

Education Report: 2020 October Baseline Update for Vote Education and Vote Tertiary Education

To:	Hon Chris Hipkins, Minister of Education		
Date:	22 October 2020	Priority:	High
Security Level:	In Confidence	METIS No:	1241868
Drafter:	Rowena Zurbito	DDI:	463 8133
Key contact and number:	Mark Flintoff – Chief Financial Officer John Brooker (for Vote Education) Shelley Robertson (for Vote Tertiary Education)	DDI:	9(2)(a)
Messaging seen by Communications team:	No		

Purpose of report

1. This paper seeks your approval of the proposed October Baseline Update (OBU) submissions for Vote Education and Vote Tertiary Education. The attached submissions (two separate letters) must be submitted to the Minister of Finance no later than 27 October 2020.

Summary

Vote Education

2. The attached 2020 OBU submission for Vote Education reflects decisions made after Budget 2020 and up to 16 October 2020, and are outlined below. The Minister of Finance's approval of the OBU submission will finalise these decisions.

Confirmation of In-principle Expense and Capital Transfers from 2019/20 mainly to 2020/21

3. Various expense and capital transfers from 2019/20 to 2020/21 and outyears were previously agreed in-principle by Joint Ministers [METIS 1229253 refers]. This update confirms the in-principle transfers as the final amounts are now known following the completion of 2019/20 financial audit.

Capital Transfer from 2020/21 to 2021/22 and outyears

4. The capital transfer is for departmental capital on New Schools primarily related to the time taken to make sites available for development. A capital transfer is required to

better align with the development and associated delivery of broader infrastructure and demand for student places.

Fiscally Neutral Adjustments (FNAs)

5. These adjustments mainly provide for transfers from one appropriation to another with no impact on the operating balance or debt and have no significant policy implications. The FNAs we are proposing mainly include:
 - Transfer of funding from departmental output expense Outcomes for Target Student Groups MCA: Interventions for Target Student Groups to non-departmental output expense Schooling Improvement of \$8.436 million in 2020/21 and \$10 million from 2021/22 to 2023/24 to enable the Ministry to partner with Iwi and Māori organisations to provide engagement, facilitation and brokerage services between Māori learner and whanau and local education services [paras 39 to 40 of the submission].
 - Transfer of funding from departmental output expense Improved Quality Teaching and Learning MCA: Support and Resources for Teachers of \$4.530 million in 2020/21; \$4.650 million in 2021/22 and \$3.488 million in 2022/23 to non-departmental output expenses Primary and Secondary Education MCA to ensure that funding for the Workforce Wellbeing initiative is in the correct appropriation and that there is sufficient departmental funding to implement the wider Increasing Wellbeing and Mental Health Support to Learners and the Education Workforce (Wellbeing Package) effectively [METIS 1242959 refers and paras 41 to 44 of the submission].
6. There are also several changes to appropriations that are fully offset by increases in third party revenue (eg. reallocation of gains on sale revenue and retention of weather-tightness settlement for remediation of school buildings and litigation costs). The full list of proposed transfers between appropriations is on page 5 of the submission.

Forecast Changes

7. These forecasts update the major expenditure programmes in the Vote including teacher salaries, school operations grants and early childhood education subsidies for demographic changes such as student numbers, numbers of teachers, average salaries and participation rates in early childhood education. The OBU forecast changes include:
 - Reduced **school operations** funding, mainly due to lower outturns based on the latest actual data.
 - Lower **teacher salaries** expenditure mainly due to a combination of:
 - full time teacher equivalents (FTTE) is adjusted upward driven by growth in March 2020 schools rolls and staffing entitlement between MBU 20 and OBU 20
 - lower salary rates based on the latest payroll data outturns
 - lower than forecast actual data
 - the impact of changing term dates and number of days influences the timing of holiday pay.
 - Reduced **early childhood education** subsidy forecasts for all years mainly due to:
 - Volume growth has been revised downward based on the latest outturns data. The actual funded child hours (FCH) for the eight months to May 2020 were 2.2% lower than the MBU 2020 forecast.

- Average price - the outturns for October 2019 to May 2020 show that MBU 2020 had under forecast average price by \$0.05 per FCH. Forecast figures are particularly sensitive to average hourly price.
 - **Capital Expenditure** changes mainly due to Wave 2 drawdown of Capital Injection funding from Budget 2019 Growth Programme to deliver new schools and roll growth classrooms.
8. The total impact of these forecast changes (excluding capital expenditure) is a downward revision of \$508.867 million over five years, with a reduction of \$146.381 million in 2024/25 and outyears. The practice of recent years has been for the impact of these changes to be taken into account in the allowance for new operating expenditure as part of Budget 2021.

Technical Changes

9. Mainly provides for an increase in capital charge and depreciation related to the revaluation of school land, buildings and teacher houses at 30 June 2020. The revaluation increased the value of assets by \$893.757 million as a result of increased construction rates within the construction sector and higher land values within an active NZ land market. It is Crown accounting policy not to anticipate the impact of revaluations.

Other Changes

10. Extension of WAI 2336 Te Kohanga Reo Claim operating contingency from 31 December 2020 to 30 June 2021. We expect the Trust to request more funding for ICT upgrades from the contingency but remain unclear as to the exact timing.
11. Roll out of the baseline for the new financial year 2024/25. The baselines comprise five years: the current year and four outyears. In OBU, the forecast period is extended by a year and the initial baseline for a new outyear is established.

Vote Tertiary Education

12. The attached 2020 OBU submission for Vote Tertiary Education reflects decisions made after Budget 2020 and up to 16 October 2020, and are outlined below. The Minister of Finance's approval of the OBU submission will finalise these decisions.

Confirmation of In-principle Expense Transfers from 2019/20 to 2020/21

13. Various expense transfers from 2019/20 to 2020/21 were previously agreed in-principle by Joint Ministers [METIS 1229253 refers]. This update confirms the in-principle transfers as the final amounts are now known following the completion of 2019/20 financial audit.

Expense Transfers from 2020/21 to 2021/22 and outyears

14. Funding for the Programme for the International Assessment of Adult Competencies (PIACC) survey needs to be adjusted to reflect the timing of funding commitments with the research contracted company, due to the impact of COVID-19 on undertaking the survey. The overall cost of undertaking the survey is unchanged.
15. The submission includes fiscally neutral adjustments to the Tertiary Education Commission's annual operating appropriations to better align its funding with its

Performance Based Research Fund (PBRF) workload, which is significantly higher during the Quality Evaluation (QE) of each 6-year PBRF cycle.

Fiscally Neutral Adjustment

16. A transfer of \$283,000 from Education New Zealand funding to Vote Economic Development as an annual contribution toward development of the New Zealand Story.

Other Changes

17. Extension of Administration of the Code of Practice for Pastoral Care of Domestic Tertiary Students operating contingency until 1 January 2022. Given that the interim code of practice has been extended by the Education and Training Act to 1 January 2022, the expiry date of the contingency should also be extended.
18. The submission also includes amendment and confirmation of a transfer of unspent 2019/20 funding relating to the earlier transfer to manage the necessary accounting treatment of the Government's commitment to guarantee tertiary education and training providers' 2020 funding. A combination of unspent Student Achievement Component (SAC) and Fees-Free funding needs to be transferred from 2019/20 appropriations to the SAC in 2020/21 to ensure the earlier transfer is fiscally neutral across those years.
19. Treasury initially had a strong view that the issue required Cabinet authorisation, but has since agreed the transfer can be amended and finalised through this OBU submission due to particular circumstances, on the understanding that this does not create a precedent for the management of Fees-Free underspends.
20. Roll out of the baseline for the new financial year 2024/25. The baselines comprise five years: the current year and four outyears. In OBU, the forecast period is extended by a year and the initial baseline for a new outyear is established.

