

# The Treasury

## Budget 2024 Information Release

### September 2024

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- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
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## Treasury Report: Budget Background Briefing for Vote Education

<b>Date:</b>	27 February 2024	<b>Report No:</b>	T2024/245
		<b>File Number:</b>	SH-2-7

### Action sought

	Action sought	Deadline
Hon Nicola Willis <b>Minister of Finance</b>	<b>Review</b> this report ahead of your meeting with Treasury officials at 5pm on Thursday 29 February 2024.	Thursday 29 February 2024

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Katie Keir	Senior Analyst, Communities Learning and Work	[39]	[35] ✓
Thomas Parry	Manager, Communities Learning and Work		

### Minister's Office actions (if required)

<p><b>Return</b> the signed report to Treasury.</p> <p><b>Refer</b> a copy of this report to the Minister of Education and Associate Minister of Education (if the Minister of Finance agrees).</p>
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Note any feedback on the quality of the report

**Enclosure:** No

# Treasury Report: Budget Background Briefing for Vote Education

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## Executive Summary

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**Education is a significant area of government spend – totalling approximately \$23 billion per annum.** While the Ministry of Education’s baseline funding has stayed at approximately 5.5% of GDP over the last five years, funding has increased in dollar terms reflecting inflationary pressures and large new investment. Growth in expenditure over the past five years is driven by: property portfolio expenditure, FTE growth, increase in operational funding to schools, and flagship programmes like the Healthy School Lunches Programme.

**While spend on Ministry of Education personnel is a relatively small portion of departmental spend, the workforce has grown considerably.** The Ministry also consistently has among the highest contractor spend in the public service. This creates opportunities for the Ministry to look at how it might re-focus its personnel spend, something which they have begun to do as part of the Budget 2024 processes.

**There are structural cost pressures within education which are ‘baked in’ to the system, making it more challenging to find savings in those areas without risking disruption to the system and the need for trade-offs with other priorities** – for example, school operational grants, workforce pay and conditions, and property depreciation. While Budget 2024 is a good starting point for re-aligning education spend to higher value programmes and investments, there are cost pressures in the system which require longer term decisions beyond this Budget.

**While Education has many components, maintaining a ‘one portfolio’ approach is important to enable Budget prioritisation and trade-off decisions to be made.** While the Education portfolio is spread across three Minister (Stanford, Seymour, and Simmonds), it is important that Education continues to be thought of as one portfolio - both to help set a clear direction for the Ministry and where it should prioritise resource, and to enable Budget trade-offs and reprioritisation decisions to be made across the whole portfolio.

**The Government’s manifesto commitments are a strong base to make progress on education performance, and re-align education spend to where there is highest value for money.** The Government has ambitious goals for improving student achievement, and reflect the urgency of addressing our education performance, which the Treasury supports as outlined in our recent advice to you on economic performance [T2023/2198 refers].

**We see opportunities to improve value for money in areas of education spend, some of which the Minister of Education is already progressing.** This includes:

- Maximising impact of Professional Learning Development (PLD) funding;
- Looking at the Ministry of Education’s structure and how it can deliver effective support for schools;
- Better understanding the impact of government investment in the Early Childhood Education (ECE) sector; and
- Better use of evidence and data to inform policy decisions.

We look forward to discussing this report with you at the officials’ meeting on Thursday 29 February 2024, which we hope will support your upcoming Budget 2024 decision making.

## Recommended Action

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We recommend that you:

- a **review** this report ahead of your meeting with Treasury officials on Thursday 29 February at 5pm;
- b **indicate** at the meeting any topics or issues mentioned in this report which you would like further Treasury advice on;
- c **refer** this report to the Minister of Education and Associate Minister of Education.

*Refer/not referred.*

Thomas Parry  
**Manager**  
**Communities, Learning and Work**

Hon Nicola Willis  
**Minister of Finance**

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# Treasury Report: Budget Background Briefing for Vote Education

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## Purpose of Report

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1. This report:
  - a provides key information on the education system and funding landscape, highlighting key trends and context for you to be aware of ahead of making Budget 2024 decisions, and
  - b sets out options to improve value for money of key areas of education spend and support the Government's priorities for education.
2. This report has been prepared to support a discussion with you on Thursday 29 February 2024. We are happy to discuss any aspects of this report with you at the meeting.
3. This report is primarily focussed on the compulsory school system (years 0-13) where most of the Government's key education commitments are focused. We are providing second opinion advice on the Early Childhood Education (ECE) and tertiary sectors as part of supporting work on key manifesto commitments like Family Boost and disestablishing Tē Pūkenga. This report is also predominantly focussed on operating rather than capital spend in line with Government's education priorities – we will be providing you with more detail on the Ministry's capital portfolio and investment as part of the Budget 2024 bilateral material.

