

2010 BUDGET

DETAILED EXAMINATION OF VOTE EDUCATION

DECEMBER 2009

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Executive Summary

Increases in Vote Education Expenditure since 2005 – Value for Money?

1. Expenditure on Vote Education increased by \$2.9 billion between 2004/05 and 2009/10. This represents a real increase of 18.5%. The drivers of this real increase have been:
 - schooling and school property maintenance (*47% of the increase*)
 - tertiary education (*25%*)
 - early childhood education (ECE) (*24%*)
 - other spending (*4%*).
2. The growth rates in spending in some areas was much greater than others. For example spending on ECE increased by \$692 million in nominal terms over this five year period, more than doubling.
3. Historically, the following components of education funding have been adjusted in successive Budgets to compensate for price inflation:
 - funding for institutions to *purchase resource inputs* (e.g. school operating grants); or
 - *subsidies to assist individuals and families* with the costs of education participation (e.g. ECE subsidies).
4. Real annual expenditure growth between 2004/5 and 2009/10 averaged 4%.
5. The important driver of expenditure growth has been changes to government policy settings.

Responses to wage and price pressures

6. In parts of the system – teacher salaries and ECE subsidies - price pressures during the last five years have increased the real *per student cost* of education provision. Addressing these pressures required spending more to maintain the same level of output and/or coverage.

Transfer of costs of education participation from individuals and families to the Government

7. In ECE, universal subsidy increases transferred costs to the state. Discounting for volume growth, real ECE expenditure increased by approximately 110% from 2004/05 to 2009/10.
8. While not a charge against Vote Education, the introduction of interest free student loans transferred costs from individuals to the Government. This created a significant increase to the initial 'fair value' write down (the economic cost for the student loans scheme) from an estimated \$0.20 per dollar loaned to about \$0.47 (30 June 2009). Further, between 2004/5 and 2008/9 student allowance costs have increased by \$85.1 million.

New initiatives to solve specific problems, or to raise standards

9. Governments have expanded areas of central intervention, including in the Ministry of Education, or regulated to lift minimum service standards. Examples are financial incentives to improve numbers of qualified teachers in ECE, and investments in schooling improvement – for instance, over the last decade, the Ministry has established around 30 school improvement initiatives involving more than 600 schools to address persistent low achievement.

Value added over the last five years

10. The “value added” picture in education over the last five years is mixed. In many cases, there has been considerable value added, but in some cases the *cost-effectiveness* of that value is questionable – the lift in educational outcomes has not been commensurate with the increases in expenditure.

In ECE

11. Between 2005 and 2008 there were 12,500 more enrolments in ECE and a 13% increase in weekly hours of participation. However significant gaps in ECE participation remain, with lower levels of participation by children from low socio-economic communities, Māori and Pasifika children.

ECE Value Summary - Spending more than doubled over the period to achieve these gains and we have not satisfactorily addressed shortcomings in participation and quality with high priority children.

In Schooling

12. Outcomes measured by the proportion of school leavers with at least a NCEA level 2 qualification have improved. In 2008 4,400 more students left school with at least NCEA level 2 than in 2005. The proportion of students leaving having achieved at this level increased by 14 percentage points from 57% to 71%. Although disparities in achievement remain, this improvement in outcomes was pronounced for Māori and Pasifika students and students from decile 1-3 schools.
13. There remain questions around the value obtained from schooling investments in recent years, especially the cost of smaller class sizes.

Schooling Value Summary - Between 2005 and 2008, growth in the proportion of students attaining NCEA or above rose faster than real expenditure in schooling. The average cost of a student leaving school with at least NCEA level 2 decreased by 7% in real terms over this period. However, there is not a clear picture about the *relationship* between achievement and the increased spending in recent years. Looking forward, we need to get better results with no new money.

In Tertiary

14. Inflation adjustments to tuition subsidies account for a large proportion of the increase in nominal expenditure in tertiary education since 2004/05.
15. There has been a slight drop in volume (as measured by EFTS), but participation in industry training and apprenticeships have increased sharply.
16. The profile of students attending tertiary education courses has changed since 2005, with fewer students attending ITPs and wānanga, and more moving to universities and private training establishments.

Tertiary Value Summary - There has been an increase in the real cost per EFTS. This has been driven by higher volumes and students undertaking more expensive (and higher level) courses. Specific initiatives have lifted tertiary provider capability. There were significant increases in costs of student loans and allowances relative to outcomes.

Alignment of Expenditure with Government priorities

17. In the last 12 months we have achieved some alignment of education spending and policies to the Government's highest priorities, *and* against a tighter budget constraint. More needs to be done.

Progress to date

18. The *Vote Education Line-by-Line Review*, completed in February 2009, scrutinised expenditure to identify:
 - programmes that are clearly a *mismatch with the Government's priorities* and which should be discontinued, or modified
 - programmes for which there is evidence of *poor efficiency or effectiveness* and which should be discontinued or modified.
19. During this process, the Ministry identified opportunities for immediate savings that could be made in the 2009 Budget. The Ministry also identified programmes that should be reviewed over both the short-term (2009) and the medium-term (to the end of 2010).
20. In response to the review, the Government took some decisions to lift value for money, including:
 - changes to the tertiary system to improve performance – e.g. core tertiary education is now prioritised over hobby courses
 - reducing some low value tertiary and international scholarships
 - professional development realignment so that spending is more closely aligned with numeracy and literacy priorities.
21. These decisions realised savings in the 2009 Budget totalling \$68.9 million in 2009/10, increasing to \$227.7 million in the outyears.

What next?

22. We are working on policy ideas that will provide Ministers with choices about how to adjust policy, to realise savings while still achieving priority education outcomes for target children and families.

23. Some examples:

- The Minister of Education has taken proposals to Cabinet to simplify the tertiary funding system, more closely link funding of institutions to performance, and to increase flexibility in the regulation of fees paid by students.
- The Ministry is undertaking work to inform decisions in the 2010 Budget on increased targeting of subsidies and student support in tertiary education.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Departmental Expenditure Alignment – examples of achievements

24. The Ministry has already achieved some realignment:

- Reduced support function expenditure – efficiency dividend of 1.5% annually for next three years.
- Reduced spending on policy advice - \$1.3 million.
- Greater targeting of parent information programmes - \$5 million.

.. and next steps

25. We are working to realign the Ministry to bring a stronger drive to lifting system performance – especially in schools. We are also working to deliver higher quality services in education infrastructure (e.g. property, teachers' payroll, and ICT).

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

27. The Ministry faces some challenging baseline pressures over the Budget and outyears. We understand the message from the Government that we need to work to deliver better, more innovative services from current baselines. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*

28. This Review does not present a detailed plan for how to achieve changes to how the Ministry operates *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*. We will discuss it with the Minister of Education in early 2010.

Managing Pressures Across the Vote

29. **Chapter 1** outlines the *recent drivers* of spending growth in Vote Education. Policy-driven funding increases have played a major part in the growth.

30. **Chapter 3** outlines the *outlook* for spending pressures over the 2010 Budget and the outyears to 2013/14.

Spending Pressures

31. The major challenge in managing new spending pressures down will be to:

[deleted – confidentiality of advice]

32. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- **Respond to volume pressures by better targeting**
33. In the tertiary sector, the Government will be faced with ongoing demand (and an economic growth driven imperative) to pay for higher participation in degree courses. So this will mean increasing the value from tuition subsidies and student support through targeting, and encouraging higher completion rates.
34. In schooling, there are arguments for changing business rules for calculating the operating grant in schools so that funding for students better reflects the numbers of students throughout the year.
- **Scrutinise regulated standards of services**
35. In ECE there is a case for revisiting financial incentives to encourage 100% qualified ECE teachers in ECE centres, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
36. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Savings Options

37. We have made a start on identifying choices for Ministers if the Government is to effect substantive fiscal savings to both lift value, and offset high priority new spending. There are opportunities for a range of smaller savings, which together will be useful in lifting performance, but achieving *material fiscal savings* will require *material shifts in policy settings*. This is the menu of such big shifts:
- Tighter rationing of funding in the tertiary system by transferring costs to individuals (through both student support and tuition subsidy policy settings).
 - [deleted – confidentiality of advice]
 - *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Policy Advice in the Ministry

38. The Ministry's policy advice functions are spread throughout the organisation. Around 80 FTEs are engaged to provide policy advice. The Ministry employs just over 200 additional operational staff. These staff provide advice to translate policy into practice.
39. The proportion of the Ministry's staff engaged directly to provide policy advice is about 3% of total staff numbers.
40. *Expenditure on policy advice* has been relatively stable in recent years – at around \$22 million since 2002/03. This amount does not equate to the cost of employing the 80 FTE staff working on policy advice. This output cost includes other personnel costs, including contractors and overheads.

41. Measuring the *quantity of policy advice* is imperfect, but the core metrics – numbers of briefing papers and Cabinet Papers are trending upwards sharply so far in 2009/10.
42. The picture on the quality of policy advice is mixed. The Ministry has a comprehensive program to lift quality – that will continue.
43. The Ministry identified savings of \$1.3 million in policy advice in the *Vote Education Line-by-Line Review*. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Performance Improvement Actions – The Relationship to Potential Fiscal Savings

44. ***The PIAs shape and constrain policy design.*** The objective is to reverse the trend of recent years of successive real increases in spending, but at the same time to lift performance. The key PIAs are about shaping policy settings to achieve better value:
45. For example the *ECE PIA (PIA 1)* will constrain expenditure growth. If *prices or volumes* increase, we will need to achieve productivity gains, or if this is not possible, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. The key point is that adopting the PIA means that *something needs to give* in policy design. Continuing to fund ever higher real price increases resulting from inflation and untargeted participation will result in a failure to achieve this PIA.
46. Our PIAs will return dividends to the Government over the long-term in the form of increased productivity, better targeting of services to those that will benefit most, and the containment of expenditure growth.

Chapter 1 – Introduction to Vote Education expenditure and changes since 2005

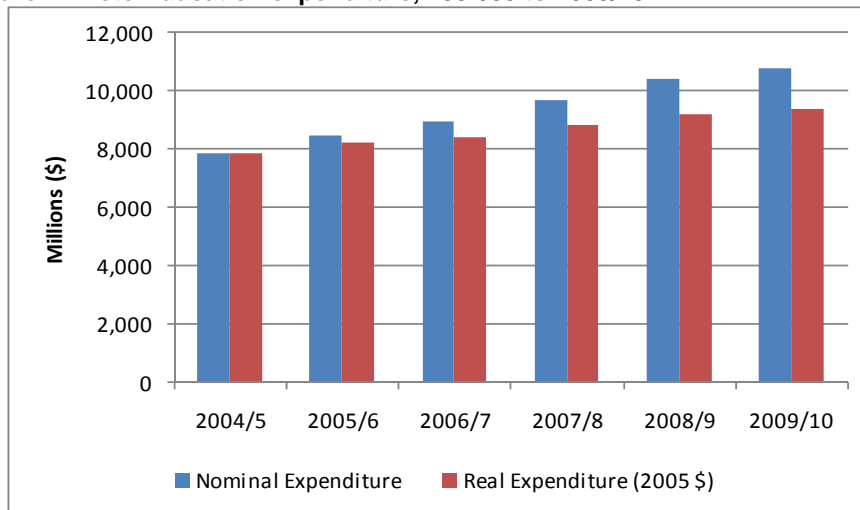
47. This chapter responds to the request to detail all increases to Vote Education since 2005 and the value that was obtained from them.
48. The Ministry of Education administers Vote Education, the third largest Vote after Vote Social Development and Vote Health. Since 2004/05, nominal funding levels have increased by \$2897.4 million, or 37%. Government policy decisions have been the major driver of this increase in expenditure.
49. This chapter provides a high level overview of changes to the Vote. The following sections describe in more detail changes in key areas of expenditure:
 - Early Childhood Education
 - Schooling (Primary and Secondary)
 - Special Education
 - Tertiary
 - Centrally managed expenditure.
50. Because the majority of policy choices, ongoing expenditure, and changes in outcomes within Vote Education relate to operating rather than capital expenditure, all financial data referenced in this note refers to non-capital unless otherwise stated. References to real dollars throughout this chapter refer to a base year of 2004/5.

Overview of changes to Vote Education

Nominal funding has increased 37% on 2005 levels

51. Over the period 2004/05 to 2009/10 nominal funding levels for Vote Education have increased by \$2,897.4 million, from \$7,905.3 million to \$10,802.7 million. This equates to an increase of 37% in nominal terms.

Figure 1: Vote Education expenditure, 2004/05 to 2009/10

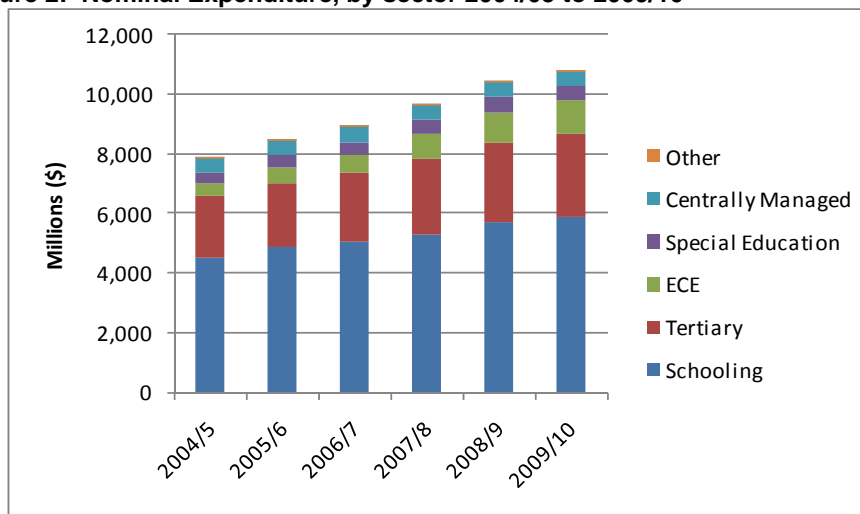


52. Historically, much of the non-departmental expenditure administered by the Ministry of Education has been adjusted in line with increases in general prices (approximated by the Consumer Price Index “CPI”). After adjusting for the effects of inflation the Vote has increased by \$1,459.6 million since 2004/05, from \$7,905.3 million to \$9,346.9 million (2005 dollars) in real terms. This represents an average real increase of 4% per year.

Expenditure on primary and secondary schooling has been the largest driver of overall cost growth

53. Figure 2 below shows how Vote Education has changed between 2004/05 and 2009/10 by area of expenditure. Compulsory schooling is the largest area of expenditure over the period it has increased by around one third, taking up approximately 45% of the total increase in the Vote.
54. Tertiary and special education expenditure both increased by around one third. ECE is a small area of expenditure relative to tertiary and compulsory schooling, but over the period it has more than doubled.

Figure 2: Nominal Expenditure, by sector 2004/05 to 2009/10



Notes: ‘Other’ includes the University of Auckland Starpath Project, and funding for the New Zealand Teachers Council and the United Nations Educational, Scientific and Cultural Organisation.

Government policy settings are the main cost drivers

55. While the demand for education has increased, this has been at a lower level than recent increases in expenditure. The core drivers in expenditure across the various sectors are related to:
- increases in input costs (e.g., wage settlements for teachers, CPI adjustments to tertiary subsidies)
 - shifting the costs of some services from families to government
 - an ongoing drive to improve the performance of some parts of the education system.
56. Price pressures (for example from teacher and principal wage settlements and CPI adjustments to tertiary fee subsidies) have increased the per student cost of education. In the case of wages these increases have been slightly above the

general level of inflation as measured by the CPI. More has been spent to maintain the same level of output and coverage.

57. Service volumes have increased in the early childhood education, compulsory schooling and special education sectors. In the early childhood education sector the increase has been substantial and has been driven by a mix of more children entering the system and increased uptake in hours per child. The underlying drivers are demographic growth in the child population and policies designed to increase participation rates.
58. In early childhood education a greater share of the cost of provision has been taken on by government. This was intended to encourage take up of more early childhood education services by lowering the price of services paid by parents, with subsequent gains in education outcomes and labour market participation. At the same time, government financial incentives were used to encourage more qualified, better-paid teachers into the sector in an effort to improve service standards.
59. There are also areas where funding has been sought for new programmes, expanding the functions and the services offered by the education system. Examples of this are work based training and apprenticeship initiatives in tertiary, and initiatives to reduce truancy, improve literacy and numeracy, and increasing support for e-learning and ICT in schools.
60. Further details of increases to the Vote since 2005 and the value obtained from additional expenditure are explored by the relevant sections below.

