

The Treasury

Budget 2017 Information Release

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2016/2091

Date: 7 November 2016

To: Minister of Finance (Hon Bill English)

Deadline: 3.30pm Wednesday 9 November 2016

Aide Memoire: Briefing on Vote Education ahead of meeting with Hon Parata

You are meeting with Hon Parata at 3.30pm on Wednesday 9 November to discuss Vote Education. This is the first of two discussions to inform Budget 2017. The purpose of this meeting is to discuss:

- what is being achieved within baseline resources
- options to manage cost pressures, and
- potential budget initiatives.

This aide memoire provides you with information to support you in the discussion.

Key points to raise

You may wish to raise the following points:

- **Strengthened understanding of system performance and impact on educational outcomes.** The Ministry's understanding of the impact and effectiveness of investments and policy settings on educational outcomes is variable. You may wish to highlight to the Minister the importance of developing a strong understanding of system performance and the extent to which this informs Four Year Plan and Budget initiative priorities.
- **Initiative intentions and options for managing cost pressures, including what strategic and policy choices are being considered.** The Ministry is facing a number of cost pressures that are becoming increasingly difficult to manage within baselines, this is particularly evident at the departmental level and with increasing demand for ECE. You may wish to ask the Minister what options and policy choices she is considering to manage cost pressures in the short and medium term. The Ministry also needs to be identifying the medium-term fiscal implications of the education reform programme and scope for managing these fiscal implications within baselines.

- **Skills and capabilities needed to deliver on priorities.** The Minister also has an ambitious reform agenda which will change how the Ministry operates into the future. You may wish to ask that the Ministry justify any Budget initiatives around building departmental skills and capabilities in terms of how they will contribute to the broader people strategy. In a similar vein, we would expect to see improvements in the Ministry’s programme and portfolio management maturity before we could support their proposal to move to longer-term funding commitments for school property.

Ministry of Education performance

A key focus area identified for improving the Ministry’s Four Year Plan is to better articulate the expected impact from the strategic direction over the next 4 years.

[34]

Given education is a complex system, it is also important to understand the impact of the system as a whole and how that flows through into educational outcomes. The development of system performance measures (including outcomes of different types of learners) would help the Ministry to better articulate the expected impact from the strategic direction in the Four Year Plan and to provide a more compelling story around why investment in its proposed budget initiatives will improve system performance.

Four Year Plan

The Ministry prepared an updated 2016 Four Year Plan in May 2016 to reflect the work done through the Sector PIF process, and the Education System response to the Blueprint. [33]

[33]

- [33]
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[33]

[34]

Initiative intentions and cost pressures

Initiative intentions

The Ministry has indicated that there are likely to be three broad packages of initiatives to be put forward for consideration at Budget – realising learner potential (many of the Track 1 initiatives fall within this category); lifting learners' potential [33]; and maintaining the core system. [33]

The Ministry has submitted [33] potential Track 1 initiatives for consideration by the Social Investment Panel totalling [33]

The Minister has an ambitious reform agenda which, as an integrated package, should support improved education performance, including for the most disadvantaged students. [33]

The Ministry needs to be strengthening its analysis of the funding implications of key policy choices and scope for managing these fiscal implications within baselines.

Cost pressures

We are aware that the Ministry is facing a number of cost pressures that are becoming increasingly difficult to manage within baselines. This is particularly evident at the departmental level.

It is likely that the Minister will be submitting a substantial cost pressures bid for Budget 2017. [33]

Below is the total initiative intentions as we understand them:

| Initiative intention | Operating (\$m over 4 years) | Capital (\$m over 4 years) |
|--|-------------------------------------|-----------------------------------|
| Track 1 | [33] | |
| Track 2 (indicative discretionary) | | |
| Track 2 (indicative cost pressures) | | |
| MBU forecast changes | | |
| OBU forecast changes | | |
| Total (including Track 1) | | |
| Total (excluding Track 1) | | |

[40]

We would expect to see a stronger case to support further increases in departmental baselines. [33]

For any departmental cost pressures bid to be considered for funding through Budget 2017, we would expect to see a shift towards thinking about the future skills and capabilities required, and what that might mean for the department and sector over the medium to longer term.

We understand that the Minister is likely to raise the issue of departmental cost pressures with you at the meeting.

Early Childhood Education

A significant portion of the forecast changes that have come through the Baseline Updates process has been for ECE (\$403m over four years). This has been driven by increased participation (volume growth) as well as changes in the mix of services. MBU 2016 changes were driven by volume growth with demand increasing for both home-based and centre-based services. However, OBU 2016 changes saw greater price growth, with the proportion of attendance at home-based services declining in favour of growth in (more highly-subsidised) centre-based services.

[34]

School property

Through our engagement on the Auckland Education Growth Plan (AEGP) programme business case, due for completion in the first quarter of 2017, the Ministry have signalled their aim to expand the ten-year planning approach used in the AEGP more widely across their property portfolio. The Ministry views the current budget process as posing challenges for a long-term planning approach that maximises efficiencies and economies of scale.

[33]

We have concerns that the Ministry's programme and portfolio management maturity is not sufficiently developed to manage prioritisation and benefits across the projects in its portfolio. The Ministry's Investor Confidence Rating assessment rated the organisation level score for programme maturity at 1.92 on a 5 point scale. Benefits management was a particular weakness.

We recognise that an EIS intermediate benefits framework has been developed, and we see the AEGP programme business case as an opportunity for the Ministry to improve the quality of its portfolio-level thinking and the strategic alignment of infrastructure projects, but the Ministry still has a way to go to improve its programme and project management.

