

Regulatory Impact Statement

Implementing property funding changes and changes to regulatory settings for state-integrated schools

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Education. It provides an analysis of regulatory and non-regulatory options to implement proposed changes to property funding, and options for changes to regulatory settings for state-integrated schools. The options aim to balance the objectives of maintaining diversity and choice in schooling for students and their parents/whānau, against managing the state-integrated school network as part of the wider network of state schools at an acceptable fiscal cost to the Crown.

Any regulatory changes will be progressed as part of the Update of the Education Act 1989, and therefore their implementation depends on the legislative progress of the Update.

Andrea Schöllmann, Deputy Secretary, Education System Policy



22 June 2016

Executive summary

1. The state-integrated schooling sector, now the second largest schooling sector in New Zealand, emerged with the passing of the Private Schools Conditional Integration (PSCI) Act in 1975. The PSCI Act reflects the conditions that existed when it was passed, and sought to ensure the financial viability of the private schools sector.
2. Currently, the Government has the discretion as to whether it provides property funding to proprietors when education policy settings change. Governments have taken different decisions in the past as to whether to fund property costs associated with a policy change. This has created financial uncertainty for proprietors and impacts on their ability to plan for, and meet, their legislative obligation to provide property on a comparable standard to non-integrated schools. Proprietors are concerned that upward pressure on attendance dues as a result of education policy changes may reduce the affordability of state-integrated schooling. From the Government's perspective, diversity and choice within the system is a key objective.
3. A proposal will go to Cabinet Social Policy Committee in June 2016, seeking agreement that the Government remove the discretionary nature regarding the funding of property related costs as a result of education policy change. It is proposed that the Government commit to funding 85 percent of property related costs where there is a demonstrated need for the property investment over the medium term. The commitment would only extend to 85 percent of the proportion of the property costs the Government agrees to fund in the non-state-integrated sector.
4. The state-integrated schooling network is now an important part of the education sector and the Government needs to ensure that the interests and objectives of proprietors are aligned with the state schooling network. The current regulatory settings for state-integrated schools limit the Government's understanding of the financial position of proprietors, and hence its ability to anticipate when proprietors may not be able to meet their commitments. A lack of financial information limits the Government's ability to assess the funding needs of state-integrated schools should they seek additional government funding as a result of education policy changes.
5. The legislative framework also does not provide guidance to proprietors on matters of importance to the Crown when they are reviewing their network provision, including the possible closure and merger of schools. The settings do not provide an efficient process for merging existing integrated schools. Given the PSCI Act came into force prior to the passing of the Education Act 1989, many provisions are outdated.
6. As such, the issues addressed in this regulatory impact statement relate to:
 - i. Options to implement the proposed decision to fund additional property costs that might arise from future education policy changes
 - ii. Options to improve the ability to manage efficiently the performance and capacity of the schooling network, and to increase the transparency of performance information that will support decisions around performance, viability and funding matters
 - iii. Options to reduce the compliance costs associated with the merger of existing schools for proprietors.

7. This Regulatory Impact Statement considers eight options for the three issues that are not mutually exclusive:

i. Funding for additional property costs

- **Option 1A:** Use policy to determine level of compensation to be paid to proprietors for any increase in property costs created by future changes to education policy (status quo)
- **Option 1B:** Amend integration agreements between the Crown and proprietors to include commitment to fund property costs of future changes to education policy
- **Option 1C:** Amend legislation to include commitment to fund property costs of future changes to education policy.

ii. Improve management and transparency of the state-integrated school sector

- **Option 2A:** Maintain the status quo regarding the voluntary provision of information by proprietors and non-alignment of the Crown's and proprietors' interests
- **Option 2B:** Amend integration agreements to enable the Government to request information from proprietors; to include criteria that proprietors would be required to take into account in the management of their network of schools
- **Option 2C:** Amend legislation to enable the Government to request information from proprietors; to include criteria that proprietors would be required to take into account in the management of their network of schools

iii. Streamline the merger process

- **Option 3A:** Maintain the current legislative arrangements for the merging of state-integrated schools
- **Option 3B:** Amend legislation to streamline procedures for merging integrated schools.

8. Options 1B, 2C, and 3B deliver the most significant benefits to both proprietors and the Government when assessed against the objectives: supporting a diverse range of schooling options; at an acceptable fiscal cost to the Crown; and operating in a streamlined and flexible regulatory framework that avoids unnecessary administration costs for the Government and compliance costs for proprietors.

