

**Education Report: Budget 2009 – initial advice on the Vote:
Education package**

Executive Summary

This briefing provides an initial high level scenario for Vote: Education in Budget 2009. It includes the new education spending outlined in the government's *Schools Policy* of \$1,515 million over four years and indicative spending detailed in the government's *Tertiary Policy*. We are in the process of quantifying the funding required to fulfil your commitments in early childhood education and care policy.

This briefing seeks clarification from you on a number of aspects of the Vote: Education package, including the timing and phasing of specific commitments and other initiatives you may wish to pursue in Budget 2009.

Our initial assessment of cost pressures across the Vote that you have not specifically mentioned in your education policies is in the region of \$200m per annum. We will provide further advice on these cost pressures, including options for managing them in the context of your priorities and manifesto commitments. We understand the Government's intention that any new funding for programmes identified as cost pressures would need to be sought through reprioritisation of existing spending.

The two appendices to this paper summarise the budget process and provide additional discussion on new education initiatives as outlined in the government's *Schools Policy*.

Recommended Actions

It is recommended that the Minister of Education:

- a. **note** that you will be meeting with officials to discuss the initial shape of the Vote: Education package at 5pm Tuesday 16 December
- b. **note** that officials will provide you with further advice on budget processes and the different options around Vote: Education initiatives between now and the finalisation of the shape of the Budget in March 2009
- c. **note** that you have received an initial briefing on the government's proposed initiatives in early childhood education (see *Early Childhood Education Proposed Work Programme*, 15 December). Your response to this briefing will inform future advice, including costings, for Budget 2009
- d. **discuss** with officials the new schooling initiatives you wish to pursue in Budget 2009, including clarification of phasing and implementation options

- e. **note** that officials will provide you with a briefing before Christmas on the Youth Guarantee
- f. **note** that officials will provide you with a briefing before Christmas on the implementation of the 10% bonus for student loan payments
- g. **note** that officials estimate funding for 200 additional medical places will cost \$60m by 2018/19
- h. **discuss** with officials which, if any, additional tertiary initiatives you would like to pursue in Budget 2009
- i. **note** that our initial estimate of cost pressures that are not specifically mentioned in your education package are in the order of \$200m per annum
- j. **note** that officials will provide further advice on cost pressures, including management options in view of your priorities for Budget 2009.

Rob McIntosh
Deputy Secretary
Strategy and System Performance

NOTED / APPROVED

Hon Anne Tolley
Minister of Education
____/____/____

Education Report: Budget 2009 – initial advice on the Vote:
Education package

Purpose of Report

1. Further to our discussion with you last week, this briefing provides additional advice and seeks your direction on the formulation of the Vote: Education package for Budget 2009. It also provides a high-level indication of what an education package for Budget 2009 might look like.
2. We will provide you with further advice on budget processes and on the different options around Vote: Education initiatives between now and the finalisation of the shape of the Budget in about March 2009. We would welcome any advice from you about your preferences for support from us in Budget decision making. The Budget process is summarised in Appendix 1.

High-level scenarios for the Vote: education package in Budget 2009

3. The table below provides, as a starting point for discussion, an initial scenario for Vote: Education in Budget 2009.

Indicative education spending in Budget 2009 (\$ million)	2009/10	2010/11	2011/12	2012/13	TOTAL
Early Childhood Education					
Funding for government's manifesto commitments in ECE	costs to be quantified				
Schools					
New education initiatives	\$75	\$110	\$125	125	435
Allowance for annual cost adjustments, including school operation grants	\$50	\$75	\$75	\$75	\$275
Collective agreements (pre-commitment against Budget 2009)	\$169	\$192	\$192	\$192	\$745
Operating costs for Budget 2009 arising from increased capital spending	\$15	\$15	\$15	\$15	\$60
New schools operating spending	\$309	\$392	\$407	\$407	\$1,515
New schools capital spending	\$177	\$177	\$147	-	\$501

Indicative education spending in Budget 2009 (\$ million)	2009/10	2010/11	2011/12	2012/13	TOTAL
Tertiary					
Youth Guarantee	\$65	\$65	\$65	\$65	\$260
10% bonus for student loan repayments	costs to be quantified (a further paper will be provided to you before Christmas)				
Indicative current cost pressures in Vote: education (\$ million)	2009/10	2010/11	2011/12	2012/13	TOTAL
General cost pressures	initial indications are \$200m per annum				
Increase medical places by 200 over five years ¹	\$1.2	\$4.0	\$8.3	\$14.9	\$28.2