There have been some significant results from additional expenditure in the education system, but more needs to be done to address existing disparities

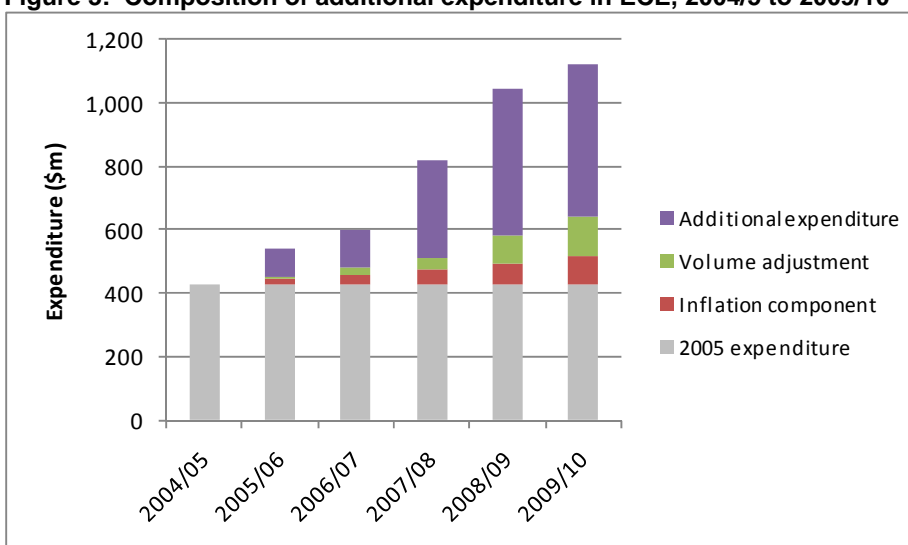
61. Most of the expenditure in early childhood education has been allocated on a universal basis. As a consequence we have seen an increase in the number of children participating across the socio-economic spectrum. However, evidence suggests that children from the lowest socio-economic groups benefit most, particularly if they begin participating before the age of two or three. While some targeted initiatives have increased participation among priority groups, more focused targeting of provision to lower socio-economic areas and groups would increase the value of expenditure on early childhood education.
62. Results in the compulsory schooling sector have been trending in a positive direction. More school leavers are leaving with at least NCEA Level 2 than before and New Zealand continues to score well relative to other countries in international assessments of reading, writing and numeracy skills. However, it is uncertain to what extent these improvements are linked to increases in expenditure in the sector. For example, significant amounts of new money have been appropriated to reduce the teacher to child ratios for new entrants, but research suggests this has a limited impact on educational outcomes for children.
63. Expenditure on tertiary education has largely been driven by price pressures. Part of this includes a shift in the mix of provision away from lower level courses (Levels 1-3) towards courses at degree level and above. This represents an improvement in the value obtained from tertiary education as higher-level qualifications tend to result in higher lifetime wages for those that obtain them. We have also seen increased take-up of industry training at a time when New Zealand was facing moderate to extreme skills shortages in some industries. Areas where we have not seen

significant improvements include qualification completion rates at bachelors degree or above and the proportion of young people accessing tertiary education.

Early Childhood Education (ECE)

64. In 2009/10 we estimate the Government will spend \$1,120.1 million dollars on early childhood education. The majority of this funding goes directly to private and community based ECE providers. In 2009/10 approximately 45% of expenditure is used to fund 30 hours of subsidised ECE through sessional payments to services, and a further 50% is allocated to 20 Hours ECE for 3 and 4 year olds.
65. Between 2004/05 and 2009/10 early childhood education (ECE) expenditure increased by \$691.7 million in nominal terms, resulting from increased demand and changes to policy settings since 2002.

Figure 3: Composition of additional expenditure in ECE, 2004/5 to 2009/10



Significant changes in ECE policy settings have increased the cost to government

66. Policy decisions from 2002 have aimed to lift ECE quality and participation without increasing the cost to families. Initiatives since 2002 with financial implications from 2005 include:
- introducing kindergarten teachers' pay parity in 2002
 - a new ECE funding system introduced in 2005 that included funding for increased levels of teacher registration, higher teacher salaries to reflect pay parity between ECE services, and improved adult: child ratios
 - the introduction of 20 Hours Free ECE for three and four year olds in 2007.
67. In addition to the universal funding policies described above, the Government introduced a small number of targeted programmes to improve ECE participation rates among socio-economically disadvantaged communities, especially communities with high proportions of Māori and Pasifika children. These changes have made a relatively small contribution to increased costs.

68. ECE provision is periodically adjusted for input costs. Part of this cost is reflected in the inflation component series in figure 3, which is based on the consumer price index. Actual spending on input costs over the period has reflected wage pressures from teacher collective agreements, and increases in the cost of ECE provision that have each consistently exceeded headline inflation.

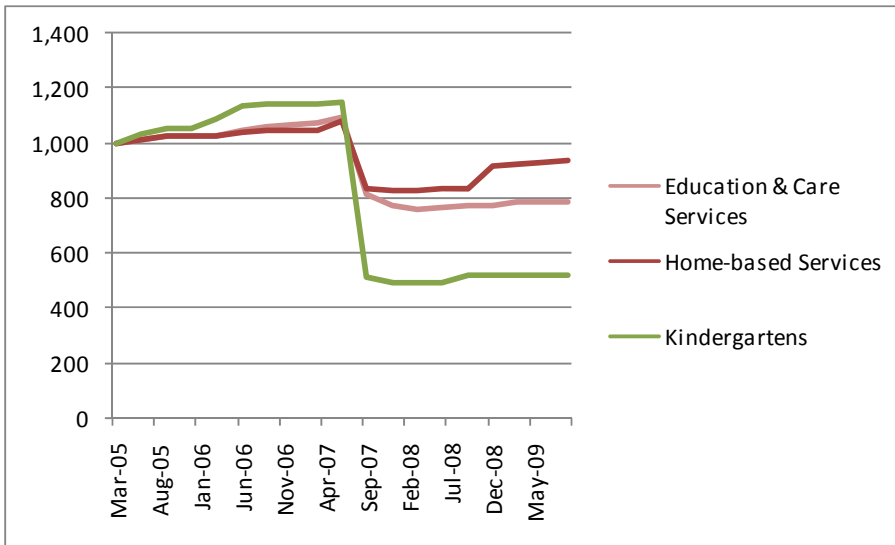
Policy settings and shifts in parental demand have led to substantial volume increases

69. New policy settings such as 20 Hours ECE have improved accessibility through encouraging the supply of new ECE centres and reducing costs to parents. In addition, the demand for ECE has increased as a result of increases to the birth rate and participation in the workforce by mothers. Volume increases in the graph above represent the increased expenditure since 2005 driven by increases to the number of funded hours. This reflects:
- *a small increase in the overall level of ECE participation prior to school entry.* Participation in some form of ECE before primary school increased by 0.7%, from 94.3 to 95.1% between 2005 and 2009. In total, there were 16,389 more enrolments in ECE in 2009 than 2005
 - *growth in the amount of ECE used by participating pre-school children.* Average weekly hours of participation increased 17.5% between 2005 and 2009
 - *growth in the supply of ECE services.* There has been a 14.6% increase in the number of funded ECE providers from 2005 to 2009, largely made up of increases in all day services.
70. Universal policies introduced between 2005 and 2009 have led to participation increases across the board. However, children from low socioeconomic groups, who have more to gain from attending high-quality ECE are still less likely to attend ECE. The gap in rates of prior ECE participation for children attending decile 1-3 schools and the average has remained stable at 7%. ECE participation rates for Māori (91.4%) and Pasifika (85.4%) children remain significantly lower than those for New Zealand European children (98.5%).

Increases in expenditure beyond volume and inflation have reduced the price to parents...

71. Increases to ECE expenditure beyond what would be expected from inflation and volume pressures are represented by the additional expenditure series in the graph above.
72. Policies such as the new ECE funding system and 20 Hours ECE have shifted the cost of ECE from parents to government. This has resulted in the cost of parental fees falling by 30% and the share of costs paid by government rising.

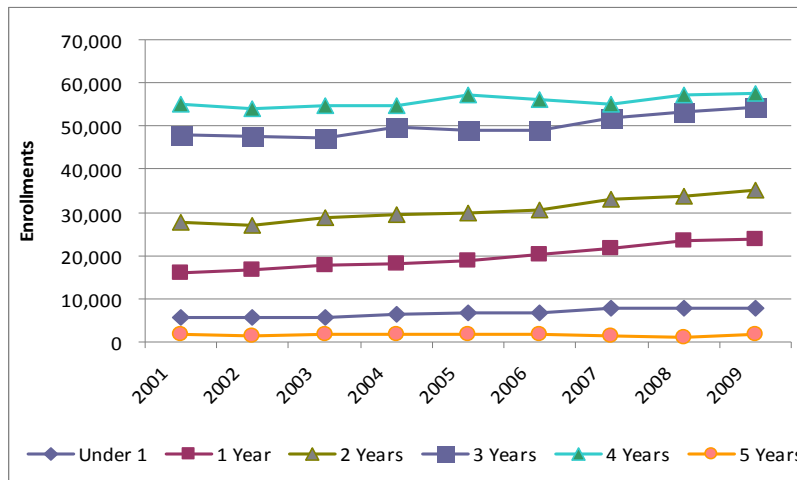
Figure 4: Index of parental ECE fees for parents, by service type, as measured by the Consumer Price Index.



... reflected a shift to more expensive types of ECE provision...

73. The largest increase in the proportion of children participating in ECE has been for children aged under 2 years (up 19.1%, or 5113 children between 2005 and 2009). ECE provision to children aged under 2 is more expensive because of younger children's greater need for individual care and attention.

Figure 5: Number of ECE Children Enrolled in ECE, by age 2001-2009



74. Changes to the ECE funding system have led to a shift in the mix of ECE services. In 2009 more than 80% of funding goes to all day services (which children attend for more than four hours per day), and over half of funding goes to services with at least 80% qualified teachers.

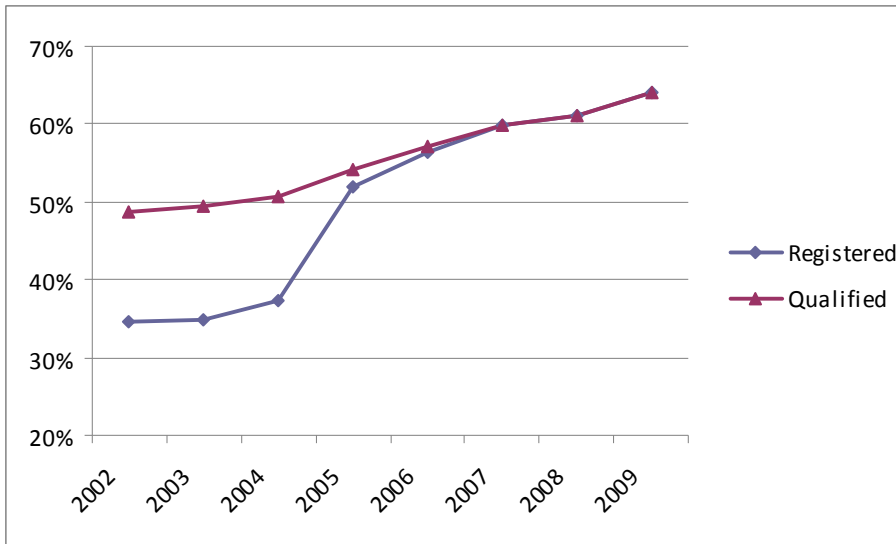
... and increased standards to improve centre quality

75. There has been a drive to improve ECE quality through financial incentives and regulated targets to encourage teacher qualifications. This has been supported by

initiatives since 2002 to provide support to teachers and ECE services that were otherwise unlikely to meet targets.

76. Since policies in this area were introduced in 2002 the number of qualified and registered teachers has grown 98 and 177% respectively. Qualified and registered teachers now make up 64% of all teachers in teacher-led ECE.

Figure 6: Percentage of ECE teachers/coordinators who are qualified and registered, 2002-2008



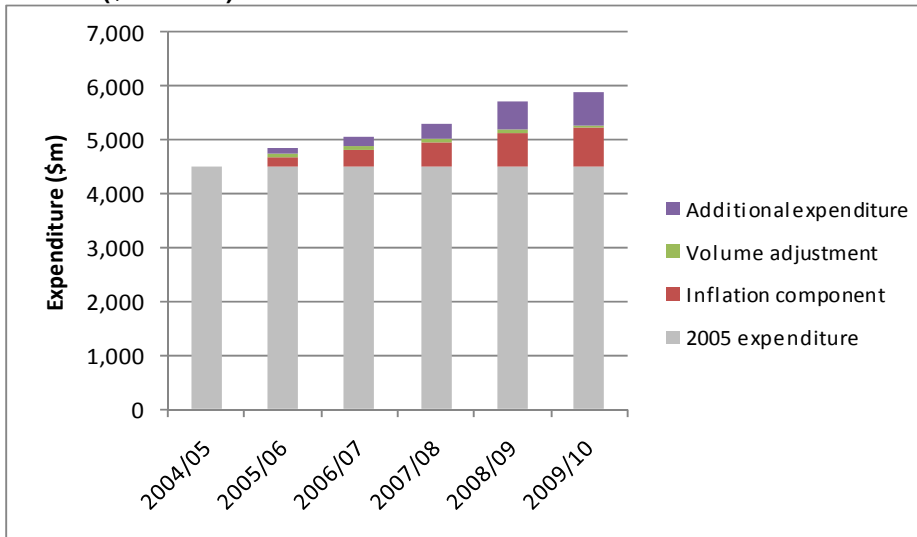
Summary

- The \$691.7m in additional nominal ECE expenditure between Budget 2004/5 and 2009/10 has funded changes in policy settings to encourage participation and improve ECE quality.
- Major policy changes that have driven expenditure growth include the introduction of kindergarten teachers' pay parity in 2002, a new ECE funding system in 2004 with financial incentives for qualified teachers and improved adult: child ratios, and the introduction of 20 Hours ECE in 2007.
- Improved access to ECE and an underlying increase to the demand for ECE have led to significant increases in volume. In total, there were 16,389 more enrolments in ECE and a 17.5% increase in weekly hours of participation between 2009 than 2005. However significant gaps in ECE participation remain, with lower levels of participation by children from low socio-economic communities, Māori and Pasifika children.
- ECE expenditure has increased beyond what would be expected from inflation and volume pressures. Policies such as 20 Hours ECE have shifted a proportion of ECE fees from parents to government, and changes in financial incentives on centres through the new ECE funding system have increased the quality of and standards in ECE provision.

Schooling

77. In 2009 the Government spent \$5,876.0 million on schooling. The biggest items of expenditure were school operation grants (17%), teacher and principal salaries and allowances (57%) and property management and maintenance (22%).
78. Between 2004/5 and 2009/10 nominal expenditure on compulsory schooling increased by \$1,356.8 million, from \$4,519.2 million to \$5,876.0 million (Figure 7).

Figure 7: Composition of additional expenditure in Compulsory Schooling, 2004/5 to 2009/10 (\$ millions)



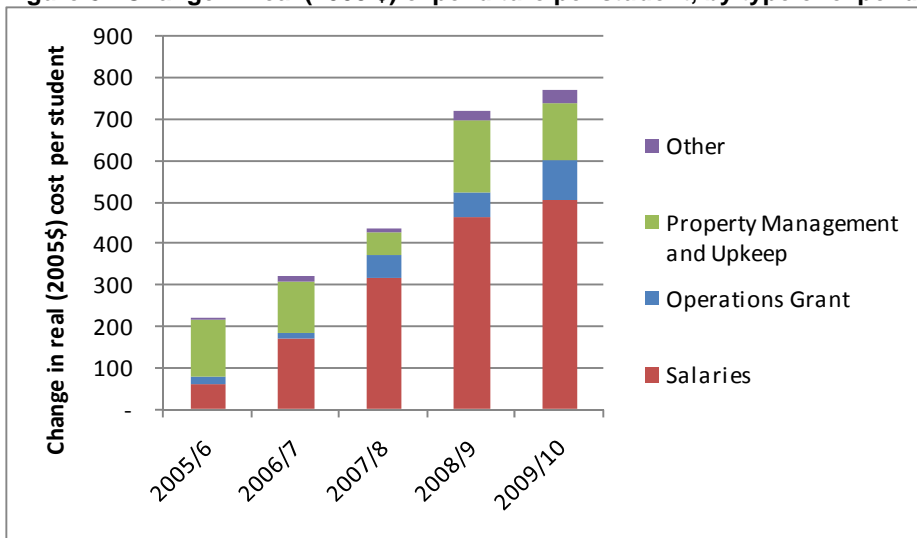
Overall roll numbers have remained stable but there has been an increase capital expenditure in some urban areas to meet demographic shifts

79. Reflecting overall demographic trends, student rolls have remained reasonably stable between 2005 and 2009. There were 755,385 students enrolled at school in the financial year of 2004/5, and 755,918 in the financial year 2009/10. Rolls are expected to increase from 2011.
80. However, there has been new capital expenditure on schools in some urban areas to meet changes in the geographical distribution of the school-aged population. In addition to the operating funding described in the graph above there has been an extra \$690 million of capital expenditure on new schools and classrooms between Budget 2005/6 and 2009/10.

Real per-student expenditure has increased since 2005

81. As demonstrated in the graph below a number of cost pressures and policy choices have led to the increase in the real price of compulsory education per student to government.
82. Over and above volume changes to student numbers and inflation pressures on costs of provision there has been a 13% increase in real (2005) expenditure per student in schooling between 2005 and 2009, an average increase of 3% a year. This equates to an additional \$770 dollars per student.

Figure 8: Change in real (2005 \$) expenditure per student, by type of expenditure



Notes: 'Other' includes non-departmental expenditure such as Schooling Improvement, allowances and scholarships for students, National Study Awards, and teacher scholarships.

...principal and teacher salaries and allowances have grown faster than the rate of general inflation....

- 83. The majority of the increase to expenditure per student beyond volume and inflation pressures in schooling between 2005 and 2009 is due to increases to funding for teacher and principal salaries (Figure 8).
- 84. Expenditure on teacher salaries and teacher numbers increased \$375.9 million in real terms between 2004/05 and 2008/09. This 15% increase in real funding (equal to an average real increase of 3% a year) can be split into a 9% change in teacher numbers, and a 6% increase in real teacher salaries. These reflect policy decisions to reduce teacher: student ratios and improve pay and conditions following re-negotiations of collective contracts.

... real property management costs have increased...

