

20 March 2009

## Education Report: Vote Education – 24 March 2009 Budget Bilateral Meeting

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### Recommended Actions

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It is recommended that the Minister of Education:

- a. **note** that you are scheduled to meet with the Minister of Finance at 1pm on 24 March 2009 for a second bilateral meeting to discuss the 2009 Budget package for Vote Education;
- b. **read** this briefing, and the Treasury agenda, and use them as the basis for your discussion with the Minister of Finance;
- c. **note** the total savings in Vote Education over four-years has increased by \$0.156m since the previous bilateral;
- d. **discuss** with the Minister of Finance whether 20 hours ECE policy changes are funded in Budget 2009 or considered in Budget 2010;
- e. **discuss** with the Minister of Finance whether the extension of the Ongoing and Reviewable Resourcing Scheme receives \$18m of funding in 2012/13;
- f. **agree** to fund the 21st Century Building Programme bid at the cost proposed by the Treasury;
- g. **discuss** with the Minister of Finance when the support for students to meet literacy and numeracy standards initiative should commence, and over how many years it should be phased-in;
- h. **agree** with the Minister of Finance whether Te Kotahitanga is expanded in Budget 2009 by one tranche of 30 schools (with additional tranches considered in future Budgets) or two tranches of 30 schools;

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

**Rob McIntosh**  
Deputy Secretary  
Strategy and System Performance

NOTED / APPROVED

**Hon Anne Tolley**  
Minister of Education

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### Purpose of Report

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1. This report provides you with advice to inform your discussion of the 2009 Budget package for Vote Education with the Minister of Finance on 24 March 2009.

### Background

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2. You met with the Minister of Finance on 16 March 2009 to discuss the 2009 Budget package for Vote Education. A follow-up discussion is scheduled for 24 March 2009.

### Agenda

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3. We expect your follow-up discussion with the Minister of Finance will cover areas where explicit decisions were not made at the 16 March meeting, and areas for which Ministers requested further information.
4. The agenda for the discussion is attached to this briefing, and includes tables setting out Vote Education savings, policy priorities, and emergency pressures.
5. We expect the discussion will focus on three areas:
  - a) Vote Education savings (discussed on page 4 of this briefing)
  - b) Vote Education policy priorities (discussed on pages 5-9 of this briefing)
  - c) Vote Education emergency pressures (discussed on pages 10-11 of this briefing).
6. This briefing covers the areas on which we expect your discussion will focus, or areas where our view differs from that of the Treasury.

### Savings

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7. Ministers are asked to agree to the savings in Vote Education as set out in the table in **point 1 of the agenda**.
8. The total savings over four years has increased by \$0.156m since your 16 March meeting with the Minister of Finance. This change is due to:
  - increases in savings from the tertiary sector (Adult and Community Education, and the Tripartite Adjustment Fund) as a consequence of decisions you have made, largely offset by:
  - decreases in some savings (such as from Mission On, and from Artists in Schools) due to changes in the timing of breaking contracts to achieve

these savings. We understand you have received advice on at least some of these changes.

9. The Minister of Finance wishes to discuss the under-spend in the tertiary sector of \$15m in 2008/09 (**point 3 of the agenda**). You have received advice on this from the Tertiary Education Commission.

## Policy priorities

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10. This section of the brief provides advice to assist you in your discussions with the Minister of Finance on funding policy priorities in Budget 2009.

### **20 Hours ECE policy changes**

11. You have indicated that you would like to pursue funding for these policy changes in Budget 2009, whilst deferring aspects of the changes (removing the six-hour per day limit, and expanding 20 hours free to five year olds). We have provided options for this below.
12. Phasing options for changes to 20 hours ECE policy need to consider the practical implications for services. Extending 20 hours ECE to Kohanga Reo and playcentres before the removal of the six-hour per day limit and inclusion of five year olds would in this policy mean that these services would change their funding arrangements twice in a relatively short amount of time.
13. Our suggested phasing (in the below table) would extend 20 hours ECE to Kohanga Reo and playcentres one year prior to removing the six-hour per day limit and extending 20 hours ECE to five year olds. However, you may wish to implement all these changes simultaneously.
14. The below table shows the cost of expanding 20 hours ECE to Kohanga Reo and Playcentres from July 2010 and removing the six hour per day limit and extending 20 hours ECE to five year olds from July 2011, with a four-year cost of \$63.786m.
15. Each additional year that the removal of the six-hour per day limit and extension of 20 hours ECE to five year olds are deferred would reduce the cost by approximately \$17m per annum.

