

VOTE EDUCATION – 2009 BUDGET LINE BY LINE REVIEW

VOTE EDUCATION – 2009 BUDGET LINE BY LINE REVIEW	1
THE GOVERNMENT’S PRIORITIES IN EDUCATION	1
INTRODUCTION TO VOTE EDUCATION	2
BACKGROUND TO THE REVIEW	4
Improving the quality of spending on education	4
Identify low priority support programmes for schools	4
Prima facie evidence of poor performance or equity rationale	4
Reduce compliance costs	5
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>	
Improving the quality of government’s investment in early childhood education	6
Improving the quality of government’s investment in tertiary education	6
Baseline Review of departmental expenditure	6
Personnel costs	7
Contract costs	7
Special Education payments	7
Asset utilisation	8
Corporate overheads	8
THE APPROACH TO THE LINE BY LINE REVIEW	8
LINE BY LINE REVIEW CONCLUSIONS	9
Savings options – Non-Departmental	9
Savings options - Departmental	10

Recommended programme reviews	11
-------------------------------	----

NON-DEPARTMENTAL EXPENDITURE ASSESSMENTS 12

1. Teaching salaries	12
----------------------	----

2. Schools' operations funding	14
--------------------------------	----

3. Home schooling allowances and private schools' funding	16
---	----

4. Integrated schools' property	17
---------------------------------	----

5. Alternative education and The Correspondence School	18
--	----

6. Careers advice and secondary/tertiary transition programmes	19
--	----

7. Curriculum Support	20
-----------------------	----

8. School support	22
-------------------	----

9. Teacher professional development, scholarships and awards	24
--	----

10. ICT support for schools	26
-----------------------------	----

11. School transport services	27
-------------------------------	----

12. Special Education	29
-----------------------	----

13. Early childhood education	32
-------------------------------	----

14. International education	35
-----------------------------	----

15. Other school sector expenditure	38
-------------------------------------	----

16. Tertiary education	39
------------------------	----

DEPARTMENTAL EXPENDITURE ASSESSMENTS 57

Introduction	57
--------------	----

1. Strategic leadership of the sector	58
---------------------------------------	----

2. Support and resources for the community	60
--	----

3. Support and resources for education providers	61
--	----

4. School property portfolio management	63
---	----

5. Support and resources for teachers	65
---------------------------------------	----

6. Interventions for target student groups	66
--	----

7. Strategic leadership of the tertiary system	68
ANALYSIS OF EDUCATION CROWN ENTITIES	71
Career Services Rapuara	71
The New Zealand Qualifications Authority (NZQA)	72
New Zealand Teachers Council (NZTC)	74
The Tertiary Education Commission (TEC)	76

VOTE EDUCATION – 2009 BUDGET LINE BY LINE REVIEW

The government's priorities in education

1. Achievement in education has a major influence on income, social mobility and quality of life. The government is committed to ensuring the education system equips all New Zealanders with the knowledge and skills they need in the 21st century.
2. There have been some improvements, but despite successive increases in education expenditure since 2000, there has been insufficient progress in reducing educational under-achievement. Every student, no matter where they live or how much their parents earn, must be given the opportunity to develop the knowledge and skills they need for success.
3. We need to lift the performance of the education system by prioritising expenditure and directing effort towards those areas and activities that will make the greatest difference. The highest priority will be in improving the performance of the system for those learners who are not currently well served.
4. Improving literacy and numeracy and increasing the number of young people who leave the education system with worthwhile qualifications are priority goals for the government.
5. To do this we need to:
 - Strengthen participation in early childhood education especially among target groups who would benefit the most
 - Specify clear standards and support schools to pursue these for every student while strengthening schools' accountability to parents, communities and the government
 - Build effective systems that make the connection between effective teaching and student achievement
 - Improve information and options for youth to increase engagement in worthwhile tertiary study and improve the transition to tertiary education and into the workforce.
6. This will require us to:
 - Align all the system levers we have – funding, professional development, regulation and information – with the priority goals
 - Stop doing those things that are not a government priority and those things where there is little evidence of effectiveness or cost-effectiveness and reprioritise our effort on what's important and find better ways of doing things. In doing so we will take account of the government's intention to put more resources in the hands of providers wherever possible
 - Refocus the Ministry of Education to reduce bureaucracy and compliance costs on educational institutions and focus instead on a systems approach to lifting performance
 - Work with the sector and other education agencies to ensure that change is adopted, maximised and sustained.

7. Refocusing on the government's priorities will require change in the sector and in the operations of the Ministry of Education. The ministry is committed to providing the government with advice, based on the best evidence available, on the most effective and cost-effective means to achieve the government's goals for education.

Introduction to Vote Education

8. Spending on Vote Education will total \$11,107.6 million in 2008/09.
9. Non-departmental expenses administered by the Ministry of Education total \$8,963.5 million:
 - \$4,175.0 million for salaries and operating expenses for schools
 - \$2,198.2 million for direct funding to tertiary institutions
 - \$1,016.7 million for tertiary student support
 - \$1,028.2 million for early childhood education
 - \$378.1 million for skills and training programmes, and adult and community education
 - \$231.4 million for special education grants
 - \$142.2 million for subsidised school transport services for eligible students
 - \$132.2 million for professional development services for teachers, principals and teacher scholarships and awards
 - \$38.9 million for private schools' grants and home school allowances
 - The remaining \$290.3 million mainly covers payments to The Correspondence School, funding for curriculum support, teacher study awards, and other payments to education providers to provide support and services.
10. In real terms, public expenditure on education increased around 4 percent per year between 2000 and 2008. The balance of expenditure between early childhood education, schooling, and tertiary sectors remained fairly stable between 2000 and 2005. Since 2005, early childhood education has almost doubled its share of total education expenditure. This shift in expenditure was driven by policy decisions to focus on where the greatest gains in education could best be made – the early years. The tertiary sector's share of total education expenditure has also increased slightly.
11. In the schooling sector, real public expenditure increased by 2 percent per year from 2000 to 2008. Per-pupil expenditure rose from \$5,289 to \$6,062 in real terms over the same period. The cost of wages is the biggest component of this expenditure. Expenditure in the schooling sector is forecast to increase by around three percent in 2009/10, and then remain relatively stable until 2011/12.
12. The major driver of expenditure in recent years has been government policy decisions:
 - In early childhood education (ECE), changes to funding policy have increased publicly-funded child hours and increased the numbers of qualified ECE teachers. Enrolment rates have risen by around 8 percent since 2000, and the proportion of qualified ECE teachers in teacher-led services grew from 50 percent to 60 percent between 2003 and 2007.

- In schooling, policy changes have increased expenditure on teacher salaries and teacher numbers.
 - In tertiary, policy choices to encourage participation and to increase the level of per-student subsidy to institutions have led to expenditure growth.
13. The total departmental funding of \$1,618 million is split between:
- \$1,177 million (72.7 percent of departmental funding) for school sector property expenses (operating, depreciation and capital charge)
 - \$196 million (12.1 percent) for Ministry of Education personnel
 - \$94 million (5.8 percent) for contracts for services such as development of curriculum materials, professional development of teachers, payroll operation
 - \$75 million (4.6 percent) for special education payments
 - \$52 million (3.2 percent) for general ministry operating expenses such as accommodation, utilities, communication and travel
 - \$24 million (1.5 percent) for depreciation of other ministry assets, largely ICT assets.
14. Over the last decade, the scope and expectations of central education agencies, and in particular the Ministry of Education, have grown. Government has adopted a more active role in managing the networks of provision in both the ECE and school sectors.
15. The rapid growth and demands associated with the ECE sector have required the ministry to increase its capacity to implement policy changes. Greater involvement in strengthening service delivery in ECE centres and schools has led to an increase in the number of staff working in regional offices.
16. The ministry has often 'stepped in' to address perceived needs or to respond to new opportunities. For example, the ministry has developed information resources for parents, including Te Mana and Team-Up. In the school sector, the ministry has significantly increased its capacity to provide guidance and support in order to deliver specific interventions, especially when individual schools are not performing. Over the last decade, the ministry has established around 30 school improvement initiatives involving more than 600 schools to address persistent low achievement.
17. The ministry has also sought economies of scale that cannot be achieved through individual institutions. For example, expenditure on ICT has increased significantly over the last decade. In some areas, such as Māori language education, ICT is a necessary tool to deliver the curriculum. In deploying ICT infrastructure across the school sector, the ministry has worked to develop standards and curriculum resources, shared services, and networked approaches. The ministry has also promoted information exchange and support across schools by facilitating the development of school clusters based around geographic communities and communities of interest.
18. One visible effect of these shifts in roles and functions has been a significant growth in the Ministry of Education. The departmental baseline has increased by 40 percent (\$126 million) since 2003/04 (excluding school property).¹

¹ Some of this growth will reverse in coming years. Excluding school property, the baseline will reduce by \$29.4 million over the next four years mostly as a result of contracts to develop and

Background to the Review

19. The Line by Line Review builds on work already undertaken by the ministry to improve our understanding of the performance of education expenditure, and the continued fit of existing education spending with the priorities of the government.
20. There are two streams of work that provide a backdrop to the Line by Line Review.

Improving the quality of spending on education

21. Advice has been given to the Minister of Education outlining how the quality of spending on education can be improved.
22. The growth in spending in education over the last six years has been driven by a relatively small number of changes to policy settings. However, these have come at a significant fiscal cost – the introduction of smaller class sizes in schools is a good example. The value for money from this additional public investment in education is questionable. Improvements in student outcomes have to date not been commensurate with spending increases.
23. There have been some gains, for example, in participation in early childhood education and in numbers of students leaving school with qualifications. There are likely to have been more cost-effective ways of achieving these gains and in lifting the performance of the system overall. Improving value for money will require managing cost pressures, adopting more targeted approaches to spending, increasing productivity in the sector, and putting more resources in the hands of providers.
24. The Minister of Education has agreed to a ministry programme of analysis and review to improve the quality of spending on education. This programme will represent a first instalment on achieving value for money over the next 12 months. Some further options for reviewing policy settings have also emerged from the Line by Line Review and are outlined in this report.
25. The work programme discussed with the Minister of Education consists of the following elements:

Identify low priority support programmes for schools

26. Analysis of savings that could be made by ceasing the funding of low priority support programmes and by reprioritising and pooling contestable funding for schools:
 - As a first step, the ministry has identified a number of low priority programmes in the Line by Line Review such as ‘Education for Sustainability’ and ‘Extending High Standards Across Schools’ which will be discontinued.

Prima facie evidence of poor performance or equity rationale

27. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

implement teacher payroll and the long term work programmes for the teachers’ collective agreements coming to an end.

Reduce compliance costs

28. There are a number of areas where there is scope to reduce compliance costs on the sector and duplication of effort across agencies:
- The ministry is shortly beginning consultation with the ECE sector and parents on the ECE regulatory system, to help identify unnecessary regulations and remove compliance burdens.
 - The ministry has provided the Minister of Education with the necessary gazette notice and supporting documentation for her to remove National Administration Guideline 5 clause (iii) which is the requirement for schools to: “where food and beverages are sold on school premises, make only healthy options available.” This change will be gazetted on 5 February with immediate effect.
 - *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

29. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

30. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

31. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Improving the quality of government's investment in early childhood education

32. ECE expenditure has grown by an average of 11 percent per year in real terms since 2000. The costs of increasing the quality of, and participation in, ECE account for most of the growth in expenditure. The marginal benefits from having more qualified teachers in ECE services and an entitlement to 20 Hours ECE for three and four year olds have not been as great as could have been achieved from more targeted expenditure.
33. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Improving the quality of government's investment in tertiary education

34. Expenditure on tertiary education has risen at an average rate of around 6 percent a year in real terms since 2000.
35. The ministry has provided the Minister of Education with reprioritisation options to meet the costs of providing an additional 200 medical student places, to meet the pre-commitments approved in the 2008 Budget for the innovation allocation (along with the Ministry of Economic Development and the Ministry of Research, Science and Technology), and initial advice to support the Line by Line Review. The ministry has identified \$521 million in savings over four years by unwinding the unfunded innovation allocation from the 2008 Budget. *[deleted – confidentiality of advice]*

Baseline Review of departmental expenditure

36. In August 2008 the ministry commenced a Baseline Review of departmental expenditure. The review covers:
 - the cost drivers of departmental expenditure – What are the primary drivers of costs? What have these been in the past, and what will they look like in the future?
 - the composition of assets that support the ministry's business
 - the efficiency of the ministry's operations
 - the state of the ministry's financial management, and ways it can be improved.
37. The ministry has completed an extensive review of all cost lines within the departmental baseline, and reviewed activities and their cost. Areas have been identified for improvement. These improvements will take time to implement and for the impact to become visible. The work completed to date has identified a funding

gap in the departmental baseline of approximately \$8 million per annum in 2009/10 rising to \$33 million in 2012/13².

38. The ministry has also identified opportunities to reduce costs. For example, a job market with higher vacancy rates will likely assist us to recruit and retain staff in high priority areas without the need to purchase external resource. Under past economic conditions and, in some cases, management practices, these resources were at times purchased at a premium.

Personnel costs

39. In line with the new functions and responsibilities associated with government initiatives, personnel costs have increased by 49 percent from \$131.7 million in 2003/04 to a budgeted \$195.7 million in 2008/09, with salaries being the largest component. Full Time Equivalent (FTE) staff numbers have increased by 16 percent from 2,010 in 2003/04 to 2,329 in 2008/09. Contractor costs have remained relatively steady at 7-8 percent of overall personnel costs but appear to cost, on average, some 80 percent more than equivalent salaried staff. It is expected that this will be reduced in the future.
40. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Contract costs

41. Decisions to prioritise and reduce the number of programmes provided through Crown activity would result in a reduction in contract funding and reduce the number of fund holders. Contract spending is also an area with potential for more effective management and performance monitoring, which will result in efficiencies and savings over time.

Special Education payments

42. The number of students eligible for Ongoing Reviewable Resourcing Scheme (ORRS) funding is increasing, with a commensurate impact on cost. Government signalled an intention to increase ORRS funding – it is unlikely that the ministry can fund increases in funding levels or the number of eligible children from existing baselines. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

² This gap has been estimated using an inflation estimate of 2% in line with the Treasury November 08 forecasts, and an assumption that, in future, additional baseline funding to cover CPI adjustments to ORRS funding and increases to salaries for special education field staff will not necessarily be agreed to. The estimates are also based on existing ministry activity and therefore do not take into account any reduction in operating costs that might flow from our assessment of efficiency of our processes and use of resources.

Asset utilisation

43. Assets are generally well managed across the ministry. There is a need to ensure transparency of corporate cost charging within the ministry and that business decisions are based on a clear understanding of whole-of-life costs. Further work is needed to determine whether the ministry has sufficient funding for ongoing support of information systems, particularly for those across the education sector.

Corporate overheads

44. Ministry of Education corporate services support the functions and services of the ministry. Some corporate services provide direct support to the education sector e.g. information technology services, payments to schools and early childhood providers. Corporate services are located both regionally and nationally. The ministry reviewed communications in 2006 and human resources 2008.
45. The review of communications led to significant cost savings by recruiting salaried staff to replace long-term communications contractors. This has stabilised and consolidated the function after a period of significant upheaval. In line with changing government priorities and greater use of the capability that has now been established, we will be looking to reduce these costs further over the next 12 months. A review of ICT positions, contracts and asset management is currently underway.
46. The next stage of the Baseline Review is to test the efficiency of ministry business processes. This is expected to generate further savings and efficiency gains in the next year.

