

The Treasury

Budget 2017 Information Release

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Vote Education: Context for Budget 2017

Meeting with the Minister of Education – 15 February

Today's conversation

The meeting with the Minister of Education and her Associate on Wednesday 15 February will cover the following:

- Key challenges for the education system and the Ministry of Education
- Vote Education context
- Budget 2017 and fiscal strategy for Vote Education

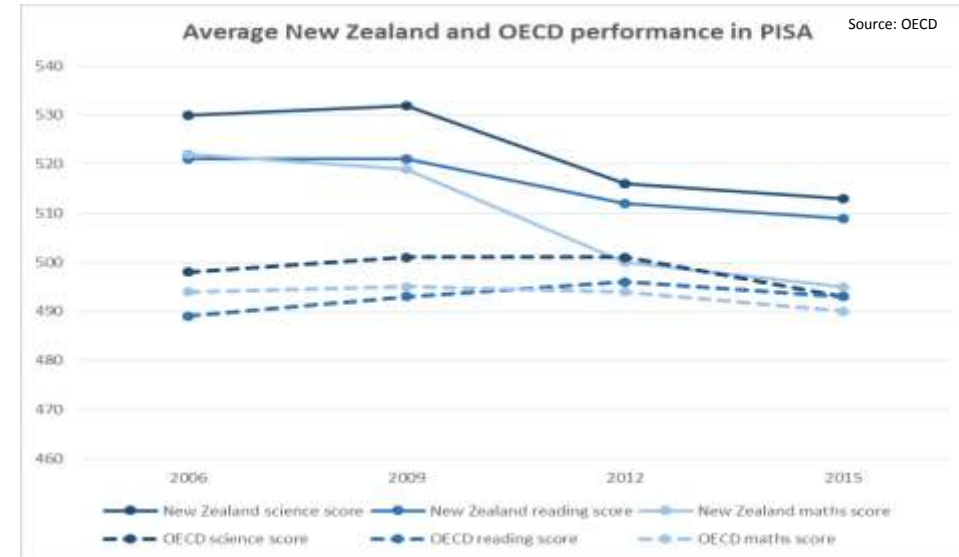
Broad context and challenges

There are challenges to our high performing education system

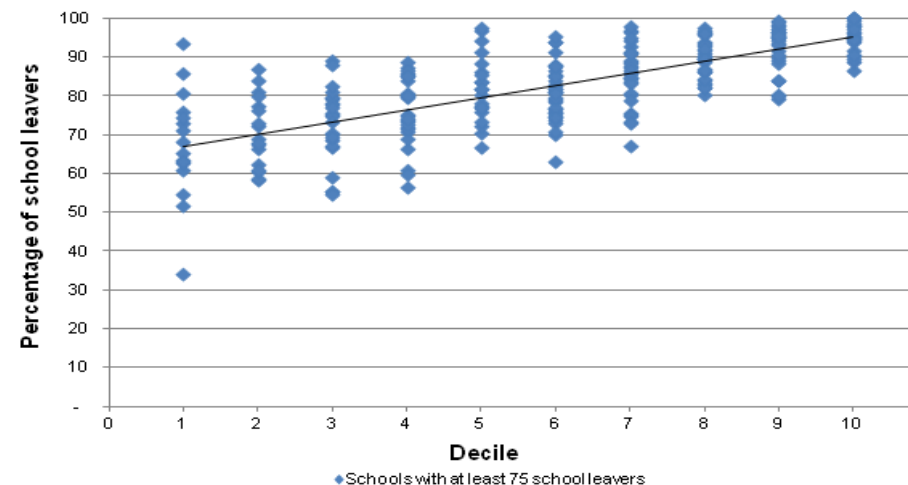
New Zealand has a high performing education system overall. Achievement in mathematics, science and reading remain above the OECD average.