- 85. Eighteen percent of the increase in real per student expenditure between 2004/05 and 2009/10 can be attributed to increases to property management costs. These costs have increase by \$135.4 million between 2004/5 and 2009/10 in real terms, an average increase of 2% a year.
- 86. This expenditure covers the capital charge paid on all Crown owned property, depreciation, support for the property of integrated schools, and the provision of teacher and caretaker housing until Budget 2007/8. Increased costs reflect policy decisions to provide greater funding to integrated schools, revaluations of property reflecting inflation in the property market, and changes to the volume of property requiring maintenance.

...direct funding to schools through operations grants has risen beyond the rate of inflation

87. Between 2004/05 and 2008/09 real per student direct funding to primary and secondary schools through the operations grant increased by \$98.0 million, an average of 2% a year in real terms. This reflects:
- decisions to fund new functions such as technology teachers and arts coordinators within the operations grant, and additional funding for the Correspondence School
 - one-off decisions to fund new or unexpected expenses for schools, such as IT costs and caretakers wage settlements
 - reimbursements for heat, light and water, to reflect cost increases beyond CPI.

Outcomes in compulsory schooling have improved, and the average cost of qualification attainment has fallen...

88. There have been significant improvements in schooling outcomes. Seventy percent of school leavers achieved NCEA level 2 in 2008, a 14% increase from 57% in 2005. This represents an additional 4,400 students leaving school with at least NCEA level 2 qualifications.
89. While disparities in achievement still exist between ethnic and socioeconomic groups, this gap is shrinking. The increase in proportion of school leavers with at least NCEA level 2 between 2005 and 2008 was greater than the average for Māori, Pasifika and students from decile 1-3 schools.
90. Growth in the number of students leaving school with at least NCEA level 2 has increased faster than real schooling expenditure. Between 2005 and 2008 the cost for each student leaving school with at least NCEA level 2 between decreased by 7% in real terms.

...but the degree to which recent spending has caused this improvement to outcomes is uncertain...

91. The link between the improvements in schooling outcomes between 2005 and 2009 and increases to schooling expenditure is not clear.
92. International evidence shows that while the quality of teaching is the greatest in-school lever to improve student outcomes, the relationship between increased expenditure and improved student outcomes less direct. What matters most is that expenditure is directed towards those initiatives and interventions that make the greatest difference to student achievement.
93. In recent years, significant amounts of new money have been appropriated to reduce the teacher: child ratios. However, universal class size reductions come at high cost for relatively limited impact on student achievement. In addition, while operations and property management funding for schools has increased, there is little if any relationship between expenditure of this type and the overall quality of schooling and student achievement.
94. Many of the recent improvements in student outcomes are also likely to reflect earlier policy decisions. The nature of the school system means there will be lags in

the impact of funding on outcomes. Additional expenditure takes time to impact the quality of teaching in the classroom. In turn, qualification levels at secondary schools reflect in part, prior learning and experience in ECE and primary schools.

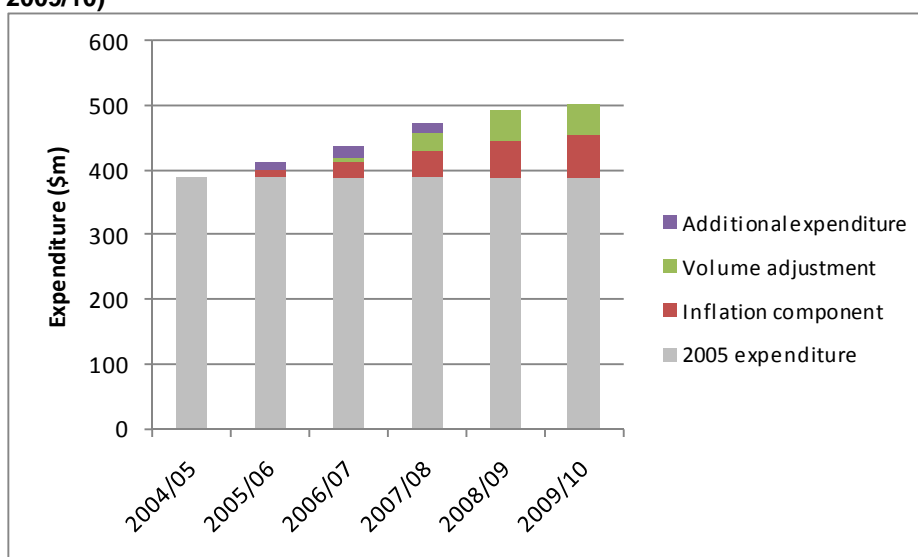
Summary

- Adjusting for inflation and student numbers, schooling expenditure has increased by \$767.4 million, or an average real increase of 3% per year. This increase in real per student expenditure has been due to increases in real teacher salaries and the number of teachers per student, increases to the cost of property management and increased funding to schools via the operations grants.
- The outcomes of compulsory schooling as measured by the proportion of school leavers with at least a NCEA level 2 qualification have improved. In 2008 4,400 more students left school with at least NCEA level 2 than in 2005. The proportion of students leaving having achieved at this level increased 14% from 57% to 71%. Although disparities in achievement remain, this improvement in outcomes was even more pronounced for Māori and Pasifika students and students from decile 1-3 schools.
- Between 2005 and 2008, growth in the proportion of students attaining NCEA or above rose faster than real expenditure in schooling. The average cost of a student leaving school with at least NCEA level 2 decreased by 7% in real terms over this period.

Special Education

95. There is no separate special education system in New Zealand. Students receive special education support in a range of settings including the home, ECE services, special schools, special education classes and in mainstream schools and hospitals.
96. Over two thirds of funding for special education is provided directly to schools as operating grants to support students with moderate special education needs. The remainder is used by the Ministry to administer and deliver special education services to support students with high needs through a mix of direct provision by Ministry Special Education staff and contracted providers.
97. \$40 million of funding (in 2009/10) is provided through special education appropriations for ESOL and truancy services. Of this, only funding for ESOL has changed substantially, increasing \$10 million in nominal terms between 2004/05 and 2009/10.
98. In nominal terms, expenditure on Special Education services funded through Vote Education has increased from \$388.4 million in 2004/05 to \$498.3 million in 2009/10 Figure 9. The majority of this increase has been driven by volume and price increases (approximated by the green and red bars in Figure 9).

Figure 9: Changes to Vote Education expenditure on special education, by driver (2004/05 to 2009/10)



Notes: The volume measure is the number of children who receive specialist services from the Ministry of Education (estimated to be just over 35,000 in 2008/09). It excludes the number of children provided services and support from school based funding such as from the Resource Teacher: Learning and Behaviour Service.

99. Increases in Special Education expenditure have funded adjustments to funding levels for the Ongoing and Reviewable Resourcing Scheme, the High Health Needs Fund and supplementary learning support. There has also been growth in the number of teacher aides and increased funding to address challenging behaviours.

Increases in funding to schools is linked to teacher wage increases

100. Schools receive direct funding for 0.1 FTE of a teacher for each high-needs student enrolled and 0.2 FTE for each very high needs student. There are also 780 Resource Teachers: Learning and Behaviour Services. This means that increases in teacher salaries have a corresponding impact on funding provided through Special Education.
101. Increases in special education funding to schools that is provided through the Special Education Grants and Schools Operating Grant account for at least 15% of the total change in funding over the period.

Funding increases in special education services funded directly by the Ministry have largely been used to meet wage and volume pressures

102. It is inherently difficult to classify need in the special education sector. Based on current criteria there are approximately 35,000 children receiving special education services provided directly by the Ministry.¹ This is up from around 31,000 in 2004/05. Current policy also provides funding direct to schools to support 40,000 – 60,000 students who have more moderate needs.

¹ Based on the number of children who received the following services during the fiscal year: Early Intervention Services, Behaviour Services, Communication Services, Ongoing Reviewable Resourcing Scheme (ORRS) students – both Ministry Provided and Specialist Services, Students with High Health Needs, and Other Services.

103. Unlike other areas of expenditure, very few special education funding streams are frequently adjusted to meet input cost pressures. Where specific funding increases to meet price pressures for special education have occurred, they have been used to meet salary increases for teacher aids, specialist contracted service providers and early intervention services provided in early childhood education centres.

There has been minimal additional expenditure beyond that required to keep pace with inflation and volume pressures

104. There have been very few sizeable expenditure increases in special education that have not been used to meet price and volume pressures. Some specific initiatives that have sought to expand coverage or raise standards include:
- an increase in funding to Early Intervention Service providers to provide 37 more hours of service per year to 2,950 high needs children. This occurred in Budget 2004
 - small increases in funding for Behavioural Services and the development of a stronger evidence base about effective interventions and service standards has lifted quality of provision.

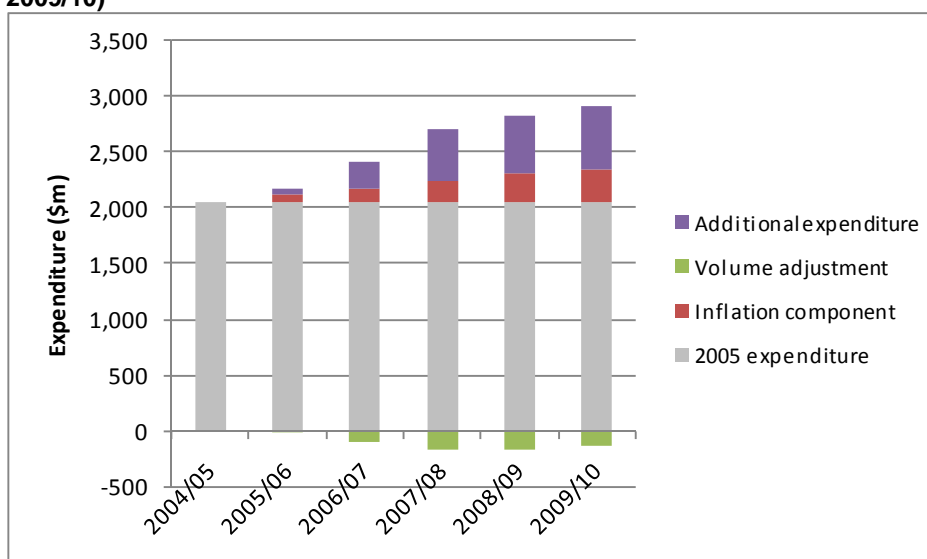
Limited information to judge the value of existing expenditure

105. There is no agreed methodology for measuring student outcomes from special education services so the Ministry's ability to provide quantitative evidence on value from expenditure is limited.
106. Anecdotal evidence suggests that specialist services (both Ministry provided and contracted) are an important component of the mix of services. They help adapt curriculum and lift the capability of teachers to respond to the individual needs of special education students. In contrast, teacher aides are thought to be less effective, even though there is strong demand for their services from the sector and from parents.

Tertiary Education

107. Key items of expenditure within the tertiary system include:
- partial subsidies to tertiary providers paid on a per equivalent full-time student (EFTS) basis to cover the cost of tuition (traditionally adjusted for changes in inflation)
 - investment in research output through the Performance-Based Research Fund
 - provision of industry training (e.g. modern apprenticeships) and adult literacy and numeracy programme provision.
108. Vote Education nominal expenditure on the tertiary education sector has increased from \$2,077.9 million in 2004/05 to \$2,783.6 million in 2009/10 (a 34% increase). Additional expenditure in the sector (after adjusting for inflation and participation volume changes) amounts to just over \$500 million in 2009/10.

Figure 10: Changes to Vote Education tertiary expenditure, by key driver (2004/05 to 2009/10)



Note: the volume adjustment series is based on changes in the number of EFTS.

Regular inflation adjustments add 2-3 percent per annum to subsidy rates paid to providers

109. Traditionally, tuition subsidy funding has been increased regularly in-line with inflation to help providers manage input cost pressures (approximated by the Consumer Price Index “CPI”, inflation component series in Figure 10. Inflation adjustment payments require Cabinet approval and are not always paid each year.
110. Since 2005/06 inflation adjustments have increased subsidy rates paid to providers by 2 to 3 percent per annum. These inflation adjustments account for approximately 40% of the net increase in tertiary sector expenditure since 2005. Because of Government policy to limit the rate of annual fee increases to students, these adjustments have been used to help maintain service standards and coverage.

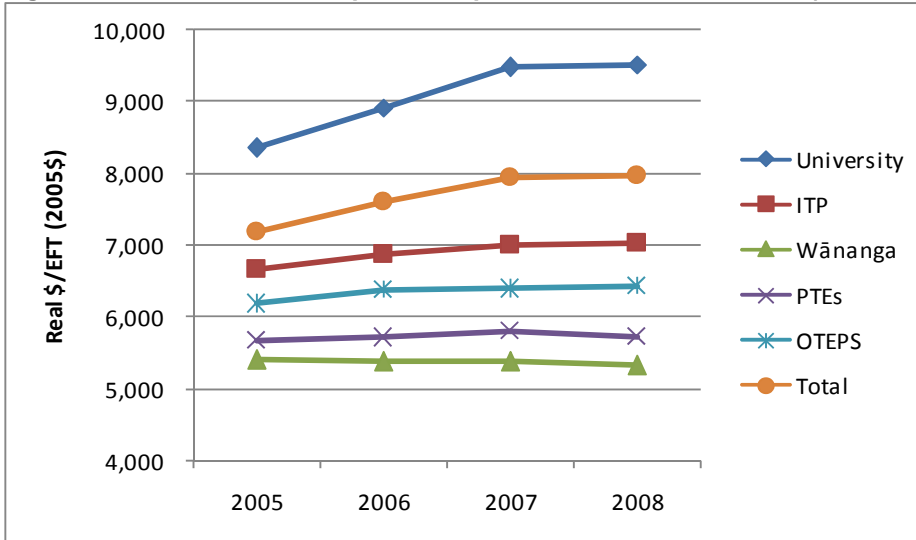
The profile of participation in tertiary education has changed, with a move towards higher level, higher cost courses and work-based learning

111. Participation in provider-based tertiary education as measured by EFTS has decreased slightly between the 2004 and 2008 academic years, from approximately 245,700 in 2004 to a forecasted 238,400 in 2009. This reflects shifts in the balance of tertiary participation and a fall in students studying lower level 1-3 qualifications.
112. Between 2004 and 2009 there have been significant falls in enrolments in institutes of technology and polytechnics and wānanga. Universities, private training establishments and other tertiary education providers have seen steady increases over the same period.
113. Increasing overall expenditure and growth in participation in higher level, higher cost courses have meant that real costs per EFTS have increased. This is particularly the case for institutions offering a high proportion of higher-level (Level 4 and above)

courses (see Figure 11). These institutions are predominantly Universities. This is a positive trend as higher-level courses have greater net economic benefits.

114. Average per student expenditure is higher in universities due in part to expensive courses (such as dentistry, medicine, and veterinary studies). Expenditure on the Performance-Based Research Fund and Tri-partite funding is also largely allocated to universities.

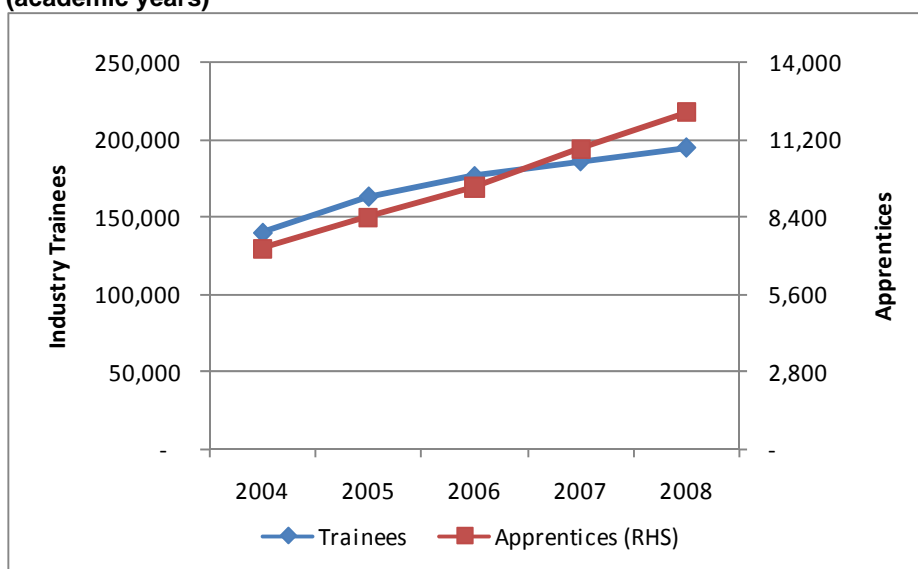
Figure 11: Movement Real Expenditure per EFTS from 2005 to 2008 (in 2005 dollars)



Notes: These calculations include research top ups, Public Provider Base Grants, the fee stabilisation Special Supplementary Grant, and Student Achievement Component, but exclude student support costs, and community education EFTS.

115. The EFTS counts in Figure 7 do not include enrolments in work-based training programmes, such as industry training, modern apprenticeships and youth training. Figure 8 shows that participation rates in work-based training programmes increased significantly from 147,000 students in 2004 to 207,000 students in 2008. This has been a key driver of increased industry training expenditure which rose from \$99.2 million in 2004/5 to \$165.9 million in 2009/10. Per trainee subsidy costs have remained relatively stable.

Figure 12: Changes in the number of modern apprentices and trainees from 2004 to 2008 (academic years)



Additional funding has been allocated to support tertiary research, provider capability and adult literacy, language and numeracy programmes

116. Further cost drivers of additional expenditure in the tertiary sector include:

- growth in the size of the Performance-Based Research Fund from \$165 million in 2005/06 to \$250 million 2008/09 – an increase of around 50%
- increased investment in adult literacy, language and numeracy programmes in the 2008 Budget. Although funding for these programmes reduced in the 2009 Budget, the expenditure in this area is still higher than in 2004/05
- the introduction in 2005/06 of tri-partite funding of \$51 million per annum to address staffing pressures faced by universities
- funding to support tertiary provider capability development. This funding was allocated to support providers, particularly institutes of technology and polytechnics and wānanga, to realign their provision with regional and national priorities. Innovation funding to better link education with business needs was also provided.

