

**INFORMATION SUPPLIED BY THE  
PUBLIC SERVICE IN RESPONSE TO  
REQUESTS MADE BY POLITICAL  
PARTIES TAKING PART IN COALITION  
FORMATION TALKS**

**State Services Commission**  
P O Box 329  
WELLINGTON

5 February 1997

## STATEMENT BY THE STATE SERVICES COMMISSIONER

The documents in this publication comprise information and analysis which was provided by government departments to the political parties engaged in coalition talks for the formation of New Zealand's first MMP Government. Those talks began shortly after the general election, which was held on 12 October 1996, and were completed in early December.

The documents in this publication came from the departments and agencies for which the State Services Commissioner has direct responsibility. Further information may have been supplied to the political parties from sources other than the core Public Service.

Before the general election, the Government established the principle that parties in the Government formation process could have access to the Public Service for information and analysis of policy issues. After the election, the details of the process were made public and the political parties represented in Parliament were advised of the system through which this would be done. The system guidelines are outlined in the first few pages of this file, in my letter of 21 October 1996 to departmental chief executives. The system was designed deliberately to ensure the political neutrality of the Public Service. It was also intended to guarantee confidentiality, during the coalition talks, for the political parties which decided to use it.

The documents enclosed here are subject to the Official Information Act and as such, members of the public could apply to have them released under that Act. Several applications for the information have been received. In the light of those expressions of interest, it has been decided to release all of the documents at once.

The information and analysis in the documents was supplied in response to written questions on specific matters. The documents do not contain policy advice. The development of policy advice is a dynamic process commonly involving the detailed examination, by Ministers and officials, of a range of options from different perspectives. Usually this process takes place in face-to-face discussion over a period of time (major policies can take a year or more to hammer out); this did not happen during the coalition discussions. Once the composition of the coalition Government had been decided, the Public Service began to provide policy advice to Ministers on the Government's programme in the normal way.

The documents have been supplied to public, university, and polytechnic libraries, political parties represented in Parliament, and major media outlets. Further copies of the full set of documents can be purchased from the State Services Commission.



D K Hunn  
State Services Commissioner



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**QUESTION 2: ACCOMMODATION SUPPLEMENT BY BENEFIT  
CATEGORY AND PAYMENT RATE**

**Request**

A breakdown of Accommodation Supplement recipients by benefit category (e.g. Unemployment Benefit, Sickness Benefit, Low Income Earner, etc.) and rate (e.g. 16-17 year old, single adult, couple with children) was requested for each of the categories above.

**Assumptions**

Assumptions are the same as for the preceding table. Only valid payment rates for each benefit class are shown. Naturally, there is no payment rate associated with receipt of Accommodation Supplement by non-beneficiaries.

Tables showing these breakdowns are provided on the following pages.

Accommodation Supplement current at 30 September 1996														
Excluding NZ Superannuation and Veterans Pension														
	Unclassified			Rent			Board		Home Ownership			ALL		
	Other	HNZ	ALL	Other	HNZ	ALL	Other	ALL	Other	HNZ	ALL	Other	HNZ	ALL
<b>Invalids</b>														
Not Known	0	0	0	0	1	1	0	0	1	0	1	1	1	2
Single 18 yrs	0	0	0	12	1	13	239	239	0	0	0	251	1	252
Single 0 Chldn	0	0	0	5854	2763	8617	6174	6174	1384	313	1697	13412	3076	16488
Single 1 Child	0	0	0	353	309	662	89	89	151	51	202	593	360	953
Single 2+ Chldn	0	0	0	144	172	316	28	28	81	31	112	253	203	456
Married 0 Chldn	0	0	0	745	643	1388	56	56	695	80	775	1496	723	2219
Married 1 Child	0	0	0	242	247	489	16	16	236	47	283	494	294	788
Married 2+ Chldn	0	0	0	347	392	739	7	7	436	111	547	790	503	1293
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7697</b>	<b>4528</b>	<b>12225</b>	<b>6609</b>	<b>6609</b>	<b>2984</b>	<b>633</b>	<b>3617</b>	<b>17290</b>	<b>5161</b>	<b>22451</b>
<b>Widows</b>														
Single 0 Chldn	0	0	0	578	530	1108	229	229	601	114	715	1408	644	2052
Single 1 Child	1	0	1	191	262	453	48	48	181	52	233	421	314	735
Single 2+ Chldn	0	0	0	164	203	367	19	19	201	60	261	384	263	647
<b>Total</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>933</b>	<b>995</b>	<b>1928</b>	<b>296</b>	<b>296</b>	<b>983</b>	<b>226</b>	<b>1209</b>	<b>2213</b>	<b>1221</b>	<b>3434</b>
<b>Transitional Retirement Benefit</b>														
Single 0 Chldn	0	0	0	545	290	835	161	161	224	43	267	930	333	1263
Single 1 Child	0	0	0	16	21	37	2	2	10	4	14	28	25	53
Single 2+ Chldn	0	0	0	2	4	6	0	0	1	1	2	3	5	8
Married 0 Chldn	0	0	0	107	77	184	8	8	180	14	194	295	91	386
Married 1 Child	0	0	0	4	4	8	2	2	17	4	21	23	8	31
Married 2+ Chldn	0	0	0	3	3	6	2	2	5	4	9	10	7	17
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>677</b>	<b>399</b>	<b>1076</b>	<b>175</b>	<b>175</b>	<b>437</b>	<b>70</b>	<b>507</b>	<b>1289</b>	<b>469</b>	<b>1758</b>

CE1996/55

21 October 1996

**TO ALL CHIEF EXECUTIVES**

**NEGOTIATIONS BETWEEN POLITICAL PARTIES TO FORM A GOVERNMENT:  
GUIDELINES ON SUPPORT FROM THE PUBLIC SERVICE**

I attach a set of guidelines I am issuing today on the support that the public service may provide to political parties negotiating to form a government.

The guidelines emphasise that inter-party negotiations to form a government are a matter solely for the political parties involved in them. In no circumstances should officials be involved in or present for these political negotiations. The guidelines do however set out a process which will enable the public service to respond to requests from parties for information and analysis for use in these inter-party negotiations. At this stage the process in the guidelines is to be used only for the provision of written information. I will need to seek further authority from the Prime Minister before the public service responds to any request for oral briefings, which carry with them the possibility of more active assistance by the public service.

Please refer copies of these guidelines to the heads of any Crown entities or state-owned enterprises within your area of responsibility. I also ask that you discuss with each of these bodies the extent to which it would be appropriate for them to adopt similar protocols, in order to protect their own political neutrality and independence.

The issues surrounding these guidelines are complex, and important for the public service. As the guidelines indicate, I expect any work under these guidelines to be handled at the most senior levels within each department. Please do not hesitate to contact me if you have any questions about these guidelines or the more general issues underlying them.



D K Hunn  
State Services Commissioner



## **NEGOTIATIONS BETWEEN POLITICAL PARTIES TO FORM A GOVERNMENT: GUIDELINES ON SUPPORT FROM THE PUBLIC SERVICE**

### **Summary**

- 1 These guidelines set out the process which will apply if political parties engaged in negotiations to form a new government seek access to the public service for information and analysis. It is important to understand that chief executives and departments will provide information only when requested, and when access to the public service has been authorised by the Prime Minister and follows the process set out in these guidelines.
- 2 Officials will under no circumstances be involved in or present during actual negotiations. Negotiations are a matter solely for the political parties involved in them. At this stage the Prime Minister has agreed that it will be appropriate for the public service, when assistance is sought and authorised, to provide information to political parties in written form only. The State Services Commissioner will refer back to the Prime Minister for further authority if any party seeks an oral briefing from the public service, which carries with it the possibility of more active assistance.
- 3 A summary of the process to be followed is set out below. It has been developed by the officials committee on the implementation of proportional representation and approved by Cabinet, before the general election.
  - The Prime Minister has threshold responsibility for authorising access to the public service for political parties engaged in negotiations to form a government, for parties to obtain information and analysis from the public service.
  - A group of central and senior officials will together oversee and manage any requests for information and analysis to be provided by the public service to negotiating parties. Those officials are the State Services Commissioner, the Chief Executive of the Department of the Prime Minister and Cabinet (DPMC), the Secretary to the Treasury and the Secretary of the Cabinet.
  - The State Services Commissioner will provide a central contact point for receiving and responding to requests from political parties. If Ministers and departments receive direct requests for information and assistance from political parties, they are to refer them to the Prime Minister and the Commissioner respectively.
  - Political parties represented in the government will also direct requests for information and analysis to be used in negotiations over the formation of a new government through the Prime Minister and the State Services Commissioner. Ministers will not approach their departments directly for such information.

- The State Services Commissioner will ensure that the Prime Minister is informed in general terms of the basis on which public service assistance is being provided. The Commissioner will not disclose the details of the information being sought or the substance of the response to the Prime Minister, unless the request is from the Prime Minister's party. The Prime Minister will inform individual Ministers on a similar basis of any request involving their departments.
- The public service response to any request from a political party for information should be confined to providing written information and analysis on the practical implications of policy proposals being considered by the party, in accordance with these guidelines.
- The Official Information Act 1982 applies to all information generated or held by departments which is used to provide information or analysis to negotiating parties, as well as to information on what work is being done by the public service.

## Introduction

- 4 The recent general election has not provided any single political party with a majority of seats in the new Parliament. Political parties are now entering into a period of negotiation to determine who will form the next government. The incumbent government during this time is acting in accordance with the convention on caretaker government. Detailed advice on the conduct of the public service in relation to this convention has been provided to departments in Cabinet Office circular CO (96) 12, "Government Decision Making in the Period of Caretaker Government", 14 October 1996. The rules set out in this circular deal with the separate issue of the support the public service may provide to political parties involved in negotiations to form a government.
- 5 Inter-party negotiations to form a government are the business of politicians. But negotiating parties may seek access to the public service, for information and analysis on issues which might form part of the agreement on which the government is to be based. There is a public interest in giving negotiating parties access to public service information and resources before negotiations are completed, to enable them to test that the basis on which the government is formed is sound. In particular there is a public interest in ensuring negotiating parties have access to Treasury forecasts, and can see, before negotiations are complete, the likely effect of their policies on the forecasts Treasury is required to produce under the Fiscal Responsibility Act 1994.
- 6 It is imperative that systems are in place to manage the contact of the public service with this inherently political process, to safeguard the neutrality of the public service. Only by continually preserving and demonstrating its neutrality does the public service ensure that it continues to be able to serve successive governments.
- 7 The officials committee on the implementation of proportional representation has developed the procedures set out in these guidelines to manage contact if negotiating parties seek access to the resources of the public service. The procedures were approved by Cabinet before the general election. Chief executives are encouraged to contact the State Services Commissioner if they have any concerns or questions about these guidelines or the more general issues underlying them.

- 8 Chief executives are also asked to provide copies of this circular to the heads of any Crown entities or State-owned enterprises within their area of responsibility, and to discuss with each those bodies the extent to which it would be appropriate for them to adopt similar protocols, in order to protect their own political neutrality and independence.

#### **Authorising and coordinating access**

- 9 It is a basic principle in New Zealand that all contact between the public service and political parties must take place only with the prior agreement of the government in office. Given the significance of the process of government formation, the Prime Minister will have threshold responsibility for authorising access to the public service at this time. The Prime Minister will formally determine when and to whom it is appropriate to make the resources of the public service available, in order to provide information and analysis on policy issues in the process of forming a government, bearing in mind the responsibility of the incumbent caretaker government to facilitate the transition to a new government.
- 10 All contact by departments with negotiating parties will be coordinated by the following officials, to ensure that the information and analysis being provided is consistent and appropriate:
- the State Services Commissioner, who has an overall responsibility to ensure that the neutrality of the public service is not placed at risk and will act as the main contact point for receiving or responding to requests from political parties;
  - The Chief Executive of DPMC, who will work with departments to coordinate the practical preparation of information requested by political parties;
  - the Secretary to the Treasury, who is likely to be involved in most requests for information and advice from a fiscal or economic perspective; and
  - the Secretary of the Cabinet, who, as Clerk of the Executive Council, is responsible for facilitating the constitutional processes associated with the transition between administrations.
- 11 The State Services Commissioner will also seek to establish a central contact point with each political party which requests information from the public service, in order to ensure the clear communication of requests and responses.
- 12 The Clerk of the Executive Council will, with the knowledge of the Prime Minister, have contact with the leaders of other political parties in order to facilitate the constitutional processes associated with the transition between administrations. This contact will take place separately from the processes outlined in this circular for providing information on policy issues.
- 13 Ministers will direct any requests for access they receive to the Prime Minister. Departments which receive a direct approach from a political party for information to assist negotiations should inform the State Services Commissioner of the request immediately.
- 14 The State Services Commissioner will ensure that the Prime Minister is regularly informed, in general terms, of the basis on which public service assistance is being provided to political parties. The Commissioner will not disclose the details of the



information being sought or the substance of the response to the Prime Minister, unless the request is from the Prime Minister's party. The Prime Minister will inform individual Ministers on a similar basis of any request involving their departments.

- 15 A party currently in government would be able – through Ministers – to seek policy advice directly from departments, without any special process of coordination to take account of the political purpose for which the information will be used. To protect the public service from any suggestion of improper political activity, Ministers have agreed that they will not make requests for information or analysis, for use in negotiations between political parties on the formation of a new government, directly to their departments, but will direct them through the Prime Minister and the State Services Commissioner in the same way as other political parties.

### **The type and level of support to be provided**

- 16 Political parties have the task of developing and agreeing policies. In negotiating to form a coalition or minority government, the issues on which assistance may be sought are likely to be over the effects of modifying or combining policies which have been presented to the electorate in the course of the election campaign, and the details of their implementation.
- 17 The provision of information and analysis to support the process of government formation is likely to be highly sensitive and will require careful judgement and discretion. Only a small group of very senior officials in affected departments would be likely to be involved. Contact between departments involved in this work should take place at chief executive level.
- 18 Responses to requests should be confined to providing written information and analysis on the practical implications of the proposals being considered by the party. They should not initiate policy proposals or discussions. The goal is to respond to questions with clear and soundly based information and analysis, provided swiftly and in a cooperative fashion. In particular, public servants are to be governed by the following guidelines in responding to requests:
- Ensure that the information provided is an accurate response to the original request, and clearly and fully answers any questions posed in the request.
  - Do not offer a personal view on the merits of the policy; restrict comment to discussion of the practical implications.
  - Do not make assumptions. If the request is not clear, seek further clarification through the channels established by the State Services Commissioner.
- 19 This work may involve the costing of party policies. Costings for political parties engaged in negotiations to form a government should be carried out in accordance with these guidelines. The general "Guidelines for Costing Party Political Policies", which cover the situation where a Minister requests a department to cost party policies for partisan purposes, do not apply.
- 20 Oral briefings, which carry with them the possibility of more active assistance from the public service, are not to be provided to political parties without further authority. I will

refer back to the Prime Minister for approval of any requests from political parties for oral briefings.

### **Application of the Official Information Act 1982**

- 21 As with all activities of the public service, the Official Information Act 1982 will apply to information generated or held by departments which is used to provide information or analysis to political parties negotiating to form a government, as well as to information on what assistance the public service is providing.
- 22 If information or analysis provided to negotiating parties under these arrangements is requested by someone else, the question of whether it will require or attract protection from disclosure on one of the grounds set out in the Act is a matter that will require careful judgment in each case. Careful consideration will also need to be given to the question of whether the reasons for withholding the information are outweighed by the public interest in release. If any department receives such a request, they should consult the State Services Commissioner before they respond to the request.
- 23 If the information sought in such a request is sensitive, departments may consider themselves obliged to withhold the information in question, at least while the political negotiations continue. Such a decision will, as usual, be subject to the requester's right to seek a review by the Ombudsman of any refusal to supply the information requested.

### **Other means by which political parties may seek information**

- 24 There are of course a number of existing channels by which political parties may seek information from the public service at any time. These channels will continue to be available to parties negotiating to form a government, if they do not wish to use the process for access described in paragraphs 9-20.
- 25 Parties may request existing information from Ministers or departments under the Official Information Act 1982. All responses to requests for information must, as usual, be handled in accordance with the requirements of the Act. Given the political environment in which the request would be made, departments would need to take extra care to ensure that requests were handled properly and promptly, to ensure that there can be no suggestion of political influence in the departmental response. In particular departments should endeavour to reply to requests as promptly as possible, so that departmental delay cannot be thought to impede the process of a new government being formed. Departments should coordinate closely with SSC over all such requests for information from negotiating parties at this time.
- 26 If Parliament has been summoned and the House has met, Members may be able to seek information through parliamentary questions. Questions should continue to be handled in the usual way, but again with an awareness of the political context in which the request may have arisen. This awareness is necessary to ensure that the department is able to safeguard its actions against accusations of partisanship.
- 27 Political parties may also make a request to a Minister for information or a briefing from a department on a particular issue. If such a request is received now that this more specialised process for access by negotiating parties to the public service has been put in place, it is to be passed to the Prime Minister or the State Services Commissioner for

consideration in terms of the general process for authorising access outlined in paragraphs 9-15.

### **Conclusion**

- 28 The possibility of public service support for political parties negotiating to form a government is a new role for the public service in New Zealand. It is also potentially difficult and controversial. With careful management and common sense, it is a role we should be able to discharge in a way that promotes the public interest in good government. It is a role we cannot shirk, if our assistance is sought. But it must be handled carefully, and with a full appreciation of the risks, if the neutrality and ability of the public service to serve successive governments effectively is not to be damaged.

STATE SERVICES COMMISSION  
18 October 1996



## **Guidelines for handling requests from political parties for access to the Public Service to support government formation negotiations**

*These guidelines complement the State Services Commissioner's letter to Chief Executives of 21 October 1996 and should be read in conjunction with that letter.*

*The response to a request from a political party for information should be confined to providing written information and analysis on the practical implications of policy proposals being considered by the party. In particular:*

- *ensure that the information provided is an accurate response to the original request, and clearly and fully answers any questions posed in the request;*
- *do not offer a personal view on the merits of the policy; restrict comment to discussion of the practical implications;*
- *do not make assumptions. If the request is not clear, seek further clarification through the channels established by the State Services Commissioner.*

*The Official Information Act 1982 applies to all information generated or held by departments which is used to provide information or analysis to negotiating parties, as well as to information on what work is being done by the public service.*

*This work may involve the costing of party policies. Costings for political parties engaged in negotiations to form a Government should be carried out in accordance with the guidance in the State Services Commissioner's letter of 21 October 1996. The general "Guidelines for Costing Party Political Policies", covering the situation where a Minister requests a department to cost party policies for partisan purposes, do not apply.*

### **Authorising and Coordinating Access (see also flow diagram at Annex A)**

#### ***Step 1 - Obtain Prime Ministerial Authority***

All requests must be in writing from the party leader or another authorised member of the political party.

- (a) The Prime Minister has threshold responsibility for authorising access to the Public Service.
  - i. Requests made direct to the Prime Minister, and his decision, are conveyed to the State Services Commissioner;
  - ii. a Minister to whom a request is made refers it to the Prime Minister for decision;
  - iii. a Minister making a request on behalf of his or her party refers it to the State Services Commissioner, who then informs the Prime Minister;

- iv. an official in receipt of a request refers it to the State Services Commissioner, who then informs the Prime Minister;
- (b) The Prime Minister informs the portfolio Minister(s) of the request for access;

### *Step 2 - Coordinating Requests*

- (c) The State Services Commissioner convenes a meeting of central agency representatives to assess the request for access to the Public Service in order to decide:
  - i. which department(s) will be involved in the provision of information in response to a request. If more than one department is involved, a lead department will be designated;
  - ii. what, if any, clarification is required from the party requesting access to assure the quality of the Public Service contribution;
  - iii. if clarification is required, the State Services Commissioner liaises with the requesting party;
- (d) The State Services Commissioner passes the request to the relevant Chief Executive(s) with a suggested deadline for providing the information sought. A copy of the departmental quality assurance form and style guide (Annexes B and C) accompany the request. The Chief Executive of the designated lead department is responsible for quality assurance;
- (e) The State Services Commissioner notifies the party representative that the request has been actioned, and that a response will be forthcoming as soon as possible. If the request is likely to take some time to complete, because the subject matter is complex or demand on a department is at a high level, the Commissioner undertakes to report progress on completing the request;

### *Step 3 - Provision of Information*

- (f) The Chief Executive nominates an individual(s) to undertake the request as defined, and notifies the State Services Commissioner;
- (g) The nominated official scopes the request. If it is necessary to clarify assumptions or other technical detail, the official (or Chief Executive) liaises with the State Services Commissioner about contacting the party's representative;
- (h) The nominated official supplies the information requested to the Chief Executive, with a completed departmental quality assurance form confirming that it complies with the requirements set out in the State Services Commissioner's letter of 21 October 1996;



[date]

[name]  
[address]

Dear [name]

**CONFIDENTIAL**

**Request from political parties for access to the Public Service**

The Prime Minister has agreed to a request from the [political party] for information from the Public Service on [subject matter]. A copy of the written request is enclosed. Central agency heads have agreed that the [department] will have lead responsibility for responding to this question, supported by the [department].

I am enclosing with this letter copies of *Guidelines for handling requests from political parties for access to the Public Service to support government formation negotiations*, and *Instructions for Completion of Responses*.

In responding to this request, you should note that:

- if a request for information from the Public Service is framed in such a way that it constrains offering a full reply, you should inform me, and I will contact the originator to clarify the intent of the request;
- in responding to requests for information, departments should provide as full an answer as possible in terms of information and analysis, to the extent of identifying strengths and weaknesses of a proposal, though stopping short of making recommendations or offering alternative options as would be normal practice in providing policy advice to Ministers;
- when it will help to explain the implications and consequences of a proposal to change existing policy settings, in their response to requests for information departments may briefly explain the historical context and rationale behind the existing policy setting;
- in their responses, departments should elaborate on practical implications to the extent that their significance and priority is clear; and



- responses should clearly identify the key assumptions and implications on which the costs and/or practical implementation of a policy proposal depend.

The deadline for the response to this request is [date]. Peter Martin (495 6756) should be notified immediately if it appears that this deadline will not be met.

As mentioned in my letter to Chief Executives of 21 October 1996, I expect any work under these guidelines to be handled at the most senior levels within each department. It is of the utmost importance that the strictest confidentiality is maintained at all times during this process of public service support for government formation.

If you have any queries about the process that needs to be followed or unforeseen circumstances arise that need to be discussed, please call me as soon as possible. When the names of the officials working on the response are known, please notify Peter Martin.

