

Briefing Note: Partnership Schools – Cash for Buildings and Lease Cost sensitivity analysis

Date:	2 June 2015	Priority:	Medium
Security Level:	Budget sensitive	METIS No:	931753
To:	David Seymour MP, Parliamentary Under-Secretary to the Minister of Education		
Copy to:	Hon Hekia Parata, Minister of Education		
Approved by:	[REDACTED]	DDI / Mob	[REDACTED]

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Background and purpose of this report

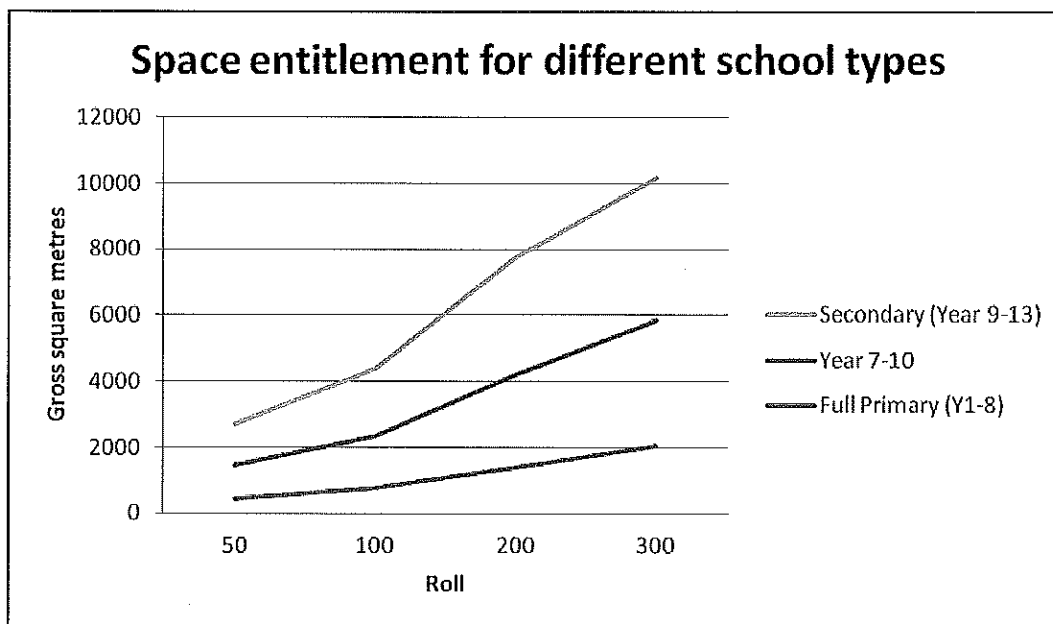
1. At your regular agency meeting on 2 June, you asked officials to provide:
 - a. a breakdown of the sensitivity of space entitlement calculations to roll numbers for different school types; and
 - b. a comparison between the annual funding schools of these sizes would receive based on:
 - i. cash for buildings
 - ii. an indicative regional lease cost, based on publicly available rates from Colliers International.

Space entitlement calculations

2. Each state school's entitlement to buildings is based on the School Property Guide calculator, which is publicly available online¹.
3. The calculation includes a mix of fixed and variable components. Teaching space, for example, is linked to staffing ratios, and therefore increases when enough additional students enter a year level to trigger another teacher — and thus another classroom.
4. The following chart shows how the space entitlement (m²) increases for three different school types increases as the roll increases from 50 to 300 students.

¹

<http://www.minedu.govt.nz/NZEducation/EducationPolicies/Schools/PropertyToolBox/StateSchools/Funding/SPGDefFunding/SPGCalc.aspx>



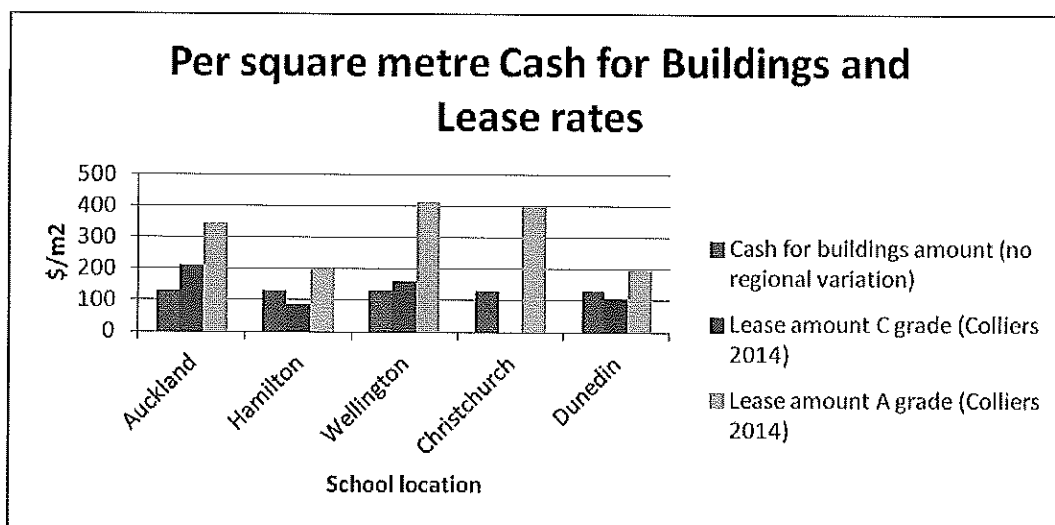
5. As illustrated above, older students generate more space, due to the need to provide a wider variety of spaces in senior years. For example, secondary schools are entitled to a gymnasium, while primary schools are not.
6. There is no specific entitlement for land. Site sizes vary throughout the country. The Ministry has guidelines it uses when considering sites for purchase for new schools or site extension.