Status quo

The state-integrated school sector

9. State-integrated schools are a significant feature of the New Zealand education system. The concept of a state-integrated school was developed in the mid-1970s as a result of a Ministerial-initiated conference on state aid to private schools. There were two forces prompting the conference. Catholic schools, which made up the majority of private schools, were facing severe financial pressures. The state was facing pressures from increasing school rolls, leading to increased demand on schools.
10. The conference resulted in the development of legislation, the Private Schools Conditional Integration (PSCI) Act 1975. This legislation sets out the relationship between the state and the individuals / organisations (referred to as 'proprietors') operating private schools. State-integrated schools get the same funding for staffing and operations as state schools, while the special character of private schools is specifically protected.
11. In 2015, about 88,600 (11.4 percent) students were enrolled across 332 state-integrated schools, run by about 100 different proprietors. The sector is dominated by schools run by Catholic proprietors (75 percent of student enrolments are in Catholic schools).
12. About 73 percent of state-integrated pupils are from decile 6 areas or above (compared to 55 percent for state schools). About 90 percent of state-integrated pupils live in urban areas compared to 83 percent of state schools. Ninety percent of state-integrated school leavers have NCEA Level 2 or above compared to 75 percent of state school leavers.
13. In areas of population growth, there continues to be demand for special character, state-integrated education.

Property funding

14. Under the PSCI Act, state-integrated schools are required to be funded on the same basis as non-integrated state schools for operational funding and staffing. State-integrated school property is not owned or provided by the Crown. Instead, land, buildings and supporting infrastructure are owned or leased by individual proprietors.
15. Proprietors are responsible for any improvements or capital works required to maintain buildings and facilities to the same standard as a comparable state school, and for future liability costs¹. The PSCI Act allows proprietors to levy attendance dues to fund costs related to bringing property up to minimum standards, or paying mortgages and insurance over integrated property.
16. Since 1975, subsequent policy decisions have meant governments have taken on a greater share of the ongoing property costs of state-integrated schools. Crown funding is provided for state-integrated property over and above that provided for maintenance in the operational grant, including:

¹ Section 40(2)(d) of the PSCI Act.

- Policy One Funding: In 1998, the Crown made a legally binding commitment to provide funding for capital upgrades and modernisation on a similar basis to state schools²
 - Policy Two Funding: The Crown may fund 85³ percent of the construction cost of new buildings (classrooms or new schools) on a discretionary basis where this saves the Crown from having to invest in additional capacity in state schools. This does not include the cost of land purchase or site works.
17. Given Policy Two funding is discretionary, governments have taken a case-by-case approach to funding new property requirements for state-integrated schools as a result of policy changes or programmes.
18. For example, additional classroom space was not funded when curriculum staffing ratios were changed in 2007, but for the School Network Upgrade Project (SNUP), funding was provided. For SNUP, the Ministry paid 100 percent of the project management costs and 80 percent of the equipment and installation costs for state schools; the remaining 20 percent coming from schools' Five Year Agreement funding. For state-integrated schools, the Ministry paid 100 percent of the project management costs and 68 percent of the equipment and installation costs (85 percent of the 80 percent that state schools received). Proprietors could pay the remaining cost from Policy One funding.

Legislative Framework

19. The legislative framework which provides for the integration of schools into the state sector, and establishes the relationship between the Crown and proprietors, is established in the PSCI Act. Integrated schools are also subject to provisions in the Education Act 1989, and the State Sector Act (SSA) 1988.
20. The PSCI Act sets out processes for establishing, disestablishing and closing integrated schools; the enrolment, conditions of attendance and instruction of pupils at integrated schools; the powers, responsibilities and rights of proprietors; the training, appointment and employment of teachers; and the relationship of the PSCI Act to other legislation.
21. Amongst other things, the Education Act contains requirements for teachers to be registered and staff to be vetted by police.
22. The State Sector Act contains provisions relating to the code of conduct, appointments, and other personnel provisions in relation to the education service.