### **20 hours policy changes: suggested phasing (\$ million)**

	2009/10	2010/11	2011/12	2012/13
Remove 6 hour/day limit for 20 hours ( <i>from July 2011</i> )	0.000	0.000	15.000	15.500
Extend 20 hours ECE to five year olds ( <i>from July 2011</i> )	0.000	0.000	2.440	2.513
Extend 20 hours ECE to playcentres ( <i>from July 2010</i> )	0.000	4.635	4.774	4.917
Extend 20 hours ECE to Kōhanga Reo ( <i>from July 2010</i> )	0.000	4.532	4.667	4.808
<b>Total</b>	<b>0.000</b>	<b>9.167</b>	<b>26.881</b>	<b>27.738</b>

16. You should note that in order for policy changes to come into effect from July in a given year, funding would need to be appropriated in the *previous* budget at the latest. So, for example, changes from July 2011 would require appropriations in Budget 2010 or 2009.
17. Treasury are recommending all the 20 hours ECE policy changes are deferred until Budget 2010.

*You will need to discuss and agree with the Minister of Finance whether 20 hours ECE policy changes are funded in Budget 2009 or considered in Budget 2010.*

### **Extending the Ongoing and Reviewable Resourcing Scheme**

18. Treasury will be seeking Ministers' agreement to fund this at \$10m per annum (\$5m in the first year). Your manifesto commitment was an additional \$18m per annum for ORRS. You may wish to discuss with the Minister of Finance whether this initiative receives \$18m of funding in 2012/13. Future increases, to meet the manifesto commitment, could be considered in future Budgets.

*You may wish to discuss with the Minister of Finance whether this initiative receives \$18m of funding in 2012/13 in light of your manifesto commitment.*

### **21<sup>st</sup> Century Building Programme**

19. You have asked information on the difference between the Ministry of Education and Treasury costings of the 21<sup>st</sup> Century Building Programme bid.
20. The two costings are as follows:

\$ million	\$000	2008/09	2009/10	2010/11	2011/12	2012/13 and outyears
Operating:	MoE	0	41.391	49.363	56.163	56.847
	Treasury	0	41.391	47.596	49.628	48.543
Capital	MoE	0	172.133	193.194	33.127	0
	Treasury	0	172.133	142.944	10.827	0

21. The bid includes the up to \$199m of funding agreed in 2009/10 as part of the fiscal stimulus package, but excludes an additional \$28m agreed in 2008/09 (refer CAB Min (09) 3/3).
22. Treasury's costing seeks funding for school property that cannot be deferred until Budget 2010 or beyond. Thus it includes fewer site purchases and new schools, and a commensurate reduction in other spending on new school furniture and equipment, depreciation and capital charge.
23. There is little risk in deferring the decision making on the six site purchases and construction of two new schools until Budget 2010. However, if funding is not made available in Budget 2010, some of the planned site purchases may not be available, resulting in lower-quality sites with higher site-works costs or higher purchase costs.

*We recommend that you agree to fund the 21<sup>st</sup> Century Building Programme bid at the cost proposed by the Treasury.*

**Student Loan Voluntary Repayment Bonus**

- 24. It is difficult to predict the behavioural response to this policy. This will be driven by perceptions of the extra benefit by those who do not currently borrow and those who do not borrow the maximum available.
- 25. We have revised the bid based on the assumption that the policy will result in 1.5% additional borrowing, rather than the previous assumption of a 2.5% increase in borrowing. The net operating impact of the initiative under this scenario is now a *saving* of \$95.792 over four years, compared with a *saving* of \$77.842m with the assumption of a 2.5% increase in borrowing. The net debt impact is \$16.597m over four years, compared with \$69.877m under the 2.5% scenario.
- 26. The financial impact of the bid, based on a 1.5% increase, is shown in the table below.

**Student Loan Voluntary Repayment Bonus: financial impact of a 1.5% increase in borrowing**

\$ million	2008/09	2009/10	2010/11	2011/12	2012/13 & outyears	4 Year total (09/10 to 12/13)
Net operating impact	0.103	(76.855)	(5.432)	(6.310)	(7.195)	(95.792)
Net debt impact	(2.602)	11.001	2.547	1.915	1.134	16.597

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

***Awards for top-performing teachers***

33. Treasury recommends that this initiative is not funded in Budget 2009. We recognise that this is a manifesto commitment, but this initiative could be deferred in order to allow other commitments, such as additional truancy funding, to receive funding in Budget 2009.

***Support for students to meet literacy and numeracy standards***

34. The Treasury recommends phasing this initiative in from the 2011 calendar year, reaching the manifesto commitment of \$18m in 2012/13. We agree with Treasury that this initiative should commence once standards have been in place for a year.