We recommend that the Ministry focus on developing the quality of the school property programme business case, develops an integrated Long Term Investment Plan, and establishing and embedding internal accountabilities for portfolio-level prioritisation and benefits management across the life of programmes and projects. The second ICR assessment planned for mid to late 2017 will provide an opportunity to review the Ministry's progress.

Other issues

Forecast changes

The Minister 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 (e.g. ECE subsidy) through budget.

Capital charge

It is worth noting that the Minister may raise the issue that high levels of capital charge, as a capital intensive agency puts a significant burden put on the Ministry. You have indicated to your Cabinet colleagues in the past that this approach is unlikely to change as it incentivises Ministries to manage their capital portfolio in an effective way.

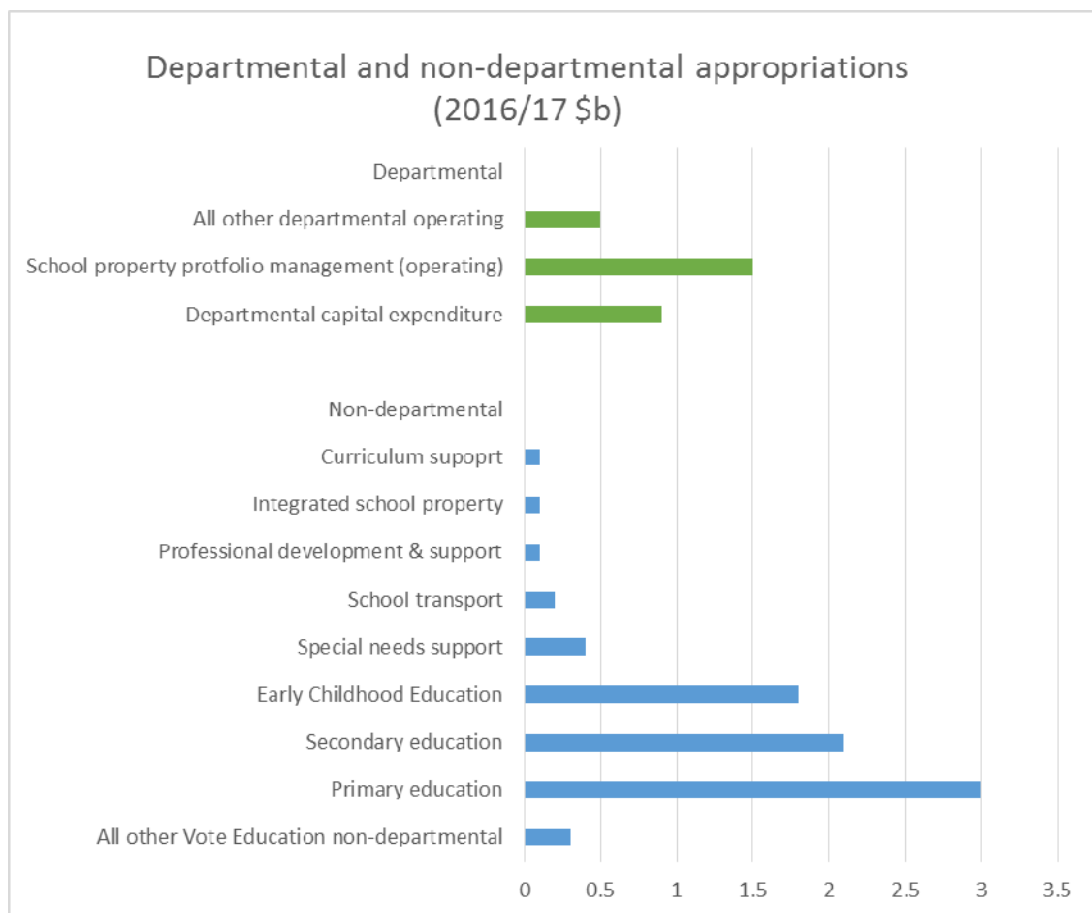
[34] Analyst, Education & Skills, [39]
Diana Cook, Acting Team Leader, Education & Skills, [39]

Attachment: Vote Education baseline
[33]

Annex one: Vote Education baseline

In 2016/17 Vote Education is \$11b, \$8b of which is non-departmental funding primarily for the delivery of the curriculum from ECE through to secondary school. The sector works as a 'devolved model', whereby decisions and control is devolved to individual Boards of Trustees. Schools receive funding through the operating grant (\$1.3b pa), capital maintenance funding (\$200 million pa), and teachers' salaries (\$3.8 billion pa).

Departmental operating funding is largely made up of school property depreciation and capital charge (\$1.4b pa) with the remainder funding service delivery (\$0.6b pa). Capital expenditure of \$0.9b pa funds the school property investment programme which maintains, renews, improves and expands the asset portfolio currently valued at \$14.5b pa.



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, operations grant adjustments to schools and wages. A significant portion 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.

A large portion of the Vote Education expenditure is demand driven; therefore, there is expected to be increased pressures on baselines driven by demographic change as a result of high net migration and increasing demand for ECE and special education services.

For example, high net migration of families with school-aged children has a significant and immediate impact on costs through its impact on school roll growth. Under current policy settings, roll size flows through relatively quickly to both the per-pupil component of schools' operational funding, and, schools' full time teaching equivalent entitlement. Roll growth is automatically funded as demand-driven pressures, through forecast changes at Baseline Updates. For example, OBU 2016 forecast changes in teacher salaries and operating grants of \$292m over the forecast period were primarily driven by the impact of unexpectedly high net migration on school rolls, with July 2016 rolls 7,327 learners higher than anticipated.