## Part One: Education system and funding landscape

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### Education is a significant area of government spend

4. Government invests approximately \$23 billion per annum into New Zealand's Education system through the Ministry of Education.<sup>1</sup> This funding makes up approximately 12% of total government spend.
5. The Ministry of Education's baseline funding has stayed at approximately 5.5% of GDP over the last five years. While New Zealand invests a slightly higher proportion of GDP than other OECD states, we spend less per student than the OECD average.<sup>2</sup>
6. Funding is divided across two Votes - Vote Education (\$19 billion) which provides funding for programmes from early childhood, primary and secondary school, and Vote Tertiary Education (\$4 billion), which provides funding for tertiary education.
7. **Figure 1** below shows the quantum of funding provided to Vote Education over the last six Budgets (noting this only relates to Vote Education, and excludes Vote Tertiary Education). The significant increase in Budget 2023 is driven in large part by collective bargaining costs and the 20 Hours Early Childhood Education Subsidy – Extension to Two-Year-Olds initiative (which the new Government reversed in the mini-Budget).

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<sup>1</sup> As per figures for Treasury's Half-Year Economic and Fiscal Update December 2023.

<sup>2</sup> [New Zealand | Education at a Glance 2023 : OECD Indicators | OECD iLibrary \(oecd-ilibrary.org\)](#)

**Figure 1: Vote Education Budget funding over the last six years**



**Most expenditure through the Ministry of Education – almost 75% - is spent on non-departmental operating costs**

- Non-departmental costs mainly relate to service delivery – by schools, the tertiary sector, or early childhood education providers. **Figure 2** below provides the split between departmental and non-departmental funding.

**Figure 2: Departmental vs non-departmental funding**

**DEPARTMENTAL FUNDING**

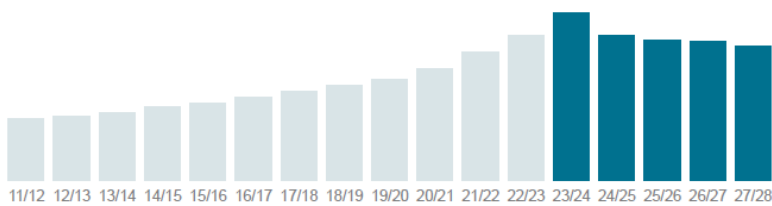
(Capital + Operating)

**\$6,191.2M**  
2023/24 Budgeted Amount

Growth Rates (\*annualised)

12.4 % 1-year	12.6 % 3-year *	10.1 % 5-year *
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● Actuals ● 23/24 OBU



**NON-DEPARTMENTAL, & BENEFITS OR RELATED FUNDING**

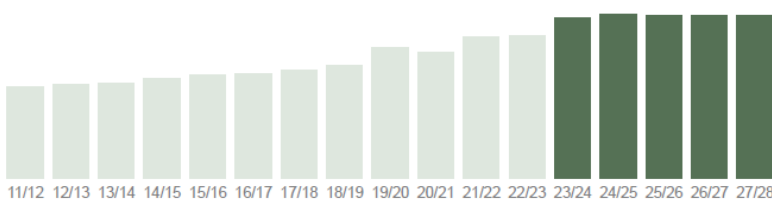
(Capital + Operating)

**\$16,879.0M**  
2023/24 Budgeted Amount

Growth Rates (\*annualised)

1.0 % 1-year	3.1 % 3-year *	6.0 % 5-year *
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● Actuals ● 23/24 OBU



9. Non-departmental funding can be broadly broken down by quantum and percentage as:

- a Early Childhood Education - \$2.7 billion (17%)
- b Primary and Secondary Education - \$8.2 billion (51%)
- c Tertiary Education - \$4.1 billion (26%)
- d Support for Students - \$1.0 billion (6%)

Much of the growth in non-departmental expenditure has come from increases to operations funding to schools (for Pay Equity and wage bargaining commitments), pay parity commitments, and the Healthy School Lunches Programme | Ka Ora Ka Ako.

