

Education Report: Improving the quality of the government's investment in education

Executive Summary

This paper accompanies a separate paper with our initial advice on 2009 Vote: Education Budget management. This paper is intended to support an initial discussion on short and longer term options for management of government's expenditure in education.

Government expenditure on education is forecast to be \$10.7 billion, or 17.5 percent of core Crown expenses in 2008/09. Improving the quality of the government's investment in education means focussing our efforts on getting better value from existing expenditure by:

- reassessing that we are doing 'the right things' as well as assessing whether we are doing them well;
- reprioritising or better targeting existing expenditure in line with the government's priorities in education;
- reducing compliance costs on the sector so that effort is focussed on front line activity; and
- improving accountability for performance.

Ensuring that we are getting the best value out of current expenditure will also help us maximise the value from any new expenditure on government's priorities in education.

While making the best use of resources within the education sector is always important, it will be an even greater priority as we enter a time of fiscal constraint. There are a number of areas that could be explored to achieve savings and manage cost pressures on the system in the short term, while still ensuring that our focus is on improving the quality of the government's investment in education.

The ministry asks you to indicate your interest in receiving further advice in a number of areas as below:

Recommended Actions

It is recommended that the Minister of Education:

- a. note the overall focus of this programme of work is on improving the quality of the government's investment in education.
- b. note The Ministry of Education is undertaking a review of departmental baseline expenditure. The review is designed to test the efficiency of the ministry's

NOTED

business processes and use of resources, and to identify how we can better carry out our business. The ministry will brief you shortly on progress, and seek an indication from you as to how you wish to be engaged with the review.

NOTED

- c. agree to the Ministry of Education providing further advice in early February 2009 on immediate savings that could be made by ceasing the funding of low priority or ineffective programmes and by reprioritising and pooling contestable funding (refer paragraphs 6-11).

AGREE / DISAGREE

- d. indicate your interest in receiving advice on programmes of work to generate savings or efficiency in the following areas (see paragraphs 12-18):

i. Professional development of teachers

YES / NO

ii. [deleted - confidentiality of advice]

iii. Special education additional teacher time

YES / NO

iv. School transport assistance

YES / NO

Review of Special Ed
- could form part
of that.

- e. agree to the Ministry of Education providing further advice in February 2009 on a programme of action to reduce compliance costs and duplication of effort in education (refer paragraphs 19-22).

AGREE / DISAGREE

- f. indicate your interest in further discussions with officials during February 2009 about the work that could be undertaken on the functions and scale of central education agencies, within the context of broader thinking about the regulatory and accountability framework for schools and early childhood education centres and the government's objectives for tertiary education (refer paragraphs 23-27).

YES / NO

- g. Indicate your interest in receiving advice about improving outcomes and realising greater value from expenditure in the schooling sector (refer paragraphs 28-32) through:

[Information deleted in order to maintain the current constitutional

conventions protecting the confidentiality of advice tendered by ministers and officials]

- h. indicate your interest in receiving advice on managing cost pressures, while improving the quality of government's investment in early childhood education by more targeted policies to encourage participation in, and quality provision of, early childhood education (refer paragraphs 33-36).

YES / NO

i. Indicate your interest in receiving advice on addressing cost and participation pressures in tertiary education, the largest of which is adjusting funding rates according to the consumer price index (refer paragraphs 37-39).

YES NO

j. Indicate your interest in receiving advice early in February 2009 as part of the lead up to the Budget (refer paragraphs 40-46) on:

i. shifting the balance between funding volumes (student participation) and price (per student subsidies to providers) in the tertiary system.


[deleted - confidentiality of advice.]

YES NO

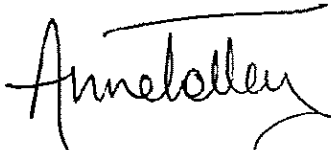
not for a day

iii. opportunities to enable funding of the Youth Guarantee.

YES NO



Rob McIntosh
Deputy Secretary
Strategy and System Performance



Hon Anne Tolley
Minister of Education

16/1/09.