*You will need to discuss with the Minister of Finance when this initiative should commence, and over how many years it should be phased-in.*

### **Te Kotahitanga**

35. You have asked for further options for expanding Te Kotahitanga, other than 3 tranches of 30 schools, and 1 tranche of 30 schools. Treasury are recommending that Te Kotahitanga be expanded by 30 schools in Budget 2009, with further expansion considered in future Budgets.

*You will need to agree with the Minister of Finance whether Te Kotahitanga is expanded in Budget 2009 by one tranche of 30 schools (with additional tranches considered in future Budgets) or two tranches of 30 schools.*

36. Two options for expanding Te Kotahitanga by two tranches of 30 schools are set out below.
37. Both options currently include \$0.375m in 2009/10 for the analysis and dissemination of material and case studies from schools in the programme, and from successful schools that are not in the programme.

#### *Option 1: Two tranches of 30 schools, two years apart*

38. This option has a net cost of \$26.434m over four years, and an overall net cost of \$20.211m over eight years.

#### **Two tranches of 30 schools in 2009/10 and 2011/12**

Year	2009/10	2010/11	2011/12	2012/13	Four-year total
Net cost (\$ million)	6.735	4.553	8.433	6.713	26.434

39. This lower-cost option has two advantages over expanding the programme by 30 schools in consecutive years.
40. An evaluation of Te Kotahitanga is due in February 2010. Delaying the second tranche until 2011/12 will ensure that, if required, the programme can be redesigned and providers retrained before the second tranche commences.
41. If the first tranche has progressed further before the second tranche starts this will ease pressure on the programme providers - the most intensive work is at the start of the programme.

#### *Option 2: Two tranches of 30 schools, in consecutive years*

42. This option has a net cost of \$31.864m over four years, and an overall net cost of \$24.418m over seven years.
43. This option would see two tranches of 30 schools complete Te Kotahitanga one year sooner than would be the case with Option 1.

#### **Two tranches of 30 schools in 2009/10 and 2010/11**

Year	2009/10	2010/11	2011/12	2012/13	Four-year total
Net cost (\$ million)	6.735	10.913	8.103	6.113	31.864

## Emergency pressures within Vote Education

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44. This section of the brief provides advice to assist you in your discussions with the Minister of Finance on funding emergency pressures in Budget 2009.
45. Emergency pressures, other than those that the Treasury recommends are funded, are listed in Attachment 1.

*[information deleted in order to protect the commercial position of the person who supplied the information, or who is the subject of the information]*

### **Exit costs for Extra Therapy Support for Some High Needs Students**

48. You have decided not to continue to fund extra therapy support for some high needs students. This will end the inequity where some children with high needs receive extra support while others do not.
49. There is a one off exit cost to the Crown of \$1.45 million associated with ending this funding. This cost is based on redundancy for 36.4 therapist positions at the top of the salary scale with 30 weeks redundancy payment.

### **Early Childhood Education Annual Cost Adjustment**

50. Ministers requested further information on the cost adjustment for the Early Childhood Education sector.
51. It includes capital (for 20 hours rates), cleaning, consumables, food etc and non-teaching salaries. Non-teaching salaries (for employees such as cooks, cleaners, administrators) make up between 5 and 10% of the bid. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*
52. The table below shows the expenditure broken down into the different aspects of ECE provision:

#### **Early Childhood Education Annual Cost Adjustment - components**

\$ (millions)	2009/10	2010/11	2011/12	2012/13
Under 2	3.6	3.7	3.9	3.9
Non 20 Hours ECE	4.3	4.4	4.5	4.6
20 Hours ECE	8.3	8.7	9.0	9.1
<b>Total</b>	<b>16.2</b>	<b>16.8</b>	<b>17.4</b>	<b>17.6</b>

53. If Ministers are interested in funding the ECE annual cost adjustment at a reduced level, we recommend that the cost element be adjusted for CPI (1.95%)

rather than for the specific ECE inflators. This would be a significant departure from recent policy but would align with indexation in the school sector. It would give an adjustment of \$27.591m over four years.

**Early Childhood Education Annual Cost Adjustment – 1.95% increase**

\$ (million)	2009/10	2010/11	2011/12	2012/13
Under 2	1.670	1.708	1.741	1.761
Non 20 Hours ECE	1.475	1.484	1.516	1.521
20 Hours ECE	3.413	3.657	3.787	3.858
<b>Total</b>	<b>6.558</b>	<b>6.849</b>	<b>7.044</b>	<b>7.140</b>

***NCEA standards alignment***

54. Ministers have requested a lower-cost version of this bid. We have revised the cost of this bid from \$14.305m over four years to \$8.038m over four years, as set out below.