The approach to the Line by Line Review

47. During January 2009 the ministry scrutinised all non-departmental expenditure to determine:
 - Programmes that are clearly a mismatch with the government's priorities and should be discontinued, or modified.
 - Programmes for which there is evidence for poor efficiency or cost effectiveness and should be discontinued or modified.
48. The ministry has identified opportunities for immediate savings that could be made in the 2009 Budget, and also identified programmes that should be reviewed over both the short term (2009) and the medium term (to end of 2010) with a view to improving their efficiency and improving their relevance by aligning them with the government's priorities.
49. The Line by Line Review of Tertiary Non-departmental Expenditure, undertaken separately as a result of the need to unwind the previous government's commitments and to meet unfunded manifesto commitments for the tertiary sector, is included in this report.
50. With respect to Ministry of Education departmental expenditure, the ministry scrutinised all areas of the departmental baseline over January 2009 to determine how and where savings and efficiencies were available. This analysis involved categorising activities in three ways:

- areas where efficiencies can be made in operating practice and expenditure
- areas where the ministry can re-allocate and re-focus existing expenditure to give better value and effect to government priorities
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

51. There are some areas where there is uncertainty about the savings that can be made in departmental expenditure as a result of decisions to scale back, reprioritise or cease funding of programmes in non-departmental expenditure. The ministry has, in these cases, identified initial savings. These savings would total \$11.8 million in 2009/10. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Line by Line Review conclusions

Savings options – Non-Departmental

52. The review has identified opportunities for savings in non-departmental expenditure totalling *[deleted – confidentiality of advice]* in 2009/10, with fully realised savings over the next three years of *[deleted – confidentiality of advice]*. These savings are shown in Table 1.

Table 1. Summary of Non-Departmental savings (GST exclusive)

	2009/10 Savings (\$m)	2010/11 Savings (\$m)	2011/12 Savings (\$m)
Non-Departmental			
Teacher ratios - reverse previous ratio decisions	0	0	45
Career Service	3.3	3.3	3.3
Curriculum support	<i>[deleted – confidentiality of advice]</i>		
School support	10.2	6.8	6.8
Teacher professional development, scholarships and awards	<i>[deleted – confidentiality of advice]</i>		
<i>[deleted – confidentiality of advice]</i>			
Other school sector – funding to support Children’s Commission	0.2	0.2	0.2
ECE - reverse previous ratio decisions	35.2	76	81.3
ECE professional development and other support	3.9	2.7	2.6
International education - scholarships, fees and support for students	2.1	6	9.2
Tertiary sector	0.8	14.0	34
Total Non-Departmental	<i>[deleted – confidentiality of advice]</i>		

**Note: these figures assume that contracts are cancelled. If existing contracts are allowed to run their course, we estimate total savings would come to *[deleted – confidentiality of advice]*.*

53. The figures above assume that contracts are cancelled. They do not include any costs associated with cancelling contracts. Programmes involve a many different contractors (ranging from universities to small NGOs and individual school boards) and varied contract arrangements. Most include “no fault” exit clauses with two month notice, but Mission-On contracts include specific clauses covering

compensation in the case of cancellation. As a rule we expect to have to negotiate fair and reasonable cancellation terms with contractors.

54. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*

55. Cancelling contracts also carries reputational risks, as there are some high profile organisations and school principals involved as contractors.

Savings options - Departmental

56. As a result of the work undertaken in the Baseline Review and Line by Line Review the ministry has identified efficiencies in departmental expenditure that it can make over time.

57. The ministry is proposing to reduce support function expenditure (such as accommodation, utilities, communications and travel) by 1.5% per annum, for three years, commencing in 2009/10. The ministry has identified further savings of \$1.7 million in 2009/10 from short terms gain in operating practice - e.g. through the more efficient use of contractors. Some of these savings may continue beyond 2009/10, over and above the 1.5% 'efficiency dividend'. The ministry will provide further advice for the 2010 Budget on whether further savings can be realised, and, if so, their quantum from 2010/11.

58. The ministry will reduce its expenditure on policy advice by 10 percent with a resulting saving of approximately \$1.3 million by 2011.

59. A change in approach to the ministry's parent information programmes (which include Team-Up and Te Mana) will release savings of approximately \$5 million.

60. The ministry will reduce its Output: Support and Resources to Teachers, saving \$6.6 million over the next 2 years, starting with \$3.8 million in the 2009 Budget. This reflects an expectation that smaller funding streams will be rationalised over the next year.

61. These savings are additional to the costs the ministry expects to absorb on its current activity levels – \$8.1 million in 2009/10 rising to \$33.4 million in 2012/13.

62. The ministry has identified savings that could be immediately realised in the 2009 Budget of \$11.8 million, with fully realised savings over the next three years of \$18.5 million. This is shown in Table 2.

Table 2. 2009 Budget Savings – Departmental (GST exclusive)

	2009/10 savings (\$m)	2010/11 savings (\$m)	2011/12 savings (\$m)
Departmental			
General operating expenditure (\$5.6m reduction over three years)	3.0	1.3	1.3
Policy expenditure (\$1.3m reduction over two years)*	0.0	1.3	0.0
Output: Support and resources for teachers	3.8	2.8	0.0
Output: Support and resources to the community	5.0	0.0	0.0
Total Departmental savings	11.8	5.4	1.3

**Note the ministry proposes reducing expenditure on policy activity by 10% (\$1.3m) over the next two years. The distribution of savings across the two years is yet to be determined. In the table above this appears as savings of \$1.3m in 2010/11.*

Recommended programme reviews

63. The ministry has identified a number of programmes that it concludes should be reviewed because there is prima facie evidence that performance could be improved, and/or fiscal savings identified for future Budgets. These reviews are listed in Table 3.

Table 3. List of recommended programme reviews

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Non-Departmental expenditure assessments

1. Teaching salaries

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Primary school salaries	1,785.8	1,855.9	1,885.5	1,898.5	1,898.3
Secondary school salaries	1,342.1	1,366.2	1,375.9	1,366.0	1,358.0
Funding for relief teachers	13.5	13.8	13.8	13.8	13.8
Costs associated with teacher recruitment	5.1	5.1	5.1	5.1	5.1
Total	3,146.5	3,241.0	3,280.4	3,283.5	3,275.2³

64. Education services are labour intensive. Spending on teacher salaries makes up approximately 30 percent of Vote Education. A key challenge is to improve outcomes for students and get better value for the current investment in the teacher workforce by achieving sustainable gains in teacher performance.
65. Increasing our emphasis on teacher capability has the potential to create significant long term gains in student achievement across the school system. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
66. Spending in this area is driven by salary rates for individual teachers, as well as the number of teachers employed. The previous government significantly increased primary and secondary staffing entitlements between 2001 and 2008. Additional resources were also allocated to primary schools to reduce ratios in new entrant classes from 1:18 to 1:15, from the beginning of the 2009 school year.
67. If the government has an interest in seeking savings from expenditure on teacher salaries, there are gains that could be made from rolling back these reductions in primary school teacher ratios. The ministry estimates this would eventually generate savings of around \$50 million per year. However, these savings would not occur for at least 18 months once a decision is made, due to the length of time surplus staff are paid under the surplus staffing provisions in the primary teachers' collective agreement. As indicated in the BIM, reductions in teacher: student ratios come with high fiscal costs for uncertain gains for student learning.
68. At the request of the Minister of Education, the ministry could provide further advice about staffing entitlements to schools. The formula for staffing entitlements determines teacher: student ratios and has implications for additional resourcing and support costs.

Suggested reviews or other recommended actions

69. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

³ Note, throughout this section of the report, figures in the tables are presented as millions to one decimal place. Differences in totals are due to rounding.

70. The ministry could also provide advice on how reductions to teacher:student ratios for new entrant classes in the 2009 Budget and beyond can be modified. Irrespective of what decisions are made about modifications to this policy, the ministry recommends that government signals to the school sector that further reductions to class sizes in primary or secondary schools will not be considered in the coming years.
71. In the medium term, it is recommended the ministry review the formula for staffing entitlements to schools.

2009 Budget savings options

72. No immediate savings.

2. Schools' operations funding

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Primary schools' operations grant	562.1	580.6	575.8	580.3	588.3
Secondary schools' operations grant	379.4	386.3	382.1	381.3	382.4
Accommodation and property management	2.0	2.1	2.5	2.5	2.5
English as a Second or Other Language	24.6	25.0	25.0	25.0	25.0
Special needs support	34.5	33.5	32.3	32.3	32.3
Capital expenditure	25.9	19.7	13.0	11.6	11.2
Total	1,028.5	1,047.0	1,030.8	1,033.1	1,041.8

73. This category includes direct funding to primary and secondary schools through the operations grant, as well as allocations to support students with English as a Second or Other Language (ESOL), and those with special education needs. (Note: additional non-departmental resources available to support students with special education needs are outlined on page 29).
74. Overall, we expect expenditure in this area to increase over time, in line with the government's intention to redirect funding from the centre to schools. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
75. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
76. In recent years schools have received increases in operational funding in line with increases in the CPI. These have been made on a discretionary basis (ie there is no automatic CPI indexation of schools' operating grants). The Treasury forecasts lower inflation in the medium term which will reduce the rate of increase in schools' operating costs. The ministry could provide the Minister of Education, at her request, with advice on the issue of CPI indexation.
77. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Suggested reviews or other recommended actions

78. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

79. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

2009 Budget savings options

80. No immediate savings.

3. Home schooling allowances and private schools' funding

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Home schooling allowances	4.0	4.0	4.0	4.0	4.0
Funding to private schools	34.9	33.2	34.0	34.0	34.0
Total	38.9	37.2	38.0	38.0	38.0

81. Funding for homeschooling provides a supervision allowance to parents six months in advance (\$743 for the first child, \$632 for the second, \$521 for the third, and \$372 for subsequent children). This funding is understood to be used for educational purposes to assist the parents in providing for the education of the child.
82. Around 4 percent of New Zealand students attend private schools. The government has committed to making private schools more affordable to parents by increasing the total funding available over time. We will be providing further advice on how this can be implemented.
83. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*

Suggested reviews or other recommended actions

84. None.

2009 Budget savings options

85. None.

4. Integrated schools' property

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Integrated schools' Property	54.1	38.7	37.7	37.7	37.7
Interest subsidy for school loans to integrated schools	0.8	0.8	0.8	0.8	0.8
Total	54.9	39.5	38.5	38.5	38.5

86. Crown investment in this area has increased significantly over the last decade. In addition, integrated schools have periodically sought additional cash injections, reflecting proprietors who have started with inadequate property or over-extended their financial commitments.
87. The ministry can provide further advice on long-term fiscal management options to contain costs in this area. A durable solution to ensure future one-off funding requests are not required will need a revision of some of the rules for integrated schools.
88. The ministry recommends a more transparent accountability regime for the use of integrated schools' property funds as the Crown has previously been unclear about its requirements. Other parts of the rules for integrated schools are also outdated (particularly in light of the increasing proportion of Crown funding) and are being re-examined by the ministry. Consideration of these arrangements may become more important as economic conditions impact on private schools causing some to apply for integration into the state network.
89. The interest subsidy to school loans is a fixed annual cost of \$770,000.
[information deleted in order to protect the commercial position of the person who supplied the information, or who is the subject of the information].

The ministry will provide the Minister of Education with further advice on the contractual obligations associated with these payments.

Suggested reviews or other recommended actions

90. The ministry can provide further advice on options to contain costs and to achieve a more sustainable financial arrangement for integrated schools.

2009 Budget savings options

91. No immediate savings.

5. Alternative education and The Correspondence School

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Correspondence school	36.2	37.3	37.3	37.3	37.3
Alternative education	18.0	18.0	18.0	18.0	18.0
Total	54.2	55.3	55.3	55.3	55.3

92. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
93. The Correspondence School provides educational services to children and students to meet a range of needs. These include services to students living in isolated areas; students wanting to study subjects not offered by the school; and students at risk who are not attending another school, for instance, because they have been excluded or have mental health issues.
94. Alternative education serves young people aged 13 to 15 who are not attending a school as a result of habitual truancy or challenging behaviour that means schools are unwilling to accept them.
95. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
96. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Suggested reviews or other recommended actions

97. None.

2009 Budget savings options

98. No immediate savings.

6. Careers advice and secondary/tertiary transition programmes

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
STAR (including refinements)	24.9	25.8	25.8	25.8	25.8
Career Services	10.5	10.0	10.0	10.0	10.0
Careers advice and labour market information	1.5	0.9	0.9	0.9	0.9
Kiwi Careers	0.8	0.8	0.8	0.8	0.8
Other	4.4	3.4	3.4	3.4	3.4
Total	42.1	40.9	40.9	40.9	40.9

99. This category includes funding for a variety of careers advice and transitions programmes, including Career Services, Better Tertiary and Trade Decisions, and Secondary/Tertiary Alignment Resource (STAR) and Kiwi Careers.
100. The government has signalled that investment in this area will increase in the coming years, through the implementation of the Youth Guarantee policy.
101. The development of better careers advice to assist students to make good decisions about subject choices and further training has an important role to play in reducing the number of young people who leave the education system with low or no educational qualifications.
102. The previous government committed \$3.3m per annum over three years to Career Services to roll out a programme to support secondary schools to develop effective school-based careers education. Funding for the first year was released in 2008/09. The government could roll back planned funding increases to Career Services to enhance school-based career services, while policy work to implement the Youth Guarantee is undertaken.
103. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Suggested reviews or other recommended actions

104. None.

2009 Budget savings options

105. A decision to roll back a planned funding increase to Careers Services would provide savings of \$3.3m for the 2009 Budget.

7. Curriculum support

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
General curriculum initiatives	23.3	23.4	23.4	23.4	23.4
Targeted support for specific student groups	8.4	8.2	8.2	8.2	8.2
Parent, family and community engagement	3.1	3.1	3.1	3.1	3.1
Total	34.7	34.8	34.8	34.8	34.8

106. This category includes resourcing for a number of different types of curriculum support. Specific initiatives include funding for school arts and sports co-ordinators, Mission-On (healthy lifestyles), a reading and mathematics proposal pool, rural education activities programmes (REAPS) and information and advisory services for Māori language education. Direct funding is provided to a number of institutions such as museums, zoos, aquariums, observatories and science centres to support learning experiences outside the classroom.
107. This category also includes a small number of community liaison activities and targeted initiatives for specific student groups, such as at-risk refugee students and Pasifika bilingual students.
108. Schools receive curriculum support via a variety of routes. In some instances, the ministry selects schools to fund. In others, schools apply for funding which is distributed according to set criteria. Resourcing may also be distributed to schools via third parties and received by schools in the form of 'in kind' advice or support. In some cases, this provides economies of scale. However, much of the funding distributed in this category consists of relatively small amounts of money. This comes with significant administrative costs to the ministry and to schools.
109. In a number of cases, funding for a specific initiative is accompanied by school support and professional development resourcing, as well as a significant departmental allocation. Not all of the initiatives funded in this category fit well with the government's intention for schools to focus their activities more strongly on literacy and numeracy. We propose further work to amalgamate small funding pools, and refocus and realign funding in this category to government priorities.

Suggested reviews or other recommended actions

110. The ministry proposes reducing or removing some programmes not focused on areas of highest priority. The level of savings available for realisation in the 2009 Budget will depend on whether or not existing contracts with providers are cancelled. The ministry has provided the Minister of Education with specific advice on the implications for existing contracts. Remaining funding pools for curriculum support initiatives can be realigned with government's priorities.

2009 Budget savings options

111. Savings can be made in the area of curriculum support by ceasing the following programmes: Artists in Schools, [*deleted – confidentiality of advice*]; and Children's

and Young People's Lifestyles (Mission-On). Savings of up to [*deleted – confidentiality of advice*] would be available if all existing contracts were cancelled (although in most cases early cancellation will occur some costs). Allowing existing contracts to run their course would yield 2009 Budget savings of [*deleted – confidentiality of advice*], with the full savings from these decisions available in 2010/11. The Minister of Education has been given a more detailed breakdown of the programmes involved and the options for savings.

