The Treasury

Budget 2014 Information Release

Release Document

July 2014

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[1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[3] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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[6] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[7] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

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[13] Not in scope

[14] 6(e)(iv) - to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [3] appearing where information has been withheld in a release document refers to section 9(2)(a).

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

Reference: T2013/2907 DH-4-1-1-2014

Date: 14 November 2013

To: Minister of Finance (Hon Bill English)

Deadline: 19 November 2013

Aide Memoire: Briefing for Education Budget Meeting with Minister Parata on 19 November

You are meeting with the Minister of Education at 12.30pm on Tuesday 19 November to discuss progress on the Four-Year Plan for Vote Education and the emerging picture for Budget 2014. This briefing provides you with information to support this discussion.

Proposed Agenda

After discussion with officials from the Ministry of Education, we believe the following agenda would support a useful discussion:

i. Progress on Four-Year Plan.
ii. Emerging Financial Picture for Budget 2014.
iii. Strategies to Deliver a Balanced Budget Package.
iv. Size of Indicative Allocation for Four Year Plan.

Progress on the Education Four-Year Plan

[13]

The summary below is based on preliminary financial information that has been shared with us by the Ministry in the last couple of days. The specific figures below are being continually refined, and should be treated as indicative only at this stage. However, it does provide a sense of the emerging cost pressures and potential funding options for Budget 2014.

Cost Pressures

For Budget 2014, the Ministry has categorised their cost pressures into the following three broad categories:

TYPE	DESCRIPTION	FISCAL IMPACT (17/18 and outyears)
Forecast Changes	This includes changes to formula-driven expenditure that are entirely non-discretionary, and based on volume increases.	$65.589 million
Maintain Services and Infrastructure	This includes expenditure that is not formula-driven, much of which is discretionary, and would maintain current levels of service provision. Examples include: - ECE Subsidy Cost Adjustments. - Schools Operation Grant Cost Adjustments. - Property related expenditure (e.g Christchurch Insurance Premiums, Hobsonville PPP, Operating expenditure related to School Property Expansion).	Between $77 and $101 million
Contribution to Objectives	This includes expenditure that is discretionary in terms of maintaining existing services, but would contribute to Government priorities and the Ministry's own goals. Examples include: - [7] - - Funding for further Partnership Schools. - Greater Christchurch Education Renewal Fund. - Property Asset Management change programme and [7]	[7]
TOTAL INDICATIVE COST PRESSURES		[7]

The forecast changes are non-discretionary and the fiscal impact of these can't be reduced without significant policy changes.

However, for the other two categories, the Ministry has divided their cost pressures into high, medium and low priorities. The process of arriving at these judgments on prioritisation is ongoing. We will continue to ask questions of these spending initiatives as this process proceeds, to ensure that these cost pressures are realistic.

Treasury considers that some of the individual items, including in the high priority category, could be scaled back in order to achieve a balanced package and prioritise initiatives that will have the greatest impact on outcomes, including the *Investing for Success* package. Particular examples include ECE and Operations Grant price increases, which cumulatively make up $60 million of expenditure.

Savings and Reprioritisation

To date, Ministers and Treasury have advised that the Ministry should plan on an assumption of a Budget 2014 allocation of $50 million per annum. At this stage, this would still leave around [7] of unfunded cost pressures in 2017/18 and outyears.

To close this gap, the Ministry has identified a number of areas where it might reprioritise to generate cost savings. These changes would require policy decisions to be made and the potential scope of the savings would vary considerably depending on the details of policy design and the level of changes to existing settings that Ministers are willing to pursue. Accordingly the changes have been classified according to the amount of risk that would associated with making these changes.

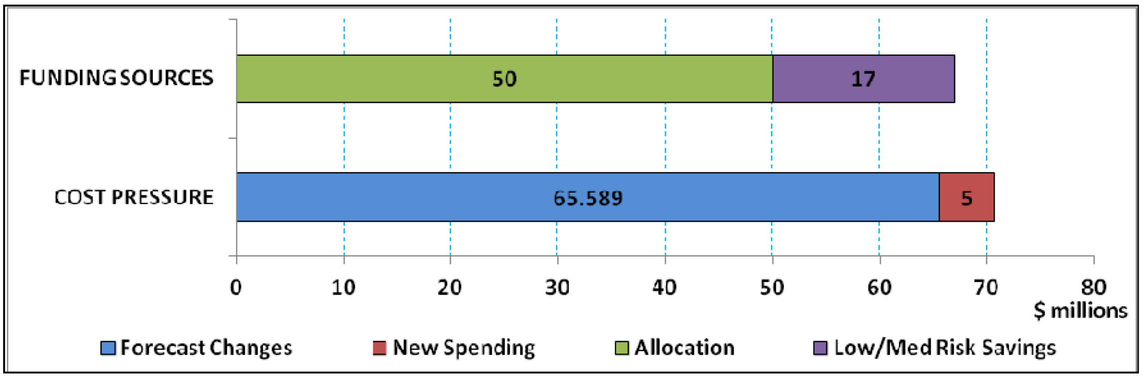
At this stage, the total amount of savings that are considered Low and Medium risk is $17 million. [7]

