

The Treasury

Budget 2017 Information Release

Release Document July 2017

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
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[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	Not in scope	

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

Template 3: Cost Benefit Analysis Template

Section A Descriptive Information

Vote	Education Review Office
Responsible Minister	Hon Hekia Parata
Initiative title	Investing in Education Evaluation for Accountability and Improvement

Funding Sought (\$m)	2016/17	2017/18	2018/19	2019/20	2020/21 & outyears	TOTAL
Operating	-	[33]				
Capital	-	-	-	-	-	-

Problem Definition

The primary challenge for the New Zealand education system is achieving equity and excellence in student outcomes. Within the same school young people can experience widely divergent opportunities to learn. This within-school inequality is amongst the highest to be found anywhere and is strongly related to achievement disparities.

The Education Review Office (ERO) has identified through multiple national evaluation reports that effective evaluation (both external and internal) is a key driver in achieving excellence and equity in student outcomes. Evaluation capacity is the engine that drives improvement and innovation.

ERO has refocused its external evaluation approach on schools' accountability for addressing within school inequity. This approach is a critical mechanism in improving education outcomes. In the last two years ERO has also invested in building the internal capability of schools, early learning education services and Communities of Learning to do and use evaluation effectively for improvement. The demand from the education sector for this evaluation capacity building work has increased.

In addition, recent ERO national evaluation reports have consistently identified issues of variable quality in early learning services provision. These systemic quality issues in combination with the growth in this sector mean that ERO's capacity to drive accountability and improvement through external evaluation needs to be strengthened.

ERO seeks additional funding to increase the effectiveness of external evaluation in driving accountability for improvement, and expand evaluation capacity building approaches across the system. This includes:

- increasing ERO's capacity to evaluate the quality, effectiveness and impact of schools and early learning services in achieving equitable and excellent outcomes for all learners.

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ERO is also seeking additional funding to undertake additional early learning service evaluations to meet the growth in this sector.

ERO's current budget limits the extent to which it is able to increase capacity to drive improvement through evaluation. If no additional funding is received, ERO will either not provide the services or scale back its current core programme of work (Accountability Reviews and National Education Evaluation Reports).

Initiative Description

This initiative will enable ERO to:

- increase the expertise of ERO review teams to drive accountability for, and improvement of, education outcomes, through external evaluation - in particular, for children and students who are not being well served by the education system

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- undertake additional early service evaluations to meet the growth in this sector.

Investing in ERO's external evaluation expertise

ERO has a strong history of adapting its approaches to reviewing schools and early learning services to reflect emerging needs. ERO has moved from asking if things are being done right to evaluating whether the school is doing the right things and understanding the impact of their actions.

ERO has to maintain its ability to recruit and retain appropriately skilled review officers in the face of cost pressures, such as rising teacher salaries, as the education sector is currently the main market from which ERO recruits. ERO currently recruits senior managers from schools and early learning services because they have the necessary knowledge, skills and management experience that serve as a basis for training them as evaluators. Rates in the education sector have increased with the teachers' pay settlements in 2016 (2% from 2 May 2016 and a further 2% from 2 May 2017). Even if ERO shifts its focus for recruitment in the future the price of staff is not expected to reduce.

ERO currently employs 216 full time equivalent staff members (FTEs). Of these:

- 68% are covered by the Collective Employment Agreement; and
- 165 have a teaching background.

ERO's last funding adjustment to enable it to recruit and retain staff was in 2008/09 following the earlier teachers' pay settlement (CAB Min (08) 27/3). At the time this enabled ERO to recover its competitive position against pay rates in the education sector. Since then, although a reasonable number of suitably experienced candidates have applied for jobs with ERO, well-qualified people from the education sector who have expressed interest have either not applied, have withdrawn their applications or have declined to take up offers of appointment, because the salaries offered have not been competitive.

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Volume pressures arising from growth in early learning services

ERO is facing further pressures due to growth in the number of early learning services. ERO currently evaluates early learning services on an average cycle of 3.4 years. The last funding adjustment that ERO received in order to maintain this cycle was in 2004/05 (CAB Min (04) 13/3).

