

# The Treasury

## Budget 2017 Information Release

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Date: 13 September 2016

SH-4

To: Gabriel Makhlouf

Cc: Grace Campbell-Macdonald  
Sam Tendeter

From: [34]

## **Briefing for meeting with the Minister of Education meeting – 14 September 2016**

You are meeting with the Minister of Education, the Acting Secretary for Education, Katrina Casey and officials from the Ministry of Education on Wednesday 14 September from 11-11.30pm. This meeting was rescheduled from 24 August.

This meeting is one in a series of meetings with portfolio Ministers of large departments. The objectives of these meetings are to discuss:

- the key challenges, pressures and opportunities facing the Minister's department in achieving its results, including any issues surfaced through its 2016 Four Year Plan
- what options the Minister would like to consider to address these and where the Minister wants the department to focus its efforts, and
- what this will mean for the department's 2017 Four Year Plan and 2017 Budget initiatives.

The attached slide pack is designed for you to talk through the key Budget messages, feedback from the Ministry's 2016 Four Year Plan and focus areas for the 2017 Plan. We have worked with the Ministry of Education on the attached A3 to assist the discussion on the challenges and opportunities looking forward to Budget 2017 and beyond. Below is some supporting material for matters that may come up during the meeting. With the exception of 'review of funding systems' and the note/graphs on funding changes since 2008/09, this material remains largely unchanged from our previous [note](#) to you dated 19 August 2016.

### ***Four Year Plans***

The Ministry prepared an updated 2016 4YP in May 2016 to reflect the work done through the Sector PIF process and the Education System response to the Blueprint.

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### ***Understanding system performance***

We have been engaging with the Ministry of Education around how they could more systematically analyse the performance of the education system and use that analysis to improve policy settings and practice.

Improving measurement and monitoring of system performance will be important to taking forward investment approach principles in education and to position the Ministry of Education to operate in a B2020 context.<sup>[33]</sup>

You could emphasise that there will be an increasing expectation that agencies 4YPs demonstrate an understanding of the performance of their systems and their impact on different population groups; and that budget bids will increasingly need to be supported by population and impact analysis.

For example, the Treasury will also be advising the Ministry of Finance to require any changes to the school funding model to be put in the context of the wider strategy for 'at risk' learners and for an evaluation strategy to be put in place.

### ***Education reform programme***

There are a number of components to the Education Reform programme (set out in the A3), which together are aimed at supporting a strengthening of teaching effectiveness.

A focus of our advice has been on ensuring alignment across the overall reform strategy. For example, the effectiveness of funding reform changes will depend in part on the overall accountability arrangements and better use of data on the impact for learners. We have also been encouraging the Ministry to undertake more work on the medium-term strategy around Communities of Learning.

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### ***Other issues***

#### **Forecast changes**

It is likely that the Minister of Education may raise the issue of forecast treatment during the Budget process as part of the discussion.

In 2010, Cabinet decided to include Vote Education forecast changes as part of the Budget operating allowance for incentive reasons. In 2014/15, these transitioned from a financial year to calendar year approach, which made it more consistent with other Votes and easier to accommodate in the Budget allowance.

Joint Ministers confirmed that Vote Education forecast changes continue to be included as part of the Budget operating allowance in 2015/16. We think there is benefit in having forecast changes in the budget process, as it exposes costs of policy choices (eg ECE subsidy) through budget.

#### Budget funding issues that may be raised

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#### Capital charge

It is worth noting that the Minister may raise the issue of the Ministry being a capital intensive agency and say this puts a significant burden put on the Ministry by having to absorb the capital charges applied to the portfolio. MoF has been clear to the Minister and his Cabinet colleagues that he will not be changing his approach as it incentivises Ministries to manage their capital portfolio in an effective way.

#### ***Attachments***

[Slide pack for Gabs/Minister of Education meeting](#)  
[A3 for Gabs/Minister of Education meeting](#)



# Budget 2017 and Four Year Plans

Meeting with the Minister of Education  
14 September 2016

# Meeting objectives

- Budget 2016 – Outcomes and lessons
- Outline thinking and process for Budget 2017
- Discuss (see attached A3)
  - key challenges pressures and opportunities facing the Ministry in achieving its results
  - options the Minister would like to consider to address these, and
  - where the Minister wants the Ministry to focus its efforts in the next Four Year Plan process and budgeting over the next few months
- Outline the process over coming months

# Shifts towards Budget 2020



**BUDGET 2020**

- Investment priorities are informed by an understanding of longer-term, cross sector risk and impact analysis.
- Accountable agencies have the tools, flexibility and incentives to understand, manage and improve the impact of current interventions and present strategic choices.
- Agencies develop, implement and assess proposals for change and additional investment, taking account of cross sector levers and impacts.