But the system faces three major – and inter-related - challenges:

- 1. Mixed signals from measures of overall performance:** Despite increasing NCEA achievement, PISA scores are generally declining – we are now close to the OECD average in maths (see top chart).
- 2. Impact of socio-economic background:** Even though New Zealand children of low socio-economic status (SES) are not as disadvantaged as those internationally, SES has more impact on educational attainment than in other OECD countries.
- 3. Variability in performance:** There is significant variability in performance within and between schools, even within the same decile (see bottom chart).



Percentage of school leavers with at least an NCEA Level 2 qualification or equivalent by school decile (2015)



The Education Reform Programme aims to address these challenges

We have identified five shifts needed to address these challenges, which guide our focus in the education reform programme:

1. **Strengthening professional accountability through collaboration:** by improving leader and teacher capability to continually improve practice to address individual needs.
2. **Stronger central government stewardship role:** to monitor performance, drive better data use, and intervene earlier in response to poor student outcomes.
3. **Education providers feel a 'system' responsibility:** for all students, particularly those with educational disadvantage factors.
4. **Clearer pathways through the system:** to ensure students can make choices that best support long-term outcomes, by improving student choice architecture.
5. **Better use of data and evidence:** to drive improvement in policy settings and practice.

Our focus in Education Reform Programme:

1. **Funding Review:** strengthening focus on risk; needs supporting changes to have impact.
2. **Investing in Educational Success:** we support focus on collaboration. We are engaging on quality of implementation, evaluation, accountabilities for CoL and how CoL might evolve.
3. **Education Act update:** our focus in Act implementation is on alignment of reforms with other levers, limiting fiscal costs of implementation, progressing opportunities to improve system stewardship.
4. **Learning Support:** our focus is on ensuring focus on improving investment information and strategy for managing fiscal impacts.
5. **Initial Teacher Education and Professional Learning and Development reform:** our focus is on cost effectiveness and coherence with wider reforms.

Key issues for the Ministry of Education

The central challenge is to strengthen its system stewardship

Strengthening financial capability

The issue:

The Ministry is facing immediate cost pressures and medium-term challenges from the reform programme. Current financial capability is assessed as below Treasury expectations but is improving. We have confidence in the Ministry's ability to do core functions [34]

Next steps:

A multi-year programme of work is underway to lift financial capability and performance. The aim is to enable a more strategic approach to financial planning and prioritisation of investments, including a greater understanding of the choices, trade-offs and drivers across the system.

Understanding and improving system performance

The issue:

[34]

In the medium-term, an annual system 'diagnostic' report could provide Ministers with better information on the performance of the education system and key issues or areas to focus on.

Next steps:

The Ministry has developed an initial system performance framework. We are engaging with them on this and looking for opportunities to strengthen momentum to use this framework e.g. to inform the new National Priorities Statement.

Future operating model

The issue:

The reform agenda will change how the Ministry needs to operate in the future. The Ministry needs a clearer operating model for its future role and skills and capabilities it needs in the medium to longer-term. [34]

Next steps:

In Budget 2017, for departmental capacity initiatives we are supporting those that maintain current service levels. We want to enable the Ministry to develop the future operating model and not compromise service delivery but still keep the pressure on for them to do the work to make sure the government are investing in the right capabilities.