Comparison of annual property funding based on Cash for Buildings and market lease costs

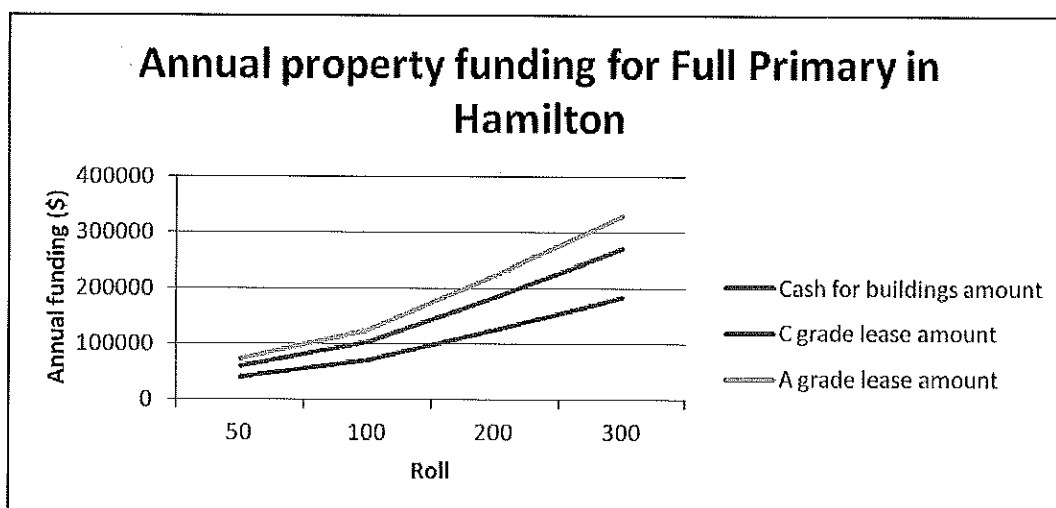
7. Office lease costs in this analysis are sourced from Collier's 'New Zealand CBD Office 2014' report². The report provides a low-high range for a number of CBD/fringe locations in Auckland, Hamilton, Wellington and Dunedin. The mid-point of each range has been taken. Only one range for Christchurch (Premium CBD) is quoted in the report, given limited data available. Again, the midpoint of this range has been used.
8. Appendix One provides the key information across a range of school types (Year 1-8, Year 7-10, Year 9-13) and school rolls (50 to 300 pupils).
9. Officials are available to walk you or your advisors through the analysis. An Excel model is also available if you would like to run further scenarios.
10. The following chart shows that for most cities, Cash for Buildings provides less funding per square metre than a Sponsor might expect to pay to lease office space. This reflects the fact Cash for Buildings does not factor in the cost of land.

² Publically available at:

<http://www.colliers.co.nz/find%20research/office/nz%20cbd%20office%20report%202014/>.



11. In Hamilton and Dunedin, C Grade office accommodation is cheaper than Cash for Buildings amount. The following chart illustrates how cash for buildings funding for a full primary school in Hamilton falls between the cost of A and C grade office accommodation.



12. It should be noted that a Sponsor will have "property" costs in addition to paying rent, such as buying and maintaining furniture and equipment. So the total property costs may be much closer to the Cash for Buildings amount.
13. This analysis aligns with the Ministry's experience of trying to find leased accommodation for education providers and anecdotal evidence from schools: it is difficult to find suitable space in urban areas for the amount of funding Cash for Building provides.
14. Colliers has indicated that it may not be possible to provide a market-based rate for rural areas, but should be possible to formulate indicative lease costs for a school in the main centres. However further work is required on what appropriate lease costs per square metre would be, including:

- a. Determining the appropriate property type (office, industrial, retail, residential) which to base school lease costs on for each region as:

- i. there is limited or no office accommodation in rural areas; and
 - ii. even when there is suitable accommodation, there is limited market information available;
- b. Determining what grade of accommodation is appropriate for a school.