Increases in expenditure on student loans and allowances

117. Although policy responsibility for student loans and allowance rests with the Minister of Tertiary Education, this expenditure is funded from Vote Social Development. Since 2005 student support costs have increased in total and per student, from a total of \$359.2 million in 2004/5 to \$444.3 million in 2008/9.

118. These increases in expenditure reflect per annum increases in the number of people borrowing through student loans, from 157,000 in 2004 to 179,000 in 2008. Increases in tertiary provider fees have also had a direct impact on the amount borrowed by each student. The number of students receiving student allowances has also increased from 10,800 in 2004 to 11,700 in 2008.

119. A number of policy changes have driven this growth in expenditure, including the introduction of interest free loans for domestic borrowers in 2006, regular decreases to the parental income thresholds for student allowances, and a reduction in the age limit for parental means testing from 25 to 24 years in 2009. For example, interest free student loans have created a significant increase to the initial 'fair value' write down (the economic cost for the student loans scheme), from an estimated \$0.20 per dollar loaned to about \$0.47 in 2009). Further, between 2004/5 and 2008/9 student allowance costs have increased by \$85.1 million.
120. These policy changes have had the effect of shifting a greater proportion of the cost of provision from students to government.

There have been noticeable shifts in the quality of outputs from tertiary education

121. Investment in research through the Performance-Based Research Fund (PBRF) is having a positive impact on the tertiary sector. Initial evaluations of the PBRF indicate that it has been successful in lifting the quality of tertiary research. It has also had the benefit of increasing research activity and externally generated income for tertiary organisations, and reducing first-year doctorate attrition rate.
122. In the period from 2005 to 2008, there has been a shift in the balance of participation in tertiary education, with a steady increase in the number of students studying higher level tertiary qualifications. This is a positive trend as there are greater individual, economic and social benefits of higher level versus lower level tertiary study. Qualification completion rates at bachelors degree or above have remained stable in recent years, however, because of changing patterns of participation, there has been a slight improvement in *overall* tertiary completion rates.
123. Some of the initiatives outlined above have only recently been introduced (for example, literacy, language and numeracy programmes, priorities for focus funding, encouraging and supporting innovation funding, all introduced in 2008/09). So it is difficult to gauge the impact of this new expenditure.

Summary

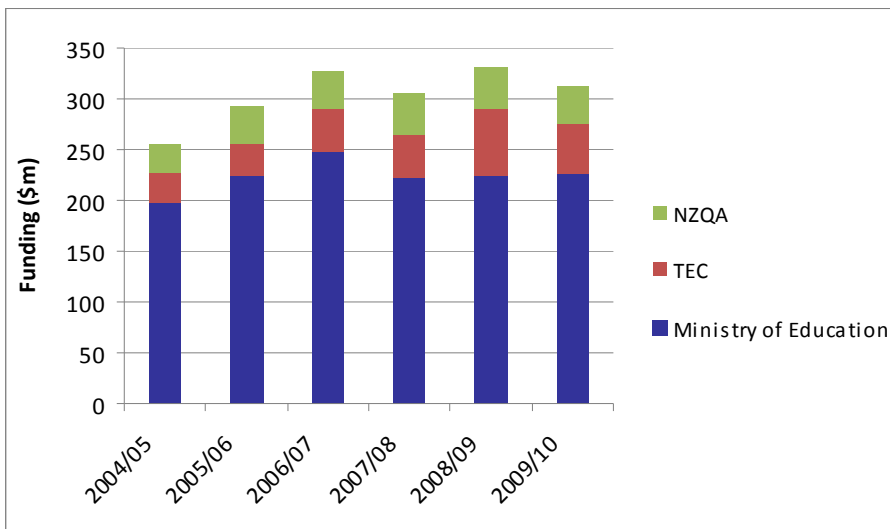
- Between 2004/5 and 2009/10 there have been inflation adjustments to tertiary tuition subsidies. These adjustments account for a large proportion of the increase in nominal expenditure in tertiary education since 2004/05.
- There has been a slight drop in volume (as measured by EFTS), but participation in industry training and apprenticeships have increased sharply.
- The profile of students attending tertiary education courses has changed since 2005, with fewer students attending ITPs and wānanga, and more moving to universities and private training establishments. Universities have on average higher fees than other types of tertiary providers, which result in higher student support costs for the government.
- There has been an increase in the real cost per EFTS. This has been driven by:
 - changes in the mix of provision, with a greater proportion of students engaged in industry training or studying higher-level, and more expensive courses

- a range of initiatives to support tertiary provider capability, increase research funding and expand adult literacy, language and numeracy provision
- Changes to policy settings have led to a significant increase in costs associated with both the student loans scheme and student allowance provisions.

Centrally managed expenditure

124. This section provides an overview of baseline *departmental* expenditure for the Ministry, the Tertiary Education Commission and New Zealand Qualifications Authority. It focuses on expenditure administered by the Ministry of Education.
125. While funding for school property and special education services are administered as a departmental expense, for the purposes of this report, they are covered separately in respective sections.
126. The section also covers *non-departmental* expenditure that is managed centrally by the Ministry of Education.
127. Figure 9 presents changes to departmental expenditure levels including the TEC and NZQA since 2004/05. Across the Vote, departmental expenditure has increased by 23% on 2004/05 levels in nominal terms, from \$256.1 million in 2004/5 to \$318.3 million in 2009/10.
- Ministry of Education departmental expenditure (excluding school property and special education) rose by 15% between 2004/5 and 2009/10
 - NZQA expenditure increased by 29%
 - Underlying TEC expenditure increased by 16% over the period.

Figure 13: Changes in Departmental Expenditure including TEC and NZQA from 2005/6 to 2009/10



Notes: The TEC funding above includes abnormal items that do not fairly reflect underlying TEC expenditure levels or the underlying growth of 16% over the period. These items include additional funding for restructuring, a one off increase in the 2008 Budget, and some funding for polytechnics that was directed through the TEC as operating revenue.

Growth in the Ministry's departmental expenditure reflects increases in staffing levels rather than real salary increases

128. At any given time, personnel and contracted resources are the largest components of Ministry of Education departmental expenditure (excluding school property and special education payments).
129. The growth in Ministry departmental expenditure has been primarily driven by increases to staffing levels as opposed to real salary increases. Ministry staff numbers increased by 360 FTEs, from 2148 in 2004/5 to 2508 staff in 2009/10. Per-FTE personnel costs have not increased in real terms.
130. While the Ministry has grown, the cost per FTE for key expenditure lines is trending down (for example on travel, office supplies, fleet operation and information and communications technology).

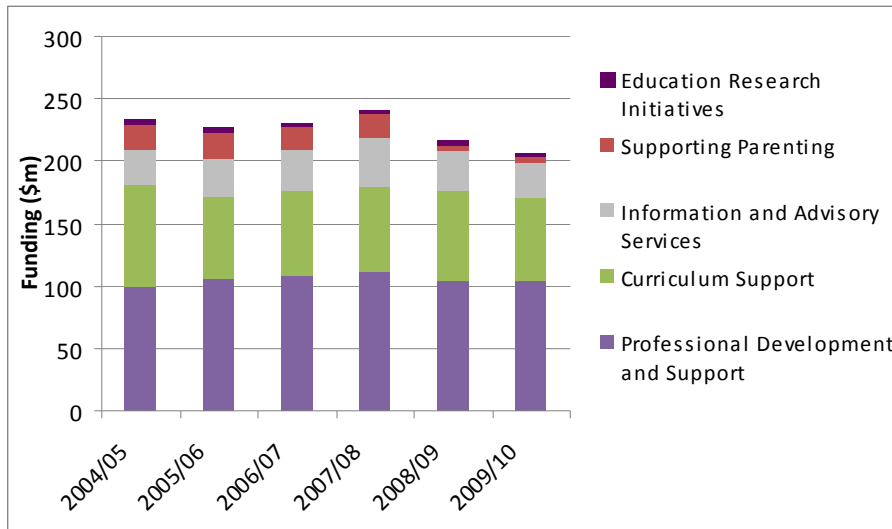
Staffing increases are linked to the development and implementation of new centre-led initiatives in ECE services and schools

131. In the ECE sector, rapid growth in the demand and supply of government-funded ECE services has placed pressure on the Ministry to increase its capacity to effectively administer the system and implement policy changes, including:
 - establishing the regulatory requirements, licences and charters for more than 300 new ECE services each year
 - allocating grant money to groups to establish ECE services in areas that are underserved and providing information and outreach services to parents to assist them to access these services
 - providing resources to support teaching, learning and assessment and fund professional development programmes.
132. In the school sector, increases in departmental expenditure have been used to implement new services and interventions, and to share good practice across the system. Over the past four years, growing baseline expenditure has allowed the Ministry to:
 - increase our capacity to provide guidance and support to improve school performance and intervene in at-risk schools
 - support the implementation of the new curriculum, assessment and qualifications systems
 - achieve economies of scale in areas such as ICT expenditure, and develop and implement shared ICT standards, resources and services
 - replace administrative systems (payroll and student enrolment) with new infrastructure, reducing schools' administration time and costs.
133. Greater involvement in strengthening the service delivery has led to an increase in the number and proportion of staff working with ECE services and schools in the Ministry's regional offices. Currently approximately 935 FTE are based in Wellington in National Office. The remainder, approximately 1,573 FTE, are based in the regions.

Levels of centrally-managed non-departmental expenditure have fallen since 2004/05

134. Figure 14 presents changes to centrally managed non-departmental expenditure levels since 2004/05. In 2009/10, major expenditure items in this category included Ministry-funded professional development and support (50%), curriculum support (32%), information and advisory services (14%). These items of expenditure have remained constant or trended down over the period.

Figure 14: Changes in Centrally-Managed Non-Departmental Expenditure from 2004/5 to 2009/10



135. In total, non-departmental expenditure managed by the Ministry has fallen 11% on 2004/05 levels in nominal terms. However, much of this decline is due a change in the administration of programmes in the supporting parenting category. Management of parenting education programmes such as Parents as First Teachers (PAFT) and HIPPY was transferred from the Ministry of Education to the Ministry of Social Development in 2008/09.

Chapter 2 – Alignment of baseline Vote Education expenditure with Government priorities

136. This chapter responds to the request to demonstrate that the Ministry has reviewed all areas of expenditure within Vote Education and identified any areas that are not consistent with this Government's priorities.
137. Achieving greater alignment with government priorities requires Ministry action in the form of high quality policy advice, and changes in departmental activities and functions. It also requires Ministerial decision-making.
138. Some shifts to baseline expenditure have already occurred. The process of realigning baseline expenditure with government priorities began with the Ministry's January line-by-line review of Vote Education expenditure. This review identified areas of existing expenditure that were low priority, and recommended ceasing, reducing or refocusing this expenditure. The Government confirmed savings in the 2009 Budget totalling \$68.9 million in 2009/10, increasing to \$227.7 million in the outyears.
139. The Ministry has instigated further policy work across a range of areas to obtain better value from expenditure which is sensible to continue, or unavoidable (for example, special education, [deleted – negotiate without prejudice], tertiary tuition subsidises). This work includes conducting a series of in-depth reviews, *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*.
140. Major reversals in recent expenditure growth and greater alignment with government priorities in Vote Education will require changes to policy settings in key areas. Advice is currently being prepared for ministerial decisions to inform the 2010 Budget and beyond.
141. The chapter provides an overview of the Ministry's January 2009 line-by-line review of Vote Education expenditure and gives an update on subsequent work to ensure that baseline expenditure meets the Government's education priorities. It includes the following sections:
 - Background to the line-by-line review of Vote Education expenditure
 - Recommendations of the line-by-line review
 - Decisions made during the 2009 Budget
 - Progress on major policy priorities for the 2010 Budget and beyond.
142. Management of cost pressures within Vote Education and changes to departmental activity to achieve greater alignment with government policy are discussed in Chapter 3.

Background to Vote Education line-by-line review

143. The Ministry completed a line-by-line review of all Vote Education expenditure in January 2009. This review built on work already undertaken to understand the performance of education expenditure and the continued fit of existing education spending with the priorities of the Government.

Non-departmental expenditure

144. The line-by-line review involved scrutinising all non-departmental expenditure to identify:
- programmes that are clearly a mismatch with the Government's priorities and should be discontinued or modified
 - programmes for which there is evidence of poor efficiency or cost effectiveness and should be discontinued or modified.
145. During this process, the Ministry identified opportunities for immediate savings that could be made in the 2009 Budget. The Ministry also identified programmes that should be reviewed over both the short-term (2009) and the medium-term (to the end of 2010) with a view to improving their efficiency and relevance by aligning them with the Government's priorities.

Departmental expenditure

146. The Ministry also scrutinised all areas of departmental expenditure to determine how and where savings and efficiencies were available. This analysis involved categorising activities in three ways:
- areas where efficiencies could be made in Ministry operating practice and expenditure
 - areas where the Ministry could re-allocate and re-focus existing expenditure to give better value and effect to government priorities
 - areas where decisions about the use of funding or availability of savings is dependent upon decisions made by Government on the role or approach taken by the Ministry.
147. There were some areas where there was uncertainty about the savings that could be made in departmental expenditure as a result of decisions to scale back, reprioritise or cease funding of programmes in non-departmental expenditure. In these cases, the Ministry identified initial savings.
148. The Ministry indicated that further advice on savings in departmental expenditure, consequential to savings in, or reprioritisation of, non-departmental activity would be provided for consideration in the 2010 Budget. An update is provided in Chapter 3.

Line-by-line review recommendations

Non-departmental expenditure

149. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* The Ministry recommended:
- ceasing ECE professional development programmes where there is insufficient evidence of effectiveness (i.e. the ECE ICT Strategy, Centres of Innovation) and re-targeting ECE Exemplar and ECE Advisory Training professional development to the ECE centres with the greatest need
 - reversing the previous Government's decisions to reduce staff-student ratios in ECE centres and new entrant classes on the basis that these policies come with high fiscal costs for uncertain gains in student learning
 - ceasing funding for a number of curriculum support programmes that do not fit well with the Government's priority of raising achievement in literacy and numeracy (i.e. Artists in Schools, Sports Coordinators and Mission On)
 - ceasing funding for school professional development programmes that are not aligned to the areas of highest government priority (i.e. E-Learning Fellowships, Education for Sustainability, Enhancing School Enterprise Partnerships, the professional development component of Gifted Education, and Mission On)
 - rolling back a planned funding increase to Career Services while policy work to implement the Youth Guarantee is undertaken
 - phasing out funding for lower priority and/or low impact international education initiatives such as scholarships, and capping funding for study abroad awards
 - reducing funding for personal interest or hobby courses in Adult and Community Education
 - reducing Universities' Tripartite Funding linked to meeting cost pressures from salary increases and reducing or ceasing small tertiary education funds with high compliance costs.
150. Total non-departmental savings identified 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			
ECE - reverse previous ratio decisions	35.2	76	81.3
ECE professional development and other support	3.9	2.7	2.6
Teacher ratios - reverse previous year one ratio decisions	0	0	45
Curriculum support	7.9	7.9	7.9
School support – cease Extending High Standards Across Schools and Students at Risk Innovations Pool	10.2	6.8	6.8
Teacher professional development, scholarships and awards	[deleted -	confident	advice]
School transport co-payments	5.9	11.8	11.8
Other school sector – funding to support Children’s Commission	0.2	0.2	0.2
Career Services - roll back planned funding increase	3.3	3.3	3.3
International education - scholarships, fees and support for students	2.1	6	9.2
Tertiary sector	0.8	14.0	34
[deleted – confidentiality of advice	[deleted -	confident	dvice]

*These figures assumed that contracts were [deleted – confidentiality of advice]

Departmental expenditure

151. The Ministry identified further opportunities for savings through efficiencies in departmental expenditure. This included:

- reducing support function expenditure (such as accommodation, utilities, communications and travel) by 1.5% per annum, for three years. The Ministry 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
- reducing expenditure on policy advice by \$1.3 million over three years
- greater targeting of the Ministry’s parent information programmes (which include Team-Up and Te Mana) to release savings of approximately \$5 million
- reducing expenditure on support and resources for teachers through rationalising smaller funding streams.

152. These savings were additional to the costs the Ministry expected to absorb on its current activity levels – \$8.1 million in 2009/10 rising to \$33.4 million in 2012/13.

153. The Ministry identified total departmental 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. These are shown in Table 2.

Table 2: Summary of departmental savings (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	4.3	5.6
Policy expenditure (\$1.3m reduction over two years)	0.0	1.3	1.3
Output: Support and resources for teachers	3.8	6.6	6.6
Output: Support and resources to the community	5.0	5.0	5.0
Total departmental savings	11.8	17.2	18.5

154. The Ministry identified a number of additional follow up actions for the Ministry to improve the efficiency, effectiveness and alignment of expenditure with government priorities. This included reviewing a number of programmes because of prima facie evidence that performance could be improved, and/or fiscal savings identified for future Budgets. These reviews are listed in Table 3.
155. Progress on major policy priorities is discussed later in this chapter, with further details on specific reviews in Appendix 1.