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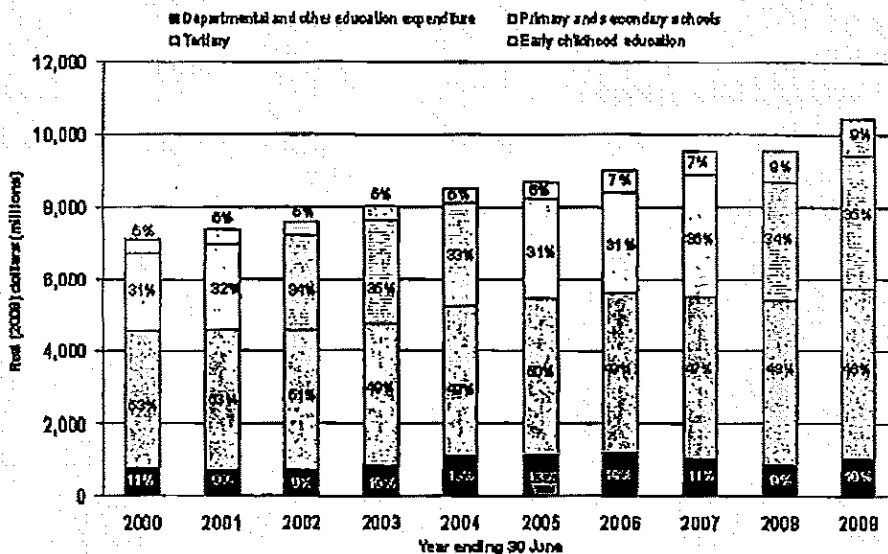
Purpose of Report

1. This paper is intended to support an initial discussion on short and longer term options for management of government's expenditure in education. The paper describes some of the areas that could be explored to achieve savings in the short term, choices that can be made about the management of cost pressures in the system, and work to reduce compliance costs and get better value from existing expenditure on education, over the medium to longer term.

Background

2. As outlined in our 2008 Briefing to the Incoming Minister (BIM), public expenditure on education has increased around 4 percent a year in real terms between 2000 and 2008.

Real education expenditure, 2000-2009, by major components



Source: Core Crown Expense Tables, Pre-Election Fiscal and Economic Update, October 2008

Notes:

Percentages might not sum to 100 percent due to rounding. Expenditure figures have been adjusted to 2008 dollars using the CPI.

2000-2008 figures are actual; 2009 is forecast. Percentages indicate each component's proportion of annual education expenditure. Tertiary expenditure in 2008 excludes an initial fair-value change in student loans of \$1,501m (real).

"Departmental and other education expenditure" includes departmental outputs of the Ministry of Education, Education Review Office, and the Ministry of Social Development's administration of student support. It also includes funding for the New Zealand Qualifications Authority, Careers Services, and the New Zealand Teachers Council. It includes depreciation for school property, but excludes the capital charge.

3. The bulk of expenditure is allocated through large programmes to education providers and, in the case of the tertiary sector, also to students. There are options available to achieve savings in the short term and reprioritise expenditure through policy changes.
4. The programme presented below comprises elements that could yield some savings in Budget 2009 as well as work that might produce efficiency or effectiveness improvements over a longer time frame. There are policy options to help manage cost pressures in the major areas of expenditure over coming years.
5. In considering the choices available, we have taken account of the government's intention to put more resources in the hands of providers wherever possible and to look to reduce bureaucracy and compliance costs.

Discussion

Achieving immediate savings by ceasing the funding of low priority or ineffective programmes

6. While there has been a significant effort over the last decade to strengthen the efficacy of expenditure in the compulsory education sector by directing resources to programmes with a strong expected impact on student outcomes (e.g. professional development in the teaching of literacy and numeracy, schooling improvement interventions), there have also been a number of programmes where the evidence of expected success is lacking or that have not delivered the results expected.
7. There are a number of professional development programmes for teachers, Education for Sustainability is an example, that fall into this category. A decision to reduce, remove or refocus these programmes would have the double benefit of freeing expenditure to help finance the government's priorities and also reduce the level of distraction and fragmentation of effort within schools.
8. Contestable funding is used to pursue a specific objective at limited cost because the number of recipient schools is restricted. The effectiveness of such programmes is often questionable and there is a significant element of compliance cost for schools who receive contestable funding. Contestable funds totalled approximately \$38m or 32 percent of all discretionary funding in 2007/08. Examples are the Community Based Language Initiative and Extending High Standards Across Schools.
9. Sector representatives have been clear that they consider contestable funds to be a poor mechanism for the effective delivery of resources, due to the need for schools to compete for funding, the time limits placed on funding (typically three years in duration) and the compliance costs associated with applying and reporting.
10. The government has stated its intention that the Ministry of Education's contestable funding pools will be reprioritised and the funds used to run special programmes to deal with disruptive pupils. Additionally, the government has

signalled its intention to deal with truancy. There are a number of options that could be explored to reprioritise funds to maximise the impact of funding for schools to deal with disruptive pupils and truants.