Year	2009/10	2010/11	2011/12	2012/13	Four-year total
Cost (\$ million)	\$2.526	\$2.731	\$2.431	\$0.350	\$8.038

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

**Attachment 1: Emergency Pressures**

	What funding will deliver	Impact of not funding
<p><b>Operating pressures for decision</b></p> <p><i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i></p>		
<p>Early childhood annual cost adjustment</p>	<p>Increased funding to early childhood services to reflect their cost increases, historically this adjustment has occurred on an annual basis.</p>	<p>Services are likely to pass increased costs onto parents. Our initial assessment is that the overall impact on participation may be low, but is likely to be difficult to judge in the context of the recession.</p> <p>A lack of cost adjustment will send strong signals to the sector that government may not be willing to meet the costs of qualified teachers, and will also signal that government is not committed to meeting 100% of costs through the 20 Hours ECE scheme. This latter factor may result in some services leaving the scheme 'on principle', and runs counter to other initiatives to enhance the scheme.</p> <p>There will be strong resistance from the ECE sector.</p>
<p>NCEA – development of assessment resources and exemplars to align with new Curriculum.</p>	<p>The introduction of the new curriculum from 2010 means that the standards in NCEA need to be re-aligned. The current work programme has funding allocated for the development of the standards but no funding to develop the assessment resources and exemplars to support teacher to implement the new standards and the trialling of the standards.</p>	<p>The credibility of the qualification could be undermined and sector acceptance of NCEA standards seriously jeopardised. Evidence from the original implementation of NCEA showed that supporting teachers to understand the standards was crucial to success This cost pressure has already been scaled to allow for</p>

		development of assessment resources and exemplars for only 75% of standards. This is the minimum acceptable level.
<i>[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]</i>		
<b>Operating pressures Treasury does not support funding</b>		
National Aspiring Principals Pilot	The current programme will continue. This is a professional development programme to support potential school leaders.	The programme will end. This is the only professional development programme for potential principals. A third of current Principals are 3 years away from the average retirement age so there could be an imminent recruitment issue. Demand will not be met (demand for the pilot was double the number of places).
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		
Extra Therapy Support for Some High Needs Students	Security of tenure for the 2010 school year for 36.4 FTE over-entitlement physiotherapy and occupational therapy positions to provide therapy for some high needs students with severe physical therapy needs.	The therapists would be made redundant and the students they work with would receive a reduction in the support they receive. However, there are children with similar needs in other facilities that do not have access to this service.
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		

*[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

*[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

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Specialist Teacher Training – New Born Hearing Screening	Training for the additional advisors on Deaf Children to work with the children identified through the health screening programme (Budget 2008 funded the increased number of positions to meet referrals but not the cost of training them)	There will not be enough trained staff to provide this service to identified newborns (this is a commitment made by the previous Government) Children will be identified but interventions will not be provided.
International Student Levy	Minister agreed to a reduction in the rate of the ISL to \$420 from 2010. The International Student Levy (ISL): (a) compensates Crown for capital and depreciation costs relating to enrolment of international students; and (b) offsets expenditure on ESOL services to schools, review of schools international programmes by ERO, and policy and operational support by the Ministry.	The proposed reduction in the rate of the ISL will eliminate the fixed contribution to Crown Revenue of \$3.6 million per year. Component (a) of the ISL will no longer be funded, whereas component (b) will continue.
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		
<b>Capital pressures for decision</b>		
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		

<b>Capital pressures Treasury does not support funding</b>		
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		
<b>Operating pressures and associated capital pressures Treasury recommend are funded in baselines or not at all</b>		
Before School Checks	Provision of assessment and services for children with potential special education needs (mainly behavioural and speech language therapy) identified in the health system. Current funding does not cover the number of referrals within an adequate timeframe (as at February 2009, 869 children are waiting longer than 90 days)	Many referred children will have to wait in excess of 90 days for services. This wait time could impact negatively on their development.
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>		

<p>Increasing student allowance entitlements increasing the parental income threshold by 10 percent</p>	<p>Increase to the parental income threshold from \$52,019 to \$57,221 from 1 January 2010 to widen eligibility to student allowances for more full-time students. Raise the cut-out point (point where a student becomes ineligible for an allowance) to approx \$83,621 pa for those living away from home and approx \$90,221 pa for those living at home.</p>	<p>Current thresholds would remain in place and the eligibility for student allowances would not be expanded.</p>