**What do you think of these shifts and how could they be achieved?**



# What this means for Budget 2017

Budget 2017 will embed the objectives and tools introduced in Budget 2016 while looking at how this will support our goals for Budget 2020

Key elements:	This is likely to involve:
<p><b>Budget priorities</b></p> <p><i>The Budget Strategy Cabinet paper will set the Budget priorities</i></p>	<ul style="list-style-type: none"> <li>• Emphasis will be given to initiatives that align with these Budget priorities.</li> <li>• Cost pressure reporting will be aligned with Four Year Plans and the Ministry of Finance Function analysis.</li> <li>• There will not be a distinction between the assessment of cost pressure and non cost pressure initiatives in Budget 2017.</li> </ul>
<p><b>Customer identification, clear impact and results focus</b></p> <p><i>All initiatives are to clearly identify the impact and results it will have for New Zealanders</i></p>	<ul style="list-style-type: none"> <li>• Complete cost benefit analysis, which may include the CBAX tool.</li> <li>• All initiatives are to be supported by evidence and an evaluation plan.</li> <li>• Expert panels to support the Treasury to test evidence, assumptions and evaluation plans.</li> <li>• Articulating an understanding of the effectiveness of existing expenditure and policy, and how this compares to new funding proposals.</li> <li>• Both new and existing investment will be approached from what impact these have on results.</li> </ul>
<p><b>Transparent process, rules and consequences</b></p> <p><i>Consistent with agencies' requests and Finance Ministers' direction</i></p>	<ul style="list-style-type: none"> <li>• The Budget 2017 process will be made clear at the start, it will likely be consistent with Budget 2016 and will identify any updates in the guidance.</li> <li>• Budget 2017 will set out clear rules and consequences upfront in the Cabinet paper and/or Budget guidance.</li> <li>• Assessment criteria for the Panels will be shared with agencies.</li> <li>• Four Year Plan, Investor Confidence Ratings and Long Term Investment Plan results will be explicitly reported in Budget package advice.</li> <li>• We acknowledge that changes will still occur – we will try our best to signal these as and when we become aware of them.</li> </ul>

# Ministry of Education's Four Year Plan

The Ministry are demonstrating progress and are tracking towards a stronger Four Year Plan as key organisational and strategic building blocks are strengthened. A key focus will be strengthening integration across these areas of the plan.

Key focus areas	
Sharper articulation of the impact expected from the strategic direction.	<ul style="list-style-type: none"><li>• Greater clarity on how the Ministry's intentions will lead to the objectives set out.</li><li>• Stronger story around how the Ministry will know whether the work programme activity is leading to impact, and the steps needed to be able to monitor this.</li><li>• Development of the system performance framework and how this will be used across Ministry/sector.</li></ul>
Ministry people plan	<ul style="list-style-type: none"><li>• Strengthening the connection to the business direction.</li><li>• Setting out the workforce implications of delivering on strategic direction.</li></ul>
Financial section of plan	<ul style="list-style-type: none"><li>• Pleased to see the Ministry building a clearer view on 10 year cost profile and the development of investment framework.</li><li>• This and the SEC report back can feed into the refreshed 4YP.</li><li>• Scope for greater discussion on capital pipeline.</li></ul>
External workforce	<ul style="list-style-type: none"><li>• Developing the key components needed for a workforce strategy.</li><li>• Biggest challenges and how does the Ministry intend to respond.</li></ul>

# Process over the next few months

Date	Activity
August	Cabinet paper on Four Year Plans
September	Budget 2017 Strategy Cabinet paper
September	Detailed Budget guidance on process and investment tools released
September – November	Conversations on the key areas of focus for Budget 2017 and agencies strategic planning and budget process
30 November	2017 Four Year Plans due

# Overall Budget Strategy

## Changing the approach to Budget by 2020

- Investment priorities informed by understanding of longer-term, cross sector risk and impact analysis
- Accountable agents have the tools, flexibility and incentive to understand, manage and improve impact of current interventions, and present strategic choices.
- Agents develop, implement and assess investable propositions and change proposals, taking account of cross sector levers and impacts.

