

The Treasury

Budget 2017 Information Release

Release Document July 2017

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| [40] | Not in scope | |

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Date: 30 January 2017

SH-4

To: Tim Ng
Grace Campbell-Macdonald

From: [34]

Vote Education Budget 2017 meeting with the Minister of Education – 10.30am Tuesday 31 January

You are due to meet with the Minister of Education to discuss the Vote Education package of initiatives for Budget 2017. This meeting was requested by the Minister following a meeting with officials from the Ministry of Education last week where our Vote Team assessment was raised. We understand that the Minister is interested in discussing the following issues in particular:

- Three Ministry capacity bids (Departmental capacity and capability, Departmental budget bid – ICT [33])
- [33]
- [33]
- Targeted adjustment to early childhood education funding, and
- New school property agency (and its interaction with the EIS capacity bid, Supporting infrastructure delivery).

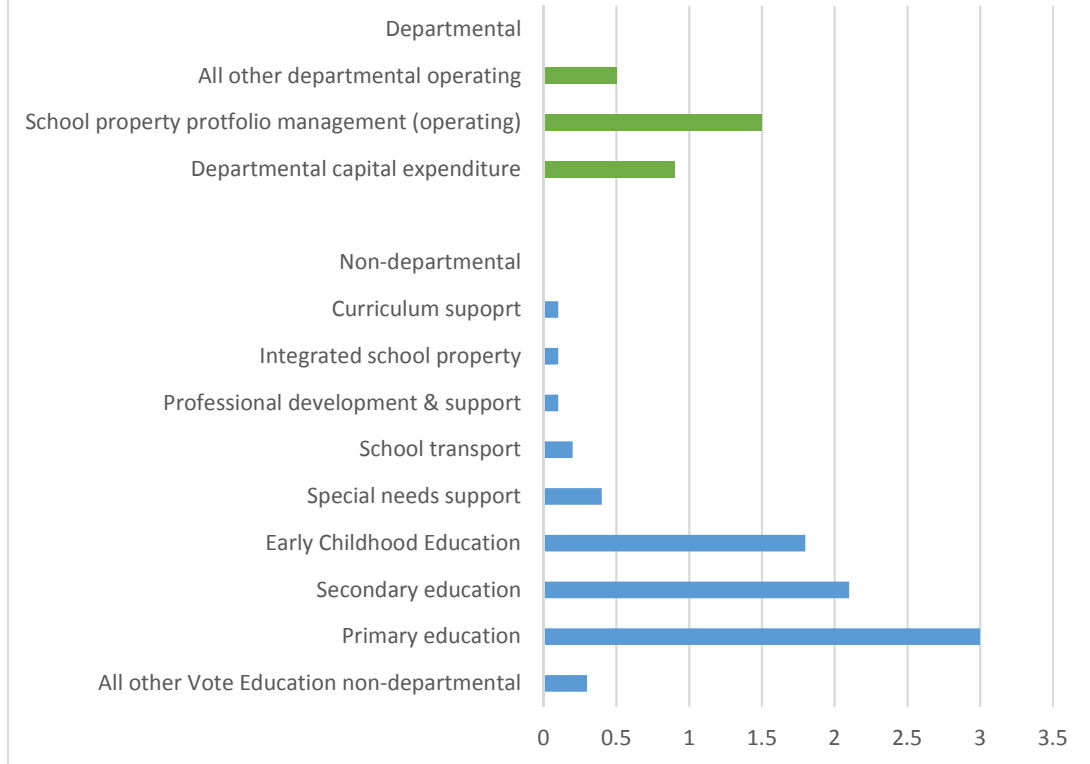
The purpose of this note is to provide you with the overall vote context and history, information on the initiatives submitted by the Minister of Education, and how our assessment is shaping up.