The sector has seen considerable growth. Between 1 July 2009 and 1 July 2016 there has been a 10% increase in the number of early learning services from 4,158 to 4,555. Sixty four percent of this growth occurred in Waikato and greater Auckland areas. Based on MOE's funded child hours 5 years growth it is estimated that by 2021 there could be 5,200 early learning services. This is consistent with MOE's projections about growth in this sector, recently published.

Alternative Options Considered

ERO does not have a diverse portfolio of programmes from which to reprioritise. ERO's core programmes that support the education priorities of the Government are its education evaluations of early learning education services, schools, Communities of Learning and national education evaluation reports.

ERO's funding from the Crown is about \$27m per annum and this has remained substantially unchanged since 2009.

Actions and innovative ways that ERO has identified and made to manage its fiscal pressures with no new funding since 2009 were:

- Implemented revised and more flexible review methodologies for both schools and early learning services along the review cycle continuum for return periods of three years and four-to-five years. The return time is based on an assessment of performance and risk at the time of the review. ERO's model for its approach to school evaluation has been praised by OECD.
- Implemented a new organisational structure resulting in the closure of two offices (one in 2009 and another in 2010).
- Carried out several initiatives to promote efficiency and improve its service delivery such as improving expenditure in the use of facilities and equipment and opportunities for shared services (such as whole of Government procurement reforms).
- Invested in a better information systems infrastructure (implementation of an electronic document records management system, video-conferencing and scanning).
- Made significant operating savings in ERO's property portfolio of 8 buildings as these leases came up for renewal.
- Reduced ERO's fleet of motor vehicles by a third.

To date ERO has managed within its current budget by targeting its reviews, improving the efficiency of its processes and reducing its overheads and back office operational expenses. However, ERO's current budget limits the extent to which it is able to increase capacity to drive improvement through evaluation.

Three broad options to reduce the amount of this bid have been considered:

a Reduce Multi-Category Accountability Reviews

The risks are:

- The average review frequency in early learning services, primary and secondary schools would increase. The greater the length of time between evaluations, the greater the possibility that students' education may be exposed to risk. ERO would not necessarily evaluate some schools within the term of an elected board or for the whole period of some students' enrolment at any given school or service. Not only would accountability for performance be reduced, but the government, boards and communities' assurance about the quality of education provided would also be diminished.
- It is likely the number of institutions on a 1 to 2 years return would increase accordingly, with associated cost implications for ERO and for MOE in terms of school support intervention. A 1 to 2 year evaluation is signalled when ERO is not satisfied from an earlier evaluation with the performance of a school or service. A rise in the numbers of schools requiring more focused attention would further increase the review cycle for other institutions.

ERO's current review cycle provides a direct mitigation of these risks.

b Reduce National Education Evaluation Reports

National education evaluation reports are unique to ERO, because every national report captures an independent picture of what is happening in New Zealand education at that time. The information in these reports is acted on by policy agencies, schools and early learning services to bring about systemic and programme improvements. Through these reports, ERO gives parents and communities information about system performance and effective practice in schools and early learning services.

The risks in reducing this work programme are:

- This information is not available elsewhere. There would be a reduction in the flow of evaluative information for the Ministry of Education and other agencies, as well as for education researchers, academics and others in the education sector.
- Implications for policy agencies may include having to contract evaluations of education policy, but without ERO's insights and right of entry to services and schools.

c A combination of the above options

An alternative is to adopt a combination of the above options. This would result in an average review frequency of more than 3.4 years, as well as a reduction in the number of national evaluations. The mix would be determined by the additional resources gained through this bid.

Section B Impact Analysis

Impact Analysis

An explanation of who is impacted (winners and losers), what the impacts are (costs and benefits), and when the impacts will be realised and for how long. The impacts should be quantified and monetised if possible.

ERO provides assurance to the Government with respect to its investment in education by evaluating and reporting on the quality of education provided in schools and early learning services. Its evaluations are integrated with and strengthen the internal evaluation activities of schools, early learning services and CoL. At a system level, these evaluations also provide the information base on which ERO reports on significant education issues through its national evaluations of education sector performance and educational good practice.