Indicative new education spending in Budget 2009

4. This section seeks clarification and confirmation of the government's spending commitments for Budget 2009.

Early childhood education and care policy

5. The *Briefing to the Incoming Minister* reported that the fiscal costs of early childhood education are expected to rise above inflation for the next three years as a consequence of current policy, increased demand, and the growth of the early childhood education sector.
6. We note that government has made a number of commitments in the area of early childhood education. Some of these, such as enhancing 20 hours ECE and reducing staff ratios, have funding implications. We expect that you will wish to progress some of your manifesto commitments for early childhood education in Budget 2009.
7. We have provided you with an initial briefing on the government's proposed initiatives in early childhood education (see *Early Childhood Education Proposed Work Programme*, 15 December). Your response to this briefing will inform future advice for Budget 2009.

Schooling policy

8. The table below sets out the new education expenditure outlined in the government's *Schools Policy*.

¹ The Government's *Tertiary Education Policy* included a commitment to increase medical places by 200 over five years at an estimated cost of \$23m over three years. Our estimate is that this will cost \$28m million by 2012/13. Government has indicated that funding will come from spending allocations from Budget 2008, We have therefore included this initiative as a cost pressure on the Vote.

Indicative new education spending in Budget 2009 (\$ million)	2009/10	2010/11	2011/12	2012/13	TOTAL
New education initiatives	\$75	\$110	\$125	125	435
Allowance for annual cost adjustments, including school operation grants	\$50	\$75	\$75	\$75	\$275
Collective agreements (pre-commitment against Budget 2009)	\$169	\$192	\$192	\$192	\$745
Operating costs for Budget 2009 arising from increased capital spending	\$15	\$15	\$15	\$15	\$60
New operating spending	\$309	\$392	\$407	\$407	\$1,515
New capital spending	\$177	\$177	\$147	-	\$501
TOTAL ADDITIONAL SPENDING	\$486	\$569	\$554	\$407	\$2,016

Allowance for annual cost adjustments, including school operation grants

9. The government has allocated \$275m over four years to allow for annual cost adjustments. Once schools' operations grants are adjusted for forecast cost increases, a considerable surplus remains (see table below).
10. We would like to clarify with you the basis of these calculations, and whether this allocation is intended to increase school operations grants over and above the rate of inflation. We would also like to clarify whether this allocation is intended cover other programmes or initiatives that you have identified as facing cost pressures (see cost pressures section, paragraph 31).

Preliminary indicative costings (\$ million)	2009/10	2010/11	2011/12	2012/13	Total
Allowance for annual cost adjustments, including school operation grants	\$50	\$75	\$75	\$75	\$275
Reserve Bank and the Treasury CPI forecast for 2010 (2.3%)	\$12	\$23	\$23	\$23	\$82
Surplus	\$38	\$52	\$52	\$52	\$194

11. We will also need to clarify if it is your intention to allocate this additional funding to schools in the 2010 school year. In the past, the annual adjustment to schools operational funding would be announced in the forthcoming budget (Budget 2009) and would take effect in the following school year (the 2010 school year).

Questions for clarification

- What is this allocation for annual cost adjustments intended to cover?
- Is it your intention that funding will be allocated in Budget 2009 and distributed at the beginning of the 2010 school year?

Collective agreements

12. The cost of collective agreements is a pre-commitment against Budget 2009. This is the third tranche of the appropriation for the cost of settling the primary, secondary and area school teacher collective agreements, and the primary, secondary and area school principal collective agreements, including the flow-on costs to early childhood education.
13. There are no technical or timing issues with this Budget commitment at this stage. The table below sets out the cost of this pre-commitment in more detail.

(\$ million)	2009/10	2010/11	2011/12	2012/13	Total
Collective agreements	\$169.1	\$192.4	\$192.4	\$192.4	\$746.4

Additional capital expenditure

14. We note that the government's *Schools Policy* includes \$501m over three years for new capital spending, with associated operating spending of \$15m per annum. The ministry is currently seeking guidance on your priorities for this capital expenditure and will be providing further advice on how this expenditure may be best utilised. The results of this work will be reflected in subsequent budget advice.