Background and context

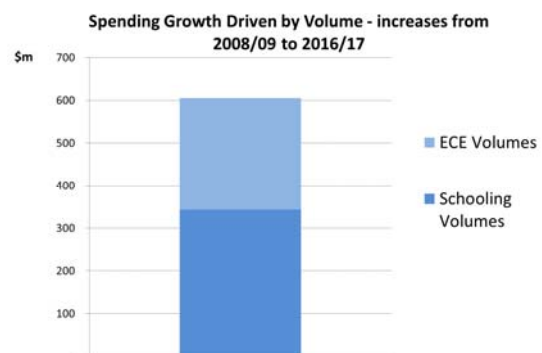
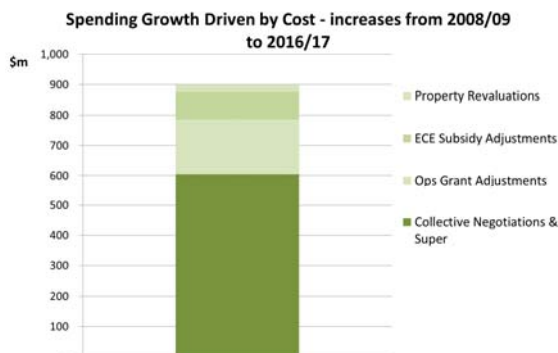
In 2016/17 Vote Education is \$11b, \$8b of which is non-departmental funding primarily for the delivery of the curriculum from ECE through to secondary school. The sector works as a 'devolved model', whereby decisions and control is devolved to individual Boards of Trustees. Schools receive funding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

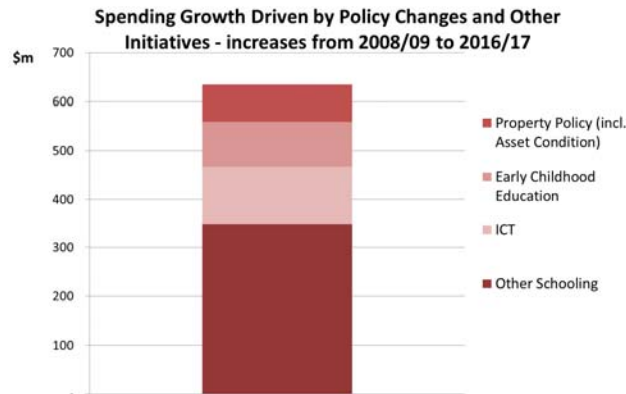
Departmental operating funding is largely made up of school property depreciation and capital charge (\$1.4b pa) with the remainder funding service delivery (\$0.6b pa). Capital expenditure of \$0.9b pa funds the school property investment programme which maintains, renews, improves and expands the asset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

Departmental and non-departmental appropriations (2016/17 \$b)



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, [33] 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.

Budget 2017

The Ministry of Education have submitted [] Track 2 initiatives comprising:

- [33] in opex (see breakdown below), and
- [33] in capex over the forecast period.

The key themes across the package are:

- Substantial cost pressures are evident across the system, particularly in departmental capacity, which is impacting on core service delivery and support to schools.
- Delivering the reform programme.
- Population growth, especially from high net migration, is driving demand and cost pressures.
- Keeping pace with growth and change in the early childhood education sector, and understanding its impact.

It is important to note that the below information is only our indicative assessment as we are yet to hold our moderation meeting with the corporate centre ahead of our final Vote Team assessment being due on Friday 3 February. We are also yet to discuss this with the Minister of Finance or Budget Ministers. Our indicative assessment was due on Friday 27 January and we have shared this with the Ministry of Education's Budget team.

We have applied the following set of principles while assessing the initiatives:

Giving **support** to:

- Initiatives that are aimed at key service delivery where there are is potential reduction in service delivery or outcomes (includes forecast changes, some departmental capacity, cost and demand adjustments) or where there is little or no discretion (such as to meet statutory requirements or collective bargaining)
- New services where the initiative is supported by good evidence and return on investment, and strong strategic alignment.

Scaling initiatives where:

- There are choices around the level of service provision
- The initiative has a number of different components some of which we support and other we would not

Deferring or not supporting initiatives that:

- Are not investment ready, lack evidence or implementation plans [33]
- Are low value for money and highly discretionary [33]

Attached is the full list of initiatives submitted by the Minister along with our initial assessment. Our initial assessment is as follows:

[33]

We understand that the Minister is interested in our views on the following initiatives:

- Three Ministry capacity bids (Departmental capacity and capability, Departmental budget bid – ICT [33])
- [33]
- [33]
- Targeted adjustment to early childhood education funding, and [33] (and its interaction with the EIS capacity bid, Supporting infrastructure delivery).

