

The Treasury

Budget 2014 Information Release

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [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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- [10] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [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.

Vote Education operations grant budget initiative: further information

- These slides provide further information to support your decision making on new funding being sought for schools' operations grants in Budget 14.
- As you are aware, the Ministry is seeking a 2% cost adjustment to schools' operations grants in Budget 14, at a total four year cost of \$86.5 million and \$25 million in outyears.
- Outside Investing in Educational Success and forecast changes this is a largest item of new Vote Education funding being sought in Budget 14.

initiative	2017/18 and outyear cost	Four-year total cost
Cost adjustment to operations grant for schools (2%)	\$25.0 million	\$86.5 million

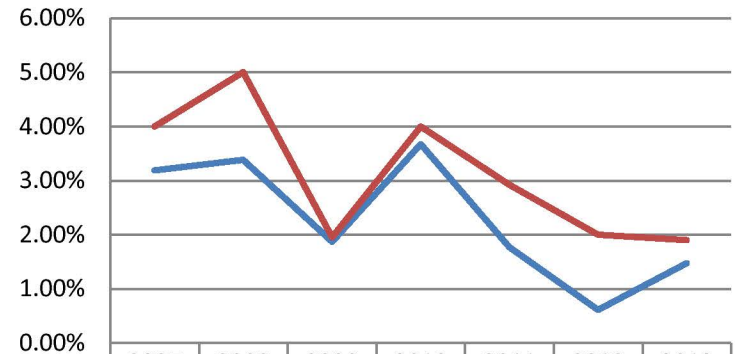
- The Ministry's rationale for seeking a cost adjustment is to help schools meet increased operating costs linked to inflationary pressure.
- As detailed in the following slides, Treasury considers this new funding to be discretionary and scalable.

Budget increases vrs costs

Changes to the schools' operations grant are not indexed to CPI or any other measure and are at the discretion of Ministers. [8]

Data available from 2007 shows that annual cost adjustments to the operations grant have exceeded the CPI Less Tobacco and Alcohol index in every year. According to Ministry data the real increase in operational funding between the years 2000-2011 is 21%.

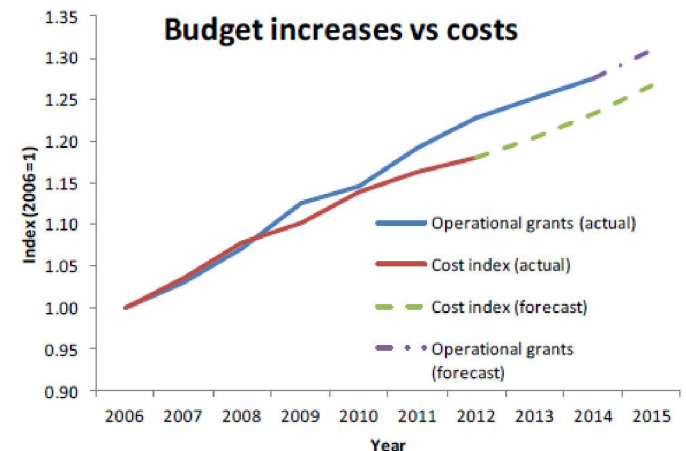
Ops grant increases vrs CPI Less



Year	2007	2008	2009	2010	2011	2012	2013
CPI year-on-year increase less Alcohol and Tobacco	3.19%	3.38%	1.87%	3.67%	1.77%	0.61%	1.47%
Cost adjustment to Ops grant	4%	5%	1.95%	4%	2.92%	2%	1.90%

The Ministry's analysis also shows that operations grant funding has increased faster than a composite CPI/wage index.

HYEFU Forecasts Dec 13		
	2014	2015
CPI ex tobacco	1.40%	2.40%
Average hourly earnings	2.70%	3.10%



Source: Ministry of Education. Index calculated as a weighted average of actual CPI (two thirds) and average ordinary time wages (one third).

Link between expenditure and outcomes

We have questions about the extent to which the model of annual increases to operations funding fails to incentivise schools to achieve ongoing efficiency gains.

A 2006 Ministry of Education review found that the drivers creating pressures for schools in managing their operational funding are:

- Efficiency and effectiveness issues relating to management systems and capability within schools and across the sector and the complexity of the school resourcing model.
- Cost pressures relating to shifts in expectations by Government, parents and schools, and specific costs pressures in ICT, support staff, compliance costs (eg reporting requirements), and shifts in implementing the curriculum.

In our view we should expect – and incentivise – ongoing increases in efficiency from schools. These expectations are appropriate for a crown entity such as a school, particularly in a context where most public sector bodies are not receiving cost adjustments. The expectations are likely to be different for an individual receiving welfare support (many types of welfare support are indexed to actual CPI ex tobacco).

We also do not have good evidence on the link between increased marginal expenditure and schools' effectiveness in raising student achievement. [13]

- Ultimately, the objective of any additional investment should be to support improvements in educational outcomes, not to maintain real expenditure.

Short and longer term options

- Operations grant cost adjustments are a difficult issue each Budget as there is not much evidence available about the cost pressures facing schools or the link between expenditure and outcomes.

Options for Budget 14

- The draft material for Monday's Social Sector Ministers' meeting includes the following options:
 - Low scenario – no operations grant adjustment
 - Medium scenario – 1% adjustment (\$12.5 million in outyears)
 - High scenario – 1.5% adjustment (\$19.25 million in outyears)