

Treasury Report: Budget 2009: Vote Education

Date:	13 March 2009	Report No:	T2009/574
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Discuss with Hon Anne Tolley at the Education Bilateral	8:30am on Monday 16 March 2009
Associate Minister of Finance (Hon Simon Power)	Note	

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Stephen Glover	Manager, Children and their Families	917 6123 (wk)	[deleted–privacy]	
Simon Macpherson	Manager, Workforce Attachment and Skills	917 6030 (wk)	[deleted–privacy]	

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

Treasury Report: Bilateral Briefing for Vote Education and Vote Education Review Office

Attached is a briefing for the bilateral between the Minister of Finance and the Minister of Education at 8:30am on Monday 16 March 2009. We have also provided an annotated agenda with recommendations for the decisions to be taken at the meeting.

The bilateral briefing is structured as follows:

Vote Education

Overall education package proposed and Treasury's recommended funding	p 4
Recommendations for bilateral decisions	p 6
Overview of the Vote	p 8
Savings proposals	p 10
Policy initiative proposals	p 12
Emergency pressures	p 22
Forecast changes for March Baseline Update	p 26

Vote Education Review Office

Overview of the Vote and Savings	p 27
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We expect the key issues for discussion will be:

- Confirming that all savings proposals can be implemented for Budget 2009;
- The overall amount (after baseline savings) to be allocated for priority initiatives and emergency pressures in Vote Education;
- The scaling and timing of pre-election policy commitments given the fiscal environment;
- Whether to fund bids for some price increases for current outputs – such as remuneration pressures in the schooling sector, and adjustments to ECE funding rates; and
- A timeframe the medium-term work programme to improve value for money and manage expenditure pressures across the education sector.

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

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Managing the education package within this amount will require the deferral of funding for some government policy initiatives to future budgets.

If you wish to provide more funding for education than is required for the initiatives supported by the Treasury, we recommend that the Minister of Education be given an overall allocation to manage within. This will allow further work to be done to prioritize, scale and phase the education bids.

We don't expect that there will be time in the bilateral to discuss the work required to address value for money and performance issues over the medium term. We recommend that you schedule a further discussion on these issues with the Minister of Education before 30 June and direct the Ministry of Education to provide a work programme and key timeframes for this by 3 April.

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for taking decisions in your bilateral with the Minister of Education at 8:30 a.m. on 16 March 2009.

Stephen Glover
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Overall Education Package Proposed and Treasury's Recommended Funding

1. The Minister of Education is seeking the following funding in Vote Education (and the student support flow ons in Votes Social Development and Revenue):

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

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

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

4. In addition to the initiatives and pressures included in this package, one education bid is being considered through the Health bilateral (additional places for medical students) and one is being considered through Research Science and Technology (performance based research fund).

5. In addition to the education budget package, the March Baseline update will include forecast changes for demand-driven education expenditure will increase Vote Education baselines by \$269.975 million over the forecast period. These will not be charged against the Budget 2009 operating allowance but will impact the Crown's

operating balance and net debt. We recommend that the forecast changes outlined below are supported and funded in addition to the initiatives and emergency pressures we support. However, current budgeting rules for demand-driven education expenditure need to be reviewed to ensure that fiscal risks are appropriately and transparently allocated between the centre and Vote Education.

6. Further proposals for education expenditure may follow from ideas discussed at the *Jobs Summit*. While some of these may be able to be managed by further reprioritisation within baselines, others will need to be considered alongside other jobs summit proposals.

Options for Expanding the Education Package

7. If you wish to provide further operating funding in Vote Education beyond the amount supported by Treasury ([deleted – confidentiality of advice] over the forecast period), we suggest the best approach is to give the Minister of Education a set allocation within which to manage the total net operating cost of education priorities and pressures (excluding forecast changes).
8. This would be preferable to approving specific amounts for specific initiatives at this stage, as it gives the Minister of Education an opportunity to rebalance the package – scaling and re-phasing some items and/or identifying further savings so that other items can make the cut. While most of the bids and pressures are in schooling, the Minister of Education would also have the option of rebalancing the package between schooling, early childhood and tertiary education initiatives.
9. Recommendation 3(v) in the bilateral agenda provides the option of an education package of [deleted – confidentiality of advice] (an additional \$59.754 million over Treasury's package) in operating expenditure over the forecast period.
10. It would be for the Minister of Education to determine which additional initiatives and pressures to fund with this extra amount, but as an example, it would be sufficient to cover these initiatives that in Treasury's view should be the next ones to make it over the line:

	\$ million over forecast period	% of Bid
Independent school funding	17.500	50%
Funding to fight truancy	16.000	100%
Increased Interim Response Fund	4.000	50%
Te Kotahitanga expansion	13.000	29%
Emergency pressures	9.254	
Total	59.754	

Recommendations for Bilateral Decisions

The attached agenda for the bilateral meeting recommends the following decisions:

1. **Vote Education Savings:**

- (i) Support the savings of [deleted – confidentiality of advice] over the forecast period submitted for Vote Education
- (ii) Confirm with the Minister of Education that she intends to implement all the proposed savings in time for changes to appropriations to be included in Budget 2009
- (iii) Agree that any variations in the timing and value of the agreed savings will be managed within the total amount of funding agreed for new policy initiatives and emergency pressures for Vote Education
- (iv) Note that the current education baseline includes \$146.943 million over the forecast period to fund a 4% pay rise for kindergarten teachers from July (to retain pay parity with primary teachers), but this is not yet contractually committed and will flow on to provider costs and future budget pressures across the ECE sector
- (v) Agree that should the kindergarten teachers collective be settled at a lower cost, the resulting savings will be available for reprioritisation within Vote Education.