Table 3: List of recommended programme reviews

Proposed review	Scope
Professional development	The proposed review will advise on how existing professional development activity can be refocused to address government priorities. This will include consideration of <ul style="list-style-type: none"> • curtailing specific programmes • reallocating resources to a smaller number of high priority initiatives (such as literacy and numeracy) • devolving resourcing to schools.
[deleted – confidentiality of advice]	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>
[deleted – confidentiality of advice]	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>
Special education – funding and delivery models	In association with the Government’s commitment to extend the ORRS programme, the review will consider different allocative and delivery mechanisms for special education resourcing. The review will aim to reduce overheads and ensure special education resources are used to achieve maximum benefit for children most in need.

Decisions made during the 2009 Budget

Funding for new initiatives

156. In the 2009 Budget the Government committed \$1.3 billion in new operating spending between 2008/09 and 2012/13 and \$340 million in capital spending for education initiatives. Key initiatives included:
- ECE 20 hours policy changes
 - support for students to meet literacy and numeracy standards
 - additional resources to combat truancy
 - awards for top performing teachers and the introduction of voluntary bonding scholarships for teachers in hard to staff areas or subjects
 - expanding Te Kotahitanga
 - increased operations funding for schools
 - funding to build new schools, modernise existing schools and expand capacity
 - additional support for independent schools
 - the expansion of the Ongoing and Renewal Resourcing Scheme
 - increases to medical training places
 - restoration of the Performance-Based Research Fund baseline.
157. The Government agreed to a change in approach to future Budgets. This will involve a move away from lots of incremental bids in favour of funding future government priorities through reprioritisation of existing funding. This requires active management of cost pressures, with no expectation that cost adjusters will be automatically funded.

Savings from the line-by-line review

158. Savings from the line-by-line review were confirmed as part of the 2009 Budget package. These are shown in Table 4.

Table 4: Final list of line-by-line review savings

	2009/10 savings (\$m)	2010/11 savings (\$m)	2011/12 savings (\$m)	2012/13 savings (\$m)
Non-departmental				
Reverse previous ECE adult-child ratio decisions	35.2	76.0	81.3	82.8
Cease or re-target funding for ECE professional development	1.9	2.7	2.6	2.5
Reverse previous decisions on year one teacher ratios (later revised to become a review of staffing entitlements)	-	-	45.0	50.0
Cease curriculum support programmes	0.5	1.2	1.2	1.2
Cease professional development programmes	5.7	7.6	7.6	7.6
Cease school support programmes	4.6	6.8	4.9	4.9
Cease funding to the Children's Commission	0.2	0.2	0.2	0.2
Roll back planned funding for Career Services	3.3	3.3	3.3	3.3
International education savings	3.6	7.3	8.7	9.5
Reduce funding for adult and community education	1.7	9.1	21.8	21.8
Reduce or cease small tertiary funds with high compliance costs	0.4	2.1	3.3	3.3
Reduce universities' tripartite funding	-	11.1	22.1	22.1
Sub-total non-departmental savings	57.1	127.4	202.0	209.2
Departmental				
Reduce general operating expenditure on support functions	3.0	4.3	5.6	5.6
Rationalise resources and focus on fewer support programmes (output: support and resources for teachers)	3.8	6.6	6.6	6.6
Realise efficiencies in information campaigns (output: support and resources to the community)	5.0	5.0	5.0	5.0
Reduce policy advice expenditure	-	1.3	1.3	1.3
Sub-total departmental savings	11.8	17.2	18.5	18.5
TOTAL SAVINGS	68.9	144.6	220.5	227.7

159. Not all of the Ministry's recommendations for savings were accepted by Ministers. For example, Ministers chose not to pursue a co-payment option for school transport and to continue funding sports co-ordinators in schools. A decision to allow some contracts for services to run their course and to provide a lead-in time for halting contracts meant that total savings were lower than initially calculated for 2009/10.

160. Post-Budget, Ministers chose not to reverse the previous government's decision to reduce year one teacher-student ratios from 1:18 to 1:15. Instead, the Minister was asked to come up with alternative options to achieve the same level of savings in 2011/12 and outyears through alternative changes to school staffing parameters.

Savings from unwinding unfunded tertiary Budget 2008 commitments

161. In Budget 2008, tertiary education received 78% of the Innovation package, which was to be funded from future budgets. As part of Budget 2009, the tertiary education baseline was reviewed in order to unwind the Innovation package commitments. Savings were identified first from the areas funded at Budget 2008, as far as this was consistent with protecting frontline services at 2008/09 levels and meeting Manifesto commitments. Additional savings were found in areas of low value, based on the criteria for the line-by-line review.

162. The result was a substantial savings package that maintained frontline services at 2008/09 levels, but required almost every part of the tertiary sector to absorb some level of funding reduction. Table 5 shows the savings that were made as part of this unwind.

Table 5: List of savings from unwinding unfunded tertiary Budget 2008 commitments

	2009/10	2010/11	2011/12	2012/13
Non-departmental				
CPI adjustments	7.700	43.100	70.300	70.300
TEO Component - ITO strategic leadership		1.750	3.500	3.500
TEO Component - Encouraging and Supporting Innovation	4.000	8.000	8.000	8.000
TEO Component - Priorities for Focus from 2011		5.000	10.000	10.000
Literacy, Language and Numeracy	8.600	23.730	27.280	34.690
Top Achiever Doctoral Scholarships	2.776	5.308	7.852	10.000
Step Up Scholarships	3.739	7.198	10.069	11.358
Bonded Merit Scholarships	4.370	8.544	12.744	14.131
TEC operating funding	9.300	7.375	7.375	7.375
Small funds (less than \$2 million) (part)	1.861	3.762	3.802	3.802
Student Achievement Component-funded regulatory compliance qualifications		4.000	8.000	8.000
Skill Enhancement	2.154	4.308	4.308	4.308
Adult and Community Education (part)	4.778	8.209		
Totals	49.278	130.284	173.230	185.464

Further opportunities for savings in future Budgets

163. Savings identified for the 2009 Budget were achieved primarily through ceasing funding for low priority programmes. The Ministry will continue to seek efficiencies in departmental expenditure (see paras 282-291 in Chapter 3). However, achieving further substantial improvements in the efficiency and effectiveness of non-departmental expenditure will depend largely on whether the Government makes adjustments to policy settings associated with the key drivers of education expenditure.
164. The following sections discuss progress on the Government's major policy priorities for the 2010 Budget and beyond. Chapter 3 outlines how both non-departmental and departmental pressures facing the Vote can be handled within the funding available, while Chapter 5 provides an update on any fiscal savings that may be available as a result of the Ministry implementing its performance improvement actions.

Progress on major policy priorities for the 2010 Budget and beyond

165. Over the last 12 months, key actions by the Ministry to align baseline departmental expenditure with the Government's priorities have included:
- providing advice on options to improve cost-effectiveness and increase participation in high quality early childhood education (ECE) by target groups who would benefit the most
 - developing National Standards in literacy and numeracy, with associated support for schools to pursue these standards for every student
 - *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
 - improving options for youth to increase engagement in the education system through the introduction of Trades Academies and the Youth Guarantee
 - developing a new Tertiary Education Strategy and developing advice to improve the efficiency and effectiveness of the tertiary system
 - working to reduce bureaucracy and regulation across the education sector.
166. This section provides an overview of progress in each of these areas and indicates next steps for the Government, including any upcoming decisions. In the majority of areas, policy advice has focused on improving the effectiveness and efficiency of existing expenditure. Options to contain departmental and non-departmental cost pressures and control future expenditure growth are discussed in more detail in Chapter 3.

Improving cost-effectiveness and increasing ECE participation by target groups

Progress in aligning expenditure to Government priorities

167. Changes to ECE policy settings are required to support Government's participation objectives within existing spending. The Ministry reported to the Minister of Education in September on options to improve ECE cost-effectiveness and increase participation among target groups. The Ministry is developing further advice on the following options for consideration in Budget 2010:
- reducing or removing current cost pressures, including controlling staffing expenditure growth
 - *[deleted – confidentiality of advice]*
 - trialling community-led initiatives to increase participation through more responsive ECE provision, more support for vulnerable families to participate in ECE, and better incentives for providers to meet community need
 - improving performance information and minimising compliance costs.
168. Over time, Government decisions to pursue these options would improve the cost effectiveness of this expenditure, help to control future expenditure growth and, potentially, release significant savings. For further discussion of options for managing cost pressures in ECE, see Chapter 3.
169. Cabinet has agreed to a short-term reallocation to fund a package of immediate participation initiatives from 2009/10 to 2011/12, from appropriations for ECE

property grants (previously the Discretionary Grants Scheme). This package aims to increase participation of Māori and Pasifika children, and children from lower socio-economic status backgrounds, by reallocating funding to local-level projects in priority areas: Counties Manukau and the Tāmaki Transformation Project.

Next steps

170. Budget 2010 is an important opportunity to align ECE spending with Government priorities, consistent with the Ministry's Performance Improvement Action to increase ECE participation by priority groups from within existing spending levels.
171. Greater targeting of ECE expenditure will mean that some of the costs of ECE provision will be transferred from the Government to some families, in the form of parental fee increases. *[information deleted in order to maintain the effective conduct of public affairs through the free and frank expression of opinions]*

It will also be important to expand any new targeted programmes over time, with rigorous evaluation, so that the Government can be confident of their effectiveness. The Ministry will provide further advice in January 2010.

172. The Government will need to decide on the degree and pace of change wanted in this area, including the extent to which significant shifts in the current balance of universal and targeted ECE subsidies are desired.

Lifting student achievement through the implementation of National Standards in literacy and numeracy

Progress in aligning expenditure to Government priorities

173. Ensuring that all students obtain a strong foundation in literacy and numeracy is a core Government priority. Over the course of 2009, the Ministry has worked with literacy, numeracy and assessment experts to develop National Standards in literacy and numeracy for years 1 to 8. The Ministry consulted widely on standards for use in English medium schools, and on plain language reporting on children's progress during May and June. Feedback from this consultation was used to refine the standards and plans for plain language reporting to parents, families and whānau.
174. The final standards were published in October alongside changes to the National Administration Guidelines to clarify the responsibilities of boards of trustees to implement, assess and report against the standards from February 2010. Boards of trustees will be required to report school-level information about achievement and progress against the standards in their 2011 annual reports.
175. Due to the less extensive evidence base for developing National Standards for use in Māori medium settings, finalising these standards requires an extended consultation, monitoring and trialling period. Consultation and trialling of standards for Māori medium settings will take place from March to August 2010, with plans to publish final standards in October 2010. Boards of trustees will be required to fully implement the standards in Māori medium settings from February 2011.
176. In 2009/10, \$26.7 million of baseline professional development, curriculum support and school support expenditure has been allocated to support the implementation of National Standards. Around 45% (\$10 million) of the school support service budget is now allocated to support literacy, numeracy and National Standards. This has

been achieved through a reduction in the support services that the Ministry purchases for other curriculum areas such as science, technology and the arts. Previously about 28% (\$6.3 million) of the school support service funding was directed to literacy and numeracy.

177. Existing leadership, assessment and literacy and numeracy programmes have also been reprioritised or redesigned to focus on National Standards. In some cases, specific programmes such as the Literacy Professional Development Project, the Numeracy Development Projects and Home School Partnership professional development, are ending with the funding being used to support National Standards.
178. Together these changes will ensure that schools have access to a range of National Standards training, support and information resources, including sessions facilitated by regional Ministry staff, guidance available on the Ministry websites and through web seminars. Up to 25% of teachers will be able to access in-depth training and support in 2010. The Ministry has also developed new materials, resources and tools to support numeracy, literacy, assessment, school self review, and reporting to parents, families and whānau.

Next steps

179. The Ministry and the Education Review Office (ERO) have a substantive role in supporting school self-review and in ensuring attention is given to at-risk students and at-risk schools. School-level reporting against National Standards will allow regional Ministry advisors to use achievement information from annual reports as a basis for engaging schools in professional learning discussions about their performance and strategies for improvement. This will complement ERO school reports and serve as an initial 'sieve' to help identify schools that require additional attention.
180. Schools that report a high proportion of students "well below" National Standards, show little evidence of improvement, or are non-compliant with reporting requirements are likely to be targeted for further follow up, and directed to other forms of assistance or intervention. This represents a significant shift in the role of regional Ministry advisors, and a move towards a much less demand-driven, more targeted approach to allocating professional development resources and support. For further discussion of the changing role of the Ministry see Chapter 3.
181. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Improving the quality and productivity of the teaching workforce

Progress in aligning expenditure to Government priorities

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

183. Over the course of 2009, the Ministry has conducted a series of reviews to identify how the Government's expenditure might better support the development of an effective teaching workforce. In December the Ministry will report to the Minister of Education on the outcome of a review of staffing entitlements, and value for money reviews of professional development and resource teachers. *[information deleted in order to maintain the current constitutional conventions to protect the confidentiality of advice tendered by ministers and officials]*.
184. In July the Minister of Education established an advisory group, chaired by the Secretary for Education to provide advice on issues in Initial Teacher Education and wider workforce challenges relating to the attraction and retention of teachers. The advisory group is expected to report in January/February 2010 on:
- career pathways in teaching
 - initial teacher education
 - leadership
 - supporting teacher excellence.
185. The Ministry has already begun to implement some changes to obtain greater effectiveness from the financial incentives offered to attract and retain teachers. In the 2009 Budget, \$11.1 million was allocated to introduce a new voluntary bonding scheme for teachers working in hard-to-staff subjects and schools from 2011/12. From 2010, TeachNZ scholarships will no longer be available on a first come first served basis, but will be allocated according to a new merit-based criterion. The Minister has also agreed to cease funding for training incentives that appear unnecessary in the current economic climate, including retraining courses and the return to teaching scheme.

Next steps

186. The Government's decisions in response to the Ministry's reviews of staffing and the recommendations of the advisory group will affect future teacher workforce policy and the management of cost pressures for Budget 2010 and beyond.
187. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

Improving youth engagement in the education system through the introduction of Trades Academies and the Youth Guarantee

Progress in aligning expenditure to Government priorities

188. The Government moved to implement the first phase of the Youth Guarantee policy as part of Budget 2009. The policy will provide fee-free access to a limited range of tertiary courses at levels 1-3 of the qualifications framework. The Tertiary Education Commission has made decisions on how to allocate the 2,000 places for the 2010 and 2011 calendar years at a total cost of \$52.7 million. Initial courses include tourism and travel, agriculture, building, plumbing, hospitality and catering.

189. Work has progressed on establishing Trades Academies to deliver trades and technology programmes to secondary students, based on partnerships between schools, tertiary institutions, industry training organisations and employers. Five trades academies are due to open in 2011, and the Ministry is working with a further six applicants to develop their proposals to a level where they can be approved in the future. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* Further work is underway to determine the most appropriate way of aligning expenditure to meet this priority.

Next steps

190. The Ministry is currently developing advice on a broader set of policy changes across the system to deliver more effective and better value education for 16-17 year olds. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. We also need to set clear expectations that students will be taught the skills to navigate those pathways. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
191. Cabinet will consider a broad approach to implementing the Youth Guarantee early next year. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Improving the efficiency and relevance of the tertiary education system

Progress in aligning expenditure to Government priorities

192. The Ministry has developed and consulted with the tertiary sector on a draft Tertiary Education Strategy setting out the Government's priorities for the tertiary sector. The draft strategy focuses on the changes that need to take place so that tertiary education is relevant, efficient, and meets both student and labour market needs. Cabinet approval for the final strategy will be sought in December.
193. In the last six months the Government has made a number of changes to the tertiary system to improve performance and value for money. Core tertiary education is now prioritised over hobby and personal interest learning. A targeted review of certificate and diploma qualifications led by NZQA aims to reduce the proliferation of these qualifications, make pathways clearer and make the system more user-friendly. The Government has also sought to improve polytechnic governance through the introduction of legislation to change the size and composition of polytechnic councils.
194. Over the next few years, the Government faces challenging decisions in tertiary education. *[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]*
 - *[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]*

Next steps

195. Over the past few months, the Ministry of Education and the Tertiary Education Commission (TEC) have provided advice on ways to improve the value of the Government's investment in tertiary education. As a consequence, the Minister of Education is presenting three Cabinet papers in December on the following:
- simplifying the tertiary funding system
 - linking funding to performance
 - reforming tuition subsidies and fee regulation.
196. On 6 December Cabinet agreed to simplify the tertiary funding system by returning the part of the Tertiary Education Organisation Component (TEOC) that is based on student numbers back to the Student Achievement Component. This will make the funding system more transparent and easy to understand. As part of this work, the TEC has reviewed the remaining elements of the TEOC against Government priorities and is providing advice to the Minister before the end of the year.

197. Cabinet has agreed in principle that some tertiary funding for institutions should be linked to past educational performance. Linking some funding to performance will remove funding from poor performing providers and over time will provide an incentive for continuous improvement. The TEC will report back to Cabinet in March 2010 with details of how performance linked funding will work in practice.
198. In December, Cabinet will consider a proposal to reassess the balance of revenue for tertiary education providers. The Cabinet paper proposes further work on two elements of the funding system:
- a closer assessment of the price paid for tertiary provision, so that government can set better signals about the types of provision sought
 - a new approach to regulating the fees paid by students, which is likely to give greater flexibility to providers to recover more of the costs of provision from students.
- If Cabinet agrees to the proposed approach, the Ministry will consult with the tertiary sector on the proposals. The Minister of Education will report to Cabinet with final proposals in March 2010.
199. The Ministry has provided initial advice on the performance of students 20 years and over and on university admissions criteria. As a result of this, the Ministry will be undertaking work to enable universities to assess the ability of people 20 years and over who do not have an entrance qualification to succeed. The Ministry will consult with the sector in March 2010 on this and how to ensure that students who are turned away get good advice about more suitable options for study.
200. The Minister agreed in September to work on further options to improve value for money in the student support system, by limiting entitlement to student loans and allowances for certain groups. A report setting out the detail of the options, and the savings they could generate, was given to the Minister of Education in November. The Ministry is currently developing a package of changes based on feedback from the Minister. Decisions on the final package will be made as part of Budget 2010.
201. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Reducing bureaucracy and regulation across the education sector

Progress in aligning expenditure to Government priorities

202. In August 2009, Cabinet agreed a regulatory review programme to lift the quality of regulation in New Zealand by removing requirements that are unnecessary, ineffectively or excessively costly. To do this, Cabinet agreed to agencies producing an annual regulatory plan of all known and anticipated proposals to introduce, amend, repeal or review legislation or regulation, and to put in place systems and processes for the ongoing scanning of regulation they are responsible for. The Ministry is due to provide the Minister of Education with a draft annual regulatory plan in mid-December.
203. The Ministry has begun to implement a number of initial changes to reduce regulation and compliance costs for ECE services, schools and tertiary institutions. For work undertaken to reduce departmental expenditure and change the role of the Ministry see Chapter 3.

