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Education Review Office

Covering:

Vote Education Review Office

Four-year Budget Plan

24 January 2012

Forwarded by:

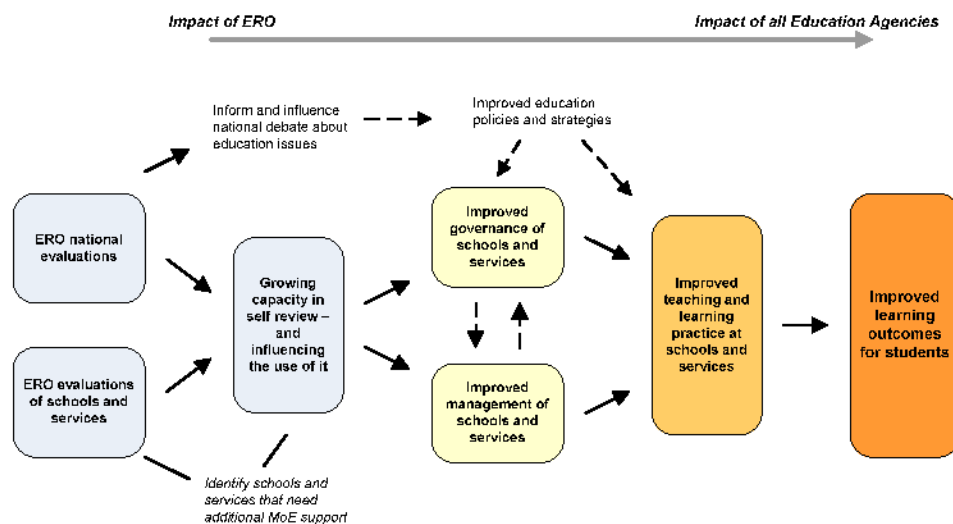
Hon Hekia Parata

Minister of Education

Section 1: Overview

Direction of Change

1. The Government is committed to building strong foundations for future learning by lifting literacy and numeracy skills, increasing the levels of educational attainment so that young New Zealanders develop the skills needed to secure the country's future economic and social success.
2. The Education Review Office (ERO) will advance these Government priorities through evaluations of the quality of education and care in schools and early childhood services, and of the implementation of government education priorities. ERO's reports are used by parents, teachers, managers, trustees and others to make good decisions and choices; both at the individual school and early childhood service level. At the national level reports are used by government policy makers and others to help inform and change the national debate about key educational issues. In this way ERO's evaluations contribute to the Government's commitment to a world-class education system for the 21st century.
3. ERO sees its role as an agency for change in the education system. ERO has a quite specific legislative mandate – to review and report. Increasingly, however, ERO regards its institutional reviews and national evaluation reports as levers for system change. ERO seeks to have its findings used by centres, schools, the Ministry of Education, and other policy agencies. ERO's challenge for the future is to gain even greater system-level traction for its work. This is illustrated by the intervention logic below.



4. ERO is a member of the Labour and Market skills cluster looking at improving the quality and co-ordination of delivery of government services. There is a strong link between ERO's activity and two of the cluster's result areas; namely,
 - all new Zealanders having the skills to succeed; and
 - businesses having the skills that they need.
5. ERO's continuing focus on underachievement by Māori and Pasifika students in particular will contribute to achieving the above result areas.
6. Over the more than 20 years of ERO's existence, the agency has moved from a focus on accountability and compliance to one of improvement and, very recently, to an emphasis on sustainability of practice through school self-evaluation.
7. Accordingly, ERO now has a review process that promotes a complementary approach to evaluation. School and centre self review is a complementary and mutually reinforcing process to ERO's external evaluations. ERO now works in a way that seeks to validate and challenge the findings of centres and schools.
8. In the compulsory sector this approach has seen ERO apply a differentiated model to reviews: high performing schools are visited less frequently than schools that are not performing well. Benchmark criteria are published so that schools understand what is expected of them. Most schools, though, are still reviewed every three years. Where there is poor performance in schools, ERO now works with Boards of Trustees and school management to increase evaluation capacity.
9. ERO's review approach is based on one key question: "how effectively is this school's curriculum promoting student learning – engagement, progress and achievement". This question enables ERO to ascertain the extent to which schools are focused on the learning and achievement of all students. Of particular interest to ERO are students for whom the school system has not in the past delivered successful outcomes. Thus, ERO has made clear its expectation with respect to Māori achievement. Schools that are not focusing on the achievement of Māori students, and schools where the achievement of Māori students is poor, are not regarded as high performing schools even if all other aspect of performance are high. ERO is also placing emphasis on students from a Pacific background and students with special educational needs.
10. One of the strengths of ERO's review methodology is that it is flexible enough to take the social, cultural and educational context of each school into account. This means that ERO review teams can pinpoint areas in which a school is succeeding and where it needs further support and development.