Problem definition

Property Funding

23. The existing discretionary approach to funding additional property costs creates uncertainty for proprietors. In agreeing to integration, proprietors did not contemplate the

² The level of Policy One funding a proprietor receives is based on a per pupil amount. The per pupil amount is calculated from the total depreciation amount for non-integrated state schools divided by the number of pupils in those schools. As a comparison, non-integrated state schools are allocated about half of this funding through 5 Year Agreements. The remaining funds are held by the Ministry for demand-driven programmes such as school redevelopments and special needs modifications.

³ The 85 percent Crown contribution is based on historic analysis of the residual value of surplus buildings (15 percent) that accrue to the proprietor as the owner of the new assets once they reach the end of their economic life.

possibility of changes to education policy that would require them to incur further capital costs of the scale and scope that have come about. Proprietors face the possibility of having to make unanticipated changes to their five- and ten-year capital plans, and to increase the attendance dues that fund them. Proprietors believe they are faced with either being unable to provide school property of a comparable standard to non-integrated state schools, or with raising attendance dues at the risk of putting the choice to attend a state-integrated school out of the reach of some families and whānau.

24. Cabinet has made an in-principle decision to fund 85 percent of additional property costs arising from future policy decisions which can be implemented a number of ways.

Legislative Framework

25. The PSCI Act was developed over 40 years ago in response to the circumstances and legislative norms at the time. It contains provisions that are out-dated, and it has been adapted in limited ways in response to such changes as *Tomorrow's Schools*. There is an opportunity to create a more streamlined and flexible regulatory framework by removing redundant provisions, out-dated references to governance structures, and bringing it into line with current employment and human rights laws.

26. The provisions of the PSCI Act do not enable government management of the state-integrated schooling sector within the broader context of the whole schooling network as well as they could. Some of the problems with the legislative framework include:

- the Government has only limited visibility of the financial position of proprietors, impacting on its ability to assess the performance and viability of a state-integrated school, or to assess the school's need for additional funding following a funding request. In addition, the Minister may only unilaterally cancel an integration agreement if the proprietor is not sufficiently carrying out their functions and obligations under the PSCI Act or individual integration agreement. As the Government has only limited visibility of the financial position of proprietors, this can be difficult to assess. Overall, the Government has limited information to support the management of the state-integrated schooling network efficiently and effectively within the context of the wider schooling network
- proprietors are not explicitly required to actively manage state-integrated schooling provision in a way that takes into account matters of importance to the Crown. There is no direct alignment between the interests of the Crown and those of proprietors.

27. Legislative processes impose unnecessary compliance costs on both the Government and proprietors. For example, when the PSCI Act was developed in the 1970s, the concept of population aging or decline was not considered and the possible need for schools to merge was not entertained. Therefore, there are no explicit merger provisions in the PSCI Act. Where it is proposed that two schools merge, the schools have to first close, and then re-open as a single school.

28. Further, some of the settings in the PSCI Act are dated and require updating and streamlining. These include, for example, references to controlling authorities (as opposed to Boards of Trustees) and obsolete sections relating to the training, appointment and employment of teachers.

Objectives

29. The Government's objective is to have an effective state-integrated school network, within the context of the broader schooling network, that:

- is aligned to the Crown's interests in having a viable school network for the foreseeable future; and
- operates in a streamlined and flexible regulatory framework that avoids unnecessary administration costs for the Government and compliance costs for proprietors.

Options and impact analysis

30. The options in this paper seek to:

- implement the proposed decision to fund additional property costs resulting from any future changes in education policy
- improve the management of the state-integrated school sector through increased transparency of the sector's performance, aligning proprietors' interests with those of the Crown; and
- streamline the merger process for integrated schools.

31. This regulatory impact statement considers:

- three options (one regulatory and two non-regulatory) for implementing the policy decision to fund additional property costs resulting from changes to education policy
- three options (two non-regulatory, one regulatory) to address the issues related to improving the management of the state-integrated schools network; and
- two options to address the issue of streamlining the merger process.

32. The options to implement funding changes will be assessed against increasing the transparency of fiscal costs to the Crown; providing increased certainty for proprietors; and maintaining education choice for families and whānau.

33. The options for managing the schooling network will be assessed against aligning the proprietors' and Crown's interests, and enhancing the Crown's ability to manage the schooling network.

34. The options for managing the schooling network and streamlining the merger process will be assessed against reducing compliance and administrative costs.