2. **Vote Education Review Office Savings:**

- (i) Support the savings of \$2.508 million over the forecast period submitted for Vote Education Review Office

3. **Vote Education Policy Priorities and Emergency Pressures:**

Education proposals supported by The Treasury

- (i) Support funding of [deleted – confidentiality of advice] in operating and \$393.179 million in capital expenditure for policy priorities submitted for Vote Education (with a further \$20.016 million in operating and \$4.753 million in capital expenditure being supported through the Vote Health bilateral)
- (ii) Support funding of \$99.227 million in operating and [deleted – confidentiality of advice] in capital expenditure over the forecast period for emergency pressures submitted for Vote Education
- (iii) *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
- (iv) Agree that the proposed Workplace literacy and numeracy fund (\$11 million over 2 years), included in the list of emergency pressures submitted by Minister of Education, should be considered alongside other proposals for Budget 2009 funding arising from the *Jobs Summit*.

Options for further operational funding for education proposals

Should Ministers wish to support funding for Vote Education in addition to that recommended in 3(i) and 3(ii) above, Treasury recommends that Ministers:

- (v) Agree that the Minister of Education manage the total operating cost of education priorities and pressures for Budget 2009 (net of agreed savings) within an allocation of [deleted – confidentiality of advice] operating over the forecast period (providing **\$59.754 million more over the forecast period** above that in recommendations 3(i) and 3(ii) above).
- (vi) Agree that the Minister of Education will determine the allocation of this additional funding across the priorities and pressures submitted by the Ministry of Education and submit a finalised package to the Minister of Finance by 24 March for inclusion in the Budget Ministers Paper.

4. **Vote Education Forecast Changes in March Baseline Update**

- (i) Note that these forecast changes will not be charged against the Budget 2009 operating allowance
- (ii) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

5. **Medium term work to improve value for money in Vote Education**

- (i) Agree to schedule a further meeting to discuss value for money in education before 30 June
- (ii) Direct the Ministry of Education to provide a report by 3 April outlining key issues and timeframes for this work programme.

Overview and Analysis of Vote Education

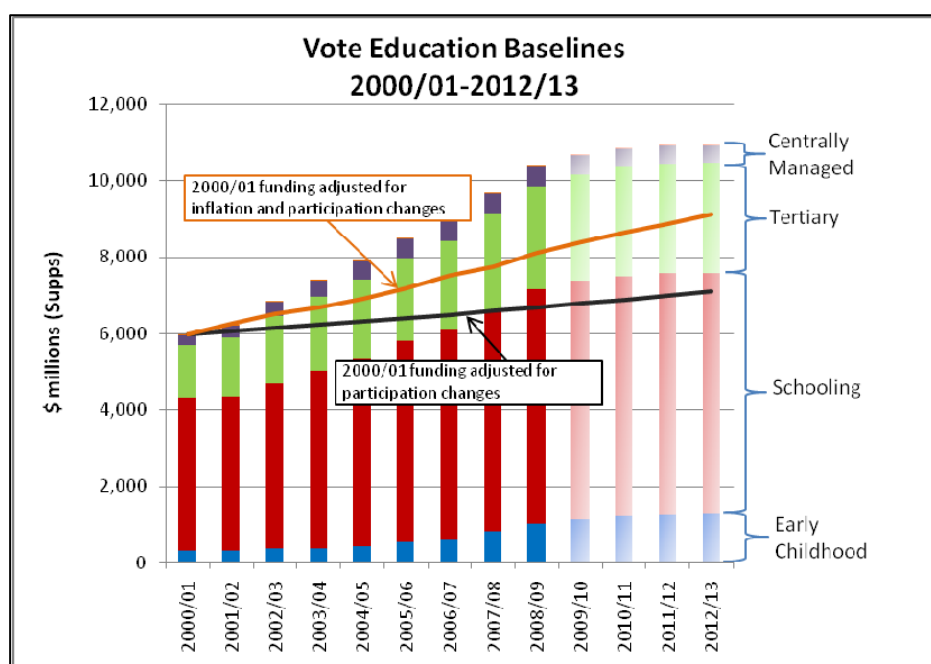
11. The Minister of Education has submitted the following package for consideration in Budget 2009. This includes bids for funding for priority policy initiatives, emergency pressures, and savings for the line-by-line review of Vote Education:

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

12. Funding for increased medical student places and the Performance Based Research Fund (PBRF) will be considered in other bilaterals (Vote Health and Vote Research, Science and Technology respectively) so are not included above.