Three Ministry capacity bids

There are a number of initiatives which are aimed at departmental capacity both in national office and in the regions. We accept the Ministry's view that they are experiencing some cost pressures across the business in part as a result of the reform programme and the changing nature of the social sector. However, there are some

components of the initiatives that we believe are not investment ready or there is a degree of uncertainty around the nature and scope of the services proposed; therefore we are recommending these should be scaled. ¹

It is our view that these initiatives need to be justified in the context of the Ministry's overall operating model and how they fit together in taking the Ministry towards this future model. [33]

For this Budget our initial thinking is that we would provide two years of funding to allow them time to think about what the future will look like for the Ministry but give them some capacity to do that thinking while not compromising service delivery.

[33]

[33]

[33]

Targeted adjustment to early childhood education funding

At this stage we are likely to support this initiative as the funding is targeted at 'at-risk' populations in line with social investment, and the Ministry have identified a key opportunity to inform the ongoing funding review by evaluating the proposed targeted adjustment.

Beyond forecast adjustments (which are determined by volume and parental choice of service type, rather than price), the last targeted adjustment to ECE funding was in 2013, and the last universal adjustment was in 2008. With prices rising throughout this time, the risk of delaying this adjustment is that ECE centres with larger numbers of disadvantaged children compromise on quality of service provision. Education Review Office evidence that lower decile centres are more likely to be poorer quality raises real concerns about declining quality in the sector.

[33]

Other issues that may be raised

Forecast changes

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 the in-year revisions process used for some 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.

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. The previous Minister of Finance was 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. The Ministry's assets attracted \$997 million in capital charge for FY 2015/16, representing 9% of the total baseline.

Vote Education Budget 2017 initiatives

| Title | Vote Team Description | 4 yr Operating Sought (\$m) | 4 yr Capital Sought (\$m) | Initial assessment - 27 Jan | Overall Assessment |
|--|--|-----------------------------|---------------------------|-----------------------------|--|
| [33] | | | | | |
| Completing the additional in class support manifesto commitment | An additional 625 students each year for the next two years, to meet the Government's manifesto commitment of providing in-class support (ICS) to 4,000 students with ongoing high learning needs each year. | 15.517 | 0 | defer | Support if funding available. Impact is scalable (subject to impact of manifesto commitment - which committed to a certain number of students being supported) |
| [33] | | | | | |
| Continuation and expansion of Teach First NZ | Expands the existing employment-based Initial Teacher Education (ITE) programme (currently delivered by Teach First) [33] [redacted] The programme sees high-calibre graduate students undertake abridged ITE. Trainees are be specifically trained to teach Maori | [33] | 0 | do not support | There are serious concerns about delivery of the programme. Unlikely to be able to spend in 2017/18. |

| | | | | | |
|---|---|------|---|---------|---|
| | and Pasifika students, and in low-decile schools. | | | | |
| [38] | | | | | |
| Earthquake response and recovery (November 2016) | Workforce support package for schools in the Hurinui, Kaikoura and Seddon/Ward districts following the Nov 2016 earthquakes | 0.81 | 0 | Support | Could be scaled if required. Modelled on Christchurch experience. |
| Increase in ESOL funding | This funding addresses the cost pressures faced in English for Speakers of Other Languages. It provides adequate funding to schools to provide specialised support for the growing number of eligible students, [33] | [33] | 0 | Support | Support if funding available. |
| [33] | | | | | |
| Integrated Schools' property funding | Resolving state integrated schools' property issues related to [33] [33] and the impact of past education policy changes [33] | [33] | 0 | scale | [33] |

| | | | | | |
|---|--|----------------|----------|---------|---|
| March Baseline Updates | This is to address the impact of forecast changes in the March Baseline Update 2016. This is primarily to teachers salaries and e growth in ECE. | 469.686 | 0 | Support | Support |
| [33] | | | | | |
| Curriculum resource support for Maori-medium education | A significant increase (from a current budget of \$2m) to accelerate the design and delivery of curriculum resources for students and teachers in Māori Medium Education. All resources will be developed for use in priority subjects and will be adaptable for regional or local curricula | [33] | 0 | Support | Support. Could be scaled if there are tight financial pressures elsewhere however this should be a last resort. |
| [33] | | | | | |