Four copies of your completed response should be sent by courier to:

Peter Martin  
State Services Commission  
Level Two  
100 Molesworth Street  
Wellington.

Yours sincerely

D K Hunn  
State Services Commissioner



[date]

[name]  
Parliament Buildings  
Wellington

Dear [name]

On [date] you requested information from the Public Service on the implications of [subject matter]. I enclose the response to that question.

Cabinet agreed that the role of the Public Service in assisting political parties in the negotiations to form the new government should be limited to the provision of information on and analysis of the proposals put to us. It follows that the attached material, whilst attempting to provide a full and accurate response to the questions, does not constitute policy advice from the Public Service. As you know, the development of policy advice for Ministers is a dynamic process, commonly involving the detailed examination of a range of options from several different perspectives. The Public Service stands ready to provide comprehensive policy advice on these proposals if they form part of the new government's programme.

I should also make it clear that, while the attached information on costings attempts to be as accurate as possible, it does not fully represent the total cost of the policy. Economic effects of policy changes which are difficult to estimate include:

- the interactions between different policies - for example if benefits are linked to a benchmark such as the CPI, then policies which affect the CPI will also affect benefits;
- the impact on people's behaviour from changed incentives. If people change their behaviour to obtain the benefits of a new policy, the cost of the policy may be quite different to that first anticipated; and
- the aggregate impact on the macroeconomy, particularly if new policies form part of a large "package" of new initiatives.

In particular, significant changes to expenditure levels or tax rates affect the total amount of demand within the economy, and hence the strength of inflationary pressures. In turn, this would affect interest and exchange rates. This would tend to change the overall shape of the economy, and therefore the fiscal situation.

Therefore any one policy should not be considered in isolation. It is the overall size of the total package that matters in considering the impact on the economy and on interest and exchange rates.

These considerations are also set out clearly, where applicable, in the attached responses, so that all users of the information are aware of them.

The Public Service has dealt with these matters in the strictest confidence. You should note, however, that the Official Information Act 1982 applies to all information generated or held by departments which is used to provide information or analysis to negotiating parties, as well as to information on what work is being done by the Public Service. In other words, the information enclosed with this letter will be, in due course, discoverable under the Official Information Act.

Other than for the purposes of clarification, which I am happy to provide, a request for additional information arising from this response will be treated as a new request.

Yours sincerely

D K Hunn  
State Services Commissioner



CONFIDENTIAL

## QUESTION 1: TENURE OF ACCOMMODATION SUPPLEMENT RECIPIENTS

### Request

- 1 A breakdown of Accommodation Supplement recipients was requested by the following tenure categories:
  - a) Renters
    - i) Housing New Zealand
    - ii) Others
  - b) Boarders
  - c) Mortgage holders
    - i) Housing New Zealand
    - ii) Others
  - d) Unclassified

### Assumptions

- 2 The answer is based on a Department of Social Welfare data tape of all Accommodation Supplement recipients as at 29 September 1996.
- 3 For part c) of the tenure categories, it is assumed that "Mortgage holders" means "Homeowners": an unencumbered homeowner may receive the Accommodation Supplement for expenditure on rates, dwelling insurance and essential maintenance.
- 4 For part c) i), it is assumed that "Housing New Zealand" was meant to read "Housing Corporation of New Zealand".

### Accommodation Supplement recipients by tenure

Tenure	Number of recipients
Renters	
Housing New Zealand	47,313
Other	121,835
Boarders	71,099
Homeowners	
Housing Corporation of New Zealand	7,557
Others	37,130
Unclassified	20
TOTAL	284,954

**QUESTION 2: TENURE OF ACCOMMODATION SUPPLEMENT  
RECIPIENTS BY BENEFIT CATEGORY**

**Request**

- 1 A breakdown of Accommodation Supplement recipients by benefit category was requested by the following tenure categories:
  - a) Renters
    - i) Housing New Zealand
    - ii) Others
  - b) Boarders
  - c) Mortgage holders
    - i) Housing New Zealand
    - ii) Others
  - d) Unclassified

**Assumptions**

- 2 The answer is based on a Department of Social Welfare data tape of all Accommodation Supplement recipients as at 29 September 1996.
- 3 For part c) of the tenure categories, it is assumed that "Mortgage holders" means "Homeowners": an unencumbered homeowner may receive the Accommodation Supplement for expenditure on rates, dwelling insurance and essential maintenance.
- 4 For part c) i), it is assumed that "Housing New Zealand" was meant to read "Housing Corporation of New Zealand".
- 5 The benefit categories are those supplied by the Department of Social Welfare data tape of all Accommodation Supplement recipients. There are only a very small number (20) of Accommodation Supplement recipients with an unclassified tenure category.
- 6 Information on non-beneficiary Accommodation Supplement recipients and New Zealand Superannuation Accommodation Supplement recipients is also included.

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**Housing New Zealand renters receiving Accommodation Supplement by  
benefit type**

<b>Benefit</b>	<b>Number of recipients</b>	
<b>EMPLOYMENT RELATED BENEFITS</b>		
Unemployment		
Statutory Unemployment	5,218	
Emergency Unemployment Benefit	889	
Independent Youth Benefit	6	
Unemployment for those aged 55 or more	765	
<i>Total Unemployment</i>		<i>6,878</i>
Training Benefit		484
<b>TOTAL</b>		<b>7,362</b>

**NON EMPLOYMENT RELATED BENEFITS AND PENSIONS**

Domestic purposes		
Basic	16,636	
Caring for sick and infirm	137	
Woman alone	354	
Emergency Maintenance Allowance	129	
<i>Total Domestic Purposes</i>		<i>17,256</i>
Incapacity		
Invalids	4,528	
Sickness	2,505	
Emergency Sickness	122	
<i>Total Incapacity</i>		<i>7,155</i>
Other		
Widows	997	
Transitional Retirement Benefit	400	
New Zealand Superannuation	10,555	
Veterans Pension	190	
<i>Total Other</i>		<i>12,142</i>
<b>TOTAL</b>		<b>36,553</b>

<b>NON BENEFICIARY</b>		<b>3,398</b>
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<b>TOTAL</b>		<b>47,313</b>
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## Other renters receiving Accommodation Supplement by benefit type

Benefit	Number of recipients	
<b>EMPLOYMENT RELATED BENEFITS</b>		
Unemployment		
Statutory Unemployment	34,926	
Emergency Unemployment Benefit	4,524	
Emergency Unemployment - Students	9	
Independent Youth Benefit	517	
Job Search Allowance	17	
Unemployment for those aged 55 or more	1,751	
<i>Total Unemployment</i>		41,744
Training Benefit		2,263
<b>TOTAL</b>		<b>44,007</b>

**NON EMPLOYMENT RELATED BENEFITS AND PENSIONS**

Domestic purposes		
Basic	43,352	
Caring for sick and infirm	160	
Woman alone	566	
Emergency Maintenance Allowance	544	
<i>Total Domestic Purposes</i>		44,622
Incapacity		
Invalids	7,695	
Sickness	9,460	
Emergency Sickness	372	
<i>Total Incapacity</i>		17,527
Other		
Widows	931	
Transitional Retirement Benefit	675	
New Zealand Superannuation	7,166	
Veterans Pension	78	
<i>Total Other</i>		8,850
<b>TOTAL</b>		<b>70,999</b>

<b>NON BENEFICIARY</b>		<b>6,829</b>
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<b>TOTAL</b>		<b>121,835</b>
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## Boarders receiving Accommodation Supplement by benefit type

Benefit	Number of recipients	
<b>EMPLOYMENT RELATED BENEFITS</b>		
Unemployment		
Statutory Unemployment	33,252	
Emergency Unemployment Benefit	1,927	
Emergency Unemployment - Students	4	
Independent Youth Benefit	1,550	
Job Search Allowance	127	
Unemployment for those aged 55 or more	1,018	
<i>Total Unemployment</i>		37,878
Training Benefit		6,039
<b>TOTAL</b>		<b>43,917</b>

**NON EMPLOYMENT RELATED BENEFITS AND PENSIONS**

Domestic purposes		
Basic	10,968	
Caring for sick and infirm	388	
Woman alone	115	
Emergency Maintenance Allowance	401	
<i>Total Domestic Purposes</i>		11,872
Incapacity		
Invalids	6,609	
Sickness	6,025	
Emergency Sickness	415	
<i>Total Incapacity</i>		13,049
Other		
Widows	296	
Transitional Retirement Benefit	175	
New Zealand Superannuation	1,357	
Veterans Pension	12	
<i>Total Other</i>		1,840
<b>TOTAL</b>		<b>26,761</b>

<b>NON BENEFICIARY</b>		421
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<b>TOTAL</b>		<b>71,099</b>
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**Housing Corporation of New Zealand mortgagors receiving  
Accommodation Supplement by benefit type**

Benefit	Number of recipients	
<b>EMPLOYMENT RELATED BENEFITS</b>		
Unemployment		
Statutory Unemployment	1,224	
Emergency Unemployment Benefit	51	
Unemployment for those aged 55 or more	141	
<i>Total Unemployment</i>		1,416
Training Benefit		72
<b>TOTAL</b>		<b>1,488</b>

**NON EMPLOYMENT RELATED BENEFITS AND PENSIONS**

Domestic purposes		
Basic	3,682	
Caring for sick and infirm	17	
Woman alone	90	
Emergency Maintenance Allowance	6	
<i>Total Domestic Purposes</i>		3,795
Incapacity		
Invalids	633	
Sickness	410	
Emergency Sickness	14	
<i>Total Incapacity</i>		1,057
Other		
Widows	226	
Transitional Retirement Benefit	70	
New Zealand Superannuation	601	
Veterans Pension	16	
<i>Total Other</i>		913
<b>TOTAL</b>		<b>5,765</b>

<b>NON BENEFICIARY</b>		<b>304</b>
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<b>TOTAL</b>		<b>7,557</b>
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**Other homeowners receiving Accommodation Supplement by benefit type**

<b>Benefit</b>	<b>Number of recipients</b>	
<b>EMPLOYMENT RELATED BENEFITS</b>		
Unemployment		
Statutory Unemployment	7,649	
Emergency Unemployment Benefit	325	
Independent Youth Benefit	6	
Unemployment for those aged 55 or more	750	
<i>Total Unemployment</i>		8,730
Training Benefit		258
<b>TOTAL</b>		<b>8,988</b>

**NON EMPLOYMENT RELATED BENEFITS AND PENSIONS**

Domestic purposes		
Basic	13,797	
Caring for sick and infirm	108	
Woman alone	407	
Emergency Maintenance Allowance	35	
<i>Total Domestic Purposes</i>		14,347
Incapacity		
Invalids	2,984	
Sickness	2,876	
Emergency Sickness	60	
<i>Total Incapacity</i>		5,920
Other		
Widows	983	
Transitional Retirement Benefit	437	
New Zealand Superannuation	2,163	
Veterans Pension	47	
<i>Total Other</i>		3,630
<b>TOTAL</b>		<b>23,897</b>

<b>NON BENEFICIARY</b>		<b>4,245</b>
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<b>TOTAL</b>		<b>37,130</b>
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**Unclassified tenure receiving Accommodation Supplement by benefit type**

<b>Benefit</b>	<b>Number of recipients</b>	
<b>EMPLOYMENT RELATED BENEFITS</b>		
Unemployment		
Statutory Unemployment	4	
Emergency Unemployment Benefit	1	
<i>Total Unemployment</i>		5
<b>TOTAL</b>		<b>5</b>

**NON EMPLOYMENT RELATED BENEFITS AND PENSIONS**

Domestic purposes		
Basic	5	
Woman alone	1	
<i>Total Domestic Purposes</i>		6
Incapacity		
Sickness	1	
<i>Total Incapacity</i>		1
Other		
New Zealand Superannuation	3	
<i>Total Other</i>		3
<b>TOTAL</b>		<b>10</b>

<b>NON BENEFICIARY</b>		<b>5</b>
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<b>TOTAL</b>		<b>20</b>
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## QUESTION 3: TURNOVER OF HOUSING NEW ZEALAND RENTALS

## Request

- 1 The turnover of Housing New Zealand (HNZ) tenants was requested for the years 1988-1996.

## Assumptions

- 2 Turnover may be measured by the number of tenants leaving tenancies or the number of tenancies allocated to tenants. The difference between these two measures is dependent on the change in vacancies and the change in stock levels. The only consistently available information relates to tenancies allocated.
- 3 Tenancy allocations may exclude or include existing tenants transferring between Housing Corporation/HNZ tenancies.

## New allocations of HCNZ and HNZ tenancies 1988-1996

Year ended June	Ordinary <sup>1</sup> rental unit allocations (excluding transfers)	Ordinary <sup>1</sup> rental unit allocations (including transfers)	Average state housing stock <sup>6</sup>
1988	8,299 <sup>2,3</sup>	na.	61,347
1989	10,359 <sup>2,3</sup>	na.	63,308
1990	9,972 <sup>3</sup>	na.	66,137
1991	9,836 <sup>3</sup>	na.	68,841
1992	9,280 <sup>3</sup>	13,068 <sup>3</sup>	70,014
1993	13,290 <sup>4</sup>	15,632 <sup>5</sup>	70,167
1994	15,567 <sup>4</sup>	19,089 <sup>5</sup>	70,169
1995	14,333 <sup>4</sup>	20,229 <sup>5</sup>	69,897
1996	16,751 <sup>4</sup>	22,262 <sup>5</sup>	68,823

## Notes:

1. Excludes community housing, relocatable cottages and special tenancies
2. March financial year has been converted to June year in HCNZ annual report
3. Source: HCNZ annual reports
4. Source HNZ annual reports
5. Source: HNZ quarterly reports to the Minister
6. The average is calculated as the mean of opening and closing year end stock  
na. Not available



**QUESTION 4: SERIOUS HOUSING NEED****Request**

- 1 Estimates of the number of people in serious housing need were requested for any of the years 1988-1996 by HNZ tenant or non HNZ tenant.

**Defining serious housing need**

- 2 There is no information available for every year between 1988 and 1996 using a consistent definition of "serious housing need". The three measures of serious housing need summarised below are defined in the attached appendix.
- 3 There is no standard definition or measure of "serious housing need". The National Housing Commission research used interviews of social agencies to build an estimate of serious housing need. The Ministry of Housing used a compilation of available statistics and some estimation based on information from social agencies. The Housing Corporation of New Zealand figures on serious housing need measure the outcome of applying administrative criteria to applicants for state assistance.
- 4 In 1988, a National Housing Commission report estimated that at least 20,000 households in New Zealand were in serious housing need.
- 5 The Ministry of Housing estimated serious housing need in 1994, based, in part, on 1991 Census data. The Ministry estimated that between 20,000 and 30,000 households were in serious housing need.
- 6 "Serious housing need" was used by the Housing Corporation as a criterion for allocation of state assistance between 1990 and 1992. After 1992, the criterion of serious housing need was no longer used neither by the Corporation when assessing lending proposals nor by the Corporation's successor as a landlord, Housing New Zealand.
- 7 Estimates of households in serious housing need assisted by the Corporation, derived from its annual reports, were as follows:

Households in serious housing need subsequently assisted by HCNZ

Year ended June	Rental	Lending	Total
1990	9,101	10,448	19,549
1991	9,639	10,918	20,557
1992	9,143	5,985	15,128

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- 8 The number of households estimated as in serious housing need is small relative to the total number of households in New Zealand, as measured by the number of occupied dwellings (see following table).

Households in New Zealand (Census data)

As at March	Occupied dwellings
1986	1,095,748
1991	1,185,396
1996	1,282,956

- 9 Housing New Zealand is required by its Statement of Corporate Intent (1996-1997) to give priority to low income applicants who have special housing needs. "Highest priority is given to:

- those in seriously overcrowded or substandard housing, refuge housing, or emergency housing;
- those living in accommodation that compounds an existing serious health problem; and
- those who have become homeless through circumstances beyond their control.

HNZ gives second priority to those whose circumstances do not warrant highest priority but who nonetheless are:

- living in overcrowded housing;
- living in housing inappropriate for them in terms of physical characteristics or location based on their health or disability; and
- required to vacate their current housing within 30 days owing to circumstances beyond their control.

HNZ also gives priority to low-income people with disabilities when allocating properties that have been modified for people with disabilities".

- 10 "Priority need" includes households in emergency accommodation, living in unhealthy accommodation or housing for people with a disability. Households living in such circumstances often contact Housing New Zealand directly or are put in contact with Housing New Zealand by other government agencies or community groups.

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Number of households with priority need housed by Housing New Zealand

Year ended June	Number
1993	2,727
1994	2,867
1995	5,127
1996	4,899



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**Appendix: Definitions of serious housing need***National Housing Commission (1988)*

- 1 The National Housing Commission in its five yearly report of 1988 described the following categories of "serious housing need" (page 76) used in research by the Commission and were described by the Commission as "fairly conservative".
- Overcrowding: two or more families in the same household not by choice;
  - Substandard housing: without adequate physical protection or lacking basic washing or cooking facilities;
  - Temporary housing: living in caravans, tents, cars, not by choice;
  - Unaffordable housing: where costs consume over half of a below average income.

*Ministry of Housing (1994)*

- 2 The following categories were used by the Ministry of Housing in its investigation of serious housing need:

- Households with no fixed abode (the literal homeless)

Studies in Wellington found that a relatively small number, 40-50 people, were considered to be homeless in December 1986. Consultations with Salvation Army staff indicated that the homeless tended to gravitate towards the centre of large cities where services such as soup kitchens are more plentiful and they can find companionship. If it is assumed that Wellington has 10% of the country's homeless then the total number in New Zealand was probably in the region of 400-500 people.

- Households in overcrowded dwellings

In the 1991 Census, some 2,600 dwellings had more than three people per bedroom.

- Households in temporary accommodation

In the 1991 Census, 5,361 dwellings were classified as temporary. These were mainly caravans, but included people in garages, and buildings made of non-durable materials. Many of those in caravans may be there by choice, but there is no way of assessing this from Census data. In 1994, there were about 230

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emergency houses and 65 women's refuges throughout the country. If it is assumed that each one houses a family in need of long term shelter on any given day, a figure of 300 households is assumed for purposes of the estimate.

- Households in dwellings lacking basic amenities

The only 1991 Census data available on this relates to lack of heating. A better indicator appears to be hot water supply, which was asked about in the 1986 Census but not in 1991. In 1986, 2000 dwellings (excluding baches) had no hot water supply.

- Otherwise Substandard

The accommodation standards survey carried out by the Ministry of Housing late in 1993 estimated that there were 3,000 to 4,000 "seriously substandard" dwellings in New Zealand.

- Unaffordable housing: where costs consume over half of a below average income

According to the data for December 1993, about 8,300 privately renting households, predominantly single people, spent over half their income in rent after receiving the AS. Data for September 1993 indicated that around 7% of state renters were paying more than half their income in rent. This equates to about 4,900 households. On this basis, a reasonable estimate for "unaffordable" housing is 13,000 households.

*Housing Corporation of New Zealand (1990 to 1992)*

- 3 People in "serious housing need" are those deprived of adequate shelter. The reasons include:
  - Overcrowding - the household needs at least two more bedrooms to provide adequate accommodation for all;
  - They live substandard housing which lacks basic facilities and/or is in a condition likely to aggravate mental and physical health problems;
  - They live in temporary housing - emergency accommodation, and are forced to stay with relatives, etc.;
  - They live in unaffordable housing, paying 50 percent of net income in rent/outgoings;
  - They are sharing with other households, not by choice.

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- They are experiencing negative effects (the physical and social consequences of housing deprivation).
- 4 They include people with special housing needs who are suffering acute personal trauma, long-term or temporary disability, social stigma, or alienation from traditional support.

## QUESTION 5: POLICY COSTING - ACCOMMODATION SUPPLEMENT

### Request

- 1 The estimated cost was requested, based on 1997/98 and 1998/99 forecast Accommodation Supplement (AS) numbers, of increasing the subsidy rate of the Accommodation Supplement to 75% while keeping the maximums at current levels.

### Costing Assumptions

- 2 To be eligible for the AS, a household must pay more than 25% of their standard income (as defined for AS purposes) before becoming eligible for the supplement. For every dollar of housing costs above this threshold, the recipient receives 65 cents of AS (subject to the maxima). This figure may then be income and asset abated.
- 3 The proposal is to change this formula so that AS recipients would receive a 75 cent subsidy for every dollar of housing costs above 25% of their standard income, again subject to the appropriate maxima.
- 4 You have specified the following assumption to be used in the costing:
  - the Accommodation Supplement maxima should remain at current levels;
- 5 Several standard assumptions have also been used:
  - intangible costs are not included;
  - costings are given on a nominal basis;
  - the full year cost of the policy is given, starting in 1997/98 (ie, the policy is assumed to take effect from 1 July 1997);
  - the costing is for the *initial* fiscal impact of the policy change. Any second round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes etc) have been excluded. The one exception, as is normal for transfer payments and tax changes, is that the second-round impacts on GST and other indirect taxes are included;
  - a savings ratio of 5% is applied to AS payments (ie it is assumed that 5% of the extra AS payments will be saved by their recipients) and that the government gains back through indirect taxes (mainly GST) 13% of the increased AS payments;
  - finance costs (the costs of the additional borrowing to cover the increased expenditure) have been included, as is normal when



the initial operating balance impact of the policy is \$50m or more per year.

- 6 The following additional assumptions have been made:
- the costing is based on the December Economic and Fiscal Update (DEFU) forecasts of the number of AS recipients and the average amount of AS per recipient (which implicitly includes judgements about future movements in housing costs). The DEFU forecasts will not be publicly available until December.
  - the base data to model the cost of the proposal does not include the change to the AS regions from 1 October 1996. This could result in the costings provided here being a few million dollars too low.
  - the costing includes no additional takeup of the AS (beyond that already forecast under current policy) as a result of the proposal. While it is likely that there would in fact be increased takeup of the AS as a result of the proposal, the fiscal impact of this should not be significant (see the section below on practical implications).

### Policy Costing

- .7 The following table shows the estimated short-term fiscal impacts on the Crown's financial statements of increasing the AS subsidy rate from the current 65% to 75%, while keeping the AS maxima at current levels. Note that the figure for the policy impact on the operating balance includes savings from reduced Special Benefit expenditure. All costs have been rounded to the nearest \$5 million.