The Government's Better Public Services targets for the education sector focus on participation and student achievement. They are to:

- Increase participation in early childhood education to 98 percent by 2016

- Increase the proportion of 18-year-olds with NCEA Level 2 or an equivalent qualification to 85 percent by 2017
- Increase the proportion of 25 to 34-year-olds with advanced trade qualifications, diplomas and degrees (Level 4 or above on the New Zealand Qualifications Framework) to 55 percent by 2017.

ERO contributes to these priorities through its influence on how schools and early learning services perform. ERO identifies what works, establishes indicators for success, and uses its evidence to influence change in individual parts of the system, as well as the system as a whole. ERO continues to use the wealth of knowledge about what works for children and young people (0-18 years) to influence the direction and decisions within the system.

ERO's evaluations inform parents and families about the quality of educational provision in their communities. ERO's engagement with stewards, leaders and teachers is a vital aspect of its work. To some extent ERO might be seen as the "grit in the oyster" generating some discomfort that leads to change. Sustainable positive change requires stewards, leaders and teachers to own the issues and through ERO's evaluations, it strives to generate the conditions that enable ownership and improvement.

Evaluations of schools and early learning services, and national education evaluation reports provide information that assists MOE and other agencies in their monitoring of the implementation of policy and the development of policies.

High performing schools have robust internal evaluation and uses ERO's evaluation findings to support improvement towards better education outcomes.

"School self review is at the core of the quality assurance and improvement process. It is conceived of as a rigorous process in which schools systematically evaluate their practice, using indicators as a framework for inquiry and employing a repertoire of analytic and formative tools (MacBeath, 2012, Future of teaching profession).

In 2015/16 the New Zealand Council for Educational Research (NZCER) released the results of its survey of secondary school principals. They found that:

- Most principals were positive about their interactions with ERO and ERO reviews
- Many principals had used their last ERO review report in their strategic planning, and made changes in their school as a result of ERO's national reports
- Principals of schools currently on a 4-5-year return were more likely to strongly agree that their last ERO review had focused on goals or progress towards those goals
- Higher proportions of principals whose schools were on the 4-5-year review cycle strongly agreed that ERO reports were reliable in their view of teaching/learning quality and of school improvement capacity.

ERO has continued to undertake its own surveys to determine, among other things, the extent to which schools have used the external evaluation process to make improvements. In 2015/16, we have found that over 90% of the principals and Boards responding believed that:

- the evaluation process was either "very useful" or "quite useful"
- the electronic notification for the review contained useful information
- the pre-review discussions were useful and the explanation of how the review process would work reflected the actual experience
- they were able to participate meaningfully in the review process
- the school's context and self-review information was taken into account
- the discussion of findings with the ERO review team was helpful.

ERO commissioned Colmar Brunton recently to do a survey of how its reports were received by parents, school and early learning service leaders and trustees. The survey showed that there is good awareness of ERO and quite high satisfaction.

- 75% parents know about ERO.
- 80% have heard of ERO review reports and 44% have read one.
- Of those who have read one, 75% said the report met their needs in relation to early learning services, and 60% in relation to schools.

ERO has performed a CBAX analysis that shows a positive return on investment (societal) of 1.2 based on very conservative parameters as follows:

- There are about 983,000 students in New Zealand based on MOE's data. Of this total, 29% are in secondary schools, 51% in primary schools and 21% in early learning services. Different inputs have been applied to these 3 sector groupings in the CBAX analysis.
- Low success rate percentages of 0.2%, 0.1% and 0.05% have been applied respectively to the 3 sectors.
- Lengthy time lags of 4 years, 12 years and 15 years have been applied respectively to the 3 sectors based on the age at the start of each sector to the age at NCEA level 2.
- A short 1 year benefit period.

The costs of each investment element are described below.

