

Joint Tertiary Education Report: Section 556 funding of the NZ School of Dance

Date:	22 August 2022	TEC priority:	Medium
Security level:	In Confidence	Report no:	B-22-00469
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>Agree to an increase in funding of \$312,680 per annum for the New Zealand School of Dance as part of its section 556 grant.</p> <p>Forward this report to the Minister and Associate Minister for Arts, Culture and Heritage, Hon Carmel Sepuloni and Hon Kiri Allan, for their information.</p>	
Enclosure: Yes/No	Round Robin: Yes/No	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)				
Name	Position	Telephone		1st contact
9(2)(a)	Chief Advisor	9(2)(a)	9(2)(a)	✓
9(2)(a)	9(2)(a)	9(2)(a)	9(2)(a)	

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT						
<input type="checkbox"/> DPMC	<input type="checkbox"/> MPI	<input type="checkbox"/> ENZ	<input type="checkbox"/> ERO	<input type="checkbox"/> MBIE	<input checked="" type="checkbox"/> MoE	<input type="checkbox"/> MFAT
<input type="checkbox"/> MPP	<input type="checkbox"/> MSD	<input type="checkbox"/> NZQA	<input type="checkbox"/> NZTE	<input checked="" type="checkbox"/> TEC	<input type="checkbox"/> TPK	<input type="checkbox"/> Treasury

Minister's Office to Complete:	<input type="checkbox"/> Approved	<input type="checkbox"/> Declined
	<input type="checkbox"/> Noted	<input type="checkbox"/> Needs change
	<input type="checkbox"/> Seen	<input type="checkbox"/> Overtaken by Events
	<input type="checkbox"/> See Minister's Notes	<input type="checkbox"/> Withdrawn

Comments:

Recommendations

Hon Chris Hipkins, Minister of Education

It is recommended that you:

1. **agree** to either:

- a. an increase in funding of \$312,680 per annum for the New Zealand School of Dance (NZSD), as detailed in Table 1 of Appendix A, as part of its section 556 grant (recommended).

AGREED / NOT AGREED

OR

- b. to reduce the amount in para (a) by 50% (except for the Head of Classics funding) to reflect that only half of the learners are trained in ballet to support the Royal New Zealand Ballet, which would amount to an increase in funding of \$178,840 per annum.

AGREED / NOT AGREED

2. **note** that NZSD's section 556 grant funding is increased annually by the same increase agreed through Budget processes for tuition and training funding.

NOTED

3. **agree** to defer a decision on providing an additional one-off **§9(2)(i)** towards a new studio fit-out while alternative options are explored.

AGREED / NOT AGREED

4. **agree** to decline NZSD's request for capital funding of **§9(2)(i)** for upgraded facilities as it would not be a Crown-owned asset.

AGREED / NOT AGREED

5. **note** that:

- a. following your decision, we will update the NZSD's section 556 contract for 2023 with the new funding amounts; and
- b. we will update you later in 2022 on whether alternative studio options have made the **§9(2)(i)** request towards a new studio fit-out unnecessary.

NOTED

6. **agree** to forward this report to the Minister for Arts, Culture and Heritage, the Hon Carmel Sepuloni, and Associate Minister of Arts, Culture and Heritage, the Hon Kiri Allan, for their information.

AGREED / NOT AGREED

7. **agree** to proactively release this education report, after contracts have been signed with the New Zealand School of Dance, and any information which may need to be withheld will be done in line with the provisions of the Official Information Act 1982.

AGREED / NOT AGREED



Gillian Dudgeon

Deputy Chief Executive [Delivery Directorate]
Tertiary Education Commission

23 August 2022



Scott Connew

Acting Manager, Funding and Fees, Tertiary
Education, Te Puna Kaupapahere [Policy]
Ministry of Education

23 August 2022



Hon Chris Hipkins

Minister of Education

2 / 9 / 22

Purpose of Report

1. This paper seeks your approval to increase funding provided to the New Zealand School of Dance (“NZSD”) under section 556 of the Education and Training Act 2020 (“the Act”) by **\$312,680 per annum** to help manage increases in direct costs and overheads.

NZSD currently receives funding of \$1.146 million per annum

2. NZSD is a small private training establishment located in Wellington that specialises in training classical ballet and contemporary dancers. NZSD shares facilities with the Toi Whakaari (New Zealand Drama School) at Te Whaea (National Dance and Drama Centre).
3. NZSD is the sole feeder of New Zealand-trained ballet dancers for the Royal New Zealand Ballet (RNZB) with dancers also gaining employment at international ballet companies. The minimum qualification for employment at the RNZB is Level 6, which NZSD provides through a two-year programme. The Level 6 programme is also often followed by NZSD’s Level 7 programme.
4. Over the past four years, the RNZB has generally employed one or two ballet graduates per year (overall employment around 10-14 dancers that have trained at the NZSD in any one year). Year 2 and Year 3 ballet students can also gain experience from understudy rotations at the RNZB (who currently provide five understudy positions to cover for performance injuries at the RNZB).
5. Section 556 of the Act allows for grants to be paid to educational bodies, on the condition that the Minister of Education is satisfied the grant is in the ‘national interest’.
6. In 2005, Ministers decided to fund NZSD a grant of \$876,915 per annum through section 556 of the Act (previously a section 321 grant under the Education Act 1989) in the ‘national interest’ of supplying highly trained classical ballet dancers to the RNZB.
7. The grant amount has increased over time in line with tuition subsidy increases. NZSD currently receives a \$1.146 million ‘national interest’ grant per annum. This represents a total increase of ~\$270,000 since 2005. The funding grant is equivalent to investing \$20,464 per student, whereas Student Achievement Component (SAC) funding for this type of provision would attract approximately \$10,000 per student.
8. Domestic enrolment of students at NZSD has been steadily reducing since 2018. In 2022, 56 domestic dancers are expected to train at NZSD, compared to 77 domestic dancers and 17 international students in 2018.