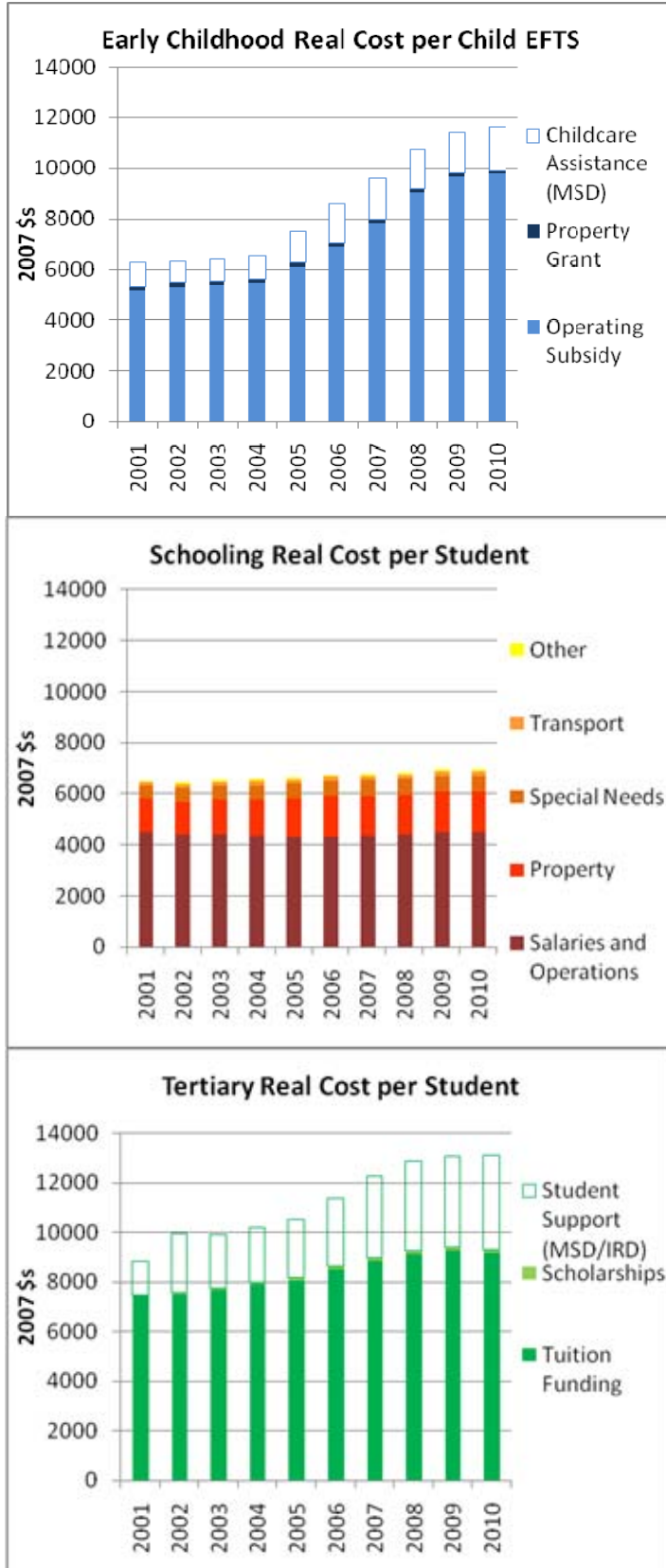
Vote Education Baselines

13. Vote Education baselines are shown below. The Vote has received significant increases in funding in the past 8 years due to increased staffing levels in schools, policy decisions to increase salaries, higher government subsidies and increased participation in ECE and tertiary education.



Changes in real per-student expenditure as a result of Budget decisions

14. The charts below illustrate the Treasury's estimate of what *real* per-student expenditure by government will be in the ECE, Schooling and Tertiary sectors, if the new expenditure supported by Treasury in this briefing is implemented in Budget 2009. The impact of savings (including the tertiary pre-commitment) and forecast changes are included as well as policy priorities and emergency pressures.



Vote Education – Savings Proposals

15. Through the line-by-line review process, the Ministry of Education has proposed savings totalling [deleted – confidentiality of advice] over the forecast period. The Secretary for Education recently briefed the Cabinet Expenditure Control Committee on the outcome of this line-by-line review. These savings are in addition to tertiary education baseline reductions from unwinding the “Innovation” pre-commitments (to be reported back on to ECC on 24 March). The tertiary education aspects currently total \$521.04 million over the forecast period.
16. The Treasury supports the savings proposals identified by the Ministry.
17. In our budget advice, we have focussed on what the total of these savings means for what is affordable for education in Budget 2009. The Minister of Education may view some specific savings proposals as linked to (or even conditional on) specific expenditure proposals that Treasury has not supported for Budget 2009.

We recommend that you discuss the proposed savings with the Minister of Education to confirm that she intends to implement all of them in Budget 2009.