11. ERO is mid-way through a project to revise its early childhood methodology. The approach will emphasise the importance of quality education and care, and centre self review. The new methodology for early childhood reviews will ensure that resources are used efficiently and effectively in a growing sector. The development of ERO's methodology will be well aligned with the Ministry of Education initiatives and current policy streams with respect to early childhood education.
12. ERO does not have any operating expenditure initiative that requires additional funding to be approved during Budget 2012. The appropriation for ERO in 2012/13 is projected to decrease from \$28.978 million in 2011/12 to \$28.012 million due mainly to the efficiency saving target of \$831,000 agreed by Cabinet. The four year forward baseline forecast between 2012/13 to 2015/16 is relatively constant except for a further reduction of \$119,000 in 2015/16 compared to 2014/15. This is due to the completion of a four year programme to carry out additional reviews of schools that are non-compliant with National Standards ending in 2014/15.
13. ERO does not have any capital expenditure initiative requiring approval during Budget 2012. ERO is not a capital intensive department and plans to spend only \$1.770 million in 2011/12 and \$1 million per year over the remaining forecast period between 2012/13 to 2015/16.
14. The efficiency saving target and future cost pressures will be managed by ERO from within existing baselines. Much has been happening over the past few years to position ERO to meet these fiscal pressures. ERO has phased in a new organisational structure, implemented a new operating model and made changes to its review methodology.
15. ERO will see more change going forward: ongoing work in terms of its revised approach to reviewing schools; work on reviewing its approach to the evaluation of early childhood services; property changes and further review of operational and support expenses.

Summary of Changes

1. Operating changes sought	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
Current Baseline	28.978	28.843	28.837	28.721	28.602
Cost pressures resulting from existing policies/settings [section 3]	-	0.563	0.832	1.049	1.211
Cost of new/increased activities [section 4]	-	-	-	-	-
Efficiency savings [section 4]	-	(0.831)	(0.831)	(0.831)	(0.831)
Amount reprioritised [section 4]	-	(0.563)	(0.832)	(1.049)	(1.211)
Net impact	-	(0.831)	(0.831)	(0.831)	(0.831)
New baseline	28.978	28.012	28.006	27.890	27.771

2. Capital investments being considered for new funding in Budget 2012 [section 4]	Impact \$m increase/(decrease)					
	2011/12	2012/13	2013/14	2014/15	2015/16	Out-years
	-	-	-	-	-	-

3. Capital investments likely to require new funding in future Budgets [section 4]	Total impact across years \$m increase/(decrease)		
	Budget 2013	Budget 2014	Budget 2015
	-	-	-

4. Baseline capital expenditure	Impact \$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
Departmental					
Baseline funding available for departmental capital expenditure [section 5, table 5, row e]	2.292	1.738	1.999	2.119	2.302
Investments funded from departmental capital expenditure [section 5, table 5, row f]	1.770	1.000	1.000	1.000	1.000
Non-departmental					
Total [section 5, table 6]	-	-	-	-	-

