

The Treasury

Budget 2013 Information Release

Release Document

July 2013

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



Reference: T2013/297

DH-44-1-1

Date: 15 February 2013

To: Minister of Finance
(Hon Bill English)

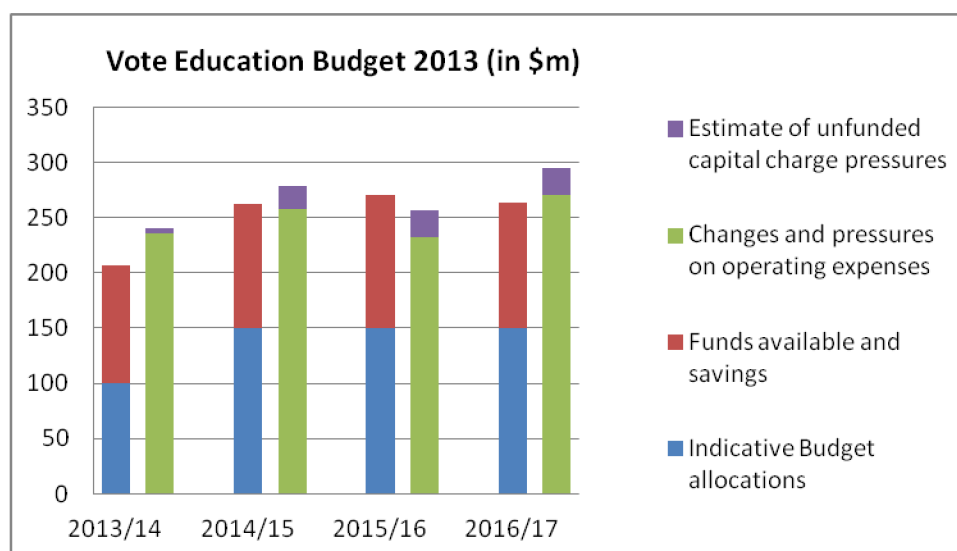
Deadline: 18 February 2013

Aide Memoire: 19 February Bilateral with Minister Parata re Budget 2013

You are meeting with Minister Parata on 19 February to discuss the Vote Education Budget 2013 package. Her office have indicated that she also would like to discuss in particular the School Network Upgrade Programme (SNUP), the Network for Learning (N4L), capital charge treatment and whether she should take a Vote Education paper to SEC to explain the proposed Budget package.

What does the proposed package for Budget 2013 look like?

- The Vote Education Budget 2013 package currently has a funding gap of \$68m over four years, including the capital charge expense that are not currently included in the Vote Education Budget bid.



- Some of the largest initiatives in the Budget package are (all four year figures):
 - \$177m for the BPS 98% ECE participation target for new school entrants
 - \$85m to fund an inflation increase in the Schools' Operations Grants
 - \$59m to allow for expected costs stemming from ECE forecasts in the March Baseline Update (MBU) 2013, and
 - \$64m for the continued roll-out of Positive Behaviour for Learning programmes.
- In broad terms, the Budget package does not signal significant change for the Education sector. Funding is channelled primarily towards cost pressures, the ECE target and to a lesser extent to quality teaching. We consider there is scope to target some of this funding more explicitly at priority learners through the Schools' Operations Grant and targeted use of the Targeted Funding for Educational Achievement (TFEA). Some options you may wish to explore with Minister Parata in this regard are set out below.
- There are a number of unquantified pressures for Vote Education that are not currently included in the figures,[6] Moreover, changes in schooling forecasts in the March Baseline Update could alter pressures.
- Vote Education also faces an increased capital charge expense of around \$75m in Budget 2013 associated with new capital funding sought. Minister Parata may request your agreement that all capital charge be funded from outside of Vote Education's indicative allocation. We recommend that you do not agree to this for the following reasons:

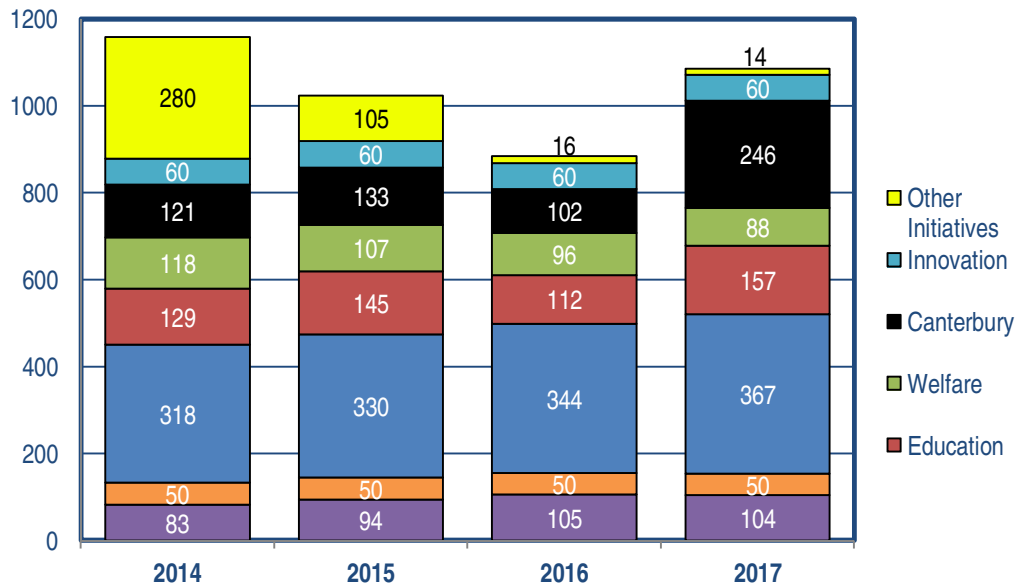
Treasury position on capital charge

- CAB Min (10) 41/9 intended that capital charge for investments be funded from within baselines, unless the capital investment can be linked directly to an increase in quantity or quality.
- Where investment increases quantity or quality, Cabinet has discretion to approve new funding. This has a negative OBEGAL impact, and reduces Budget spending allowances in line with the fiscal management approach.
- The original expectation was that all funding decisions within Vote Education that impact the operating allowance should be funded from within their allocation, including funding of capital charge. Providing additional funding to Vote Education above the indicative allocation will increase pressure on the Budget 2013 operating allowance.
- Other departments have generally not raised capital charge as a pressure and the expectation is that they will fund it from within baselines (though other Votes do not have very large capital pressures).

The overall state of the Budget 2013 Operating Allowance makes it imperative to balance the Education Budget package

- As at 12 February 2013, significant savings will still be required to bring overall net spending below the operating allowance. Budget Ministers will need to take a view across all areas of spending, including Vote Education proposals.

(all figures in \$ millions)	12/13	13/14	14/15	15/16	16/17	Total
Budget 2013 allowance	0	800	800	800	800	3200
Indicative allocations and pre-commitments						
Emissions Trading Scheme	31	83	94	105	104	417
Health	-56	318	330	344	367	1304
Education	-5	129	145	112	157	539
Welfare reform	0	52	51	45	39	187
Contingency		50	50	50	50	200
plus other initiatives						
Residual Welfare package	21	66	56	51	49	243
Canterbury	41	121	133	102	246	642
Innovation Package	0	60	60	60	60	240
Other initiatives	-52	280	105	16	14	363
Total spending if all approved	-18	1159	1025	885	1085	4135
Savings required to offset	-18	359	225	85	285	935



What are the options for making the Vote Education Budget package balance?

- We consider that there are three options to make the package balance and which you could explore further with Minister Parata:
 - In the first instance, we recommend you explore options to scale operating expenditure and target it more explicitly at priority learners.

- You could also explore ways to reduce capital pressures, although this may have drawbacks.
 - Finally, you could support further savings to balance the package, while maintaining funding for priority groups.
- a) Scaling operating expenditure:
- You may wish to explore further with Minister Parata opportunities to reduce operating pressures from a number of Budget initiatives. The key areas we think would warrant greater scrutiny in this regard are funding for the BPS 98% ECE participation target, the inflation increase in the Schools' Operations Grants and the continued roll-out of Positive Behaviour for Learning (PB4L).
 - The **BPS ECE 98%** initiative funds for increased ECE places, protect vulnerable children and families from fee rises, and ensure high-quality ECE provision. But uncertainty remains as to whether higher participation will actually be achieved. Furthermore, the BPS target does not specify the age at which children should participate in ECE but simply states that by 2016, 98% of children starting school will have participated in quality ECE. However, the Budget bid indicates that the majority of additional funding sought in this Budget is for subsidies/places for 3 year olds. The implication is that if they start participating at 3 there is a greater likelihood of them being retained as 4 year olds and leading to greater educational benefits. The Ministry has set an ambitious target of 96% of all 3 year olds in ECE by 2016. **You may wish to discuss with Minister Parata options to scale this initiative to ensure the focus is on achieving the core target and direct officials to investigate and report back on scaled options.**
 - The Budget package envisages an increase in line with forecasted inflation for the **Schools' Operations Grant**. We understand the Ministry do not have sufficient information on the level of cost-pressures faced by schools to use a more accurate index and that there is an expectation in the sector for a year-on-year inflation-linked increase in the region of 2-3%, in line with past Budgets. We consider there is scope to scale and target this funding to ensure that schools serving priority learners are sufficiently funded. **Decile funding could be a simple way of targeting this resource and you may wish to explore this further with Minister Parata in your bilateral meeting.**
 - Under the **PB4L** initiative, the Vote Education Budget bid seeks funding for a series of programmes, aiming to improve behavioural difficulties so that learning outcomes are enhanced and that long term costs (such as those faced by the Justice sector) of difficult behaviour into adult life are minimised. Programmes and initiatives are delivered by the Ministry of Education in partnership with non-government organisations, early childhood sector organisations and Resource