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Investing in ERO's external evaluation expertise

ERO is facing increasing difficulties in recruiting staff from senior positions within the teaching sector. ERO has to maintain its ability to recruit and retain appropriately skilled review officers in the face of cost pressures, such as rising teacher salaries, as the education sector is currently the main market from which ERO recruits. ERO currently recruits senior managers from schools and early learning services because they have the necessary knowledge, skills and management experience that serve as a basis for training them as evaluators. Rates in the education sector have increased with the teachers' pay settlements in 2016.

In response to recent advertisements for reviewers to start in 2017, ERO has received a number of calls from candidates at management level in schools and early learning services who were seeking a higher starting salary than that offered in ERO's recently settled Collective Employment Agreement (CEA).

The CEA settlement allows for a starting salary for Reviewers of \$84,119 at 1 July 2017 and \$85,591 at 1 July 2018. A management position at a school with 3 management units is currently at \$87,949 moving to \$90,000 in September 2017. Comparing to ERO's starting

salary this is a gap of \$5,000 (or 6%). While it has been true that staff coming to ERO have accepted lower salaries in the past we do not think this will be the case in the future. Wider opportunities for employment of high performing professionals within the system are increasing. ERO has experienced a turnover rate of 12%-13% over the last two years and this pattern is expected to continue and is consistent with the age profile of ERO staff.

The funding sought will allow ERO to continue to offer salaries that are competitive and to maintain internal relativities for associated review staff on Individual Employment Agreements. The overall financial impact is summarised in the table below.

Funding Sought (\$m)	2016/17	2017/18	2018/19	2019/20	2020/21 & outyears	Total
Investing in ERO's external evaluation expertise	0.000	0.265	0.530	0.795	1.060	2.650
Total	0.000	0.265	0.530	0.795	1.060	2.650

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Volume pressures arising from growth in early learning services

It is estimated that there will be an annual growth of about 140 early learning services over the forecast period based on MOE’s funded child hours 5 years growth to 2020/21 estimates. By 2021 it is estimated there will be about 5,200 early learning services. This is consistent with MOE’s projections about growth in this sector, recently published.

The costs included in this proposal are based on an additional 140 early learning services to be evaluated per annum over the forecast period. The personnel costs allow for 5 Reviewer FTE positions for each of the years between 2017/18 to 2019/20 and another 5 Reviewer FTE positions in 2020/21. The increase in 2020/21 and the out-years caters for not only the additional 140 early learning services in 2020/21, but also those evaluated in 2017/18 that ERO would return to after three years. Total personnel costs for this proposal amount to \$2,507,000 over the forecast period.

The remainder of the budgeted costs relate directly to travel associated and office accommodation with these evaluations. These amounts totals \$299,000 over the forecast period.

ERO will absorb the costs associated with administrative support and computer equipment required for the proposal.

Overall the direct unit cost of an early learning services evaluation is about \$4,000.

Funding Sought (\$m)	2016/17	2017/18	2018/19	2019/20	2020/21 & outyears	Total
Volume pressures arising from growth in Early Childhood Services	0.000	0.562	0.562	0.562	1.120	2.806
Total	0.000	0.562	0.562	0.562	1.120	2.806

If no additional funding is received, from 1 July 2017, this would result in a lengthening in ERO’s review frequency for early learning services of 3.4 years by 1 month in 2017/18 increasing to 7 months in 2020/21.

Implementation Risks

No implementation risks have been identified beyond those that are already being managed and evaluated as part of ERO’s core business delivery. This includes:

- a) Undertaking surveys to determine the extent to which schools and early learning services found that external and internal evaluation processes have helped to:
- Influence decisions about how to improve learning outcomes
 - Identify or confirm opportunities for more effective teaching practice
 - Prompt discussion and action to accelerate student achievement and reduce disparity
- b) Using a moderation panel to assess the quality of ERO's external evaluations of schools and early learning services. The panel looks at a representative sample of evaluations each year and looks at the levels of compliance against internal standard procedures, the timeliness and consistency of EROs reporting. This exercise also informs ongoing improvement in our processes.
- c) Seeking feedback from ERO's target groups to test that ERO's:
- Evaluation process is constructively challenging
 - Overall evaluation findings are fair and accurate
 - External evaluations will help build school capability in the medium to long term, and
 - External evaluations, all else being equal, should help staff improve learning outcomes for students.
- d) ERO also uses the Kiwis Count survey carried out by the State Services Commission to assess the level of public awareness of and satisfaction with ERO's evaluations. ERO also make use of the New Zealand Council for Educational Research surveys of school principals to monitor the quality of its work.