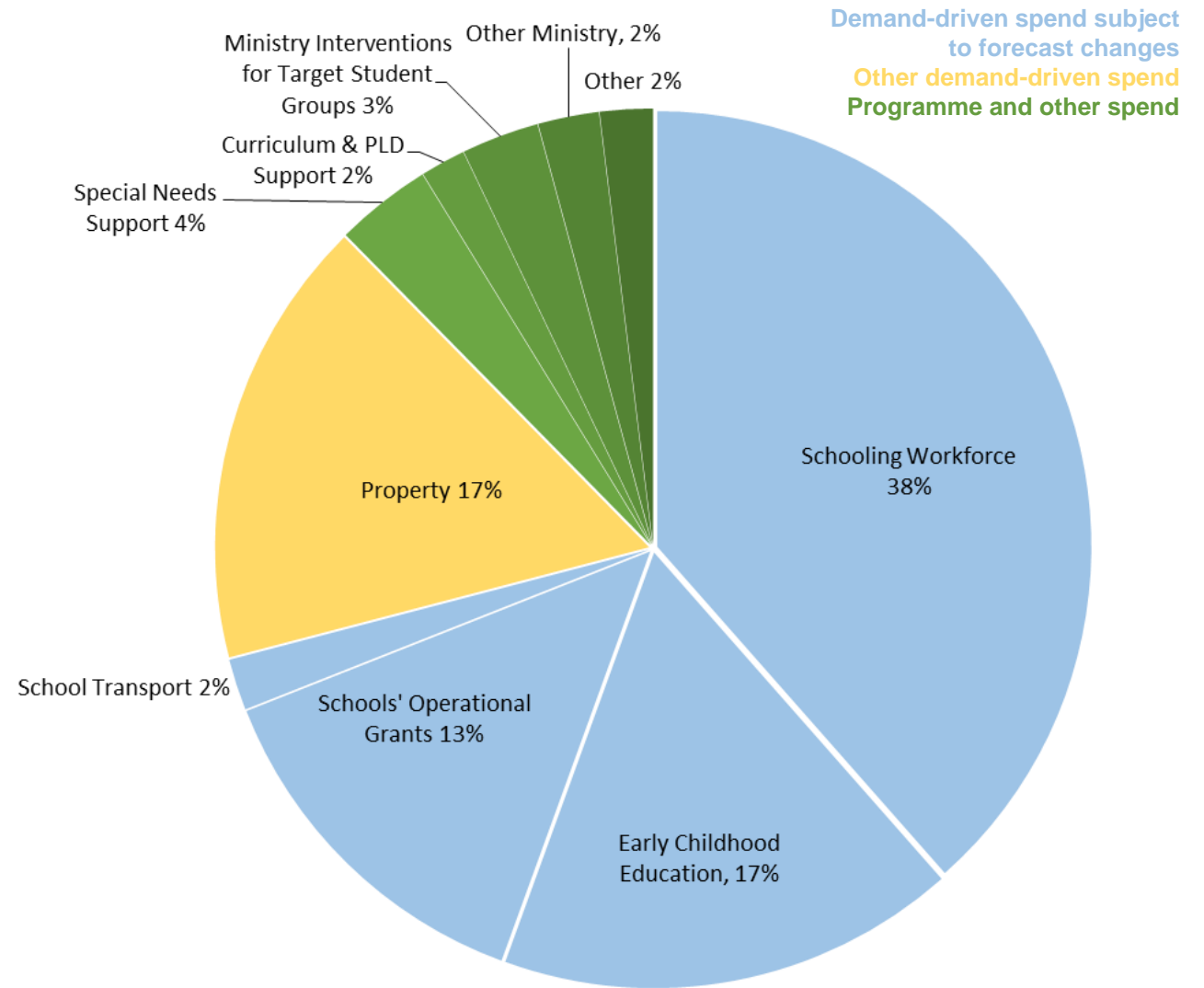
We will also be progressing this through engagement on the Ministry's Four Year Plan.

[34]