8. School support

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Support to improve school administration standards	2.7	1.7	1.7	1.7	1.7
Training and advice for boards of trustees	2.9	3.1	3.6	2.9	3.1
Kura Kaupapa	1.4	1.4	1.4	1.4	1.4
Extending High Standards Across Schools	10.0	8.6	5.1	3.1	3.1
Truancy initiatives	5.7	5.7	5.7	5.7	5.7
Schooling improvement	16.5	16.9	17.2	17.2	17.2
Total	39.2	37.4	34.7	32.1	32.2

112. This category includes training and advice for boards of trustees, and support to improve school administrative standards and ability to handle NCEA data. A further \$1.4m is allocated to provide management support and advice across the network of Kura Kaupapa Māori-medium schools. In many cases, Non-Departmental expenditure is accompanied by a significant level of Departmental resource. The Extending High Standards Across Schools initiative provides funding to selected schools to develop and share effective practices with other schools.
113. The current appropriations for targeted school support and improvement activities have included a number of separate but related funding streams (including the Innovations Pool, School Engagement Initiative, School Improvement Initiative). This output category includes funding for statutory interventions. These targeted resources provide advice and support to schools where there are significant concerns about student engagement and/or achievement. There are opportunities for some efficiencies to be made by amalgamating the separate funding streams into a larger pool.
114. The government has indicated that it intends to provide extra support to targeted schools through an expanded range of intervention methods. This will assist schools that have been identified as having problems in progressing their students towards national standards in literacy and numeracy. Additional targeted support for schools to lift the literacy and numeracy skills of students who are at risk of not meeting national standards will also be available. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
115. Overall, the success of school support interventions is mixed. An evaluation is currently underway to provide lessons from successful interventions to inform future practice. In some areas and clusters of schools, schooling improvement initiatives have led to notable and sustainable progress in school performance. It is clear however that it is often costly and difficult to achieve sustainable improvements once performance issues are serious and the factors that gave rise to them have become entrenched.

116. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
117. Schools receive support to identify and respond to truancy through resourcing directed towards District Truancy Services and the Non-Enrolled Truancy Service. The government has also signalled an intention to direct more resources to schools to address truancy. Currently, appropriations in this area fund the District Truancy Service (which supports schools to find and return intermittent truants) and the Non-Enrolled Truancy Service (which identifies and follows up students who have been absent from school for 20 or more days).
118. The Non-Enrolled Truancy Service performs well and provides an important service to very high risk group of young people.
[deleted – confidentiality of advice]. The ministry currently manages 73 contracts, linked to the number of territorial local authorities. Third parties, including schools, provide the service to local areas. *[deleted – confidentiality of advice]*

Suggested reviews or other recommended actions

119. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

2009 Budget savings options

120. Savings can be made in the area of school support by ceasing the Extending High Standards Across Schools and Students at Risk Innovations Pool programmes. Savings of up to \$10.18 million would be available if all existing contracts were cancelled (although in most cases early cancellation will incur some costs). Allowing existing contracts to run their course would yield savings of \$0.54 million in 2009/10, with increasing savings becoming available in out years as existing contracts expire. The Minister of Education has been given a more detailed breakdown of the programmes involved and the options for savings.

9. Teacher professional development, scholarships and awards

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Baseline teacher development	19.8	18.6	16.2	16.2	16.2
Core school advisory services	25.4	25.4	25.4	25.4	25.4
Māori language education	8.4	8.2	8.2	8.2	8.2
Te Kotahitanga	4.3	4.6	4.2	4.2	4.2
Education for Sustainability	4.2	4.2	4.2	4.2	4.2
Enhancing School Enterprise Partnerships	0.4	0.4	0.4	0.4	0.4
Talking Heads -support for principals	3.0	3.0	3.0	3.0	3.0
Teacher scholarships and awards	29.4	27.7	26.0	24.6	24.6
Other professional development	28.3	11.5	9.2	6.9	6.9
Total	123.2	103.8	96.9	93.2	93.2

121. This category includes a wide range of professional development initiatives within non-departmental expenditure. Professional development is funded from both departmental and non-departmental expenditure and, as with curriculum support, the nature of resource provided and the way in which schools access these resources varies.
122. The government places a priority on improving literacy and numeracy standards in schools and increasing the proportion of young people who leave the education system with worthwhile qualifications. Teacher professional development has a key role in achieving these objectives. The government has also indicated that it intends to roll out Te Kotahitanga to 30 additional schools over the next three years.
123. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
124. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
125. Approximately \$29.4 million is allocated each year to teacher scholarships and awards. The teacher trainee scholarships represent good value for money. These are targeted on subjects where there are teacher shortages (such as te reo) and there is evidence that these have helped to attract teachers into high priority areas.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Suggested reviews or other recommended actions

126. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

127. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. Immediate savings for the 2009 Budget are as outlined below.

2009 Budget savings options

128. Savings in the area of professional development can be made by ceasing the following programmes: E-Learning Fellowships, Education for Sustainability, *[deleted – confidentiality of advice]*, the professional development component of Gifted Education, and Children’s and Young Peoples Lifestyles (Mission-On). Savings of up to *[deleted – confidentiality of advice]* would be available if all existing contracts were cancelled (although in most cases early cancellation will occur some costs). Allowing existing contracts to run their course would yield *[deleted – confidentiality of advice]*, with the full savings from these decisions being available in 2010/11. The Minister of Education has been given a more detailed breakdown of the programmes involved and the options for savings.

10. ICT support for schools

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Laptops for teachers	20.1	18.1	18.1	18.1	18.1
Microsoft licensing agreement for schools	10.9	10.9	10.9	10.9	10.9
Other ICT curriculum support	14.0	15.3	15.0	15.0	15.0
Total	44.9	44.2	43.9	43.9	43.9

129. Non-departmental expenditure on ICT support for schools includes laptops for teachers, Microsoft licensing for schools, and other forms of curriculum support, including e-learning school clusters. The majority of ICT support is funded through the departmental allocation.

130. There are several options available to reduce costs of specific ICT initiatives. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

131. The ministry currently provides a software subscription model for schools for major software products such as Microsoft and Novell. Centrally held contracts for software licenses achieve significant economies of scale and allow principals and boards to access standard ICT support.

132. If the government wishes to move schools towards the use of open source software over time, there are significant potential savings to be made. However, any savings generated by a move to using open source software in schools may be neutralised by the need for schools to secure specialist skills and support. Further work to explore options is warranted.

Suggested reviews or other recommended actions

133. The software licensing framework for schools will be reconsidered over February and March 2009. Additionally, the Minister of Education has requested more information on the evidence of effectiveness of ICT support for schools. This is an area which would benefit from further consideration and advice.

134. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

2009 Budget savings options

135. None

11. School transport services

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Total	142.2	146.1	150.6	155.2	158.7

136. Publicly-provided school transport was introduced over 100 years ago to assist rural parents meet their statutory obligation to have their children attend school.

137. Approximately 80,700 students are currently transported to school under the programme. (This total excludes students receiving Special Education transport assistance.) These students are nearly always rural students who meet the following qualifying criteria:

- they live more than 3.2 km from the nearest schools and are under 10 years of age; or they live more than 4.8 km from schools and are 10 years or over; and
- there is no suitable public passenger service available.

138. The provision of free school transport to students in rural areas is difficult to justify on equity grounds. According to the New Zealand Income Survey (June 2003 quarter), the average weekly income in rural areas with low urban influence was above the national average (\$547 compared with \$539 nationally). Incomes in rural areas with low urban influence were slightly higher in the South Island (\$550), compared with areas in the North Island (\$545). In light of the commodity-price-driven GDP growth over the last five years, it is unlikely that these regional relativities have reversed.

139. The income distribution of families with children across rural and provincial New Zealand is complex. Even urban regions such as Auckland have rural fringes where some students may be eligible for free school transport.

140. While the education policy objective of attendance is met by this policy, it is almost certainly at a high cost. The policy delivers an 'in kind' income supplement of \$1,700 per year to eligible families, regardless of income. Conversely, low income families with school aged children in urban areas receive no assistance under this policy.

141. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Suggested reviews or other recommended actions

142. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

2009 Budget savings options

143. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

144. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

145. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

12. Special Education

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Special needs support salaries	151.7	157.0	159.0	159.8	159.5
Enhanced programme fundi	7.4	7.4	7.4	7.4	7.4
Special education equipment	1.4	1.4	1.4	1.4	1.4
Special education grant	33.9	35.0	34.9	35.0	35.2
Royal NZ Foundation for the Blind	1.5	1.5	1.5	1.5	1.5
Residential schools (including residential behaviour special Schools, other special schools, health camp schools)	14.2	14.4	14.4	14.4	14.4
Other (including parenting assistance and screening programmes)	3.7	3.7	3.6	3.5	3.5
Total	213.7	220.3	222.2	223.0	222.9

146. Special education is provided through both departmental and non-departmental expenditure. The government delivers special education services in a range of settings, including in the home, ECE services, special schools, special education classes, mainstream schools and hospitals. This section details non-departmental expenditure. For further information on departmental expenditure on special education see page 66.
147. There is no inherently correct way of determining how many students have special education needs. In practice this has been determined by how 'need' is classified and the available funding. Based on current criteria, there are approximately 30,000 young people with high or very high needs at school and early childhood levels and the ministry is satisfied that the classification of students as high and very high needs is about right. The current policy also provides funding direct to schools to support 40,000-60,000 students who have more moderate needs.
148. Schools receive direct funding for 0.1 of a FTE teacher for each high needs student enrolled and 0.2 of an FTE for each very high needs student they enrol. There is evidence that the fragmentation of this funding is not as efficient or as effective aggregating the 0.1 and 0.2 FTE resource, ie not making this payment to individual schools but aggregating it via clusters or other mechanisms.
149. Together the resource teachers learning and behaviour, supplementary learning support programme teachers, specialist teachers for deaf, specialist teachers for the blind and visually impaired, and ORRS funded teachers, total approximately 2,200 FTE special education teachers working across New Zealand schools. Improving the alignment of this teacher work force with the work of classroom teachers, teacher aides and group special education specialist staff has the potential to significantly improve outcomes for students with special education needs.

150. Schools that have a significant number of students with moderate special education needs are eligible to apply for a supplementary grant from the Enhanced Programme Fund. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
151. Special education transport assists students to attend school. Parents currently receive vouchers for transport assistance (often for the use of taxis). This support comes at a high cost, particularly in Auckland. More flexible entitlements could further explored. In some cases, parents of children with special education needs may prefer to transport their children to school themselves and use the funding for other kinds of support for their children.
152. Three residential behaviour special schools provide up to 40 weeks specialist education and residential care for children with severe and challenging behaviour. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
153. The six health camp schools for years 1 to 8 students provide short-term residential care (around five weeks) and education. They are funded jointly with the Ministry of Social Development. Health camps have been in operation for 90 years; however, children attending health camp schools are now more likely to have been referred for conduct disorders than health problems. Programmes that are based on withdrawal and delivering services to children separate from family, community and schools are not considered to be effective. A recent ERO report has identified a number of issues with health camp schools and has recommended improvements in accountability and reviewing the duration of health camp intervention and the intake of students. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
154. The government has made a commitment to extend the Ongoing and Reviewable Resourcing Scheme (ORRS) to a wider group of students. This will relieve a number of special education funding and service pressures. For example, it would free up some funding from schools' special education grants and operational funding for other students in their schools with moderate special education needs. This would increase capacity in the supplementary learning support scheme, severe behaviour initiative and the severe speech/language therapy initiative as students with the highest needs in those schemes move on to the ORRS scheme. Increased capacity in the severe behaviour initiative will in turn allow assistance to be provided for younger children, in line with the evidence that earlier intervention is more effective.

Suggested reviews or other recommended actions

155. The Minister of Education has asked the ministry to review special education funding and delivery models. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

156. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

157. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

2009 Budget savings options

158. None.

13. Early childhood education

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
ECE teacher supply	19.4	19.3	18.8	17.8	17.8
ECE subsidies and service funding	974.9	1076.6	1172.0	1230.7	1249.1
ECE professional development and other support	11.2	10.0	8.6	8.5	8.4
ECE network interventions and participation	18.9	19.0	19.0	19.0	19.0
Early Childhood Education and Parent Support (PSD)	1.1	0.7	1.0	1.0	1.0
Te Kōhanga Reo National Trust	2.6	2.6	2.6	2.6	2.6
Total ECE	1,028.2	1,128.2	1,222.1	1,279.5	1,297.9

159. The majority of ECE non-departmental expenditure is direct subsidies to early childhood education services. As indicated in the BIM, policy changes to reduce the cost of ECE for parents across the board has had a small effect on participation rates for children who would benefit the most. Future investment would be best targeted towards children in low socio-economic status communities, Māori and Pasifika. Options to contain costs in future years include:

- *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- *[deleted – confidentiality of advice]*

160. The ECE Strategic Plan includes a target that 80 percent of all ECE teachers are registered by 2010. The hourly rate of funding for which services are eligible is dependent on the proportion of registered teachers that a service has. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

161. The previous and current government's adult: child ratio improvements are designed to support better quality education and care, particularly for children aged under two years and children attending sessional ECE. Research does not identify an optimal ratio of adults to children, and many centres catering to under two year olds already operate with better ratios than those required by regulation. *[deleted – free and frank]*

162. The Minister of Education has announced her intention not to proceed with the previous government's adult: child ratio improvements. A paper will be considered by Cabinet in March 2009.
163. Government has a manifesto commitment to address ECE teacher supply shortages while maintaining high standards in ECE teaching. [*information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials*]
164. Professional development expenditure is currently spread thinly due to the large growth in ECE services and teacher numbers. A recent evaluation found that one third of ECE services are accessing government-funded professional development, but it is not reaching centres in low socio-economic areas that need it most. Current professional development funding is not sufficient to devolve to ECE services to deliver professional development and there would be questions about the services' own capability to do so.
165. There is a good case for further government investment in ECE professional development. However, the ministry has identified two specific professional development and support initiatives that could be curtailed due to insufficient evidence of effectiveness. These are: the ECE ICT strategy (\$1.3m is allocated to provide guidance to ECE services around effective ICT development, use and investment) and ECE Centres of Innovation (\$0.542m to support selected ECE centres to develop and disseminate innovative practices to improve teaching and learning). A decision to halt these initiatives will have flow-on impacts to departmental expenditure.
166. Further savings could be achieved by better targeting remaining professional development towards ECE centres with the highest need. Currently \$2.9m is allocated to 8 providers to deliver professional development to support ECE services to implement the Early Childhood Assessment Exemplars and \$5.2m is allocated to general professional development programmes through ECE Advisory Training.
167. Professional development is a less costly investment for improving the quality of teaching and learning than adult: child ratio improvements or the regulation of teacher targets. Further work on how to improve the effectiveness of professional development and targeting it to high need services is required. Advice on adult:child ratios is being provided to the Minister of Education by 6 February, which will include professional development as an alternative quality improvement tool.
168. Almost \$19 million is spent on establishing, maintaining and managing the ECE network especially in areas where there is a shortage of providers. Government has a manifesto commitment to boost participation [*information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials*].
169. A major issue for us is boosting participation in ECE in South Auckland. ECE participation in South Auckland is the lowest in the country and large increases in

population have placed pressure on the existing supply of ECE services in this region. The Minister of Education has requested further advice on this.