Section 2: Priorities

16. To support the Minister's priorities for education, ERO has identified the following key priorities that will guide its strategic focus in the medium term:
 - to promote evaluation capacity in the sector (self-review complementarity);
 - to maintain the revised and more flexible review methodology (differentiated review) for schools;
 - to redesign the review methodology for early childhood services;
 - to promote successful learning outcomes for Māori; and
 - to provide independent system-wide evaluations of the impact and outcomes of government education policy.
17. These priorities aim to improve capability, self review and sustained good performance in schools and early childhood services, and will help the Government to assess the progress and impact of its education policies.
18. ERO's evaluation approach is designed to make schools' self review and ERO's external review more complementary. Each review investigates how the school uses its self-review processes to set priorities, make and implement strategic decisions and to monitor its efforts towards continuous improvement. Specifically ERO evaluates how each school uses self review to develop its curriculum and to promote the learning, engagement, progress and achievement of its students. ERO's complementary evaluation approach will assist schools to build leadership capacity and to use self review to raise the educational performance of their students.
19. ERO has also introduced differentiated review methodologies that take account of each school's context and capability, and uses the quality of school self review as a critical factor in determining how soon a return visit should be scheduled. Each ERO report informs a school when they can expect their next review – over the course of one-to-two years (where there are issues to be addressed and school self review is poor), in three years (where there are no material concerns) or in four-to-five years (if the school has strong self-review processes and meets all the criteria that would indicate it is a consistently high performing school).
20. Its differentiated methodologies allow ERO to focus greater attention on schools where students are not progressing and achieving well. The differentiated methodologies also allow longer intervals between reviews where performance of a school is of a very good quality and likely to be sustained. This targeted approach to evaluation supports the Government's value for money focus, by ensuring resources are focused on those schools that need the most support, while increasing self accountability and continuous improvement across the sector.
21. ERO has begun work on redesigning its early childhood review methodology. The first step in this process was to update ERO's Evaluation Indicators for Reviews in Early Childhood Services. The next stage in the project is to develop the methodology to be used in reviews in early childhood services, reflecting and building on the service's self review. This project is expected to be completed in 2012.

22. ERO's new methodology for early childhood reviews will ensure that ERO's resources are used efficiently and effectively in a growing sector. This work will build on the Schools' Methodology project, the Evaluation Indicators project, and ERO's work on building self review capacity in schools.
23. He Toa Takitini is ERO's strategy to support the education sector's themes of engagement, participation and raising achievement for Māori students. ERO has developed a work programme that promotes Māori input and reinforces its commitment to upholding the principles of the Treaty of Waitangi. Included in ERO's initiatives are strategies to build ERO's internal capability, and to use ERO's partnerships and relationships to build the evaluation capacity of Māori and the sector.
24. ERO is also revising its approach to evaluating how effectively schools promote success for Māori. ERO considers that no school can be regarded as high performing unless there is evidence that Māori learners are actively engaged in their learning, are progressing well and succeeding as Māori. In early childhood settings ERO will review how well services promote participation and engagement of Māori children and whānau.
25. By seamlessly integrating national reporting priorities with its evaluation processes, ERO is well positioned to report on the implementation of current education priorities and to provide information to inform future policy development.
26. ERO will produce high quality evaluative information on significant education issues and publish reports on education sector performance and good practice. In particular, ERO will provide information for individual schools and the Government on how well schools are assisting students to achieve educational standards and qualifications, using assessment, and promoting the educational success of students, particularly Māori and Pacific. This information will be used by government education policy agencies to determine the effectiveness of current initiatives and to establish priorities, and by schools and early childhood services in their self review.
27. ERO's two core activities that will support changes and improvements in the sector are its reviews of schools and early childhood services, and its national evaluations of education sector performance and educational good practice. The output ranges for ERO's core programmes in 2011/12 and outyears are tabled below.

	2011/12	2012/13	2013/14	2014/15	2015/16
Early childhood education services education reviews	1,240-1,400	1,300-1,460	1,300-1,460	1,300-1,460	1,300-1,460
State schools education reviews	710-840	710-840	710-840	710-840	710-840
Homeschooling education reviews	25-35	25-35	25-35	25-35	25-35
Private school education reviews	15-25	15-25	15-25	15-25	15-25
National evaluation reports	Up to 20	Up to 20	Up to 20	Up to 20	Up to 20

28. There were approximately 6,880 schools and early childhood services in July 2011. ERO plans to review on average one third of all schools and early childhood services each year. However within this average review cycle, ERO will reprioritise its resources to focus on schools that are underperforming in line with the differentiated review cycle.

Section 3: Cost Pressures

Fiscal Pressures

29. A key pressure on ERO's financial projections is the growth in the number of early childhood services.
30. ERO currently reviews early childhood services on a three-year cycle. This sector has seen considerable growth in numbers. For instance between 1 July 2007 and 1 July 2010 there has been a 15% increase in the number of early childhood services from 3,750 centres to 4,321 centres. It is predicted that there will be a further 4% annual growth in the number of home-based services and education and care services over the forecast period. By July 2015 there will be potentially 4,670 early childhood services.
31. However as alluded to earlier, ERO will review its methodology for early childhood services in 2011/12 to manage its review capacity for this projected growth in numbers.
32. Two further key cost pressures are personnel costs and the efficiency saving target approved by Cabinet that includes the removal of central funding for KiwiSaver and State Sector Retirement Savings Scheme (SSRSS).
33. The education sector forms the main employment market where ERO must compete for staff. ERO recruits middle and senior managers from schools and early childhood services, because the knowledge, skills, and management experience of people at this level are crucial to maintaining ERO's capability.
34. ERO and the PSA recently agreed to a new Collective Employment Agreement (CEA) effective from 17 October 2011 until 30 June 2014. The new CEA provides for moderate salary increases^[10]
35. ERO is aware of the current economic landscape and plans to manage any proposed salary increases from within its reduced baseline.