Options analysis

35. Two non-regulatory options and one regulatory option for implementing the funding decision are set out below:

- **Option 1A:** Use policy to determine level of compensation to be paid to proprietors for any increase in property costs created by future changes to education policy (status quo)
- **Option 1B:** Amend integration agreements between the Crown and proprietors to include a commitment to fund property costs of future changes to education policy

- **Option 1C:** Amend legislation to include a commitment to fund property costs of future changes to education policy.

36. Options for improving the ability to manage efficiently the performance and capacity of the network include two non-regulatory, and one regulatory option:

- **Option 2A:** Maintain the status quo regarding the voluntary provision of information by proprietors and non-alignment of the Crown's and proprietors' interests
- **Option 2B:** Amend integration agreements to enable the Government to request information from proprietors; and to include criteria that proprietors would be required to take into account in the management of their network of schools
- **Option 2C:** Amend legislation to enable the Government to request information from proprietors; and to include criteria that proprietors would be required to take into account in the management of their network of schools.

37. Options for simplifying the merger process include one non-regulatory, and one regulatory option:

- **Option 3A:** Maintain the current legislative arrangements for the merging of state-integrated schools
- **Option 3B:** Amend legislation to streamline procedures for merging integrated schools.

Options to implement the proposed decision to fund additional property costs

Option 1A – Maintain the status quo – compensation for increased property costs decided by policy

38. This option involves using the incumbent Government's policy to determine the compensation to be paid to proprietors for increased property costs as a result of education policy changes. Policy could be set generically or could be set on an ad hoc basis, depending on the willingness of the government of the day to incur financial costs. Their willingness may be influenced by the state of the Crown's fiscal position, or by non-fiscal considerations.

39. It will not reduce uncertainty for proprietors but it will assist the Government to manage its fiscal position. Future government decisions about compensating proprietors for increased property costs could be at more or less than 85 percent of the funding rate for non-integrated state schools. The uncertainty may create financial pressures for proprietors leading to school closures and, as a consequence, reduce choice for parents and/or caregivers.

40. Given the uncertainty this option means for proprietors, and the risk of reducing education choices, this option is not preferred.

Option 1B – Amend integration agreements between the Crown and proprietors to include commitment to fund property costs of future changes to education policy

41. The commitment to fund a minimum of 85 per cent of property costs caused by future changes in education policy (that is 85 percent of the proportion of property costs the government agrees to fund in the non-state-integrated sector) could be progressed

through changes to individual integration agreements with proprietors. This approach provides greater certainty to proprietors as integration agreements can only be varied with the agreement of both the Minister of Education and the proprietor. However, a future government could still enact legislative change that would have the effect of overriding integration agreements.

42. To ensure that the value of this expenditure is maximised, the need to incur additional property costs as a result of a policy change would be assessed on a school-by-school basis, and the proprietor of the state-integrated school would only receive funding where it is assessed to be sustainable over the medium term, or where there is a foreseeable need for the additional property over the medium term. For example, a change to student/teacher ratios may not necessitate building more classrooms if a school already has spare capacity, or if changing demographics mean that the roll of the school will decline over the medium term.
43. Like Option 1C, putting the commitment into integration agreements removes the ability of the Government to fund property costs on a discretionary basis. However, there is greater flexibility to work through the funding requirements on a case-by-case basis. It would also mean the Government and proprietors could more easily negotiate the level of funding required.
44. This option gives proprietors greater certainty than Option 1C, as changes to integration agreements would need to be negotiated and agreed between the Government and proprietors. Proprietors would therefore have increased certainty in planning for future capital costs outside of education policy changes, and to enable a level of stability and certainty in the level of attendance dues charged.
45. However, putting the commitment into integration agreements is likely to bind future governments to this commitment, which may only be able to be overridden by legislative change.

Option 1C – Amend legislation to include commitment to fund property costs of future changes to education policy

46. This option would see the legislation amended to include a commitment to fund 85 per cent of property costs caused by future changes in education policy. The commitment would only extend to 85 percent of the proportion of the property costs the Government agrees to fund in the non-state-integrated sector.
47. Criteria for ascertaining property funding need would also need to be codified in legislation. However, if the criteria are too broad, they could open the Crown up to payment for unnecessary costs. If the criteria are too narrow, they could limit the ability of the Crown to respond in a manner that is appropriate for a school's circumstances.
48. Putting the commitment in legislation removes the ability of the Government to fund increased property costs on a discretionary basis, and therefore to manage its fiscal commitments.
49. This option gives proprietors some certainty and therefore ability to plan for future capital costs outside of education policy changes, and reduces the pressure on proprietors to charge attendance dues that may reduce the ability of families/ whānau to choose to attend a state-integrated school.