10. Departmental funding primarily relates to the school property portfolio, and can be broken down by quantum and percentage as:

- a School Property Portfolio Management (primarily depreciation and capital charge) - \$3.1 billion (50%)
- b Capital Expenditure - \$2.1 billion (34%)
- c Support for Teachers and Students<sup>3</sup> - \$0.65 billion (10%)
- d Management and Policy Support - \$0.35 billion (6%)

11. Growth in departmental expenditure is predominantly due to property expenditure and personnel expenditure which reflects the Ministry's FTE growth (discussed further in paragraphs 13 and 14 below).

12. **Annex One** provides a high-level summary of the key spend areas within education – ECE, Primary & Secondary Education, and Capital Overview. These slides are part of the material shared with the Minister of Education for the meeting with Treasury officials on Thursday 8 February 2024.

### **While spend on Ministry personnel is a relatively small portion of departmental spend, the workforce has grown considerably**

13. The Ministry of Education had 4,311 FTE as of June 2023, which is a 48.5% increase since 2018.<sup>4</sup> This is in addition to the approximately 72,000 teachers in the workforce based on 2022 workforce data.

14. Approximately half of this increase is due to an increase in the number of social, health, and education workers directly employed by the Ministry. It is unclear from the data we have exactly what these roles entail, but we understand from the Ministry they include at least some staff who engage directly with students e.g., education psychologists. The largest percentage increase in staffing numbers has been in Managerial staff, with a 65% increase since 2018.

### **The Ministry of Education also consistently has among the highest contractor spend in the public service**

15. The Ministry of Education had the highest contractor spend of the public service in 2023 and makes up 15-20% of total public service contractor spend. Contractor spend

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<sup>3</sup> The "Support for Teachers and Students" category includes FTE such as education psychologists and learning support staff who work with students in schools but who are employed directly by the Ministry. This is compared to, say, teachers who are paid via schools and so is categorised as non-departmental spend.

<sup>4</sup> 46% of MoE's staff (1,995 FTE) are based in the Wellington region. This number has increased by 713 FTE since 2018. Other large regional workforces include Auckland (734 FTE, 17%) and Canterbury (338 FTE, 8%). The remaining 1,244 FTE (29%) are spread across the rest of the country.



has increased by 15% per year over the last three years (compared to a public service average of 8%).

16. Contractor spend has recently been driven by transformation programmes within the Ministry (for example, the NCEA Change programme). We expect this to significantly reduce going forwards given the Government's direction for agencies to reduce contractor and consultant spend as part of the Initial Baseline Exercise.

**There is opportunity for the Ministry to look at how it might re-focus (and in some areas reduce) personnel spend**

17. You have asked the Ministry of Education to protect frontline services when developing its savings options. For the Ministry of Education, 'frontline' is very much a spectrum, and it is important for Ministers to have clear visibility on where these roles sit on this spectrum to inform savings decisions. This spectrum can range from classroom teachers, through to property support staff in regional offices, to curriculum advisers. We understand that the Minister of Education has requested this information already, and so you may wish to seek her views on key areas for refocus as part of Budget 2024 bilateral discussions.

**There are structural cost pressures within education which are unlikely to be fully resolved through Budget 2024**

18. The Ministry of Education has been asked to find 7.5% of its eligible baseline in savings (\$73.6 million per annum) as part of the Budget 2024 Initial Baseline Exercise. The Ministry has also been asked to provide 25% and 50% reprioritisation options for its critical cost pressure submissions for Budget 2024.
19. A large amount of education funding is essentially "baked in" to the system, making it more challenging to find savings in those areas without risking disruption to the system and the need for trade-offs with other priorities. For example:
  - a Operational grants: There is typically an annual decision through the Budget on whether, and to what level, operational grants will be increased. For example, an increase of 3.5% at Budget 2023 for schools' operational grants cost \$233.927 million over the forecast period.<sup>5</sup> Reducing or freezing operational grants to schools could have significant consequences as schools rely on this funding to plan and pay for core running costs, which increase over time. Examples of what schools spend operational grant funding on include teacher aides, additional teachers (above staffing entitlement), classroom activities and equipment (e.g., whiteboard markers and books), IT costs, cleaning, power and water costs.
  - b Workforce pay and conditions:
    - i While affordability is a consideration for collective bargaining processes, there is always pressure on the government each bargaining round to increase pay and non-pay terms and conditions, which can bring significant fiscal costs. For example, the most recent teacher and principal bargaining round ended up costing the Government over \$4 billion over the forecast period to settle.<sup>6</sup> While this was at the upper end of recent settlements, settlements for teachers over the past 20 years have rarely involved increases in base pay of less than 2%. Bargaining for the next round is likely to begin in early 2025. <sup>[38]</sup>

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<sup>5</sup> This funding included additional funding to extend the school donations scheme to newly eligible schools in 2024.