Change in the capital charge rate

21. Both submissions include adjustment to capital charge due to change of rate from 6% to 5%. In line with the default public sector discount rate revision from 6% to 5% in September 2020, the capital charge rate has been reduced from 6% to 5% effective 1 July 2020 (Treasury Circular 2020/12 refers).

Potential changes to Appropriations

22. In the 2020 March Baseline Update, Joint Ministers agreed to a variety of changes to appropriation structures for Vote Education and Vote Tertiary Education. This was a step towards modernising the public finance system and included consolidating some appropriations of less than \$10 million. At that time, we signalled that further work was required.
23. The Ministry is currently in discussion with the Treasury on some other options for consolidating smaller appropriations to reduce administrative and compliance effort. We are also exploring another multi-category appropriation. These changes could take effect from 2021/22.
24. Should officials reach agreement on the details of these changes, a formal submission would be provided before Christmas for your consideration and possibly to submit to the Minister of Finance.

Consultation with Treasury

25. Treasury has been consulted on the proposed OBU 2020 changes for Vote Education and Vote Tertiary Education, and fully supports them.

Proactively Released

Recommended Actions

26. It is recommended that the Minister of Education:
- a. **approve** the changes to appropriations from 2020/21 to 2024/25 for Vote Education and Vote Tertiary Education proposed in the two OBU submissions
 - b. **sign** the attached letters to the Minister of Finance to submit the 2020 October Baseline Update for Vote Education and Vote Tertiary Education on or before 27 October 2020
 - c. **agree** that this Education Report is not proactively released at this time as the proposed baseline changes are subject to approval by Minister of Finance.



Dr Andrea Schöllmann
Deputy Secretary
Education System Policy

20 / 10 / 20



Andy Jackson
Deputy Secretary
Graduate Achievement, Vocations and Careers

20 / 10 / 20

NOTED / **APPROVED**



Hon Chris Hipkins
Minister of Education

27 / 10 / 20



27 October 2020

Hon Grant Robertson
Minister of Finance
Parliament Buildings
WELLINGTON

2020 October Baseline Update Submission for Vote Education

Introduction

1. This submission proposes changes to the baseline of Vote Education.
2. None of the changes contained in this update require Cabinet decisions at this time.
3. In summary, the changes included in this Baseline Update are:

GST Exclusive \$000	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears
Expense and capital transfers to be confirmed	58,442	19,276	10,130	-	-
Capital transfers	(60,000)	13,000	33,897	13,103	-
Fiscally neutral adjustments	38,000	-	-	-	-
Forecast changes	210,809	211,295	219,919	160,348	37,270
Technical changes	(122,188)	(118,547)	(118,547)	(118,547)	(118,547)
Total baseline changes	125,063	125,024	145,399	54,904	(81,277)

Changes Requiring Approval of Joint Ministers

Expense and Capital In-principle Transfers to be confirmed

4. On 22 June 2020, Joint Ministers authorised additional or revised in-principle expense and capital transfers for Vote Education [METIS 1229253 refers] subject to underspends in 2019/20 being confirmed. The exact amounts of the transfers were uncertain at the time, and joint Ministers agreed to confirm the final amount once known.
5. The proposed expense and capital transfers from 2019/20 to 2020/21, 2021/22 and 2022/23 can now be finalised, following completion of the 2019/20 audited financial statements as set out in the next table.

Programme	Appropriation	2019/20	2020/21	2021/22	2022/23
		Estimated	Actual	Actual	Actual
Departmental output expenses					
Early Learning Student Achievement Programmes	Improved Quality Teaching and Learning MCA: Support and Resources for Teachers	(4,250)	1,057	-	-
Education Resourcing System Programme	Primary Education and Secondary Education MCA: Support and Resources for Education Providers	(400)	400	-	-
Engagement with the Community around Education	Support and Resources for Parents and the Community	(950)	950	-	-
Implementation of the Teacher Aide Pay Equity Claim	Primary Education and Secondary Education MCA: Support and Resources for Education Providers	(3,167)	3,167	-	-
Implementing a Free and Healthy School Lunch Prototype for Year 1-8 Students	Outcomes for Target Student Groups MCA: Interventions for Target Student Groups	(2,132)	1,466	-	-
Learning Support Coordinators	Outcomes for Target Student Groups MCA: Interventions for Target Student Groups	(1,117)	768		
National Initiative for Teaching Practice for rebuilds and new schools 2019-2023	Primary Education and Secondary Education MCA: Support and Resources for Education Providers	(400)	400	-	-
Pacific Success Guided Resources Kits	Support and Resources for Parents and the Community	(300)	300	-	-
Payroll Legislative and Compliance Projects	Primary Education and Secondary Education MCA: Support and Resources for Education Providers	(270)	270	-	-
Property costs	School Property Portfolio Management	(10,317)	2,500	-	-
Providing free sanitary products in all state and state-integrated schools and kura	Outcomes for Target Student Groups MCA: Interventions for Target Student Groups	(319)	219	-	-
Raising the Profile and Strengthening the Pipeline into Vocational Education	Improved Quality Teaching and Learning MCA: Support and Resources for Teachers	(990)	40	-	-
Restarting Te Kotahitanga (Te Hurihanganui) - Supporting Equitable Outcomes for Māori Learners	Primary Education and Secondary Education MCA: Support and Resources for Education Providers	(1,500)	1,500	-	-
School Energy Efficiency	School Property Portfolio Management	(500)	123	-	-

Programme	Appropriation	2019/20	2020/21	2021/22	2022/23
		Estimated	Actual	Actual	Actual
Schools Payroll - Holidays Act Investigation	Primary Education and Secondary Education MCA: Support and Resources for Education Providers	(3,000)	3,000	-	-
Schools Payroll Sustainability Investment	Primary Education and Secondary Education MCA: Support and Resources for Education Providers	(250)	250	-	-
Sensitive Claims of Abuse – Funding to Resolve and Acknowledge Historic Abuse in Schooling System	Outcomes for Target Student Groups MCA: Interventions for Target Student Groups	(1,400)	962	-	-
Te Ara Whiti	Outcomes for Target Student Groups MCA: Interventions for Target Student Groups	(350)	240	-	-
	Primary Education and Secondary Education MCA: Support and Resources for Education Providers	(350)	350	-	-
Teacher Supply COVID-19 impacts	Improved Quality Teaching and Learning MCA: Support and Resources for Teachers	(560)	140	-	-
Teacher Supply – Continuing to Increase the levels of Teacher Supply for the Future	Primary Education and Secondary Education MCA: Support and Resources for Education Providers	(180)	180	-	-
Total departmental output expenses		(32,702)	18,282	-	-
Non-departmental output expenses					
Curriculum Progress Programmes	Improved Quality Teaching and Learning MCA: Curriculum Support	(1,096)	269	-	-
	Primary Education and Secondary Education MCA: Secondary Education	(400)	400	-	-
Data for Wellbeing Programme	Primary Education and Secondary Education MCA: Primary Education	(500)	500	-	-
Implementing a Free and Healthy School Lunch Prototype for Year 1-8 Students	Outcomes for Target Student Groups MCA: School Lunch Programme	(3,453)	3,453	-	-
Restarting Te Kotahitanga (Te Hurihanganui) - Supporting Equitable Outcomes for Māori Learners	Schooling Improvement	(2,100)	2,100	-	-
Satellite Broadband	Improved Quality Teaching and Learning MCA: Curriculum Support	(350)	350	-	-
Secondary Teachers' Professional Development	Improved Quality Teaching and Learning MCA: Professional Development and Support	(865)	865	-	-