Vote education baselines

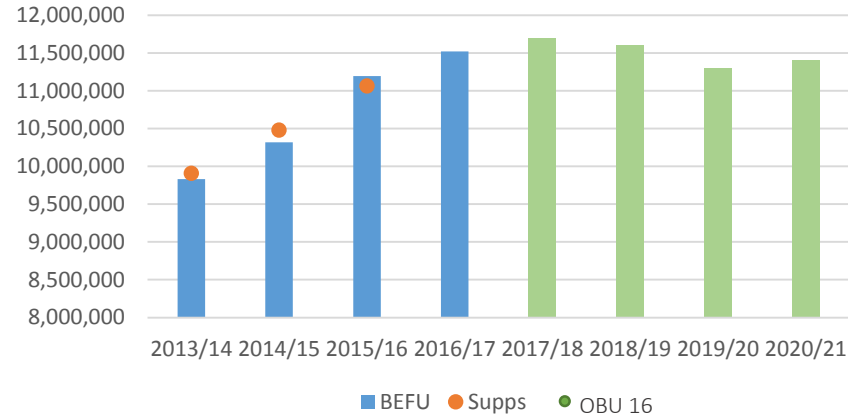
Vote Education context

- As at the end of 2015/16, Vote Education has a baseline of \$10.8 billion, which has increased by 16% since the 2011/12 Supplementary Estimates.
- It is subject to fixed nominal baselines. However, education receives additional funding for the forecast costs of current policy settings in Early Childhood Education and schooling (through operations grants, teachers' salaries, and school transport).
- For incentive reasons and transparency, these forecast changes have counted against the Budget allowance since FY 2010/11.
- Other Budget decisions are reflective of policy decisions and changes to specific price and demand inputs.
- Approximately 87% of spending in Vote Education is demand-driven [see chart, right].
- Ministers would need to consider policy change to mitigate the sizeable cost pressures generated by formula-based funding of both ECE providers and schools.



Vote Education over previous Budgets

Baseline – appropriation (\$'000)

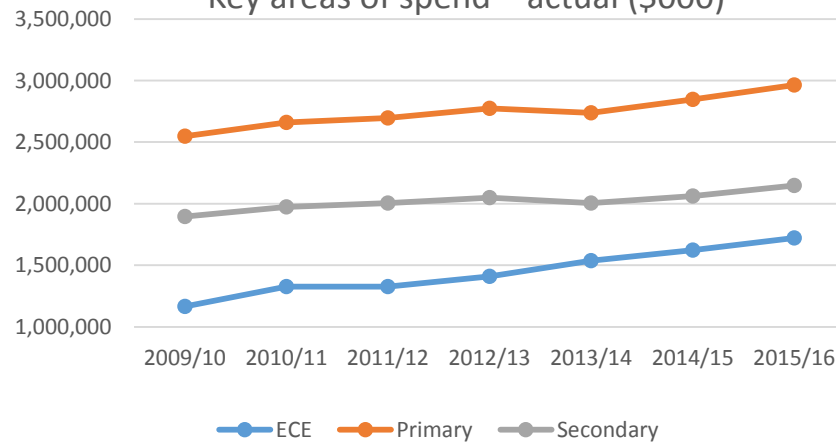


The Ministry of Education has a complex baseline.

The Ministry's baseline is adjusted at Budget, OBU and MBU. Supplementary estimates show the changes to the Ministry's baseline from the last Budget. We can expect the profile reflected at OBU 16 (left, green) to change.

Key areas of spending in ECE, and primary and secondary schooling, have increased steadily in recent years, largely driven by volume pressures (below, left).

Key areas of spend – actual (\$'000)



Baseline changes at Budget

Budget 13	2013/14	2014/15	2015/16	2016/17	4 year total
Capex	46735	41467	11863	0	100,065
Opex	125,710	118,232	105,069	98,044	447,055

Budget 14	2014/15	2015/16	2016/17	2017/18	4 year total
Capex	93416	257949	213820	58557	623,742
Opex	37800	57852	64939	72857	233,448

Budget 15	2015/16	2016/17	2017/18	2018/19	4 year total
Capex	153348	72052	16000	0	241,400
Opex	59557	74393	71369	52913	258,232

Budget 16	2016/17	2017/18	2018/19	2020/21	4 year total
Capex	(81385)	266869	253231	500	439,215
Opex	90093	124532	156237	180436	551,298

Adjustments at BEFU reflect new Budget decisions, but not the forecast adjustments made at OBU and MBU.