New education initiatives

15. Government has indicated that \$75m will be available for new education initiatives in 2009. Our assumption is that this \$75m includes the following schooling initiatives that were costed in various manifesto documents:

Manifesto commitments (\$ million)	Cost	
Support for students and schools not meeting national standards	\$18	pa
Increase funding to independent schools	\$10	-
Truancy support for schools	\$4	pa
Increase interim response fund for disruptive pupils	\$2	pa
Increasing ORRS funding	\$18	pa
Expanding special schools	\$3	pa
Voluntary bonding ² for teachers in hard-to-staff communities or subjects	\$19	3 years
Awards for top-performing teachers	\$2	pa
Supervised in-service programme for upgrade of technology teacher qualifications	\$12	3 years

16. We will be seeking clarification from you on various aspects of these commitments, including the phasing of implementation. We will also be seeking confirmation of which initiatives you wish to pursue in Budget 2009. Further details are contained in Appendix 2.

² Government has also indicated that funding of over three years an additional \$18m will be allocated to voluntary bonding schemes for medical professionals and \$9m for veterinarian. This expenditure is not counted in the table above, as it will not be included in the Vote: Education allocation.

Other schooling initiatives

17. The National Party manifesto mentioned a range of additional schooling programmes or initiatives that did not include indicative costings. For example, we note the government's intention to provide additional resources over time to support participation in extra-curricula sports, to expand opportunities for students to participate in trades training, and to promote teaching excellence by reducing staff ratios to 1:15 in new entrant classes and expanding Te Kohahitanga.
18. We are seeking confirmation from you on which, if any, of these or other schooling initiatives you wish to progress in Budget 2009. These would need to be funded through reprioritisation from within Vote: education, unless further new government expenditure is allocated to education initiatives.

Questions for clarification

- We would like to confirm the commitments you wish to pursue, subject to further advice and discussion, in Budget 09.

Tertiary policy

19. The government's *Tertiary Policy* includes the following commitments:

Manifesto commitments (\$million)	Cost	
Youth Guarantee	\$65	pa
10% bonus for student loan repayments	tbc	-
Increase medical places by 200 over five years	\$23 (within baseline)	3 years

Youth Guarantee

20. We note the government's commitment to offering free education for all 16 and 17 year olds, whether in school or tertiary education through the Youth Guarantee. This commitment was costed at \$65m per year by the National party prior to the election. Its implementation will involve considering the best contribution of existing programmes for youth, including mainstream school and tertiary provision, supported by Gateway, STAR (Secondary-Tertiary Alignment Resource), and Youth Training.
21. Officials will provide a briefing on the Youth Guarantee before Christmas. Your response to this will help us develop advice for Budget 2009. The cost of this initiative could vary substantially, depending upon its design, and the timing of its implementation.

10% bonus for voluntary student loan repayments

22. A briefing will be provided before Christmas on the implementation of a 10% bonus for voluntary student loan repayments. This paper will seek direction on key policy parameters of a bonus scheme (for example, the treatment of the bonus for borrowers who are living overseas). It will also present alternative options for increasing student loan repayments that could be considered alongside the manifesto commitment. The paper will provide costings and

demonstrate the range of potential impacts depending upon the change in repayment behaviour arising from the 10% bonus.

Increased medical student places

23. We note the government's commitment to boost the number of funded medical student places by 200 over five years. These places will be funded through the Student Achievement Component and Tertiary Education Organisation Component as additional places for the medical schools at Auckland University and Otago University, with flow-on costs arising due to uptake of student loans and allowances by those new students.
24. Preliminary figures indicate this will cost \$28m by 2012/13, as set out in the table below. This is more than the estimated cost set out in the government's *Tertiary Education Policy* of \$23m over three years (\$3m in 2010; \$7m in 2011 and \$13m in 2012).

(\$ million)	2009/10	2010/11	2011/12	2012/13 and out-years	Total
Additional medical places (operating impact; GST excl)	\$1.2	\$4.0	\$8.3	\$14.8	\$28.2

25. We note that according to the government's *Tertiary Education Policy*, the funding for this initiative was to come from within the indicative education spending allocations outlined in the 2008 Budget. However, medical degree places are funded at significantly higher rates than most other degree programmes, and therefore this initiative could not be funded within baselines without disproportionate impact on non-medical degree places at universities.
26. The increased medical places are likely to require new capital investment. Because the increase in medical student places would occur over a number of years, it may be possible to defer a decision about capital investment beyond Budget 2009. The TEC is currently discussing with the universities the infrastructure requirements of two medical schools and will report back on this issue.
27. The operating costs rise in out-years as the full complement of places are funded, to the point where, by 2018/19, this initiative is estimated to cost approximately \$60m per year.