NZSD submitted a business case for a significant funding increase

9. In January 2022, NZSD provided TEC with a business case stating that significant financial shortfalls put the long-term viability of NZSD at risk. It sought additional operational and capital investment across three options. This is outlined in Table 1 of Appendix A, together with our recommendations. The RNZB has endorsed the business case.
10. NZSD considers the financial shortfalls are due to the increased costs, including the cost of delivering its New Zealand Certificate Level 6 qualifications. The increased costs and subsequent financial shortfalls have been exacerbated by the impacts of the COVID-19 pandemic, such as lack of international students and fundraising opportunities through performances. While NZSD has explored increasing cost control measures, it considers that its only option to remain viable is to seek additional funding from Government.

11. NZSD has requested an increase of up to \$9(2)(i) in operational funding per annum plus \$9(2)(i) million as a one-off capital investment for a new studio (\$9(2)(i)) and to upgrade facilities (\$9(2)(i)).
12. NZSD's main concern is obtaining a wage adjustment that brings staff wages in line with market rates, so that NZSD can attract and retain high quality staff. NZSD also seeks minor increases to the remuneration of contract tutors for increased workloads, increases to administrative and staff capacity, and adjustments for other maintenance cost increases (eg, training, power, cleaning, rent, library services).
13. The TEC has worked with NZSD to better understand the rationale behind their business case. The TEC has also met with the RNZB about their relationship with NZSD, the Wellington City Council (WCC) about studio options, and the New Zealand Qualifications Authority about the mandatory requirements of different qualifications.

We recommend an increase in NZSD funding of \$312,680 per annum for increased operational overheads

We support the majority of NZSD's case for increased operational funding

14. Of the \$9(2)(i) being sought, we recommend providing NZSD with \$312,680 of additional grant funding. This is an overall grant increase of around \$9(2)(b)(ii) and would adjust NZSD's total grant from \$1.146 million to \$9(2)(b)(ii) million per year.
15. This recommendation responds to NZSD's major concerns. A detailed analysis of each request is outlined in Appendix B.
16. If you were to choose to provide a smaller amount of funding to reflect that only half the learners are training in classical dance, we recommend that you fully fund the Head of Classics role and halve the remaining funding. Such an approach would provide total additional funding of \$178,840, and expose NZSD to ongoing uncertainty, as well as equity and under-investment risks (discussed below).

We recommend you defer a decision for a new studio and decline funding the facility upgrade

17. NZSD has requested \$9(2)(i) towards a new studio and a further \$9(2)(i) to upgrade facilities that respond to the changing gender diversity needs of their students. Both are acknowledged as funding for capital work. Requesting this as capital funding is problematic as (in general terms) capital funding is for investments in Crown-owned assets, which this would not be.
18. We note that while section 556 provides for a broad power to provide funding to a TEO (subject to the 'national interest' test), funding still needs to be administered in accordance with appropriation structures and rules. Therefore, while 'tertiary tuition and training' funding can be used to support NZSD's provision, it would be problematic to provide 'tertiary tuition and training' funding for the explicit purpose of funding capital upgrades. This is because the appropriation scope statement for tertiary tuition and training funding limits its use is 'to funding for teaching, training and learning services that support enrolled students at tertiary education organisations to achieve recognised tertiary qualifications and credentials.'
19. The request for funding for a new studio is related to recent changes to the content of the Level 6 qualification, which means it is now impossible to teach the Year 2 (Level 6) and Year 3 (Level 7) students in the same space, so NZSD requires additional space for teaching.
20. The estimated total cost of a new studio is \$9(2)(b)(ii), and NZSD proposes to fund the remainder of required costs (approximately \$9(2)(i)) through their retained earnings, reserve fund, and private grants.

21. We made inquiries with the Ministry of Culture and Heritage into its level of interest in supporting any capital investment for NZSD. The Ministry indicated it provides annual operational funding for the RNZB and while it acknowledges the important functional relationship between the RNZB and NZSD, it was unable to provide any capital funding support for a new studio or upgraded facilities.

22. s9(2)(i)

23. We recommend deferring your decision on one-off capital funding to fitout a new studio until a decision on the temporary Royal NZ Ballet studio is made (which is likely to be after September 2022) or when some other arrangement involving sharing space with another dance company is reached (whichever is earlier).