[7]

Three High Level Options for a Balanced Package

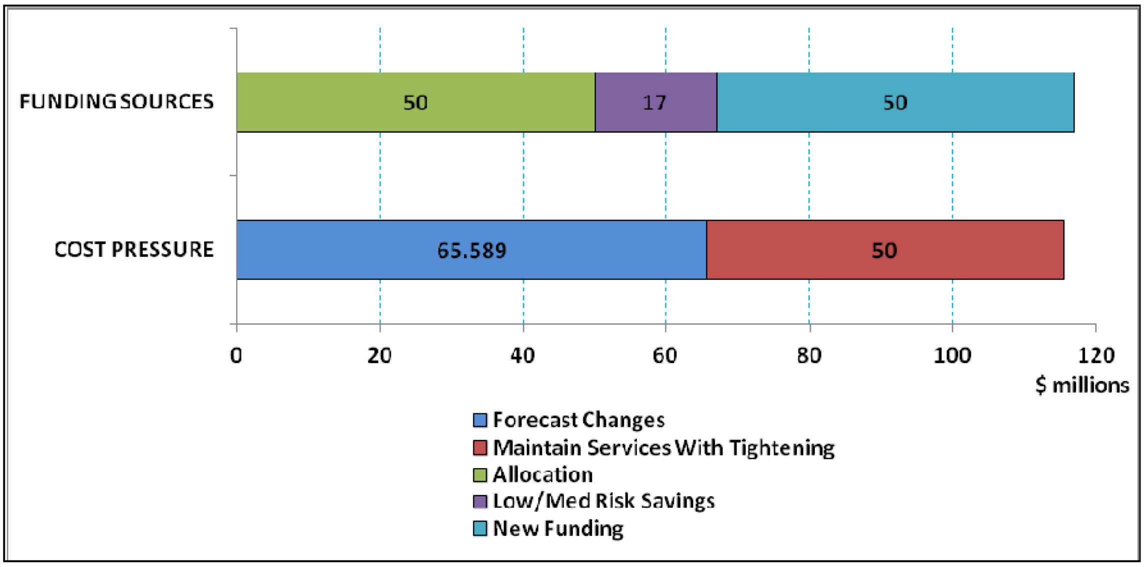
On the basis of the information above, we have identified three broad options which would lead to a roughly balanced budget package. They illustrate the broad strategies that are possible and highlight the choices that need to be made at this juncture.

<u>Option 1</u>



This option assumes that the only available funding is the indicative allocation of $50 million per annum, alongside the low and medium risk savings that can be generated through reprioritisation. It illustrates that this would only cover forecast changes and an extremely small amount of high priority new spending.