18. Some savings proposals require further policy decisions before they can realised and reflected in changes to appropriations (for example, implementing a school transport co-payment). The timing and value of some savings may vary from the proposed amounts as implementation details are worked through (for example, the cost and timing for cancellation of existing contracts, and potential subsequent savings in departmental costs to administer smaller non-departmental programme expenditure).

We recommend that any variations in the value of the proposed savings should be managed by the Minister of Education within the overall value agreed for the Budget 2009 education package.

Budget 2009 savings proposed in Vote Education

	\$ million increase/(decrease)			
	2009/10	2010/11	2011/12	2012/13 & Outyears
Early Childhood Education				
Not proceeding with adult-child ratio changes	(35.200)	(76.000)	(81.300)	(82.800)
Schooling				
Unwinding new entrant class size reduction [deleted – confidentiality of advice]	-	-	(45.000)	(50.000)
Tertiary				
International education (capping fee subsidies & phasing out scholarships)	(2.100)	(6.000)	(9.200)	(11.800)
Adult & Community Education (reduction in funding subsidy)	(1.694)	(7.102)	(21.801)	(21.802)
Cease small funds with high compliance costs	(0.396)	(2.052)	(3.311)	(3.311)
Decrease university tripartite funding (funds wage pressures) by approximately 28% pa	-	(9.250)	(18.500)	(18.500)
Centrally Managed Spend				
MoE Departmental Funding [deleted – confidentiality of advice]	(11.800)	(17.200)	(18.500)	(18.500)
[deleted – confidentiality of advice]				

Savings from unwinding the tertiary pre-commitment

	\$ million increase/(decrease)			
	2009/10	2010/11	2011/12	2012/13 & Outyears
Vote Education				
Removing CPI adjustment for 2011 and recalculate CPI adjustment for 2010	(7.700)	(43.100)	(70.300)	(70.300)
TEO Component (reduce contestable funds and cease Priorities for Focus)	(4.000)	(14.750)	(21.500)	(21.500)
Literacy, language and numeracy (reduce Budget 2008 funding by one third)	(8.600)	(24.080)	(27.280)	(34.340)
Top Achiever Doctoral Scholarships (cease scheme & grandparent out existing recipients)	(2.776)	(5.308)	(7.852)	(10.000)
TEC operating funding	(9.300)	(7.375)	(7.375)	(7.375)
Cease small funds with high compliance costs	(1.861)	(3.762)	(3.802)	(3.802)
Cease funding from 2011 for regulatory compliance short awards	-	(4.000)	(8.000)	(8.000)
Cease skill enhancement	(2.150)	(4.300)	(4.300)	(4.300)
Adult & Community Education (reduction in funding subsidy)	(4.778)	(10.256)	-	-
Vote Social Development				
Step Up Scholarships (cease scheme & grandparent out existing recipients)	(2.486)	(5.100)	(7.324)	(8.470)
Bonded Merit Scholarships (cease scheme & grandparent out existing recipients)	(3.089)	(6.193)	(9.359)	(10.897)
TOTAL	(46.740)	(128.224)	(167.092)	(178.984)

Vote Education – New Policy Initiatives Proposals

19. This section provides advice on each new initiative proposal for Vote Education. Overall, the Minister's proposals are well aligned with the Government's policy priorities. But, the total package significantly exceeds what is able to be funded in Budget 2009 and Ministers will need to decide which proposals are so pressing that they cannot be deferred to future budgets.

Early Childhood Education

a 20 Hours ECE - Policy Changes to Expand Eligibility

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	8.866	22.866	23.551	24.258
Treasury	-	-	-	-	-

20. Funding is sought to extend eligibility for the 20 Hours ECE programme in 3 ways:
- Including 5 year olds from November 2009
 - Removing the 6 hour per day limit from November 2009
 - Including Playcentres and Te Kohanga Reo from June 2010
21. The Treasury does not support these proposals for Budget 2009. We are concerned that the true costs will be significantly higher than estimated by the Ministry. The costings appear to assume a very limited increase in demand and in supply in response to these policies. This is contrary to recent experience with the 20 Hours ECE policy, which has cost 3.5 times as much as originally anticipated, and is likely to cost even more as both parents and ECE providers have responded to the incentives this policy created.
22. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank advice of opinions]*
23. With a 7-month deferral of implementation timeframes, these proposals could be considered in Budget 2010.

If Ministers do wish to proceed with these initiatives, we recommend that the Ministry of Education be directed to review the costings to ensure they include realistic assumptions about the likely demand and supply responses.

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

24.

25.