<sup>6</sup> Summary of teacher collective settlement here: [Teachers agree to 14.5% pay rise | Beehive.govt.nz](https://www.beehive.govt.nz/news/teachers-agree-to-14.5-pay-rise)  
T2024/245 Education Overview

- ii There are also pay equity claims planned or underway in the education sector which add to the fiscal pressure, noting estimated costs of these claims have already been included in the Treasury's forecasts. You are receiving separate advice from the Treasury on changes to the approach to pay equity which may result in actual pay equity costs coming in under the current forecast, and help manage this fiscal pressure.
  - c **Property depreciation:** Because of the size of the Ministry of Education's school property portfolio, recent construction sector cost escalations have led to significant increases in the average annual revaluation and associated depreciation expense. Over the period 2014/15 – 2020/21 the average additional depreciation expense was \$116 million total across the forecast period but since then this has risen to \$711 million total across the forecast period. Depreciation expense is intended to spread the cost of an asset over its life and is technically a non-cash expense. However, the Ministry typically seeks funding to meet the increased costs of maintaining and replacing the portfolio. Funding for this can often get crowded out by other Budget priorities which puts at risk the Ministry's ability to effectively maintain the portfolio, likely increasing costs in the long run.
20. The Government is also likely expected to respond to recommendations coming out of existing and upcoming advisory groups or reviews, which will have potential financial implications. These include:
- a a review of how schools are resourced for teacher aides;<sup>7</sup>
  - b a Ministerial Advisory Group reviewing school staffing;<sup>8</sup> and
  - c the newly established Ministerial Advisory Group on refreshing the New Zealand curriculum.<sup>9</sup>
21. You may wish to request from the Minister of Education any information the Ministry has shared with her on the timing of these reviews, and any early indications of potential financial implications that may come out of these reviews. The Treasury will also keep across developments and can report to you on any key updates or issues if/as appropriate.
22. This means that, while Budget 2024 is a good starting point for re-aligning education spend to higher value programmes, there are structural cost pressures in the system which require longer term decisions beyond this Budget.

**While Education has many components, maintaining a 'one portfolio' approach is important to enable Budget 2024 prioritisation and trade-off decisions to be made**

23. While the Education portfolio is spread across three Ministers (Stanford, Seymour, and Simmonds), it is important that Education continues to be thought of as one portfolio so that the Ministry has a clear direction and knows where to prioritise resources. It is also important that trade-offs on education spend and reprioritisation decisions can be made across the whole portfolio. You may want to reiterate this 'one portfolio' approach to your Ministerial colleagues throughout the Budget process, including bilateral discussions.

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<sup>7</sup> [Review of how schools are resourced for teacher aides – Education in New Zealand](#)

<sup>8</sup> [Ministerial Advisory Group reviewing school staffing – Education in New Zealand](#)

<sup>9</sup> [Ministerial Advisory Group | Curriculum Refresh \(education.govt.nz\)](#)

## Part Two: Meeting your ambitions for educational achievement in a constrained fiscal environment

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### **There is an urgent need to improve school attendance and student achievement**

24. Treasury has raised with you in recent advice the importance of student achievement on economic performance, by raising skills, improving labour market outcomes, and lifting individual living standards [T2023/2198 refers]. As reflected in the Treasury's 2022 report *Te Tai Waiora: Wellbeing in Aotearoa New Zealand*, the performance of New Zealand students in international assessments of maths, science and reading has declined over the past two decades. Declining student achievement risks inhibiting productivity growth and exacerbating intergenerational disadvantage.

### **The Government's manifesto commitments are a strong base to make progress on education performance**

25. The Government's 100 Day Plan and manifesto commitments include several proposals aimed at lifting student achievement and addressing declining education trends. The commitments in compulsory schooling are focussed on curriculum reforms, assessment structures, and teacher training and development to improve student achievement in core subjects (maths, science, literacy).
26. The Government has already set out two specific medium-term goals for student achievement:
- a 80 per cent of Year 8 students being at or above the expected curriculum level for their age in reading, writing, maths and science by 2030.
  - b Return New Zealand students to the top 10 in the world in maths, reading and science, measured by the OECD's PISA rankings, by 2033.
27. These are ambitious goals, and reflect the urgency of addressing our education performance, which Treasury supports. Achieving these goals requires a coordinated effort across government, with factors such as housing affordability, parental incomes, physical and mental health all impacting student outcomes.
28. The Minister of Education has been invited by the Prime Minister to identify one to two targets and up to five additional priorities for the education system. While these are still under consideration, we understand these are likely to focus on improving educational achievement and attendance.
29. While there are a range of drivers both within and outside the education system impacting student achievement and school attendance, evidence shows that teacher quality is the most important school-related factor influencing student achievement,<sup>10</sup> and so we support this being a priority for government investment.