Main areas of spending

Early Childhood Education

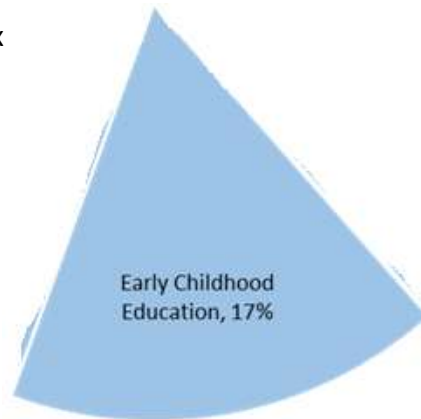
Spending on ECE has increased by 30% since 2011/12 to \$1.7 billion in 2015/16. This increase has been largely the result of more enrolments and more hours per enrolment, with some overall price increases associated with parents moving from home-based to centre-based care (which attracts a higher subsidy). Volume growth has been driven by a combination of Government policy objectives (BPS target of increased ECE participation) and ongoing trends of younger participation for longer hours.

Funding

Volume growth and changes in the mix of ECE services subsidised are funded through forecast changes at MBU and OBU, while price (including wage-related) adjustments are funded as new Budget initiatives. Both are counted in the Budget operating allowance.

Choices/opportunities

Targeting subsidies to lower income families could be an option to control cost pressure without necessarily impacting on ECE participation (although there are some administration challenges to this).



Primary and secondary schooling

Spending in the primary and secondary education appropriations has increased by 9% and 6% respectively between 2011/12 and 2015/16. In the same period, primary rolls have increased by 5.6%, while secondary rolls have declined by 1.3%.

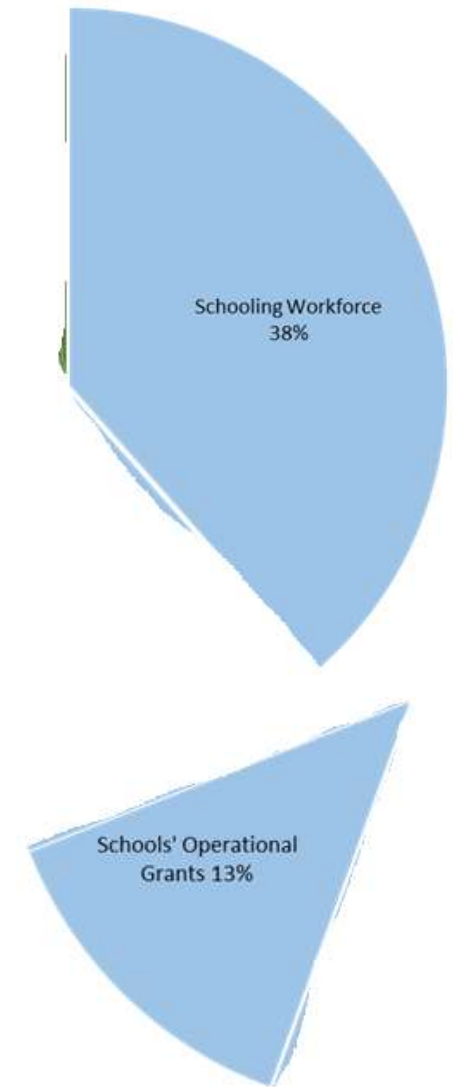
The Government's BPS target to increase the proportion of 18 year olds with NCEA 2 has been largely met. There is an extensive reform programme under way to further improve education performance, including Investing in Educational Success (particularly Communities of Learning), and the Education Act Update.

Funding

Funding to schools is provided through the operations grant, with capped components for which direct price adjustments are made at Budget, and roll-based components adjusted at MBU and OBU. Teachers' salary costs related to teacher numbers (based on rolls and teacher-student ratios) and progression through the pay scale are funded through forecast changes, while pay rate increases determined through collective bargaining come through as budget initiatives.

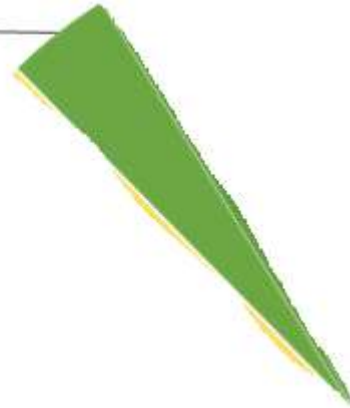
Choices/opportunities

The Ministry of Education is currently conducting a Funding Review in ECE and schooling, which will present Ministers with an opportunity to revise current settings. The review is looking at more efficient allocation of funding to at-risk students, and strengthening incentives on effectiveness.