Impact Summary

Appendix 1 provides more details of ERO's CBAX.

Impacts - Identify and list \$m present value, for monetised impacts	Option/scenario		Assumptions and evidence (quantify if possible, and use ranges where appropriate)	Evidence certainty
	1	2		
Estimated impact on key outcomes				
Increased achievement of NCEA level 2 or equivalent	0.1%	-	Assumes 1,200 additional students achieve NCEA level 2 based on very conservative success rate percentages, time lags (age at start of each sector to age at NCEA level 2) and short benefit period.	Low
Cost of the Initiative				
Fiscal operating cost of the initiative	(98)	-	[33]	Medium
Government Benefits/(Costs)				
25% of Income tax and ACC levy: Average annual income - NCEA level 2 or equivalent	12	-	There is about 983,000 students in NZ based on MOE's data. Of this total, 29% are in secondary schools. ERO has approached this analysis very conservatively using a low success rate percentage of 0.2%, time lag of 4 years and a 1 year benefit period.	Low
25% of Income tax and ACC levy: Average annual income - NCEA level 2 or equivalent	7	-	There is about 983,000 students in NZ based on MOE's data. Of this total, 51% are in primary schools. ERO has approached this analysis very conservatively using a low success rate percentage of 0.1%, time lag of 12 years and a 1 year benefit period.	Low
25% of Income tax and ACC levy: Average annual income - NCEA level 2 or equivalent	1	-	There is about 983,000 students in NZ based on MOE's data. Of this total, 20% are in early learning services. ERO has approached this analysis very conservatively using a low success rate	Low

			percentages of 0.05%, time lag of 15 years and a 1 year benefit period.	
Total Quantified Government Impact	20	-		Low
Wider Societal Benefits/(Costs)				
25% of Average annual income - NCEA level 2 or equivalent	61		There is about 983,000 students in NZ based on MOE's data. Of this total, 29% are in secondary schools. ERO has approached this analysis very conservatively using a low success rate percentage of 0.2%, time lag of 4 years and a 1 year benefit period.	Low
25% of Average annual income - NCEA level 2 or equivalent	33		There is about 983,000 students in NZ based on MOE's data. Of this total, 51% are in primary schools. ERO has approached this analysis very conservatively using a low success rate percentage of 0.1%, time lag of 12 years and a 1 year benefit period	Low
25% of Average annual income - NCEA level 2 or equivalent	5		There is about 983,000 students in NZ based on MOE's data. Of this total, 20% are in early learning services. ERO has approached this analysis very conservatively using a low success rate percentages of 0.05%, time lag of 15 years and a 1 year benefit period.	Low
Total Quantified Wider Societal Impact	99			Low
Net Present Value of Total Quantified Societal Impacts	30	-		Low

Section C Conclusions

Conclusions

ERO's external evaluation supports early learning services and schools in their improvement journeys by providing an independent assessment of their performance in terms of excellence and equity of outcomes for every student, and the extent to which internal conditions support ongoing improvement. Insights gained from an external evaluation act as a catalyst for change. Investing in education evaluation for accountability and improvement is needed to get a step change in school and early learning service performance.

Overall Ratings

Value for Money	Strategic Alignment
4	5

Summary of monetised results

	Discount Rate	
	6% real (default)	3% real (sensitivity)
Net Present Value (NPV)	\$2m	\$3m
Benefit Cost Ratio (BCR)	1.0	1.0
Return on Investment (ROI) – Societal Total	1.3	1.4
Return on Investment (ROI) – Government	0.2	0.2

Ex-post Impact Evaluation Plan

Ex-post impact evaluations are the same as those described in section Implementation Risks on page 9.