170. The parent support and development pilot aims to develop ECE centres as community hubs and is targeted towards families with children aged 0-3 with the greatest needs. It is part of the MSD Early Years programme and currently runs in 18 ECE centres. The pilot is currently funded until 2011/12, with an evaluation due in June 2009.
171. The Te Kōhanga Reo National Trust contract funds them to provide three services: to support individual kōhanga reo, strengthen te reo Māori practices and contribute to Māori ECE participation and Māori language outcomes.
[deleted – free and frank] . Since 2000 the number of kōhanga reo has declined by 14 percent. This contract provides the Trust's main source of funding for supporting individual kōhanga reo. [information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]

Suggested reviews or other recommended actions

172. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].
173. A meeting between the Minister of Education and the Minister for Social Development will be held to discuss the future of the parent support and development pilot.

2009 Budget savings options

174. Not proceeding with the previous government's ratio changes will generate savings in the order of \$35.2 million 2009/10; \$76.0 million 2010/11; \$81.3 million in 2011/12 and \$82.8 million in 2012/14.
175. Savings of up to \$3.9 million would be available for the 2009 Budget if existing contracts were cancelled to cease the ECE ICT Strategy, Centres of Innovation, and re-target ECE Exemplar and ECE Advisory Training professional development. The ministry is able to cancel these contracts at two months' notice [information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]
176. Allowing existing contracts for the ECE ICT Strategy, Centres of Innovation, Assessment Exemplar and ECE Advisory Training professional development to run their course would yield savings of \$1.0 million for the 2009 Budget. The Minister of Education has been given a more detailed breakdown of the programmes involved and the options for savings.

14. International education

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Support for international students to study in New Zealand	21.4	25.3	27.5	29.9	32.6
Promotion of international education including support for NZ providers	6.0	5.6	5.6	5.6	5.6
Support for New Zealanders to study abroad	3.4	3.4	3.4	3.4	3.4
Total	30.7	34.2	36.4	38.9	41.6

177. Expenditure on international education has been increased over the last five years with a view to diversifying the range of international education activities (and thereby reducing vulnerability to particular markets), increasing the value add from international education (through shifting the focus to areas that are likely to have broader economic and social benefits) and promoting the internationalisation of education within New Zealand.

178. This expenditure falls into several groups:

- **Scholarships and subsidies for particular students to study within New Zealand, particularly at PhD level.** These are intended to raise interest in study in New Zealand and in particular to attract students who can make a wider contribution e.g. through research and later entry into the workforce. The largest expenditure is on subsidising international students studying for a PhD to study at the same cost as domestic students. This programme has been very successful since being introduced in 2005, and has supported substantial growth in the number of international PhD students enrolled in NZ universities.
- **Subsidies to promote diversification of activity in the international education arena.** This includes the Export Education Innovation Programme which provides grants to providers to develop initiatives offshore. It was introduced to support diversification of our export education efforts and in recognition that delivery in offshore markets is becoming increasingly important. The government will contribute \$1.8m in 2008/09 (\$1.45m from 2009/10) to the strategic marketing of New Zealand education – this is complemented by an industry contribution funded from the export education levy.
- **Grants to support internationalisation of New Zealand education for domestic students.** This includes grants to support study abroad and grants to support teacher study abroad, including for language development purposes, and with a focus on science and maths.

179. In addition, over the last five years the government has funded the establishment of an international education counsellor network. The counsellor network is discussed under the departmental section of this report.

180. As noted, the focus of policy and investment in this area has shifted over time from a short-term emphasis on building enrolment levels, to one where this objective is

balanced by a longer-term ambition to position New Zealand's reputation as a high-quality provider, to attract and retain top scholars, contribute to building talent across fields that are important for NZ's future development, and to assist our education system to be better connected internationally. Concurrently, actions have been taken to ensure more diversified export education markets. A number of the programmes designed to support these policies are run in collaboration with the sector body, Education NZ.

181. In considering future targeting of expenditure, judgements need to be made about the relative weight government wishes to place on the shorter- and longer-term objectives indicated above. At the programme level, the relative success of existing initiatives in addressing objectives is also an obvious factor. Although the impact of some programmes is still unfolding, the ministry has drawn on initial data to inform the recommendations below.
182. The relative balance between, and focus of, government and sector funding (the latter as delivered by individual providers, provider groups and collectively through levies) are also relevant factors. Crown funding is currently directed more strongly to longer-term objectives. Conversely, there has been a greater expectation that providers will support immediate collective marketing activity. There are links between the two, however, and shifts in one area will potentially have impacts elsewhere.

2009 Budget savings options (GST exclusive)

Subcategory	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Phase out undergraduate scholarships	0.4	0.8	1.0	1.0
Phase out doctoral research scholarships	1.2	2.4	3.2	3.5
Tertiary study abroad awards capped (optional)	0.5	1.0	1.0	1.0
Domestic fees for PhD students capped at 2009/10 levels	0.0	1.7	3.6	5.7
Domestic status for PhD dependents capped at 2009/10 levels	0.0	0.2	0.4	0.7
Total *	2.1	6.0	9.2	11.8

* Differences in totals due to rounding to nearest \$0.5m

183. These savings options are outlined below.⁴

Phase out scholarship schemes and cap expenditure on PhD fees scheme for international students

184. The undergraduate scholarships are quite small in quantity, have not been particularly successful and are relatively costly to administer. In some instances there could be bilateral relationship issues to work through with cooperating countries, but overall this scheme is low priority in terms of its impact and support from the sector.

⁴ Note that undergraduate and PhD scholarships programmes are administered by Education NZ. Flowing from removal of the schemes, there will be some impact on the level of overheads and staffing funded through the ministry's contract with Education NZ.

185. The PhD scholarships have been much more successful. This scheme has attracted high quality research students to New Zealand (and has functioned as something of a flag-bearer for promotion of New Zealand education abroad). However, the domestic fees policy for PhD students was introduced subsequently and addresses similar objectives, potentially lessening the importance and impact of the full scholarship scheme itself.
186. The numbers of international PhD students enjoying domestic fee status has grown rapidly over recent years. While this is positive it seems appropriate to consider capping total expenditure on this initiative, given the overall limit on tertiary education subsidies. A savings option of capping at projected levels at the end of this year is suggested. This may be administratively cumbersome to implement, and will be resisted by the universities, but is feasible and would still leave considerable benefit in terms of the original objectives of the proposal. There would be flow-on savings in expenditure on the provision of free access to schooling for dependent children of international PhD students.

Remove the study abroad support scheme and alumni funding

187. The study abroad scheme supports students to undertake a relevant portion of their New Zealand degree in a programme overseas. While supporting internationalisation of New Zealand education through encouraging New Zealand students to study abroad is potentially valuable, it is not the highest priority across education spending. Individual institutions also support study abroad to a limited extent
188. The alumni funding scheme is a small amount of money targeted at developing alumni links. It is not of highest priority in terms of government spending.

15. Other school sector expenditure

Operating expenditure (GST exclusive)

Subcategory	2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Educational research	3.2	3.2	3.2	3.2	3.2
Children's Commission support	0.2	0.2	0.2	0.2	0.2
School reorganisations, planning and mergers	3.5	3.5	3.5	3.5	3.5
Students bursaries and scholarships	11.4	11.4	11.4	11.4	11.4
Total	18.3	18.3	18.3	18.3	18.3

189. The education research output includes a purchase agreement with New Zealand Council of Educational Research for an independent programme of research and advice to the education sector, and a fund to contract a range of research into teaching and learning in providers.
190. The ministry contracts the Office of the Children's Commissioner to provide an enquiry and complaints service to assist children, parents and their caregivers to resolve problems that arise in the education sector.
191. School reorganisations, planning and mergers funding provides access to specialist advice on demographic changes and the implications of these for the school network. It also supports consultation with the community about planning future education provision in cases of population growth or decline.
192. Student bursaries and scholarships include three programmes. Boarding bursaries provide a contribution towards the cost of boarding for students in isolated areas, offering them another educational option besides The Correspondence School. Mapihi Pounamu offers scholarships to assist with the cost of boarding for students from at-risk home environments. There are some students that achieve well as a result of this investment, but we could use the information we have to better evaluate the overall impact of this funding. Funding for the United World Scholarships supports five annual scholarships of \$10,000 each, which allow exceptional students to attend colleges located in 10 countries.

Suggested reviews or other recommended actions

193. None.

2009 Budget savings options

194. Savings of \$0.2m can be made by ceasing funding to the Children's Commission.

16. Tertiary education

Introduction

195. The tertiary education line by line review contributes to four objectives:

- unwinding the unfunded Innovation Allocation from the 2008 Budget (\$521.0 million over four years)
- funding the new initiative, 200 extra medical student places (\$35.2 million over four years)
- returning additional funding to the centre as part of the Line by Line Review (\$81.3 million over four years)
- developing a medium-term work programme to ensure greater value from government's investment in the tertiary education sector.

196. This section discusses the rationale for all these savings, and a summary at the end explains how the savings have been allocated to each purpose. While this paper discusses all areas of tertiary education expenditure, we have not been able to present all possible evidence, but have focused on describing the main issues. More complex areas, where the evidence needs to be worked through in more detail, have been identified as areas for further review.

197. There are five broad areas of funding for tertiary education discussed. Funding for these areas is set out in Table 5, which shows growth in funding over the past decade, as well as growth already built into baselines.

Table 5. Tertiary education expenditure

	1998/99 \$m	2008/09 \$m	2012/13 \$m
Student Achievement Component and Tertiary Education Organisation Component	1098.3	2198.2	2349.4
Skills and training programmes	108.2	333.2	372.6
Adult and community education	15.4	45.0	50.6
Student support	464.7	1016.7	1150.2
Tertiary education agencies	46.7	121.4	93.9
Total	1733.4	3714.4	4016.7

198. This paper covers each area in turn, working through government priorities, the reasons for changes in funding over the past decade, an initial assessment of alignment with government priorities and efficiency and effectiveness of the programme, leading to options for savings. Funding changes from the 2008 Budget are also identified, in light of the need to unwind parts of the Innovation Allocation.

199. Many tertiary education funds are managed through three-year funding agreements ('Plans') that are in place from 2008 to the end of 2010. The options that are presented minimise legal risk by avoiding the need to change these agreements.

Key trade-offs in tertiary education

200. The government has a range of levers that influence the level of funding it directs to tertiary education as well as the key outcomes of participation and quality. These relate to choices on:
- volume (which directly influences participation)
 - levels of government funding (price)
 - levels of private contribution from students, their families and employers (fees)
 - student support (loans and allowances).
201. The balance of policy choices made across all of these areas influences the level of funding that Tertiary Education Organisations (TEOs) receive and the amount of funding that the government provides.
202. New Zealand has relatively high participation in tertiary education, and spends above the OECD average in order to fund this level of participation. New Zealand provides relatively lower per student funding to institutions and relatively higher student support funding, when compared to most OECD countries.
203. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*
204. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Student Achievement Component and TEO Component

205. These funds are paid to tertiary education institutions and private training establishments to pay for teaching and learning, as well as research. The funds also support capability building for tertiary education institutions and industry training organisations (ITOs).
206. The main priority in this area is to streamline the system, through simplifying funding allocation processes and using funding signals to encourage provision that is relevant to students, local businesses and the economy. Furthermore, the Minister has indicated a preference to move away from directly funding capability building.

207. There is also a commitment to direct savings from discontinuing the research and development tax credit into the Performance-Based Research Fund, the Marsden Fund and the Health Research Council.

Table 6. Changes in funding over time

	1998/99 \$m	2008/09 \$m	2012/13 \$m
Student Achievement Component (SAC)			
Universities	698.2	876.3	951.6
Institutes of technology and polytechnics	380.5	394.5	424.0
Wānanga	8.1	101.0	120.3
Private training establishments	11.2	134.0	144.4
Other tertiary education providers	0.4	23.8	25.4
Tertiary Education Organisation Component (TEOC)			
Tertiary education institution (TEI) base investment		313.7	328.7
Supporting change		40.1	35.6
Priorities for focus		21.1	13.2
ITO core component		5.6	6.8
Encouraging and supporting innovation		16.7	16.7
TEOC: Research			
Performance-based Research Fund		236.1	249.8
Centres of Research Excellence		34.0	31.7
Building research capability in the social sciences		1.3	1.3
Total	1098.3	2198.2	2349.4

208. Funding increased substantially in this area over the past decade, due to:

- increased student numbers - full-time equivalent students increased 33% from 1999 to 2007
- increasing subsidies per student - funding rates were increased according to CPI from 2001 onwards, with additional increases provided as part of fee stabilisation policies and a funding category review
- capability building funds for ITPs and wānanga, in the 'supporting change' element of the TEO Component (\$36 million per year)
- tripartite funding for universities, funded through the base grant, used to support pay increases (rising cumulatively to \$66 million per year)
- increases in research funding, to support the establishment of the Performance-Based Research Fund.

209. In the 2008 Budget, funding increases were made to the funds as follows:

- Student Achievement Component received increased funding for CPI growth in 2009, 2010, and 2011 (\$334 million over four years), as well as funding for increased enrolments at universities, institutes of technology, and polytechnics (\$57 million over four years)
- Tertiary Education Organisation Component received an increase in proportion to the increases to Student Achievement Component (\$74 million over four years), as well as increases to address university cost pressures (\$60 million

over four years), and to support industry training organisation strategic leadership activities (\$8 million over four years)

- The Performance-Based Research Fund was increased to \$250 million per year (\$42 million over four years).
210. The performance of the Student Achievement Component can be analysed for access, equity, achievement, and progression to further study for each sub-sector and at different qualification levels. Broader information is available about earnings and employment outcomes from different levels of tertiary education. The main observations about the contribution of each sub-sector are as follows:
- University performance is relatively strong, with completion rates above average. Labour market outcomes and economic growth are most strongly supported by qualifications at degree level and above. Participation and completion rates by Māori and Pasifika students are below average, although this is in part due to the prior educational attainment of these groups.
 - Institutes of technology and polytechnics performed unevenly. Completion rates are below average, and a high proportion of provision is in certificates at National Qualification Framework levels 1 to 3, where there is a lower wage premium. The completion rate may in part be due to the prior educational attainment of their students.
 - Wānanga have increased the overall participation of Māori in tertiary education (particularly older Māori). Completion rates are around the average, although over half of provision is in certificates at National Qualification Framework levels 1 to 3.
 - Private training establishments provide good access for disadvantaged groups, and achieve around average completion rates.
 - The outcomes of each other tertiary education provider would need to be reviewed individually, since they contribute to different objectives.
211. It is more difficult to gauge the outcomes associated with the Tertiary Education Organisation Component, because it includes funds started over the past few years, with diverse purposes. Our understanding of performance in each area is as follows:
- The Tertiary Education Institution Base Investment is intended to support Tertiary Education Institutions to focus on their core roles and distinctive contributions. The bulk of the funding came from a reallocation of previous student component rates, and it is currently largely allocated according to student volumes, with the expectation that new policy settings, not based on student volumes, will be introduced by 2011. A small element in 2009 and 2010 is allocated to polytechnics based on the population of their regional catchments as a means of supporting smaller institutions. Therefore, no performance information is yet available for this fund.
 - The Industry Training Organisation Core Component is a contestable pool of funding for industry training organisation projects to build leadership capability and set standards for qualifications at intermediate levels on the National Qualifications Framework. This funding was new from 1 January 2008, and performance information is not yet available.
 - Priorities for Focus funding is largely allocated to universities, with a small amount of funding for other elements (for example funding in support of

embedding literacy and numeracy teaching into mainstream qualifications). The funding was new from 1 January 2008 and no performance information is available.