Programme	Appropriation	2019/20	2020/21	2021/22	2022/23
		Estimated	Actual	Actual	Actual
Teaching Council online learning programme	Improved Quality Teaching and Learning MCA: Professional Development and Support	(2,800)	2,800	-	-
Teacher Supply COVID-19 impacts	Primary Education and Secondary Education MCA: Primary Education	(1,535)	1,535	-	-
	Primary Education and Secondary Education MCA: Secondary Education	(750)	750	-	-
	Early Learning	(475)	475	-	-
Tuia Mātauranga	Supporting Parenting	(200)	200	-	-
Total non-departmental output expenses		(14,524)	13,697	-	-
Non-departmental other expenses					
Charter School transition to Integrated Schools Property	Integrated Schools Property	(4,707)	4,707	-	-
Impairment of historic Teach NZ Scholarships	Impairment of Debts and Assets and Debt Write-Offs	(2,700)	2,700	-	-
Integrated School Property Policy Two	Integrated Schools Property	(534)	520	-	-
Total Non-departmental other expenses		(7,941)	7,927	-	-
Non-departmental capital expenditure					
Implementing a Free and Healthy School Lunch Prototype for Year 1-8 Students	Schools Furniture and Equipment	(319)	263	-	-
Improving the Condition of School Property	Schools Furniture and Equipment	(2,746)	2,265	-	-
Schools - Roll Growth, Christchurch Rebuild, and Redevelopment	Schools Furniture and Equipment	(26,632)	10,524	7,832	3,612
Total non-departmental capital expenditure		(29,697)	13,052	7,832	3,612
Capital injection					
New Schools Capital	Departmental Capital Injection	(25,193)	716	7,485	6,518
Roll growth	Departmental Capital Injection	(20,000)	-	-	-
School Energy Efficiency	Departmental Capital Injection	(4,300)	3,647	-	-
School Investment package	Departmental Capital Injection	(15,000)	1,121	-	-
School Property Guides	Departmental Capital Injection	(4,250)	-	3,959	-
Total capital injection		(68,743)	5,484	11,444	6,518
Total		(153,607)	58,442	19,276	10,130

Capital Transfers

Departmental Capital

New Schools

6. The Ministry receives capital injection funding for all new school, new Kura and stage (expansion) developments through The School Growth Package for past years. The business cases provide an initial indication as to the financial years in which funding is needed. The actual timing of spend will move between financial years as projects are planned and implemented and forecasts are updated.
7. Through the programme business cases in 2017 to 2020, the New Schools programme in 2020/21 has appropriated funding of \$120.47 million (note this amount does not include past transfers).
8. The initial timing assumed early acquisition of sites for the majority of the projects. However, in five cases, insufficient time to identify, negotiate, acquire and designate sites was allowed for. Further, in some instances, the progress of the development to which a new special school responds has been slower than forecast and the school construction has been deferred to better align with that development and the associated delivery of broader infrastructure and demand for student places.
9. Therefore, a capital transfer of \$60 million is proposed from 2020/21 to 2021/22 (\$13 million); 2022/23 (\$33.897 million) and 2023/24 (\$13.103 million).

Fiscally Neutral Adjustments

10. An explanation of each adjustment is listed below, and the amounts are specified in Table 2 attached to this letter.

Addressing Learners' Needs by Improving Data Quality, Availability, Timeliness and Capability

11. The Budget 2019 initiative "Addressing Learners' Needs by Improving Data Quality, Availability, Timeliness and Capability" [CAB-19-MIN-0174.13 initiative 10886 refers] aimed to enhance effective teaching, reduce workload, help address inequities, expand and create learning opportunities, better understand student needs and potential, and provide the capability to serve increasingly complex teacher and student needs. The initiative was to fund new technology to allow for students' information to follow them through the education system and provide teachers the information they need to provide personalised learning and support to students.
12. This project has recently been renamed Te Rito. Budget 2019 allocated \$54.641 million over four years (2020/21-2023/24) with \$11.961 million in 2020/21. In the initial development, it has been determined that the core systems will be managed by the Ministry rather than be distributed across schools. This requires a transfer in 2020/21 from non-departmental funding, mainly under Primary and Secondary Education MCA, to departmental capital (\$4.469 million) and

departmental operating appropriations (\$3.154 million). Any additional expenses such as depreciation and capital charge will be managed within baselines. Further changes to baselines will be sought in the 2021 March Baseline Update after completion of a detailed implementation business case expected by December.

	\$000 increase / (decrease)				
Vote Education	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears
Minister of Education					
Multi-Category Expenses and Capital Expenditure:					
Primary and Secondary Education MCA					
<i>Non-departmental output expenses:</i>					
Primary Education	(6,246)	-	-	-	-
Secondary Education	(1,204)	-	-	-	-
Outcomes for Target Student Groups MCA					
<i>Non-departmental output expense:</i>					
Learning Support	(173)	-	-	-	-
Oversight of the Education System MCA					
<i>Departmental output expense:</i>					
Stewardship and Oversight of the Education System	3,154	-	-	-	-
Capital Injection:					
Ministry of Education – Capital Injection	4,469	-	-	-	-
Total Operating	-	-	-	-	-

Cash for Buildings Cost

13. Under the “Cash for Building” programmes, the Ministry enters into a lease arrangement where a building construction solution is not available or is uneconomic to pursue. The Ministry has increasingly relied on this for institutions with limited capacity to build, particularly in Auckland where land availability is increasingly constrained.
14. To manage the increased operating lease costs for 2020/21 often arising from factors beyond the Ministry’s control, it is proposed to increase departmental output expense School Property Portfolio Management by \$4 million. This will be offset by a reduction in departmental capital funding by the same amount.

Enabling Students to Access Online Teaching and Learning

15. In March 2020, Joint Ministers approved immediate funding of \$36.400 million over two years to provide 100,000 students with access to online teaching and learning while schools were temporarily closed as part of the emergency response to COVID-19 [METIS 1224603 refers].

16. When the original proposal was developed, it was intended to lease a number of devices and the funding was split between operating and capital to allow flexibility as there was uncertainty around supply chain. \$4.400 million was allocated to lease 10,000 student devices. This has now been worked through and the Ministry was able to identify supply options to purchase additional devices rather than potentially having to lease.
17. A fiscally neutral transfer of \$4.440 million is therefore proposed in 2020/21 from non-departmental output expense Improved Quality Teaching and Learning MCA: Curriculum Support to non-departmental capital expenditure Schools Furniture and Equipment to fund the purchase of 10,000 student devices.
18. In August 2020, Joint Ministers approved key activities to facilitate COVID-19 key distance learning and any further possible COVID-19 related disruptions to teaching and learning funded by expense transfer from 2019/20 to 2020/21 [METIS 1237093 refers].
19. The original intention was to use external suppliers to develop, operate and support the rollout of internet services and devices. However, the Ministry will be able to use its current contractors who can provide more cost effective and higher level of service and engagement than external service providers. These resources will also continue to support schools and households for the duration of the program and ensure the Ministry's system and process will support this and any future COVID-19 related lockdowns.
20. A fiscally neutral transfer of \$2.320 million is proposed in 2020/21 from non-departmental capital expenditure Schools Furniture and Equipment to departmental output expense Improved Quality Teaching and Learning MCA: Support and Resources for Teachers to fund the resources to develop the technical design and work with network providers for a long-term equitable product.