36. The total efficiency saving target required from ERO is \$831,000 in 2012/13, which includes removing the centrally funded KiwiSaver and State Sector Retirement Savings Scheme (SSRSS) by the State Services Commission. This means that ERO will need to fund its contribution towards these schemes from within existing baselines. The employer contribution amounts forecasted are \$279,000 for 2012/13 increasing by a further \$23,000 to \$302,000 for 2013/14 and outyears. The increase in 2013/14 is due to the change in KiwiSaver employer contribution rate from 2% to 3% from 1 April 2013.
37. Again ERO plans to manage the efficiency saving target including the costs of KiwiSaver and SRSS from within its reduced baselines.

Measures to Manage Fiscal Pressures

38. ERO does not have a diverse portfolio of programmes from which to reprioritise. Therefore ERO must look to where it can be more efficient, identify areas where it can make economies and explore innovative ways to manage its fiscal pressures while still delivering an excellent, professional service. ERO plans to manage its fiscal pressures through several actions (summarised in Appendix 1), namely:
- implementing a revised methodology for schools along the review cycle continuum for return periods of three years and four-to-five years;
 - implementing a new and more flexible review methodology for early childhood services; and
 - continuously reviewing its support and operational expenses such as property.
39. ERO has determined a set of upper budget hour limits for school reviews as a result of the new and more flexible review methodology for schools tabled below.

Schools	*Budget Hours for 1-2 years returns	*Budget Hours for 3 years and 4-5 years returns
0 to 100 Students	105	85
101 to 300 Students	145	115
301 to 600 Students	170	135
601 to 900 Students	230	185
901 to 1,500 Students	260	210
More than 1,500 Students	285	230

* A further 10 hours have been set aside for reviews that require Māori translation work.

40. The review methodology for schools has produced a reduction in review times of four percent. This is equivalent to three Review Officers. Currently more work is being done on the review methodology within the differentiated review cycle continuum where the timing of the next review for a school could be three years or four to five years. ERO plans to reduce its review times for these by up to five percent.
41. As ERO has done for schools, it is looking at its approach to early childhood services and then review the methodology accordingly. Over the past two financial years, ERO took on average 51 hours to complete an early childhood service review. It is planned that the revised methodology will reduce the average review time and uses a sampling process for umbrella organisations. This will help ERO manage the growth in this sector and other cost pressures.
42. In 2009, ERO reviewed its organisational structure. To date, a new management structure and operating model have been implemented and two offices have been closed (one in 2009 and another in 2010). The full financial benefits from this organisational review will be realised in 2011/12.
43. ERO has commenced a review of its administration support to ensure it is well aligned with the organisational structure and revised review methodologies. This may realise savings of up to two full time equivalents (FTEs).
44. ERO is also carrying out several initiatives to promote efficiency and improve its service delivery. This includes:
 - improving expenditure in the use of facilities and equipment and opportunities for shared services (such as whole of Government procurement reforms); and
 - investing in a better information systems infrastructure (implementation of an electronic document records management system, video-conferencing, scanning and centralised faxing).
45. ERO's corporate service functions are within the benchmarks of the Better Administration Support Services (BASS) except for property. In August 2010, ERO leased space in eight buildings averaging 29 square metres per person. This is well above the BASS benchmark of 16 square metres per person.
46. By 2011/12, ERO plans to reduce its average square metres per person from 29 to 25 and save \$236,000 per annum on operating lease costs from the following properties:
 - Relocate Whanganui office to a new location and save \$24,000 per year and reduce space by 465 square metres;
 - Reduce space in the Dunedin office by 170 square metres and save \$17,000 per year;
 - Relocate Wellington office based in Willis Street to a new location and reduce space by 170 square metres;
 - Reduce space in the Corporate office based in Wellington by 318 square metres and save \$165,000 per year; and
 - Sublease Napier office to Careers New Zealand saving \$30,000 per year.