### **We see opportunities to improve value for money in areas of education spend which align with Government's priorities**

30. While Budget 2024 is a good starting point to re-align spend to higher value for money programmes, more work will be needed to improve the fiscal sustainability of the education system in the medium to long term.
31. We identify below some specific areas within the education system where we see opportunity to build on work already happening through Budget 2024 to improve value for money of education spend:

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<sup>10</sup> For example, see OECD summary "Teachers Matter – Attracting, Developing and Retaining Effective Teachers" [Microsoft Word - OECD Teachers Matter Overview ENGLISH FINAL.doc](#)  
T2024/245 Education Overview

- a Maximising impact of Professional Learning and Development (PLD) funding;
  - b Looking at the Ministry of Education’s structure and how it can deliver effective support for schools;
  - c Better understanding the impact of government investment in the Early Childhood Education (ECE) sector; and
  - d Better use of evidence and data to inform policy decisions.
32. The above is not an exhaustive list – we have identified these specific areas as we consider them to have clear opportunities to improve value for money, and align with the intended focus of the education targets discussed in paragraphs 26 and 27 above. We have also chosen areas where we consider improved value for money can be achieved without the need for significant new funding, given the constrained fiscal environment.

*Maximising impact of Professional Learning and Development (PLD) funding*

33. Professional Learning and Development is government’s key lever to support the effectiveness of teachers already in the profession. The Ministry of Education has \$140.3 million in 23/24 baseline funding within the “Professional Development and Support” category of its Multi-Category Appropriation “Improved Quality Teaching and Learning”.<sup>11</sup> This funding sits under seven broad buckets, with 75% of the funding attributed to “Centrally Funded Professional Learning and Development”.
34. While the Ministry has a strong evidence base on PLD inputs and outputs (i.e., what schools request in terms of PLD by programme type and number of hours), there is less clear evidence of the actual impact on student outcomes of current PLD provision. This makes it difficult to know whether the existing baseline funding is being directed at the highest value for money programmes.
35. **Recommendation:** We recommend as part of the Government’s work on structured literacy requirements, the Ministry of Education also undertakes a broader assessment of PLD provision and identifies what PLD programmes and initiatives are most effective in supporting student achievement. This should cover both teachers and principals, who have a particularly critical role in supporting student outcomes given New Zealand’s highly devolved education system. This should involve analysis of available assessment and NCEA data, and benchmarking our PLD provision against what is international best practice.

*Looking at the Ministry of Education’s structure and how it can deliver effective support for schools*

36. The Ministry of Education received significant recent Budget funding for structural reforms to strengthen its regional presence and provide greater direct support for schools. This includes approximately \$240 million at Budget 2021 for the Government response to the report of the Tomorrow’s Schools Review taskforce, and \$60 million at Budget 2022 for further initiatives to support the Tomorrow’s Schools response, including a contestable “Regional Response Fund” to meet urgent priorities from schools, in particular around supporting improved attendance. The impact of funding to date is not yet clear and that the Ministry is still at a relatively early stage of working through its structural reforms.
37. The interface between central government and schools is important in a highly devolved system like we have in New Zealand where school boards of trustees hold accountability for decision making at the school level. Having good support structures

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<sup>11</sup> See page 58-59 of [Vote Education - Vol 2 Education and Workforce Sector - The Estimates of Appropriations 2023/24 - Budget 2023 \(treasury.govt.nz\)](https://www.treasury.govt.nz/vote-education)

and communication channels at the regional level helps teachers have more direct access to the support they need to successfully implement policy changes in the classroom, and helps ensure the sector voice is heard when policy changes are being proposed. This interface will be particularly important for the Government to effectively implement its proposed curriculum, assessment, and professional development changes.