Lease Costs

21. The Ministry is regularly required to provide short-term accommodation to schools to transfer students during a refurbishment or renovation of an existing school building. Sometimes, the temporary accommodation is required for multiple years if the redevelopment at a school is extensive and/or managed in stages. This temporary accommodation is often provided through the purchase or construction of a prefabricated building that can be transferred to a new site once the need for decanting has finished.
22. However, with the current unprecedented level of redevelopment activity, the demand for temporary accommodation solutions has exceeded the Ministry's pool of surplus relocatables. In addition, many of the prefabricated buildings that previously were considered to be relocatables, are now embedded in schools and are not available for relocation.
23. The Ministry is having to lease buildings for decanting purposes instead of the more preferable transfer of existing relocatable stock. The use of temporary accommodation is expected to reduce over time once a current programme of constructing a pool of accommodation for use across the portfolio.

24. The Ministry has reviewed all active capital projects that are currently underway and identified 51 projects where a lease solution is being provided for decanting purposes. The value of these operational leases is \$4 million in the 2020/21 financial year. The Ministry does not have sufficient operational funding to meet these lease costs. There is capital funding available for a fiscally neutral adjustment.

Learning Support donations scheme

25. In Budget 2019, Cabinet approved funding for schools to replace parental donation [CAB-19-MIN-0174.13 initiative 10873 refers] by providing an additional payment of \$150 per student to decile 1-7 state and state-integrated schools that agree not to request donations from parents. Special schools are eligible to opt in to the donations scheme. However, when the scheme started in January 2020, the funding was allocated in Primary Education and Secondary Education MCA, whereas costs relating to special schools are normally recognised within learning support.
26. A fiscally neutral transfer of \$600,000 is proposed in 2020/21 from non-departmental output expense Primary Education and Secondary Education MCA: Primary Education to non-departmental output expense Outcomes for Target Student Groups MCA: Learning Support to help alleviate financial pressure on families struggle to pay special school donations.

Ongoing Resourcing Scheme (ORS)

27. On 6 July 2020, Cabinet approved additional funding for teacher aide hours to support attendance, engagement and participation of ORS students [CAB-20-MIN-0328.09 initiative 12860 refers]. The initiative was originally a cost pressure bid over a number of years which addressed an existing imbalance between departmental and non-departmental ORS funding.
28. As funding was provided for 2020/21, and in line with the expectations outlined by Minister Martin in her press briefing of 4 August, rather than simply meeting the cost pressures, the fund will be used as a targeted response fund for ORS students affected by COVID-19. This will allow the Ministry to provide additional support for ORS students without making financial commitments beyond 2020/21.
29. To enable its equitable distribution, the ORS response funding needs to be allocated in the same proportion as ORS students' enrolment in:
- fund holder schools (eg. specialist schools which have significant number of ORS verified students – non-departmental funding); and
 - non-fund holder schools (schools with smaller numbers of ORS verified students, where the Ministry is the fund holder – departmental funding)
30. A fiscally neutral transfer of \$4.149 million is proposed in 2020/21 from non-departmental output expense: Learning Support to departmental output expense Interventions for Target Student Groups under Outcomes for Target Student

Groups MCA to enable the ORS response fund support the maximum number of ORS students in an equitable way.

Reallocation of Gains on Sale of Surplus Property

31. From July to September 2020, the Ministry has gains achieved from the sale of surplus of school property assets of \$880,000. It is proposed that this third party revenue offset the increased rationalisation of school property.
32. The Ministry is rationalising under-utilised assets to assist the provision of additional capacity where required by factors such as movement from rural and provincial New Zealand to metropolitan areas, especially Auckland, and the effects of parental choice. A rationalisation plan is now a requirement of the 10-year property plan for schools where more than four classrooms are deemed "surplus". The acceleration of this redevelopment programme has created further pressure. Rationalisation reduces pressure on operational budgets and future capital allocations, but there is an upfront cost.
33. This submission therefore includes approval for retention of surplus related to the gain on sale, an increase in departmental output expense School Property Portfolio Management for property rationalisation for 2020/21.

Retention of weather-tightness settlement for remediation of school buildings and litigation costs

34. The Ministry is undertaking a long-term programme (10-15 years) to address weather-tightness failure in schools. The repair of defective buildings is a major work programme with total costs estimated around \$1.500 billion.
35. Legal action is taken as appropriate against parties involved in the design and construction of the defective buildings to: protect Crown assets; partially offset the cost of the remediation programme; and promote improved building quality and supplier practice. The final product liability claim against a case has now been concluded with settlement in favour of the Ministry.
36. It is proposed to use the \$37.500 million proceeds from legal recoveries received to meet further litigation costs of \$2 million in 2020/21 under departmental output expense School Property Portfolio Management and \$35.500 million to fund the capital remediation costs for the affected school buildings. Any additional expenses such as depreciation and capital charge will be managed within baselines.

Services to Other Agencies RDA Adjustment

37. The Services to Other Agencies RDA reflects provision of office accommodation (co-location) and support services by the Ministry to other government departments or education agencies on a cost recovery basis.
38. This baseline update reflects the costs of providing staff support services to Oranga Tamariki for Royal Commission of Inquiry into historical abuse in care. An increase of \$500,000 to the Services to Other Agencies RDA in 2020/21 is requested.

Supporting Māori Learners and their Whanau

39. On 11 May 2020, Cabinet approved funding of \$64 million over four years to Support Māori Learners and Te Reo Māori post COVID-19 as part of COVID-19 Response and Recovery Fund [CAB-20-MIN-0219.09 initiative 12847 refers]. The funding was appropriated in departmental output expense category of Outcome for Target Student Groups MCA: Intervention for Target Student Groups. However, the fund enables the Ministry to partner with Iwi and Māori organisations to provide engagement, facilitation and brokerage services between Māori learner and whanau and local education services. The nature of this relationship makes it non-departmental funding rather than departmental.
40. A fiscally neutral transfer for 2020/21 (\$8.436 million) and 2021/22 to 2023/24 (\$10 million each) from departmental output expense Outcomes for Target Student Groups MCA: Interventions for Target Student Groups to non-departmental output expense Schooling Improvement is proposed.