<b>Fiscal Impact<sup>1</sup> of increasing the AS subsidy rate to 75%</b>	<b>1997/98 \$m</b>	<b>1998/99 \$m</b>	<b>1999/2000 \$m</b>
Policy impact on operating balance	-55	-55	-60
<i>Finance costs</i>	0	-5	-10
Total impact on operating balance	-55	-60	-70
Net worth (cumulative) <sup>2</sup>	-55	-115	-185
Cash flows <sup>2</sup>	-55	-60	-70
Net public debt (cumulative) <sup>2</sup>	-55	-115	-185

### Practical Implications

- 8 The proposal should not result in significant increases in takeup of the AS:
- Under the proposal, a family must still be paying more than 25% of its net income (for AS purposes) in rent (or 30% in home ownership costs) to be eligible for the AS. Therefore, the proposal would not (directly) result in additional families becoming eligible for the AS.
  - Some people who are eligible but not currently claiming the AS may be encouraged to take it up as a result of the proposal (for example, because their entitlement has increased to a level where it is worthwhile applying for the AS, or because of publicity about the proposal).
  - Increased takeup by beneficiaries is likely to be small, as takeup by beneficiaries is already relatively high. However, increased takeup by non-beneficiaries as a result of the proposal is more likely. This effect has not been included in the costing as it is not possible to quantify the increased takeup with any certainty. For every additional 1000 people taking up the AS as a result of this policy, the additional cost would be approximately \$2m per year (assuming that, on average, the new recipients receive the same AS entitlement as current recipients).
- 9 The increase in the AS subsidy rate may lead to behavioural responses by either landlords or AS recipients, which would increase the cost of the proposal;

<sup>1</sup> A positive number indicates an improvement in the fiscal position.

<sup>2</sup> These figures include finance costs, as the policy's fiscal impact is \$50 million or more per year.

- Under the proposal, AS recipients would only pay 25% of any housing costs above 25% of their net income (subject to the AS maxima), compared to 35% under current policy. This increased subsidy may lead to some AS recipients renting relatively more expensive housing (or in the case of mortgagors, increasing their mortgage repayments by reducing the term of their mortgage). Any such behavioural response would increase the fiscal cost of the proposal.
  - The increased expenditure on the AS and the higher marginal rate of subsidy may, by making some households less price sensitive, feed through into rent levels (although this would be mitigated by a supply response from landlords). It is not possible to estimate what effect the proposal would have on rental levels, although it is thought to be slight. The implications of increased rental levels would be an increase in the fiscal cost of the proposal, and a reduction in the disposable income of AS recipients (although AS recipients are most likely to still be better off than under current policy).
- 10 The distribution of gains would vary between AS recipients, particularly for those limited by the AS maxima, or receiving the Special Benefit.
- For example, AS recipients who are currently limited by the AS maxima would not receive any increase in their AS entitlement from the proposal. As at the end of September 1996, there were approximately 64,000 (22%) AS recipients limited by the current maxima. The changes to the Accommodation Supplement regions, which take effect from 1 October will have reduced the number of AS recipients limited by the maxima. However, increasing the subsidy rate from 65% to 75% will also cause more people to reach the maxima and therefore not get the full increase in their AS entitlement.
  - A second example is that because Special Benefit reduces by \$1 for each \$1 of income, Special Benefit recipients would have their increased AS entitlement offset. If their Special Benefit entitlement was greater than the increase in their AS entitlement, they would not receive any immediate financial gain from the proposal. As noted above, the effect of the AS maxima and reduced Special Benefit entitlement have been included in the costing.
  - As at the end of September 1996, just under 30,000 AS recipients were also receiving the Special Benefit. Some of these households will also be limited by the maxima (and therefore this figure cannot be added to the 64,000 AS

recipients limited by the maxima). The Special Benefit is intended as short-term assistance only, and most recipients move off the benefit after a short period. Therefore, they are likely to receive a long-term financial benefit from the proposal.



**QUESTION 6: ACCOMMODATION SUPPLEMENT RECIPIENTS BY ETHNIC GROUP**

**Request**

- 1 A breakdown of Accommodation Supplement recipients by ethnic group was requested by the following tenure categories:
  - a) Renters
    - i) Housing New Zealand
    - ii) Others
  - b) Boarders
  - c) Mortgage holders
    - i) Housing New Zealand
    - ii) Others
  - d) Unclassified

**Assumptions**

- 2 The answer is based on a Department of Social Welfare data tape of all Accommodation Supplement recipients as at 29 September 1996.
- 3 For part c) of the tenure categories, it is assumed that "Mortgage holders" means "Homeowners": an unencumbered homeowner may receive the Accommodation Supplement for expenditure on rates, dwelling insurance and essential maintenance.
- 4 For part c) i), it is assumed that "Housing New Zealand" was meant to read "Housing Corporation of New Zealand".
- 5 Reliable statistics on the ethnicity of those in receipt of the Accommodation Supplement are not available from the Department of Social Welfare "SWIFTT" computer system because only a proportion of the records have a valid ethnicity code associated with them.
- 6 For many benefits, there are more cases in the "don't know/not recorded" category than there are in any ethnicity category other than "New Zealand European". It cannot be assumed that the cases in the "not known/not recorded" category would be distributed across the other categories in the same proportion they form of records with a valid code.
- 7 The department has been making considerable steps to improve its

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recording (up from only 13% of current records in 1992 to 66% of all records in 1996), but levels are lowest for longer term benefits, which in turn tend to be associated with higher levels of Accommodation Supplement receipt.

- 8 Much higher proportions of recent grants of benefit than shown below now bear an ethnic code. Usable statistics will become available over the next few years.

As at	% of benefit records current at date with an ethnicity code
30 September 1992	13%
30 June 1993	17%
30 September 1993	18%
31 May 1994	19%
31 January 1995	26%
30 June 1995	32%
31 December 1995	52%
30 June 1996	66%

	Current at 30 June 1996	
	Total number	% with an ethnicity code
Invalids	42,423	43.6%
Widows	9,043	48.6%
Orphans/Unsupported Child	4,655	54.5%
Transitional Retirement	7,832	65.6%
Sickness	30,343	69.7%
Job Search Allowance	158	91.8%
Independent Youth	2,714	89.5%
Unemployment	128,531	73.8%
Training	9,299	79.0%
Domestic Purposes	108,797	65.1%
Other	16,178	67.0%
Total	359,973	66.2%

- 9 Recent grants of benefit do provide some indication of ethnic breakdown because ethnicity is recorded for a higher proportion of them than for benefits current (85% overall in June 96 compared to 66%).
- 10 The tables below show proportions of benefits current at the end of September 1996 that were granted in the preceding six months, which fall into the main ethnicity categories. Some caution needs to be

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exercised in using these figures because, for example, for many of the benefits, the size of the "not known/not recorded" category is still of the same order or larger than the proportion of the general population that Maori or Pacific island people represent. Consequently, any over-representation of these groups in this "not known/not recorded" category has the potential to make a large difference to the actual size of these groups. For example, it is fair to say "at least 8% of recently granted Accommodation Supplement recipients are of Pacific Island ethnicity" but unwise to assert that "Pacific Island people make up 8% of all Accommodation Supplement recipients".

- 11 Because only recent grants of benefit are examined, the figures tend to under-represent the benefit programmes that have lower flows. For example, grants of domestic purposes benefit make up 21% of these figures, but domestic purposes benefits make up 33% of all benefits current and in receipt of the Accommodation Supplement. As a result, it is not really sustainable to conclude from these tables that "32% of all Accommodation Supplement recipients on domestic purposes benefits are Maori". It would be wiser to keep conclusions at the level of "indications are that maybe as many as a third of Accommodation Supplement recipients on the domestic purposes benefit are Maori".

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Current Accommodation Supplements at September 1996 that were granted in the previous 6 months (Excluding 2,304 NZ Superannuation and Veterans Pensions and 5 cases with unclassified accommodation types)												
	Benefit											
Client's Ethnic Origin												
	INVALIDS	WIDOWS	OB/UCB	TRB	SICK NESS	JOB SEARCH	INDEPEN DENT YOUTH	UNEMPLO YMENT	TRAININ G	DPB	NON- BENEFICIA RY	ALL
Not recorded	1091	142	1	71	1360	5	49	4752	846	2521	952	1179 0
Percent	28%	26%	100%	15%	15%	4%	4%	11%	13%	13%	14%	13%
NZ Maori	763	141	0	73	2075	47	471	11152	2486	6225	871	2430 4
Percent	20%	26%	0%	15%	23%	41%	40%	25%	39%	32%	13%	26%
NZ European	1716	173	0	253	4438	50	538	18719	2035	8273	2977	3917 2
Percent	44%	31%	0%	53%	48%	43%	46%	43%	32%	42%	44%	43%
Other	173	37	0	45	674	4	48	5752	383	932	1214	9262
Percent	4%	7%	0%	9%	7%	3%	4%	13%	6%	5%	18%	10%
Pacific Island	155	58	0	35	634	9	61	3519	592	1674	786	7523
Percent	4%	11%	0%	7%	7%	8%	5%	8%	9%	9%	12%	8%
Total	3898	551	1	477	9181	115	1167	43894	6342	1962 5	6800	9205 1
Percent	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%



CONFIDENTIAL

Current Accommodation Supplements at September 1996 that were granted in the previous 6 months										
Excluding 2304 NZ Superannuation and Veterans Pensions and 5 cases with unclassified accommodation types										
Client's Ethnic Origin										
	Rent			Board	Mortgage			ALL		
	Other	HNZ	ALL	ALL	Other	HNZ	ALL	Other	HNZ	ALL
Not Recorded	4880	1479	6359	3114	1998	319	2317	9988	1802	11790
Percent	12%	20%	13%	10%	18%	27%	18%	12%	21%	13%
NZ Maori	9094	2049	11143	11366	1385	410	1795	21833	2471	24304
Percent	22%	28%	23%	37%	12%	35%	14%	26%	29%	26%
NZ European	19383	1706	21089	11327	6454	302	6756	37155	2017	39172
Percent	47%	23%	44%	37%	57%	26%	54%	44%	24%	43%
Other	5984	417	6401	1724	1089	48	1137	8795	467	9262
Percent	15%	6%	13%	6%	10%	4%	9%	11%	5%	10%
Pacific Island	1783	1688	3471	3471	491	90	581	5734	1789	7523
Percent	4%	23%	7%	11%	4%	8%	5%	7%	21%	8%
Total	41124	7339	48463	31002	11417	1169	12586	83505	8546	92051
Percent	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

**QUESTION 7: TENURE OF ACCOMMODATION SUPPLEMENT  
RECIPIENTS RECEIVING SPECIAL BENEFIT**

**Request**

- 1 A breakdown of Accommodation Supplement recipients in receipt of the special benefit was requested by the following tenure categories:
  - a) Renters
    - i) Housing New Zealand
    - ii) Others
  - b) Boarders
  - c) Mortgage holders
    - i) Housing New Zealand
    - ii) Others
  - d) Unclassified

**Assumptions**

- 2 The answer is based on a Department of Social Welfare data tape of all Accommodation Supplement recipients as at 29 September 1996.
- 3 For part c) of the tenure categories, it is assumed that "Mortgage holders" means "Homeowners": an unencumbered homeowner may receive the Accommodation Supplement for expenditure on rates, dwelling insurance and essential maintenance.
- 4 For part c) i), it is assumed that "Housing New Zealand" was meant to read "Housing Corporation of New Zealand".

**Accommodation Supplement recipients by tenure in receipt of special benefit**

Tenure	Number of recipients
Renters	
Housing New Zealand	8,159
Other	13,697
Boarders	930
Homeowners	
Housing Corporation of New Zealand	1,149
Others	5,997
Unclassified	1
<b>TOTAL</b>	<b>29,933</b>

**QUESTION 1: ACCOMMODATION SUPPLEMENT BY DURATION AND TENURE**

**Request**

A breakdown of Accommodation Supplement recipients was requested by duration (0-3 months, 3-6 months, etc.) for each of the following tenure categories:

- a) Renters
  - i) Housing New Zealand
  - ii) Others
- b) Boarders
- c) Homeowners
  - i) Housing Corporation of New Zealand mortgages
  - ii) Others
- d) Unclassified
- e) All recipients

**Assumptions**

The answer is based on SWIFTT data for all those receiving Accommodation Supplement at 29 September 1996.

Durations shown are based on length of receipt of Accommodation Supplement. For beneficiaries, this may not necessarily be the same as their duration on their parent benefit.

These tables are produced on the same basis as earlier tables provided in response to a request for an ethnicity breakdown for Accommodation Supplement receipt. They exclude 22,190 recipients of New Zealand Superannuation and Veterans Pension.

A table setting out this information is provided on the next page.

Accommodation Supplement current at 30 September 1996														
Excluding NZ Superannuation and Veterans Pension														
	Unclassified			Rent			Board		Home Ownership			ALL		
	Other	HNZ	ALL	Other	HNZ	ALL	Other	ALL	Other	HNZ	ALL	Other	HNZ	ALL
<b>Duration on Accommodation Supplement</b>														
Not Known	0	0	0	6	1	7	14	14	1	0	1	21	1	22
< 3 Months	4	0	4	23737	4033	27770	18859	18859	6521	587	7108	49121	4620	53741
3<6 Months	1	0	1	17070	3252	20322	11909	11909	4805	575	5380	33785	3827	37612
6<9 Months	1	0	1	12680	2737	15417	8301	8301	3513	500	4013	24495	3237	27732
9<12 Months	2	0	2	9068	2212	11280	5380	5380	2665	481	3146	17115	2693	19808
1<2 Years	4	0	4	22023	7224	29247	11093	11093	7871	1932	9803	40991	9156	50147
2+ Years	4	1	5	27795	16627	44422	11847	11847	9119	2785	11904	48765	19413	68178
<b>Total</b>	<b>16</b>	<b>1</b>	<b>17</b>	<b>112379</b>	<b>36086</b>	<b>148465</b>	<b>67403</b>	<b>67403</b>	<b>34495</b>	<b>6860</b>	<b>41355</b>	<b>214293</b>	<b>42947</b>	<b>257240</b>



Accommodation Supplement current at 30 September 1996														
Excluding NZ Superannuation and Veterans Pension														
	Unclassified			Rent			Board		Home Ownership			ALL		
	Other	HNZ	ALL	Other	HNZ	ALL	Other	ALL	Other	HNZ	ALL	Other	HNZ	ALL
<b>Sickness</b>														
Not Known	0	0	0	1	0	1	0	0	1	0	1	2	0	2
Single under 18 yrs	0	0	0	78	3	81	233	233	1	0	1	312	3	315
Single 18-24 years	0	0	0	1563	54	1617	1915	1915	17	0	17	3495	54	3549
Single 0 Chldn	1	0	1	5662	1149	6811	3817	3817	1258	154	1412	10738	1303	12041
Single 1 Child	0	0	0	331	184	515	166	166	80	21	101	577	205	782
Single 2+ Chldn	0	0	0	113	82	195	42	42	37	18	55	192	100	292
Married 0 Chldn	0	0	0	776	281	1057	157	157	524	53	577	1457	334	1791
Married 1 Child	0	0	0	471	223	694	37	37	315	42	357	823	265	1088
Married 2+ Chldn	0	0	0	809	644	1453	42	42	703	136	839	1554	780	2334
Total	1	0	1	9804	2620	12424	6409	6409	2936	424	3360	19150	3044	22194
<b>Job Search Allowance</b>														
Single under 18 yrs	0	0	0	12	0	12	105	105	0	0	0	117	0	117
Total	0	0	0	12	0	12	105	105	0	0	0	117	0	117
<b>Independent Youth Benefit</b>														
Single under 18 yrs	0	0	0	504	5	509	1512	1512	6	0	6	2022	5	2027
Single 18-24 years	0	0	0	2	1	3	4	4	0	0	0	6	1	7
Single 0 Chldn	0	0	0	0	0	0	3	3	0	0	0	3	0	3
Total	0	0	0	506	6	512	1519	1519	6	0	6	2031	6	2037

Accommodation Supplement current at 30 September 1996														
Excluding NZ Superannuation and Veterans Pension														
	Unclassified			Rent			Board		Home Ownership			ALL		
	Other	HNZ	ALL	Other	HNZ	ALL	Other	ALL	Other	HNZ	ALL	Other	HNZ	ALL
<b>Unemployment</b>														
Single under 18 yrs	0	0	0	21	0	21	50	50	0	0	0	71	0	71
Single 18-24 years	2	0	2	9873	233	10106	16008	16008	137	2	139	26020	235	26255
Single 0 Chldn	1	0	1	17297	1918	19215	15241	15241	2910	356	3266	35449	2274	37723
Single 1 Child	0	0	0	1460	603	2063	1178	1178	274	96	370	2912	699	3611
Single 2+ Chldn	1	0	1	593	413	1006	194	194	150	70	220	938	483	1421
Married 0 Chldn	0	0	0	2768	554	3322	899	899	1059	115	1174	4726	669	5395
Married 1 Child	0	0	0	2709	612	3321	276	276	983	138	1121	3968	750	4718
Married 2+ Chldn	0	0	0	4427	2095	6522	315	315	2798	562	3360	7540	2657	10197
Total	4	0	4	39148	6428	45576	34161	34161	8311	1339	9650	81624	7767	89391
<b>Training</b>														
Single under 18 yrs	0	0	0	283	2	285	2768	2768	1	0	1	3052	2	3054
Single 18-24 years	0	0	0	667	34	701	2162	2162	2	1	3	2831	35	2866
Single 0 Chldn	0	0	0	647	120	767	759	759	81	13	94	1487	133	1620
Single 1 Child	0	0	0	82	28	110	56	56	8	4	12	146	32	178
Single 2+ Chldn	0	0	0	39	18	57	16	16	6	7	13	61	25	86
Married 0 Chldn	0	0	0	102	23	125	46	46	17	3	20	165	26	191
Married 1 Child	0	0	0	106	47	153	15	15	22	5	27	143	52	195
Married 2+ Chldn	0	0	0	208	169	377	12	12	104	36	140	324	205	529
Total	0	0	0	2134	441	2575	5834	5834	241	69	310	8209	510	8719



Accommodation Supplement current at 30 September 1996														
Excluding NZ Superannuation and Veterans Pension														
	Unclassified			Rent			Board		Home Ownership			ALL		
	Other	HNZ	ALL	Other	HNZ	ALL	Other	ALL	Other	HNZ	ALL	Other	HNZ	ALL
<b>Domestic Purposes Benefit</b>														
Single under 18 yrs	0	0	0	19	0	19	126	126	0	0	0	145	0	145
Single 18-24 years	0	0	0	0	0	0	1	1	0	0	0	1	0	1
Single 0 Chldn	1	0	1	703	447	1150	464	464	482	104	586	1650	551	2201
Single 1 Child	1	0	1	23026	6334	29360	7803	7803	5185	1298	6483	36015	7632	43647
Single 2+ Chldn	4	0	4	20872	10475	31347	3474	3474	8669	2394	11063	33019	12869	45888
Married 0 Chldn	0	0	0	5	6	11	4	4	12	0	12	21	6	27
<b>Total</b>	<b>6</b>	<b>0</b>	<b>6</b>	<b>44625</b>	<b>17262</b>	<b>61887</b>	<b>11872</b>	<b>11872</b>	<b>14348</b>	<b>3796</b>	<b>18144</b>	<b>70851</b>	<b>21058</b>	<b>91909</b>
<b>Non-Beneficiary</b>														
<b>Total</b>	<b>4</b>	<b>1</b>	<b>5</b>	<b>6843</b>	<b>3407</b>	<b>10250</b>	<b>423</b>	<b>423</b>	<b>4249</b>	<b>303</b>	<b>4552</b>	<b>11519</b>	<b>3711</b>	<b>15230</b>
<b>Total</b>														
Not Known	4	1	5	6813	3390	10203	423	423	4232	301	4533	11472	3692	15164
Single under 18 yrs	0	0	0	930	13	943	5033	5033	8	0	8	5971	13	5984
Single 18-24 years	2	0	2	12105	322	12427	20090	20090	156	3	159	32353	325	32678
Single 0 Chldn	3	0	3	31290	7218	38508	26848	26848	6942	1097	8039	65083	8315	73398
Single 1 Child	2	0	2	25467	7743	33210	9342	9342	5892	1526	7418	40703	9269	49972
Single 2+ Chldn	5	0	5	21932	11371	33303	3773	3773	9149	2582	11731	34859	13953	48812
Married 0 Chldn	0	0	0	4505	1586	6091	1170	1170	2489	265	2754	8164	1851	10015
Married 1 Child	0	0	0	3537	1135	4672	346	346	1575	236	1811	5458	1371	6829
Married 2+ Chldn	0	0	0	5800	3308	9108	378	378	4052	850	4902	10230	4158	14388
<b>Total</b>	<b>16</b>	<b>1</b>	<b>17</b>	<b>112379</b>	<b>36086</b>	<b>148465</b>	<b>67403</b>	<b>67403</b>	<b>34495</b>	<b>6860</b>	<b>41355</b>	<b>214293</b>	<b>42947</b>	<b>257240</b>

**QUESTION 3: PRIORITY NEED****Request:**

- 1 An estimate of the number of New Zealand households which meet Housing New Zealand's "priority need" criteria.

**Response:**

- 2 Officials are unable to estimate how many New Zealand households would meet Housing New Zealand's "Priority Need" criteria. However, it might be expected that those in priority need would be referred to Housing New Zealand. While we cannot estimate the number of households meeting the priority need criteria we can report on the number of households which made applications to Housing New Zealand and were categorised as having "Priority" status. The numbers are shown below in Table 1.

**Applications****Table 1: Number of priority and all applications received**

Year ended June	Priority			Total Priority	Other <sup>2</sup>	All Applications <sup>2</sup>
	Emergency	Health	Disability			
1992/93	442	692	NA <sup>1</sup>	1,134	20,681	21,815
1993/94	495	685	NA	1,180	32,664	33,844
1994/95	3,062	1,439	181	4,682	36,039	40,721
1995/96	1,939	1,311	267	3,517	42,905	46,422

<sup>1</sup> The first Disability statistics were reported in August 1994

<sup>2</sup> Only includes data on individual households making direct contact with HNZ, hence it does not include Community housing statistics

- 3 The sudden increase in the number of emergency and health applications in 1994/95 year was due to a review of customer coding and selection processes which occurred in August 1994. HNZ reported that this resulted in more accurate identification and reporting. This recoding did not affect the total number of applications received.
- 4 The subsequent fall in the number of emergency applications in 1995/96 is due to the introduction of a new set of guidelines for assessing emergency applications in August 1995. The reason for the introduction was that HNZ staff were found to be applying different interpretations as to what constituted an emergency applicant.



## Allocations

- 5 Table 2 shows the number of applicants housed by Housing New Zealand. Some of the difference between the number of applications and the number of allocations made is likely to be due to applicants being housed by other providers. Housing New Zealand is not the only provider of low income rental accommodation and applicants are likely to have made inquiries with private sector landlords.