204. The Ministry has reviewed the Education (Early Childhood Education Services) Regulations, and requirements for teacher registration, to make it easier for ECE services to comply with government requirements while ensuring ECE provides quality and safe experiences for children. The changes include:
- reintroducing lifetime licences for early childhood education services (as opposed to relicensing every six years)
 - deferring the target for 80% registered teachers to 2012 (instead of 2010) and removing the target for 100% teacher registration
 - reducing paperwork and supervision requirements for outings from centres
 - creating greater flexibility in adult:child ratio requirements for mixed groups of children aged under and over 2 years
 - removing proposed costly requirements for all centres to have separate sleep rooms and plumbed-in wash facilities
 - reducing the minimum age for home-based educators from 20 to 17 years.
205. Amendments included in the 2009 Education Amendment Bill will reduce compliance costs relating to the police vetting of non-teaching staff and contractors in early childhood education centres and schools. This bill is currently in the House, awaiting its second reading.
206. Over the course of 2010 schools will change over to a new web-based payroll service. This new system will reduce the complexity and paperwork involved with payroll. The new system will also include individual employment details and automatically adjust any changes to pay when the Ministry negotiates a new collective agreement. Significant work has also been undertaken to reduce compliance costs for schools, providers and the Ministry associated with small funding pools. As a result:
- for some initiatives, such as Arts Coordinators and Sports Coordinators, all eligible schools are now receiving funding through the Operations Grant payment, rather than schools having to apply to the Ministry for funding
 - in other cases, including targeted professional support and training to schools associated with National Standards, support is being brokered through the regional Ministry offices or accessed through our professional development providers, without requiring schools to submit proposals.
207. The Government has introduced a variety of detailed changes to give boards of trustees more control over property spending. In May 2009 the Government announced a new policy to relax property project requirements that schools follow when planning and designing classroom upgrades and other similar work. Well managed schools will have less Ministry oversight of property projects. There is now a list of approved project managers who schools can use directly without having to go through a tendering process.
208. In the tertiary sector, in October Cabinet approved a policy to incentivise better management by Tertiary Education Institutions (TEIs) of Crown assets. This policy allows TEIs to share in the proceeds of selling Crown assets that they manage, but that no longer suit their educational needs. The policy also allows for Crown assets managed by TEIs to be transferred into TEI ownership to align ownership and management responsibilities.

Next steps

209. The Ministry will undertake ongoing activities to meet Cabinet requirements relating to the Government's regulatory review programme. This will include regular review of licensing criteria for early childhood services. As a first step, the Ministry is working with other regulatory agencies to reduce duplication and ambiguity between the ECE regulations and other regulatory requirements such as the Resource Management Act, the Building Code and Health Reports. Further work to reduce compliance through ECE regulation is underway through projects to:

- remove the requirement for short-term childcare centres at recreation facilities, shopping centres and similar locations to be licensed under the Education Act 1989
- reduce compliance for early childhood centres that operate with more than 50 children on one site, by considering lifting the maximum centre size or alternative options.

210. In the schooling sector, the Ministry has recently provided advice on a proposal to increase the capitalisation limit for capital projects to allow more work to be carried out without schools having to consult the Ministry, and permit schools with a good track record to use fewer forms for projects that will cost less than \$100,000 and do not require a building consent. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*, and the implementation of the Youth Guarantee (para 191).

211. The Ministry and the TEC are undertaking two reviews relating to the use of statutory interventions at tertiary education institutions:

- a review of the operation of sections 195A-F of the Act for institutions at risk. This review is designed to assess the appropriateness of the legislation now that the tertiary reforms have had time to settle in
- a review of the gazetted criteria that the Crown uses to assess risk to institutions. These criteria are gazetted under section 195A of the Education Act 1989 (the Act) and must be reviewed every two years. The criteria are due to be reviewed by 28 February 2010. The review will also consider new criteria for polytechnics if the Education (Polytechnics) Amendment Bill is passed in its present form.

A consultation document on these reviews will be sent to sector groups before the end of the year.

Chapter 3 – Managing Pressures across the Vote

212. This chapter responds to the request to demonstrate how pressures facing the Vote will be handled within the funding available to the Vote.
213. Cabinet has agreed to an indicative allocation for Vote Education for Budget 2010 of \$250 million per year. This indicative allocation is the *maximum* for average annual net increases in operating baselines within the 4-year forecast period for Budget 2010, and the upper limit for net baseline increases beyond the 4-year forecast period. All costs that will impact on the Crown's Operating Balance need to be managed within existing annual baselines and the allocation.
214. Both the Crown operating and capital pressures are driven by a small number of substantial pressures, which include [deleted – negotiate without prejudice], school property management and tertiary tuition subsidies. We have categorised these pressures as either *non-discretionary* or *discretionary*. In many cases, expenditure in a particular area is non-discretionary but the *level* of this expenditure can be managed in line with Ministerial priorities or through changes to existing policy settings.
215. Operating pressures in Vote Education have a clear rising profile in out years. The profile of Capital pressures is less uniform, peaking in 2012/13, but in all cases the pressures in out years are higher than in 2010/11.
216. Managing the operating pressures within the funding available will require decisions to manage the pressures down (i.e. not to fund some discretionary pressures, to defer funding or to fund some pressures at a reduced level). However, options available to manage down the operating pressures do not substantially affect the profile across the 4 years in this budget cycle, i.e. there remains a substantial rising profile in out years.
217. In order to meet the shortfall between the indicative operating allocation and the operating pressures in Budget 2010, Ministers will need to consider substantive policy changes to some of the major funding streams in the Vote – such as early childhood subsidies, schools' operations funding and tertiary student support.
218. Our current assessment is that meeting the operating shortfall in 2010/11 is manageable, although it would still require implementing substantive savings options. Meeting the increasing shortfall in *out years*, however, represents a much greater challenge in that significant policy changes to major funding streams in each sector would need to be considered.
219. The capital pressures identified represent approximately 8% of the annual capital allowance of \$1.45 billion in 2010/11, rising to over 15% in 2012/13. Options are available to manage some of these pressures down.
220. There is no capital allocation being provided for votes in Budget 2010, and there has been no pattern in the past 2 years of Vote Education receiving a proportion of the total capital allocation. As such it is difficult to assess whether meeting the

education capital pressures within the total capital allocation will present a challenge or not.

221. Work is also underway to address the main challenges facing the Ministry in relation to departmental expenditure. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*.
222. This chapter includes the following sections:
- Managing Operating pressures in Budget 2010
 - Managing Capital pressures in Budget 2010
 - Managing Department pressures.
223. We will provide more detailed advice to Ministers during January and February to enable them to make final decisions on how, and to what extent, they want to manage down the pressures facing Vote Education and on savings options to meet the shortfall between remaining pressures and the final operating allocation for Budget 2010.

Operating pressures in Budget 2010

224. Cabinet has agreed to an indicative allocation for Vote Education for Budget 2010 of \$250 million per year. Given this modest operating allowance in comparison to past Budgets, our approach to managing the 2010 Budget is to:
- identify options to manage down pressures as much as possible
 - identify savings and reprioritisation options for advancing Government priorities and remaining pressures from within Vote Education baselines
 - manage the major policy initiatives in education within existing baselines.
225. The Minister of Education has already made some decisions to manage down Budget pressures. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*:

[deleted – confidentiality of advice]

Pressures – Maximum Scenario	Fiscal Cost (\$ million)			
	2010/11	2011/12	2012/13	2013/14
<i>[deleted – negotiate without prejudice]</i>	<i>[deleted – negotiate without prejudice]</i>			
<i>[deleted – confidentiality of advice]</i>	<i>[deleted – confidentiality of advice]</i>			
<i>[deleted – negotiate without prejudice]</i>	<i>[deleted – negotiate without prejudice]</i>			
Budget allocation	250.0	250.0	250.0	250.0
<i>[deleted – negotiate without prejudice]</i>	<i>[deleted – negotiate without prejudice]</i>			

226. Therefore, if Ministers take no further action to manage down the operating pressures our current assessment is that there will be a shortfall between the pressures and the indicative operating allocation *[deleted – negotiate without prejudice]*.

227. These pressures are characterised by a rising profile in out years and a number of major items as follows:
- [deleted – negotiate without prejudice]
 - CPI adjustments on ECE subsidies, schools' operations funding and tertiary tuition subsidies
 - demand in the tertiary sector.
228. Ministers have also decided on a change in the way some forecast changes will be treated from the 2010 Budget onwards. Forecasting changes in education include forecasts of school student numbers, ECE participation, and numbers of students eligible for subsidised school transport. The cost of these changes have previously been managed by the Minister of Finance across the entire Budget.
229. From the 2010 Budget onwards, the following forecast changes will be met from within Vote Education.

Table 7: Forecast changes to count against Vote Education in Budget 2010

Forecasting changes	Fiscal Cost (\$ million)			
	2010/11	2011/12	2012/13	2013/14
Correspondence School roll changes	6.4	7.6	8.2	8.3
Teacher price changes – higher than expected impact of salary settlement and incremental creep in teacher salaries	33.6	34.0	36.2	52.4
Other	5.8	5.5	6.4	13.5
Total	45.8	47.1	50.9	74.2

230. [information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Managing down operating pressures

231. There is considerable scope to manage down the cost of the discretionary pressures by not funding, deferring or reducing funding for a number of items. While the Minister of Education has yet to make decisions on the types of options she might want to pursue to manage down Budget 2010 operating pressures, we consider that if she applied a full range of options, it would be *plausible* to manage down the operating pressures to the following approximate levels.

Table 8: Potential level down to which operating pressures could be managed

Pressures – Median Scenario	Fiscal Cost (\$ million)			
	2010/11	2011/12	2012/13	2013/14
[deleted – negotiate without prejudice]	[negotiate without prejudice]			
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]			
[deleted – negotiate without prejudice]	[deleted – negotiate without prejudice]			
Budget allocation	250.0	250.0	250.0	250.0
[deleted – negotiate without prejudice]	[deleted – negotiate without prejudice]			

232. Therefore, if the Minister of Education takes a range of decisions to manage down the operating pressures (in addition to those she has already made) our current assessment is that there will a shortfall between the pressures and the indicative operating allocation of *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*.
233. We have developed this scenario using a number of assumptions which depend on a range of decisions by Ministers.
234. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*.
235. Despite this low growth in costs, Ministers are likely to come under considerable pressure, especially from the schooling and tertiary sectors to fund CPI adjustments or provide some other compensation. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.
236. The ‘median scenario’ above assumes that Ministers defer CPI adjustment on ECE subsidies and tertiary tuition subsidies, take a consequential decision to relax tertiary fees regulations, and agree to CPI adjust schools’ operations funding.
237. The above scenario also assumes that the Minister of Education does not fund a range of low priority pressures, manages down the cost of some pressures, and defers decisions on some discretionary pressures. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*,
and delaying the expansion of eligibility criteria for student allowances until economic conditions allow.
238. We will be working with the Minister in January and February to firm up the options she wishes to pursue to manage down pressures.

Savings options to fund new policy priorities and address the shortfall between pressures and the operating allocation

239. Most of the major new policy priorities in education are being developed in a cost neutral fashion and as such these work streams do not feature strongly in the pressures for Budget 2010. However, in some cases this work will require further reprioritisation of resources. For information on existing policy work to align baseline expenditure with Government priorities, see Chapter 2.
240. Controlling future expenditure growth and aligning baseline expenditure towards Government priorities will inevitably involve further decisions to shift funding away from existing investments. The most significant feature of the estimated Budget 2010 pressures for Vote Education is its rising profile. Ministers therefore face the challenge of deciding how to release progressively higher levels of savings in out years in order to meet an increasing shortfall. This is the case in both the “maximum” and “median” scenarios above.
241. This section discusses specific savings options for consideration in the 2010 Budget. In order to release substantial savings, Ministers will need to consider fundamental changes to policy settings associated with the large funding streams in each sector – early childhood subsidies, [deleted – negotiate without prejudice], schools’ operations funding, tertiary tuition subsidies and student support.
242. Some savings options, such as changing the rules around the allocation of schools’ operations funding, will produce a specific level of savings. However, the savings options associated with, for instance, early childhood subsidies and tertiary student support, could release a wide range of savings depending on the nature and extent of the options chosen.
243. While decisions need to be made on each of the savings options available there are also questions about how the burden of savings should be distributed across the sectors. For instance, should savings be sought more or less evenly from each sector or should one or two sectors carry the greater burden. If Ministers do *not* wish to pursue the major savings options in one sector, the burden of savings will necessarily shift to the other sectors.

Savings options in early childhood education

244. The Minister of Education has received initial advice on a range of options to improve the targeting of ECE expenditure and control future expenditure growth. Further advice is being prepared for late January 2010 to inform the 2010 Budget.
245. One approach to reduce future expenditure growth is to defer, or choose not to proceed with, policy changes that further increase ECE cost drivers. The Minister has already agreed to defer changes to adult:child ratios for children aged under two years from 1:5 to 1:4. This decision will not produce savings for the 2010 Budget, as funding had yet to be allocated for this proposal. It will however avoid increasing the existing Budget shortfall by approximately \$55 million per annum.
246. A decision to defer funding for lifting the six hour daily limit for 20 Hours ECE, scheduled for July 2011, would release approximately \$16 million per annum from

2011/12. Making this saving would not reduce current entitlements or affect Government's education objectives for ECE. We consider the main effect of lifting the six hour daily limit would be to shift existing costs from parents to government.

247. In our assessment the best option for generating further savings is to remove higher funding rates for ECE services with more than 80% registered teachers (saving \$40 million in 2010/11 rising to \$53 million by 2013/14). This option is consistent with Government's decision to remove the 100% teacher registration target and shift the 80% target to 2012. Many in the ECE sector would expect this, as teacher registration targets have changed. However, this change would reduce current funding for two-thirds of teacher-led centres by up to \$1.40 per hour or 21%.
248. Options to realise further savings from ECE will be considered further in the context of Budget 2010. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Savings options in the schooling sector

249. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. Other savings options in schooling include changing the method of allocation for school operational funding, and better management of existing demand driven appropriations. Potential changes to savings from school property provision are discussed in the next section of this chapter on managing Capital pressures for Budget 2010.
250. In Budget 2009 Ministers decided to maintain the 1:15 teacher:pupil ratios for new entrants. Funding this requires that savings of \$45 million in 2011/12 and \$50 million in out years are identified. The Ministry has provided the Minister of Education with advice on options for achieving these savings.
251. We have recently advised the Minister of Education on the benefits of basing secondary schools' operational funding on quarterly roll counts, from 2011. This would provide an incentive for secondary schools to keep students engaged at school all year, and help improve the affordability of the Youth Guarantee. Under this new approach, if a student leaves school to take up the Youth Guarantee, the school will no longer continue to receive funding for that student. This change would result in savings of approximately \$5 million per annum and accordingly would result in a slight reduction in operational funding for most schools (approximately 1.5% on average).
252. We have also provided the Minister of Education with advice on basing primary and intermediate schools' operational funding on quarterly roll counts. This would reduce Government expenditure by approximately \$9 million per annum, improve the accuracy of the funding system, and directly link per pupil funding to the actual

number of students enrolled. We are awaiting feedback on whether the Minister wishes to pursue this option.

253. Cost pressures in the schooling sector can also be controlled through better management of 'demand driven' appropriations. For instance, we will be advising the Minister this month on policy options to restrain expenditure on Heat Light and Water (HLW) funding for schools. The Ministry currently reimburses schools for actual energy expenditure each year and there has been a 41% increase in costs between 2004 and 2008. We consider there is scope to strengthen incentives on schools to constrain their expenditure without undermining the quality of teaching and learning environments in schools.
254. We are beginning work on the issue of students who are enrolled for specific subjects with the Correspondence School at the same time as being enrolled full-time in another school (dual enrolment). In 2009, approximately 20,000 students were dual enrolled, at a cost of nearly \$13 million. These students are 'double funded' – their school receives its normal resourcing for a full time student, and the Correspondence School receives funding for each subject in which the student is enrolled. A possible solution would be to require the dual-enrolled student's school to transfer some of its funding to the Correspondence School.