- Supporting Change funding is allocated to institutes of technology and polytechnics and wānanga to help them realign their portfolio of provision with national and regional priorities. This funding was initially approved in 2005 and offset against significant reductions in funding to polytechnics and wānanga as part of the review of certificate and diploma provision. The fund has been successful in that it has provided targeted support that has enabled individual polytechnics and wānanga to maintain essential provision during the transition to more sustainable business models, and has funded many essential transitional activities. However, has relatively high compliance costs. The fund is being phased out in 2010, and while the funding is permanently in the baseline, it was intended that the purpose of the funding be revisited before the 2010/11 year. While there are a number of options for this, we do not recommend reprioritising this funding at this stage, as it would represent a very large baseline reduction to the polytechnic and wānanga sectors and would leave a large number of institutions financially unviable.
212. Encouraging and Supporting Innovation funding is open to all Tertiary Education Organisations, to support innovation projects, including work to support links with business and build infrastructure. This is the latest configuration of innovation funding, which has been part of the tertiary system for some years.
213. Evaluation and monitoring information is available about the Performance-based Research Fund, which is the largest part of the Tertiary Education Organisation Component: Research. The introduction of the Performance-based Research Fund is associated with increased research activity, increased external research contract income in TEOs, and decreased first year attrition of doctoral students. The objectives of this fund are well aligned with the objectives of this government.
214. Note that in addition to the Performance-based Research Fund, \$34 million per year is appropriated for the Centres of Research Excellence. This funding is well aligned with the government's objectives for research, and is managed through long-term (ie six-year) contracts. For these reasons, we have not closely examined the contribution of Centres of Research Excellence as part of the Line by Line Review.

Options for savings in the 2009 Budget

215. Because of the size and diverse purposes of the Student Achievement Component and Tertiary Education Organisation Component, there are a number of different ways to achieve savings. CPI indexation drives most of the increase in baseline in the coming years. Options to modify this indexation (or not to proceed) are therefore important.
216. The options set out below tend to avoid affecting enrolments (except in very low value areas). This is because of the intention to take a more fundamental look at eligibility for government-subsidised tertiary education, and protect frontline services in the 2009 Budget.
217. Final enrolment information for the 2008 academic year is not yet available, but early results show that there is likely to be a small under-spend due to lower

than expected enrolments, particularly in Institutes of Technology and polytechnics, but also in the wānanga, private training establishment and other tertiary education provider sectors. The under-spend for institutes of technology and polytechnics (which will be the largest under-spend) is expected to be over \$10 million.

218. These under-spends were considered for baseline savings. However, there is a risk that the labour market downturn will increase demand for tertiary education beyond the level allowed for in the baseline in 2009. There is some (limited) anecdotal evidence from tertiary providers to support this expectation.
219. Therefore, we propose to redistribute the under-spend to areas of higher demand. The TEC has already reallocated some 2008 under-spends to providers where there is evidence of higher demand for places, and will continue to take this approach.
220. This strategy will act to provide for a limited increase in enrolments compared with 2008. It is possible that demand will prove to be higher than allowed for through this strategy, but we recommend that we continue to monitor the situation rather than adjust funding levels immediately. Final performance information for the 2008 academic year will be available by the end of February 2009, which will be an appropriate point to reassess the situation.

Remove CPI adjustments (Innovation Allocation savings)

221. The largest area of spending in the 2008 Budget was to adjust several funds for CPI inflation in 2009, 2010, and 2011: the Student Achievement Component, the Tertiary Education Organisation Component, Industry Training Fund and adult and community education. These adjustments were spread across three different bids and cost around 45% of the total tertiary education Budget package.
222. CPI adjustments have been made to the Student Achievement Component and Tertiary Education Organisation Component since the introduction of the Fee and Course Cost Maxima policy. This recognises that providers are constrained in the extent to which they can increase private revenue (through tuition fees), and hence that government has a greater responsibility in responding to cost pressures.
223. We propose removing CPI adjustments to Student Achievement Component and Tertiary Education Organisation Component for 2011. This would mean the current plans (which are in place until the of 2010) would remain in place, and would also allow the government more time to considering a more sustainable approach to meeting cost pressures in tertiary education. The CPI adjustment for 2010 would be updated for the latest forecasts (a reduction from 2.5% to 1.95%).
224. There have been substantial funding increases in the past decade, and in light of the current fiscal situation, it seems reasonable to expect some efficiency gains to be achieved within the largest areas of the tertiary sector.
225. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*

226. CPI adjustments were also made to the Performance-based Research Fund, as part of the unfunded 2008 Budget allocation, which we also propose reducing to meet current pressures. The reduction will be off-set by an increase arising from the discontinuation of the research and development tax credit.
227. In addition, CPI adjustments for the Industry Training Fund and the adult and community education sector were introduced for the first time in the 2008 Budget. These sectors do not face any constraints on the fees they can charge and there is less clarity as to whether they face sustained cost pressures. It is recommended that funding rates for industry training and adult and community education be held at 2009 levels (rather than continuing to rise in 2010 and 2011).

Table 7. Summary: Savings from removing CPI indexation

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Remove CPI indexation for 2011, and update 2010 CPI adjustment to 1.95%:				
Student Achievement Component	-4.400	-27.500	-46.200	-46.200
Tertiary Education Organisation Component (TEOC)	-0.700	-4.700	-8.000	-8.000
TEOC Research	-0.700	-4.100	-6.900	-6.900
Remove CPI indexation for 2010 and 2011:				
Industry training (including Modern Apprenticeships)	-1.500	-5.700	-7.700	-7.700
Adult and community education	-0.400	-1.200	-1.500	-1.500
Total	-7.700	-43.100	-70.300	-70.300

Remove Student Achievement Component funding for regulatory compliance qualifications (Innovation Allocation)

228. Around \$8 million per annum of Student Achievement Component funding is used for the provision of short awards which assist employers in meeting regulatory requirements, such as occupational health and safety standards. This funds training which employers would have to undertake even without public funding, and at a relatively low cost per employer. This funding has been constrained since 2005, but it could be withdrawn completely with minimal impact upon outcomes.
229. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*

Table 8: Savings from addressing regulatory compliance qualifications

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Remove Student Achievement Component funding for regulatory compliance qualifications		-4.000	-8.000	-8.000

Reduce TEO Component: Capability funding (Innovation Allocation and *Line by Line Review* savings)

230. The Tertiary Education Organisation Component was new from 1 January 2008, and is made up of new funds, or funds with changed objectives. For that reason, there is limited evidence about the efficiency and effectiveness of these funds.
231. However, several of these funds do not align with government priorities. As discussed above, there is medium term work underway to assess the purpose and allocation mechanisms in the Tertiary Education Organisation Component. This will be particularly important for the larger part of the Tertiary Education Organisation Component, which was reallocated from Equivalent Fulltime Student rates, and ought to be considered as part of the funding of front-line services.
232. However, some areas within the TEO Component are more discretionary. Savings are proposed in areas which are relatively resource-intensive to allocate, and where the objective of the fund is most poorly aligned with government objectives. The savings will apply from 2011 onwards:
- Reduce Encouraging and Supporting Innovation by half, which will reduce the scope for innovation and collaboration projects. (Under-spends will allow some savings to be offered earlier for this fund).
 - Reduce the ITO strategic leadership fund by half, which will reduce the scope for strategic planning and qualifications design projects in the ITO sector.
 - Remove the Priorities for Focus funding which supports university projects in areas of government priority.
 - Reduce universities' tripartite funding from 2011 onwards. This funding helps universities meet cost pressures from salary increases.

Table 9: Savings within TEO Component

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Encouraging and Supporting Innovation	-4.000	-8.000	-8.000	-8.000
ITO strategic leadership		-1.750	-3.500	-3.500
Priorities for Focus		-5.000	-10.000	-10.000
Innovation Allocation sub-total	-4.000	-14.750	-21.500	-21.500
Universities' tripartite agreement		-9.250	-18.500	-18.500
Total	-4.000	-24.000	-40.000	-40.000

Skills and training

233. This area includes training for vocational purposes, primarily in workplace settings. Employees are funded through the Industry Training Fund and Modern Apprenticeships; job-seekers are funded through youth training; and school students are funded through Gateway. Literacy, language and numeracy programmes are offered in work-based, provider, and community settings.

234. Government commitments in this area are to: introduce a Youth Guarantee; support the New Zealand Skills Strategy and the industry partnership with government that underpins it; simplify the industry skills system; ensure the qualifications system reflects employers' needs and puts appropriate emphasis on literacy and numeracy skills; encourage more employers to take on apprentices; and maximise the value of the Modern Apprenticeships Scheme.
235. Furthermore, many of these programmes are an important part of any skills response to cushion the impact of the labour market downturn. Therefore, caution has been taken in considering these areas for reprioritisation. However, some options are presented.

Table 10. Changes in funding over time

	1998/99 (\$m)	2008/9 (\$m)	2012/13 (\$m)
Industry Training Fund	43,534	159,077	180,280
Modern Apprenticeships		48,532	48,699
Youth training	54,618	61,551	56,220
Gateway		19,013	19,013
Skill Enhancement and Pathfinders	10,030	5,519	5,519
Literacy, language and numeracy		39,510	62,888
Total	108,182	333,202	372,619

236. Funding has increased in this area, primarily as a result of:
- An increase in volume and price for industry training. In 2006 there were 2.5 times more trainees than in 1999, and the price per trainee also rose as a result of a move to a single standard training measure rate. Future funding for industry training does not include any volume increases, but does include a CPI adjustment.
 - The establishment of Modern Apprenticeships, which supported 9,466 apprentices in 2006.
 - The establishment of Gateway, which supported 6,684 students in 2006.
237. The 2008 Budget included substantial increases in funding for literacy, language and numeracy to fund increased participation in a range of work- and community-based settings, as well as tutor training and other capability building activities.
238. The performance of the industry training system has been primarily assessed through participation and credit attainment. Participation has increased steadily, as has the representation of Māori, Pasifika, and women trainees (although women remain under-represented). New information is available about completion rates, which shows that completion rates for industry training are comparable to those of similar provider-based qualifications, although performance varies considerably between industry training organisations.
239. The performance of Modern Apprenticeships is monitored through participation and credit attainment, and an evaluation was completed in 2006. The programme has met its overall participation targets, although women remain underrepresented. New information about completion rates shows that Modern

Apprenticeship completion rates are broadly the same as those of industry trainees of the same age.

240. Youth training is targeted to 16 to 18 year olds, and is most appropriately assessed as part of work to design the Youth Guarantee. Furthermore, since it is targeted at young people who are not in work or other forms of training, the demand is likely to increase as a result of contraction in the labour market. Therefore, we do not suggest seeking savings in this area.
241. Gateway is targeted to school students who wish to undertake one of their subjects in a work-based learning environment. As such, it is strongly aligned with government objectives, and should be assessed as part of the development of the Youth Guarantee.
242. Literacy, language and numeracy programmes have grown steadily over the past few years, culminating in a substantial increase in investment in the 2008 Budget. Improving literacy and numeracy has benefits for individual earnings and economic growth. However, the increases in funding for this area have been substantial (especially in the 2008 Budget), and options for reducing this are presented below.

Options for savings at Budget 2009

Remove Skill Enhancement (Innovation Allocation savings)

243. Skill Enhancement is a small fund (\$4.3 million per year) that supports young Māori and Pasifika students progress to qualifications at level 3 and above. The fund has been under-spent in recent years and has been reduced considerably in response; it is therefore not achieving the objectives initially set for it.
244. This programme provides vocational training targeted at Māori and Pacific people. If this programme is disestablished we will do further work to ensure that the objectives of the programme for this target group are achieved.

Table 11: Savings for Skill Enhancement

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Remove Skill Enhancement	-2.150	-4.300	-4.300	-4.300

Reduce funding for literacy, language and numeracy (Innovation Allocation savings)

245. As discussed above, this received substantial funding in the 2008 Budget, due to its importance for individual and economic outcomes.
246. The literacy, language and numeracy programme funds a coherent range of related interventions to target individuals who are in work in a range of different settings. This includes teaching in the workplace and in community settings, and in formal and informal styles of learning.
247. A significant part of the package is the embedding of literacy and numeracy into mainstream curriculum by 2011. The proposed reduction preserves a coherent package of interventions while reducing overall funding by approximately one third. It is focused on retaining the parts of the package that

ensure quality of provision and secure embedding of literacy and numeracy curriculum, and therefore involves a reduction in the volume of training.

Table 12: Savings for literacy, language and numeracy programmes

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Reduce literacy, language and numeracy package	-8.600	-24.080	-27.280	-34.340

Adult and community education

248. Adult and community education funding supports informal learning for around 250,000 learners and is provided through local high schools, community organisations, and some tertiary education institutions. There are no current government priorities for adult and community education.

Table 13. Changes in funding over time (GST exclusive)

	1998/99 (\$m)	2008/9 (\$m)	2012/13 (\$m)
Adult and community education	15,428	44,954	50,614

249. The main increase in adult and community education funding is a result of a transfer of funding for tertiary education institution-based adult and community education in 2006 (from the Student Component). In addition, there have been smaller increases to support expansion of high priority areas (supporting new providers and literacy, language and numeracy provision).

250. Evidence about the effectiveness of these funds is limited. Some provision re-engages vulnerable groups in the community with learning or addresses literacy needs. Other provision is targeted at middle to upper income students studying areas of personal interest. In these areas outcomes would not be substantially affected if government funding was reduced or withdrawn.

251. Considerable work was carried out to better match funding to Government priorities from 2003 to 2006. This work provoked a strong response from affected learners and providers, and it is probable any further reductions would have a similar effect.

Options for savings at Budget 2009

Reduce funding for adult and community education (Innovation Allocation, 200 extra medical student places, and Line by Line Review savings)

252. A saving could be generated through reducing adult and community education funding for tertiary education institutions and community-based providers. A substantial proportion of this provision is directed to hobby-related courses, and/or is used by individuals who could afford to meet the full course of the course without government assistance.

253. The proposed savings would remove half of the adult and community education funding in tertiary education institutions from 2011 and community providers from 2010 (the largest of which is schools). The removal would be accompanied by a policy change to focus government funding for adult and community education on higher value areas and away from hobby courses

(although this would necessarily be a broad shift, rather than administered course by course).

Table 14: Savings for adult and community education

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Community providers	-6.472	-12.913	-12.913	-12.913
Tertiary education institutions	0.000	-4.445	-8.889	-8.889
Total	-6.472	-17.358	-21.802	-21.802

Student support

254. This area funds payments to students – mainly through student loans and allowances, but also through scholarships. Whilst this funding is mainly administered through Vote Social Development, policy responsibility (including Budget responsibility) remains with the Minister for Tertiary Education.
255. Government priorities are to retain interest-free student loans, retain CPI indexation of loans for living costs, and introduce a 10% repayment bonus for graduates who make voluntary repayments on their loans. The government also intends to move, over time, to expand eligibility for student allowances.

Table 15. Changes in funding over time (GST exclusive)

	1998/99 (\$m)	2008/9 (\$m)	2012/13 (\$m)
Student allowances	378,491	411,378	411,378
TEC scholarships (Top Achiever Doctoral and Trainee Medical Intern grants)	0	22,517	23,017
StudyLink scholarships (Step Up, Bonded Merit)	0	20,767	20,767
Student loans operating impact	86,200	562,000	695,000
Total	464,691	1,016,662	1,150,162

256. The largest funding increase in this area is due to policy changes to student loans, which increased the amount of interest written off on the loans, and hence the operating cost to government.
257. Further cost increases arose due to the establishment of a number of scholarship schemes, administered through Tertiary Education Commission and StudyLink. The increase in student allowances funding is due to changes in eligibility, and CPI adjustments to the level of student allowances.
258. Student allowances support low income students with their living costs while studying, in order to reduce financial barriers to study. Eligibility for allowances has reduced as incomes have increased, although recent policy changes have slightly reversed this trend. Recent Ministry of Education research shows that student allowance recipients are more likely to complete qualifications. In addition, there is some international evidence that financial aid increases the probability that low-income students will undertake higher education.
259. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

260. Through StudyLink, the Ministry of Social Development administers two scholarships – Bonded Merit Scholarships (paying fees for higher achieving students from second year onwards), and Step Up Scholarships (supporting young students from low income backgrounds to study in areas of skill shortage). While these schemes are well subscribed and meeting their objectives, these scholarships are unlikely to affect overall decisions to study, even for low income students, because the Student Loans Scheme already provides a comprehensive approach to addressing financial barriers to study.
261. The Tertiary Education Commission (TEC) also administers a number of scholarships. The largest of these is the Top Achiever Doctoral Scholarships, which provide up to \$25,000 per year for three years to high achieving PhD students. This scholarship has been undersubscribed in recent years. Similar issues regarding the impact of StudyLink-administered scholarship on enrolment decisions apply to the Top Achiever Doctoral Scholarships.