**Table 2: Number of priority and all allocations made**

Year ended June	Priority			Total Priority	Other <sup>2</sup>	All Allocations <sup>2</sup>
	Emergency	Health	Disability			
1992/93	283	451	NA <sup>1</sup>	734	14,943	15,677
1993/94	371	502	NA	873	18,156	19,029
1994/95	2,141	888	103	3,132	17,018	20,150
1995/96	1,783	983	137	2,903	19,060	21,963

<sup>1</sup> The first Disability statistics were reported in August 1994

<sup>2</sup> Only includes data on individual households making direct contact with HNZ, hence it does not include Community housing statistics

- 6 Table 3 shows the proportion of applicants that received tenancies by priority status. The marked increases in allocations to emergency and health categories was reportedly due to enhancements to applicant selection processes introduced in August 1994.

**Table 3: Percentage of priority and all allocations made to applications**

Year ended June	Priority			Total Priority	Other <sup>1</sup>	Total <sup>1</sup>
	Emergency	Health	Disability			
1992/93	64	65	-	65	72	72
1993/94	75	73	-	74	56	56
1994/95	70	62	57	67	47	49
1995/96	92	75	51	83	44	47

<sup>1</sup> Does not include Community housing statistics

## Waiting Times

- 7 Waiting times refer to the time between an applicant first approaching HNZ and the time when they are allocated a tenancy. The table below shows waiting times experienced by priority applicants.

**Table 4: Average waiting times for priority and all applicants (days)**

Year ended June	Priority			Total Priority	Other <sup>1</sup>	Total <sup>1</sup>
	Emergency	Health	Disability			
1992/93	NA	NA	NA	NA	NA	NA
1993/94	NA	NA	NA	NA	NA	NA
1994/95	82	135	99	97	122	118
1995/96	91	133	120	107	119	117

NA: HNZ has regularly supplied information on waiting times since July 1994. Before this date information on waiting times was provided on an ad-hoc basis and as a consequence the Ministry of Housing does not hold a consistent time series prior to 1994/95.

<sup>1</sup> Does not include Community housing statistics

- 8 Priority applicants often require specific kinds of properties. For example, larger properties, properties in a specific location or at a specific rent. This means that fewer vacant properties will be suitable and priority applicants may wait longer before being allocated a tenancy than other applicants with less specific requirements.
- 9 The increase in waiting times for emergency applicants (see table above) can, in part, be attributed to the introduction of a new set of guidelines for assessing emergency applications in August 1995. With tighter emergency criteria it is likely those who could be housed more quickly, and did not have a serious problem in accessing housing, were culled from emergency applicants. This would have left applicants who had a more serious problem in finding suitable housing and therefore are likely to have taken longer to accommodate.
- 10 The new priority codes introduced in the HNZ's 1996/97 Statement of Corporate Intent (SCI), include a policy on getting emergency applicants into some accommodation as soon as possible, even if it is not ideal, as a short term measure to alleviate their current situation. The applicant is then offered more appropriate accommodation. If three offers are declined for inadequate reasons the applicant loses their priority status. This allows for a more rapid response to emergency situations and for a more accurate assessment of the number with emergency status.

### Priority Definitions

- 11 The priority categories in the above tables are different from priority categories which Housing New Zealand introduced in its 1996/97 SCI.
- 12 Under former SCI's equal priority status was given to allocating:
- vacant housing which has been adapted for persons with disabilities to tenants or prospective tenants with disabilities;
  - to those in accommodation detrimental to their health;
  - to those in emergency accommodation;
  - tenancies to existing tenants wishing to transfer to accommodation better suited to their needs.
- 13 Since June 1996 the priority categories have been better defined. Under the new 1996/97 SCI "Top Priority" status is given to applicants who:
- are living in seriously overcrowded, substandard, refuge or emergency housing;
  - are living in accommodation that compounds an existing serious health problem;
  - have become homeless by virtue of fire or acts of God or other circumstances beyond their control.
- 14 "Priority" status is given to applicants who are:
- living in overcrowded housing;
  - living in housing which is inappropriate for them in terms of physical characteristics or location based on their health or disability;
  - subject to a requirement to vacate their current property within a period of not less than 30 days due to circumstances beyond their control.
- 15 Notwithstanding the above, HNZ continues to give priority in the allocation of vacant housing which has been adapted for persons with disabilities, to low income people with disabilities.
- 16 The changes to the priority categories were made in order to more accurately target those in serious housing need. Prior to the changes applicants with varying degrees of housing need received the same level of priority.



26 November 1996

Ms Heather Simpson  
Office of the Leader of the Opposition  
Parliament Buildings  
WELLINGTON

Dear Ms Simpson

**REQUEST FOR INFORMATION FROM THE PUBLIC SERVICE: STUDY OF THE  
NEW ZEALAND RENTAL MARKET**

Your letter to me of 14 November 1996 sought information on four issues. Responses to three of these have been sent to you, this letter deals with the fourth.

Your letter asked for:

"From the report by the MRL Research Group, *A Study of the New Zealand Rental Market*, June 1995, all tables containing survey information on the demographic and household characteristics of customers, and customer experience, knowledge of, and movements in the rental market."

This information is not held by the Ministry of Housing. The report was commissioned by Housing New Zealand. I am advised that the report was requested by the Labour Party research unit in April 1996 under the Official Information Act and that the company declined the request in May 1996 on the grounds that the information contained in the report is commercially sensitive. I further understand that the company is in correspondence with the Office of the Ombudsman on this matter.

Only the Minister can require Housing New Zealand to make this information available to you, and under the terms of the process established to handle party requests for information from the Public Service, officials may not divulge to the Minister the substance of your request. In the circumstances, I am not in a position to supply you with the information you have requested. I suggest that you deal directly with Housing New Zealand on this matter.

Yours sincerely

D K Hunn  
State Services Commissioner



## QUESTION 303/1

### Introduction

On 15 November 1996, you requested information on the effect of changes to staffing formulae on schools in 1997.

### Request

A list of schools, categorised by whether they are rural or non rural, which are due to lose staff or have staff identified for redeployment at the beginning of the next school year, as a result of the application of the new staffing formula (MRG).

The list of schools is attached as follows:

Appendix A primary and intermediate schools

Appendix B secondary schools

Appendix C area schools

### Explanatory Note

#### Definitions

Using the NZ Statistics Dept 1991 Census definitions of rural/urban, the schools have been classified accordingly.

Rural

*rural centre* 300 to 999 population

*rural* <1000 dispersed, and not included in any other group

#### Staffing Policies

- All schools have been staffed according to the new staffing formulae (MRG) for 1997. Schools were first staffed on this basis for 1996.
- Under the new staffing formulae (MRG) a school's staffing entitlement is based on the roll of the school classified by the year of schooling.
- Under the previous formula, students were classified according to class or form levels.
- The staffing entitlements shown are based on predicted rolls which are subject to confirmation in March 1997.

## **Assumptions**

The identified losses are based on the continuing application of the new staffing policies for 1997. No comparison has been made between the 1995 (pre MRG) and the 1997 (MRG) staffing levels.

Any reduction in staffing entitlement for 1997 is due to changes in roll numbers at particular year group levels. All schools which have a reduced staffing entitlement for 1997 have been identified. Assuming the current year level classifications are the same as the previous class level classifications, the previous staffing formula has been applied to these identified schools to determine the impact of the new staffing policy (MRG) if any. In other words, to determine whether or not the school would have had to reduce its staffing entitlement under the previous policy.

To recreate the previous staffing model in the time available, the calculation of the staffing entitlement has excluded the impact of manual training attached positions and 1:20 staffing positions in primary schools.

In other words, the exercise was to determine how many more full time teacher equivalents the school would be allocated if the previous staffing policy was applied in 1997 and how much of that is attributable to the staffing (MRG) changes.

## **Further explanatory notes**

The schools listed are those -

- whose 1997 staffing entitlement is lower than their 1996 staffing entitlement, as calculated under the current staffing (MRG) policy; and
- whose 1997 staffing entitlement would be higher if it were calculated under the previous staffing (pre-MRG) policy.

The list does not include those schools whose 1997 staffing entitlement is lower than their 1996 staffing entitlement, but whose 1997 entitlement would not be any higher if calculated under the previous staffing policy. In addition the list excludes those schools whose 1997 staffing entitlement is the same, or higher than their 1996 staffing entitlement, irrespective of whether these schools would have a lower, a higher or the same staffing entitlement if calculated from the previous staffing policy.

## **METHODOLOGY**

(for all three sectors)

- 1 The provisional staffing entitlement for 1997 was calculated using the current staffing (MRG) policy and provisional roll data for 1997.
- 2 A hypothetical staffing entitlement was generated using the previous staffing (pre-MRG) policy and provisional roll data for 1997.

- 3 The difference between the estimated actual 1997 entitlement and what the entitlement would have been if the previous staffing (pre-MRG) policy were applied to the provisional roll data for 1997.
- 4 The actual staffing entitlement for 1996 was calculated using the current staffing (MRG) policy and actual roll data for 1996.
- 5 The difference between the provisional 1997 entitlement and the actual 1996 entitlement is calculated.
- 6 The effect attributed to the staffing (MRG) policy is imputed.

## PRACTICAL IMPLICATIONS

The Ministerial Reference Group (MRG), comprising union and sector representatives and chaired by the Minister of Education, came to the view that there were inequities in staffing between schools of different sizes and its proposals were:

*"aimed at smoothing resource entitlement for staffing between smaller and larger schools."* (Resource Entitlement for School Staffing, The Report of the Ministerial Reference Group, February 1995)

Given that the aim of the MRG proposals was to redress inequities in staffing resources between small and large schools, a policy which effectively re-introduces inequities would inevitably come under pressure, carrying with it significant fiscal risk. Potentially it could result in the whole staffing policy (MRG) being relitigated, further increasing fiscal risk.

The increase in demand for teachers generated by any adjustments to the staffing levels is likely to exacerbate existing labour market pressures. There has been a sharp increase in demand for teachers, particularly primary teachers, due both to reductions in teacher:student ratios implemented as part of the new staffing policy (MRG), and rising rolls. These factors led to an increase of 1,459 full-time equivalent teaching positions across the school sector in 1996, compared to 1995. Of these 855 primary and 157 secondary positions were due to improved teacher:student ratios. If there were no further improvement in teacher:student ratios in 1997 and 1998, demographic growth will require approximately a further 900 teachers in the compulsory sector in each of these years.

PRIMARY & INTERMEDIATE SCHOOLS WITH STAFFING LOSSES IN 1997 ATTRIBUTABLE TO MRG FORMULA											Appendix A
sorted by location											
				Targeted		Provisional	Hypothetical	Hypothetical	Actual	Provisional	Effect
				Rural		1997 Staff	1997 Staff	Difference	1996 Staff	Change	Attributed
				School	Predicted	Entitlement	Entitlement		entitlement	1996 to 1997	to MRG
ID	SCHOOL	TYPE	LOCATION	TRS	ROLL97	(1)	(2)	(3)=(1)-(2)	(4)	(5)=(1)-(4)	(6)
1286	Glen Innes Intermediate	intermediate	urban	No	139	5.5	6.3	(0.8)	6.6	(1.1)	(0.8)
1465	Riverhills School	primary	urban	No	139	5.9	6.3	(0.4)	6.5	(0.6)	(0.4)
4229	Te Kura Kaupapa Maori O Manurewa	primary	urban	No	84	3.7	4.2	(0.5)	3.8	(0.1)	(0.1)
1747	Horsham Downs School	primary	urban	No	126	5.5	6.3	(0.8)	6.5	(1.0)	(0.8)
2743	Wycliffe Intermediate	intermediate	urban	No	139	5.5	6.3	(0.8)	6	(0.5)	(0.5)
2626	Omahu School	primary	urban	No	103	4.4	5.2	(0.8)	4.5	(0.1)	(0.1)
2332	Aokautere School	primary	urban	No	81	3.5	4.2	(0.7)	3.6	(0.1)	(0.1)
2817	Brown Owl School	primary	urban	No	140	6.0	6.3	(0.3)	6.5	(0.5)	(0.3)
2959	Plateau School	primary	urban	No	134	5.8	6.3	(0.5)	6	(0.2)	(0.2)
2982	Roseneath School	primary	urban	No	110	4.7	5.2	(0.5)	4.8	(0.1)	(0.1)
3027	Strathmore Park School	primary	urban	No	102	4.5	5.2	(0.7)	5.6	(1.1)	(0.7)
3288	Bamford School	primary	urban	No	140	5.8	6.3	(0.5)	6.1	(0.3)	(0.3)
3300	Briggston School	primary	urban	No	81	3.4	4.2	(0.8)	3.5	(0.1)	(0.1)
3423	Lytelton Main School	primary	urban	No	137	5.8	6.3	(0.5)	5.9	(0.1)	(0.1)
3520	St.Anne's School (Woolston)	primary	urban	No	136	5.8	6.3	(0.5)	6.5	(0.7)	(0.5)
3327	Diamond Harbour School	primary	urban	TRS	104	4.5	5.2	(0.7)	5.4	(0.9)	(0.7)
3750	High Street School	primary	urban	No	105	4.6	5.2	(0.6)	5.4	(0.8)	(0.6)
3810	Calton Hill School	primary	urban	No	102	4.4	5.2	(0.8)	5.5	(1.1)	(0.8)
3827	St.Joseph's Cathedral School	primary	urban	No	133	5.7	6.3	(0.6)	6.5	(0.8)	(0.6)
3939	Clifton School (Invercargill)	primary	urban	No	78	3.4	4.2	(0.8)	4.3	(0.9)	(0.8)
4112	Invercargill S.D.A. School	primary	urban	No	27	1.2	2.1	(0.9)	1.3	(0.1)	(0.1)
1817	Matarawa School	primary	sec urban	No	130	5.7	6.3	(0.6)	5.9	(0.2)	(0.2)
2036	Tokoroa East School	primary	sec urban	No	130	5.7	6.3	(0.6)	6.5	(0.8)	(0.6)
1974	Tainui Intermediate	intermediate	sec urban	No	143	5.5	6.3	(0.8)	6.6	(1.1)	(0.8)
2991	Solway School	primary	sec urban	No	139	6.0	6.3	(0.3)	6.5	(0.5)	(0.3)
3707	Awamoia School	primary	sec urban	No	134	5.8	6.3	(0.5)	6.5	(0.7)	(0.5)
3737	Fernbrook School	primary	sec urban	No	110	4.7	5.2	(0.5)	4.8	(0.1)	(0.1)
2396	Marton Junction School	primary	minor urban	No	102	4.5	5.2	(0.7)	4.6	(0.1)	(0.1)
2727	Wairoa Intermediate	intermediate	minor urban	No	127	5.4	6.3	(0.9)	6.5	(1.1)	(0.9)
1098	St.Joseph's School (Dargaville)	primary	minor urban	No	112	4.8	5.2	(0.4)	5.4	(0.6)	(0.4)
3222	St.Peter Chanel School (Motueka)	primary	minor urban	No	83	3.4	4.2	(0.8)	3.5	(0.1)	(0.1)
3539	St.Patrick's School (Waimate)	primary	minor urban	No	108	4.6	5.2	(0.6)	5.4	(0.8)	(0.6)
3826	St.Joseph's School (Balclutha)	primary	minor urban	No	78	3.4	4.2	(0.8)	4.3	(0.9)	(0.8)
1096	Russell School (Bay Of Islands)	primary	minor urban	TRS	127	5.5	6.3	(0.8)	6.5	(1.0)	(0.8)



PRIMARY & INTERMEDIATE SCHOOLS WITH STAFFING LOSSES IN 1997 ATTRIBUTABLE TO MRG FORMULA											Appendix A
sorted by location											
				Targeted		Provisional	Hypothetical	Hypothetical	Actual	Provisional	Effect
				Rural		1997 Staff	1997 Staff	Difference	1996 Staff	Change	Attributed
				School	Predicted	Entitlement	Entitlement		entitlement	1996 to 1997	to MRG
ID	SCHOOL	TYPE	LOCATION	TRS	ROLL97	(1)	(2)	(3)=(1)-(2)	(4)	(5)=(1)-(4)	(6)
1013	Herekino School	primary	rural	No	82	3.5	4.2	(0.7)	4.6	(1.1)	(0.7)
1083	Poroti School	primary	rural	No	83	3.5	4.2	(0.7)	3.6	(0.1)	(0.1)
1094	Ruakaka School	primary	rural	No	127	5.5	6.3	(0.8)	6.5	(1.0)	(0.8)
1128	Whangarei Heads School	primary	rural	No	137	5.8	6.3	(0.5)	6.5	(0.7)	(0.5)
1443	Pollok School	primary	rural	No	26	1.1	2.1	(1.0)	2.1	(1.0)	(1.0)
1756	Kaharoa School	primary	rural	No	127	5.5	6.3	(0.8)	6.5	(1.0)	(0.8)
1764	Karapiro School	primary	rural	No	79	3.4	4.2	(0.8)	3.6	(0.2)	(0.2)
1788	Lake Rotoma School	primary	rural	No	78	3.4	4.2	(0.8)	3.5	(0.1)	(0.1)
1856	Ohinewai School	primary	rural	No	101	4.4	5.2	(0.8)	6.5	(2.1)	(0.8)
1902	Puahue School	primary	rural	No	81	3.5	4.2	(0.7)	4.3	(0.8)	(0.7)
1929	Te Kura Kaupapa Maori O Rotoiti	primary	rural	No	56	2.5	3.2	(0.7)	2.6	(0.1)	(0.1)
1972	Tahuna School	primary	rural	No	53	2.3	3.2	(0.9)	2.4	(0.1)	(0.1)
1983	Tatuanui School	primary	rural	No	80	3.5	4.2	(0.7)	4.3	(0.8)	(0.7)
1985	Tauhei School	primary	rural	No	81	3.5	4.2	(0.7)	4.3	(0.8)	(0.7)
1993	Tauranga Taupo School	primary	rural	No	78	3.3	4.2	(0.9)	4.4	(1.1)	(0.9)
2014	Te Poi School	primary	rural	No	126	5.5	6.3	(0.8)	6.5	(1.0)	(0.8)
2058	Waimata School	primary	rural	No	82	3.6	4.2	(0.6)	3.7	(0.1)	(0.1)
2205	Ngaere School	primary	rural	No	111	4.7	5.2	(0.5)	5.4	(0.7)	(0.5)
2249	Te Kiri School	primary	rural	No	53	2.3	3.2	(0.9)	2.4	(0.1)	(0.1)
2427	Piriaka School	primary	rural	No	27	1.1	2.1	(1.0)	2.1	(1.0)	(1.0)
2462	Taonui School	primary	rural	No	77	3.3	4.2	(0.9)	4.4	(1.1)	(0.9)
2631	Ormond School	primary	rural	No	84	3.6	4.2	(0.6)	3.7	(0.1)	(0.1)
2660	Raukawa School	primary	rural	No	53	2.2	3.2	(1.0)	3.3	(1.1)	(1.0)
3375	Hinds School	primary	rural	No	105	4.4	5.2	(0.8)	5.1	(0.7)	(0.7)
3997	Otama School	primary	rural	No	26	1.1	2.1	(1.0)	2.1	(1.0)	(1.0)
161	Benneydale School	primary	rural	TRS	56	2.5	3.2	(0.7)	2.6	(0.1)	(0.1)
1079	Parakao School	primary	rural	TRS	26	1.1	2.1	(1.0)	2.1	(1.0)	(1.0)
1787	Lake Rerewhakaaitu School	primary	rural	TRS	84	3.5	4.2	(0.7)	3.6	(0.1)	(0.1)
2010	Te Mata School (Raglan)	primary	rural	TRS	82	3.5	4.2	(0.7)	3.6	(0.1)	(0.1)
2055	Waikite Valley School	primary	rural	TRS	82	3.4	4.2	(0.8)	3.5	(0.1)	(0.1)
2173	Huiakama School	primary	rural	TRS	27	1.2	2.1	(0.9)	1.3	(0.1)	(0.1)
2338	Awahou School	primary	rural	TRS	76	3.3	4.2	(0.9)	3.4	(0.1)	(0.1)
2649	Potaka School	primary	rural	TRS	26	1.2	2.1	(0.9)	2.1	(0.9)	(0.9)
2710	Tutira School	primary	rural	TRS	53	2.3	3.2	(0.9)	2.4	(0.1)	(0.1)

PRIMARY & INTERMEDIATE SCHOOLS WITH STAFFING LOSSES IN 1997 ATTRIBUTABLE TO MRG FORMULA											Appendix A
sorted by location											
				Targeted		Provisional	Hypothetical	Hypothetical	Actual	Provisional	Effect
				Rural		1997 Staff	1997 Staff	Difference	1996 Staff	Change	Attributed
				School	Predicted	Entitlement	Entitlement		entitlement	1996 to 1997	to MRG
ID	SCHOOL	TYPE	LOCATION	TRS	ROLL97	(1)	(2)	(3)=(1)-(2)	(4)	(5)=(1)-(4)	(6)
2719	Waimata Valley School	primary	rural	TRS	26	1.2	2.1	(0.9)	1.3	(0.1)	(0.1)
3064	Waitaria Bay School	primary	rural	TRS	26	1.2	2.1	(0.9)	1.3	(0.1)	(0.1)
3490	Rotherham School	primary	rural	TRS	26	1.2	2.1	(0.9)	1.3	(0.1)	(0.1)
3592	Whataroa School	primary	rural	TRS	54	2.3	3.2	(0.9)	2.4	(0.1)	(0.1)
3749	Heriot School	primary	rural	TRS	78	3.4	4.2	(0.8)	3.5	(0.1)	(0.1)
1063	Opua School	primary	rural centre	No	107	4.5	5.2	(0.7)	4.6	(0.1)	(0.1)
1818	Matata School	primary	rural centre	No	109	4.7	5.2	(0.5)	4.8	(0.1)	(0.1)
2180	Kaponga School	primary	rural centre	No	76	3.3	4.2	(0.9)	4.4	(1.1)	(0.9)
3468	Pareora East School	primary	rural centre	No	80	3.4	4.2	(0.8)	3.5	(0.1)	(0.1)
3797	Palmerston School	primary	rural centre	TRS	131	5.7	6.3	(0.6)	6.5	(0.8)	(0.6)
3837	Strath Taieri School	primary	rural centre	TRS	76	3.3	4.2	(0.9)	4.1	(0.8)	(0.8)
79	count				7177	307.3	365	(57.7)	350.5	(43.2)	(35.0)
NOTES											
(1)	The estimated actual staffing entitlement for 1997 calculated using the current staffing (MRG) policy and provisional roll data for 1997.										
(2)	A hypothetical staffing entitlement was generated using the previous staffing (pre-MRG) policy and provisional roll data for 1997.										
(3)	The difference between the estimated actual 1997 entitlement and what the entitlement would have been if the previous staffing (pre-MRG) policy were applied to the provisional roll data for 1997.										
(4)	The actual staffing entitlement for 1996 was calculated using the current staffing (MRG) policy and actual roll data for 1996										
(5)	The difference between the estimated actual 1997 entitlement and the actual 1996 entitlement is calculated.										
(6)	The maximum effect attributed to the staffing (MRG) policy is imputed.										
		1991 Census	urban >10,000								
			minor urban 1,000 to 9,999								
			rural centre 300 to 999								
			rural <1,000 dispersed and not included in any other group								
			TRS is targeted rural school; May also qualify if no other school closer than 15 kms								