11. If you are comfortable with the approach outlined above to achieving savings through ceasing the funding of low priority or ineffective programmes in the schooling sector, the ministry can provide you with more detailed reports on these programmes (and other areas where immediate savings could be made) in early February, as part of the lead up to Budget 2009.

Generating savings or efficiency from changing ways of doing things

12. There is also scope to improve value from existing expenditure through reviewing the allocation mechanism or the delivery arrangements for programmes. This could lead to greater efficiency in resource use or greater effectiveness in achieving outcomes.

[Information deleted to maintain the constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials]

15. An estimated \$60m per annum is spent on additional teacher time for each child verified for support from the Ongoing and Reviewable Resourcing Schemes (ORRS). The 0.1 or 0.2 FTE per child should have training, professional development and experience in the student's special education requirements.
16. The effectiveness of these programmes in improving student outcomes is variable and there are questions about the distribution of, and access to, these resources. Ways to improve the effectiveness and/or alignment of these arrangements could be explored.
17. School transport is provided to children of families living in areas where there is no public passenger service available, and to students with special needs. The cost of this service is approximately \$130m per annum. There are options for pricing, such as introducing a co-payment, and/or changes to the distance or other criteria for access to school transport, that could be explored to manage the costs to government of providing this service.
18. Specific options for realising efficiency or savings in these areas will need to be worked through. The ministry would like you to indicate your level of interest in receiving further advice on getting the most out of [deleted] - confidentiality of advice

additional teacher time and/or school transport. The ministry would then respond with a programme of work, including timing of decision points, for your consideration.

Reducing compliance costs

19. There are a number of areas where there is scope to reduce compliance costs on the sector and duplication of effort across agencies.
20. For example, quality assurance roles in early childhood education (ECE) are split between the ministry, for licensing to ensure minimum requirements are being met, and ERO, which evaluates the quality of services. There may be some overlap between these two functions, especially where the ministry licenses on the basis that the service has the resources, policies, plans and documentation necessary to deliver the curriculum. The ministry also has a role in administration of funding. There might be scope to reduce compliance and regulation costs by reducing the requirements on services for receipt of funding.
21. Licensing of ECE services also forms part of a wider network of regulatory requirements, which includes Resource Management regulation, local councils and regional bodies, Building Code compliances and fire safety. Some part of compliance costs on ECE services may therefore be better examined from a cross-government perspective. Investigation of these areas could reduce the compliance costs on ECE centres and the costs of administration at the centre.
22. We could provide you with further advice by February 2009 on a programme of action to reduce compliance costs on the sector and duplication of effort between agencies in a number of areas.

Generating savings or efficiency by looking at the functions of the centre

23. The Ministry is undertaking a review of departmental baseline expenditure. The review is designed to test the efficiency of the Ministry's business processes and use of resources, and to identify how we can better carry out our business. The ministry will brief you shortly on progress, and seek an indication from you as to how you wish to be engaged with the review.
24. As outlined in the BIM, the scope and expectations of central education agencies, and in particular, the Ministry of Education, have grown. In the ministry's view, decisions about the size and cost of central education agencies should be taken in the context of broader thinking on the regulatory and accountability framework for schools and ECE centres and the government's objectives for tertiary education.
25. Under the new investment approach for tertiary education, government makes more deliberate decisions about where and what it invests in. This investment approach to funding has been combined with a stronger focus on managing the network to avoid duplication of provision and ensure that tertiary organisations take into account regional and national priorities.
26. The BIM suggests that the current functions of the centre and education providers could be assessed by asking the following sorts of questions:

- Are the current decision makers in education – the ministry, Crown entities, teachers – most likely to have the information available to make the best decisions, based on an understanding of the consequences and benefits of those decisions?
 - Do we have the accountabilities right? Should education providers have more or less autonomy depending on their performance?
 - Is the function necessary?
 - Would a change to the location of service delivery or decision making deliver better education outcomes or a better use of resources, or both?
 - For tertiary education, how could the administration of the investment system be streamlined and simplified to reduce compliance costs for the sector and government?
27. The ministry would like you to indicate whether you are interested in further discussions with officials during February 2009 about the work that could be undertaken on the functions and scale of central education agencies.