38. The “Te Mahau” business unit (which includes the regional offices of the Ministry) has only recently been established, and we consider there is opportunity to better understand both the current make-up of those offices/functions (e.g., what the specific roles and FTE are) and get feedback from schools on their experience so far interacting with Te Mahau. We understand that the Ministry would categorise Te Mahau staff as being largely “frontline” staff, but this will be on a spectrum. For example, there is a difference between education psychologists, curriculum support staff, and property support staff, which are all roles currently existing within Te Mahau’s structure.
39. **Recommendation:**
  - a We recommend as part of the ongoing fiscal sustainability programme, that the Ministry of Education provides information and advice to Ministers on the existing Te Mahau structure, and opportunities to re-align existing FTE and funding to the Government’s priorities.
  - b We also recommend that the Ministry of Education re-engages on developing a workforce strategy, which includes both Ministry-employed frontline staff (such as Te Mahau staff) and the broader school workforce. This should include having more detailed projections on forecast workforce needs at a regional and subject level, and accompanying strategies for managing workforce pressures which we know already exist and are likely to persist in certain parts of the system.

*Better understanding the impact of government investment in the Early Childhood Education (ECE) sector*

40. There is a strong and well-established evidence base for the potential positive impacts of Early Childhood Education (ECE) on educational and labour market outcomes. This is reflected in the OECD’s draft special topic on Education for its New Zealand economic survey, which the OECD engaged with Ministers and agencies on in January this year.
41. The majority of government spending on ECE (\$2.8 billion for 23/24) is used to subsidise ECE attendance. Our analysis suggests 89 cents of every ECE dollar spent by government goes to subsidising ECE attendance. As with many OECD countries, New Zealand faces challenges in relation to ECE which is inhibiting our ability to maximise value for money of government spend. In particular:
  - a Affordability: Despite material increases in government subsidies over more than a decade, affordability for parents has been an ongoing challenge. According to OECD data, New Zealand pays in the top third in public expenditure for ECE costs, and among the highest in private expenditure within the OECD.
  - b Changing market: The nature of ECE provision has also changed considerably in recent years, with private providers now the main source of places and the recipients of the majority (two thirds) of government subsidy funding. Until recently, there had been relatively limited changes to regulatory settings since 2008, when the market looked very different.
  - c Participation: New Zealand still has relatively high levels of participation in ECE by international standards, but there has been a static or slight downward trend in ECE

participation for most ages since 2015, and some communities continue to be relatively under-represented (such as Māori and Pasifika).<sup>12</sup>

- d **Quality:** New Zealand has lower adult-child ratios than most of the OECD and high teacher-qualification requirements compared to international standards, which are commonly seen as a proxy for high-quality provision. However, we lack data on the impact of these settings on outcomes, and lower ratios are a key driver of costs to providers as they require more staff (which in turn has a strong influence on the cost of provision to parents).
42. Despite government's significant investment in the ECE sector, determining the impact of this investment on ECE affordability and quality is difficult due to a lack of available fee data and evidence on sector impacts.
43. **Recommendation:** Minister Seymour has delegated authority for the ECE sector and has already signalled his interest in reviewing the regulatory settings within ECE. While a regulatory review may identify opportunities to reduce costs for ECE providers and facilitate market efficiencies, we recommend other mechanisms are also investigated. For example, work on the Government's FamilyBoost policy may provide a useful opportunity to look at how we can improve our fee data from ECE providers.

#### Better use of evidence and data to inform policy decisions

44. Currently we have a heavy reliance on national and international sample survey data to understand how well our education system is performing. There are limitations with the current data collected, and opportunities to improve how and when it is used to inform decisions on value for money.
45. Our current system has some strengths – we have reliable national data from NCEA that is well understood and serves school and system-level purposes, well-established tools and processes for school-level assessment, proven national sample surveys, and scope for world-leading research using the Integrated Data Infrastructure (IDI). We also collect significant amounts of data from schools.
46. The issue is less a lack of data across the system, but more how well it is used to inform decision making. However, some significant information gaps do remain. For example, we do not systematically understand students' starting point when they begin school, cannot easily compare school performance, and lack data in key areas like Learning Support needs. These challenges are accentuated by a lack of consistent capacity in schools to analyse data, a lack of tools to easily share information between schools, and the challenge of maintaining trust in the integrity and use of data.
47. The Equity Index came into effect from 1 January 2023 and is a positive example of how investment in data can allow education funding to be better targeted to address distributional issues. The Equity Index is more reliable than its predecessor, the decile system, in identifying relative disadvantage in schools. The Equity Index is still relatively new but provides an opportunity to better target existing funding to a broader set of programmes and funding. Examples of where the Equity Index is currently being used to target programmes is the Healthy School Lunches Programme, and the School Donations Scheme.
48. **Recommendation:** We recommend that the Ministry of Education has an increased emphasis on coordinating and prioritising building its data and evidence capability to support Government's policy priorities.