## What this means for Budget 2017

- Improved understanding of the effectiveness of existing expenditure.
- Using analytics to set clear priorities, priority groups and results earlier in Budget process.
- Continuing the use of tools such as investment panels and CBAX.
- Ensuring new spending proposals are supported by evidence and evaluation plans.
- Strengthened longer term financial planning.
- Integration with the four year plan process
- Focus on implementation and evaluation

# Vote Education can help support both the shift towards 2020 and improving education outcomes

## Building from recent Budgets

- CBAX undertaken on nine initiatives at Budget 2016
- Introduction of additional targeting to distribute an operational grant increase.
- Previous youth review and 0-5 review.

## Funding context

- The movement in budgeted spending since 2008/09 is an increase of \$2.8b or 35%
- Most of the increase in funding has been to address cost drivers such as ECE subsidy adjustments, ops grant adjustments and wages.
- A significant portion of the increase came from an increase in volumes at ECE and schools including property.
- The remainder is from policy changes, in particular IES. And also targeting ECE participation, youth guarantee scheme, and property and ICT initiatives.

## Strengthened understanding of baseline ahead of Budget 2017

- Developing better information on learner volumes and costs to improve decision-making around learning support
- Repeating the 4 and 10 year cost pressure exercise as undertaken for Budget 2016
- The Ministry's Strategic Finance SEC report-back on departmental baselines
- The Auckland Growth Package & School Property Business Case – understanding the long term view.
- Work towards better understanding of ECE cost drivers.

## Opportunities

- Investing in the systems across the social sector required to deliver an integrated fit-for-purpose education system.
- Utilising a social investment approach to identify highest-need expenditure. Supporting Budget initiatives by looking at population groups, and wider impact analysis.
- Property and infrastructure investments are focussed on the longer-term system and sector requirements to support educational outcomes.

# Building blocks to strengthen investment approach and a fit for purpose education system for children and young people

## Key building blocks

### The Four Year Plan

*An agreed focus on:*

- Articulating expected impact from strategic direction over 4 years.
- Finance elements – including SEC report back.
- Identifying strategic choices for upcoming budgets.
- Aligning capabilities with strategic direction.
- Clarifying the approach to the external education workforce.

### Sector capability

*Steps underway:*

- iEd/Ora will strengthen the education system's data infrastructure, support social investment, and make better, more timely information available across the system.
- Improved understanding of departmental pressures currently being developed for SEC report-back.
- The Ministry is beginning to build and embed the elements of an investment approach.

### Prioritising analytical effort to specific areas

*Treasury and Ministry are engaging on:*

- Better understanding student pathways from secondary school.
- Better understanding return on investment from Early Childhood Education.
- Analysis on learners most at risk of not achieving. Population analysis and understanding existing services/initiatives.

### Understanding system performance

- Better understanding of overall performance of the education system.
- Performance framework to identify strategic issues and priority populations for focus
- Improved evidence to support investment decision-making, including strengthening Budget bids with population and impact analysis, and decisions on other policy settings.

## Work programme components supporting greater system effectiveness

### Communities of Learning

- Communities come together to discuss and analyse data and factors affecting achievement for their students, setting clear priorities.
- Shared practice around the use of data enables Communities to better understand, manage and improve the impact of their interventions at a local level.

### Review of the Education Funding System

- A data-driven approach to funding the children and young people most at-risk of education underachievement.
- A simplified system with greater accountability for expenditure and outcomes, supporting schools and Communities of Learning in decision-making around investment.

### Update of the Education Act

- A shift from a focus on institutions and processes to a system where decisions can be devolved, e.g. choices about the types and providers of learning.
- A streamlined planning and reporting framework for schools with national performance measures, increased accountability to parents and communities and strategic planning cycles.

### Modernising Learning Support

- An investment-focused approach to better support learners with additional learning needs (including better understanding the long-term outcomes of these learners).
- A service delivery model that is child-centred, collaborative, features learning plans for individuals and a single point of contact and accountability.