

Treasury Report: Budget 2008: Bilateral for Vote Education (Non-Tertiary)

Date:	22 February 2008	Report No:	T2008/231
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Dr Michael Cullen)	Read before the Bilateral with the Minister of Education	Before 11am on Tuesday 26 February
Associate Minister of Finance (Hon Trevor Mallard)	Read before the Bilateral with the Minister of Education	Before 11am on Tuesday 26 February

Contact for Telephone Discussion

Name	Position	Telephone	1st Contact
Rowena Phair	Manager, Children and their Families	<i>[deleted – privacy]</i>	✓
<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>			

Minister of Finance's Office Actions

None.

Enclosure: Yes

Treasury Report: Budget 2008: Bilateral for Vote Education (Non-Tertiary)

Attached is a briefing for the bilateral between the Minister of Finance and Minister of Education at 11 a.m. on Tuesday 26 February 2008 to discuss the capital components of budget initiatives for Vote Education (non-tertiary).

The bilateral briefing is structured as follows:

Recommendations	p. 3
Analysis	p. 7
One-page initiative summaries	p. 15

We expect the key issues for discussion will be:

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- b. *School Property Business Case.* Treasury supports a scaled capital injection of \$75 million that reflects the historical capacity of the Ministry to deliver on its capital works programme.

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Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with the Minister of Education at 11 a.m. on Tuesday 26 February 2008.

Rowena Phair

Manager, Children and their Families
for Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance

Treasury Report: Budget 2008: Bilateral for Vote Education (Non-Tertiary)

VOTE EDUCATION (NON-TERTIARY)

Contested Initiatives

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b 2008/09 School Property Business Case

analysis p. 7

- The Ministry seeks a capital injection of \$91 million (with associated operating funding) to support the school property capital works programme.

Treasury View

- Treasury recommends that you support a capital injection of \$75 million. Although the Ministry's capital request is based on requirements for new schools in areas where population growth has already occurred, and for capital funding that has been allocated to individual schools, historical expenditure trends suggest that a larger capital injection will still be underspent. Treasury considers that a capital injection of \$75 million will be tight but still manageable for the Ministry.

Ministry View

- The Ministry considers that a capital injection of \$75 million is manageable, but notes that it would result in delays to some school opening dates, and therefore fail to meet the expectations of those communities affected.

	<i>\$million - increase/(decrease)</i>				
<i>Capital (GST excl)</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
Department	-	87.380	2.790	0.940	-
Treasury	-	71.000	2.790	0.940	-

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[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

e Transforming Secondary Education

analysis p. 10

- The Ministry of Education seeks \$0.405 million of capital funding to expand the Non-Enrolled Truancy Service (NETS). *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- Treasury View*
- Treasury supports the NETS expansion but recommends that you decline the capital funding. Based on the size of historical underspends in Ministry outputs, we consider that the Ministry will be able to manage the small capital costs through reprioritisation within its wider baselines (e.g. through swapping an operating underspend into capital).
- Ministry View*
- The Ministry considers that the capital expenditure is an essential component of employing a team of staff for NETS, to provide cars for officers to locate the non-enrolled students, and to provide office space and equipment. Existing pools are limited and failing to fund the capital component will jeopardise the initiative.

	<i>\$million - increase/(decrease)</i>				
<i>Capital (GST excl)</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
Department	-	0.405	-	-	-
Treasury	-	-	-	-	-

f Increasing Staffing in the Vision Education Sector

analysis p. 11

- The Ministry of Education seeks \$0.427 million of funding for the capital costs associated with an increase to staffing levels in the vision education sector. This initiative would fund an additional 15 Resource Teachers Vision to reduce individual teachers’ caseloads to a level more consistent with best practice.
- Treasury View*

- Treasury recommends that you defer the initiative. Although the high caseloads in the vision education sector are problematic, we consider that the sector could continue to manage for at least another year. We also note that attempting to fund the initiative within the constraints of the Budget 08 capital allocation would require difficult trade-offs in other areas.

Ministry View

- The Ministry agrees that providers can probably continue to manage for at least another year, and notes that schools may still choose to utilise the additional staffing even if the capital funding for additional accommodation is not forthcoming.

	<i>\$million - increase/(decrease)</i>				
<i>Capital (GST excl)</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 & Outyears</i>
Department	-	0.427	-	-	-
Treasury	-	-	-	-	-

Initiatives supported by Treasury and the Ministry of Education

g 2009 School Staffing Improvements for New Entrants

analysis p. 11

- The Ministry of Education seeks a capital injection of \$34 million (with associated operating funding) to reduce Year One teacher:student ratios from 1:18 to 1:15. The capital funding will be used to construct learning spaces for the additional Year 1 teachers. This initiative fulfils a key Manifesto commitment.
- Both agencies recommend that you support the capital funding at the proposed level. The initiative has already been both scaled and phased, and represents the minimum option for meeting the government's commitments around reducing Year One class sizes.