Teachers: Learning and Behaviour. Funding in Budget 2012 only provided resources until now. The Budget bid roughly maintains service delivery at 2012 levels. **You may wish to ask Minister Parata whether she thinks there is scope to scale this initiative by reducing the number of schools that would be able to access programmes.**

b) Reduce capital pressures:

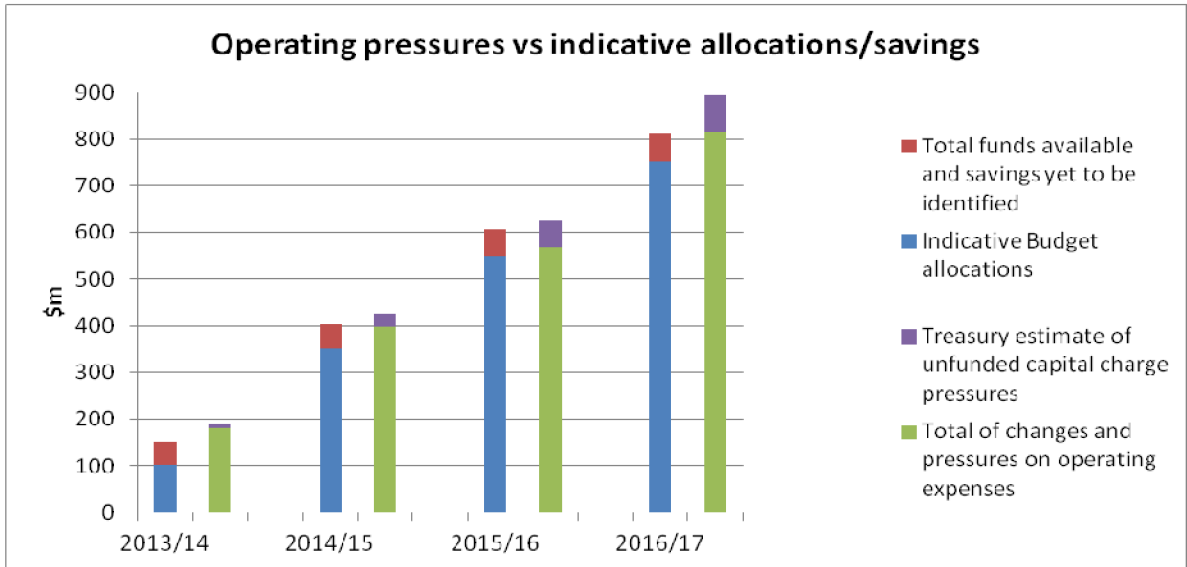
- You could consider reducing some of the capital pressures in Budget 2013 to reduce the associated operating impact of capital charge expenses.
- We understand that the original Budget bid of \$317m (for school property expansion and the School Network Upgrade Project) may already be revised down closer to \$225m. Reducing these further may have drawbacks:
 - Reducing capital spending further would likely extend the timeline for capital projects, or create “bulkier” outyears, and would lead to a network less aligned to demand needs.
 - Similarly to property expansion, you could look to defer the capital spending on the SNUP but this would reduce the contract efficiencies that the Budget bid is designed to help realise.

c) Explore further savings options:

- [6]

Longer-term sustainability of Vote Education

- The Vote Education Four-Year Plan broadly balances, but once capital charge is included will have a funding gap of around \$150m (almost \$100m in outyears).



*These figures do not make provisions for unquantified pressures,[6] . Schooling forecast changes in the March Baseline Update could alter pressures.

Other issues Minister Parata may raise

- N4L and SNUP

Minister Parata may wish to test whether she can use the underspend in the N4L contingency against the SNUP bid in Budget 2013. We broadly support this idea as it saves money overall and moves money between two related projects (both capital).

[7] ---

[3] **Nic Blakeley**, Manager, Education & Skills, 04 917 6896