

The Treasury

Budget 2018 Information Release

Release Document August 2018

<https://treasury.govt.nz/publications/information-release/budget-2018-information-release>

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]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[2]	to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government	6(b)(i)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	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.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[25]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[26]	to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied	9(2)(ba)(i)
[27]	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest	9(2)(ba)(ii)
[29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	not in scope	
[41]	that the making available of the information requested would be contrary to the provisions of a specified enactment	18(c)(i)
[42]	information is already publicly available or will be publicly available soon	18(d)

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Treasury Report: Education Budget and Decisions with Fiscal Implications

Date:	30 November 2017	Report No:	T2017/2650
		File Number:	SH-4

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree to discuss the contents of this report with the Minister of Education Refer a copy of this advice to the Minister of Education	Before Cabinet Business Committee on Wednesday 6 December

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Katren Rogers	Analyst, Education & Skills	[39] (wk)	N/A (mob)	✓
Diana Cook	Manager, Education & Skills	[39] (wk)	N/A (mob)	

Actions for the Minister's Office Staff (if required)

Return the signed report to the Treasury
Refer a copy of this advice to the Minister of Education

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Education Budget and Decisions with Fiscal Implications

Executive Summary

This report provides an early heads up about education cost pressures, which will need to be managed against the Budget 18 operating and capital allowances.

It highlights that anticipated education operating cost pressures for Budget 18 of ^[38] over four years exceed the \$2.82 billion funding signalled for the education sector in your fiscal plan, excluding the 100 day plan tertiary commitments.

We are providing this advice now because:

- ^[34]

- We are aware of a package of teacher supply initiatives due to be considered by the Cabinet Business Committee (CBC) on Wednesday 6th December, with costs totalling ^[33] million across the forecast period. Given the tight fiscal context, we recommend that education decisions with a fiscal impact be deferred for consideration as part of the Budget process. We have included a Treasury comment and split recommendation in the Cabinet Paper to this effect.

We recommend that you share this report with the Minister of Education, and discuss with him its contents, to ensure that you have a shared understanding of the fiscal environment for education in Budget 18.

Recommended Action

We recommend that you:

- a **agree** to discuss the contents of this report with the Minister of Education
Agree/disagree.
- b **refer** a copy of this advice to the Minister of Education
Refer/not referred.

Diana Cook
Manager, Education & Skills

Hon Grant Robertson
Minister of Finance

Treasury Report: Education Budget and Decisions with Fiscal Implications

Purpose of Report

1. This report provides an early heads up about education cost pressures, which will need to be managed against the Budget 18 operating and capital allowances.
2. We are providing this advice now because:
 - [34]
 - We are aware of a package of teacher supply initiatives due to be considered by the Cabinet Business Committee (CBC) on Wednesday 6th December, with costs totalling [33] million across the forecast period. We recommend that education decisions with a fiscal impact should be deferred for consideration as part of the Budget process.

Forecast Changes and Your Budget Strategy

3. Cabinet has agreed an operating allowance of \$2.55 billion per annum and a capital allowance of \$3.4 billion for Budget 18. Of the \$2.55 billion operating allowance for Budget 18, \$1.83 billion per annum is already committed to spending signalled in your Fiscal Plan and other pre-commitments.
4. In your Fiscal Plan, you signalled a \$2.82 billion funding envelope for the education sector over the next four years in addition to the Pre-election Economic and Fiscal Update (PREFU), excluding the 100 day plan commitments in Vote Tertiary Education. The costs associated with additional student financial support and fees-free tertiary education will be included in the Half-Yearly Economic and Fiscal Update (HYEFU), and will not need be to be managed against Budget 18 allowances (T2017/2588 refers).
5. Our early Budget engagements with the Ministry of Education suggest that there are operating cost pressures of approximately [38] over four years in Vote Education and Vote Tertiary Education for Budget 18. Capital cost pressures of [33] million have also been identified.
6. The [38] in operating pressures for Budget 18 alone exceeds the \$2.82 billion that you had signalled for education over the next three Budgets.
7. Figure 1 compares anticipated Budget 18 cost pressures in the education sector with the funding envelope signalled in your Fiscal Plan, excluding 100 day commitments in tertiary education. The blue bar shows the various components of education cost pressures and the red bars show how much you have signalled as new education spending in addition to PREFU.