50. However, putting the commitment into legislation would not necessarily provide a permanent commitment to proprietors, as legislation could be changed by future governments. It also makes future negotiations, on what funding will be provided, more difficult. For these reasons, option 1C is not the preferred option.

Table 1: Summary assessment table of options 1A, 1B and 1C against criteria

Criteria	<i>Increasing transparency of fiscal costs</i>	<i>Providing more certainty for proprietors</i>	<i>Maintaining education choice for families and whānau</i>
Option 1A Continue current policy - funding for education policy changes determined on ad hoc basis.	Meets Gives flexibility to Government regarding what costs it may incur for policy changes.	Does not meet Does not provide more certainty for proprietors.	Uncertain Without funding support, proprietors might need to increase attendance dues and this might impact of the affordability of state-integrated schools for some families and whānau.
Option 1B Agree changes to integration agreements with proprietors.	Somewhat meets Making a commitment through integration agreements would retain flexibility for the government to provide funding on a needs basis.	Meets A commitment included in integrated agreements would provide proprietors with certainty and would only be able to be changed with both parties' agreement.	Meets Certainty of funding would help proprietors to constrain the costs of integrated schooling to families and whānau.
Option 1C Amend legislation to put funding obligation in law.	Does not meet A legislated obligation would make it difficult for the Government to control costs and assess actual need for funding.	Somewhat meets A legislated obligation would provide proprietors with certainty as long as the provision remained and was not removed by future governments.	Meets Certainty of funding would help proprietors to constrain the costs of integrated schooling to families and whānau.

Preferred Option

51. On balance, the greater certainty afforded proprietors under Option 1B, and the direct impact this certainty has on the diversity and affordability of choice in the education system, outweigh the potentially shorter-term certainty of Option 1C. Option 1B is the preferred option.

None of the options (1A, 1B, or 1C) allow the Government the financial insight that would be required in order to assess actual funding need. If proceeding with any of the options 1A, 1B, or 1C, it should be combined with the option to give the Crown more information seeking powers and the inclusion of criteria that proprietors must take into consideration when considering the future of their school or network of schools.

Options to improve the ability to manage the performance and capacity of the schooling network efficiently

Option 2A – Maintain the status quo regarding the voluntary provision of information by proprietors and non-alignment of the Crown’s and proprietors’ interests

52. This option would not enhance the Government’s ability to manage its school network. The Government would lack the authority to request information, and there would be no requirement on proprietors to consider the longer term viability of their school or school network. For these reasons, this option is not preferred.

Option 2B - Amend integrated agreements to improve the Government’s ability to manage the performance and capacity of the schooling network more efficiently by requesting information from proprietors, include criteria that proprietors would be required to take into account

53. This option proposes changes to integration agreements to include a requirement for proprietors to provide financial and other information, and criteria that proprietors would be required to take into account in the management of their school or network of schools.

Obligation to provide financial and other information

54. This obligation would be used where there are concerns about the operation of the school or the financial capacity of the proprietor to plan and deliver on their obligations as proprietor, including the proprietor’s review of their school or network (against the criteria listed in paragraph 60 below). This information will also support decisions where a proprietor is making a specific funding request to the Crown, including property funding as a result of a policy change.

55. The purpose is to enable the Government access to information that will improve the quality of its decisions, in a timely way. This change will enable the Government greater visibility of the financial position of proprietors, in order to make informed decisions about the future viability of the school. It will also enable the Government to actively support proprietors in the management of their school network as part of the wider network of state schools. This will support the efficient and uniform management of the entire state schooling network, and value for money for the Government.

56. However, under this approach, integration agreements would need to exist before the Crown could oblige proprietors to provide the information. This option would not allow the Crown to require information when it was considering a school for integration.

57. The circumstances under which the request for additional financial and other information could be made would also need to be negotiated with proprietors. This could lead to the establishment of different criteria across different integration agreements, which would not support the government in making network and funding decisions in the whole. This approach would also be unwieldy to operate in practice. The Ministry of Education’s preferred option is to include one generic information seeking power and criteria in legislation.