Other Tertiary initiatives

28. The government's *Tertiary Policy* includes a small number of other commitments, such as moving over time to a more even-handed approach between public and private education providers. We are seeking confirmation from you on which, if any, of these or other initiatives you wish to progress in Budget 2009. These would need to be funded through reprioritisation from within Vote: education, unless further new government expenditure is allocated to education initiatives.

Questions for clarification

- Which, if any, other tertiary initiatives would you like to pursue in Budget 2009?

Management of cost pressures in Vote: Education

Cost pressures in Vote: Education

29. We are in the process of identifying cost pressures across the Vote that you have not specifically mentioned in your education policies but that you will need to consider as part of formulating the education package for Budget 2009.
30. Our initial assessment is that these cost pressures are in the order of \$200m per annum. Examples of these pressures are as follows.
- Inflation adjustments. For example, approximately \$20m per annum for the annual cost adjustment for the ECE funding subsidy and 20 hours ECE.
 - Inflation-adjusting the rates paid for most tertiary education provision for 2012, and adjusting the 2010 and 2011 baselines for updated CPI forecasts. is estimated to cost \$100m-\$150m over four years.
 - Wage and salary pressures. For example, \$73m per annum for the School Caretakers and Cleaners Collective and the Secondary and Area School Groundstaff Collective Agreements, and their potential flow-on implications for other non-teaching collective agreements, if the government were to agree to these.
 - Cost pressures due to increased demand for services. For example, \$5m in 2009/10 and 2010/2011 to address increased demand for B4 school checks.
 - Cost pressures on sector infrastructure. For example, under existing policy settings, it is estimated that an additional \$11m per annum is required for existing and new integrated schools' property.
31. We estimate that an additional \$28.2m will be required over four years to fund the government's commitment for an additional 200 medical places.
32. We will provide further advice, including options for managing cost pressures in the context of your priorities and manifesto commitments.

Programmes with funding due to expire in 2008/09

33. There are three programmes for which funding is due to cease at the end of the current financial year:

Initiative	Funding (approx)
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>	
<p><i>Extra Therapy Support for some High Needs Students</i></p> <p>Funding for 36.4 FTE over-entitlement physiotherapy and occupational therapy positions to provide therapy for some high needs students</p>	\$2.5m per annum
<p><i>National Aspiring Principals Pilot</i></p> <p>Funding for professional development and support for teachers who are interested in leadership development with the aim of improving the pool of high quality principal candidates.</p>	\$0.5m per annum

34. There are a number of additional programmes where some funding is provided in out-years, but not enough to maintain current service levels. *[deleted - confidentiality of advice]* , the School High Health Needs Fund, *[deleted - confidentiality of advice]*
35. We will provide further advice on programmes where funding is due to cease at the end of the current financial year, including the implications of ending this funding. This will enable you to consider their relative priority alongside other cost pressures. We understand the Government's intention that any new funding for programmes identified as cost pressures would need to be sought through reprioritisation of existing spending.

Appendix 1: Summary of the Budget Process

The Budget is the principal way in which the government allocates resources in order to achieve its policy objectives. Different governments have approached the task of budget management somewhat differently. Approaches can also evolve over the term of a government according to what works best for different Ministers. However, New Zealand does have an enduring set of budgeting principles governed by the Public Finance Act 1989. This Act determines a set of “rules” around how money is spent, and of the roles of Ministers and public servants in financial management. The Act also sets out principles for the conduct of fiscal policy.

You will need to take decisions on key aspects of new spending:

- budget details of specific election commitments
- other initiatives that you may wish to advance but which are not provided for in “new” education spending.
- adjustments to existing programmes to give you room for any new spending priorities

The parameters of the 2009 Budget and the ways that you will work with your colleagues – especially the Minister of Finance – to shape the Budget have yet to be settled. We will provide you with advice on budget processes and on the different options around Vote: education initiatives between now and the finalisation of the shape of the Budget in about March 2009.

Appendix 2: Discussion of *New education initiatives* as outlined in the government's *Schools Policy*

Targeted funding of \$18m a year to primary and intermediate schools to help pupils who are not meeting national standards

We are seeking clarification on the timing of this commitment. If it is your intention that targeted funding is used to lift the performance of pupils who are not meeting national standards, the simplest option would use the results from the first year of assessment, to inform resource allocation in the following year.