Realising greater value from expenditure in the schooling sector

28. Expenditure on schooling, which made up 48 percent of education expenditure in 2008, has grown by an average of 2 percent per year in real terms since 2000. This includes growth in schools' operations grants and teachers' salaries.
29. Changes that reduce expenditure in many of these areas are unlikely in the short term. The key will be to realise greater value from existing expenditure. In this regard, policy commitments with respect to standards, assessment and transparency of information have an important role to play. Accountability arrangements in the schooling sector are also key.

[Information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials]

32. The BIM noted that several collective employment agreements expire in 2009 and 2010.

[Information deleted in order to enable the crown to negotiate without disadvantage or prejudice]

Managing cost and participation pressures in early childhood education

33. ECE expenditure, which made up 9 percent of education expenditure in 2008, has grown by an average of 11 percent per year in real terms since 2000.
34. The government has indicated that it intends keeping existing subsidies and fee controls associated with 20 Hours ECE and include other ECE centres. It has also indicated that it will tackle teacher shortages and reduce staff ratios.
35. Two key drivers of the growth in expenditure have been policies that have focussed on the quality and affordability of ECE – principally paying for the costs of qualified teachers to minimise those costs being passed on to parents, and the cost of 20 Hours ECE. There has also been steady growth in hours of children's participation driven by growing demand from working parents.
36. In terms of education outcomes, the marginal benefits from these policies are not likely to be as great as could be achieved from more targeted expenditure. Given the cost pressures in this significant area of expenditure, the ministry would like you to indicate whether you are interested in receiving advice on more cost-effective ways to encourage participation in ECE among groups who would benefit the most, and advice on less costly ways to improve the quality of ECE provision.

Managing cost and participation pressures in tertiary education

37. Expenditure on tertiary education has risen at an average rate of around 6 percent a year in real terms since 2000. Under the controlled funding system, there are no automatic increases in tertiary education funding and cost pressures are considered at each Budget.
38. Cost pressures for most tertiary education provision have been addressed through discrete decisions that have seen:
 - Consumer Price Indexation (CPI) across a range of tertiary funds, including the Student Achievement Component (SAC) and the Tertiary Education Organisation Component (TEOC);
 - funding increases in tertiary participation across both industry training and SAC; and
 - funding increases in university baselines, specific funding initiatives to support Institutes of Technology and Polytechnics, and capital investment funding for Tertiary Education Institutions.
39. The largest cost is CPI adjustments. A three year CPI adjustment (2009, 2010 and 2011) was made in Budget 2008. Continuing with this approach would involve adding a CPI adjustment for 2012, and updating the CPI figures for 2010 and 2011. Initial estimates suggest the four-year cost of this would be \$100 – \$150 million. The ministry would like you to indicate your interest in receiving advice on modifying or changing this approach to tertiary funding.
40. Providers face cost pressures under constrained funding and want to maintain the quality of courses. The concern is that, under current funding arrangements, where government funds places in tertiary education and limits providers' ability

to generate revenue (through student fees and government subsidies), course quality might decline. In the ministry's view, changing the relative balance between government funding for participation and course fees, and also the balance between support for students and subsidies to providers, are things that should be considered.

41. Compared with many other countries (USA, UK, Australia and Canada), New Zealand funds more participation in tertiary education (except Australia), requires lower financial contributions for degree-level courses from students, and provides a slightly lower subsidy to providers per student (except Canada).
42. A key decision, therefore, is whether the current balance between funding volumes (participation in tertiary education) and price (subsidies to providers per student) is one that the government wishes to continue, or whether the government is interested in shifting the current balance of funding in the tertiary system. A broad understanding about the government's intention in this area would help shape Budget bids for 2009 and beyond, particularly for decisions about SAC and TEOC funding.
43. The second area to consider is student support. Direct government subsidies to providers in New Zealand are relatively low by international standards (compared with USA, UK, Australia and Canada), and the proportion of tertiary funding through student support is relatively high.

[Information deleted in order to maintain the constitutional conventions protecting the confidentiality of advice tendered to Ministers and officials]

46. The ministry is also able to develop advice on a funding mechanism that meets the objective of the Youth Guarantee, while aligning with the wider dynamics of the respective funding systems. If you are interested in these areas, the ministry can provide you with further advice during February, as part of the lead up to Budget 2009.