8. [34]
9. Forecast changes in education are \$984 million over four years. They are composed of \$533 million that was approved at the March Baseline Update (MBU) 2017 and \$451 million that was approved at the October Baseline Update (OBU) 2017. Both need to be counted against operating allowances if you are to meet your fiscal strategy. Even though the MBU changes were included in PREFU, they were captured within the future Budget allowances component of the PREFU fiscal forecasts and, therefore, still need to be counted against the Budget 18 operating allowance.
10. You do have a choice about whether the forecast changes are counted against the funding signalled for education, or whether you allocate a greater proportion of the operating allowance to the education sector. While this would create room for more education manifesto commitments or more discretionary cost pressures, it would reduce funding for cost pressures and manifesto commitments in other sectors. Operating cost pressures for Budget 18 are significant across the public sector, estimated at approximately \$1.8 billion per annum, which will need to be managed against the remaining uncommitted allowances.
11. These decisions can be taken once initiatives are submitted and the full Budget picture becomes clearer. However, given the significant implications for funding available for education manifesto commitments, you may like to discuss these options with the Minister of Education. You could also discuss your reprioritisation priorities and the possibility of funding cost pressure or manifesto commitments from savings.

What is driving education cost pressures?

12. The Budget 18 education cost pressures (as shown in figure 1 above) include:

Cost pressures that are non-discretionary ^[38]

- ^[38]
- \$984 million in forecast changes to demand-driven schooling and early childhood expenses, determined by funding formulae under current policy settings.

Cost pressures that can be scaled (\$728 million):

- ^[33] million in other demand and price pressures, largely in learning support, and
 - ^[33] million in capital-related operating expenses for capital charge and depreciation.
13. Scaling learning support cost pressures will involve difficult choices in the context of unmet demand. There are more opportunities to scale or defer the significant ^[33] million in capital cost pressures for school property, which would also reduce the size of the operating costs associated with this capital expenditure.
14. Table 1 shows the proportion of Budget allowances allocated to Vote Education in the last four Budgets, and the equivalent proportion of the Budget allowance represented by anticipated education cost pressures for Budget 18. The annual average allocation to Vote Education in each year includes forecast changes.
15. Table 1 highlights that the level of cost pressures for Budget 18 is much higher than in recent Budgets. This is due mainly to ^[38] combined with unusually high forecast changes due to higher than anticipated levels of net migration affecting the number of children in early learning and schooling.

Table 1: Education share of new spending

Budget year	2014	2015	2016	2017	2018
Operating	Actual	Actual	Actual	Actual	Assumed
Operating allowance (\$m)	1000	1000	1700	1800	2550
Vote Education (annual average)	247	261	179	279	^[38]
Share (%)	24.7	26.1	10.5	15.5	
Comment	Includes Investing in Educational Success (IES) contingency	Includes collectives bargaining contingency; excludes savings-funded initiatives			Reflects cost pressures only (no manifesto commitments)
Capital					
Capital allowance/ Future Investment Fund (\$m)	1050	939	2600	4000	3400
Vote Education	173	244	727	392	^[33]
Share (%)	16.5	26.0	28.0	9.8	
Comment	Includes injections funded from Future Investment Fund only	Includes injections funded from Future Investment Fund only	Includes PPP2 & 3; allowance \$1.4 billion plus \$1.2 billion in capital savings		Reflects capital cost pressures

Upcoming Decisions with Fiscal Implications

16. Under any of these options, funding for education manifesto commitments will be extremely tight. In light of this, we advise that all education decisions with a fiscal impact should be deferred for consideration as part of the Budget process, unless an urgent need can be established. This will give Ministers confidence that they are funding their highest priorities across education and other sectors. Even funding specific initiatives from reprioritisation within Votes may impact on the objectives of the wider cross-government reprioritisation process signalled in the Budget Strategy Cabinet paper (CAB-17-MIN-0506 refers).
17. In particular, we understand that the Minister of Education is likely to take a paper to the Cabinet Business Committee (CBC) on Wednesday 6th December in relation to teacher supply initiatives. There are significant fiscal implications in the paper, with recommended supply initiatives requiring ^[33] million in new funding over the forecast period, partially offset by \$15.5 million in reprioritisation.
18. The Minister of Education has publically stated that he wants to make announcements before Christmas, with a particular focus on Auckland. While we do acknowledge that there is an issue with teacher supply, particularly in some regions and in some subject areas, there is a lack of robust data as to the scale of the issue. In addition, it is unclear what the overall impact of the package would be, given the lack of evidence around the effectiveness of some of these initiatives in addressing short-term teacher supply constraints, particularly for the 2018 school year.
19. The Ministry of Education is currently working on a workforce strategy which is intended to take a longer term view of the needs and direction of the workforce, including addressing some of the information gaps across the system. However, this strategy is unlikely to be completed until 2020.
20. The paper indicates that there are other possible initiatives to address teacher supply to be considered as part of Budget 18. There are risks that pre-committing funding now will make it difficult to fund these initiatives or other initiatives that might be higher priority in the education sector ^[38]

Next Steps

21. We have included a Treasury comment and split recommendation in the teacher supply Cabinet Paper that these initiatives should be considered as part of Budget 18. We will provide you with further advice as part of your briefing for CBC.
22. You may wish to share this report with the Minister of Education to ensure you have a shared understanding of the fiscal environment for education in Budget 18.