SECONDARY SCHOOLS WITH STAFFING LOSSES IN 1997 ATTRIBUTABLE TO MRG FORMULA											Appendix B
sorted by location											
				Targeted		Provisional	Hypothetical	Hypothetical	Actual	Provisional	Effect
				Rural		1997 Staff	1997 Staff	Difference	1996 Staff	Change	Attributed
				School	Predicted	Entitlement	Entitlement		entitlement	1996 to 1997	to MRG
ID	SCHOOL	TYPE	LOCATION	TRS	ROLL97	(1)	(2)	(3)=(1)-(2)	(4)	(5)=(1)-(4)	(6)
14	Tikipunga High School	F1-7	urban	N	601	35.60	36.60	(1.00)	36.60	(1.00)	(1.00)
16	Whangarei Girls' High School	F3-7	urban	N	983	57.89	58.08	(0.19)	58.59	(0.70)	(0.19)
33	Hato Petera College	F3-7	urban	N	180	14.34	14.79	(0.45)	17.44	(3.10)	(0.45)
44	Waitakere College	F3-7	urban	N	1423	78.03	78.12	(0.09)	80.53	(2.50)	(0.09)
50	St.Mary's College (Ponsonby)	F1-7	urban	N	260	21.43	22.48	(1.05)	21.53	(0.10)	(0.10)
51	St.Paul's College (Ponsonby)	F1-7	urban	N	240	20.69	22.01	(1.32)	21.59	(0.90)	(0.90)
58	Tangaroa College	F3-7	urban	N	520	31.43	32.28	(0.85)	33.33	(1.90)	(0.85)
63	Marcellin College	F1-7	urban	N	368	29.02	29.65	(0.63)	30.22	(1.20)	(0.63)
91	Mangere College	F3-7	urban	N	653	38.06	38.13	(0.07)	39.26	(1.20)	(0.07)
92	Southern Cross Senior School	F3-7	urban	N	367	24.12	24.24	(0.12)	27.42	(3.30)	(0.12)
97	Hillary College	F3-7	urban	N	363	27.64	28.32	(0.68)	35.94	(8.30)	(0.68)
106	Tuakau College	F1-7	urban	N	446	27.87	28.69	(0.82)	28.67	(0.80)	(0.80)
135	Fraser High School	F3-7	urban	N	1407	76.28	76.41	(0.13)	82.28	(6.00)	(0.13)
175	Francis Douglas Memorial College	F1-7	urban	N	580	33.22	33.68	(0.46)	33.92	(0.70)	(0.46)
191	Longburn Adventist College	F1-7	urban	N	94	11.37	13.01	(1.64)	11.77	(0.40)	(0.40)
220	Colenso High School	F3-7	urban	N	529	33.63	33.75	(0.12)	35.73	(2.10)	(0.12)
228	Hastings Girls' High School	F3-7	urban	N	575	34.03	34.27	(0.24)	37.53	(3.50)	(0.24)
242	Solway College	F1-7	urban	N	137	11.19	11.57	(0.38)	11.39	(0.20)	(0.20)
243	Makoura College	F3-7	urban	N	475	31.61	32.48	(0.87)	33.22	(1.61)	(0.87)
244	Chanel College	F1-7	urban	N	268	23.34	23.94	(0.60)	23.54	(0.20)	(0.20)
254	Mana College	F3-7	urban	N	536	37.11	37.19	(0.08)	38.61	(1.50)	(0.08)
255	Porirua College	F3-7	urban	N	409	27.86	28.07	(0.21)	28.66	(0.80)	(0.21)
258	Taita College	F3-7	urban	N	313	21.59	21.84	(0.25)	27.69	(6.10)	(0.25)
260	St.Bernard's College	F1-7	urban	N	410	26.95	27.56	(0.61)	28.85	(1.90)	(0.61)
288	Marlborough Boys' College	F3-7	urban	N	923	52.30	52.33	(0.03)	53.30	(1.00)	(0.03)
304	John Paul II High School	F3-7	urban	N	129	11.00	11.09	(0.09)	11.40	(0.40)	(0.09)
314	Kaiapoi High School	F3-7	urban	N	511	31.11	31.17	(0.06)	32.51	(1.40)	(0.06)
326	Villa Maria College	F1-7	urban	N	611	41.03	41.63	(0.60)	41.83	(0.80)	(0.60)
331	St.Thomas Of Canterbury College	F1-7	urban	N	302	24.04	24.87	(0.83)	24.34	(0.30)	(0.30)
358	Roncalli College	F3-7	urban	N	312	21.18	21.38	(0.20)	22.08	(0.90)	(0.20)
406	Cargill High School	F3-7	urban	N	506	33.25	33.33	(0.08)	40.15	(6.90)	(0.08)

AREA SCHOOLS WITH STAFFING LOSSES IN 1997 ATTRIBUTABLE TO MRG FORMULA											Appendix C
sorted by location											
ID	SCHOOL	TYPE	LOCATION	Targeted Rural School	Predicted ROLL97	Provisional 1997 Staff Entitlement (1)	Hypothetical 1997 Staff Entitlement (2)	Hypothetical Difference (3)=(1)-(2)	Actual 1996 Staff entitlement (4)	Provisional Change 1996 to 1997 (5)=(1)-(4)	Effect Attributed to MRG (6)
317	Christchurch Adventist School	area	urban	N	162	10.0	10.6	-0.6	10.1	(0.1)	(0.1)
419	Rudolf Steiner School (Chch)	area	urban	N	324	18.0	18.3	-0.3	18.4	(0.4)	(0.3)
329	Mangakino Area School	area	minor urban	N	290	15.5	16.9	-1.4	16.7	(1.2)	(1.2)
291	Rai Valley Area School	area	rural	Y	146	9.4	10.0	-0.6	10.4	(1.0)	(0.6)
221	Te Kura Kaupapa Maori A Rohe O Ruatoki	area	rural	Y	221	12.9	13.2	-0.3	14.7	(1.8)	(0.3)
213	Te Waha-O-Rerekohu Area School	area	rural	Y	88	7.1	7.3	-0.2	7.8	(0.7)	(0.2)
350	Akaroa Area School	area	rural centre	Y	169	10.4	11.3	-0.9	11.5	(1.1)	(0.9)
176	Ohura Area School	area	rural centre	Y	102	6.9	7.7	-0.8	8.7	(1.8)	(0.8)
309	Cheviot Area School	area	rural centre	Y	257	14.5	15.3	-0.8	14.8	(0.3)	(0.3)
299	Murchison Area School	area	rural centre	Y	210	12.3	13.1	-0.8	12.6	(0.3)	(0.3)
300	Karamea Area School	area	rural centre	Y	156	9.9	10.6	-0.7	10.0	(0.1)	(0.1)
308	Amuri Area School	area	rural centre	Y	274	15.9	16.5	-0.6	16.8	(0.9)	(0.6)
390	Lawrence Area School	area	rural centre	Y	212	12.5	13.1	-0.6	13.2	(0.7)	(0.6)
306	South Westland Area School	area	rural centre	Y	102	7.6	8.0	-0.4	7.7	(0.1)	(0.1)
212	Tolaga Bay Area School	area	rural centre	Y	253	14.1	14.5	-0.4	15.4	(1.3)	(0.4)
375	Roxburgh Area School	area	rural centre	Y	260	15.5	15.7	-0.2	15.9	(0.4)	(0.2)
370	Maniototo Area School	area	rural centre	Y	239	14.6	14.8	-0.2	15.0	(0.4)	(0.2)
394	Catllins Area School	area	rural centre	Y	221	13.8	13.8	0.0	14.3	(0.5)	(0.0)
18	school count				3,686	220.9	230.9	-10.0	234.0	(13.1)	(7.3)
NOTES											
(1)	The estimated actual staffing entitlement for 1997 calculated using the current staffing (MRG) policy and provisional roll data for 1997.										
(2)	A hypothetical staffing entitlement was generated using the previous staffing (pre-MRG) policy and provisional roll data for 1997.										
(3)	The difference between the estimated actual 1997 entitlement and what the entitlement would have been if the previous staffing (pre-MRG) policy were applied to the provisional roll data for 1997.										
(4)	The actual staffing entitlement for 1996 was calculated using the current staffing (MRG) policy and actual roll data for 1996										
(5)	The difference between the estimated actual 1997 entitlement and the actual 1996 entitlement is calculated.										
(6)	The maximum effect attributed to the staffing (MRG) policy is imputed.										
	1991 Census			urban >10,000							
				minor urban 1,000 to 9,999							
				rural centre 300 to 999							
				rural <1,000 dispersed and not included in any other group							
	TRS is targeted rural school; May also qualify if no other school closer than 15 kms										



## **Question 303/2**

### **BUSINESS PLANS FOR SCHOOLS**

#### **Introduction**

On 15 November 1996, you requested a list of schools with business plans for the next financial year.

#### **Request**

A list of schools where there is a business plan either in place or under consideration to be in place for the beginning of the next financial year.

#### **Assumptions**

For the purposes of this question "business plan" is assumed to refer to a detailed proposal with supporting documentation, made under the Ministry of Education's School Support Project, for financial assistance to resolve an "at risk" situation.

The business plans identified in the answer are confined to the School Support Project and do not include other business plans, such as those relating to the nationwide School Property Strategic Business Plan and specific business cases arising from within the Property Business Plan.

At risk situations are usually a result of failures in the management of the school in either financial management and/or delivery of the curriculum. Other factors that may contribute to this are disharmony among the board members or location-related problems.

#### **Background**

The Ministry of Education operates the School Support Project to ensure that a safety net is available to Boards of Trustees where there are problems related to implementation of the National Education Guidelines.

The Project has a series of informal and formal actions that are designed to assist schools and enable a return to self management without the need for long term financial and management support strategies.

Where long term financial and management support strategies are required, the Project has two specific programmes to support schools: Schooling Improvement Initiative and Viability/Business Case Methodology. Business plan cases may be developed for these specific programmes.

### Schooling Improvement Initiative

The Schooling Improvement Initiative provides an opportunity for the Ministry of Education to invite clusters of schools to work together for the mutual benefit of schooling either in a particular area or in respect of a common attribute of these schools. Intervention at an early stage can reverse a severe "at risk" situation occurring. In some cases, business plans may be developed within the initiative to support strategy implementation.

### Viability/Business Case Methodology

This is a recent initiative that applies a viability methodology to schools with severe problems to determine options for return to self management. Once options have been identified and selected under the viability methodology, business plans for specific assistance may be developed for submission to Government.

### **Answer**

Currently there are no schools with agreed business plans in place. Draft business cases are currently being prepared in association with viability reports which have been completed for Hillary and Tangaroa Colleges in Otara. In addition a business case is being prepared for Northcote College in North Harbour. These will be ready for presentation to Government when all work is completed, estimated for early December 1996.

There are currently 159 individual schools in the Schools Support Project and 85 involved in Schooling Improvement initiatives. Most of these schools will not require longer term financial and management assistance. Approximately 14 schools are involved in specific School Support Project programmes that may require business plans to be developed over the next six months.

### Schooling Improvement Initiative

To date five Schooling Improvement Projects have been established:

AIMHI (Achievement in Multicultural High Schools)

Tuhoe Rohe Project

Maori Boarding Schools Project

Taita/Avalon Project

Christchurch Coeducational Secondary Schools "Making a Difference" Project,

and a further project is being scoped to include the 45 schools in Mangere and Otara that the Education Review Office reported on August 1996. A list of these schools is attached in Annex 1. It is possible that further business cases may be prepared for Government consideration to implement strategies in some of these projects in the 1996/97 financial year.

### Viability/Business Case Methodology

Viability reports are currently being developed for St Stephens College in South Auckland and for the Southern Cross Campus (Nga Tapuwae College, Mangere Intermediate, and Southern Cross Primary School) in Mangere. At the completion of these reports, business cases may be developed for Government consideration. These are expected to be ready early in 1997.

## Annex 1

### **BUSINESS PLANS FOR SCHOOLS**

#### Schooling Improvement Initiative - Potential Business Plan Development

##### *Project AIMHI (8 schools)*

Hillary College, Tangaroa College, Nga Tapuwae College, Mangere College, Tamaki College, Otahuhu College, Porirua College, Tamaki College

##### *Tuhoe Rohe Project (14 schools)*

Te Mahoe Primary, Tawera Primary School, Waimana Primary School, Kaingaroa Primary School, Minginui Forest Primary School, Te Whaiti Primary School, Galatea Primary School, Murupara Primary School, Tawhiuau Primary School, Huiarau Kura Kaupapa Maori, Matahi Kura Kaupapa Maori, Waiohau Kura Kaupapa Maori, Ruatoki Area School, Rangitahi College

##### *Maori Boarding Schools Project (8 schools)*

Hato Petera College, Queen Victoria College, St Stephens College, Turakina Girls' College, Hato Paora College, Hukarere College, Hato Hohepa College, Te Aute College

##### *Taita/Avalon Project (2 schools)*

Taita College and Avalon Intermediate School

##### *Christchurch Coeducational Secondary Schools Making a Difference Project (7 schools)*

Aranui High School, Catholic Cathedral College, Hillmorton High School, Hornby High School, Kaiapoi High School, Mairehau High School, Linwood High School

##### *Schooling Improvement in Mangere and Otara (45 schools)*

Aorere College, Auckland Seventh Day Adventist High School, Hillary College, Mangere College, Nga Tapuwae College, Tangaroa College, De La Salle College, Clover Park Middle School, Arahanga Intermediate School, Bader Intermediate School, Bairds Intermediate School, Ferguson Intermediate School, Kedgeley Intermediate School, Mangere Intermediate School, Koru Primary School, Mangere Central Primary School, Robertson Road Primary School, Sutton Park School, Te Kura Kaupapa Maori o Mangere, Te Kura Kaupapa Maori o Otara, Viscount School, St John the Evangelist School, Bairds Road School, Chapel Downs School, Clydemore School, Dawson School, East Tamaki School, Favona School, Jean Batten School, Kingsford School, Mangere Bridge School, Mangere East School, Mayfield School, Mountain View School, Nga Iwi School, Papatoetoe North School, Redoubt North School, Rongomai School, Southern Cross School, Waterlea Public School,



Wymondley Road School, Yendarra School, Sir Keith Park Special School, Calvin Christian School

Viability/Business Case Methodology - Business Plans under Development

Hillary College, Tangaroa College, Northcote College

Viability/Business Case Methodology - Viability Reports under Development

St Stephens College, Southern Cross Campus

**Question: 303/3**

## **SCHOOL REORGANISATIONS**

### **Introduction**

On 15 November 1996, you requested a list of school reorganisations in place by the next school year.

### **Request**

A list of proposed school reorganisations such as recapitations, introductions of new middle schools or form 1-7 schools, which are required to be in place by the next school year.

### **Background**

Reorganisations of state schools including recapitations, mergers and change of class can be authorised under the Education Act 1989. Boards of trustees can initiate reorganisations but only the Minister of Education can approve them.

The procedure requires the Minister to consult with the board of the school concerned and with the boards of other state schools whose rolls might, in the opinion of the Minister, be affected.

### **Answer**

#### ***Reorganisations approved to take effect from 1997***

##### *Change of class*

- Kaikorai Valley High School (F3-7) will become a F1-7 composite school on 1 January 1997.
- Kokohuia School (primary) will become a J1-F7 composite school on 1 January 1997.
- Tweedsmuir Intermediate will become a F1-4 composite as from 27 January 1997
- Mangere Intermediate will become a F1-4 composite as from 27 January 1997

##### *Merger*

- Bay of Islands Intermediate (F1-2) will merge with Otiria School (J1-S4) and become a J1-F2 primary as from 27 January 1997.

##### *Recapitation (J1-S4 becomes J1-F2) To take effect 27 January 1997*

- Moerewa (Bay of Islands)
- Brockville (Dunedin)
- Wainoni (Christchurch)
- South Makirikiri (Marton)

- Arthur Street (Dunedin)

*Applications that may take effect in 1997*

See attached chart of applications which are being processed by the Ministry.

While the board of trustees may be keen for the change to take place, the schools whose rolls might be affected may oppose the change. The Minister needs to take these factors into consideration when making a decision. In some cases, the Minister will decide to defer making a decision until a review of the provision of schooling in the area takes place.

Note:

- a these are not necessarily ones that will be processed in time to make the change as from the beginning of 1997;
- b they may not reach the Minister, eg the application may be withdrawn by the board of trustees;
- c they will not necessarily be approved by the Minister;
- d the ones that state "after area review" are ones the Minister has deferred making a decision about until a review of the provision of education has been undertaken in the area.

25 October 1996

## **POLICY COSTING - NEW ZEALAND SUPERANNUATION**

### **Introduction**

On 22 October 1996, you requested an estimate of the short and long term fiscal implications of raising the wage-related floor for New Zealand Superannuation (NZS).

### **Costing Request**

What are the short and long term fiscal implications of raising the New Zealand Superannuation wage floor from 65% to 67.5% of average ordinary time earnings net of tax under the following tax scenarios:

- a second round of tax cuts implemented
- b second round of tax cuts deferred to 1998/99
- c second round of tax cuts deferred indefinitely

### **Costing Assumptions**

You have not specified any assumptions to be used in costing this policy.

Several standard assumptions have been used:

- intangible costs are not included;
- costings are given on a nominal basis;
- the full year cost of the policy is given, starting in 1997/98;
- a savings ratio of 5% is applied to NZS payments (ie it is assumed that 5% of the extra NZS payments will be saved by their recipients and that the government gains back through indirect taxes (mainly GST) 13% of the 95% that is spent
- finance costs (the costs of the additional borrowing to cover the increased expenditure) are included.

The following additional assumptions have been made:



- in scenario b "second round of tax cuts deferred to 1998/99" is assumed to mean that the second round of tax cuts take effect from 1 July 1998 (rather than 1 July 1997 under current policy);
- CPI and gross wage forecasts are the same under all three scenarios (the wage and CPI assumptions used are the PREFU forecasts), namely

Percentage change between December and December	Consumers Price Index	Average ordinary time weekly earnings (gross)
1997	2.7%	2.9%
1998	0.0%	3.2%
1999	0.8%	3.0%

- the overall tax revenue implications of deferring the second round of the tax cuts have not been accounted for;
- Veterans Pension net rates continue to be set at the same level as New Zealand Superannuation net rates;
- NZS rates are assumed to continue to be adjusted annually, in April, with the wage floor being checked at that time against actual average earnings information for the previous December quarter. This is the current policy.

## Policy Costing

### *Short-term fiscal implications*

The following tables show the estimated short-term fiscal impacts (rounded to the nearest \$5 million) on the Crown's financial statements of raising the wage floor from 65% to 67.5%, under each of the three tax scenarios. Note that the fiscal impact of moving to tax scenarios b or c themselves are not included. For example, we have not costed the tax revenue implications of deferring the tax cuts. Nor have we included here the impact on the existing NZS scheme of deferring the tax cuts. The figures here represent only the difference caused by changing the wage floor. Therefore the figures for scenarios b and c are not comparable with the Pre-Election Economic and Fiscal Update numbers.

### *Scenario a Second round of tax cuts implemented*

Fiscal Impact <sup>1</sup> of raising the floor	1997/98	1998/99	1999/2000
	\$m	\$m	\$m

<sup>1</sup> A positive number indicates an improvement in the fiscal position.

Policy impact on operating balance	-35	-135	-135
<i>Finance costs</i>		-5	-15
Total impact on operating balance	-35	-140	-150
Net worth (cumulative) <sup>2</sup>	-35	-175	-325
Cash flows <sup>2</sup>	-35	-140	-150
Net public debt (cumulative) <sup>2</sup>	-35	-175	-325

**Scenario b**    *Second round of tax cuts deferred to 1998/99*

Fiscal Impact of raising the floor	1997/98	1998/99	1999/2000
	\$m	\$m	\$m
Policy impact on operating balance	-20	-100	-135
<i>Finance costs</i>		-5	-10
Total impact on operating balance	-20	-105	-145
Net worth (cumulative)	-20	-125	-270
Cash flows	-20	-105	-145
Net public debt (cumulative)	-20	-125	-270

The fiscal impact of the policy change is less under scenario b than under scenario a because the deferral of the second round of tax cuts means that under scenario b net ordinary time weekly wages are lower between 1 July 1997 and 1 July 1998. Therefore, the cost of increasing net New Zealand Superannuation rates to reach the 67.5% wage floor is less than if the tax cuts had gone ahead.

**Scenario c**    *Second round of tax cuts deferred indefinitely*

Fiscal Impact of raising the floor	1997/98	1998/99	1999/2000
	\$m	\$m	\$m
Policy impact on operating balance	-20	-100	-135
<i>Finance costs</i>		-5	-10

<sup>2</sup> These figures include finance costs where the policy's fiscal impact is \$50 million or more per year.

Total impact on operating balance	-20	-105	-145
Net worth (cumulative)	-20	-125	-270
Cash flows	-20	-105	-145
Net public debt (cumulative)	-20	-125	-270

The estimated short-term fiscal impact of raising the floor is similar under scenarios b and c. However, it should be noted that the rates of NZS would evolve towards different levels under each scenario, because the net average wage to which they are linked would be different.

### *Long-term fiscal implications*

The progressive raising of the age of eligibility for NZS to 65 years has had the effect of reducing the number of people receiving NZS and holding down the fiscal cost of NZS. This transition is scheduled to be completed by 2001.

As the population ages, the increased proportion of superannuitants in the population will compound the fiscal impact of decisions made now. Using the Treasury's long-term fiscal model, expenditure as a percent of GDP would rise through time as a result of changing the floor from 65% to 67.5%. After 2030, the increase would be equivalent to 0.4 percent of GDP from this change alone. Compared with today's GDP, this is equivalent to \$350 million, and it would be over and above the increased costs that the aging population places on the existing NZS system.