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<sup>12</sup> Key trends on Early Childhood participation are provided by the Ministry of Education on its Education Counts website: [Early Learning Participation \(educationcounts.govt.nz\)](https://www.educationcounts.gov.nz/learning-participation)

## **The Minister of Education already has work underway to investigate some of these areas**

49. Treasury's Education vote team recently met with the Minister of Education who has already identified some of the above (for example, PLD, the Ministry's regional offices, and building data and evidence capability) as areas she wants further information and advice from the Ministry of Education on. The Treasury will also be supporting progress on the above areas through our engagement with the Ministry and as part of the ongoing Fiscal Sustainability Programme of work.

## **Factors affecting student achievement sit both inside and outside the classroom, meaning not all policy levers sit with the Minister or Ministry of Education**

50. The consequences of factors such as housing affordability, mental and physical health, and parental incomes on student achievement are not clearly understood but we know they do impact on education outcomes. Schools are expected to do a significant amount outside their direct teaching responsibilities in response to these factors. For example, hosting nurse and dental checks, providing guidance counsellors, being community and civil defence hubs in emergencies, providing free meals, and teachers providing practical and emotional support to families in difficult circumstances. These initiatives and roles schools play have broader positive impacts than just on education outcomes, but are generally traded off against schools' existing funding and resourcing, rather than other parts of government spend.
51. A specific example of this is food security, and the Healthy School Lunches Programme. While this is fully funded currently from within Vote Education, the impacts of the programme are directly relevant to the Ministry of Social Development and Ministry of Health's work.
52. We support greater opportunity within the Budget and Cabinet decision-making processes for considering and trading off these types of initiatives across multiple portfolios. Treasury has already begun to make connections to assess funding requests of this nature at the working level, to help facilitate cross-team advice. For example, the assessment of the Healthy School Lunches Budget 2024 initiative was undertaken jointly by the Education and Social Development Vote teams, to ensure a broader lens is taken on weighing the costs and benefits of the programme, given key benefits of the programme found in evaluations to date are around reducing food insecurity, cost of living, and health.
53. Where benefits of key Government commitments span multiple outcome areas, you may wish to consider encouraging lead portfolio Ministers to consult other relevant portfolio Ministers to support broader discussions and trade-offs on a cross-portfolio basis. This could be particularly useful in cases where you may wish to offset the costs of initiatives through reprioritisation, to ensure where the costs fall and the trade-offs are made are proportionate to where the benefits are realised of a particular investment. This cross-portfolio approach also aligns with the Government's social investment approach to identifying where is most effective to invest, which we understand will be a key feature of Budget 2025.

## **There is an opportunity to use the Fiscal Sustainability Programme to help set a strategic plan for Education investment ahead of Budget 2025**

54. Cabinet has established the Fiscal Sustainability Programme to close the deficit and fund Government priorities, tighten fiscal discipline across government and improve value for money, and ensure collective accountability for the fiscal position. Phase One of the FSP has focused on generating savings for Budget 2024 through the Initial Baseline Exercise.



55. The Treasury is preparing advice on the focus for Phase Two of the Fiscal Sustainability Programme which we expect to provide you in March. A key aspect of Phase Two will be ensuring the structural deficit is closed in a sustainable way. Education is a significant area of government expenditure so will have a role to play in closing the deficit across the course of this term, while maintaining frontline services. Phase Two of the Programme will be a further opportunity to reinforce your expectations to the Education portfolio Ministers of investigating further reprioritisation and savings options which can inform Budget 2025 strategy.

## Next Steps

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56. We are meeting with you on Thursday 29 February 2024 to discuss the contents of this report. This meeting can provide you with key context and provide you an opportunity to ask any more general questions you have on the Education portfolio ahead of the Education bilateral meeting planned for the week commencing 11 March 2024.
57. We are also happy to provide you with further advice on specific education issues identified in this report if of interest to you.