58. This option may place additional administration requirements on proprietors. However, proprietors would not be routinely required to provide this information, and in addition, organisations that are registered charities are required to submit audited accounts to the Charities Commission. As some proprietors are registered charities, the additional administrative burden is low.

Introduce a set of criteria to reflect matters of interest to the Crown

59. The purpose of introducing a set of criteria which reflect matters of interest to the Crown is to ensure proprietors take wider strategic matters into account when considering the future of individual schools and the management of their network of schools. In proposing these criteria, the Crown still wishes to respect the proprietors' independence.

60. The proposed criteria are:

- the ability of the school to continue to provide a quality education to its students
- the relative cost of the continued operation of the school compared to average per student government expenditure for other schools
- the extent to which the school provides for the needs of priority students
- the ability of the proprietor to meet their obligations regarding their school and/or their network of schools in a way that ensures viability in the medium term (that is, in a five to ten year period).

61. Proprietors would be required to have regard for these criteria every five years, and if particular circumstances have occurred. These would include where the school has experienced significant and continuing roll decline, where issues around student achievement have been identified by the Education Review Office (ERO), and/or where there are issues about the quality of property provision.

62. As with the obligation to provide information, this option requires integration agreements to exist before the government can require proprietors to have regard for the criteria. There would be no obligation for proprietors to consider the criteria when requesting integration for their school.

63. As the changes regarding information requirements and inclusion of changes are being made to the integration agreements, it would require the agreement of proprietors to effect the change. It may not be possible to get the changes incorporated consistently across integration agreements and it could also take some time to complete the negotiations leaving the Government unable to manage the schooling network effectively in the meantime. For these reasons, this option is not preferred.

Option 2C - Amend legislation to enable the Government to manage the schooling network more efficiently by requesting information from proprietors, and having a set of criteria for proprietors to consider

64. This option proposes legislative changes involving a power to request financial (and other) information from proprietors; and introducing a set of criteria which reflect matters of interest to the Crown.

Power to request financial and other information

65. This option would create a legislative power to request information. As above, it would be used where there are concerns about the operation of the school or the financial capacity of the proprietor to plan and deliver on their obligations as proprietor, including the

proprietor's review of their school or network (against the criteria listed in paragraph 60 above). It could also be used when considering a school for integration, unlike Option 2B above, which needs integration agreements to exist before the requirements can be placed on proprietors.

- 66. The information will also support decisions where a proprietor is making a specific funding request to the Crown, including property funding as a result of a policy change.
- 67. The purpose is to enable the Government access to information that will improve the quality of its decisions, in a timely way. This regulatory change will enable the government greater visibility of the financial position of proprietors, in order to make informed decisions about the future viability of the school. It will also enable the Government to actively support proprietors in the management of their school network as part of the wider network of state schools. This will support the efficient and uniform management of the entire state schooling network, and value for money for the Crown.
- 68. As with Option 2B, this option may place additional administration requirements on proprietors. However, proprietors would not be routinely required to provide this information, and in addition, organisations that are registered charities are required to submit audited accounts to the Charities Commission. As some proprietors are registered charities, the additional administrative burden is low.

Introduce a set of criteria to reflect matters of interest to the Crown

- 69. As noted above in Option 2B, the purpose of introducing a set of criteria which reflect matters of interest to the Crown is to ensure proprietors take wider strategic matters into account when considering the future of individual schools and the management of their network of schools. The criteria would be those noted above in paragraph 60.
- 70. Proprietors would be required to have regard for these criteria at regular intervals (for example, every five years), and if particular circumstances have occurred. These would include where the school has experienced significant and continuing roll decline, where issues around student achievement have been identified by the Education Review Office (ERO), and or where there are issues about the quality of property provision.

Preferred Option

- 71. This option does not require integration agreements to exist before the government can require proprietors to provide financial information or have regard for the criteria. The requirements would apply equally and consistently across all proprietors, and could come into effect as soon as the legislation is enacted, allowing the government to manage the schooling network efficiently. For these reasons, this option is preferred.