24. Should you and/or other Ministers wish to contribute to the cost of a new studio, we can provide further advice on how that could be done in accordance with the constraints of appropriations in Vote Tertiary Education, and another Vote may also be a more suitable option. You may wish to discuss this situation with the Minister and/or Associate Minister of Arts, Culture and Heritage.

The recommended increase in funding can be met within Vote Tertiary Education

25. Section 556 grants are currently funded from the new 'Qualification Delivery' component of the Tertiary Tuition and Training Multi-category appropriation within Vote Tertiary Education.

26. If you agree to increase the section 556 funding for NZSD, we consider that this additional funding can be met from the Qualification Delivery category of the MCA.

There are several risks associated with additional investment in NZSD

Risk that other tertiary providers will also seek additional funding

27. There is a risk that the increases we are recommending may result in other tertiary education organisations seeking similar increases. While there are a handful of other section 556 grants used in the tertiary sector (including the New Zealand School of Drama), we consider that this risk is low because of the unique circumstances of the funding request.

28. Further, the main part of the increase is a market wage adjustment (from a very low wage base), and we consider that any future requests for additional funding from other providers can be managed within existing funding systems.

Risk of under-investment in NZSD

29. There is also a risk that not providing additional funding may result in NZSD reaching a critical tipping point and no longer being viable or able to continue providing a higher level of dance training required by the RNZB.

30. NZSD considers that any investment below \$s9(2)(i) would require NZSD to progressively reduce services from current levels beyond 2027. This might include reducing the number of students it teaches. There are two options to address this:

- The recommended option of \$312,680 per annum of additional funding. This should address NZSD's long-term funding concerns, until another review can be undertaken.
- Another option of \$178,840 per annum of additional funding (to reflect the balance of classical and contemporary dance learners at NZSD) would support NZSD to survive until 2025. We

believe this gives sufficient time to conduct a further investigation into alternative funding options.

31. s9(2)(g)(i)

Risk of perceived equity issues

32. Currently, all NZSD tertiary education funding is through the section 556 grant on the basis that it is in the national interest because of its role in producing classical dancers to the RNZB. However, half of the learners at NZSD are contemporary dancers and do not feed into the RNZB.
33. There is a risk of perceived equity issues between providers given that the contemporary dance students at NZSD are receiving higher levels of funding when compared to other contemporary dance funding delivery funded by the TEC despite not fulfilling the national interest to the same degree.
34. Detangling NZSD's funding of classical and contemporary dance would be difficult, given that funding goes towards operational costs that support both styles of dance. And acknowledging that NZSD can decide how the section 556 grant is eventually applied.

We recommend exploring other funding options in the future to mitigate these risks

35. In previous advice to Ministers on funding increases for NZSD, we have indicated that alternative funding options could be explored that improve oversight and accountability of NZSD funding. We consider that this would also mitigate the risk of perceived equity issues, by taking a more detailed look at what aspects of NZSD's funding should be provided via section 556 grants and what could be supported through the Unified Funding System (UFS).

Next Steps

36. Following your decision, we will:

- inform NZSD of your decision,
- update NZSD's section 556 funding agreement with new funding amounts for 2023, and
- update you later this year on whether other funding sources or options have been secured to support NZSD to upgrade its facilities (eg, support from Wellington City Council).

Appendix A: NZSD recommended funding and enrolment data

Table 1: New Zealand School of Dance - Recommendations

Items	Option 1 Status Quo	Option 2 Revised	Option 3 Revised	Recommended
Opex	<i>No Change</i>	<i>Moderate</i>	<i>Preferred</i>	
Market wage adjustments		9(2)(a), 9(2)(i)		
Administrative staff (1.25 FTE)				
Head of Classics (0.5 FTE)				
Tutor uplift (0.25 FTE)				
Extra Staff (2.0 FTEs)				
Contract tutor adjustment				
Library increase				
Power increases				
Rent increases				
Pastoral care training				
Other initiatives (eg, travel, training, RNZB tutors, feeder programmes)				
New studio lease				
New studio opex (eg, heating, etc)				
Total				
Capex				
Studio new				
Facility upgrade				
Total				

Table 2: New Zealand School of Dance - Contemporary vs Ballet dancers for 2022

	Year 1 (Level 6)		Year 2 (Level 6)		Year 3 (Level 7)				
	Ballet	Modern	Ballet	Modern	Ballet	Modern	Total	Ballet	Modern
2022									
Domestic	13	12	10	13	4	4	56	27	29
International	0	0	0	0	0	0	0	0	0
Total	25		23		8		56	27	29

Table 3: New Zealand School of Dance - Enrolments (2018 to 2022)

	2018	2019	2020	2021	2022
Ballet -Domestic	30	30	31	33	27
Contemporary - Domestic	47	55	42	35	29
Domestic Total	77	85	73	68	56
International - Ballet	13	16	7	1	0
International - Contemporary	3	3	6	1	0
International Total	16	19	13	2	0
Grand Total	93	104	86	70	56

9(2)(i)