### **Practical Implications**

While the above discussion attempts to cost as accurately as possible the fiscal impact of this policy, it does not fully represent the total cost of the policy. Aspects of policy changes which are difficult to capture include:

- the interactions between different policies - for example, if benefits are linked to a benchmark such as the CPI or wages, then policies which affect the CPI and wages will also affect benefits. Also, a higher floor for NZS would widen the margin between NZS and other benefits. This might increase the pressure for other benefit rates to be increased. No allowance has been made for this possibility.
- the impact on people's behaviour from changed incentives. If people change their behaviour to capture the benefits of a new policy, the cost of the policy may be quite different from that first anticipated. A higher floor for NZS would tend to weaken the incentive for those in the working age population to save and make private provision for their retirement. In the longer term this trend could result in greater reliance on NZS and a lower fiscal offset through surcharge.
- if other changes to savings and retirement income policies were introduced alongside a change in the floor, then the overall impact on the economy could be significantly different.
- the aggregate impact on the macroeconomy, particularly if new policies form part of a large "package" of new initiatives.

In particular, significant changes to fiscal policy settings arising from increased expenditure or tax reductions affect the total amount of demand within the economy, and hence the strength of inflationary pressures. Controlling this would require raising interest and exchange rates. This would tend to change the overall shape of the economy, and therefore the fiscal situation.

Therefore any one policy should not be considered in isolation. It is the overall size and design of the total package that matters in considering the impact on the economy and on interest and exchange rates.



25 October 1996

## POLICY COSTING - RHA ABOLITION

### Introduction

On 23 October 1996, we received a request to provide an estimate of the cost of abolishing RHA Boards and CE positions and of requiring the Ministry of Health to undertake the RHA contracting functions.

### Costing Request

"What are the estimated one-off and ongoing fiscal costs of abolishing the Board and CE positions of the four RHAs and requiring the Ministry of Health to undertake the contracting functions currently carried out regionally by the RHAs?"

### Costing Assumptions

*You have specified the following assumptions to be used in costing this policy:*

None provided.

*Several standard assumptions have been used:*

- intangible costs are not included
- costings are given on a nominal basis
- the full year costing of the policy is given, starting in 1997/98
- the costing is for the *initial* fiscal impact of the policy change. Any second-round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes etc) have been excluded.
- expenditure costs are GST-exclusive
- depreciation and other additional operating expenses (arising from a capital expenditure proposal) are included
- finance costs are included where the initial fiscal impact of the policy is \$50 million or more per year

*The following additional assumptions have been made:*

- It has been assumed the Ministry would carry out the purchasing functions in essentially the same way as the preceding RHAs. This includes contracting at the same scope, level of complexity and degree of consultation as the RHAs. The costing of this policy could change significantly if this assumption does not hold.

- It is assumed that the Ministry of Health would be no more or less efficient than RHAs at contracting.
- It has been assumed that initial savings from removal of the various accountability functions such as Evergreen Funding Agreement, Multi-year Statement etc, would be offset by increased internal costs required to ensure effective monitoring of regional offices.
- Health Benefits Limited, PHARMAC and the Clinical Training Agency (the fully owned subsidiaries of RHAs) would be retained. There are no costs or savings assumed as a result.
- It has been assumed that CE redundancy would be paid based on paying out, in full, the value of the three year contracts for all four RHA CEs. (It is assumed that RHA CEs are on three year contracts and three CEs have recently been appointed. Officials are not privy to the terms of CE contracts.)
- As far as other staff are concerned, it is assumed that there would be no redundancies arising from the dissolution of the RHA. Officials do not have information on the contents of the employment contracts for these staff and further investigation would be required to quantify any risk.
- It is assumed that the Board and CEs would be replaced first by statutory managers and then by regional branch managers over time.
- It is assumed that the cash holdings of the RHAs would be returned to the Crown as Government Departments do not hold cash in bank accounts overnight.
- It is assumed, to maintain service level, the Crown would increase the purchasing budget, thereby compensating for the interest that would no longer be earned within the sector as a result of returning the cash to the Crown.
- It is assumed the level of compensation paid by the Crown to maintain service levels, plus the capital charge foregone by the Crown through withdrawing RHA capital, are equal to the finance savings arising from the return of cash to the Crown.

## Policy Costing

The above policy will have the following estimated fiscal impact on the Crown's financial statements:

<b>Fiscal Impact<sup>1</sup></b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/2000</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Policy impact on operating balance	(8)	(6)	(6)
<i>Finance savings</i>	7	7	7
Total impact on operating balance	(1)	1	1
Net worth (cumulative)	(1)	0	1
Cash flows	99	1	1
Net public debt (cumulative)	99	100	101

The above table highlights that the changes have a small direct impact (arising from one-off redundancy costs partly offset by ongoing savings in director fees) and a further one-off cash impact arising from the transfer of cash from the RHAs to the Crown (also resulting in offsetting savings and costs which have no impact on the operating balance).

However, other impacts arising, which cannot be costed, could be of far greater fiscal significance. These are outlined in the practical implications section below.

## Practical Implications

1. There are a range of important transitional issues which include:
  - legal issues (eg., the authority of the Ministry of Health to purchase health services; transfer of ownership of RHA subsidiaries and joint ventures);
  - human resource issues (eg., timing of Board and CE changes); and
  - accountability issues (eg., contracting and monitoring arrangements within the Ministry of Health).
2. There could be significant behavioural changes. A centralised approach may yield greater control over purchasing contracts. At the same time there would probably be less variation than currently exists. Given the \$5.4 billion budget for RHAs forecast

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A positive number indicates an improvement in the fiscal position.

for 1997/98, behavioural changes could have significant positive or negative fiscal impacts. The fiscal impact of such behavioural changes has not been estimated.



25 October 1996

## **POLICY COSTING - CHANGES TO OPERATIONS OF CROWN HEALTH ENTERPRISES**

### **Introduction**

On 23 October 1996, you requested a costing on changes to the operations of Crown health enterprises.

### **Costing Request**

What are the estimated one-off and ongoing fiscal costs of the following combined changes to CHE operations?

- A reduction from 23 to 14 CHEs
- A break-even financial objective
- No dividends payable
- No tax payable
- Existing CHE private sector debt assumed by the Crown
- A capital charge payable under a regime similar to that applying to government departments
- A majority of board members to be elected by the local community

In discussing the costs associated with the proposal, we have broken this request into three parts:

- the cost of moving to elected board members
- the cost of changes in the financial objective and capital structure of CHEs (that is, breakeven financial objective, no dividends nor tax payable, private debt assumed by the Crown, and subject to a capital charge)
- the savings from a reduction in the number of CHEs through amalgamation

## **Costing Assumptions**

Several standard technical assumptions have been used:

- intangible costs are not included
- costings are given on a nominal basis
- the full year costing of the policy is given
- the costing is for the *initial* fiscal impact of the policy change. Any second-round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes etc) have been excluded
- expenditure costs are GST-exclusive
- the changes occur at the beginning of the 1997/98 financial year

The following additional assumptions have been made:

### ***Elected boards***

- we have not made any assumptions about the differences between the operations of elected boards vis-a-vis appointed boards

### ***Financial objective and capital structure***

- the Crown immediately repays all CHE debt owed to private lenders. In practice this may occur over a number of years rather than all in the first year, depending on:
  - a the stance of lenders towards the transfer of CHE debt to the Crown; and
  - b the difference in cost between repaying immediately and repaying as debt falls due
- a change from a profit objective to a financial breakeven objective has no change on behaviour of staff within a CHE
- CHEs are no longer permitted to raise debt finance from private lenders and all capital contributed by the Crown is in the form of equity (as for government departments)

- the capital charge scheme is designed to be fiscally neutral: RHA revenue is grossed up to cover the net impact of the capital charge payable by CHEs, and this money is ring-fenced so RHAs can initially only use it to increase CHE prices.

### ***Amalgamation of CHEs***

- the saving in senior management costs will be equivalent to the costs associated with each chief executive of the 9 subsumed CHEs. Each hospital within the remaining 14 CHEs will still require its own management structure, and most of the salary savings from reduced management responsibility at hospital level will be offset by salary rises from increased management responsibility at corporate level
- operating costs other than salary costs associated with each employee are equivalent to 100% of the employee's salary
- termination costs for each redundant employee are equivalent to 50% of the employee's salary
- the cost of the boards of the remaining 14 CHEs will not increase. In practice this cost could increase due to greater size of the resulting CHEs
- we have made no assumption regarding which CHEs would be affected by the reduction in number. Accordingly, the estimated costs and savings reflect those of the "average" CHE. In practice the actual amounts will depend on the configuration adopted for the remaining 14 CHEs.
- we have assumed that no facilities are closed as a direct result of the amalgamations

## Overall Policy Costing

The costs/savings of the three components are summarised as:

Component	Fiscal Saving/(Cost)	Fiscal Risk - positive or negative
Elected Boards	(Small)	Potentially significant, depending on the objectives and accountabilities of boards
Financial objective and capital structure	Neutral	Potentially significant, depending on the design of capital charge scheme
Merging CHEs	Small	Potentially significant, depending on management of transitional issues

In summary, first round fiscal costs are small. The impact on fiscal aggregates is dominated by the accounting implications of shifting CHE debt onto the Crown Balance Sheet. Second round effects are potentially significant, depending on the design of the policy.

Preliminary estimates of the aggregate fiscal impact are shown in the following table:

Fiscal Impact <sup>1</sup>	1997/98 \$M	1998/99 \$M	1999/2000 \$M
<i>Policy impact on operating balance</i>			
• Savings from reducing the number of CHEs	5	5	5
Total	5	5	5
<i>Finance costs</i>			
	-	-	-
<i>Total impact on operating balance</i>	5	5	5
<i>Net worth (cumulative)</i>	5	10	15
<i>Cash flows (financing requirement)</i>			
• Repayments to private lenders of CHE debt principal	(510)	-	-
• Increased payments to CHEs of capital contributions to replace further CHE borrowing	(55)	(10)	-
• Decreased payments to RHAs to reflect savings from reducing the number of CHEs	5	5	5
Total	(560)	(5)	5

<sup>1</sup> Rounded to the nearest \$5 million. A positive number indicates an improvement in the fiscal position.



<i>Net public debt (cumulative)</i>	(560)	(565)	(560)
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### ***Explanatory notes and comments***

The apparently substantial impact on the Crown's net public debt is offset by a reduction in net debt owed by Crown entities. Net debt owed by the Crown and Crown entities together would be substantially unchanged.

As noted above, we have assumed that the capital charge scheme would have a neutral fiscal impact. This includes recovering the gross finance costs arising from the Crown assuming CHE debt owed to private lenders. Accordingly, the flows associated with this scheme have been omitted from the table, and the net finance cost is assumed to be nil.

Data on debt owed by CHEs and forecast to be raised and repaid has been consolidated from CHE business plans.

### **Practical Implications**

Intangible and unquantified costs have been excluded from the costing. These are discussed below.

### ***Elected boards***

We have not quantified the direct fiscal impact of moving to partially elected boards. This cost depends on how the elections are held, and in particular on whether they are held in conjunction with other local authority or national elections.

The extent of fiscal risk under the elected board structure will be determined by the objectives given to the board, and the accountabilities of the board.

### ***Financial objective and capital structure***

We have not quantified any savings associated with the Crown's lower cost of borrowing than that of CHEs. The ability to capture such savings will depend on the term and early repayment provisions of existing debt owed by CHEs to private lenders.

Significant implementation issues would need to be addressed in the design and introduction of a capital charge scheme. We have assumed that the scheme would be designed to be fiscally neutral. In principle, purchase funding would be increased to reflect the new cost structure facing CHEs. CHE revenue would be increased through higher prices for their services. CHEs would return this increase to the Crown through capital charge payments.

In practice, it may be very difficult to design such a system in a way so as to avoid any 'leakage'. In particular, the prices of CHE services will increase by

varying amounts. Faced with changes in relative prices, an RHA or other purchaser is likely to change the mix of services it purchases, and from which provider these services are purchased. Over time, revenue is likely to shift away from CHEs.

In designing the scheme, these fiscal risks will need to be balanced against the potential fiscal costs if no such scheme were introduced, so that CHEs did not need to take account of the cost of capital in their decision-making.

### ***Amalgamation of CHEs***

There are a number of important intangible effects that are excluded from the costing. As with any structural change, these effects include disruption to processes in train to improve the efficiency and effectiveness of operations, and distraction of management attention.

We have not quantified the following direct costs and savings:

- savings from rationalisation of corporate and non-clinical support functions (e.g. finance, human resource management, information technology, hotel). Some savings should be possible in the medium term but the timing and quantum is uncertain. For the sake of illustration, a 10% reduction in administrative costs at the 9 subsumed CHEs would result in additional savings of some \$18 million per year.
- savings from rationalisation of clinical support (e.g. laboratories, radiology) or clinical activities. These may occur irrespective of the proposed amalgamation.
- costs arising from more rapid replacement of assets, such as information systems, to capture rationalisation savings
- costs during the transition for additional legal, financial and policy advice required to merge the CHEs and to change their financial environment
- any costs associated with further redundancies for management and administrative staff whose job descriptions change as a result of changes in delegated authority.

25 October 1996

## **POLICY COSTING - RURAL HOSPITALS**

### **Introduction**

On Wednesday 23 October 1996, you requested a costing on rural hospitals.

### **Costing Request**

What are the estimated fiscal costs of permanently maintaining rural hospital services and facilities at the levels existing today?

### **Policy Costing**

We are not able to provide a costing of this proposal without seeking more comprehensive information from CHEs.

We are aware of 30 or so significant changes to rural hospital services and facilities planned by CHEs. We have costing information on a third of the these. This is inadequate to form a reliable overall picture.<sup>1</sup>

### **Practical Implications**

#### ***Intangible or unquantifiable costs***

Changes in demographics, medical practice and technology will mean that the services provided from rural hospitals under this proposal may prevent change to more appropriate and effective modes of delivery of healthcare. This will have an indirect but significant fiscal cost in terms of the funding needed to achieve the same health outcomes over time.

#### ***Risks or contingent liabilities arising from the policy***

Maintaining existing levels of rural hospital services will require significant capital investment to upgrade existing infrastructure in order to maintain satisfactory standards and hospital licensing requirements.

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<sup>1</sup> For the 10 for which we have information, savings from reconfiguration amount to approximately \$6 million per annum. In 1995/96, over 45 rural hospitals, there were around 39,000 case weighted discharges (compared to 530,000 discharges over all CHEs) at an approximate cost of \$75 million (source: NZHIS, Ministry of Health).

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29 October 1996

## **POLICY COSTING - MOVING TEACHERS ONTO THE SECONDARY EMPLOYMENT CONTRACT**

### **Introduction**

On 24 October 1996, you requested a costing on aligning pay in the compulsory schooling sector.

### **Costing Request**

"What is the approximate cost of moving Primary and Area School teachers on to the Secondary employment contract?"

### **Costing Assumptions**

You have not specified any particular assumptions to be used in costing this policy.

Several standard assumptions have been used:

- intangible costs are not included;
- costings are given on a nominal basis;
- the full year costing of the policy is given, starting in 1997/98;
- the costing is for the *initial* fiscal impact of the policy change. Any second-round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes, etc.) have been excluded;
- expenditure costs are GST-exclusive; and
- finance costs are included where the initial fiscal impact of the policy is \$50 million or more per year.

The following additional assumptions have been made:

- Any changes are assumed to take effect from 2 July 1997, by which time the final increments arising out of the three current Collective Employment Contracts (CECs) will have taken effect.



- Other than salaries, no adjustments have been made for differences in the conditions of employment contained in the three CECs. The conditions in the Secondary CEC tend to be more generous. For example:
  - removal expenses:       Primary CEC = 80%  
                                  Secondary CEC = 100%;
  - relief teacher rates are higher in the Secondary CEC;
  - only the Secondary CEC includes a service increment (\$1,580) for teachers at the top of the basic scale;
  - there are 70 study awards (1 year's leave with pay) available through the Secondary CEC;
  - Maori Immersion Teacher Allowance: Approximately \$1,000 per annum under the Primary and Area Schools CECs, but not contained in the Secondary CEC.

With more time, the impact of these differences could be approximated.

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29 October 1996

## **POLICY COSTING - MOVING YEAR 1 - 3 CLASSES TO A 1:20 TEACHER/STUDENT RATIO**

### **Introduction**

On 24 October 1996, you requested a costing on moving year 1 - 3 classes to a 1:20 teacher/student ratio.

### **Costing Request**

"What is the approximate cost of moving year 1 - 3 classes to a 1:20 teacher/student ratio?"

### **Costing Assumptions**

You have not specified any particular assumptions to be used in this costing.

Several standard assumptions have been used:

- intangible costs are not included;
- costings are given on a nominal basis;
- the costing is for the *initial* fiscal impact of the policy change. Any second-round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes etc.) have been excluded;
- expenditure costs are GST-exclusive;
- depreciation and other additional operating expenses (arising from a capital expenditure proposal) are included; and
- finance costs are included where the initial fiscal impact of the policy is \$50 million or more per year.

The following additional assumptions have been made:

- the policy will take effect from 1 January 1998, with the required capital programme spread evenly throughout the 1997/98 fiscal year. The first full year operating cost of the policy is therefore 1998/99;

- the policy will be given effect by adjusting the teacher/student ratio in the current staffing entitlement formulae for primary and area schools from 1:23 to 1:20 for years 1 - 3;
- the base for the calculations is the 1996 roll. The impact of roll growth in out-years is not included because, due to the lumpy nature of the entitlements, its effect can only be estimated by predicting changes in rolls at individual schools. This would not be expected to have a significant impact on the cost;
- no adjustments have been made to management resources as a result of increased teacher entitlements;
- costings have used an average primary teachers' salary rate of \$38,500 including ACC but excluding GST;
- the costs include additional relief teacher costs, and increases in the private school subsidy rate;
- the number of new rooms required will be approximately 80% of the increase in staff numbers (based on the effects of recent staffing increases);
- the cost of classroom provision is estimated at \$105,000 (GST exclusive) per room;
- a further one-off cost of \$1,000 (GST exclusive) per classroom is included for furniture and equipment. Ongoing operational costs are estimated at \$726 per classroom per annum. Depreciation is included at 4% per annum. No Capital Charge is included in the costs.

### **Policy Costing**

Based on an additional 1124 teachers, the estimated annual cost of this policy is \$50 million (rounded to the nearest \$5 million) in teacher salaries and other operating costs. In addition, a capital contribution of \$95.4 million would be needed to cover the costs of the 900 extra classrooms and the one-off equipment grants. The policy will have the following fiscal impacts on the Crown's financial statements:

<b>Fiscal Impact<sup>1</sup></b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/2000</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Policy impact on operating balance	(25)	(50)	(50)
<i>Finance costs</i>	(5)	(10)	(15)
<b>Total impact on operating balance</b>	<b>(30)</b>	<b>(60)</b>	<b>(65)</b>
<b>Net worth (cumulative)<sup>2</sup></b>	<b>(30)</b>	<b>(90)</b>	<b>(150)</b>
<b>Cash flows<sup>2</sup></b>	<b>(125)</b>	<b>(60)</b>	<b>(65)</b>
<b>Net public debt (cumulative)<sup>2</sup></b>	<b>(125)</b>	<b>(185)</b>	<b>(250)</b>

### Practical Implications

- There has been a sharp increase in demand for teachers, particularly primary school teachers, due both to the improvements in teacher : student ratios implemented from 1996, and to rising rolls. These factors led to an increase of 1294 primary school teachers in 1996, compared to 1995. It is estimated that of this number, approximately 800 were due to the changes in teacher : student ratios. Many schools are experiencing difficulties in finding teachers to fill these extra positions. Without any changes in teacher : student ratios, demographic growth will require a further 900 (approx) teachers in the compulsory sector in 1997 and again in 1998. Any further increase in demand from an extra 1124 positions arising from a change in the teacher : student ratio would be difficult to accommodate quickly given the existing pressures.
- Some schools will face constraints on their ability to physically support additional classrooms, limiting their ability to institute lower teacher:pupil ratios (even if this is what they wanted to do with their additional entitlement). Furthermore, given the large capital works programme that is already in place in response to rising rolls, it may not be feasible to provide the additional classrooms implied by this policy in the short term.
- These changes to the school construction programme would increase the inflationary tendencies in a segment of the economy currently under some pressure.
- The impact of additional teachers on schools' entitlements to management resources cannot be estimated without a school by school analysis. The impact could affect the number of senior management positions and the

<sup>1</sup> A positive number indicates an improvement in the fiscal position. Amounts are rounded to the nearest \$5 million. Columns may not necessarily add as expected.

<sup>2</sup> These figures include finance costs where the policy's fiscal impact is \$50 million or more per year.



grading of the school, with consequential salary increases for management staff. These costs would not be expected to be significant.

## ERRATUM

5 November 1996

**POLICY COSTING - MOVING YEAR 1 - 3 CLASSES TO A 1:20  
TEACHER/STUDENT RATIO**

We have discovered that our original costing contains an error in the fiscal impact table. Depreciation should not have been included in the calculation of the finance costs, cash flows and the effect on net public debt. The correct table is set out below:

<b>Fiscal Impact<sup>1</sup></b>	<b>1997/98 \$m</b>	<b>1998/99 \$m</b>	<b>1999/2000 \$m</b>
Policy impact on operating balance	(25)	(50)	(50)
<i>Finance costs</i>	(5)	(10)	(15)
Total impact on operating balance	(30)	(60)	(60)
Net worth (cumulative) <sup>2</sup>	(30)	(90)	(150)
Cash flows <sup>2</sup>	(125)	(60)	(60)
Net public debt (cumulative) <sup>2</sup>	(125)	(180)	(235)

<sup>1</sup> A positive number indicates an improvement in the fiscal position. Amounts are rounded to the nearest \$5 million. Columns may not necessarily add as expected.

<sup>2</sup> These figures include finance costs where the policy's fiscal impact is \$50 million or more per year.

4 November, 1996

## **POLICY COSTING - MOVING RURAL SCHOOLS' MAXIMUM CLASS SIZE TO PRE-MRG LEVELS**

### **Introduction**

On 24 October 1996, you requested a costing on moving rural schools maximum class size to pre-MRG (Ministerial Reference Group) levels.

### **Costing Request**

"What is the cost of moving rural schools' maximum class size to pre-MRG levels?"

### **Costing Assumptions**

You have not specified any particular assumptions to be used in costing this policy.