Main areas of spending

Special Needs Support 4%



Learning support (special education)

Ministry spending on the Special Needs Support appropriation has increased by 23% since 2011/12 (to \$397.3 million in 2015/16). Total Ministry spending on additional support is estimated to be \$590m; one third of this is directly controlled by the Ministry and the remainder is mostly administered by schools and contracted providers (comparison figure from 2011/12 is not available).

Funding

Learning support cost pressures are funded as new initiatives at Budget. There have been significant demand pressures in recent budgets, with \$40m funded in Budget 2015 and \$27m funded in Budget 2016 (largely driven by Ongoing Resourcing Service for students with the highest level of need). In Budget 2017, \$2.89m of demand pressures are sought, as well as two Track 1 initiatives (totalling [33] across the forecast period). The Ministry has indicated that steady increases in demand are expected to continue.

Opportunities

A Learning Support Update is underway focused on service redesign, to improve continuity and responsiveness, and spending effectiveness. The Update aligns with Social Investment principles, and has the potential to increase transparency about levels of demand, fiscal implications, and policy choices.

School property

The Ministry has a property portfolio of replacement value \$23.9 billion, made up of more than 2,100 state schools with around 35,000 classrooms. Property-related operating costs increase as the size of the Ministry's portfolio grows to accommodate new primary and secondary learners in roll growth classrooms and new schools.

Funding

Capital for expansionary demand (ie. new schools and roll growth) is funded through the Budget capital allowance.

Increases in capital-related operating costs (capital charge and depreciation funding) are funded through the operating allowance. Of the \$1.8 billion spend on school property in 2015/16, \$1.5 billion was funding for depreciation and capital charge.

Opportunities

Greater integration of the Long Term Investment Plan and prioritisation of capital intentions is needed to capture the interplay between policy settings, transport, and physical infrastructure as enablers of educational outcomes.

The Auckland Education Growth Plan (due to be completed in late 2017) aims to take a more integrated view to strategic planning in the Auckland region. [33]



Funding forecast changes – the costs of current policy settings

Choices about how the costs of current settings are funded

Legislative obligations

The Education Act 1989 provides for the payment of funding to eligible ECE services, and the payment of grants to Boards of Trustees.

The Ministry of Education is also responsible for teachers' salaries through the Act, which provides that the Secretary of Education is responsible for maintaining an effective payroll system.

Choices/Discretion

The rates of ECE and school operations grant payments are set out in Ministry guidance documents, and are determined by Ministers.

Rates for teacher salaries are subject to collective bargaining rounds, and available increases are funded through budget.

How forecast changes are counted against the operating allowance

Both forecast changes to the ongoing costs of current policy settings, and direct price adjustments and policy changes, are counted in the Budget operating allowance:

- Price adjustments come through as individual initiatives at Budget.
- Funding for the volume-driven forecast costs of existing policy settings is provided through forecast changes.

Since 2011, forecast changes in Education have been scrutinised and agreed by Joint Ministers in MBU and OBU, and counted against the following Budget operating allowance.

Including forecast changes ensures Cabinet has visibility of costs, but Ministers would need to consider policy change if they wanted to mitigate the sizeable cost pressures generated by formula-based funding.

The impact of MBU 2016 and OBU 2016 on the Budget 2017 operating allowance

Forecast Changes: \$000	15/16	16/17	17/18	18/19	19/20	20/21
March Baseline Update 2016	88,992	23,196	83,519	109,433	138,367	138,367
October Baseline Update 2016		61,758	70,338	66,095	59,006	102,061
Net impact of MBU and OBU 2016 on Budget 2017:				767,186		
Reflected in HYEFU 2015/16 forecasts and had a direct impact on OBEGAL 2015/16.	Reflected in BEFU 2015/16 forecasts and have a direct impact on OBEGAL 2016/17.	Reflected in HYEFU 2016/17 forecasts and will have a direct impact on OBEGAL 2016/17.	The net impact of these changes is charged against Budget 2017 operating allowance.			