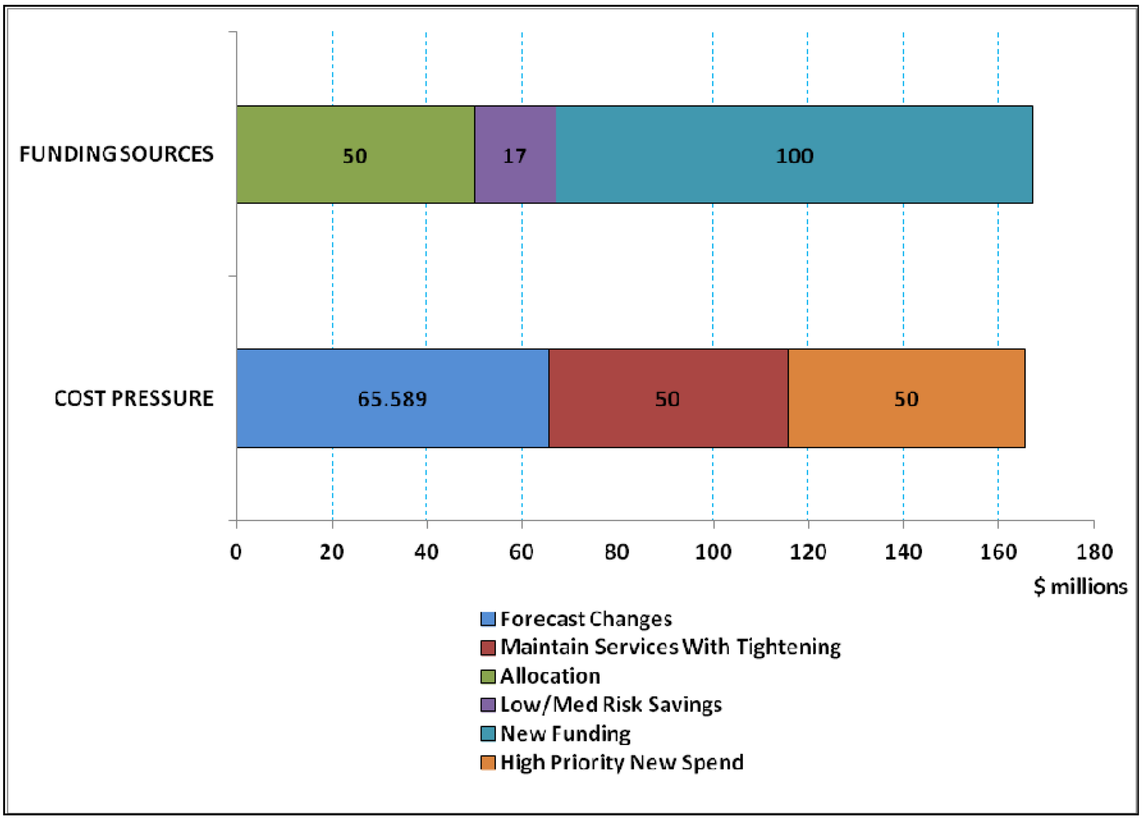
<u>Option 2</u>



This option assumes that in addition to the indicative allocation of $50 million and low/medium risk savings of $17 million, additional funding of $50 million can be found. This could be either through an increase in the budget allocation, pursuing some higher risk savings options, or a combination of both.

This would enable an additional $50 million of expenditure to maintain the current level of service provision. This would not cover all the cost pressure in this area, so this option assumes that some policy decisions would need to be made to tighten expenditure on current services.

<u>Option 3</u>



This option assumes that in addition to the indicative allocation of $50 million and low/medium risk savings of $17 million, additional funding of $100 million can be found. This could be either through an increase in the budget allocation, pursuing some higher risk savings options, or a combination of both.

This would enable an additional $100 million of expenditure. This could go to fund a mix of expenditure to maintain the current levels of service provision and fund high priority new spending initiatives. This option assumes that some policy decisions would need to be made to tighten expenditure on current services. It would also require decisions on which initiatives are funded that support Government and Ministry priorities.

Implications for Required Funding and Planning Assumptions

The Ministry of Education has yet to receive a formal ministerial steer as to the indicative allocation that should be using in developing its Four-Year Plan and associated Budget 2014 strategy. However, since August, Treasury has consistently communicated a planning assumption of $50 million per annum.

It would be helpful if Tuesday's bilateral clarified the following for the Ministry:

1. **The indicative allocation for Vote Education**
    - Given the high level picture emerging as to pressures and reprioritisation options, are Ministers content with the current $50 million per annum indicative allocation?
    - Are Ministers able to give an early steer as to whether your preferred strategy for managing within this allocation is weighted towards avoiding or deferring routine spending pressures (such as adjustments to schools' Operations Grants and ECE subsidies), avoiding or deferring new policy proposals (such [7] and additional partnership schools), or pursuing savings options that require policy changes [7]

2. **Approach to be used in the Four-Year Plan in order to expose choices**
    - Are Ministers content for the Vote Education Four-Year Plan to:
        - be based around a central strategy that aligns with an indicative allocation of $50 million per annum of new funding;
        - expose the lowest marginal value spending items (totalling at least $50 million per annum) that will not be progressed if new funding is not forthcoming; and
        - detail additional priorities that could be progressed if additional funding (either from an increased allocation or further savings) were available?

3. **Savings options to develop**
    - Savings options that require changes to policy settings will require detailed policy development before final decisions can be made. This is unlikely to occur without some ministerial direction. Which options should the Ministry of Education work up for further ministerial consideration?

[3]

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