	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 only</i>
Capital (GST excl)	-	2.335	7.702	16.681	6.791

h Education Services to Support a Newborn Hearing Screening Programme

analysis p. 11

- The Ministry of Education seeks capital funding of \$0.659 million (with associated operating funding) for education services to support the Ministry of Health's newborn hearing screening programme.
- Both agencies recommend that you support the capital funding. The initiative forms part of a wider government programme, and should be progressed to secure the maximum return from the Ministry of Health's screening programme. The long term educational and health benefits flowing from the interventions are expected to outweigh the costs of the initiative.

	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12 &</i>

					<i>Outyears</i>
Capital (GST excl)	-	0.263	0.198	0.110	0.088

Vote Education (Non-Tertiary) – Analysis

Analysis of Initiatives

- Capital funding is being sought for Vote Education through this bilateral. The associated operating funding will be sought through Theme – Families Young and Old, as set out below:

	<i>\$million - increase/(decrease)</i>				
	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>
Capital sought at this bilateral	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
Operating associated with this capital – to be sought through FYO theme					

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

2008/09 School Property Business Case (recommendation b)

- The Ministry of Education seeks a capital injection of \$91 million to support the school property capital works programme. The operating funding associated with the capital

expenditure will be sought through Theme – Families Young and Old.

7. The funding requested is based on a combination of a number of factors, including:
 - a. The costs of funding new schools that have been publicly announced by the Minister of Education, and continuing work on the new schools programme.
 - b. The continuing 'five year agreement' funding that has been allocated to individual schools for capital works.
 - c. The Ministry has in the past year looked closely at the capital expenditure phasing on individual programmes (due to a history of past under expenditure on capital by many schools) and the forecasted level of capital expenditure has been reduced.
 - d. The capital implications of a decision during the year to implement a series of improvements to school staffing arrangements in the primary sector (EDC Min (07) 27/7 refers).
 - e. Demographic projections for new classrooms for some schools as a result of roll expansion.
 - f. The balance of capital funding that is required over and above the current funding the Ministry receives from depreciation on current school property including historic expenditure patterns.
8. The total amount of operating and capital expenditure on school property has remained consistent in recent years, with total expenditure, including depreciation flows and the annual capital injection, in the range of \$400-430 million per annum. Large capital injections, however, have been underspent in the last two years, by \$81 million in 2006/07 and at least \$95 million in 2007/08.
9. Treasury's recommendation of a capital injection of \$75 million is based on these historical expenditure trends. Although we recognise that the Ministry's capital request is based on requirements for new schools in areas where population growth has already occurred, and for capital funding that has been allocated to individual schools, we expect that a large capital injection will still be underspent. We consider that the Ministry could manage without significant difficulty to a capital constraint of \$75 million, and that such a constraint would have the additional benefit of forcing the Ministry to seek better value for money in some areas of its business – particularly relating to site purchases and site works.
10. Should Ministers wish to scale the capital injection further, officials have developed a third option involving a capital injection of \$46 million. This option would relieve pressure on the overall capital allocation, but is not recommended by officials as it would mean deferring the construction of some new schools that have already been announced publicly. Further information about this option can be provided should you wish to consider it.

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[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Transforming Secondary Education (recommendation e)

26. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* The Ministry seeks \$0.405 million in capital to expand the Non-Enrolled Truancy Service (NETS), to manage a 150% increase in notifications following the introduction of the ENROL system, and locate and place students back in school. The operating funding associated with the capital expenditure will be sought through Theme – Families Young and Old.
27. Treasury supports the NETS expansion but recommends that you decline the capital component of this bid. The Ministry should be able to manage the small capital costs – for five vehicles and accommodation for up to eleven staff – through reprioritisation. If the Ministry is unable to fund the capital off its balance sheet, it could potentially conduct an operating-to-capital swap in which an underspend in an operating expense is transferred into capital.
28. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Increasing Staffing in the Vision Education Sector (recommendation f)

29. The Ministry of Education seeks \$0.427 million of capital funding for the property costs associated with an increase to staffing levels in the vision education sector. This initiative would fund an additional 15 Resource Teachers Vision to reduce individual teachers' caseloads to a level more consistent with best practice. The operating funding will be sought through Theme – Families Young and Old. It is unclear whether this expenditure could be managed within the Theme.
30. Treasury recommends that you defer the initiative. Although we agree that the high caseloads in the vision education sector are problematic, we consider that the sector could continue to manage for at least another year. We also note that attempting to fund the initiative within the constraints of the Budget 08 capital allocation would require difficult trade-offs in other areas.

