing further advice on various matters related to this report, including appropriations and transfers for property-based funding and the operation of the five-year transition process for charter schools on Ministry property.
49. 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.