Wellbeing and Mental Health Support to Learners and Education Workforce

41. On 11 May 2020, Cabinet approved funding of \$201 million over four years to increase the provision of wellbeing and mental health support to learners and education workforce in response to COVID-19 [CAB-20-MIN-0219-09 initiative 12675 refers].
42. The Ministry has recently established a wellbeing governance approach to provide oversight over this work. As part of this process, the Ministry has identified concerns within the Wellbeing Package including:
 - the Workforce Wellbeing funding of \$15.988 million over three years currently allocated to departmental funding needs to be transferred to non-departmental appropriations in order to be utilised; and
 - transferring the full funding for the Workforce Wellbeing initiative from departmental to non-departmental funding would leave insufficient departmental funding for the Ministry to implement the wider Wellbeing Package effectively.
43. The Ministry has looked at addressing this pressure by:
 - reducing the spend across other parts of the Wellbeing Package - but this would divest spending from learners and communities; and
 - reprioritising other internal departmental funding to offset this shortfall - but there is already significant stress placed on the baseline.
44. I therefore proposed the following fiscally neutral transfers to ensure that funding for the Workforce Wellbeing initiative is in the correct appropriation and that there is sufficient departmental funding to implement the wider Increasing Wellbeing and Mental Health Support to Learners and the Education Workforce (Wellbeing Package) effectively:

Vote Education Minister of Education	\$000 increase / (decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears
Multi-Category Expenses and Capital Expenditure:					
Improved Quality Teaching and Learning MCA					
<i>Departmental output expense:</i>					
Support and Resources for Teachers	(4,530)	(4,650)	(3,488)	-	-
Primary and Secondary Education MCA					
<i>Non-departmental output expenses:</i>					
Primary Education	2,718	2,790	2,093	-	-
Secondary Education	1,812	1,860	1,395	-	-
Total Operating	-	-	-	-	-

Summary of Fiscally Neutral Adjustments

GST Exclusive \$000	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears
Addressing Learners' Needs by Improving Data Quality, Availability, Timeliness and Capability	-	-	-	-	-
Cash for buildings	-	-	-	-	-
Enabling students to access online teaching and learning	-	-	-	-	-
Lease costs	-	-	-	-	-
Learning Support donations scheme	-	-	-	-	-
Ongoing Resourcing Scheme	-	-	-	-	-
Reallocation of gains on sale of surplus property	-	-	-	-	-
Retention of weather-tightness settlement for remediation of school buildings and litigation costs	37,500	-	-	-	-
Services to Other Agencies RDA Adjustment	500	-	-	-	-
Supporting Māori Learners and their whanau	-	-	-	-	-
Wellbeing and Mental Health Support to Learners and Education Workforce	-	-	-	-	-
Total	38,000	-	-	-	-

Forecast Changes

45. An explanation of each proposed forecast change is provided below, and the amounts are specified in Table 2 attached to this letter.

School Operations

GST Exclusive \$000	2020/21	2021/22	2022/23	2023/24	2024/25
Outturns	(15,580)	(18,205)	(17,836)	(18,265)	(14,939)
Rolls	(899)	1,529	3,465	2,818	(2,355)
Non-Teacher Support costs	10,303	11,186	11,186	11,186	11,186
Te Kura outturns	709	(2,043)	(2,486)	(2,486)	(2,486)
Home Schooling Allowance	246	386	474	474	368
Te Kura admin and supervisors- Home schooling	1,244	1,244	1,244	1,244	1,244
Operating Impact	(3,977)	(5,903)	(3,953)	(5,029)	(6,982)

46. Forecast changes to school operations funding (non-departmental output expenses Primary Education and Secondary Education MCA: Primary Education and Secondary Education and Outcomes for Target Student Groups MCA: Learning Support) across the forecast period are due to:

- Outturns - mainly due to the incorporation of the latest actual data. In the 2019/20 financial year, actual expenditure was lower than the MBU 2020 forecast, hence in this update forecasts are adjusted downward.
- Forecast roll change - the incorporation of the 2020 National School Roll Projection (NSRP) which has been reviewed since MBU 2020, leads to a slight decrease of the forecast for 2020/21, and an increase for the years 2021/22 to 2023/24 before decreasing again in 2024/25.
- The funding initially requested for the Non-Teaching Staff Collective Agreement (NTCA) settlement was based on the number of non-teaching staff employed in 2018. On 4 March 2020, we jointly noted that the Ministry would identify the impact of any increase of staff subsequent to 2018 as part of regular Baseline Update processes [METIS 122115 refers]. This forecast assumes that the 26% overspend observed thus far will continue in each year of the forecast period.
- Home Schooling costs are revised upward, based on significantly higher outturns than expected in 2019/20. The forecast assumes that the high demand from 2019/20 will continue for the foreseeable future.
- Te Kura expenditures are forecast based on outturns. There was a sudden high roll increase at Te Kura in 2019/20. It is assumed in this update that the trend will continue for 2020/21 and will stay constant in outyears.

Teacher Salaries

Exclusive \$000	2020/21	2021/22	2022/23	2023/24	2024/25
Full Time Teacher Equivalents	17,928	37,611	43,362	42,784	22,923
Rates	(34,530)	(49,457)	(47,471)	(45,236)	(57,747)
Superannuation Subsidies	655	(266)	(1,703)	(1,795)	(1,859)
Recent actual data	(10,421)	-	-	-	-
Holiday Pay	-	-	-	-	(22,481)
Operating Impact	(26,368)	(12,112)	(5,812)	(4,274)	(59,164)

47. Forecast changes for teacher salaries funding (non-departmental output expenses: Primary Education and Secondary Education MCA: Primary Education, Secondary Education and Outcomes for Target Student Groups MCA: Learning Support) are due to:

- Full time teacher equivalents – amount is driven by growth in March 2020 school rolls and staffing entitlements which are 2% higher than previously forecast for Primary, and 1% higher for Secondary and Learning Support. In addition, the forecast is further impacted by the incorporation of the 2020 NSRP, although these impacts occur mainly in the outyears.
- Salary rates – salary assumptions are based on the latest payroll data outturns, which are influenced by factors such as the mix of teachers employed across the system. Since collective settlements were reached in 2019, salaries have increased by approximately 5% on average. However, salary payments remain 1% lower than MBU 2020 forecast.
- Lower superannuation subsidy – a small overall decrease in Superannuation is tied to a proportionate decrease in retirement contributions made by secondary teachers since MBU 2020.
- Recent actual data reflects the movement in actual expenditure compared to forecast for the month of July 2020.
- Holiday pay is quite volatile as changing term dates and numbers of days schools are open in a year impact on the amount of the holiday pay accrued at the end of each financial year. Factoring outyears figure owing to increasing costs between 2023/24 and 2024/25 has resulted in a decrease in holiday pay provision in 2024/25.

48. The major risks relating to the forecasts for salaries and school operations expenditure include:

- uncertainty in relation to the full effect of COVID-19 lockdown and border closures on funding in future years
- the Ministry expects a significant number of secondary students to stay longer in schools to catch up on classes missed in 2020. While the NSRP factors an increased retention rate due to COVID-19, it

does not account for this specific event. However, due to lack of reliable information, no provision has been made for it in this forecast.

- The July and August 2020 outturns were not enough to influence the forecast for most components. However, they seem to indicate lower expenses than expected. This will be reviewed for the MBU 2021.

Early Learning

GST Exclusive \$000	2020/21	2021/22	2022/23	2023/24	2024/25
Volume Growth	(9,109)	(31,329)	(71,623)	(124,449)	(69,278)
Average Prices	(5,859)	(11,745)	(15,263)	(18,436)	(8,925)
Other	(824)	(907)	(1,996)	(3,545)	(2,032)
Operating Impact	(15,792)	(43,981)	(88,882)	(146,430)	(80,235)

49. Early Learning forecasts have been decreased across all years in this update. The major factors driving the forecast changes are:

- Volume growth – has been revised downward based on the latest outturns data. The actual funded child hours (FCH) for the eight months to May 2020 were 2.2% lower than the MBU 2020 forecast. Forecast FCH for June 2020 - June 2021 are based on a time series model that only looks at past FCH. Statistics New Zealand's estimates indicate that MBU 2020 also under forecast population. The age-weighted December 2019 and March 2020 quarters estimate is 0.1% lower than the population used for the same quarters in MBU 2020.

Each year, as part of OBU, the forecast period is extended to incorporate an additional year. The expenditure for outyears is set at the same level as the final year of the forecast period. Hence, in the opening baseline, the baseline for 2024/25 is the same as for 2023/24 [para 77 refers].