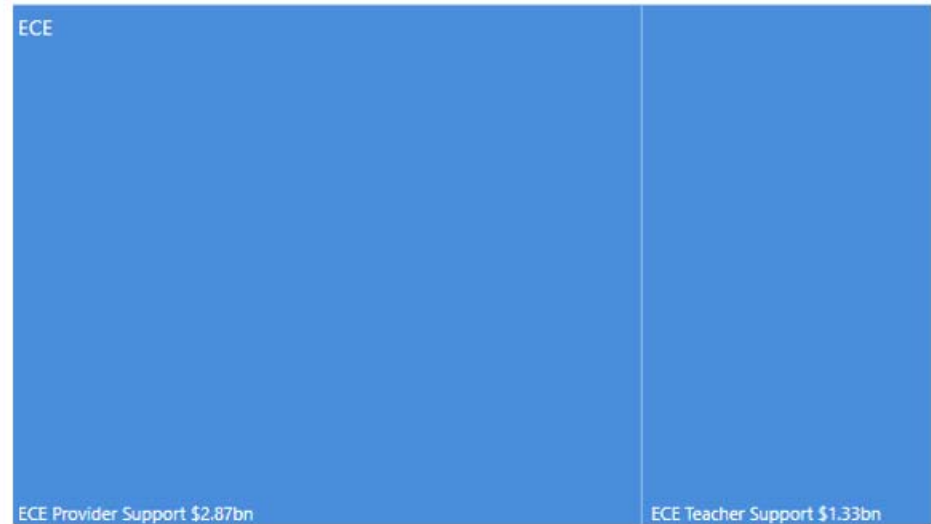
# Early Childhood Education

Key Appropriation	2023/24 Budget	5-Year Growth %	Underspend %
Early Learning (non-dept)	\$2.762 Billion	7.38%	1.28%

## State of Play

- MoE provides subsidies for parents and provides sector regulation.
- The majority of government spending on ECE is used to subsidise fees.
- Despite this, ECE is prohibitively expensive. NZ pays in the top third in public expenditure, and among the highest in private expenditure within the OECD.
- Determining the impact of investment on affordability is difficult due to a lack of available fee data.
- Current work on the Government’s FamilyBoost policy presents an opportunity to consult on fee data.

## High-level breakdown of Budget investment



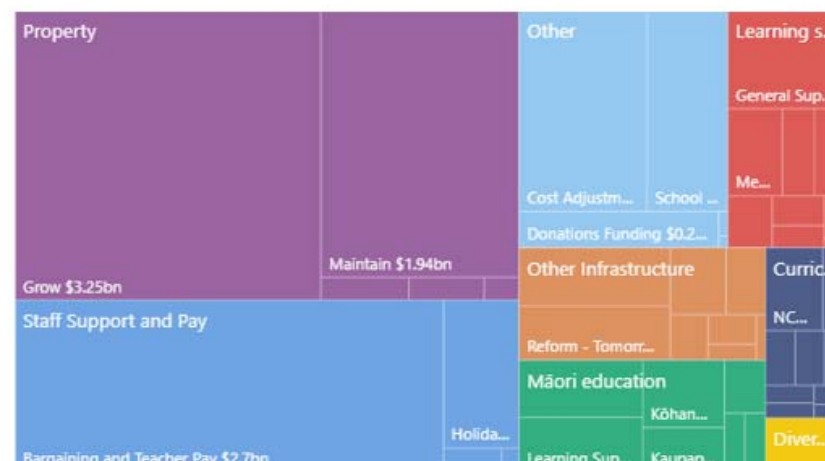
# Primary and Secondary Education

Key Appropriations	2023/24 Budget	5-Year Growth %	Underspend %
Primary and Secondary Education MCA (non-dept)	\$8.247 Billion	3.78%	3.61%
School Property Portfolio Management (dept)	\$3.102 Billion	10.89%	0.13%
Ministry of Education Capital Expenditure (dept)	\$2.004 Billion	19.23%	N/A
Outcomes for Target Student Groups (mixed)	\$1.444 Billion	14.70%	1.77%

## State of Play

- MoE provides funding for schools, manages curriculum and regulation, and owns and manages school property.
- Key areas of spend include school property growth and maintenance, staff pay, school operations grants, and the Ka Ora, Ka Ako | Healthy School Lunches programme.
- New Zealand invests a slightly higher proportion of GDP than other OECD states, but spends less per student.
- Spend on school property and support for students has grown over the last 5 years.

## High-level breakdown of Budget investment



# Capital Overview

- MoE hold a capital portfolio worth \$30.3 billion.
- Investments sit within four categories and are streamlined through a long-term pipeline.
- Funding and industry capacity pressures are leading to increased pressure.
- Ministers will face trade-offs in deciding which investments to prioritise.

## High-level breakdown of Budget investment