School type	Full Primary (Y1-6)				Restricted Composite (Y7-10)				Secondary (Y9-15)			
	50	100	200	300	50	100	200	300	50	100	200	300
Total roll	452	780	1,389	2,052	1,001	1,573	2,824	3,800	1,259	2,036	3,543	4,301
Total gross area (m2)												
State school funding												
Capital cost (includes F&E)	\$1,369,586	\$2,155,960	\$3,621,045	\$5,209,428	\$3,177,053	\$4,842,545	\$8,489,092	\$11,356,165	\$4,134,345	\$9,526,289	\$11,178,841	\$13,560,540
40 Years PMV	\$198,880	\$343,200	\$611,160	\$902,880	\$440,440	\$692,120	\$1,242,560	\$1,672,000	\$553,960	\$895,840	\$1,558,920	\$1,892,440
30 Years SYA	\$406,800	\$702,000	\$1,250,100	\$1,846,800	\$900,900	\$1,415,700	\$2,541,800	\$3,420,000	\$1,133,100	\$1,632,400	\$3,168,700	\$3,870,900
30 Years F & E	\$27,120	\$46,800	\$83,340	\$123,120	\$60,060	\$94,380	\$169,440	\$228,000	\$75,540	\$122,160	\$212,580	\$258,060
Cash for buildings conversion rate	\$132	\$132	\$132	\$132	\$155	\$155	\$155	\$155	\$162	\$162	\$162	\$162
Cash for buildings amount	\$59,664	\$102,960	\$183,348	\$270,864	\$155,155	\$243,815	\$437,720	\$689,000	\$203,958	\$329,832	\$573,966	\$696,762
Lease costs												
Auckland												
C grade office lease costs /m2	210	210	210	210	210	210	210	210	210	210	210	210
Total annual lease cost - C grade	94,920	163,800	291,990	430,920	210,210	330,330	593,040	798,000	284,390	427,560	744,030	903,210
Difference (positive means C4B is more generous)	-95,256	-60,840	-109,342	-160,056	-55,055	-86,515	-155,320	-209,000	-80,482	-97,728	-170,084	-206,448
Hamilton												
A grade office lease costs /m2	345	345	345	345	345	345	345	345	345	345	345	345
Total annual lease cost - A grade	155,940	269,100	473,205	707,940	345,345	542,865	974,280	1,311,000	434,355	702,420	1,222,935	1,483,945
Difference (positive means C4B is more generous)	-96,276	-166,140	-295,857	-437,076	-190,190	-298,870	-536,560	-722,000	-230,397	-372,598	-648,369	-787,063
Wellington												
C grade office lease costs /m2	90	90	90	90	90	90	90	90	90	90	90	90
Total annual lease cost - C grade	40,680	70,200	125,010	184,680	90,090	141,570	254,160	342,000	113,310	183,240	318,870	387,090
Difference	18,984	32,760	58,338	86,184	350,350	550,550	988,400	1,330,000	90,648	146,592	255,096	309,672
Wellington												
A grade office lease costs /m2	203	203	203	203	203	203	203	203	203	203	203	203
Total annual lease cost - A grade	91,759	158,340	281,967	416,556	203,203	319,319	573,272	771,400	285,577	413,308	718,229	873,103
Difference	-32,092	-55,380	-98,619	-145,692	-48,048	-75,504	-135,552	-182,400	-51,619	-83,476	-145,263	-176,341
Wellington												
C grade office lease costs /m2	160	160	160	160	160	160	160	160	160	160	160	160
Total annual lease cost - C grade	72,320	124,800	222,240	329,320	160,160	251,680	451,840	608,000	201,440	325,760	566,880	688,160
Difference	-12,656	-21,840	-38,892	-57,456	-5,005	-7,865	-14,120	-19,000	-2,518	-4,072	-7,086	-8,602
Wellington												
A grade office lease costs /m2	413	413	413	413	413	413	413	413	413	413	413	413
Total annual lease cost - A grade	166,676	322,140	573,657	847,476	413,413	649,649	1,166,312	1,569,400	519,967	840,868	1,463,259	1,776,313
Difference	-127,012	-219,180	-390,309	-576,612	-256,258	-405,834	-728,592	-960,400	-316,008	-511,036	-889,293	-1,079,551

Christchurch												
Premium office lease costs /m2	400	400	400	400	400	400	400	400	400	400	400	400
Total annual lease cost - C grade	180,800	312,000	555,600	820,800	400,400	628,200	1,128,600	1,520,000	503,600	814,400	1,417,200	1,720,400
Difference	-121,138	-209,040	-372,252	-549,936	-245,245	-385,385	-881,880	-931,000	-299,642	-484,568	-843,234	-1,023,638
Dunedin												
C grade office lease costs /m2	108	108	108	108	108	108	108	108	108	108	108	108
Total annual lease cost - C grade	48,816	84,240	150,012	221,616	108,108	169,884	304,992	410,400	135,972	219,888	362,644	464,508
Difference	10,848	18,720	33,336	49,248	47,047	73,931	132,728	178,600	67,986	109,944	191,322	232,254
A grade office lease costs /m2												
A grade office lease costs /m2	195	195	195	195	195	195	195	195	195	195	195	195
Total annual lease cost - A grade	88,140	152,100	270,855	400,140	195,195	306,795	550,680	741,000	245,505	397,020	690,865	838,865
Difference	-28,476	-49,140	-87,507	-129,276	-40,040	-62,920	-112,960	-152,000	-41,547	-67,188	-116,919	-141,933