Schooling: Proposals Supported by Treasury at the Funding Level Submitted

c Teachers' wages precommitment

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	169.128	192.414	192.414	192.414
Treasury	-	169.128	192.414	192.414	192.414

26. Funding is sought for the third tranche of the teachers' wage settlements, including \$147 million over the forecast period for a 4% increase to kindergarten teachers' wages from 1 July 2009 which is not part of the current Kindergartens' teachers' collective (the remaining wage settlements have all been agreed). We recommend that you fund the entire precommitment but offer the Minister of Education the opportunity to reprioritise any savings from giving kindergarten teachers a pay increase of less than 4% towards other education policy priorities.

d Voluntary Bonding Scheme for Teachers in Hard-to-Staff Areas or Subjects

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	-	-	11.135	5.290
Treasury	-	-	-	11.135	5.290

27. Funding is sought to implement the voluntary bonding scheme for teachers that has already been agreed [SOC Min (09) 2/1] and announced. Savings from abolishing the previous student loan support scheme (just under \$1 million per year) will meet a small proportion of the costs of the scheme.

e School Operational Funding

	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	11.510	22.744	22.816	23.020
Treasury	-	11.510	22.744	22.816	23.020

28. Funding is sought to increase school operational funding by 1.95%. Treasury supports this additional funding to enable schools to manage cost pressures in their operational budgets.

29. In addition to this 1.95% increase, schools will also receive additional operational funding for the following emergency pressures (if approved):

- \$17.5 million per year to meet the costs of the Caretakers, Cleaners and Groundstaff wage settlements
- The demand-driven increase in the Heat, Light and Water component of schools operations grants;

This will take the increase in school operational funding to approximately 3.6%.

30. Two other policy initiatives proposed by the Ministry will also (if approved) be delivered as devolved funding for schools to manage themselves.

- New funding for secondary schools to address truancy
- New funding for primary and intermediate schools to target literacy and numeracy

Schooling: Proposals Supported by Treasury at Reduced Costs

f School Property Business Case - 21st Century Building Programme

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	0	41.391	49.363	56.163	56.847
Treasury	0	41.391	47.596	49.628	48.543
<i>Capital (GST excl)</i>					
Department	0	172.133	193.194	33.127	0
Treasury	0	172.133	142.944	10.827	0

31. The Ministry of Education seeks departmental capital funding for investment in school property. This includes site purchase and the construction of new schools and associated operating expenses. Localised and national demographic changes means that a number of schools are reaching capacity and more school property is required to provide facilities for education at existing property entitlement levels.
32. This bid also reflects the Government's manifesto commitment for additional funding for the 21st Century Building Programme. It includes additional capital funding already agreed by Cabinet as part of decisions to bring forward infrastructure spending [CAB Min(09) 3/3].
33. Treasury supports this bid with some costs deferred and phased over future budgets.
34. Not all of the funding requested needs to be progressed through Budget 2009. The proposed funding can be scaled back in 2010/11 and 2011/12, as funding for projects beginning in these years can be considered in the 2010 and 2011 Budget rounds without impacting on the construction or opening times for new school property.

g Extending the Ongoing and Reviewable Resourcing Schemes (ORRS)

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	9.000	18.000	18.000	18.000
Treasury	-	4.500	9.000	9.000	9.000

35. The Ministry of Education seeks funding to add an additional 1,125 students per year with ongoing high special education needs.
36. The operational funding and additional staffing provided to schools by an ORRs increase will also relieve pressure on other areas of special education like Supplementary Learning Support.
37. The Treasury supports a scaled-back ORRS increase at 50% of the amount sought. A review of Special Education has been long planned and deferred. If this work is completed in 2009 it can inform funding decisions in Budget 2010.

Schooling: Proposals Not Supported by Treasury for Budget 2009

h Additional Funding for Independent Schools

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	5.000	10.000	10.000	10.000
Treasury	-	-	-	-	-
Treasury alternative		2.500	5.000	5.000	5.000

38. The Ministry of Education seeks \$10 million additional funding per year for independent (private) schools, to make them more affordable. Total funding for independent schools was capped in 2000 and due to inflation and roll growth, real per-student government funding has fallen considerably.
39. There are signs that a significant number of independent schools are facing roll declines and financial viability problems that raise fiscal risks for the Government. Struggling schools may apply for integration into the state sector, and independent school students may migrate into state schools where they attract higher per-student subsidies. Too tight an approach to independent school funding could represent a false economy for the Crown.
40. However, Treasury does not support this bid for Budget 2009:
 - With the expected drop in independent school enrolments this year, a modest increase in per-student subsidies can be funded without an increase in overall funding.
 - The funding increase is not well designed to address viability risks for independent schools, reduce the likely number of integration applications, or improve educational outcomes or choice.
41. If Ministers wish to provide additional funding to independent schools this year, we recommend this bid be:

- Reduced to \$5m per year, with further increases considered in 2010; and
- Redeveloped to address provider viability risks, equity and school choice. For example: funding could be conditional on the sector or individual schools adopting equity targets; some funding could be tied to roll growth rather than increasing funding for current enrolments; or some funding could be delivered as equity scholarships to cover fees for low-income families.

i Additional Funding to Fight Truancy on the Front line

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	4.000	4.000	4.000	4.000
Treasury	-	-	-	-	-