Several standard assumptions have been used in preparing the costing:

- intangible costs are not included;
- costings are given on a nominal basis;
- the full year costing of the policy is given, starting in 1997/98;
- the costing is for the *initial* fiscal impact of the policy change. Any second-round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes, etc.) have been excluded; and
- expenditure costs are GST exclusive.

In addition, the following assumptions have also been made:

- "Rural schools" are defined as those schools situated in a rural locality having a population of less than 1,000 at the time of the 1991 Census. This definition, derived from Statistics New Zealand categories, covers a total of 734 schools. Note that it excludes 133 schools in population centres (i.e., townships) with populations of between 400 and 1000.

- Pre-MRG staffing levels in these schools are closely approximated by (i) reducing the maximum average class size applying to primary and area schools from the current 28 pupils to 25 pupils, and (ii) increasing the base staffing for small secondary schools.
- The new MRG formula for management positions continues to apply, and few additional management resources are expected to result from the additional basic scale positions.
- The average basic scale salary costs used are \$34,862 (ACC inclusive and GST exclusive) for primary school teachers, \$39,545 (ACC inclusive and GST exclusive) for area school teachers, and \$43,103 (ACC inclusive and GST exclusive) for secondary school teachers.
- There is no roll growth assumed over the next three years in small rural schools, and the rolls of the individual rural schools are assumed to remain at their 1996 levels.
- No additional accommodation is required.

### Policy Costing

It is estimated that the policy change outlined above would result in 177 full-time teacher equivalents additional to 1996 entitlements in the school system, which would have the following fiscal impacts on the Crown's financial statements:

<b>Fiscal Impact<sup>1</sup></b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/2000</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Policy impact on operating balance	(5)	(5)	(5)
Total impact on operating balance	(5)	(5)	(5)
Net worth (cumulative) <sup>2</sup>	(5)	(10)	(20)
Cash flows <sup>2</sup>	(5)	(5)	(5)
Net public debt (cumulative) <sup>2</sup>	(5)	(10)	(20)

Figures rounded to the nearest \$5 million and accordingly may not sum.

<sup>1</sup> A positive number indicates an improvement in the fiscal position.

<sup>2</sup> These figures include finance costs where the policy's fiscal impact is \$50 million or more per year.

Applying the same policy changes to the 133 schools in townships with a population between 400 and 1,000 would result in up to a further 28 full-time teacher equivalents. This would slightly increase the cost of the policy.

To implement the change from the beginning of the 1997 school year, a half-year cost impact would be incurred in 1996/1997.

### **Practical Implications**

The immediate fiscal cost of reducing the maximum average class size in small rural schools is likely to significantly under-estimate the eventual cost of this policy, as it would be difficult to justify limiting the change only to small rural schools (however defined). The Ministerial Reference Group (MRG), comprising union and sector representatives and chaired by the Minister of Education, came to the view that there were inequities in staffing between schools of different sizes and its proposals were:

*"aimed at smoothing resource entitlement for staffing between smaller and larger schools."* (Resource Entitlement for School Staffing, The Report of the Ministerial Reference Group, February 1995)

The MRG did not treat small rural schools differently to non-rural schools of similar sizes, and this was reflected in its proposal for a maximum average class size applying to all small schools (those with rolls of up to 160 students), regardless of whether they were in rural or urban areas.

In light of the MRG's findings, any increase in staffing entitlements for small rural schools could be expected to generate calls for similar increases for small urban schools. Given that the aim of the MRG proposals was to redress inequities in staffing resources between small and large schools, a policy which effectively re-introduced such an inequity would inevitably come under pressure, carrying with it significant fiscal risk. Potentially it could result in the whole MRG staffing policy being re-litigated, further increasing the fiscal risk.

The increase in demand for teachers generated by the extra 177 full-time equivalent teaching positions (associated with small rural schools returning to pre-MRG staffing levels) is likely to exacerbate existing labour market pressures. There has been a sharp increase in demand for teachers, particularly primary school teachers, due both to reductions in teacher : student ratios implemented from 1996 (as part of MRG), and to rising rolls. These factors led to an increase of 1,459 full-time equivalent teaching positions across the school sector in 1996, compared to 1995. Of these, 855 primary and 157 secondary positions were due to the decreases in teacher : student ratios. Many schools, including some small rural schools, are experiencing difficulties in finding teachers to fill all these extra positions. If there were no further decrease in teacher : student ratios in 1997 and 1998, demographic growth will require approximately a further 900 teachers in the compulsory sector in each of these years.



The definition of "rural school" used in this costing is arbitrary and quite broad. It would be possible to target more tightly the application of the proposed change. For example, the Ministry of Education currently uses the classification "Targeted Rural Schools" for other purposes. This definition, capturing 498 schools, takes account of the distance from the school to the nearest population centre or the nearest school of the same type. It should be noted, however, that tighter targeting is unlikely to affect the defendibility of limiting the policy change only to this group of schools.

The potential costs of additional teacher training and recruitment have not been included in this costing.

If it was considered that some small rural schools were not able to deliver a quality curriculum commensurate with that provided by small urban schools, there may be alternative ways of achieving this without putting additional pressure on the labour market for teachers. For example, additional resourcing could be made available to allow small rural schools to access greater distance learning. At the same time, it would be necessary to consider the number, distribution and viability of rural schools.

29 October 1996

## **POLICY COSTING - EARLY CHILDHOOD SUBSIDY**

### **Introduction**

On 24 October 1996, you requested a costing on increasing the subsidy level in the early childhood sector.

### **Costing Request**

"What is the cost of increasing the subsidy level in the early childhood sector so that the subsidy available per child is comparable to the total average cost per child in years 1 - 3 of primary education?"

### **Costing Assumptions**

You have not specified any assumptions to be used in costing this policy.

Several standard assumptions have been used:

- intangible costs are not included;
- costings are given on a nominal basis;
- the full year costing of the policy is given, starting in 1997/98;
- the costing is for the *initial* fiscal impact of the policy change. Any second-round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes etc) have been excluded;
- expenditure costs are GST-exclusive;
- finance costs are included where the initial fiscal impact of the policy is \$50 million or more per year.

The following additional assumptions have been made:

### *Primary School*

- We are not able to identify the cost of primary education solely on the basis of years 1-3 due to data constraints. Therefore, the average cost per primary school student:
  - includes primary teachers' salaries (years 1 - 8), including special education positions (but excluding superannuation employer subsidy);
  - includes operational grants, both formula and supplementary (years 1 - 6) (i.e., Targeted Funding for Educational Achievement, Special Education Grants, English for Speakers of Other Languages, Rural Funding, Maori Language Funding) but excluding Special Education Discretionary Assistance;
  - includes capital charge (years 1-6);
  - excludes the impact on property and teaching entitlements arising from the 1996 Ministerial Reference Group (MRG) decisions (these could be included with more time).
- The annual total cost per student for years 1 - 3 is converted to an hourly rate assuming a full-time equivalent student is 1,000 hours (the length of a normal school year). The annual total average cost per student of \$3450 is equivalent to an hourly payment of \$3.54 /student.

### *Early Childhood*

- For costing purposes only, it is assumed all children attending licensed early childhood providers receive the average subsidy rate, regardless of age of child, type of provider or quality rating. This assumption does not preclude a differentiated funding regime being introduced as part of the policy. However, these costings assume that differentiated rates average out to the rate used for the costings.
- Children attending license exempt centres (e.g., developing kohanga reo, developing Pacific Island language nests) continue to receive the current per child funding rate of \$1 per hour (this is consistent with current policy which requires early childhood services to be licensed and chartered in order to receive Crown funding).
- The total number of hours children attend early childhood services each year grows by 5.3% in 1997/98, 4.6% in 1998/99 and 1.5% in 1999/2000 as in the PREFU.

- There is no restriction on the ability of early childhood services to charge fees, and no change to the Department of Social Welfare Child Care Subsidy (available to eligible parents whose children attend fee charging providers).
- The subsidy is paid up to a maximum of six hours per day, or 30 hours per week, per child.
- Current policy costings assume the following proportion of providers will move to a higher funding rate (based on quality) over the forecast period (these are the same as included in the PREFU):

#### Proportion of Early Childhood Service Types Accessing Tier 2 Funding

Service Type	1996/97 %	1997/98 %	1998/99 %	1999/2000 %
Kindergartens	0	0	0	0
Child care	50	60	75	75
Kohanga reo	20	35	50	50
Playcentres	0	0	0	0
Home based	30	30	30	30

#### Policy Costing

The above policy will have the following fiscal impacts on the Crown's financial statements:

Fiscal Impact <sup>1</sup>	1997/98 \$M	1998/99 \$M	1999/2000 \$M
Policy impact on operating balance	(55)	(55)	(55)
Finance costs	(0)	(5)	(10)
Total impact on operating balance	(60)	(60)	(65)
Net worth (cumulative) <sup>2</sup>	(60)	(120)	(185)
Cash flows <sup>2</sup>	(60)	(60)	(65)
Net public debt (cumulative) <sup>2</sup>	(60)	(120)	(185)

Figures have been rounded to the nearest \$5 million and accordingly may not sum.

<sup>1</sup> A positive number indicates an improvement in the fiscal position.

<sup>2</sup> These figures include finance costs where the policy's fiscal impact is \$50 million or more per year.

## Practical Implications

- These costings are highly sensitive both to changes in other education policies, such as changes in primary teacher student ratios or alignments in salaries among different groups of teachers and to increased participation. Unlike the compulsory school sector, only a proportion of children currently attend pre-school education.
- This policy would increase the average subsidy rate in the early childhood sector by 20%, from \$2.93 to \$3.54 per hour in 1997/98. This could result in an increase in the average number of hours children attend these services per year (either through increased participation or through children staying longer in care). This behavioural change has not been included in these costings. The cost of any behavioural change will depend on the:
  - nature of the behavioural response; and
  - design of the differential funding regime.
- Current policy provides different funding rates according to:
  - age of child (i.e., over 2, or under 2);
  - provider (i.e., kindergartens are on a special rate);
  - quality (i.e., proxied by the ratio of staff to children, and the qualifications of the staff).

Depending on the design of the funding regime (i.e., the factors which are used to differentiate, and the relative levels of funding), the impact on the estimated cost of this policy (under current participation assumptions) could be significant - possibly in the tens of millions of dollars. Note also that aligning all payments at the average rate of \$3.54 results in a fall in the subsidy rate paid to early childhood services for under 2s (compared with current policy) by \$1.46 per hour and \$0.96 per hour, for the higher and lower funding rates respectively.

- An increase in the per child subsidy rate could result in a reduction in the level of fees charged by fee charging providers, which in turn could reduce expenditure on the Child Care Subsidy. However, this has not been estimated, as any impact would depend on:
  - the design of the funding regime (i.e., the rate determined for these providers); and



- the extent to which providers passed on any subsidy increase in reduced fees (as opposed to it being absorbed in higher wages or other costs).

4 November 1996

## **POLICY COSTING - TERTIARY STUDENT ALLOWANCES**

### **Introduction**

On 24 October 1996, you requested a costing on Tertiary Student Allowances.

### **Costing Request**

The wording of the costing request was:

*Question 5. What is the cost of raising the tertiary student allowance to the level of the unemployment benefit and what is the likely impact of such a move on student numbers?*

### **Costing Assumptions**

#### ***Key design parameters***

Currently most maximum student allowance rates are the same as the 1996 unemployment benefit rates. The major differences between student allowances and unemployment benefit rates which are paid are that student allowances for single 16-24 year olds are parentally means tested, that allowance rates vary depending on whether a student lives at home or away from home, that student allowances have a personal income test with a sudden cut off rather than the graduated income test used for unemployment benefit purposes, and that students who live away from home are paid an accommodation benefit with different rates and eligibility criteria to the accommodation supplement received by those on the unemployment benefit.

The key changes that have been made for costing purposes to ensure consistency between the unemployment benefit rates and the student allowances are that:

- parental means testing for allowances is assumed to be abolished; and
- "living-at-home" rates are assumed to be abolished and all eligible students are assumed to receive "away-from-home" rates.

All other parameters including the student allowance personal income tests and the eligibility criteria and rates for the accommodation benefit are assumed to remain the same as in 1996.

The effect of these assumptions is that:

- single 16-24 year old students from middle and high income families would receive a full "away-from-home" rate (\$118.74 per week) plus an accommodation benefit if they live away from home, rather than an abated allowance or no allowance as under current policy;
- single 16-24 year olds from low income families who live away from home would receive no change in allowances;
- single 16-24 year olds from low income families who live at home receive an additional \$23.76 net per week.
- single students over 25 years old who live away from home would receive no change in allowances;
- single students over 25 years old who live at home would receive an additional \$28.51 net per week; and
- all other allowance levels remain unchanged.

### ***Standard Assumptions***

Several standard assumptions have been used in this costing:

- intangible costs and benefits (e.g., a possible increase in number of hours of study as a result of students undertaking less paid employment) are not included;
- costings are given on a nominal basis with adjustments made for inflation;
- the fiscal impact costing takes into account the second round impact of the increase in allowances on GST and other indirect taxes; and
- finance costs are included.

### ***Additional Assumptions***

The following additional assumptions have been made:

#### ***Implementation***

- the policy is assumed to be implemented from 1 January 1998. Therefore a half year fiscal effect only is shown in 1997/98.

### *Target group*

- as requested the costing is for all tertiary students only: no changes are assumed to either the rates of allowances received by secondary school pupils or the eligibility criteria.

### *Behavioural assumptions*

- student loan repayments, allowance and loan uptake; tertiary enrolment growth, course length; and the proportion of students 25 and over with allowances, remain as projected in the 1996 Pre-Election Economic and Fiscal Update;
- all existing behavioural patterns including uptake, propensity to live away from home and length of course are assumed to apply to both existing allowance clients and new allowance clients; and
- students are assumed to spend the entire amount of any change in their disposable income.

### *Technical assumptions*

- allowance rates have been increased for CPI growth as projected in the 1996 Pre-Election Economic and Fiscal Update;
- 95% of all 16-24 year olds enrolled in full-time tertiary courses are assumed to receive an allowance. The rest are assumed to be ineligible for an allowance as they are either overseas students or over the personal income limits;
- the targeting of the "With Earning Spouse" allowance which was announced in the 1996 Budget and is due to start in 1997 has been included; and
- changes in the proposed Youth Income Support Bill have not been included as this has not yet been passed by Parliament.

### *Administration Costs*

Changes in administration costs associated with this policy proposal have been excluded from this costing as it was not possible to estimate them in the time available. Increases in administration costs are likely to be small relative to the overall cost of the proposed policy, as allowance administration is currently estimated to cost \$4.15 million in 1996/97.

### *Student Loans*

The proposed increase in student allowances would result in a decrease in student loan living cost borrowings. This is because the amount students can borrow for the living cost component of student loans is reduced by the amount of student allowances they receive. In calculating the off-setting reduction in student loans:

- students with allowances and loans are assumed to have the living cost entitlement of their loans reduced by the increase in their allowances under the proposed policy, net of accommodation benefit. This is because accommodation benefits are not taken into account when calculating loan living costs entitlement; and
- students who will receive an allowance under the proposed policy have the same propensity to borrow under the student loan scheme in line with those forecast for full-time students in the 1996 Pre-Election Economic and Fiscal Update.

### **Policy Effect**

#### *Fiscal impact of proposed policy*

The above policy will have the following fiscal impacts on the Crown's financial statements:

**Table 1. Net Fiscal Impact of Increasing Student Allowances**

<b>Fiscal Impact<sup>1</sup></b>	<b>1997/98<sup>2</sup></b> <b>\$m</b>	<b>1998/99</b> <b>\$m</b>	<b>1999/2000</b> <b>\$m</b>
Policy impact on operating balance	(141.960)	(306.503)	(316.012)
<i>Finance costs</i>	(2.380)	(19.434)	(38.673)
Total impact on operating balance	(144.286)	(325.937)	(354.685)
Net worth (cumulative) <sup>3</sup>	(144.286)	(470.223)	(824.908)
Cash flows <sup>3</sup>	(51.000)	(157.476)	(180.681)
Net public debt (cumulative) <sup>3</sup>	(144.286)	(470.223)	(824.908)

<sup>1</sup> A positive number indicates an improvement in the fiscal position.

<sup>2</sup> This is a half year effect.

<sup>3</sup> Includes finance and indirect tax impacts.



The effect of the proposed policy on cash flows reflects the fact that a large proportion of the cash paid out for the increase in student allowances will be offset by a decrease in cash disbursed for the living cost entitlement component of student loans.

The effect of the proposed policy on the operating balance is much greater than its effect on cash flows. This is because, while all of the increased cash paid for allowances impacts upon the operating balance, student loans are capital rather than current flows so that only 10% of the cost of student loans made in any year affects the operating balance. This cost arises from the expected write-off of a proportion of the number of loans. The Crown expects to receive the rest of the capital disbursed back in the form of loan repayments.

Tables 3 and 4 in Attachment 1 show the costings for the increase in student allowances and off-setting decrease in student loans that underlie the operating balance calculation shown above.

Finance costs shown in Table 1 relate only to the costs of financing student allowances. Student loan finance savings are not included as any such savings are assumed to be fully offset by a reduction in student loan interest revenue received by Crown as the result of there being less student loan funds outstanding.

The costing is based on net allowance rates. No provision is made for second round impacts on income tax receipts.

### ***Effect of the proposed policy on student enrolments***

Overall the increase is likely to have little effect on student numbers as it is unlikely to significantly raise demand for places.. The vast majority of the increased spending would go to people from high income families, whose demand for tertiary education is relatively unresponsive to changes in price (i.e., the amount they pay). Only a small amount of the increased spending would go to people from low income families whose demand for tertiary education tends to be more responsive to changes in the price.

The people who would benefit most from the proposed policy are single people aged under 25 whose parents jointly earn over \$50,751 per annum (for those living away from home) and single people aged under 25 whose parents jointly earn \$45,760 per annum (for those living at home) and who would receive a full allowance rather than none as under current policy. These people would gain \$118.74 net per week, plus the accommodation benefit if they live away from home. Overseas evidence is that students from high income backgrounds are unresponsive to changes in the price for tertiary education, therefore the demand for tertiary enrolments from this group is not likely to increase much.

Those people with a family income which results in a partial abatement of the allowances would receive a lesser gain in allowances (an average of \$49 net per week if away from home and \$63 net per week if at home). This group is slightly more responsive to changes in the price of tertiary education. The combined effect is that their demand for tertiary enrolments is likely to increase only slightly.

Of single low income people under 25, only those living at home would receive any increase in allowances. This would amount to \$23.76 net per week as a result of removing the "at-home" rates. Therefore, despite these students having a potentially high response to allowance increases, the small change in allowances is unlikely to significantly increase their demand for tertiary places.

If, as assumed in this costing, secondary allowances continue to be targeted on parental income and available from 1 January following one's 18<sup>th</sup> birthday this may create incentives for students to enter tertiary education earlier than expected leading to an increased demand for tertiary student places. In the time available we have not been able to resolve the likely size of this effect.

Other movements that could occur include switches from unemployment to study, part-time to full-time study and for students to extend their course duration. The size of the changes in allowance suggest that these effects are not likely to be large.

In addition, the behavioural effects described above would be considerably constrained by the current limitations on Equivalent Full-Time Student places. As EFTS places are capped, additional students carried by tertiary institutions would be unfunded. Institutions may choose to either charge such students full fees or to cross-subsidise them by raising average tuition fees for all students. If institutions charge full fees then any increased demand for tertiary education resulting from the increased student allowances is likely to be considerably dampened. If institutions cross-subsidise then any increased demand for tertiary education resulting from the increased student allowances may be offset by a reduction in demand from existing students, depending on students responsiveness to changes in the price of tertiary education.

### **Practical Implications**

As costed, over 98% of the additional expenditure would go to people from middle to high income families (those earning above \$27,871), with those low income students currently eligible for the full student allowance receiving only \$7 million of the change. This is shown in Table 2 below.

**Table 2: Estimated Distribution of Additional Student Allowance Expenditure in 1998/99 (first full year effect) 16-24 year olds**

Income Group	Family Income	Expenditure	Percentage
Low Income	≤ \$27,871	\$7 million	1.9%
Middle Income	\$27,872 ≤ \$50,751 <sup>4</sup>	\$26 million	7.5%
High Income	>\$50,751 <sup>4</sup>	\$313 million	90.6%
<b>Total</b>		<b>\$346 million</b>	<b>100%</b>

There is a risk that institutions will react to the increase in student allowances by raising their fees, in part to allow them to offer some unfunded places to meet small increases in demand, and in part to meet increased internal costs, such as wages. This could lead to increased pressure on the levels of EFTS payments.

These costings are undertaken on a stand-alone basis and do not account for the interactions between different policies - for example, as allowances are linked to the unemployment benefit, then policies which affect the unemployment benefit rates will also affect allowances. Similarly as allowance rates are linked to the CPI, policies which affect the CPI will affect allowance rates

The aggregate impact on the macro-economy of such a large increase in expenditure has not been assessed.

Allowing all students to access the accommodation supplement has not been costed as the Department of Social Welfare was unable to supply the information required in the time available for this costing. However, on the basis of work done previously in this area, it may be in the order of several tens of millions of dollars.

<sup>4</sup> A lower threshold of \$45,760 exists for students who live at home.

### Attachment 1: Allowances and Loans Fiscal Impact

**Table 3: Fiscal Impact of the Increased Student Allowances<sup>5</sup>**

<b>Fiscal Impact</b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/2000</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Cash increase in allowances	(159.536)	(345.848)	(356.565)
Finance costs of allowances	(2.380)	(19.434)	(38.673)
Indirect Tax Effect	20.740	44.960	46.353
<i>Operating Balance Impact</i>	<i>(141.176)</i>	<i>(320.322)</i>	<i>(348.885)</i>

**Table 4: Fiscal Impact of Student Allowances Increase on Student Loans**

<b>Fiscal Impact</b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/2000</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Cash decrease in loans disbursed	103.651	187.179	193.338
Indirect Tax Effect	(13.475)	(24.333)	(25.134)
Capital Provisioning <sup>6</sup>	10.365	18.718	19.334
<i>Operating Balance Impact</i>	<i>(3.110)</i>	<i>(5.615)</i>	<i>(5.800)</i>

<sup>5</sup> Off-setting savings from student loans are not included

<sup>6</sup> This represents an estimate of student loan capital that will not be repaid.

4 November 1996

**POLICY COSTING - CENTRALISING EDUCATION CROWN AGENCIES UNDER THE MINISTRY OF EDUCATION**

**Introduction**

On 24 October 1996, you requested a costing on centralising all the Crown education agencies under the Ministry of Education.