Budget 2017 and fiscal strategy

Budget 2017: Summary

[33]

- The Ministry of Education submitted [33] Track 2 initiatives comprising:
 - [33] **in opex** (see breakdown at right), 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.
 - Initiatives to support the delivery of the **reform programme**.
 - **Population growth**, especially from high net migration, is driving growth and demand.
 - Keeping pace with growth and change and understanding the impact of **the early childhood education sector**.
- The Ministry has submitted [33] Track 1 initiatives comprising:
 - [33] **in opex**, and
 - [33] **in capex** over the forecast period.
- The Track 1 package is targeted towards **at-risk students**, for example those at risk of poor educational outcomes or with behavioural difficulties, and the **early childhood education sector**.

Budget 2017: Our approach to assessing bids

We are applying a set of principles when assessing Track 2 initiatives

Giving **support** to:

- Initiatives that are aimed at key service delivery where there 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 ^[38]
- 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 others we do not.

Deferring or not supporting initiatives that:

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

Budget 2017: Our indicative assessments

See Appendix 2 for more detail

Track 2 support – [33]

Forecast changes – \$767.186m
Impact of changes agreed at March and October Baseline Updates. Largely comprises teachers’ salaries (driven by high immigration) and ECE volume and price growth.

Other than forecast changes – [33]

Cost adjustments
Targeted cost adjustment for ECE, and maintaining Kura management support

Demand pressure
Increase in demand for learning support.

New service provision
New Zealand participation in the OECD early learning study.
Curriculum resources for Māori medium Education.

Track 2 support scaled – [33]

Capital projects
School property – [33]
Schools’ Payroll sustainability.

Cost adjustments
Schools’ operations grant adjustment
[38]

Demand pressure
English for Speakers of Other Languages (ESOL), earthquake-related workforce support, and funding for statutory interventions in schools.

New Service provision
[33] funding for state-integrated schools.
[33]

Capacity
Departmental funding for delivering ICT a [33]

ICT infrastructure
[33]

Track 2 defer/decline – Not investment-ready/low VFM

Cost adjustments
Discretionary cost adjustments including expansion of Teach First NZ, [33]
[38]

New Service provision
[33]
Completing the additional in class support manifesto commitment.
[33]

Capacity
[33]

- Forecast Changes
- Cost Adjustments
- Capital Projects
- Demand Pressure
- New Service Provision
- ICT Infrastructure
- Capacity

	Sought (\$ Millions)						Supported (\$ Millions)					
	2016/17	2017/18	2018/19	2019/20	2020/21	4 Yr Total	2016/17	2017/18	2018/19	2019/20	2020/21	4 Yr Total
Total track 2 operating impact (incl. forecast changes)	[33]											
Total track 2 initiatives (excl. forecast changes)	[33]											
Total capital - Track 2	[33]											

Track 1 likely support - [33]
Early identification and removal of communication barriers to the curriculum
Incredible Years – expanding programme to meet specific needs [33]

Track 1 - likely support scaled - [33]
Expanding and targeting behaviour services.

[33]

Medium-term fiscal strategy

There are a number of areas where future cost pressures are anticipated

Demand growth (from population growth, increasing use of early childhood education, more transparency around learning support needs).

Ongoing development and implementation of the education reform programme (e.g. decisions in the Funding Review).

A capital programme increasing in size and complexity (especially in Auckland).

To enable these to be addressed, we expect to see from the Ministry

- Strengthened understanding of baseline
- Better understanding of impact of investments and policy settings
- Stronger system performance analysis
- More explicit consideration of choices and trade-offs available to the Ministry and Government
- Improvements in programme and portfolio management maturity