Options for savings at Budget 2009

262. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
263. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Bonded Merit Scholarships (Innovation Allocation savings)

264. At this time, 1460 students receive a Bonded Merit Scholarship, and funding increases approved in the 2008 Budget will support a further 1500 scholarships to be awarded in 2009.
265. The scholarships have a high rate of uptake, and a low attrition rate. Recipients consistently achieve above the B grade average required for application.
266. However, Māori and Pasifika students are greatly under-represented, and the nature of the criteria means that recipients tend to be from qualifications such as medicine and engineering (which have high entry standards). These qualifications are also targeted by other scholarship schemes, as well as attracting high fee subsidies through the Student Achievement Component. Furthermore, graduates with these qualifications achieve high lifetime earnings.
267. It appears likely that the students targeted by this scholarship would achieve well without the support, with the result that funding in this area is largely

deadweight. Bonded Merit Scholarships are also expensive to administer compared to student loans and allowances. Therefore, we propose phasing out this scholarship by closing off new applications, but allowing current recipients to retain their entitlements of up to four years.

Table 16: Savings for Bonded Merit Scholarships⁵

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Operating impact	-4.260	-8.473	-12.676	-14.472
Capital impact	1.171	2.280	3.317	3.575
Net impact	-3.089	-6.193	-9.359	-10.897

268. These savings include initial estimates of the operating savings arising from reduced administration costs in StudyLink. Further work is underway to assess whether higher administration savings could be achieved through adjustments to the policy settings for remaining recipients (for example by relaxing the bonding requirements), and this will be provided to the Minister for Tertiary Education by the end of February 2009.

269. Because there is very limited scope to seek capital savings to offset the capital impacts of this initiative, the Treasury has agreed that the capital costs can be offset against the operating savings. Therefore the net of operating savings and capital costs is provided as the final savings figure.

Step Up Scholarships (Innovation Allocation savings)

270. Step Up Scholarships are available to young student allowance recipients to pay fees for degree level study in areas of skill shortage (mainly medical and engineering qualifications). These are targeted towards students whose parents are on a low income. Recipients must remain in New Zealand for a period equivalent to the tenure of the scholarship.

271. There were 626 new scholarships granted in 2008. The scheme has been substantially over-subscribed, and is targeted to low-income students.

272. A review of the scheme is scheduled for 2009. While this scheme better targets high need areas, the student loans and allowances available to this group suggest that this further scholarship is unlikely to affect decisions to study. These scholarships are also expensive to administer. The ministry recommend that Step Up Scholarships be phased out, retaining entitlements for current recipients. The full savings from phasing out the programme will be available from the 2013/14 financial year.

Table 17: Savings for Step Up Scholarships

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Remove Step Up Scholarships				
Operating impact	-3.289	-6.708	-9.535	-10.838
Capital impact	0.803	1.608	2.211	2.368
Net impact	-2.486	-5.100	-7.324	-8.470

⁵ Note that costings also include the impact on student loans, given recipients would borrow from student loans scheme if each scholarship is disestablished.

273. The same approach has been taken to administrative costs in StudyLink and meeting capital costs as for Bonded Merit Scholarships.

Top Achiever Doctoral Scholarships (Innovation Allocation savings)

274. Top Achiever Doctoral Scholarships provide up to \$25,000 per year for up to three years, to support high performing doctoral students. Top Achiever Doctoral scholarships are merit-based awards, and such awards can be effective at recognising and rewarding academic excellence. However, the international literature on scholarships highlights a dead-weight loss component in such awards. This arises because there is a correlation between academic success and socio-economic status. It is likely that some recipients would have successfully completed their studies, even if they had not received the scholarship support.

275. This scheme was reviewed in 2008, and the previous government noted it was achieving its objectives, and agreed it should continue unchanged.

276. However, based on the changed fiscal circumstances, we recommend that this scholarship be phased out by closing any new applications but allowing current recipients to retain their scholarships. Other commitments to increase support for research (e.g. increased investment in the Performance-based Research Fund), may contribute to the same outcomes as this scholarship.

Table 18: Savings for Top Achiever Doctoral Scholarships

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Remove Top Achiever Doctoral Scholarships	-2.776	-5.308	-7.852	-10.000

Agency operating funding (Innovation Allocation savings)

277. Agency operating funding is not assessed here, because it is considered as part of the wider Vote: Education Line by Line Review (covering schools and early childhood education). However, in the context of addressing the unfunded part of the Innovation Allocation from the 2008 Budget, an option is presented to provide savings through reducing operating funding for the Tertiary Education Commission. The savings offered represent the full investment made in the 2008 Budget.

Table 19: Savings for TEC operating funding

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Reduce TEC operating funding	-9.300	-7.375	-7.375	-7.375

Cross-cutting theme: Reduce the number of funds below \$2 million (Innovation Allocation and Line by Line Review savings)

278. The Tertiary Education Commission administers a number of smaller funds that are generally characterised by high compliance and administration costs (relative to the value of the grant), or which seek to achieve objectives that could be met by other parts of tertiary or other government funding.

279. In general (but not exclusively) the funds are focussed on access for specific minority groups, education or other support for migrants, or specific forms of adult and community education. Some of them do not directly fund educational programmes, and both outcomes and utilisation of the funds various significantly.
280. Each fund is for a closely defined and specific purpose, and is generally paid to a small number of organisations, or in some cases individuals. Removal of the funds does represent a service reduction and is likely to elicit a strong response from those people directly affected by them.
281. In order to support the reduction in Tertiary Education Commission operating funding proposed above, it is proposed that the following funds be removed.
282. Five funds which have relatively straightforward implications have been proposed for removal as part of unwinding the unfunded Innovation Allocation from the 2008 Budget.
283. A further seven funds are also proposed for savings, but will require further management in order to remove them without creating risks to specific groups of learners (migrants, refugees, and people with special education needs). The Minister for Tertiary Education will receive advice on the management of these risks by the end of February 2009, following consultation with the Department of Labour and Ministry of Social Development. The savings associated with these funds are included in the Line by Line Review.

Table 20. Reduce the number of funds below \$2 million

	Total annual value (\$m)
Innovation Allocation savings	
Building research capacity in social sciences	1.333
Targeted education and training grants	0.080
Pathfinders	1.211
ACE Innovation and Development Fund	1.386
Community Learning Aotearoa New Zealand	0.178
Line by Line Review	
Special Education Special Supplementary Grant	0.816
Advance Centre	0.089
Centre for Refugee Education	0.801
ESOL assessment service	0.420
Academic migrant grant	0.378
Refugee study grants	1.324
Bilingual tutor grants	0.284
Total	8.300

Table 21: Savings from reducing the number of funds below \$2 million

	2009/10 (\$m)	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)
Reduce the number of funds below \$2 million	-2.657	-6.615	-7.914	-7.914

Capital expenditure

284. There are two capital appropriations in tertiary education as follows:

- Borrowing through the Student Loans Scheme (\$1,296 million in 2008/09, continuing into the out years)
- Projects at tertiary education institutions (\$147 million in 2008/09, \$6 million in 2009/10, with no funding thereafter).

285. The vast majority of capital expenditure for tertiary education is associated with student loans borrowing. Changes to student loans policies will need to be carefully worked through in light of government priorities.

286. Additional capital spending relates to infrastructure within tertiary education institutions. This is typically managed through capital contingencies, with appropriations only made as individual projects are approved. A contingency for this purpose is being considered as part of Budget 2009.

287. Therefore, there is little scope for providing capital savings as part of the Line by Line Review.

Summary

288. The table below summarises the savings that are presented for tertiary education, and how they are to be assigned to the following objectives:

- unwinding the unfunded Innovation Allocation from the 2008 Budget
- funding the new initiative, 200 extra medical student places
- returning additional funding to the centre as part of the Line by Line Review.

Table 22: Tertiary education savings for consideration at Budget 2009

	2009/10	2010/11	2011/12	2012/13	4-year total	Paragraph ref
<i>Unwinding the unfunded Innovation allocation from the 2008 Budget</i>						
CPI adjustment	-7.700	-43.100	-70.300	-70.300	-191.400	221 to 227
TEO Component (excluding university tripartite)	-4.000	-14.750	-21.500	-21.500	-61.750	230 to 232
Scholarships	-8.351	-16.601	-24.535	-29.367	-78.854	264 to 276
Literacy, Language and Numeracy	-8.600	-24.080	-27.280	-34.340	-94.300	245 to 247
TEC operating funding	-9.300	-7.375	-7.375	-7.375	-31.425	277
Student Achievement Component funding for regulatory compliance qualifications		-4.000	-8.000	-8.000	-20.000	228 to 229
Small funds with high compliance costs (part)	-1.861	-3.762	-3.802	-3.802	-13.307	278 to 281
Skill Enhancement	-2.150	-4.300	-4.300	-4.300	-15.050	243 to 244
Adult and Community Education (part)	-4.778	-10.256			-14.954	252 to 253
Total savings	-46.740	-128.224	-167.092	-178.984	-521.040	
Target	-72.540	-136.500	-156.000	-156.000	-521.040	
<i>Funding 200 extra medical student places</i>						
Adult and Community Education (part)	-1.694	-5.246	-10.442	-17.82	-35.202	252 to 253
Total savings	-1.694	-5.246	-10.442	-17.82	-35.202	
Target (net of capital)	-1.694	-5.246	-10.442	-17.82	-35.202	
<i>Line by Line Review</i>						
Adult and Community Education (part)		-1.856	-11.360	-3.982	-17.198	252 to 253
Small funds with high compliance costs (part)	-0.796	-2.853	-4.112	-4.112	-11.873	
TEO Component: University tripartite funding		-9.250	-18.500	-18.500	-46.250	230 to 232
Total line by line savings	-0.796	-13.959	-33.972	-26.594	-75.321	

Departmental expenditure assessments

Introduction

289. Departmental expenditure funding totals \$1,618 million in 2008/09 (14.6 percent of the Vote). This funding is spread across seven outputs:

Output	2008/09 Expenditure ⁶ (\$m)
1. Strategic leadership of the sector	32.8
2. Support and resources for the community	18.8
3. Support and resources for education providers	73.7
4. School property portfolio management	1,187.6
5. Support and resources for teachers	66.0
6. Interventions for target student groups	223.2
7. Strategic leadership of the tertiary system	16.2
Total departmental expenditure	1,618.3

There is an additional \$525.8 million capital expenditure.

290. We have identified potential savings over the next 2-3 years in two areas that cut across all of these outputs.

Support function expenditure:

291. The ministry has support function costs of \$87.2 million. These costs relate to overheads and other operating costs, but exclude costs associated with delivery of front-line services. As a result of initial findings from the Baseline Review, the ministry proposes to reduce support function expenditure by 1.5% per annum, for three years, commencing in 2009/10. The ministry has identified further savings of \$1.7 million in 2009/10 from short-term gains in operating practice - e.g. through the more efficient use of contractors. These measures will generate savings over 3 years of \$5.6 million starting with \$3.0 million for Budget 2009.

Policy activity:

292. Most ministry output classes provide funding for policy activity. Traditionally a policy ministry, the Ministry of Education has taken on more operational and front-line functions over the last 20 years in line with government decisions.

293. Policy advice to government covers the full range of the New Zealand education system, from early childhood education, schooling, tertiary and international. Total cost for this policy activity in 2008/09 is \$13.9 million, of which \$10.6 million is personnel costs. Over the next three years, the ministry's policy function will assist government to realise its priorities for education by providing advice on how best to ensure the smooth and effective implementation of its initiatives.

294. For example, the implementation of the government's Crusade for Literacy and Numeracy requires work to determine the content of national standards, how these standards should be assessed, and how this information should be reported to parents. Additional work is required to determine how school level

⁶ After PREFU adjustments, as at December 2008.

data should be collected and used to direct resources to students and schools with the greatest needs. This has significant implications for existing school support activity. Professional development activity will also need to be realigned to build the capability of teachers, principals and Boards of trustees to understand and use assessment data to improve learning outcomes. To minimise compliance costs to schools associated with monitoring national standards, regulations covering the National Education Guidelines will need to be revised.

295. The ministry has a policy capability programme underway, working with existing policy advising staff to improve productivity and the quality of its policy advice. It is expected that this will generate significant gains in the next 1-2 years. In light of government messages about prioritising ministry activity and focusing on a smaller number of goals and initiatives, the ministry believes there will be significant savings in policy spending in the coming 18-24 months.
296. The ministry will look to make savings of around 10 percent of current policy advice spending – approximately \$1.3 million by 2011. These savings would result from a reduction in the number of initiatives requiring policy activity and close management of existing and future policy capability to ensure the consistent provision of high quality advice. This is likely to have implications for policy staffing numbers, salary levels, and how policy activity is managed across different ministry functions.

2009 Budget savings options

297. The ministry is proposing to reduce support function expenditure (such as accommodation, utilities, communications and travel) by 1.5% per annum, for three years, commencing in 2009/10. The ministry has identified further savings of \$1.7 million in 2009/10 from short-term gains in operating practice - e.g. through the more efficient use of contractors. Some of these savings may continue beyond 2009/10, over and above the 1.5% 'efficiency dividend'.
298. The ministry will reduce its policy expenditure by 10 percent over two years with a resulting saving of approximately \$1.3 million by 2011.

1. Strategic leadership of the sector

Operating expenditure (GST exclusive)

2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
32.8	31.3	31.4	31.7	31.6

Outputs		2008/09 (\$m)	% of Output ⁷
1.1	Cross agency co-ordination	1.3	4
1.2	Research and analysis	10.7	33
1.3	Monitoring of the education sector, including data management which supports provider funding	7.5	23
1.4	Sector policy advice	11.4	35
1.5	Support for the Education Minister	1.8	6
Total		32.8	

299. This output delivers ongoing functions and services which support the ministry's role in leading the education sector. This includes a substantial share of the ministry's policy activity, co-ordination with other sector and government agencies, research and analysis, and monitoring of education sector capability and viability. Details of each output category are set out below:

- **Cross agency co-ordination** – developing and managing cross-agency work programmes through the Sector Leadership Group, the education agency Chief Executives forum, and the ICT standing committee. The ministry also contributes to the cross-agency response to youth gangs in South Auckland, and initiatives for children with high and complex needs or disabilities.
- **Research and analysis** – designing or commissioning research and evaluation, including the National Education Monitoring Programme, Best Evidence Synthesis programmes, and participating in international assessment studies such as Trends in International Mathematics and Science Study. This output also includes the collection, analysis and publishing of data and statistics. Such activities are integral to the work of the ministry and make a significant contribution to building knowledge about what works to improve education outcomes.
- **Monitoring the education sector** – forecasting and monitoring of demographic trends, enrolment numbers, teacher supply, and expenditure to ensure that early childhood and school network capacity reflect changes in education demand. This output includes monitoring of individual schools and the relationship between schools and the community. Monitoring of the sector informs decisions on funding allocation for education providers and Crown entities.
- **Development of sector policy** – providing advice to government on strategic issues, policy development, and analysis of legislative and regulatory implications. The ministry's policy advice function supports government to realise its priorities for education and to implement manifesto and other commitments in early childhood education, schooling and tertiary education.
- **Support for the Minister of Education** – managing information flows to and from Ministers, responding to parliamentary questions and select committees, and preparing general Ministerial correspondence.