- Average price – the outturns for October 2019 to May 2020 show that MBU 2020 had under forecast average price by \$0.05 per FCH. Forecast figures are particularly sensitive to average hourly price, for example a \$0.01 per FCH change in average rate results in \$11.800 million change over the forecast period.
- Other forecast change – mainly relates to Equity Funding and Targeted Funding which have been revised down in line with the FCH revision due to a decrease in projected volume growth.

50. The major risks related to the early childhood education forecast are:

- Impact of COVID-19 – unemployment has the potential to reduce early learning participation as parents may choose to provide education and care for their children in place of early learning

provider in time of unemployment. There has already been significant economic disruption caused by COVID-19 while its full impact on unemployment will not be known until after recovery occurs and government support packages expire. There is a time lag between events occurring, like COVID-19, and impact of these events being seen in actual data. There is an anticipated drop in enrolments that will directly translate to a drop in funded child hours. Actual enrolment data is being closely monitored against expected enrolment, to help inform participation assumptions for future forecast rounds. The future demand for early learning is highly dependent on the number of new births. There may be a reduction in birth rates as some people delay having children, or choose not to have children, due to increased economic uncertainty.

- Average price – Early learning services are funded at different hourly rates depending on service types, age bands and funding bands. Rates vary considerably so a shift in this mix can have a significant impact on the average hourly price and on the forecast.
- Outyears – typical of any forecast, the further out in time the forecast extends, the greater the level of uncertainty. This is especially the case with early learning forecasts, where future growth depends on behavioural assumptions about the supply and demand of services, and government policies, including changes to funding policy and a broad range of policies that encourage labour market participation. At the current point in time, the forecast horizon is expected to include consideration of some significant reforms to early learning policy settings, which could have substantial implications for expenditure

Departmental Capital Expenditure PLA

GST Exclusive \$000	2020/21	2021/22	2022/23	2023/24	2024/25
Buildings - Other	242,306	303,073	360,066	339,872	207,469
Buildings - PPP	-	-	-	-	-
Land	8,027	(29,782)	(41,500)	(23,050)	(23,050)
Other property, plant and equipment (PPE) and Intangibles (non-school property)	6,613	-	-	(768)	(768)
Total	256,946	273,291	318,566	316,054	183,651

51. The increase in Buildings – Other reflects the ongoing commitment of baseline funding in maintaining existing portfolio, improving assets to accommodate students with learning support needs and delivery of redevelopment projects to align with the governments objectives to upgrade the school property portfolio by 2030. In addition, the Ministry has completed Wave 2 drawdown of Capital Injection funding from Budget 2019 Growth Programme to deliver new schools and roll growth classrooms [SWC-20-MIN-0129 refers].
52. The decrease in Land from 2021/22 is due to the introduction of an annual cap on land acquisition of \$80 million, until a future funding model is agreed with

Treasury [SWC-20-MIN-0129 para 14 refers]. Currently, land is acquired using baseline and reimbursed through Capital Injection in future years.

53. The increase in other PPE and intangibles in 2020/21 can be attributed mostly to the ICT investment on the ongoing Education Resourcing System work programme and commencement of the Digital Identity Required for Online Assessment and Learning work programme [CAB-20-MIN-0328.09 initiative 12851 refers].

Summary of Forecast Changes

GST Exclusive \$000	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears
School Operations	(3,977)	(5,903)	(3,953)	(5,029)	(6,982)
Teachers Salaries	(26,368)	(12,112)	(5,812)	(4,247)	(59,164)
Early Childhood Education	(15,792)	(43,981)	(88,882)	(146,430)	(80,235)
Capital Expenditure	256,946	273,291	318,566	316,054	183,651
Total	210,809	211,295	219,919	160,348	37,270

Technical Changes

Capital Charge

54. The capital charge has been revised in 2020/21 and outyears for the impact of:
- revaluation of school property assets as at 30 June 2020 that resulted in an unrealised gain of \$893.757 million
 - change of rate from 6% to 5% - in line with the default public sector discount rate revision from 6% to 5% in September 2020, the capital charge rate has been reduced from 6% to 5% effective 1 July 2020 [Treasury Circular 2020/12 refers]. Consequently, adjustments to the capital charge as a result of rate change from 6% to 5% are included in this update
 - net unrealised loss on remeasurement of derivative financial instruments with NZDMO as at 30 June 2020 of \$70.819 million
 - net unrealised loss on remeasurement of long service and retiring leave as at 30 June 2020 of \$948,000, and
 - changes to timing of drawing down capital injections.

55. The table below details the net movement in capital charge:

\$000 GST Exclusive	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears
Departmental adjustments					
Gain on school property revaluations	44,688	44,688	44,688	44,688	44,688
Capital charge rate change	(195,508)	(195,508)	(195,508)	(195,508)	(195,508)
Unrealised loss on remeasurement of derivatives	(3,541)	(3,541)	(3,541)	(3,541)	(3,541)
Unrealised loss on remeasurement of retiring and long service leave	(47)	(47)	(47)	(47)	(47)
Changes to timing of drawing down capital injections	(5,782)	-	-	-	-
Net movement in departmental capital charge	(160,190)	(154,408)	(154,408)	(154,408)	(154,408)
Non-departmental adjustments					
Capital charge rate change	(139)	(139)	(139)	(139)	(139)
Total Movement	(160,329)	(154,547)	(154,547)	(154,547)	(154,547)

56. The change to departmental capital charge is in departmental output expense School Property Portfolio Management.

57. A reduction of \$139,000 to non-departmental output expense Oversight and Administration of the Qualifications System MCA is for NZQA.

Depreciation

58. The Ministry has significantly increased the level of investment in the school property portfolio in recent years. The Ministry's capital expenditure on school buildings more than doubled from \$437 million in 2012/13 to \$1,060 million in 2019/20. This has had an impact on the depreciation forecast for 2020/21.

59. In addition, the value of existing school property assets (other than land) increased by \$517.471 million as a result of the 30 June 2020 school property revaluation. Consequently, a baseline increase for depreciation on school buildings and teacher housings of \$36 million in departmental output expense School Property Portfolio Management is required in 2020/21 and outyears.

60. I understand that Treasury and Ministry officials have been discussing the Ministry's authority regarding the depreciation forecast and that Treasury officials will advise you on this.

Shifting the indicative spending profile between categories of Primary Education and Secondary MCA

61. In July 2020, Cabinet approved initiative to Support Schools to manage the Immediate Costs, including cleaning and sanitation costs, of COVID-19 [CAB-20-MIN-0328.09 initiative 12864 refers]. Based on feedback from the schools on cleaning and hand sanitiser requirements, the categories between Primary

Education to Secondary Education MCA spending profile need to be adjusted. A \$2.085 million transfer between non-departmental output expenses Primary Education and Secondary Education is proposed for 2020/21 only.

Other technical change

62. In line with Treasury Circular 2020/12, these transfers are included in Table 2 – Baseline Changes Report as technical adjustments due to the consolidation of appropriations from 1 July 2020.