42. The Ministry of Education seeks funding to support secondary schools in reducing truancy rates.
43. Treasury does not support this bid for Budget 2009 and recommends that it be deferred for a year. As an “untagged” addition to secondary schools’ operations grants, there are no funding conditions or guidance in place to ensure the funds are directed to their intended purpose. A review of District Truancy Services in 2009 can inform Budget 2010 decisions.

j Additional Funds for the Interim Response Fund (IRF) for Disruptive Pupils

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	2.000	2.000	2.000	2.000
Treasury	-	-	-	-	-

44. The Ministry of Education seeks \$2 million in additional funding to help schools keep students engaged in learning following challenging behavioural events.
45. Treasury does not support the bid for 2009. This represents a 114% increase for this programme and it should be deferred, or at least scaled back, until more information is available on the effectiveness of the current fund. As the IRF allocates funding to schools on application, it is unclear whether growing demand reflects an increase in serious cases or an increase in awareness of this funding option, and it is unclear if funding is allocated to the neediest, or just the noisiest cases.

k Awards for Top-Performing Teachers

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	1.000	2.000	2.000	2.000
Treasury	-	-	-	-	-

46. The Ministry of Education seeks funding to provide for expanded awards to provide excellence awards to teachers.
47. Treasury does not support this bid. The budget bid states the awards will raise the status of the profession and may also attract more teachers. We consider a small monetary reward to be unlikely to deliver these outcomes, and disagree that it would improve teacher quality. If the goal is to increase the status of teachers, non-monetary rewards (for example, annual Prime Minister's awards) could be just as effective. A reallocation of funding for existing study awards (subject to constraints imposed by collective agreements) could fund any monetary awards.

l Expanding Te Kotahitanga

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	6.735	10.913	14.463	12.143
Treasury	-	-	-	-	-
Treasury alternative	-	6.360	4.553	2.073	0.683

48. The Ministry of Education seeks to expand the Te Kotahitanga professional development programme, adding 30 schools in each of the next three years.
49. Treasury does not consider that expanding this programme, especially to such an extent at this time would be desirable. The programme has had measurable positive effects on student achievement and it has been well supported by participating schools. However it has already been expanded significantly. Programme quality may be hard to sustain with further expansion. There are concerns about the capacity of new schools to adopt it and the ability of current schools to maintain it. An evaluation of the programme is scheduled for completion by February 2010. We recommend that the bid be deferred until Budget 2010, so that evaluation can be utilised.
50. If Ministers wish to provide some funding for Te Kotahitanga, we recommend a scaled or time-limited approach, with 30 schools added in 2009/10 only, or 15 schools added in each of the next two years.

m Support for Students to meet literacy and numeracy standards

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	9.000	18.000	18.000	18.000
Treasury	-	-	-	-	-

51. The Ministry of Education seeks additional funding to be targeted at primary and intermediate schools, to help students not meeting national standards in literacy and numeracy.
52. Treasury recommends that this bid be deferred until Budget 2010. There is currently no information base to effectively target this funding to schools most in need of support. Funding distributed now without such information will be difficult to reallocate in future. The Ministry's existing baselines include funding for a range of school support, curriculum support, assessment and professional development activities that can support this policy objective in 2009/10.

Tertiary Education

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

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o **Voluntary Student Loan Repayment Bonus**

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	0.103	(71.864)	(0.758)	(1.973)	(3.246)
Treasury	0.103	(71.864)	(0.758)	(1.973)	(3.246)
<i>Capital (GST excl)</i>					
Department	(2.602)	24.287	15.954	15.309	14.326
Treasury	(2.602)	24.287	15.954	15.309	14.326

57. The Minister seeks funding for the manifesto commitment to offer a 10% student loan voluntary repayment bonus. The design of this scheme has been agreed by Cabinet [SOC Min (09) 3/2]. The funding sought is in Vote Social Development and Vote Revenue, rather than Vote Education. The costings also include \$4m capital and \$9.5m operating over the forecast period for administration costs for IRD.
58. Because the behavioural response is difficult to determine in advance, the fiscal implications are very much an estimate and will depend on uptake. The anticipated greater number of voluntary repayments will positively impact on the student loan asset and therefore MoE anticipate that the policy will generate a net operating saving of \$87.341m over 4 years (09/10 to 12/13).
59. MoE estimates that the policy will have a net capital cost of \$65.876m over 4 years (09/10 to 12/13). This is based on the assumption that the loan scheme as a whole will appear more attractive to students, and therefore gross lending will increase by 2.5% per annum above the baseline. While it is difficult to know at this stage, we think this is a generous assumption and would be surprised if this policy had such a significant impact on the level of borrowing. In the interest-free environment, it is already in a student's best interest to borrow when they don't have to and this policy doesn't dramatically change those incentives.

p Performance Based Research Fund

60. The Minister seeks funding for the PBRF component of the government's pre-election announcement regarding the use of savings from the cancelled R&D tax credit. Treasury did not support this funding in the RS&T package. We understand that the Minister for RS&T has been invited to submit, by letter on 20 March 2009, a scaled RS&T package costing no more than \$100m over 4 years. We anticipate that the Minister for Tertiary Education will be consulted, and any additional funding for the PBRF will be incorporated into that revised package.

q 200 additional Medical School Places

61. Funding for a phased version of this bid has been included in the preferred **health allocation package** by the Minister of Health. This initiative increases medical student training places by 60, and is the first tranche of the Government's signalled increase of 200 medical training places. Treasury supports this initiative as a way of addressing workforce capability needs in the health sector. Any future proposals to increase medical student places should be considered alongside other means of improving workforce capability to meet demand (such as improving doctor retention rates and making smarter use of the existing mix of workforce).