300. The ministry has an ongoing need for all of these activities. The focus of attention will however shift in line with the government's priorities and in some

⁷ Percentages may not equal 100 due to rounding.

areas demand is likely to increase in the next 12 months in response to the government's plans.

301. Efficiencies in the administration of funding in this output class may result from further work under the Baseline Review. Many of these savings are likely to be in the long-term and are not quantifiable at present.
302. The ministry's policy capability work programme is expected to improve the quality and productivity of ministry staff over the next two years. Together with government's intention to focus policy activity on a smaller number of initiatives, this will allow us to reduce spending on policy over the next one to three years.

2009 Budget savings options

303. Savings identified as part of a proposed ten percent reduction in policy activity costs over two years and general operating costs reduction over three years.

2. Support and resources for the community

Operating expenditure (GST exclusive)

2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
18.841	19.550	19.550	19.551	19.551

Outputs		2008/09 (\$m)	% of output class
2.1	Development and evaluation of community policy	0.4	2%
2.2	Engagement and provision of information to the community	16.3	87%
2.3	Provision of services to the community	2.2	11%
Total		18.8	

304. This output focuses on improving the community's knowledge of, participation in, and support for the education system. This includes working with iwi and community groups and providing information to enable more informed decision-making about education options. Details of each output category are set out below:

- **Development and evaluation of community policy** – research and evaluation of issues relating to communities, and the development of community policy, including the development of iwi partnerships, and working with Pasifika communities to develop the Pasifika Auckland Action plan.

- **Engagement and provision of information to the community** – working with communities to enhance education outcomes and support student learning. This output provides information about how to support student learning and make informed decisions about education options in a variety of forms (internet sites, print, television, radio and organised events). This includes supporting the Hui Taumata Mātauranga process and Pasifika fono, training iwi staff to deliver services in the community, and targeted support to increase the supply of and participation in community-based early childhood education. Pouwhakataki (education and community liaison officers) are also funded from this output. Information programmes include Te Mana, Team-Up and Mission-On.
 - **Provision of services to the community** – includes the design, delivery and purchase of programmes to promote community education and enable parents to support their children’s learning. A range of programmes in this output provide funding to schools, provide training and teaching resources to whānau workers and parent educators, and contract community providers.
305. The Minister of Education has indicated that government wishes to cease general community engagement or information campaigns in favour of more targeted engagement with specific groups. Savings can be found from discontinuing use of high cost national television and radio media for the Te Mana and Team-Up information campaigns and combining the most effective elements of both programmes into one approach.
306. Savings in the development and evaluation of policy output have been included in the ministry-wide savings approach to policy activity. Efficiencies may be also be available through better contract management, as identified in the Baseline Review.

2009 Budget savings options

307. Savings can be made in the area of support and resources to the community by combining the most effective elements of the Team-Up and Te Mana programmes into one approach, and by discontinuing the use of television and radio advertising. This would realise savings of \$5 million.

3. Support and resources for education providers

Operating expenditure (GST exclusive)

2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
73.7	79.1	75.5	65.4	64.1

Outputs		2008/09 (\$m)	% of output
3.1	Development and evaluation of provider policy	2.1	3
3.2	Regulation of providers	15.3	21
3.3	Resourcing education providers	8.2	11
3.4	Provision of services to support management and governance (\$23m of this relates to the provision of schools payroll)	39.6	54
3.5	At-risk provider interventions	8.4	11
Total		73.7	

308. This output covers core delivery of front-line services to support the infrastructure of the education system. Activities include administration of legislative and regulatory controls, determining and delivering funding, supporting governance and management, and intervening where providers are at risk in relation to financial viability, student participation or achievement. Details of each output category are set out below:

- **Development and evaluation of provider policy** – on the regulation, governance, management and operation of education providers in the early childhood and schooling sectors. Policy areas covered include contestable funds and regulatory reviews, school property policy, and reduction of school compliance costs.
- **Regulation of providers** – supporting providers to achieve and maintain licenses, monitoring and enforcing compliance with education regulations, and managing complaints. The ministry also provides information on student enrolment and attendance regulations, purchases truancy services, and develops and supports core data systems such as those within the Student Enrolment and Data Exchange.
- **Resourcing education providers** – determination, delivery and monitoring of resources for early childhood services and schools. Three categories of funding are managed: operational funding, staff funding, and contestable and specific programme funding. Other funding arrangements managed through this output include the resourcing of private schools, The New Zealand Correspondence School, and school transport services.
- **Provision of services** – to support the governance, management and operation of education providers. The ministry delivers these services, or purchases services on behalf of education providers. This includes the provision of a payroll service for state and integrated schools, and an industrial relations service for education providers. This output also includes the promotion of teaching as a profession through the commissioning of advertising campaigns, and the operation of priority staffing initiatives.
- **At-risk provider interventions** – the ministry monitors providers at risk in relation to financial viability, student achievement or participation. As required, the ministry manages external interventions or applies for statutory

interventions in specific schools, and supports school cluster initiatives to improve student achievement and student engagement.

309. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

310. The government's decisions about the future of non-departmental expenditure will also impact on departmental spending. For example, the numbers of staff needed to administer contestable funds and programmes is likely to decrease if the number or scale of programmes is reduced in areas such as curriculum support and teacher professional development.

311. Savings in this output have been included in the ministry-wide savings approach to policy activity. Additional savings opportunities are limited to efficiencies in the long-term. We are currently undertaking a review of our regional network with a view to determining the optimal configuration for the future. Pending the outcome of this review and discussions with the Minister of Education regarding the future role of the ministry in the regions, we have not identified specific savings from our regional network.

Suggested reviews or other recommended actions

312. The ministry's regional network and operating model is currently being reviewed. The review is looking to identify a more effective model of regional operation to realise savings in the long-term.

2009 Budget savings options

313. No savings are proposed at present. However savings and efficiencies may become available following changes to non-departmental expenditure and should also result from the review of the regional network.

4. School property portfolio management

Operating expenditure (GST exclusive)

2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
1,187.6	1,197.2	1,197.7	1,198.8	1,199.0

Outputs		2008/09 (\$m)	% of output
4.1	Management of the school sector property portfolio	1,170.1	98.5
4.2	National office	0.9	0.1
4.3	Disposal of surplus school property	0.1	0
4.4	Manage teacher and caretaker housing	16.6	1.4
Total		1,187.6	

314. This output class involves the provision of the property portfolio to the state school sector, including managing and maintaining existing property, purchasing and constructing new property to meet demands of schooling or demographic changes, and disposing of surplus property. Details of each output category are set out below:

- **School property portfolio management** – maintaining and improving the school sector property portfolio of land, buildings and other facilities. This includes working with schools to develop mid-to-long term property plans, and implementing property modifications to enable the enrolment of children with special education needs.
- **Purchase and construction of new schools property** – the expansion of the school property portfolio to meet the demands of schooling or demographic changes.
- **Disposal of surplus school property** – identifying and disposing of surplus state-owned and school-sector properties, either due to changing demographic demands or because the property is no longer appropriate.
- **Management of teacher and caretaker housing** – providing houses to be rented by teachers, principals and caretakers. In some cases, housing is provided as an incentive for isolated areas or where security is an issue. The ministry will provide the Minister of Education with further advice on whether savings can be made in this area of expenditure.

315. The bulk of costs within this output class is depreciation and the capital charge. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

316. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*

Suggested reviews or other recommended actions

317.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].

2009 Budget savings options

318. No savings currently identified.

5. Support and resources for teachers

Operating expenditure (GST exclusive)

2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
66.0	62.0	58.09	57.5	57.5

Outputs		2008/09 (\$m)	% of Output
5.1	Development and evaluation of teaching policy	2.6	4
5.2	Provision of teaching and learning resources	43.1	65
5.3	Services to support professional leadership and learning	20.3	31
Total		66.0	

319. This output provides resources and support for teachers and principals. This includes the development of curriculum resources, setting of achievement standards, and provision and funding of professional development to support teaching, learning and assessment. Details of each output category are set out below:

- **Development and evaluation of teaching policy** – advice on the national education guidelines, professional pathways for teachers, principal and leadership development, and effective teaching and learning.
- **Provision of teaching and learning resources** – the development and provision of curriculum information and materials, including the development of the New Zealand Curriculum and Te Mārautanga. This also includes the provision of supporting materials to schools such as Te Kete Ipurangi, Māori- and Pasifika-medium resources and digital learning materials.
- **Provision of services to support professional leadership and learning** – the provision of programmes to support the professional learning of teachers and principals, either provided by the ministry or purchased from third party providers. Examples include programmes associated with school support services, in-service teacher education practice, the numeracy project and first time principals. The ministry also processes and provides payments of scholarships and awards to teachers – such as the national study awards, e-learning teaching fellowships, and the Maori Immersion Teaching Allowance (MITA).

320. Potential savings and gains in education outcomes in this output class are largely dependent on decisions by the government to cease or scale back particular activities. The ministry understands that government will ask us to focus on fewer support programmes. On this basis, savings of \$5.6 million for the output class will be achievable over the next two years (\$2.8 million for the

2009 Budget). A further \$1.0 million savings can be achieved if government chooses to cease non-departmental funding for the ECE ICT strategy (see Early Childhood Education page 32).

321. These savings would be realised through a managed process to rationalise the number and focus of learning resources, directing them towards government priorities such as literacy and numeracy, and working to get better value from fewer, larger contracts. Re-focusing learning resources would still require a certain level of funding for initial design and on-going administration.
322. Through the process to rationalise resources and funding, support for the implementation of the curriculum and Te Marautanga would continue to be a priority, forming the basis for the Literacy Crusade and greater student engagement and achievement at secondary school. Māori language resources also need to remain a priority, to improve the quality and sustainability of Māori language education provision. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

2009 Budget savings options

323. Savings of \$6.6 million for the output class will be achievable over the next two years (\$3.8 million for the 2009 Budget).

6. Interventions for target student groups

Operating expenditure (GST exclusive)

2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
223.2	216.7	216.6	216.8	216.8

Outputs		2008/09 (\$m)	% of Output
6.1	Development and evaluation of student intervention policy	2.7	1
6.2	Targeted student participation interventions	19.7	9
6.3	Special education needs interventions	200.9	90
Total		223.2	

324. This output focuses on policies, resources and services to increase participation and quality of participation in education for targeted groups or individuals. This includes interventions, specialist support services, funding and other resources to assist students with special education needs or those disengaging from education. The bulk of this funding is used to support students with special education needs to access and participate in education. Details of each output category are set out below:

- **Development and evaluation of student intervention policy** – focusing on interventions to improve learning opportunities for all students, including Māori, Pasifika, students at risk of under-achievement and students with special education needs.
 - **Targeted student participation interventions** – ensuring specific student groups have access to education. This includes providing funding and grants to individuals (boarding bursaries, home schooling allowances, Mapihi Pounamu) and providing services to students from non-English speaking backgrounds (through refugee and migrant co-ordinators and supporting enrolment in school). This output also funds interventions where students have been identified as not participating in education, working on a case-by-case basis with students, families and education providers to match students to appropriate interventions.
 - **Special needs interventions** – providing funding and services (both directly and indirectly) to children and young people with special education needs, to support access to appropriate services and participation in education. This includes assessment against eligibility criteria for funding pools, information and support for families and education providers, and funding schools to employ teacher aides.
325. The ministry also provides specialist services directly to over 30,000 students with disabilities or substantial barriers to learning. These services include physiotherapy, speech-language therapy, psychological and early intervention support and advice regarding curriculum adaptation for students and children with substantial developmental delays as a consequence of a disability or behaviour challenges. These services involve highly specialised professionals working at the front line of the ministry to directly support individuals, parents and teachers in improving outcomes for children and students with complex learning challenges. There are four categories of support provided:
- **Early intervention** – services are provided to children with moderate and severe special education needs from the time they are born until they are settled into primary school.
 - **Communication** – speech-language therapists provide support for students with speech difficulties, fluency or language difficulties.
 - **Behavioural** – specialists work with children and young people displaying severe and challenging behaviour that may endanger themselves or others, damage property, or affect their social interactions and learning.
 - **Funding** – managing the Ongoing and Reviewable Resourcing Scheme (ORRS). The ORRS fund involves the purchase and delivery of specialist programmes, services and support for around 7,000 students with high or very high learning needs. A substantial element of this funding provides teacher and teacher aide time to support student learning in regular school and classroom settings and consumable items such as audio tapes.
326. Savings in this output have been included in the ministry-wide savings approach to policy activity. In the medium- and longer-term, government's decisions about the future of non-departmental expenditure will impact on departmental spending in this output. For example, a decision to rationalise small initiatives into larger funding pools should have flow-on impacts for departmental staffing and administrative costs.

327. The ministry proposes a review of special education funding be undertaken in line with government's commitment to extend the ORRS programme, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.

328. Funding for student support and truancy interventions provides the 'safety net' for students who are not achieving within the current education system. At present there are a number of initiatives within this output, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.

Suggested reviews or other recommended actions

329. The ministry recommends a review of special education funding and delivery models. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.

2009 Budget savings options

330. No immediate savings.

7. Strategic leadership of the tertiary system

Operating expenditure (GST expenditure)

2008/2009 (\$m)	2009/2010 (\$m)	2010/2011 (\$m)	2011/12 (\$m)	2012/13 (\$m)
16.2	15.9	15.8	15.4	15.3

Outputs		2008/09 (\$m)	% of Output
7.1	Cross tertiary agency co-ordination	0.3	2%
7.2	Tertiary and international research and analysis	1.1	7
7.3	Monitoring the tertiary system	0.8	5
7.4	Development and evaluation of tertiary and international policy	3.9	24
7.5	Provision of tertiary and other information	1.8	11
7.6	Support for international education	8.2	51
7.7	Support for the Tertiary Minister	0.1	0
Total		16.2	

331. This output delivers policies and services to support the ministry's role in the tertiary education system. This includes co-ordination with other sector and government agencies, research and analysis, providing information on tertiary and international education services, supporting international students in New Zealand, and monitoring the performance and capability of the tertiary system. Details of each output category are set out below:
- **Cross tertiary agency co-ordination** – managing the operation of core cross-education work programmes, through mechanisms such as the Sector Leadership Group.
 - **Tertiary and international research and analysis** – includes the design of research and evaluation work, analysis and dissemination of data and information. These activities are integral to the work of the ministry and the effectiveness of the education system. Examples include publication of the annual Profile and Trends Report, monitoring the Tertiary Education Strategy, analysis of the Integrated Student Loans Dataset, and production of OECD education indicators. International research and statistical analysis includes national surveys of international student experiences, and publication of reports on international student enrolment. Production of education indicators and involvement in the OECD are vital to our understanding of the performance of our current system, and how we rate internationally.
 - **Monitoring of the tertiary system** – including forecasting and monitoring tertiary education expenditure and performance. Monitoring of the sector feeds decisions on funding allocation and performance assessment and improvement for education providers and Crown entities.
 - **Development and evaluation of tertiary and international policy** – advising on how government can influence the tertiary education sector and tertiary education outcomes, including reforms of the funding system and strengthening quality assurance. International policy work includes evaluation of international education initiatives and the code of practice.
 - **Provision of tertiary and other information** – provision of information to students and providers, and funding and scholarships to students to assist access to education. Examples include Teach NZ scholarships, secondary subject trainee allowance and loan support, and national study awards for teacher trainees.
 - **Support for international education** – includes regional activities at off-shore sites to promote knowledge of New Zealand education, transfer knowledge and build relationships between New Zealand and other countries through Education Counsellors, and manage the UNESCO Secretariat. This also includes the pastoral care of international students, and providing support for the development of the international education industry (for example, managing the export education levy fund).
 - **Support for the Tertiary Minister** – providing support and advice to the Minister, responding to parliamentary questions and select committees, and preparing general Ministerial correspondence.
332. Funding for the ministry's tertiary activities has diminished in recent years. We anticipate that Ministers may wish to make greater use of the ministry's capability in this area over the coming year and therefore do not see scope for further savings on the tertiary component of this output class.