Programme	Appropriation	2019/20	2020/21
		Estimated	Actual
Departmental output expenses			
Data for Wellbeing Programme	Oversight of the Education System MCA: Stewardship and Oversight of the Education System	(907)	596
Education System Sector Engagement	Oversight of the Education System MCA: Stewardship and Oversight of the Education System	(800)	526
Teacher Supply – Continuing to Increase the levels of Teacher Supply for the Future	Oversight of the Education System MCA: Stewardship and Oversight of the Education System	(750)	493
Website Improvements	Oversight of the Education System MCA: Stewardship and Oversight of the Education System	(800)	526
Total departmental output expenses		(3,257)	2,141

Summary of Technical Changes

GST Exclusive \$000	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears
Capital Charge	(160,329)	(154,547)	(154,547)	(154,547)	(154,547)
Depreciation	36,000	36,000	36,000	36,000	36,000
Expense transfers to be confirmed	2,141	-	-	-	-
Shifting the indicative spending profile between categories of Primary Education and Secondary MCA	-	-	-	-	-
Total	(122,188)	(118,547)	(118,547)	(118,547)	(118,547)

63. The capital charge and depreciation elements of the School Property Portfolio Management appropriation are budgeted for and accounted for as separate components of the appropriation and as such will not be used for other purposes if the forecast expenses do not eventuate.

Other Matters

Appropriation consolidation

64. As part of the first stage of public finance modernisation, there has been an effort to reduce the total number of appropriations by consolidating small

appropriations. Round one of this work was completed in 2019/20 and took effect from 1 July 2020; round two is scheduled to be completed between now and Christmas 2020 to take effect from 1 July 2021.

65. Ministry officials are discussing further changes to appropriations in Vote Education to take effect from 2021/22. These are focussed on eliminating several of the remaining small appropriations/categories, where that is practical, or the appropriations are not already expected to phase out over the next several years. But the Vote will still retain several smaller funds where there is no immediately obvious option for consolidation.
66. The specific proposals under consideration include:
- establishing a new appropriation or category to consolidate funding for the Teaching Council of Aotearoa New Zealand, UNESCO, and NZ Council for Educational Research and possibly other entities
 - merging non-departmental capital expenditure appropriations for School Support Project and Schools Furniture and Equipment
 - consolidating Service Academies funding with another category under Outcomes for Target Student Groups MCA

With these adjustments, there may also be consequential changes required for other appropriations such as Oversight of the Education System MCA.

67. If these proposals are implemented from 2021/22, there will still be some small funds remaining in Vote Education that are not programmed to expire over the next several years and where there is no obvious option to consolidate with, including:
- Services to Other Agencies RDA – an RDA has to stand alone
 - Schooling Improvement
 - Home Schooling Allowances – it is desirable for home schooling to remain a separate appropriation and declined a proposal to consolidate this with Scholarships and Awards for Students in March
 - Impairment of Debts and Assets and Debt Write-Offs – there is no clear option to consolidate this with
 - School Risk Management Scheme under Primary and Secondary Education MCA – this will always be approximately \$5 million and a separate category was required.
68. For some of these, there is no clear appropriation where they could be effectively consolidated. If they were rolled into an existing MCA, this would probably be just as a stand-alone category that would remain very small. This is not the desired outcome.
69. Several other appropriations/categories are just under the \$10 million threshold although not by much – eg Supporting Parenting, Students Attendance and Engagement. At this stage, there is no obvious candidate for merging them with and no other plan to change them.

Correction of financial recommendation

70. The Treasury team has reviewed the Cabinet Minute Meeting on Continuation of Support for the Casual Schooling Workforce Unable to Work due to COVID-19 [CAB-20-MIN-0198 refers] and noted that the change was approved in the Vote Education departmental output appropriation: Support and Resources for Education Providers in years 2019/20 and 2020/21. However, the Imprest Supply wording mentioned only the year 2019/20 and not 2020/21. This is causing an issue for the year 2020/21 which needs fixing.
71. The Treasury has advised that an approval is required for the 2020/21 appropriation change to be included in the 2020/21 Supplementary Estimates and this can be done through Joint Ministers (you and I) in this update.

Extension of contingency expiry date

72. I also seek further extension to the WAI 2336 Te Kōhanga Reo Claim operating contingency until 30 June 2021. The expiry date was recently extended to 31 December 2020 [Extending Expiry Dates for Tagged Contingencies - METIS 1231481 refers].
73. The contingency was approved in Budget 2018 to provide partial cover for costs arising from Crown decisions responding to the findings of the Waitangi Tribunal. There has been \$2.697 million of the original \$5.849 million contingency spent to date. The majority has been spent on ICT upgrades. The Trust is aware of the remaining contingency (\$3.152 million). The nature of this contemporary claim means the Crown is largely reliant on Te Kōhanga Reo National Trust generating requests for further funding. The Ministry expects the Trust to request more funding for ICT upgrades from the contingency but remain unclear as to the exact timing for this.

Other Cabinet decisions

74. A number of items listed in Table 2 attached to this submission do not require Joint Ministers' approval. The Secretary for Education has assured me that all Cabinet decisions relating to this Vote made after the Budget Update have been included in this update and are listed in detail in Table 2 attached to this letter.
75. All appropriation changes agreed as part of the Pre-election Economic and Fiscal Update (PREFU) are prefixed "PREFU" in Table 2 and do not require further approval. The PREFU changes are reported here for reconciliation purposes only.

Baseline Rollout Adjustments

76. The baselines comprise five years: the current year and four outyears. In the October Baseline Update, the forecast period is extended by a year and the initial baseline for a new outyear is established. In this update, the new forecast year is 2024/25.

77. The opening baseline for 2024/25 has been based on the existing baseline for 2023/24 with the exception of:

- New forecasts for teacher salaries, school operations funding and early childhood subsidies which include the impact of previous trends beyond 2023/24. Therefore, the changes for the new outyear can appear significant because they combine the continuation of those trends incorporated in the 2019/20 to 2023/24 baseline in February/March and the latest demographic changes and other trends reported in this update.
- Various Cabinet decisions have a time limited funding up to 2023/24 only :
 - Final year (2023/24) capital funding of \$25.050 million in Budget 2019 [CAB-19-MIN-0174.13 initiative 11710 refers] for in the School Property Programme to deliver the National Education Growth Plan
 - Final year (2023/24) funding of \$10.920 million in COVID-19 Response and Recovery Fund July Package [CAB-20-MIN-0328.09 initiative 12855 refers] to upgrade and install cybersecurity protection in Network-as-a-Service and Cybersecurity for Schools initiative.
 - Final year (2023/24) funding \$10.920 million [METIS 1230218 refers] for Targeted support for Pacific learners and families.

Forecast Financial Statements

78. The baseline update also includes forecast financial statements, although approval for these is not sought from the Minister of Finance. The baseline changes sought in this letter have been incorporated in the forecast financial statements of the Ministry of Education, together with the adjustments necessary to accurately reflect estimated operating expenditure, capital expenditure and cash flows.

Recommendations

79. I recommend that you:

- a. **agree** the changes to the 2020/21, 2021/22, 2022/23, 2023/24 and 2024/25 baselines in Vote Education as set out in Table 2 – Baseline Changes Report (attached to this letter);
- b. **agree** that the proposed changes to appropriations for 2020/21, covered by recommendation 'a' above, be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- c. **agree** changes to capital contributions to the Ministry of Education for the years 2020/21, 2021/22, 2022/23, 2023/24 and 2024/25 as set out in Table 2 – Baseline Changes Report;
- d. **agree** that until the 2020/21 Supplementary Estimates are enacted, any changes to the 2020/21 net asset schedules required under recommendation (c) be made under Imprest Supply;

- e. **agree** that the changes to appropriation for 2020/21 in departmental output expense Primary and Secondary Education MCA: Support and Resources for Education Providers under CAB-20-MIN-0198 Continuation of Support for the Casual Schooling Workforce Unable to Work due to COVID-19 be included in the 2020/21 Supplementary Estimates, and that, in the interim, the increase be met from Imprest Supply;
- f. **agree** to extend the WAI 2336 Te Kōhanga Reo Claim operating contingency until 30 June 2021;
- g. **note** that further consolidations of appropriations in Vote Education are scheduled to be completed between now and Christmas 2020 to take effect from 1 July 2021; and
- h. **note** that Table 2 includes for completeness other changes to baselines for the appropriations in Vote Education that have been approved by Cabinet or Joint Ministers since the previous baseline update or do not require such approval.



