

# 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.

## Key options for balancing the Vote Education Budget 2013 package

MoE's proposed package balances by not funding PB4L in outyears:

	2012/13	2013/14	2014/15	2015/16	2016/17
Savings	-16.76	-53.67	-52.75	-53.29	-52.00
Budget initiatives	12.19	186.34	193.73	178.78	197.61
<b>MoE package</b>	-4.57	132.67	140.99	125.49	145.61

There are four areas where Ministers need to make decisions to balance the package:

- Funding PB4L in the outyears
  - MoE recommends not funding outyears
  - Tsy recommends funding full four-year cost
- Level of funding for the Schools' Operations Grant
  - MoE recommends 2%
  - 1% would balance the package
- Level of funding for the ECE universal cost adjustment
  - MoE recommends 2%
  - Not supporting this would almost balance the package
- Level of funding for ECE volume increases in this Budget
  - MoE propose funding \$80.5m of ECE volume
  - Option to defer more of the ECE volume costs into future Budgets

Option	Ops Grant		ECE price		ECE volume		Deficit/surplus in outyears (\$m)
	Level	\$m in 16/17 & outyears	Level	\$m in 16/17 & outyears	Level	\$m in 16/17 & outyears	
MoE proposal	2%	23.789	2%	9.916	MoE proposal	17.228	deficit (\$12m)
2	1%	11.89	2%	9.916	MoE proposal	17.228	0
3	2%	23.789	0	0	MoE proposal	17.228	small deficit (\$2m)
4	1.29%	15.344	1.29%	6.396	MoE proposal	17.228	0
5	2%	23.789	2%	9.916	Part funding	5.335	0
6	0.60%	7.045	0.60%	2.975	MoE proposal	17.228	surplus (\$12m)

\*numbers in red indicate a departure from MoE's proposed package

## PB4L

We know that the PB4L pressure will definitely eventuate in outyears unless Ministers make a conscious decision to terminate the programme. Not funding the cost of the programme in outyears is thus creating a known hole in the baseline, which should be avoided if possible.

	2012/13	2013/14	2014/15	2015/16	2016/17
MoE package	-4.57	132.67	140.99	125.49	145.61
Plus PB4L in 2016/17 and outyears					16.28
<b>MoE package plus cost of PB4L in outyears</b>	-4.57	132.67	140.99	125.49	<b>161.89</b>

This leaves a gap of \$12m in the outyears.

## Schools' Operations Grant

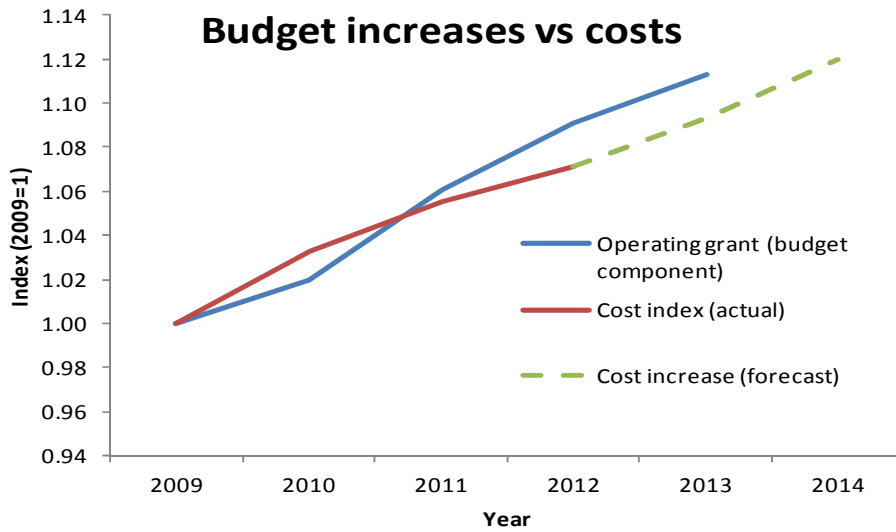
MoE proposes increasing the schools' operational grant by 2%. A 1% in the Ops Grant would balance the package in the outyears.

Expenditure on operational grants has increased every year since 2004-05. Expenditure is affected by changing student numbers, by changes in the composition of rolls (such as a secondary schools accounting for a greater proportion of total rolls), by some other changes in the characteristics of schools (such as the amount of property it must maintain), and by Budget decisions to increase funding.

There were explicit Budget decisions to increase expenditure on operational grant funding by:

- 1.95% in the school year beginning 1 January 2010
- 4.00% in 2011
- 2.92% in 2012
- 2.00% in 2013

These have generally been linked to *forecast* inflation. On average, these Budget increases have exceeded *actual* consumer price inflation, and been close to average wage inflation.