333. Savings in this output have been included in the ministry-wide savings approach to policy activity. Efficiencies in the administration of this funding for monitoring activity may result from further work under the *Baseline Review*. These savings are likely to be in the long term and are not quantifiable at present.
334. Over the last five years the government has funded the establishment of an international education counsellor network located in key markets. The role of the counsellors is to build awareness of New Zealand education, provide support and information to the sector and participate in broader New Zealand efforts offshore (e.g. free trade negotiations). Support for government-to-government links in countries such as China is critical to the success of individual provider initiatives.
335. The ministry's view is that the counsellor network has had a number of demonstrable benefits. These include contributing to the restoration and on-going management of the education relationship with China. The counsellor network has also led to increasing awareness of New Zealand education in government circles in the rapidly growing market of India and supporting the successful implementation of scholarship student allocations to New Zealand by the Saudi Arabian and Chilean governments.

2009 Budget savings options

Ministers have signalled that they want to look at the international education activities of the ministry and particularly the Counsellor network.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].

Analysis of Education Crown entities

336. The ministry's Crown entity monitoring team monitors and provides advice and support to the three Crown agents: New Zealand Qualifications Authority (NZQA); Tertiary Education Commission (TEC); Career Services; and to the autonomous Crown entity (New Zealand Teachers Council).

Career Services Rapuara

Revenue

337. Career Services' total revenue in the most recent financial year (2007/08) was \$18.2 million, of which \$16.7 million (92 percent) came from Vote Education. The remainder was received from contract services and fees (7.7 percent) mostly from government agencies, commercial products and gain on sale of property, plant and equipment (0.3 percent).

Expenditure

338. The budget cost for the Career Services' outputs in 2008/09 is \$18.1 million:

Output	Description	Expenditure (\$m)
Provision of information & advisory services	Self-help resources	4.2
	Personal assistance	10.3
	Capability development & influence	3.4
Total expenditure		18.1

Financial performance

339. Career Services' result for the year ended 30 June 2008 was an operating surplus of \$12,000. Career Services three year financial forecast shows deficits for the 2008/9 and the 2009/10 years. Funding for the three year project, Creating Pathways and Building Lives (CPaBL), ended on 31 December 2008. This, together with the ending of other project funding, means a reduced income of about \$0.62 million in the 2008/9 financial year. The proposed deficit of \$0.78 million is partly due to the reduced income, and partly to significant increases expected in office rentals, and to depreciation of the new Client Relationships Management (CRM) computer system. There has also been a reduction in personnel costs.

340. The financial parameters Career Services has set for 2008/09 include:

- consolidating the existing services and resources with no reduction in output agreement delivery (with the exception of CPaBL that ended on 31 December 2008)
- budgeting for a deficit position for 2008/09
- aiming to return to break even position in the medium term
- re-investing working capital in capital asset replacement while maintaining operating capacity.

341. Some of the deficit will still be coming through in the 2009/10 year. The cumulative impact of this may reduce Career Services' working capital to zero in 2009/10.
342. We are concerned about this development as it provides no protection against unforeseen shocks. Career Services see this as the worst case scenario – if no new project or on-going funding is received in 2008/9 or in 2009/10.
343. Income from other commercial contracts has diminished over the past four years, to a projected \$1.24m for 2008/9.

Capability

344. For the year ending 30 June 2008, the annualised staff turnover was 14.1 percent. Career Services monitors turnover closely and there has been no cause for concern. The organisation is able to fill vacancies as they arise and there has been no risk to operational capability. They have placed considerable emphasis in their Statement of Intent on further strengthening capability through a range of initiatives. In 2007 Career Services received the highly commended award for public sector organisations in the Unlimited/John Robertson Associates Best Places to Work Survey.

Effectiveness

345. On the whole, Career Services is a well governed organisation. The board works well with the Chief Executive and the management team. The organisation has depth of expertise in its area of focus, meets its targets and has a focus on continuous improvement. The organisation is regarded by experts in the field as one of the world's leading government agencies working in this area.
346. There are few opportunities for savings at this stage if the government wishes to maintain the current level of service delivery in this area.
347. One area where value for money and the effectiveness of spending could be increased is by achieving a higher uptake of Career Services' offerings. Awareness of New Zealand Career Services (30 percent of population) appears to be less than half that of a comparable organisation in the United Kingdom. Use of New Zealand services by the public is as little as 25 percent of their comparable take-up in the United Kingdom.

The New Zealand Qualifications Authority (NZQA)

Revenue

348. NZQA's revenue in the most recent financial year (2007/08) was \$76.1 million, of which \$43.8 million (58 percent) came from Vote Education. Nearly all of the remainder was raised as fees for services – such as examination fees, credit fees and fees for certification of qualifications.

Expenditure

349. NZQA's principal areas of expenditure are:

- Secondary school qualifications – NZQA administers the NCEA qualification.

- The New Zealand Register of Quality Assured Qualifications and the National Qualifications Framework – NCEA is part of the broader qualifications system, collectively referred to as the National Qualifications Framework, which also includes industry training qualifications and a range of other post-school educational qualifications. The full register includes a record of all of the qualifications offered in the tertiary sector.
- Tertiary education quality assurance – NZQA is the quality assurance agency responsible for all tertiary education, except in the universities. The actual monitoring of quality assurance in the polytechnics is delegated to Institutes and Polytechnics Quality (ITQP). Quality assurance includes registering private training establishments, validating proposals for new qualifications and conducting quality audits of tertiary education providers. It also includes work on the development of the new quality assurance system for tertiary education.
- International qualifications recognition – this component of NZQA’s work includes verifying a person’s overseas qualifications and ‘translating’ these qualifications to a New Zealand equivalent and also taking part in mutual recognition agreements between New Zealand and other countries.

350. The budget cost for the NZQA’s outputs in 2008/09 is \$78.28 million:

Output	Description	% income from Crown	Expenditure (\$m)
1	Provision of information & advisory Services	100	2.3
2	Quality assurance	71	18.3
3	Qualifications support structures	29	24.1
4	Secondary school examinations	68	31.3
Sub total			75.9
	Other expenses - Crown		
	Capital contribution		2.3
Total			78.3

Financial performance

351. NZQA has had sound financial performance since 2005, returning a surplus of \$1.3 million in the 2007/08 financial year. This occurred despite the organisation having to pick up some unplanned costs relating to the NCEA improvements programme. NZQA has achieved an increased level of liquidity, due in large part to the delay in designing and implementing new information systems to support the tertiary education reforms. The forecast financial statements in the 2008-2011 Statement of Intent show that NZQA intends to maintain a similar level of liquidity over the next three years. The organisation’s cash position has been reasonably strong.

Capability

352. Staff turnover has fallen from 27.4 percent for the year to 30 June 2007 to 23.2 percent for the year to 30 June 2008. The earlier higher turnover represents the organisational changes initiated by the (then) new management team. The drop in turnover since that high point represents the effect of various organisational development initiatives. NZQA feels that the current turnover rate remains too high, and efforts continue to reduce it.

353. NZQA faces a significant capability and capacity challenge over the next two to three years, as it commits resources and energy to the phased implementation of the new tertiary education quality assurance system, while continuing to ensure the integrity of the current system until its disestablishment.
354. The organisation has recently lost two of its three deputy chief executives. There are two vacancies on the board.

Effectiveness

355. NZQA has returned to sound performance overall since 2005. Under a new chair and chief executive the operation of NCEA has been sound and has now ceased to be as controversial as in its early years. Financial performance has been good.
356. Over the last few years, questions have arisen as to the effectiveness of tertiary quality assurance, leading the previous government to change the approach to quality assurance from an audit/compliance model to an evaluation model, focussed on continuous improvement, using self-assessment and external review.
357. While there is widespread agreement as to the principles behind the new approach, the roll-out will take a long time, with full implementation taking until 2012. The new model will also require providers and NZQA to raise their capability. Providers involved in the trial of the new system have also indicated that there are higher costs for them in the new system. It is not, however, possible to assess the effectiveness of the spending in tertiary quality assurance with certainty at this stage, given the fact that the new approach is now being phased in.
358. There has been praise for the work of NZQA on international recognition agreements – especially those associated with the country's free trade agreements. However the NZQA Qualifications Recognition Service has not met timeliness or service delivery targets.
359. The NZQA is not under particular financial pressure, although it faces additional costs as the new tertiary quality assurance system rolls out. It is expected, however, that NZQA should generate an efficiency dividend in the future.

New Zealand Teachers Council (NZTC)

Revenue

360. The Teachers Council's total revenue in the 2007/08 financial year was \$4.6 million, of which \$178,000 (4 percent) came from Vote Education. The remainder (96 percent) was received from fees, charges and interest.

Expenditure

361. The Teachers Council's main areas of work are:
- Maintain the register of people certified as fit to teach in New Zealand schools
 - Manage teacher discipline and competence procedures
 - Certify qualifications as suitable for teacher registration

- Provide professional leadership to teachers – a function of s.139AE (a) of the Education Act.

362. The budget cost for the Teachers Council outputs in 2008/09 is \$6.8 million:

Output	Description	Expenditure (\$m)
1	Teacher registration	1,937.3
2	Maintenance of professional standards	1,403.3
3	Professional leadership	3,010.6
4	Teacher education	339.9
5	Non-teacher police vetting	165.6
Total		6,856.7

Financial performance

363. Teachers Council's result for the year ended 30 June 2008 was a planned operating deficit of \$448,128. This is the first year when Council expenditure exceeded income. Accumulated past surpluses were used to accelerate major development projects in its professional development role. Council income is largely static, and the approximately \$5 million reserve (as at the end of 2007/08) would, on the current trends and intentions, be exhausted at some point during 2010/11. One reason for the Council's financial position has been the difficulty in establishing a clear strategy for implementing its professional leadership role, together with a suitable financial strategy in support.

Capability

364. For the year ending 30 June 2008, the annualised staff turnover was 25 percent. This was slightly higher than the state sector average of the last few years. This leaving rate is likely to have a greater impact within a small organisation of 40 FTEs. While turnover was lower in 2005/06 (3.5 percent) and in 2006/07 (9 percent), another high rate in 2008/09 is likely to significantly impede the work of the Council. The Council is rebuilding its capability in the teacher education area, after several staff departures during the last 12 months.

Effectiveness

365. The Council has made good progress in consolidating its teacher registration process, which is working well now. Improvements are also being made to the discipline and competency processes. The review of teacher education accreditation process and criteria will be a key focus of activity this year. The major challenge for the Council is setting a clear direction for its 'development of the profession' role, and an effective strategy for pursuing this in collaborating with other education sector agencies and interest groups.

366. The direct government funding of the Council is minimal, but it is considering asking government approval for raising teacher registration fees from 2010. It is difficult to assess the case for higher registration fees until the Council develops an appropriate financial strategy in context of an overall medium-term strategy.

367. The development projects comprising 'professional leadership' have the potential to add value to teacher quality, however the results are not expected to be evident much before 2015.

The Tertiary Education Commission (TEC)

Revenue

368. The TEC's operating revenue in the most recent financial year (2007/08) was \$57million, of which \$49 million (86 percent) came from Vote Education. The remainder was received from the Ministry of Social Development (13 percent), Immigration New Zealand (0.44 percent) and from the sale of property, plant and equipment (0.56 percent). The organisation was granted additional operational income in the 2008 Budget which the government has decided to reverse.

Expenditure

369. The budget cost for the TEC outputs in 2008/09 was \$2.7 billion of which \$2.6 billion represented funding to be allocated to tertiary education organisations:

Category	(\$m)
Funding to be allocated by TEC	
Capital expenditure	63.2
Centres of Research Excellence	35.3
Training for designated groups ⁸	295.2
Tertiary education: student achievement component fund	1,532.9
Benefits and other unrequited expenses ⁹	25.6
Adult and community education total	76.6
Partnerships for excellence	3.9
TEOC - Capability fund total	377.6
TEOC - PBRF total	236.1
Tertiary education grants *	16.0
Subtotal 1	2,662.4
TEC operating	
Ownership monitoring of TEIS*	5.0
Managing the tertiary education sector*	58.7
Tertiary policy advice*	8.0
National assessment tool for adult literacy	1.6
Subtotal 2	73.3
Total	2,735.6

*New appropriations.

⁸ This includes industry training, modern apprenticeships, skill enhancement and youth training.

⁹This output includes education and training, tertiary scholarships and tertiary teaching awards.

Financial performance

370. For the period ending 30 June 2008, the TEC had an operating deficit of \$8.4 million. Most of this was a planned deficit and was partly covered by a government capital injection (to meet the costs of restructuring). However, this deficit was \$1.4 million more than forecast. The TEC states that there were two reasons for this overspend. The first, (contributing \$0.5 million) was the result of technical adjustments due to the implementation of new Financial Reporting Standards relating to impairment of assets. The second reason (contributing \$0.9 million) was greater use of contractors to cover vacancies. It is to be noted that the issue over the use of contractors arose late in the financial year, meaning that TEC had been unable to implement corrective action. The ministry had been unaware of this until July.
371. Despite the overspend, the TEC was still in a manageable financial position and there is no immediate viability concern. The TEC has given the Ministry of Education the assurance that they expect to manage within budget for 2008/09 and out years.

Capability

372. As at 30 June 2008, there were 290 employees. Turnover for the 2007/08 financial year was 24.9 percent, down from 25.5 percent for the 2006/07 financial year. Given the magnitude of the organisational change since 2006, high staff turnover was expected in 2006/07. The TEC and the ministry were concerned that turnover remained high in 2007/08. During the past financial year, the TEC continued to devote significant resources and energy to its organisational development programme and analysed the reasons behind its staff turnover rate (through exit interviews and employee engagement surveys) to gather more information.
373. The TEC chair, David Shand, took up his position in August 2007. The TEC also has a new Chief Executive, Dr Roy Sharp who commenced in August 2008, replacing Janice Shiner who completed her three year term at the end of July 2008. In August 2008, the previous Minister for Tertiary Education asked four Commissioners whose tenures were due to expire on 31 December 2008 to remain as members of the TEC Board until such time as their reappointment or replacement could be considered by the incoming government. The appointment of new members in 2007 and the possible need to replace other members of the TEC Board within twelve months poses a risk of loss of knowledge and capacity, but also offers an opportunity for renewal. It will be important therefore for the Minister to look to make reappointments in a number of cases, in order to ensure a measure of continuity.

Effectiveness

374. The TEC had a larger than forecast operating deficit in 2007/08. On service delivery, the TEC has performed satisfactorily over the past year and has achieved the majority of its performance targets.
375. The TEC's costs are largely driven by the complexity of the funding model, with the organisation design reflecting the high transaction costs of the investment plan process. Comparisons between the unit cost of TEC operations and the cost of comparable organisations overseas imply that the TEC's costs are relatively higher.

376. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*
377. Further sustainable savings in the TEC's operating costs will depend on removing complexity from the current funding system.