National standards will not be in place until the 2010 school year, so this would mean that targeted funding of \$18m would be distributed through Budget 2010, in time for the 2011 school year.

If you wish to distribute this funding through Budget 2009, for use in the 2010 school year, we will provide advice on alternative allocation methods.

Questions for clarification

- Is it your expectation that \$18m to assist pupils to meet national standards will be allocated in Budget 2010, for distribution in 2011 *after* national standards are in place?

Making independent schools more affordable

We note the government's plans to provide \$10m per year in additional funding for independent schools, with the intention of making independent schools more affordable.

The policy commitment of an additional \$10m each year for funding independent schools does not account for inflation. You may wish to consider phasing the introduction of \$40m funding over four years, so that it increases each year in line with inflation. If desired, we can also provide advice on alternatives to a capped funding pool.

Questions for clarification

- Is it your intention that additional funding for independent schools will be allocated in Budget 2009, and distributed at the beginning of the 2010 school year?
- Are you interested in advice on phasing options for the introduction of this money over time?
- Would you like further advice on alternatives to a capped funding pool?

Providing \$4m of additional funding a year to assist schools 'fight truancy on the front line'

We note the government's commitment to an additional \$4m for schools to help reduce truancy. There do not appear to be any issues in terms of the timing and phasing of distributing any additional funding. Schools' operations grants would seem the most obvious mechanism for distributing the \$4m.

The additional \$4m across all schools will equate, on average, to approximately \$1,500 per school. We would like to explore a range of potential options with you to maximise the impact of this funding. Options include targeting resources to schools where truancy is most prevalent and/or combining this funding with other complementary programmes that address some of the root causes of truancy.

We note that government has expressed concern regarding the performance of the District Truancy Service (DTS). If you wish, we can provide advice on the case for distributing directly to schools the \$4.5m for the District Truancy Service³ as well as the \$4m of additional funding.

You may also wish to consider incentives on schools to use the funding in accordance with the policy intent. For example, given the poor quality of existing data there is a strong rationale to incentivise schools to improve reporting systems by purchasing and using an Electronic Attendance Registers. This should help schools and government to take a more informed and robust approach to tracking and addressing truancy.

Questions for clarification

- Are you interested in further advice on options to maximise the impact of the additional \$4m funding to address truancy?

Interim response fund for disruptive pupils

We note the government's commitment to double the amount of money in the Interim Response Fund for disruptive pupils – an additional \$2m each year – as an interim measure.

We do not foresee any technical or timing issues with this funding increase. In order to make the best use of the additional funding it would be appropriate to review the criteria for accessing the fund. We will provide further advice on this by April 2009.

Teaching workforce initiatives

We note the government's costed commitments in relation to the teaching workforce:

- \$2m per annum to expand awards for top-performing teachers
- \$12m over three years to establish a programme of supervised in-service teacher training to enable technology teachers' qualifications to be recognised at degree level.
- \$19m over three years for "voluntary bonding" of graduate teachers agreeing to work in hard-to-staff subjects or communities.

We will be seeking to clarify with you aspects of these programmes, including the timing and phasing of funding, and the alignment between these commitments and other workforce initiatives that you may wish to progress.

We are currently drafting a paper for Cabinet Business Committee in December that will seek Ministers' agreement to the broad parameters of "voluntary bonding" schemes

³ 75% of DTS providers are schools.

for teachers, medical professionals and veterinarians. This paper will also ask Ministers to note the different Votes from which they would be funded.

Increased ORRS funding

We understand the government wishes to increase ORRS funding by \$18m a year for pupils with the highest special education needs, with the intention that it will, in turn, relieve pressure on the funds available for children with more moderate special education needs.

We will be seeking to clarify your intentions regarding the use of the additional \$18m and will provide advice on the various criteria that could be used to distribute the funding. It would also be useful to engage with you on the relationship between ORRS funding and the wider review of special education resourcing.

Special schools

The government has committed \$3m a year to expand special schools and encourage the development of satellite classes. We would like to clarify whether the \$3 million is included in the overall \$501m pledge for school capital investment. We will also be looking to discuss with you the wider issue of how the network of special education provision fits within the school property network more generally and government's expectations regarding the expansion of special schools.

Questions for clarification

- Is the government's commitment to spend \$3m per year to expand special schools and develop satellite classes *additional* to the commitment to spend \$501m over three years on school property?