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To: Minister of Finance

AIDE MEMOIRE: ADVICE FOR MEETING WITH MINISTER OF EDUCATION ON BUDGET 2010

Purpose

You are meeting the Minister of Education on 2 December 2009 in response to a letter sent on 27 November 2009. This aide memoire provides Treasury advice on the topics the Minister of Education wishes to raise.

Analysis

The Minister of Education is seeking two concessions in Budget 2010:

- allowing some continuation of forecast changes in Vote Education (rather than all pressures considered via the Budget process); and
- seeking separate Cabinet consideration of a decision made in Budget 2009 that required savings of \$50m in outyears, with an option of increasing the Vote Education baseline instead.

In considering these concessions there are short term and long term objectives:

- In the short term there is a need to ensure budgetary restraint – the proposed concessions both increase the total amount of money provided to Vote Education (and thus reduce the operating balance), even if forecast changes do not count against the Budget 2010 operating allowance.
- In the longer term we think that all forecast changes should be brought within the Budget process to ensure Ministers get to make all relevant trade offs.

The following table highlights the amounts of money flowing to Vote Education from the Minister of Education's proposals, and a Treasury alternative.

	Budget 2010	Longer term Budget management rules
Minister of Education's proposed approach	\$250m allocation \$190m forecast changes \$50m increase in baselines to reverse Budget 2009 decision \$490m total	Continue to allow forecast changes outside of Budget process for school roll growth
Treasury's preferred position	\$250m allocation \$139m forecast changes (to allow transition) \$389m total	All Vote Education pressures to be considered within the Budget process to allow Ministers to make trade offs

Rationale for Treasury position

Compensating for Budget 2009 staffing decision: The Minister of Education wishes to take a paper to Cabinet to discuss options for realising \$50m of savings from staffing entitlements, including an option not to realise these savings and to increase the Vote Education baseline instead.

Our view is that the Cabinet paper should not proceed. The savings realised as a result of Budget 2009 decisions are now reflected within baselines. Any attempt to seek

additional revenue to increase baselines should be made within the Budget 2010 process, not via an *ad hoc* Cabinet paper. You could allow the Minister of Education to include a bid within Budget 2010 for the staffing levels issue, accepting that this bid will not have the level of documentation required of other agencies (ie. completed baseline review) and that it could increase the level of funding allocated to Vote Education by \$50m.

Forecast changes for schooling volumes: The Minister of Education proposes that funding pressures associated with school volumes should continue to be treated as forecast changes in perpetuity. The legal entitlement to free compulsory education need not translate into additional costs. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Forecast changes for Budget 2010: We consider that forecast changes of \$139m in Budget 2010 (rather than \$190m) would better reflect the short term budgetary restraint objective. The \$139m figure would allow forecast changes for schooling and early childhood education volume growth to be provided, while the \$190m figure also allows funding for:

- Kindergartens switching from sessional to all day arrangements (\$37.1m);
- Higher numbers of registered teachers (\$11.9m); and
- Greater uptake of 20 hours early childhood education (\$1.8m).

The \$139m level of forecast change would require these additional items to be managed within the \$250m indicative allocation and would also prevent Vote Education receiving significantly more favourable treatment when compared to other Votes.

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