2009 School Staffing Improvements for New Entrants (recommendation g)

31. The Ministry of Education seeks a capital injection of \$34 million to reduce Year One teacher:student ratios from 1:18 to 1:15. This initiative fulfils a key Manifesto commitment. The capital funding will be used to construct learning spaces for the additional teachers. The operating funding associated with the capital expenditure will be sought through Theme – Families Young and Old.
32. Both agencies recommend that you support the capital funding at its current level, as the bid represents the minimum option for meeting the government's commitments around reducing Year One class sizes.
33. The capital requirements in the initiative have already been scaled in two respects:
 - a. a new learning space will be provided only when there is no surplus property already available at the school; and
 - b. the square metres per learning space have been reduced from the standard 69m² in the school property guide to 45m², to recognise the fact that the staffing provides for a smaller number of students per learning space.

Agencies would not recommend reducing the capital entitlement further, as this would impact on the effectiveness of the policy – by forcing, for example, some schools to schedule two classes at the same time in the same learning space.

34. The bid has also been phased, based on the experience of rolling out the reduction in Year One class sizes funded through Budget 07, in which schools have taken longer than expected to access the capital funding they are entitled to.

Education Services to Support a Newborn Hearing Screening Programme (recommendation h)

35. The Ministry of Education is seeking capital funding of \$0.659 million for education services to support the Ministry of Health's newborn hearing screening programme. Children identified by the programme as having significant hearing impairments will receive specialist advice, including help with speech and language and technical assistance with hearing equipment, to ensure they make similar progress to other children. The operating funding associated with the capital expenditure will be sought through Theme – Families Young and Old.
36. Both agencies recommend that you support the capital funding. The initiative forms part of a wider government programme, and should be progressed to secure the maximum return from the Ministry of Health's screening programme. The benefits

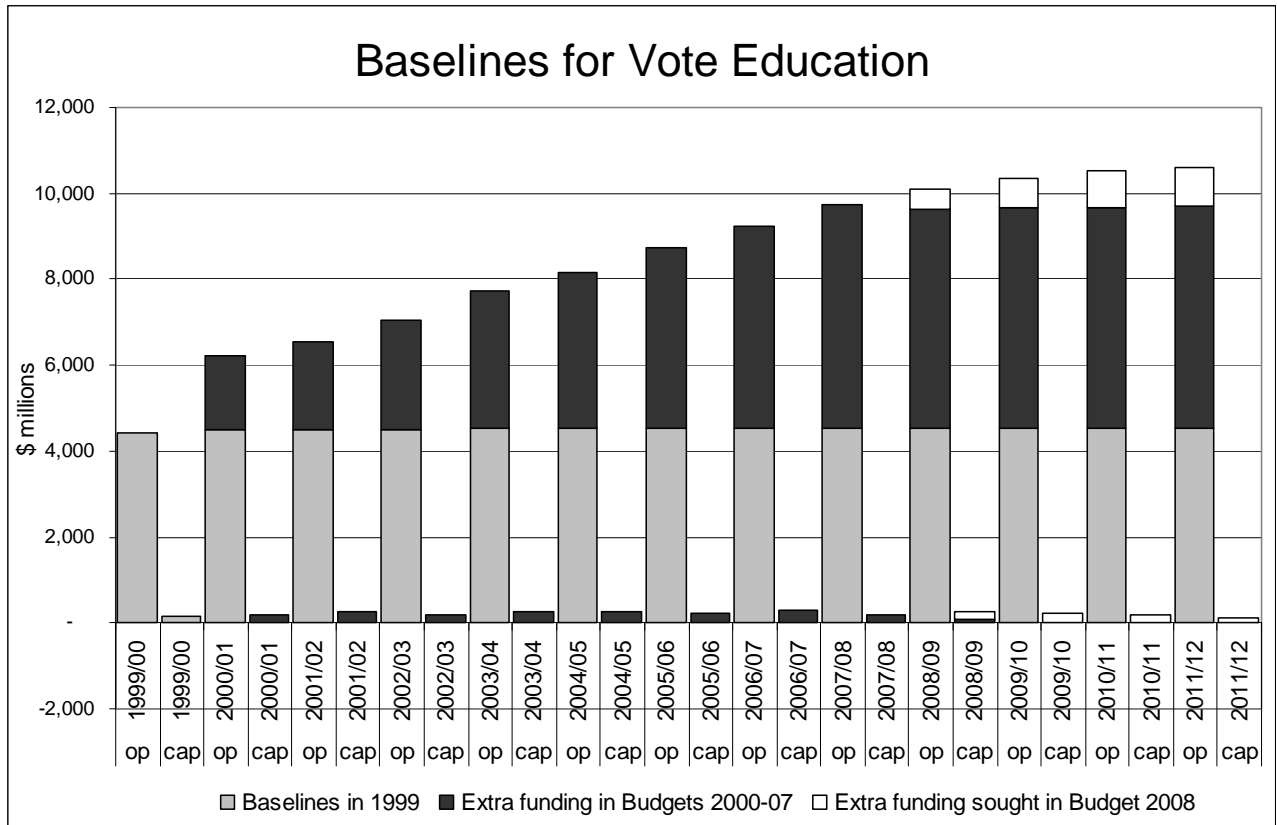
flowing from the interventions are expected to outweigh the costs of the initiative over the lifetime of a hearing impaired person.