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| | [33] | | | | |
| Kura Kaupapa Maori management | Support for planning and conducting governance activities Boards of Trustees in kura kaupapa Māori (KKM) to align resources for existing providers Te Rūnanga Nui o Ngā Kura Kaupapa Māori o Aotearoa (TRN) and kura ā iwi by Ngā Kura ā Iwi (NKAI) with resources allocated to New Zealand School Trustees Association (NZSTA) in Budget 2013. | 1.666 | 0 | Support | Support. However we should be pushing to find out what the future arrangements will be for this support and when the next review of support will take place (last one 2013) |
| Funding statutory interventions in schools | Financial support to schools that can't afford statutory intervention costs without it affecting teaching and learning. The extra funding will be used to meet the increased demand and costs of funding interventions, and should enable the Ministry to support interventions in an additional 15 schools per annum. | [33] | 0 | scale | Support if funding available - but first investigate further why costs have escalated so far, if other solutions have been fully explored. Potentially defer if information is not available ahead of final assessment. |
| Targeted adjustment to schools' operations grant funding | This funding will increase schools' operations grants by [] to help cover the cost increases in the 2018 school year, and the Targeted At Risk Grant by 4% to give schools additional funding flexibility to meet the needs of students most at risk of educational underachievement. | [33] | 0 | scale | [33] |
| Targeted adjustment to early childhood funding | Targeted ECE cost adjustment for disadvantaged children, designed to lift service quality (using a similar | [33] | 0 | Support | Support – risk of declining quality of service provision if an adjustment is not made in 2017/18. |

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|---|---|--------------|----------|---------|--|
| | targeting mechanism to B16 TARG for schooling). | | | | |
| [33] | <p>Departmental capacity bid for [33]</p> <p>key</p> <p>ICT projects including: [33]</p> <p>core ICT infrastructure,</p> | [33] | 0 | scale | [33] |
| [33] | | | | | |
| New Zealand participation in the OECD early learning study | Supports New Zealand's participation in the OECD's International Early Learning Study which compared 3 to 6 countries against four key developmental domains. | 2.649 | 0 | Support | Strategically important study. Fills critical information gap. |
| Supporting infrastructure delivery | To maintain Education Infrastructure Service (EIS) current capability. Funding is needed as a result of reductions in existing baselines and | [33] | 0 | scale | Scale amount and only for 2 years to allow for future operating model, including in relation to the crown agent, to be determined. |

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| | increases in non-discretionary property portfolio costs. | | | | |
| [33] | | | | | |
| October Baseline Updates | To address the impact of forecast changes in the October Baseline Update 2016, primarily related to increased school operations funding, teacher salaries, early childhood education volume and price growth. | 297.5 | 0 | Support | Support |
| [33] | | | | | |
| School Property Programme Business Case | Annual injection for school property expansion including roll growth classrooms, special education satellite units, school expansions, new schools, new property for existing kura, [33], and an existing special education school, non teaching space funding and land reimbursements in response to population growth and demographic changes across the schooling network. | [33] | [33] | scale | [33] |
| Schools Payroll - Holidays Act Project [placeholder] | Initiative to develop approaches to address and ensure future compliance with the Holidays Act | 0 | 0 | Support | Support. Costs could be scaled but may impact on time to resolve issues. |

| | | | | | |
|---|--|------|---|---------|--|
| Schools' payroll sustainability investment | To ensure the ongoing stability and sustainability of the schools payroll system by managing critical technology risks and increasing efficiency and compliance. | [33] | 0 | scale | [33] |
| Special Needs Support package | Demand pressures for Specialist Teaching Outreach Service, Early Intervention Specialist Service Providers, Accessible Format Materials, Cochlear Implant Habilitation. | 2.89 | 0 | Support | Support to meet cost pressures in established services for high-needs students |
| Strengthening frontline service delivery | <p>Departmental capacity bid to enable the Ministry to implement system change system by funding national and regional FTE to: implement the Education Act update [33]</p> <p>[33]</p> <p>effectively regulate the Early Childhood Education sector in response to growth and change; [33]</p> <p>[33]</p> <p>maintaining current frontline staff levels, [33]</p> <p>[33]</p> | [33] | 0 | scale | [33] |
| Total (\$m) | | [33] | | | |