Savings options in the tertiary sector

255. A detailed paper setting out a wide range of potential changes to the student support system was provided to the Minister of Education in November. These changes would improve value for money and reinforce tertiary education priorities identified in the draft Tertiary Education Strategy.
256. In response to this paper a package of initiatives has been identified for further work. These include increasing the student loan administration fee, removing eligibility for part-time part-year study, tightening student allowance exemptions for those at secondary school or tertiary transition courses, introducing a 7 EFTS life-time limit and introducing a performance element to the Student Loan Scheme. These options will inform the development of a Cabinet paper in February 2010. If implemented as a package for Budget 2010 the total savings released would be up to \$60 million in 2010/11 and \$80 million in out years.
257. The Minister is taking a paper to Cabinet in December which proposes changes to tuition subsidies and fee regulation for providers. The aim is to improve the alignment of tertiary education funding with Government's priorities. These changes are expected to be largely fiscally neutral, but increase the proportion of funding that is directed towards courses that have a high public and private return and away from low value courses. The paper also sets out options to relax fees regulations. Allowing providers to increase fees is a lower cost option for Government to address funding pressures in the tertiary sector than increasing tuition subsidies. However, it does carry some cost in the form of increased loans expenditure.
258. Cabinet has agreed to introduce a performance component in tuition subsidy funding, which will link funding to student retention, progression, and completion rates. This will provide incentives for providers to improve their educational performance. Providing better performance incentives through the student support system (such as by linking student loan eligibility to pass rates) would also

complement performance funding for providers by reinforcing the Government's expectation that students take responsibility for their own performance.

Conclusion

259. Our conclusion is that meeting the shortfall between the operating pressures and the indicative operating allocation in 2010/11 is manageable, although it would still require implementing a range of substantive savings options.
260. The scale of savings required will depend on decisions taken by Ministers to manage down the operating pressures. However, the most prominent feature of the operating pressures is their rising profile in out years. This rising profile is a feature of both the maximum cost scenario and the median cost scenario (which represents the level down to which we consider operating pressures could be managed).
261. Therefore, whether Ministers take action to manage down the operating pressures or not, meeting the increasing shortfall in *out years* represents a much greater challenge. Substantial policy changes to, for instance, schools operating funding, tertiary student support and/or early childhood subsidies (as discussed above) are likely to be needed.

Capital pressures in Budget 2010

262. The budget process for 2010 has changed significantly. While there is no initiatives phase for operating funding in Budget 2010, there will be an initiatives phase for capital funding, which will also include information on capital proposals which do not require additional funding or do not require a decision in Budget 2010.
263. The capital allowance has been set at \$1.45 billion a year from Budget 2010 to Budget 2012 inclusive. A small amount of operating funding has been set aside as tagged for capital initiatives, but this will not be sufficient to fund the full operating costs associated with all capital initiatives.
264. Departments are also being encouraged, in the first instance, to consider operating-capital swaps to fund smaller capital bids and to meet the consequential operating costs of more substantive capital bids from current baselines. Given that most of the capital pressures are large and there is a substantial shortfall between operating pressures and the indicative operating allocation for Budget 2010, we do not consider it feasible to fund capital pressures from operating baselines and/or the operating allocation in Budget 2010. However at the point of writing, we have included operating costs associated with capital pressures within the operating Budget process discussed in the section on operating pressures above.

Table 9: Capital Pressures

Capital Pressures – Maximum scenario	Associated Operating fiscal cost (\$ million)				Capital fiscal cost (\$ million)			
	10/11	11/12	12/13	13/14	10/11	11/12	12/13	13/14
Repairing leaky buildings	[deleted – confidentiality of advice]							
Building new schools and classrooms	[deleted – confidentiality of advice]							
Information Systems + Trade Academies	[deleted – confidentiality of advice]							
Total	[deleted – confidentiality of advice]							

265. These capital pressures are dominated by two major items: new schools and classroom spaces based on demographic forecasts, and the need to repair leaky buildings, which if not repaired could pose a health risk.
266. Other small scale capital pressures are discretionary. They include [deleted – confidentiality] associated with the establishment of Trades Academies and the remainder relate to upgrading, modifying, or developing a range of information systems, *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*.
267. Additional capital costs of approximately \$17 million per annum would be incurred if the Minister made a decision not to CPI adjust tertiary tuition subsidies (as discussed in the section on operating pressures above), and instead decided to relax fees regulations. This would result in higher fees for students and a flow on to increased student loan costs, which contain a substantial capital component.
268. The costings of the major property pressures involve the following assumptions:
- Currently 758,000 students attend either primary or secondary school. This number is expected to increase by 58,000 by 2020, resulting in the need for up to 2,500 new teaching spaces during this period. Costs include site purchases and the construction of new schools, and the construction of additional classrooms to meet projected roll growth in existing schools.
 - It is difficult to estimate the eventual cost of repairing leaky buildings. A survey to assess the full extent of the problem will be completed by the end of March 2010 and this will enable us to more clearly estimate costs and whether there are options for managing these costs down. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
269. There is substantial work under way to support the roll-out of ultra fast broadband to schools, but this is not identified as a pressure for Vote Education for Budget 2010. The Government has signalled it would provide \$150 million to help make schools broadband ready. In the short to medium term this funding is available to meet the cost of the Ministry’s School Network Upgrade Programme (SNUP) which will enable schools to take full advantage of ultra-fast broadband.
270. These pressures represent approximately [deleted – active consideration]. There is no capital allocation being provided for votes in Budget 2010, and there has been no

pattern in the past 2 years of Vote Education receiving a proportion of the total capital allocation. As such it is difficult to assess whether meeting the education capital pressures within the total capital allocation will present a challenge or not.

Managing down Capital pressures

271. There is potential to manage down the cost of the smaller discretionary pressures. A number of the smaller items related to ICT could be deferred without substantial risk. For instance, we will be recommending to the Minister not to progress with more frequent payment periods to early childhood providers as exploration shows little clear benefit from doing so. On the other hand if Ministers choose to implement some of the operating savings options outlined in the section on operating pressures above, some capital costs to modify payment systems could be incurred.
272. While building new schools is required to meet changes in population size, there are options to manage down costs in the short term by delaying the building of new schools where there are viable short-term alternatives, such as in areas where population growth is modest and existing schools have some capacity to expand.
273. Delaying building new schools, however, carries a cost associated with the need to expand capacity in existing schools. In addition, delays put greater fiscal pressure on out years.
274. We have developed scenarios to allow Ministers to make choices about the pact of the new schools building programme. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Savings options

275. The Ministry's capital funding requirements in the short to medium term are predominantly associated with the school property portfolio. The two major capital intensive activities within this property portfolio are modernising existing schools, repairing leaky buildings and constructing new schools to meet extra demand and demographic changes.
276. Property costs are driven by student numbers and a range of property requirements linked to student numbers. These include:
- the ratio of teachers to students, which drives classroom numbers
 - space entitlements (square meters per student for indoor and outdoor space)
 - compliance with the standards set in the Building Act 2004 and the Building Regulations for new buildings and maintenance
 - New Zealand's relatively large number of small schools (both rural and urban).
277. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

278. [deleted – confidentiality of advice]

279. The Ministry is also exploring opportunities for improving value for money to the Crown. Some of the opportunities being considered include:

- The Public Private Partnerships - which involve introducing more commercially focused procurement practices and potentially reducing the amount of property management work for Boards of Trustees. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- Decreasing the proportion of surplus school buildings. Although demolishing buildings incurs an up-front cost, there are longer term savings in maintenance expenditure. This is discussed in more detail in the chapter on the Performance Improvement Actions.
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

280. More substantial savings in the property portfolio would require a more fundamental reassessment of the major cost drivers noted above.

Departmental pressures

281. This section addresses the question of how we will manage the departmental pressures within existing baselines and discusses the changing role of Ministry to align with Government priorities. Chapter 4 of this Review provides detail on the related issue of the number of policy advisors and the cost of policy advice.

Baseline pressures

282. The Ministry is facing a significant reduction in its operating baseline funding from 2010/11 onwards. Departmental baselines are due to drop in 2010/11 by almost \$20 million and by 2013/14 will be almost \$30 million lower than in 2009/10 (a 6.8% reduction). This is driven primarily by the Budget 2009 decisions resulting from the 2009 line-by-line review of Vote Education expenditure, and a number of initiatives that are ceasing and reducing, such as funding for the school payroll project.

283. Total Ministry Departmental baseline is approximately \$1.7 billion (2009/10). However, approximately \$1.3 billion of this is funding for depreciation and capital charge (primarily for the schools property portfolio). The remainder (\$0.44 billion in 2009/10) represents operating funding that is available for the administration of the Ministry of Education.

Table 10: Ministry of Education operating baseline over the next 4 years

	Fiscal Cost (\$ million)				
	2009/10	2010/11	2011/12	2012/13	2013/14
Operating baseline (baseline excluding depreciation and capital charge)	441.3	422.1	415.1	412.0	411.4
Decrease in operating baseline		-19.2	-7.0	-3.1	-0.6

284. While the operating baseline is reducing, the Ministry will need to meet any future cost increases from within this reducing baseline.
285. In past years we have been able to meet cost pressures within the available baseline by reducing non-personnel expenditure categories (travel, communications, contracts etc). There are options for greater efficiency in how we deliver core infrastructure services, such as the delivery of funding to schools and providers, shared ICT services, case management administration, although these may also require initial investment in order to realise later savings.
286. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
287. In the schooling sector this will involve a greater emphasis on clearer expectations and accountabilities on schools for student engagement and achievement, strengthened monitoring of school performance, and earlier intervention when schools are struggling. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
288. In the early childhood sector this is likely to involve a greater emphasis on raising the participation of Māori children, Pasifika children, and children from low income families.
289. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
290. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
291. The Ministry will report to the Minister of Education on 17 December with:

- an analysis of the existing distribution of staff and providing
- more information on how we will review the focus and roles of the Ministry
- *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

Chapter 4 – Review of Policy Advice Functions: Cost, Size and Quality/Quantity

292. This chapter responds to the request to demonstrate that the Ministry of Education has reviewed the number of policy advisors in the Ministry, the cost of policy advice, and whether or not some reduction in the number or cost of policy advisors can be made.
293. To support the terms of reference, the Minister of Finance provided detailed guidance on this section of the review. The Minister of Finance highlighted that the overall number of staff employed by the Ministry has risen by 38% between 2003 and 2008 (from 1,866 to 2,581), and that this increase is assumed to include a proportion of policy advisors/analysts. The Minister posed the following questions:
- How much does the Ministry spend on policy advice?
 - What is the trend information on this spending since 2003?
 - For departments, what percentage is this of the total departmental spend? (i.e. excluding non-departmental appropriations)
 - Has the percentage changed since 2003?
 - How many FTEs are dedicated to policy advice? How has this number changed since 2003?
 - Has there been a commensurate increase in the quantity/quality of policy advice over this time and do you need to continue purchasing the same quality/quantity of policy advice?
294. To answer these questions, this chapter includes the following sections:
- the number of staff responsible for providing policy advice
 - expenditure on policy advice
 - the quantity of policy advice given
 - work to improve the quality of the Ministry's policy advice
 - future policy advice resource requirements.

The number of Ministry policy staff

295. There is not one separate group with overall responsibility for policy advice within the Ministry of Education. Instead the Ministry's policy advice functions are spread across the whole organisation.
296. To answer the Minister of Finance's questions on the cost and personnel involved in the provision of policy advice, a special dataset was created based on payroll data, combined with information from a survey of managers conducted in late September 2009. While this provides an accurate source of information, it only captures data at a single point in time, so comparisons with previous years are not possible.
297. For the purposes of this review, staff are deemed to be part of the Ministry's policy advice functions if their primary task on a day-to-day basis is to research and prepare advice and options for Ministers or the Ministry's senior management on strategic policy issues facing the education sector. Strategic issues are issues that:

- have a substantial fiscal or regulatory component
 - involve analysing complex trade-offs between competing policy objectives and/or groups
 - have a substantial and direct impact on one or more component of the education system.
298. This definition of policy advice excludes staff whose primary role is to provide advice on the implementation of policy decisions and staff involved in the ex-post evaluation of policy initiatives. However, it is important to note that outputs from these staff inform and support the Ministry's strategic policy advice function. The Ministry's output class structure and appropriations cover all of these functions, and are not specific to policy advice costs. As the lead agency of the education sector, the Ministry's expenditure on research, in particular, is significant and critical.
299. Currently around 80 FTEs are engaged in the Ministry to provide policy advice i.e. developing and designing strategic policy. The Ministry employs approximately 200 additional operational staff. These staff are involved in a wide variety of roles including the implementation of regulatory and funding systems and the administration of contracts with school support services. These staff also provide information and advice to translate policy into practice, through activities such as the development of curriculum resources and support for teacher and principal professional development. Approximately 20 staff are employed in roles that cut across the Ministry's policy, operational and implementation functions.

Expenditure on policy advice

300. Table 11 below shows the estimated total cost of policy advice for the Ministry using output costing methodology. The Ministry's appropriation structure changed between the years 2006/07 and 2007/08 so comparisons over time are indicative only and should be made with caution. In addition, prior to 2007/08, it was not possible to separate expenditure on research and analysis from expenditure on wider policy advice.
301. Policy output direct costs do not equate to the cost of employing the 80 FTEs mentioned above. This output category includes staff salary costs (as assessed by managers) along with other expenditure items deemed by managers to relate to policy activity. These include other personnel costs such as contractors and temporary workers, costs of contracts for services, office expenses, travel costs, communication costs and costs of asset ownership (depreciation and capital charge). Policy output overhead costs include an attribution of costs from these same cost types.
302. Expenditure on policy advice (excluding research and analysis) since 2007/08 has remained stable at around \$22 million per annum. Since 2002/03, nominal total expenditure on policy, research and analysis has grown by approximately 6%.

Table 11: Total Cost of Policy Advice (Output Costing Methodology) 2002/03 to 2009/10

	All figures \$000								% change 2003 - 2010
	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	
Policy subtotal	30,915	34,016	33,987	36,746	30,614	21,742	21,750	20,992	-
Total	30,915	34,016	33,987	36,746	30,614	32,415	32,598	32,658	6%

*The policy subtotal includes Research and Analysis Expenditure prior to 2007/08. See Appendix 2 for a more detailed breakdown by Output Class.

303. The proportion of total departmental operating expenditure (excluding expenditure on school property) spent on policy advice reduced from 11% in 2002/03 to 7% in 2008/09 as shown in Table 12 below.

Table 12: Cost of Policy Advice as a Proportion of Departmental Operating Expenditure, 2002/03 to 2009/10

Cost of policy advice	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10
As a % of departmental baseline	3%	3%	3%	2%	2%	2%	2%	2%
As a % of departmental baseline (excluding school property)	11%	10%	9%	9%	7%	8%	8%	7%

304. The Ministry uses contractors to provide some external policy expertise. In 2008/09, expenditure on contracted services across the policy outputs totalled \$2.7 million (13% of total expenditure on policy advice in that year). The low rate of contracting out is a result of the Ministry's ability to draw on in-house expertise and redeploy key staff to meet localised capacity constraints as they arise.

Quantity of policy advice

305. For the period from 2002/03 to 2007/08, the Ministry did not track the volume of policy outputs it produced separately. These were included in the overall performance measures for general Ministerial correspondence.

306. From July 2008, the Ministry began to monitor the quantity (and quality) of individual Ministerial briefing papers and Cabinet papers provided by each group within the organisation. These form the main policy advice outputs for the Ministry.

307. The volumes of policy related outputs provided to Ministers in 2008/09 are shown in Table 13 below.

Table 13: Quantity of Policy Related Outputs for 2008/09

Policy Advice Output	2008/09		
	Minister Requested Briefing Papers	Ministry Initiated Briefing Papers	Cabinet Papers/Submissions
Yearly Total			
Quantity	1,444	1,752	24

308. Table 14 shows the quantity of policy related outputs for the first quarter of 2009/10.

Table 14: Quantity of Policy Related Outputs for the Quarter Ending 30 October 2009

Policy Advice Output	2009/10		
	Minister Requested Briefing Papers	Ministry Initiated Briefing Papers	Cabinet Papers/Submissions
Quarterly Total			
<i>Quantity</i>	565	858	22

309. It should be noted that these performance metrics only capture the 'business as usual' outputs delivered by Ministry staff including policy analysts/advisors. These trends do not reflect the amount of work involved in research and producing Cabinet papers and ministerial briefing papers, commenting on other agency's Cabinet papers and building relationships with key members of the education sector and across government.

Quality of the Ministry's policy advice

Work to improve the Ministry's policy advice

310. There is increasing expectation by stakeholders (including ministers) that agencies continue to improve the quality of their policy advice.
311. In 2007 the Ministry had a sample of its policy advice papers assessed by NZIER to gauge the overall quality of advice given. NZIER currently assesses the policy advice given by 12 government sector agencies on an annual and six-monthly basis. NZIER assessment showed wide variation in the Ministry policy advice, with a slightly below average score. The Ministry scored a mean of 6.8 (against a possible total of 10) for policy advice paper quality in this assessment.
312. The Ministry responded to these findings by engaging an external advisor [deleted – privacy] to identify practical actions to improve the quality of policy work, establish a starting point for improving the quality of the Ministry's policy advice, and diagnose what will make the most difference in the short and long terms.
313. As a result of these independent assessments, the Ministry began a programme of work aimed at improving policy capability in October 2008. This programme has included:
- developing standardised policy tools and resources available to analysts through an online "policy toolkit"
 - emphasising expectations for policy output quality and standardising accountability requirements
 - reinforcing the role of policy managers in assessing and building staff policy capability
 - seeking feedback from central agencies and Ministers' staff.
314. Central to this work has been an ongoing focus on sharing expertise across the Ministry and improving the analytic capability of policy staff. This has resulted in a series of fora and workshops being held for policy analysts and managers that have been well attended by all policy staff employed in the Ministry. These have been focused on improving the quality of policy advice papers, as well as general policy skills.

315. The Ministry also formed an internal panel in late 2008 (made up of five Chief Policy Analysts) to conduct assessments of Ministerial briefings and/or Cabinet papers against an agreed set of criteria. To date, the internal panel has completed three series of assessments of policy papers (in December 2008, April 2009, and September 2009).
316. The internal panel's overall findings on the quality of Ministry policy papers are circulated to the Ministry's leadership team and policy managers across the Ministry, with feedback on individual papers given to the responsible managers, for use with their staff to improve the quality of future policy work.