Vote Education: Emergency Pressures

62. The Minister of Education has submitted a bid for funding for 30 items identified as emergency pressures in Vote Education. These are summarised below:

Emergency Pressures: Operating Funding

Vote Education Operating Emergency Pressures	\$ million increase/(decrease)				
	2008/09	2009/10	2010/11	2011/12	2012/13
Pressures Supported by Treasury					
Caretakers, cleaners & grounds staff wages (already agreed)	-	17.512	17.512	17.512	17.512
Maintaining current level of NCEA moderation	-	2.720	2.720	2.720	2.720
Funding for entitlements already advised to schools					
School heat, light & water grants	(0.824)	3.198	2.420	2.419	2.416
School reorganisations	1.000	1.350	0.456	(0.595)	(1.996)
Funding to allow alternative education students to dual enrol in the Correspondence School	0.571	0.571	0.571	0.571	0.571
Pressures Supported in Part by Treasury					
Maintaining existing level of funding for School High Health Needs Fund	-	2.671	2.671	2.671	2.671
<i>Treasury supported</i>	-	1.400	1.400	1.400	1.400
Other Pressures Not Supported by Treasury					
Time limited funding initiatives					
National Aspiring Principals Pilot	-	0.500	0.500	0.500	0.500
[deleted confidentiality of advice]					
Extra therapy support for some high needs students	-	1.243	2.486	2.486	-
Cost increases (including remuneration pressures)					
Early childhood annual cost adjustment	-	15.000	16.000	17.000	17.000
[deleted – negotiate without prejudice]					
[deleted – negotiate without prejudice]					
[deleted – negotiate without prejudice]					
[deleted confidentiality of advice]					
Expanding existing services					
Before school checks	-	5.400	5.400	5.400	5.400
[deleted confidentiality of advice]					
[deleted confidentiality of advice]					
[deleted confidentiality of advice]					
Tertiary participation - provision for extra growth	-	30.000	30.000	30.000	30.000
New					
[deleted confidentiality of advice]					
[deleted confidentiality of advice]					
[deleted confidentiality of advice]					
Training for new born hearing screening advisors	-	0.800	2.000	2.500	2.800
NCEA alignment of standards	-	4.640	4.915	4.250	0.500
International student levy	-	1.800	3.600	3.600	3.600
Increasing student allowance entitlements	-	3.801	8.045	8.202	8.224
Workplace literacy fund	-	5.500	5.500	-	-
[deleted – negotiate without prejudice]					
[deleted – confidentiality of advice and negotiate without prejudice]					
Total Operating Pressures Supported by Treasury	0.747	26.751	25.079	24.027	22.623

Emergency Pressures: Capital Funding

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

Emergency Pressures Supported by the Treasury at the Funding Level Submitted

a School Caretakers, Cleaners and Groundstaff wages

63. Wage increases of \$17.5m per year have already been agreed. Schools pay these staff from their operations grants. Without additional funding, schools will need to absorb this cost.

b NCEA Moderators

64. \$2.7m per year to maintain current levels of moderation. Without funding, moderation will decrease below 10% of assessments, which may undermine NCEA's credibility. When moderation rates were increased from 2008, the Ministry was directed to fund the ongoing cost through reprioritisation. Reallocation of savings from the line-by-line review is therefore appropriate.

c School Heat, Light and Water Grants

65. This demand-driven grant pays schools' actual energy and water costs. The increase is due to cost increases and a new operational approach (the Ministry now adjusts funding automatically based on audited accounts, so schools needn't submit paperwork seeking a review). Treasury supports funding for this for Budget 2009, but the Ministry should develop a funding system that gives schools an incentive to shop for the best utility prices and to be energy efficient.

d School Reorganisations

66. This funding is needed to meet previous commitments to schools and communities affected by past school mergers/closures.

e Additional Correspondence School Funding

67. This meets the cost of an unfunded policy change in 2008 that allowed alternative education students to dual-enrol in the Correspondence School. Treasury supports funding in Budget 2009 to meet the cost of current policy. The current Alternative Education review should consider a fund-holder model under which schools referring students to Alt.Ed. and/or to correspondence manage the costs from devolved funding.

Emergency pressures supported by the Treasury at Reduced Costs

68. The Treasury supports funding for the following pressures, but at lower levels than submitted by the Ministry of Education:

f High Health Needs Fund

69. \$2.7m per year is sought. Treasury supports \$1.4m per year in Budget 2009. This programme pays schools to support students with high-risk health conditions so they can participate safely at school. We don't support the remainder of the funding as it is for ORRS (we have supported a separate bid for \$4.5m of additional ORRS funding in 2009/10 from the Budget allocation).