47. As future leases come up for renewal, ERO will look for opportunities to make further savings. [10]

48. [10]

Section 4: Proposed Changes for 2012/13 to 2015/16

Efficiency Savings

49. The total efficiency saving target required from ERO is \$831,000 in 2012/13. This includes \$279,000 for KiwiSaver and SSRSS costs that will no longer be centrally funded. This increases to \$302,000 in 2013/14 and outyears.
50. The measures that will enable ERO to deliver its efficiency savings are described in the section *Measures to Manage Fiscal Pressures* above.

Proposed Changes

51. There are no changes proposed for Cabinet. ERO will manage its priorities and cost pressures from within existing operating and capital funding available to Vote Education Review Office.

Section 5: Baseline capital expenditure

52. ERO is not a capital intensive department and plans to spend only \$1.770 million in 2011/12 and \$1 million per year over the remaining forecast period between 2012/13 to 2015/16.
53. The typical assets purchased by ERO as part of a planned asset replacement programme are computer equipment, motor vehicles and various items of office furniture and equipment.
54. Consistent with the Government's procurement policies, ERO will be guided by the following principles:
- best value for money over whole of life
 - open and effective competition
 - acquiring sustainably produced goods and services wherever possible, having regard to economic, environmental and social impacts over their life cycle.
55. ERO has supported the All-of-Government programme reforms and has access to the various supplier contracts for capital items such as motor vehicle, personal computers and laptops. The economy of scale associated with these contracts has meant better pricing for ERO.
56. The following table summarise the planned departmental capital expenditure for Vote Education Review Office from within its existing baselines.

5. Departmental capital expenditure	\$m increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16
a. Opening baseline funding available	*1.173	0.522	0.738	0.999	1.119
b. Depreciation funding (1:51:1, 199)	0.819	0.825	0.848	0.750	0.798
c. Sale of assets (1:52:0, 1999)	0.108	0.105	0.105	0.086	0.094
d. Other - Depreciation funding from intangible assets	0.192	0.286	0.308	0.284	0.291
e. Total baseline funding available (a+b+c+d)	2.292	1.738	1.999	2.119	2.302
f. Capital investments funded from baselines	1.770	1.000	1.000	1.000	1.000
g. Closing baseline funding available (e-f)	0.522	0.738	0.999	1.119	1.302

* The calculation used to determine the 2011/12 opening baseline funding available to purchase assets was depreciation funding plus proceeds from sale of assets less capital purchases between 2002/03 to 2010/11.

Section 6: Further options

57. During the line-by-line review exercise in 2009/10, ERO ceased carrying out or reduced the volume delivered for the following lower priority programmes:
- cessation of adult and community education reviews;
 - cessation of post-review assistance workshops to schools; and
 - reduction in the number of homeschooling education reviews.
58. Hence ERO does not have a diverse portfolio of programmes from which to reprioritise with just two core programmes remaining - its reviews of schools and early childhood services, and its national evaluations of education sector performance and educational good practice. As discussed earlier, ERO has revised or is in the process of revising its various review methodologies. This will enable ERO to manage its future cost pressures.

More Flexibility in Appropriations

59. ERO will engage with the Treasury over the possibility of changing its annual output expense appropriations to a multi-year one. Multi-year appropriations give authority to ministers to incur expenses or liabilities for a maximum of five years.
60. As mentioned earlier ERO plans to review on average one third of all schools and early childhood services each year, but within this average review cycle, ERO will reprioritise its resources in schools that are underperforming in line with the differentiated review cycle. Hence ERO has a “fixed” review programme over three years. Having multi-year appropriations would improve the financial flexibility for ERO to deliver this goal.
61. This will be investigated further with the Treasury over the coming months.

Fiscal Pressures and management of them

Fiscal pressures	Measures to manage fiscal pressures
Growth in number of early childhood services	Implement a new and more flexible review methodology for early childhood services to reduce average review time taken.
Personnel costs	Implement a new and more flexible review methodology for early childhood services to reduce average review time taken.
	Revise methodology for schools along the review cycle continuum for return periods of three years and four-to-five years with the aim to reduce review times by up to 5 percent.
	Realise full financial savings from change in organisational structure that commenced in 2009.
	Review administration and support functions such as property.
Efficiency saving target	Implement a new and more flexible review methodology for early childhood services to reduce average review time taken.
	Revise methodology for schools along the review cycle continuum for return periods of three years and four-to-five years with the aim to reduce review times by up to 5 percent
	Realise full financial savings from change in organisational structure that commenced in 2009.
	Review administration and support functions such as property