37. The services received time-limited funding in Budget 07, and will have to cease unless further funding is provided in Budget 08.

Analysis of Vote Education

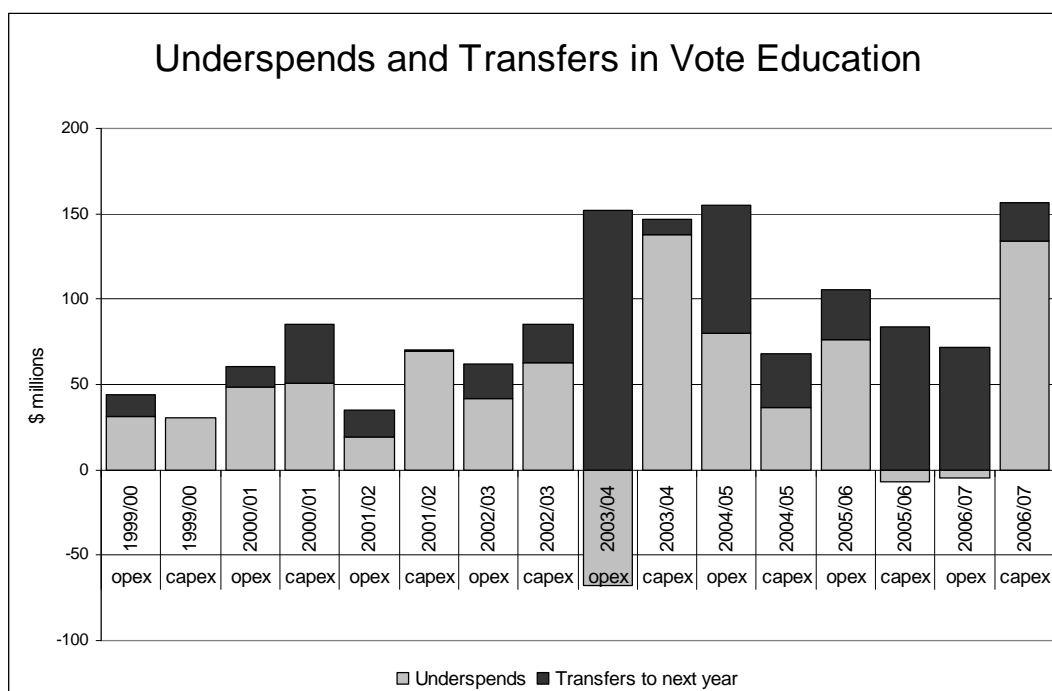
Baselines

38. Baselines for Vote Education (tertiary and non-tertiary) are shown in the graph below. The increase in baseline spending on education reflects the importance that successive governments have placed on improving the quality of education, as well as roll growth from demographic trends, and increases in staff numbers and salary rates.



Underspends

39. The table below sets out the level of underspends and transfer in Vote Education (tertiary and non-tertiary):



40. A level of underspends is to be expected in a Vote of this size, but consistent underspends in certain areas can indicate that the level of resource committed to certain outputs is out of alignment with the ability to use that funding. The following table sets out underspends in core Ministry of Education outputs over the last five years'.

Core Ministry Under spends since 2002/03						
Underspend	2002/03	2003/04	2004/05	2005/06	2006/07	Average
Total Underspend \$000	4,101	8,815	7,338	6,472	9,448	7,235
Total Underspend %	2.7	5.1	3.7	2.9	4.0	3.7

Supps less June Actuals. Excludes School Property and Special Education appropriations.

41. There are also underspends in some programme appropriations in the wider Vote. Some of these underspends will reflect genuine delays or fluctuations in spending, but others may represent a miss-allocation of resources and an inability to spend the funding allocated. Consistent and reasonably significant underspends have occurred in the following appropriations:
- Supporting Parenting
 - Curriculum Support
 - Professional Development
 - Home School Allowances
 - Schooling Improvement
42. The most significant delays in recent years have occurred in school property capital expenditure, with capital underspends of \$81 million in 2006/07 and at least \$95 million in 2007/08.

Appendix: One-page Initiative Summaries

One-page summaries of the initiatives for discussion at this bilateral are attached on subsequent pages.