MoE does not currently have a school specific price index that can better forecast pressures that schools face in the future. In the absence of having available a school-specific cost index, Ministers can choose to apply any increase they consider appropriate to the Operations Grant. Any increase should bear in mind the overall position of the Budget package, particularly the shortfall in outyears once PB4L is fully funded.

Some options to increase the Operations Grant by different levels and their respective fiscal impacts are set out below.

<b>Options for Operations Grant Increases</b>	<b>2013/14 (\$m)</b>	<b>2014/15 (\$m)</b>	<b>2015/16 (\$m)</b>	<b>2016/17 (\$m)</b>	<b>Four-year cost (\$m)</b>	<b>Comment</b>
<b>2%</b>	11.827	28.81	23.899	23.789	83.4	MoE's proposal
<b>1.55%</b>	9.172	18.455	18.523	18.438	64.59	Updated preliminary Budget CPI forecast for 2014 calendar year excl tobacco
<b>1.2%</b>	7.061	14.244	14.299	14.233	49.8	Half of HYEFU forecast inflation for 2014. [7]
<b>1%</b>	5.914	11.905	11.95	11.9	41.66	This level of increase would balance the package.
<b>0.9%</b>	5.325	10.65	10.725	10.65	37.35	CPI for 2012 calendar year
<b>0.6%</b>	3.469	7.053	7.076	7.045	24.6	On the basis of HYEFU forecasts, MoE calculated that a 0.6% increase would be approximately sufficient to keep the real value of funding at 2009 levels.

MoE proposes that all schools receive the same overall increase. An alternative would have been to concentrate some of the increase in the "Targeted Funding for Educational Achievement" component of the grant, which would provide a relative benefit for most low-decile schools. However, modelling of this option revealed that a significant minority of low-decile schools (particularly kura kaupapa Māori, special schools and small schools) would be better off with an across-the-board increase.

#### *ECE universal cost adjustment*

MoE propose to fund a universal ECE cost adjustment at 2%.

A cost adjustment of this size is unlikely to have a positive impact on participation rates. In addition, this is a new investment directed towards supporting existing participation. We understand that price is not the major barrier for the participation of priority groups. We understand that availability of ECE provision is the greater barrier.

Moreover, ECE services determine their fees independently of government funding, so it unclear if this increase will have a material impact on real prices experienced by families.

If Ministers want to allocate a universal ECE cost adjustment to providers, some options to do so by different levels and their respective fiscal impacts are set out below.

<b>Options for ECE price Increases</b>	<b>2013/14 (\$m)</b>	<b>2014/15 (\$m)</b>	<b>2015/16 (\$m)</b>	<b>2016/17 (\$m)</b>	<b>Four-year cost (\$m)</b>	<b>Comments</b>
<b>2%</b>	9.39	9.539	9.75	9.916	38.595	MoE's proposal
<b>1.55%</b>	7.277	7.393	7.556	7.685	29.911	Updated preliminary Budget CPI forecast for 2014 calendar year excl tobacco
<b>1.2%</b>	5.634	5.723	5.85	5.95	23.157	Half of HYEFU forecast inflation for 2014
<b>1%</b>	4.695	4.770	4.875	4.958	19.298	An option to align with an Ops Grant increase that would balance the package.
<b>0.9%</b>	4.226	4.293	4.388	4.462	17.368	CPI for 2012 calendar year
<b>0.6%</b>	2.817	2.862	2.925	2.975	11.579	[7]

MoE previously indicated to Cabinet that cost adjustments would be deferred in favour of building the Equity Fund. Treasury supports an increase in Equity funding that is targeted at providers servicing families from low SES backgrounds.

#### *ECE BPS 98% target*

MoE are seeking \$80.535 million to support the BPS 98% target. They anticipate that this will provide for 2,450 additional child enrolments in 2013/14. Uncertainty remains around if and when these increases will materialise. There is therefore the option to defer more of the ECE volume costs into future Budgets to fund them when more

information becomes available and increases in participation come through in the ECE forecasts.

<b>MoE ECE participation bid</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>4 year total</b>
Increased subsidies (including Equity Funding and cost adjustment)	17,859	14,960	12,488	11,228	<b>56,535</b>
New demand stimulation funding	2,000	2,000	2,000	2,000	<b>8,000</b>
Outcomes-based purchase agreements	4,000	4,000	4,000	4,000	<b>16,000</b>
<b>Total per financial year</b>	<b>23,859</b>	<b>20,960</b>	<b>18,488</b>	<b>17,228</b>	<b>80,535</b>