Table 2: Summary assessment table of options 2A, 2B, and 2C against criteria

<i>Criteria</i>	<i>Aligning the proprietors' and Crown's interests</i>	<i>Enhance government's ability to manage the schooling network</i>
Option 2A Maintain the status quo regarding the voluntary provision of information by proprietors and non-alignment of the Crown's and proprietors' interests.	Does not meet Maintaining the status quo will not help align the proprietors' and the Crown's interests, as proprietors currently have no incentive or requirement to consider the Crown's interests.	Does not meet Maintaining the status quo will not enhance the government's ability to manage the schooling network as the government currently lacks the ability to require information from proprietors.
Option 2B Amend integration agreements to include reporting requirements, and criteria for consideration.	Somewhat meets Amending integration agreements would take time and would require the proposed changes to be incorporated fully to be effective, limiting the government's ability to ensure proprietors' consider the Crown's interests in the interim.	Somewhat meets Amending integration agreements would take time and would require the proposed changes to be incorporated fully to be effective, limiting the government's ability to manage the schooling network in the interim.
Option 2C Amend legislation to include reporting requirements, criteria for consideration.	Meets Amending the legislation will be more effective in ensuring the proprietors' and Crown's interests are aligned.	Meets Amending the legislation will be more effective in enabling the government to manage the schooling network more efficiently.

Options to improve the merger process between two or more integrated schools

Option 3A: Maintain the current legislative arrangements for the merging of state-integrated schools

72. Currently, legislation requires the two schools to be closed, and a single school to be re-opened. This process imposes unnecessary costs on both the Government and proprietors. Maintaining the current legislative arrangements would retain unnecessary administrative and compliance costs. For this reason, this option is not preferred.

Option 3B: Amend legislation to streamline procedures for merging integrated schools.

73. The proposal is to introduce, into the legislation, a more streamlined mechanism that would enable the merger of two state-integrated schools with the same proprietor and special character. The streamlined process would remove the requirement to close the schools then re-open them as a single school. They would be able to merge directly into

one school. This would reduce administration costs for the government and compliance costs for the proprietor. For this reason, this option is preferred.

Table 3: Summary assessment table of options 3A, and 3B against criteria

<i>Criteria</i>	<i>Reduce compliance and administrative costs</i>
Option 3A: Maintain the current legislative arrangements for the merging of state-integrated schools.	Does not meet Maintaining the current legislative arrangements will not reduce the compliance and administration costs that are currently incurred.
Option 3B: Amend legislation to streamline procedures for merging integrated schools.	Meets Amending the legislation will reduce compliance and administration costs by simplifying the merger process.

Consultation

74. On behalf of the Minister, the Ministry has consulted with APIS on the proposed options. It has discussed the inclusion of criteria within legislation, the powers to request information, and the detail of the legislative changes for the sections of the PSCI Act over a series of meetings. APIS has agreed to the proposed information seeking powers, the inclusion of the set of criteria, and the simplification of the merger process.
75. The Ministry has consulted with Treasury, the State Services Commission and ERO on the proposals. DPMC have been informed.

Conclusions and recommendations

76. This paper analyses three options for changes to the property funding arrangements and three options for improving the management of the state-integrated schooling network. The options are not mutually exclusive and a combination of options will work best as a package.
77. The Ministry's preferred options are:
- Option 1B: integration agreements between the Crown and proprietors to include commitment to fund property costs of future changes to education policy
 - Option 2C: Amend legislation to enable the Government to manage the schooling network more efficient by requesting information from proprietors, having a set of criteria for proprietors to consider, and streamlining the merger process; and
 - Option 3B: Amend legislation to streamline procedures for merging integrated schools.

This package of options delivers the most significant benefits to both proprietors and the Government when assessed against the three objectives of supporting diversity and choice in schooling, managing the state-integrated school network at an acceptable fiscal cost to the Crown, and having a streamlined and flexible regulatory framework.

Implementation plan

78. The proposed changes will be communicated with key stakeholders through the wider engagement and communication strategy for the proposed legislation.
79. The Ministry will work with APIS to develop supplementary agreements for any future policy changes that increase property costs for proprietors. The process of changing integration agreements will need to be consistent to ensure the same conditions are placed in each agreement. The supplementary agreements will need to allow for government responses that are appropriate for the school's circumstances. Implementation costs will be incorporated into business as usual for the Ministry.

Monitoring, evaluation and review

80. The changes to the property funding arrangements for state-integrated schools will be monitored through reporting requirements in line with current practices for proprietors of state-integrated schools. This may be at regular intervals, (for example the annual report on how attendance dues have been spent), or at specific points in a project's development (for example completion certificates).