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

70.

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

71.

Emergency pressures not supported by the Treasury

72. The Treasury does not consider that the remaining pressures identified by the Ministry of Education merit funding in Budget 2009 given the Government's policy priorities and current fiscal constraints.

73. A number of these items involve annual adjustments that providers have become accustomed to expect as routine. Others pressures involve programmes where the expectations of providers, users and sector interest groups have already been raised.

74. Some of the budget bids above will deliver funding that can alleviate some of the pressures identified by MoE (for example, school operations grant increase and ORRS funding increases will provide some capacity for discretionary spending by schools to offset reductions (or nil increases) in "in kind" services and tied funding).

i Early childhood annual cost adjustment

75. The funding rates offered when "20 Hours Free ECE" was introduced were generous. This is evidenced by the higher than expected uptake of the scheme by providers, the rapid expansion in ECE supply, and the large demand-driven increases in ECE baselines that continue to grow faster than anticipated in previous forecasts in the March Baseline Update (From this MBU, forecast ECE costs will exceed those budgeted at introduction of "20 Hours Free" by \$1,046 million over 4 years.)

76. Treasury considers that average nominal funding rates can be held at current levels for several years without a significant risk to provision. This will start to shift a greater

share of total costs back to parents through higher fees. The 2009 Budget would be an appropriate time to signal that such a shift is necessary.

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

77.

k Workplace Literacy and Numeracy Fund

78. An additional bid has been submitted for time-limited funding of \$11m over 2 years. While some further funding in this area may be appropriate, especially over the shorter term, Treasury considers that this would be more appropriately considered alongside other proposals for Budget 2009 funding to respond to the *Jobs Summit*. This should be considered in the context of the proposal to reduce by one third the funding provided in Budget 2008 for literacy language and numeracy programmes (as part of unwinding the innovation precommitment).

l Pressures due to time-limited funding

79. We recommend that currently time-limited funding should be allowed to cease for some existing programmes where clear evidence of effectiveness has not been provided. If Ministers wish these programmes to continue, prioritisation decisions can be made within existing baselines, including funding for related programmes (*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*).

- m *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

80.

n Pressures due to expansion of existing services

81. If these programmes are effective they should be prioritised within existing funding streams (for example, Before School Checks could be prioritised against other special education and ECE initiatives).

Vote Education: Forecast Changes for March Baseline Update

82. In addition to the new expenditure proposed in the budget package for policy initiatives and emergency funding pressures, increases in Vote Education baselines have been submitted for the 2009 March Baseline Update.
83. These relate to forecast changes in demand driven expenditure programmes in Vote Education. Overall the forecast changes involve an increase in the baseline of \$270 over the forecast period. They are due to:
- increases in volume in demand-driven programmes (for example increased hours of ECE participation, increased school rolls, and increased uptake of KiwiSaver by teachers);
 - increases in price where funding adjusts automatically (for example, school transport funding indexed to fuel costs, increases in teacher salaries due to changes in the composition of the workforce, progression up the pay scale, and entry rates into KiwiSaver).
 - composition changes (for example, kindergartens moving into the 20 Hours ECE programme or into full-day services funded at a higher rate).
84. The cost of these forecast changes will *not* be charged against the Budget 2009 operating allowance, but will impact on Government's operating balance and net debt.

March Baseline Update Forecast Changes

	2008/09	2009/10	2010/11	2011/12	2012/13	TOTAL
Early Childhood Education	42.644	53.101	51.511	31.137	31.009	209.402
School Transport	7.175	11.777	12.417	13.110	13.962	58.441
School Operations	-2.614	8.913	6.719	6.587	7.182	26.787
School Salaries	-5.796	-15.184	-14.131	-1.148	11.604	-24.655
TOTAL	41.409	58.607	56.516	49.686	63.757	269.975

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

86.

Vote Education Review Office

87. No bids for new policy or emergency pressures have been submitted for Vote Education Review Office.
88. Following the line by line review, the Minister for the ERO has proposed operating expense savings of \$0.627 million per year, ongoing from 2009/10.
89. In Treasury's view, ERO undertook a thorough review and is focussed on delivering on the Government's priorities. ERO to manage its cost pressures while offering back savings by ceasing certain programmes, like the Adult and Community Education Reviews and Post Review Assistance to Schools, and reducing reviews of home schooling. ERO is developing a framework for a differentiated approach to reviews of schools. This should produce considerable long run efficiencies and reduce compliance costs for well-performing schools.
90. Opportunities for savings beyond those identified are limited. ERO has no programmes that are inconsistent with government priorities, and it will play an important role in improving information for parents and government on school performance and student achievement.

Analysis of Vote

91. Vote ERO baselines are shown in the graph below. The vote has remained stable in recent years, although from 2002 to 2005, costs increased significantly as the standard cycle for school reviews was reduced from 4 years to 3 years.