**Costing Request**

"What is the cost of disestablishing all education Crown agencies and the Education Review Office and bringing them together under the Ministry of Education? This should include all possible restructuring costs."

**Costing**

It is not possible, at this stage, to estimate the fiscal impact of this policy as it will be dependent on the economies or diseconomies of scale from the centralisation of the agencies. However, the potential sources of additional costs and savings are detailed below.

The following education Crown agencies could be brought under the Ministry:

- Education Review Office;
- New Zealand Qualifications Agency;
- Education and Training Support Agency;
- Special Education Service;
- Careers Service;
- Early Childhood Development Unit; and
- Teacher Registration Board.

Learning Media Ltd could be excluded on the basis that it is a company (publishing material for the Ministry).



As an indication of the relative size of the reorganisation required, and the implications for the Ministry of Education, the following tables detail the current costs of the outputs purchased from these agencies and from the Ministry of Education, and their total number of full-time equivalent employees:

<b>Agency</b>	<b>\$million</b>
Ministry of Education	726.624 <sup>1</sup>
Education Review Office	15.280
New Zealand Qualifications Agency	16.240
Education and Training Support Agency	18.953
Special Education Service	37.275
Careers Service	4.040
Early Childhood Development Unit	3.800
Teacher Registration Board	0.071
<b>Total</b>	<b>822.283</b>

<b>Full-time Equivalent Employees as at 30 June 1996</b>	
<b>Agency</b>	<b>Number</b>
Ministry of Education	463
Education Review Office	150
New Zealand Qualifications Agency	221
Education and Training Support Agency	216
Special Education Service	866
Careers Service	87
Early Childhood Development Unit	84
Teacher Registration Board	7
<b>Total</b>	<b>2094</b>

The main issues for identifying the potential costs and savings are whether:

- to bring the agencies together under the Ministry of Education as business units with the Ministry of Education operating as a corporate office, or to integrate the operations more fully into the Ministry;
- the agencies would remain in their current locations and accommodation;
- the agencies would continue to provide the same services of the same level and quality, and meet the same statutory responsibilities (but with these being legally transferred to the Ministry of Education);
- there would be any technical redundancies; and
- all the current governance boards associated with these agencies would be dispensed with.

<sup>1</sup> Includes capital charge of approximately \$450 million

The likely transitional costs would be significant and ongoing additional costs would arise from:

- the integration of the management systems of the individual agencies (business units) and the Ministry of Education;
- additional operating costs (personnel and accommodation) for the Ministry of Education to manage the work of the business units;
- redundancy payments to staff directly affected by the integration of the management systems;
- costs of lease buy-outs or ongoing rentals for accommodation surplus to business units' requirements; and
- legislative changes required to alter accountability arrangements.

Likely sources of on-going savings from this policy would be from:

- any administration efficiencies from merging functions of the individual agencies;
- savings from the cessation of the governance boards;
- reduction of senior management positions within the agencies; and
- better strategic alignment between the agencies (e.g., in regard to the evolving complexities of the curriculum for the senior secondary school).

### **Practical Implications**

The addition of the functions of these agencies to the Ministry of Education could potentially lead to a loss of focus for the Ministry of Education. This could also result in a reduction in accountability for the merged agencies, since it would be more difficult to hold the Ministry to account for deficiencies in only one of a large number of functions. Given this, there is a risk that this will lead to a general lowering of quality and performance. Furthermore, where the effectiveness of an agency relies on its independence (e.g., Education Review Office for its audit function), a merger in itself could challenge the basis of the credibility of its services. Both these considerations mean that the net costs and benefits of the merger are likely to depend on precisely which agencies are merged. Costs could be minimised through a case by case examination of each agency.

With respect to the transitional costs of the merger, experience has been that the reorganisation of departmental functions inevitably costs substantially more than initial estimates. It can also require a substantial investment of time and attention by Ministers and senior officials. The effect of the latter can be to crowd out action on other policy priorities.

Another significant impact of reorganisation can be a loss of morale and output of affected agencies during a review and through the transition period. With a substantial reorganisation these effects may take some time to work through.

If the objective of the change was to increase policy/operations synergies, then a full physical merger may not be necessary or the only means of achieving the objective. Changes in the arrangements of accountabilities between Ministers and Chief Executives of the Ministry of Education and the agencies would assist. Further advice could be provided by officials if required.

4 November 1996

## **POLICY COSTING - REGIONAL EDUCATION COMMITTEES**

### **Introduction**

On 24 October 1996, you requested a costing on creating 11 regional education committees with similar functions to the old Education Boards.

### **Costing Request**

"What is the cost of creating 11 regional education committees with similar functions to the old Education Boards including allocation of special education funds and managing local property?"

### **Policy Costing**

In order to cost this policy, it would be necessary to identify exactly what would be the proposed functions of the Regional Education Committees, since the costings will be very sensitive to this choice. The old Education Boards had a range of functions to support primary schools, with some secondary schools, early childhood education institutions and colleges of education also supported. Schools are now responsible for some of those services themselves or receive assistance from other agencies, both public and private. A summary of the major services previously provided by Education Boards and the current service provider is detailed in the following table:

Education Board	Current Provider
Allocation of grants including: incidental, heat, light and water, telephone rental, text books, library, dental clinic, equipment, maintenance, furniture and equipment.	Paid as an entitlement within schools' operations grants by the Ministry of Education.
Supporting school governors and management including: provision of information and advice, attending meetings, education and training for incoming committees, accounting and financial management.	A combination of schools themselves, Ministry of Education Management Centres, Schools Advisory Service (under contract), School Trustees Association (on contract), Ministry of Education Finance Division.
Property Management.	Schools are responsible for routine maintenance (paid through an entitlement in the schools' operations grants) and the Ministry for capital works and major maintenance. Actual work is carried out by building contractors.
Maintenance of furniture and equipment, including workshop facilities.	Contracted directly by schools.
Supply of curriculum materials and other bulk purchasing, including warehousing facilities.	Ministry through Learning Media Ltd for core curriculum materials, schools themselves (or in local clusters) for bulk purchasing power.
Staffing Services including: teachers' employer, teacher payroll services, payment of relieving teachers, vacancy management, some disciplinary functions.	School Boards for employment and filling vacancies, Ministry of Education for payroll services through Datacom and its service centres.
Data collection including roll returns.	Data sent directly to the Ministry of Education from schools.
Truancy monitoring and prevention services.	Community agencies on contract to the Ministry of Education.
School transport including assessment of eligibility, school transport entitlements and conveyancing allowances.	Education Service Centres (private organisations) on contract to Ministry of Education.
Administration and management of teacher houses.	Landcorp Ltd under contract to the Ministry of Education.



## **Practical Implications**

A clear specification of the objectives of the policy will be needed to enable a complete policy costing. In addition, in assessing the costs of this policy, it would be necessary to compare it with any alternative means of achieving the same objectives.

The creation of Regional Committees will result in significant transitional costs and their ongoing fiscal implications will depend on the nature of the Committees and their functions. The nature of the Committees (e.g., elected versus appointed) would also need to be carefully considered in order to establish appropriate accountability mechanisms.

If the Committees comprise individuals elected by local constituencies, or representatives of sector groups, then it could be expected that the Committees' decisions will reflect the views of those individuals' local or sector interests. This could lead to pressure to increase Crown expenditure. In this environment, the ability to influence and, where necessary, sanction Committees which perform poorly will be relevant.

While there may be economies from moving some functions from centre to region and schools to region, there are also likely to be some diseconomies (e.g., re-centralising the operations grant which is currently distributed directly to schools). Therefore, the net cost of the Committees will depend on the mix of functions given to them.

With respect to the transitional costs of the merger, experience has been that the reorganisation of departmental functions inevitably costs substantially more than initial estimates. It can also require a substantial investment of time and attention by Ministers and senior officials. The effect of the latter can be to crowd out action on other policy priorities.

Another significant impact of reorganisation can be a loss of morale and output of affected agencies during a review and through the transition period. In particular, there could be risks for the planning and delivery of school property during the current period of intensive capital investment.

If the major concern was to reduce the pressure on those schools experiencing management difficulties, this could be achieved by targeting relevant management areas. For example, through enhancing the Ministry of Education's regional based management centres and centrally provided support programmes.

29 October, 1996

## **POLICY COSTING - SABBATICAL LEAVE FOR TEACHERS**

### **Introduction**

On 24 October 1996, you requested a costing for introducing sabbatical leave for teachers.

### **Costing Request**

"What is the likely impact of introducing an optional sabbatical system for teachers which provides teachers with four years salary over five years, with the fifth year "off" as sabbatical or study leave?"

### **Costing Assumptions**

- Teachers who opt to participate in the sabbatical scheme would be paid 80 per cent of their annual salary for each of five years. These teachers would be required to teach for the first four years, taking sabbatical leave (ie. release from teaching duties) in the fifth year.
- Uptake is assumed to be low because under the scheme teachers receive less money over the five years that those not participating.
- In what follows, it is assumed that this policy would not put upward pressure on teachers' salaries. If this assumption were incorrect, significant costs could be incurred.

### **Policy Costing**

The on-going net fiscal cost of an optional sabbatical system of the type described would be indeterminate but trivial, since the savings generated from withholding 20 per cent of a participating teacher's salary over five years would be spent on employing a relieving teacher to replace the participating teacher in the fifth year.

There would be savings in the form of non-payment of interest, associated with not having to borrow to pay 20 per cent of participating teachers' annual salaries. There may be small savings associated with not having to pay Government Superannuation Fund levies on the withheld part of some participating teachers' salaries. In addition, there would be small on-going costs associated with administering the scheme.

More significant would be the requirement that, for every teacher that takes sabbatical in any given year, a replacement teacher would need to be employed. Costs would be associated with recruiting or training these additional teachers. It is not possible to estimate the number of teachers that may be required, as this will depend on when those in the scheme opt to take their sabbatical.

### **Practical Implications**

Furthermore, schools are currently facing rising rolls as a demographic bulge works its way through the system, and many schools are already experiencing difficulties in finding teachers to fill these extra positions. The ability of the teacher labour force to accommodate any further increase in demand (such as that arising from the above policy) would need to be factored into any decision on when such a policy might be introduced.

29 October 1996

## **POLICY COSTING - DISESTABLISHMENT OF DIRECT RESOURCING TO SCHOOLS FOR TEACHERS' SALARIES**

### **Introduction**

On 24 October 1996, you requested a costing on the disestablishment of the bulk funded school system.

### **Costing Request**

"What is the cost of the disestablishment of the bulk funded school system, including the costs of funding and staffing commitments entered into by bulk funded schools?"

### **Policy Costing**

It is not possible to cost this policy. While most bulk-funded schools receive more in cash than their equivalent entitlement if they were centrally payrolled (and therefore intuitively ceasing the scheme would result in savings), no information is available on the size, type or duration of any liabilities the schools may have entered into.

The current policy allowing schools to voluntarily opt-in to direct resourcing of teachers' salaries is based on legal agreements between the Minister of Education and the boards of the schools (pursuant to section 91D of the Education Act [1989]). Approximately 250 schools, representing about 10% of the total school roll, have entered into such agreements.

While the agreements are not for a fixed term, they provide for schools which meet certain conditions to opt-out of the arrangement after three years. One of these conditions is that there be no residual financial liability to the Crown arising from any teachers they have employed above their staffing entitlement. In such cases, schools would be expected to meet these costs from within their operations grant, or from other sources of income.

The Minister of Education is able to cancel the agreements:

- i. within three years, where the Minister considers it would be in the "best interests" of the school; or

- ii. after three years, "in his absolute discretion" if he or she considers that exceptional circumstances exist to warrant such cancellation. The Minister must advise the board of the reasons for the proposed cancellation, and take into consideration any comments that the board makes.

For those contracts currently in place, the three year opt-out provision will take effect from the last quarter of 1998 until the last quarter of 1999.

It should be noted that some Direct Resourcing Scheme (DRS) schools may also have entered into other financial commitments (for instance for buildings or equipment lease) on the basis of the expected cash flow. The extent of these commitments is unknown.

It is likely, therefore, that the disestablishment of the DRS would create a series of contractual liabilities for the Government. It is not possible to estimate the size or nature of these liabilities without a detailed analysis of staffing arrangements, and other financial commitments, on a school-by-school basis. It would also be necessary to obtain information on the willingness and ability of affected schools to use their operational grants (or other sources of income) to fund these liabilities.

Assumptions would also be needed about when the disestablishment of the scheme would have effect, and whether and at what point teachers above entitlement would be subject to the redeployment provisions of the relevant collective contract, should schools not wish to fund their employment from other income.



29 October 1996

## POLICY COSTING - LOCAL ASSISTANCE TO AT RISK STUDENTS

### Introduction

On 24 October 1996 you requested a costing on the provision of local services to assist at-risk students.

### Costing Request

"What is the cost of establishing facilities to provide local assistance to at-risk students (one facility per town; approximately 40 facilities)?"

### Costing Assumptions

You have not specified any particular assumptions to be used in this costing. Several standard assumptions have been used:

- intangible costs are not included;
- costings are given on a nominal basis;
- the full year costing of the policy is given, starting in 1997/98;
- the costing is for the *initial* fiscal impact of the policy change. Any second-round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes etc) have been excluded;
- expenditure costs are GST-exclusive;
- depreciation and other additional operating expenses (arising from a capital expenditure proposal) are included; and
- finance costs are included where the initial fiscal impact of the policy is \$50 million or more per year.

The following additional assumptions have been made:

- the local assistance would be supplementary to current school resourcing; and

- one of the following two models, or a mix, could be used.

### ***Model 1 - Guidance and Learning Units***

The Ministry of Education currently supports 110 positions in 60 primary or intermediate locations, which:

- provide services for primary and intermediate schools within a defined area (i.e., excludes the provision of services to secondary schools);
- be based at a host school with available accommodation - there would be no costs for additional accommodation;
- be mostly two teacher units (some single); with one position at senior teacher status;
- provide teachers with special duties allowances;
- provide travel allowances paid to scale rates;
- provide attachment grants to host school for operating expenses; and
- on average, provide services to the equivalent of 20 full time students.

### ***Model 2 - Activity Centres***

The Ministry of Education also currently have 16 centres, which:

- each be hosted by a secondary school on behalf of a cluster of secondary schools, as attached units;
- have a staffing ratio at 2:20; with one staff member at the second level of middle management;
- use facilities already owned by the Ministry of Education;
- provide services to students already enrolled at a home school which would continue to receive funding for them at standard entitlements; and
- on average, provide services to the equivalent of 20 full-time students.

## Policy Costing

Based on the establishment of a further 40 Guidance and Learning Units, the estimated cost of this policy is around \$4 million per annum. Based on the establishment of a further 40 Activity Centres on the current model, the estimated cost of the policy is \$6 million per annum. The following table has rounded all costs to the nearest \$5 million. The policy will have the following fiscal impacts on the Crown's financial statements:

Fiscal Impact <sup>1</sup>	1997/98	1998/99	1999/2000
	\$m	\$m	\$m
Policy impact on operating balance	(5)	(5)	(5)
Total impact on operating balance	(5)	(5)	(5)
Net worth (cumulative)	(5)	(10)	(20)
Cash flows	(5)	(5)	(5)
Net public debt (cumulative)	(5)	(10)	(20)

Figures have been rounded to the nearest \$5 million and accordingly may not sum.

## Practical Implications

- The model selected will depend on local needs, and the age of students which it is intended to serve.
- If the Guidance and Learning Unit model were applied to secondary school students, the costs would increase because of the higher costs of teachers' salaries. The costs would not be as high as for Activity Centres, because operational funding is lower.
- The costs are based on average costs, and average numbers of students served. Activity Centres serving lower numbers of students may have higher per student costs. In Christchurch, a new model, Youth Education Services, has been developed to replace an Activity Centre and two former "attached units". The model provides services to students in their own schools, as well as providing withdrawal facilities for a maximum of one term. The Special Education Service is contracted to provide the service on a per-student-hour basis. On an equivalent full-time-student basis, this currently costs 30% more than the average cost of an Activity Centre.

- The costings assume no flow-on effects for the grading of the host schools, and consequently no effects on the numbers and salaries of management staff. There may be small additional costs due to these effects.
- It may not be possible in all cases to use existing accommodation for the new facilities. New accommodation would impose a one-off establishment capital cost.

29 October 1996

**POLICY COSTING - Q11 WHAT IS THE COST OF SETTING UP AN INDEPENDENT TERTIARY REVIEW TO INVESTIGATE QUALITY, ACCOUNTABILITY AND EFFICIENCY ISSUES IN THE TERTIARY SECTOR?**

**Introduction**

1. On 24 October 1996, you requested a costing of an independent tertiary review.

**Costing Request**

2. The request is: "What is the cost of setting up an independent tertiary review to investigate quality, accountability and efficiency issues in the tertiary sector?".

**Costing Assumptions**

3. Several standard assumptions have been used:

- intangible costs are not included
- costings are given on a nominal basis
- the costing is for the *initial* fiscal impact of the policy change. Any second-round effects with fiscal implications (for example, behavioural changes, interaction with other policy changes etc) have been excluded
- expenditure costs are GST-exclusive.

4. Additional assumptions include:

- officials' time and overheads are not included (although reprioritisation of departmental work programmes may be necessary)
- if consultants are commissioned by the review team then they are included in costings but if they are commissioned by departments their fees are not included
- budgeted allocations for reviews have been used - not actual expenditure
- all costed examples are for one-off reviews.



5. A number of possibilities exist for the configuration of a review as described above. As a result there are a number of decisions on parameters that need to be made. Officials are agreed that the best manner of approaching this issue is to give illustrative costs from reviews conducted in recent years. This therefore requires a basis for expressing cost assumptions. The next section describes the parameters which need further clarification.

### **Parameters for assumptions**

6. Five parameters have been identified which will help to describe the task. These parameters are described below:

#### **A SCOPE**

7. The scope of the review will depend on whether it is envisaged that the purpose would be to identify policy issues (either at a theoretical level only or including an empirical base) or whether it is limited to a technical review which would include elements of audit and information gathering.

- a policy review would take into account the theoretical considerations of quality, accountability and efficiency. A general review could range from general policy directions and comment, through to detailed and specific policy implementation proposals;
- a technical review would be likely to be more focused, but not necessarily a less resource intensive exercise. The level of resource commitment would depend upon whether the review used existing material and reports, or whether it involved independent data collection, verification and analysis.

#### **B COVERAGE**

8. The second parameter is the coverage of the review. Options include:

- focussing on the provider level of the tertiary sector. This could range from the 38 state Tertiary Education Institutions to a wider provider focussed review covering all institutions, public and private;
- a review covering purchase and regulatory arrangements in the tertiary sector. This would be wider than a provider focussed review and would consider all elements of tertiary education. The widest level review might also include reviews of NZQA and other Crown regulatory bodies.

#### **C NATURE OF INVESTIGATION TEAM**

9. The third parameter of the review would be the nature of the investigating team. The larger the nature of the team, the larger the costs and the longer the time required to undertake the review. Options include:

- an investigation undertaken by a single independent expert; or

- a small dedicated investigating team of say three people; or
- a taskforce with 7 or more people.

10. Whatever the nature of the investigative team, significant support is likely to be required from officials.

#### **D WHETHER CONSULTATION IS PART OF THE REVIEW**

11. The fourth parameter is whether there is consultation with the public or the sector as part of the process. If consultation is included there are additional costs. Consultation could be extensive and public (eg. using a green and white paper approach, public meetings and using all forms of feedback) or it could be at a lower level within the sector (being restricted to written comment only or limited to sector interest groups).

#### **E APPROACH TO THE INVESTIGATION**

12. The last parameter that needs to be considered is whether the approach will involve comprehensive investigation and information collection at the operational level or whether the investigation will be carried out indirectly using existing material.

13. Under a 'central review' approach, existing resources (probably paper based) would be used. An intermediate level of scrutiny would draw on a limited sample of institutions. The most detailed level of investigation could involve comprehensive checks on procedures, process and outcomes. At this level, considerable costs could be involved in collecting data.

#### **Policy Costing**

14. Recent independent reviews are listed in the table below along with appropriations:

- The Todd Ministerial Consultative Group on Funding Growth in Tertiary Education was a policy design review which undertook extensive consultation.
- The Taskforce on Positive Aging is currently underway, and involves wide ranging consultation on issues involving older people (with the exception of retirement incomes).
- The Prime Ministerial Taskforce on Employment involved wide public consultation and development of policy options. It also involved significant departmental input.
- The Mason Review into mental health services was a small taskforce looking at policy design which undertook sector specific consultation.

- The Annual Financial Audit fees for TEIs represent the costs of the compliance and financial audits for individual tertiary education institutions, summed across the sector.

**Figure 1: Budgeted Costs of Previous Reviews**

		Todd MCG on Tertiary Education <sup>1</sup>	Taskforce on Positive Aging	Employment Task Force	Mason Report	Annual Financial Audit of a TEIs (Audit NZ) Annual
	DIMENSION	1994	Feb 1996 - June 1997	1994	1996	
<b>SCOPE:</b>						
1	Policy	✓	✓	✓	✓	
2	Technical					✓
<b>BREADTH:</b>						
1	Narrow					✓
2	Medium	✓	✓		✓	
3	Broad			✓		
<b>NATURE OF TEAM:</b>						
1	Small					
2	Dedicated team				✓	✓
3	Taskforce	✓	✓	✓		
<b>CONSULTATION:</b>						
1	Private					✓
2	Public (extensive)	✓	✓	✓		
3	Public (sectoral)				✓	
<b>INVESTIGATION:</b>						
1	From centre	✓				
2	Based on Sample					
3	Comprehensive		✓	✓	✓	✓
<b>COST:</b>						
	\$000 (nominal excl GST):	541	977	1,738	302	1,251

<sup>1</sup> Based on Ministry of Education Budget for Todd Taskforce.

### Practical Implications

15. The cost of undertaking a review of the tertiary sector may be trivial compared to the potential fiscal impact of any recommendations of such a taskforce.

16. Reviews of the nature outlined above generally involve significant departmental involvement and support. Departmental costs may approach the direct costs of the external review. It is normally expected that these costs would be met by the associated department or departments (which generally requires reprioritisation of existing departmental outputs). There would, however, be a significant relationship between a review of the tertiary sector and other policy development work under way in the post-compulsory education and training sector.

**Figure 2: Sources for costings**

Todd MCG	Taskforce on Positive Aging	Employment Taskforce	Mason Report	Annual Financial Audit of all TEIs
Cab(93) M28/5d	Cab(96)M10/21	Cab(94)M35/3 C(i)	Cab(95)M45/22	TCF Ministry of Education