Monitoring progress

317. Both internal and external assessments of the Ministry's policy advice show that the quality has improved since 2007.
318. In December 2008, the same papers were reviewed by both the internal panel and NZIER. NZIER rated the quality of the Ministry's policy advice papers as reaching a mean of 7.1 in late 2008, against the mean scored in 2007 of 6.8. On NZIER's scoring scale, this corresponds with moving from a "borderline" to "adequate" score in terms of policy advice quality. NZIER commented that its assessment pointed to a "policy advice shop with varied quality outputs".
319. Findings from the December 2008 review of policy papers by NZIER and the internal panel were very consistent. The Ministry subsequently chose to conduct future assessments 'in house'. The results from these assessments have shown a general increase in the quality of policy advice from 2008 to 2009. The overall number of policy papers which the panel have assessed as reaching a good standard increased over the course of 2009. There remains significant room for further improvement.
320. To support these policy initiatives, the Ministry has also recently introduced a quality management system to support the improvement in Ministerial papers and correspondence. This involves tracking the number of Ministerial papers and correspondence returned by the Ministers' offices for changes or further advice. The results for the quarter ending 30 October 2009 include:
- from 565 briefing papers requested by the Minister, 10 were returned (or 1.7%)
 - from 858 briefing papers initiated by the Ministry, 56 were returned (or 6.5%)
 - from 22 Cabinet papers, 1 was returned (or 4.5%).
321. As well as regular feedback on the quality of policy advice in reports to ministers, the Ministry's leadership team and managers receive monthly feedback on assessments of reports done by their staff in terms of grammar, clarity, spelling mistakes and other "hygiene" related issues, so ongoing corrective measures and training may be given.
322. The policy improvement programme of work will continue in the long term, to build the Ministry's capability to provide high quality advice to Ministers and ensure that the Government's priorities for education are delivered as efficiently and effectively as possible.

Future policy advice resource requirements

323. The Ministry's future policy work programme will play a role in determining the size and capability of its policy workforce. However, it is important to note that the Government's policy agenda is not the sole driver of policy advice resource requirements. For example, the Ministry administers 16 Acts of Parliament and many substantial sets of regulations that require ongoing monitoring, analysis and advice.
324. The Ministry needs to continue building its knowledge of education sector needs and issues. The Ministry also needs to ensure that it continues to build a flexible workforce that can respond to workload peaks and key imperatives. This will enable it to respond to any education system related issues and challenges which may arise, along with meeting the government of the day's policy needs.
325. In the line-by-line review the Ministry committed to reduce policy expenditure by \$1.300 million per annum. For information on options to manage Departmental expenditure within decreasing baselines, refer to the discussion in Chapter 3 on the role of the Ministry [deleted – negotiate without prejudice].

Chapter 5 – Fiscal Savings Resulting from Performance Improvement Actions

326. This chapter responds to the request for the Ministry to demonstrate that savings expected as a result of implementing its Performance Improvement Actions (PIAs) have been accounted for as part of the detailed examination of Vote Education.

Background

327. On 18 August 2009 the Minister of Education presented the Ministry's PIAs to the Cabinet Expenditure Control Committee (ECC). The agreed PIAs and associated targets and sub-actions are contained in Appendix 3.

328. The Performance Improvement Actions for education are:

- improve the cost effectiveness of government expenditure on early childhood education
- improve the cost effectiveness of government expenditure on primary schooling
- improve the cost effectiveness of government expenditure on secondary schooling
- improve the cost effectiveness of government expenditure in the tertiary sector
- improve the performance of the tertiary system through system and agency monitoring and evaluation
- improve the effectiveness of government expenditure on Māori-medium schooling
- improve the cost effectiveness of government expenditure on school property and achieve best practice in school property management.

329. Specific actions included in the PIAs reflect the priorities for education set by the Government, key areas for improvement identified in the 2009 line-by-line review of Vote Education expenditure and recognition of key drivers of cost increases in recent years, such as management of the school's property portfolio and wage settlements.

PIAs focus on key policy settings and choices that have contributed to substantial growth in costs

330. Development of the PIAs was informed by the findings of the 2009 line-by-line review and the Government's priorities for the main areas of expenditure in the education system.

331. The line-by-line review noted that while results have been achieved in the education system, for example increasing participation in early childhood education and increasing the proportion of tertiary students studying higher-level qualifications, these gains came with a substantial growth in costs. The growth in costs was the result of a relatively small number of policy decisions, such as increasing the level of subsidies to early childhood and tertiary providers, and increasing teacher numbers and salary levels in schooling.

332. Further increases in the efficiency and effectiveness of the education system will largely depend on changes in a small number of key policy settings. In light of this, the actions contained within the education PIAs largely focus on reviewing current policy settings and providing advice to Ministers on options for improving the quality and targeting of government expenditure.

Most actions are intended to improve the productivity and value for money of existing expenditure

333. Most of the Ministry's PIAs focus on improving the cost effectiveness of government expenditure by improving the quality and targeting of expenditure. The result is that real expenditure will be maintained or increased slightly over the short term to improve the quality of provision and the outcomes achieved by children and students.
334. The PIAs will return dividends to the Government over the long-term in the form of increased productivity, better targeting of services to those that will benefit most and the containment of cost growth in areas such as in early childhood education subsidies and school operational funding [deleted – active consideration].

Progress in realising fiscal savings

335. This section provides an update on actions with savings components in out years. Other chapters describe the Ministry's wider progress at aligning expenditure with Government priorities and implementing recommendations from the line-by-line review.

Improve the cost effectiveness of government expenditure on school property (PIA 7)

336. One of the PIA 7 targets is to hold the real cost per student for the construction of new schools to no more than 2009 levels. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
337. The Ministry holds a certain amount of school property that is no longer in use. Another of the PIA 7 targets is to reduce surplus property stock. Surplus property incurs an operational cost to the Ministry in upkeep. While reducing surplus stock generates savings in the medium-term there are short-term costs incurred to demolish buildings. Taking this into account an initial estimate is that reducing the current stock of surplus school property may achieve \$10-12 million in savings over the five year period from 2014/15.

Improve the cost effectiveness of government expenditure in the tertiary sector (PIA 4)

338. Student support costs the Government \$735 million in 2008/09, although the Student Loan component of this cost is recoverable. Student Support is one of the main

policy levers available to Government to alter patterns of participation in tertiary education. PIA 4 includes actions to improve the educational performance of the student support system at encouraging students to manage their debt and study commitments responsibly, as well realise savings through more efficient management of government liabilities.

339. The Minister of Education was provided a paper in November that included options for improving the efficiency of the student support system by increasing administration fees paid by learners and removing eligibility for part-time, part-year study. These options (discussed in Chapter 3 above) form part of a package of options for Budget 2010 that, if agreed in total, would realise \$60 million of savings in 2010/11 and \$80 million in out years.

Appendices

Appendix 1: Update on reviews proposed in the line-by-line review

340. The January 2009 line-by-line review proposed reviewing a number of programmes because of prima facie evidence that performance could be improved, and/or fiscal savings identified for future Budgets. This included:
- Special education funding and delivery models
 - Professional development
 - [deleted – confidentiality of advice]
 - [deleted – confidentiality of advice]
341. Following the 2009 Budget, the Ministry was also asked to complete a review of staffing entitlements for schools.

Special education review

342. The line-by-line review recommended:
- reviewing different allocative and delivery mechanisms for special education resourcing with a view to reduce overheads and ensure special education resources are used to achieve maximum benefit for children most in need.
343. On 10 August Cabinet approved terms of reference for the review, which set out principles to guide the review and reflect the intent that the review focus on:
- doing better with existing resources (increased value for money)
 - improving outcomes (effectiveness)
 - improving access to schooling (choice)
 - improving the efficiency of delivery within special education and coordination between agencies.
344. The review will consider opportunities to reprioritise existing expenditure and to reduce the fragmentation of special education funding by aggregating resources across schools. The review will also focus on how services can be configured to increase choice and improve educational outcomes. This could for example include using special schools to better support regular schools. This would mean that more parents can choose their local regular school as a viable schooling option and those local regular schools will be better able to meet the needs of the children concerned. This would save on transport costs and improve opportunities for parents and their children.
345. Cabinet has agreed that the Review of Special Education be carried out over 2009 and early 2010, with a report-back to Cabinet in July 2010. The review will be structured around a discussion document and sector consultation. The Ministry is carrying out the review on behalf of the Minister of Education and the Associate Minister of Education (Hon Heather Roy).

346. Work is well advanced on preparing the discussion document and this will be provided to Cabinet in draft form early in 2010 for approval. The intention is to release the discussion document in February 2010 and consult over February and March. April, May and June 2010 will be used to analyse responses to the discussion document and discuss findings with Ministers. Ministers will in turn, convey their recommendations to Cabinet in July 2010.

Review of staffing entitlements and professional development

347. The line-by-line review recommended:

- reviewing professional development activity in line with government priorities, to include consideration of curtailing specific programmes, reallocating resources to a smaller number of high priority initiatives (such as literacy and numeracy) and devolving resourcing to schools
- reviewing the formula for staffing entitlements for schools.

348. The Ministry clarified the scope of these reviews with the Minister in June. The final terms of reference set out the Ministry's intention to:

- examine how the teacher staffing resource can be used more effectively and efficiently to support schools and student achievement
- consider how to find the \$45-\$50 million per annum savings announced in Budget
- look for savings across the staffing budget, and not only from within primary teaching entitlements
- link to work on [deleted – confidentiality of advice], teacher education, and professional development.

349. The combined review of staffing entitlements and professional development was reported to the Minister in December.

[deleted – confidentiality of advice]

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

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

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

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

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

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

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

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

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

Appendix 2: Breakdown of Expenditure on Policy Advice

Table 15: Total Cost of Policy Advice (Output Costing Methodology) 2002/03 to 2009/10

Output	<i>Old appropriation structure</i>	All figures \$000							
		2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
1.1	Policy Advice on the Regulatory and Policy Frameworks for Education	6,804	13,828	11,297	13,894	11,003			
1.2	Policy Advice on Learning Outcomes	16,843	13,183	15,853	18,143	14,402			
1.3	Policy Advice on Resource Allocation and Resourcing Arrangements	5,233	5,197	5,317	3,202	3,824			
1.4	Policy Advice on Governance and Management Arrangements	2,035	1,808	1,520	1,507	1,385			
	<i>New appropriation structure from 2006/07 onwards</i>								
1.4	Development and Evaluation of Strategic Policy						9,649	10,443	10,077
2.1	Development and Evaluation of Community Policy						115	649	673
3.1	Development and Evaluation of Provider Policy						2,488	1,147	2,918
5.1	Development and Evaluation of Teaching Policy						2,536	3,116	1,100
6.1	Development and Evaluation of Student Intervention Policy						3,352	2,450	2,320
7.4	Development and Evaluation of Tertiary and International Policy						3,602	3,945	3,904
	Policy subtotal	30,915	34,016	33,987	36,746	30,614	21,742	21,750	20,992
1.2	Research and Analysis						10,673	10,848	11,666
	Grand total	30,915	34,016	33,987	36,746	30,614	32,415	32,598	32,658

Appendix 3: Performance Improvement Actions Agreed between the Minister of Education and ECC

PIA 1: Improve the cost effectiveness of government expenditure on Early Childhood Education (ECE)

<p><i>Rationale:</i> The Government has signalled its ECE priority is to boost participation by children from Māori, Pasifika and low socio-economic groups, who are currently under-represented in ECE and would also benefit more than most from quality ECE.</p>	<p><i>Target:</i> The same levels of expenditure on ECE as forecast in BEFU 09, for increased participation in ECE for Māori, Pasifika and low socio-economic groups.</p>
<p><i>Actions</i></p> <ul style="list-style-type: none"> • Policy advice to Government [deleted – confidentiality of advice] programmes to Māori, Pasifika and low socio-economic groups (2009/10). • Increase the proportion of expenditure directed to Māori, Pasifika and low socio-economic groups, consistent with Government's decisions (2010/11). • Continue to improve participation gains from current expenditure through reduced transaction costs and clearer targeting to need (2011-2014). • Changing policy settings, including for professional development, to give children a strong start at learning by improving teaching of early literacy and numeracy skills in ECE (2010-14). 	

PIA 2: Improve the cost effectiveness of government expenditure on primary schooling

<p><i>Rationale:</i> Improving literacy and numeracy achievement is a high priority for the Government. In addition, the degree to which students develop strong foundations in literacy and numeracy is the most important indicator of the performance of the primary education system.</p>	<p><i>Target:</i> Increased proportion of students reaching National Standards, overall, and for Māori students, Pasifika students and students from low decile schools, within the current level of real per-pupil primary school funding.</p>
<p><i>Actions</i></p> <ul style="list-style-type: none"> • National Standards implemented within budget and timescales (2009/11) [this action will also contribute to PIA 3]. • Increasing targeting of professional development resources and support, particularly to improve literacy, numeracy, assessment and school leadership capability (2010/11). • Strengthening accountability on schools for the achievement of all students and strengthening support and intervention when performance is poor (2010-14). 	

PIA 3: Improve the cost effectiveness of government expenditure on secondary schooling

<p><i>Rationale:</i> Increasing the proportion of students leaving school with worthwhile qualifications is a high priority for Government. In addition, the proportion of students achieving qualifications is the most important indicator of the performance of the secondary system.</p>	<p><i>Target:</i> Increased proportion of students leaving school with a minimum of Level 2 NCEA, overall, and for Māori students, Pasifika students and students from low decile schools, within the current level of real per-pupil secondary school funding.</p>
<p><i>Actions</i></p> <ul style="list-style-type: none"> • Improve outcomes in the middle years of schooling, by ensuring professional support accessed by schools incorporates practices which are known to improve student engagement, particularly the engagement of Māori students (2009/10). • [information deleted in order to enable the Crown to negotiate without disadvantage or prejudice] • Review policy settings for students in the 15-19 age group to create better learning options and pathways, including Youth Guarantee and Trades Academies (2010-12). 	

PIA 4: Improve the cost effectiveness of government expenditure in the tertiary sector

<p><i>Rationale:</i> Government wants to improve the value it gets from its investment in the tertiary education system. Increasing the number of young people and Māori and Pasifika people attaining qualifications will make a substantial contribution to improving value.</p>	<p><i>Target:</i> Within a capped budget, the system achieves:</p> <ul style="list-style-type: none"> • more people under 25 enrolled in and completing higher-level qualifications • higher first year retention rates for Māori and Pasifika students • more young people moving from school directly into tertiary education, in particular at degree level.
<p><i>Actions</i></p> <ul style="list-style-type: none"> • Focus budget management advice on achieving higher levels of participation and completion by young people, Māori and Pasifika people without additional funding from Government (2009/10). • Develop advice on how to improve the performance and cost effectiveness of student support (including management of the student loan asset) and of fee and course cost maxima (2009/10). 	

PIA 5: Improve the performance of the tertiary system through system and agency monitoring and evaluation

<p><i>Rationale:</i> The Ministry of Education also influences the value of government investment in tertiary education by ensuring its monitoring and evaluation of system and agency performance reflects Government's priorities.</p>	<p><i>Targets:</i> Performance of the system in meeting Government priorities is improved.</p> <p>The transparency and clarity of the tertiary funding system has improved, as measured by clearer strategy, simpler investment guidance, fewer funds, and provider feedback on plans.</p>
<p><i>Actions</i></p> <ul style="list-style-type: none"> • Strengthening monitoring so as to give greater emphasis to how TEC is managing educational performance and government's ownership risks in the system (2010/11). • Monitor progress in simplifying the tertiary funding system, including the desired shift to ex post accountability (2009/10). • Publish information on the employment outcomes of tertiary qualifications to strengthen student decision-making and to improve TEC investment decision-making (2009/10). 	

PIA 6: Improve the effectiveness of government expenditure on Māori-medium schooling

<p><i>Rationale:</i> As 90% of Māori students attend English-medium schooling, meeting the Ka Hikitia goal of Māori achieving success as Māori will largely rest on improvements being made in the core performance of the mainstream education system, and this has been captured in the performance improvement actions above. The focus of this PIA is on Māori-medium schooling – kura Māori and rumaki or Māori-medium units within predominantly English-medium schools.</p>	<p><i>Target:</i> Improve the outcomes of students in Māori-medium schooling (i.e. increase the proportion of students reaching National Standards and leaving schools and kura with a minimum of level 2 NCEA) and improve the sustainability and quality of Māori-medium schooling.</p>
<p><i>Actions</i></p> <p><i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p>	

PIA 7: Improve the cost effectiveness of government expenditure on school property and achieve best practice in school property management

<p><i>Rationale:</i> Increasing the effectiveness and efficiency of government investment in school property is important because making even small efficiency gains in such a large area of expenditure could deliver significant fiscal gains.</p>	<p><i>Targets:</i> The real cost (adjusted by the Capital Goods Price Index) per student for the construction of new schools does not exceed the 2009 cost. The surplus property stock is reduced from 16% to 10%. Management of the school property portfolio is rated high by key stakeholders by 2012 and as “best practice” by 2014.</p>
<p><i>Actions</i> <i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p> <ul style="list-style-type: none"> • Move to the moderate standard of the Capital Asset Management Framework, following assessment of the condition of school property assets, for schools re-signing their five-year plans in 2010. • Policy advice to Government on improving cost effectiveness in the construction and management of schools, including advice on the roles of the Ministry, school boards and Public Private Partnerships. 	