Hon Chris Hipkins
Minister of Education



27 October 2020

Hon Grant Robertson
Minister of Finance
Parliament Buildings
WELLINGTON

2020 October Baseline Update Submission for Vote Tertiary Education

Introduction

1. This submission proposes changes to the baseline of Vote Tertiary Education.
2. None of the changes contained in this update require Cabinet decisions at this time.
3. In summary, the changes included in this Baseline Update are:

GST Exclusive \$000	2020/21	2021/22	2022/23	2023/24	2024/25
Expense transfers to be confirmed	24,394	-	-	-	-
Expense transfers	(1,294)	(3,249)	1,812	(869)	3,600
Fiscally neutral adjustment	(283)	-	-	-	-
Technical change	(318)	(318)	(318)	(318)	(318)
Other change	83,418	-	-	-	-
Total baseline changes	105,917	(3,567)	1,494	(1,187)	3,282

Changes requiring approval of Joint Ministers

4. The proposed changes to baselines are as follows:

Expense Transfers In-Principle to be Confirmed

5. On 22 June 2020, Joint Ministers authorised in-principle transfers for Vote Tertiary Education [METIS 1229253 refers] subject to underspends in 2019/20 being confirmed. The exact amounts of the transfers were uncertain at the time, and joint Ministers agreed to confirm the final amount once known.

6. The proposed expense transfers from 2019/20 to 2021/21 can now be finalised, following completion of the 2019/20 audited financial statements as set out in the next table.

Title	Appropriation	2019/20 Estimated	2020/21 Actual
GST Exclusive \$000	Departmental output expense		
Programme for the International Assessment of Adult Competencies	Stewardship of the Tertiary Education System	(440)	440
RoVE – Programme operating costs for Ministry	Stewardship of the Tertiary Education System	(210)	210
RoVE – Establishment of New Zealand Institute of Skills and Technology (NZIST)	Establishing a Single National Vocational Education Institution	(950)	-
	Non-departmental output expense		
RoVE – Programme operating costs for TEC	Administration of and Support for the Tertiary Education and Careers Systems	(2,000)	1,907
Group Training Scheme Fund	Access to Tertiary Education	(3,230)	162
RoVE - Workforce Development Councils (WDC)	Tertiary Sector / Industry Collaboration Projects	(1,700)	1,700
Transitional Industry Training Organisation/WDC COVID-19 Response Projects	Tertiary Sector / Industry Collaboration Projects	(3,000)	3,000
VET Marketing Campaign	Administration of and Support for the Tertiary Education and Careers Systems	(500)	333
Workplace Literacy Fund	Tertiary Tuition and Training MCA: Community Education	(5,645)	5,645
Industry Training Fund - Industry Training Related Projects	Tertiary Tuition and Training MCA: Training for Designated Groups	(3,565)	3,540
Gateway and Trades Academy Places	Tertiary Tuition and Training MCA: Training for Designated Groups	(1,384)	1,384
Various Tertiary Sector / Industry Collaboration Projects contracts	Tertiary Sector/ Industry Collaboration Projects	(2,286)	2,286
University-led Innovation Grant Contracts	University-led Innovation	(1,287)	1,287
Equity Grant Contracts	Access to Tertiary Education	(500)	500
International Education Programmes - student reimbursement	International Education Programmes	(2,000)	2,000
Total		(28,697)	24,394

Expense Transfers

Programme for the International Assessment of Adult Competencies

7. COVID-19 has caused operational delays for the Programme for the International Assessment of Adult Competencies (PIAAC). PIAAC is a household survey of adult literacy and numeracy skills coordinated by the OECD and run every ten years. Joint Ministers

agreed to rephase the programme costs [METIS 1208902 refers] so the Ministry could contract the research company to undertake the survey.

8. Due to COVID-19, the planned 2020 field trial interviews were delayed until March to June 2021. The further phases of PIAAC are also delayed twelve months from the original timetable. The Ministry has signed a contract variation with the supplier which alters the timing of payments but the original contracted cost will remain the same.
9. An expense transfer is proposed from 2020/21 (\$494,000) and 2021/22 (\$2.349 million) to 2022/23 (\$2.712 million) and 2023/24 (\$131,000) under departmental output expense Stewardship and Oversight of the Tertiary Education System to reflect the funding commitments with the research contracted company.

Performance Based Research Fund Operating Expenditure

10. The Tertiary Education Commission (TEC) has an internal operating baseline of \$1.200 million per annum to manage and deliver the Performance Based Research Fund (PBRF). The PBRF cycle includes a policy review and evaluation, a sector reference group phase, and a Quality Evaluation (QE) phase. This costs TEC between \$7 to \$8 million over a six-year period. The biggest cost is the QE phase over a three-year period.
11. An expense transfer is proposed from 2020/21 (\$800,000); 2021/22 and 2022/23 (\$900,000 each year) and 2023/24 (\$1 million) to 2024/25 under non-departmental output expense Administration of and Support for the Tertiary Education and Careers System to adjust TEC's appropriated operating funding to provide for increased funding during the QE phase and to better reflect when the costs occur.

Summary of Expense Transfers

Programme GST Excusive \$000	Appropriation	2020/21	2021/22	2022/23	2023/24	2024/25
Departmental output expense						
Programme for the International Assessment of Adult Competencies	Stewardship and Oversight of the Tertiary Education System	(494)	(2,349)	2,712	131	-
Non-departmental output expense						
Performance Based Research Fund Operating Expenditure	Administration of and Support for the Tertiary Education and Careers System	(800)	(900)	(900)	(1,000)	3,600
Total		(1,294)	(3,249)	1,812	(869)	3,600

Fiscally Neutral Adjustment

Education New Zealand Contribution to New Zealand Story

12. In 2013, Cabinet agreed to create the New Zealand Story through the baselines of New Zealand Trade and Enterprise, Tourism New Zealand, Education New Zealand (funded through Vote Tertiary Education), Te Puni Kōkiri, Ministry of Foreign Affairs and Trade and Ministry for Primary Industries [CAB Min (13) 16/4 refers]. The New Zealand Story is administered by the Ministry of Business, Innovation Employment. This programme is funded through transfers made annually for one year only.

13. Accordingly, to meet the Education New Zealand share of the cost in 2020/21, I seek your approval for a fiscally neutral adjustment of \$283,000 from non-departmental output expense International Education Programmes to Vote Economic Development under departmental output expense Support the Growth and Development of New Zealand Firms, Sectors and Regions MCA: Collaborative Activity and Special Events.

Technical Change

Capital Charge

14. The capital charge rate incurred by the Tertiary Education Commission (TEC) has been reduced from 6% to 5% effective from 1 July 2020 in line with the revision in the default public sector discount rate [Treasury Circular 2020/12 refers]. Consequently, a reduction of \$318,000 is required for 2020/21 and outyears in non-departmental output expense Administration of and Support for the Tertiary Education and Careers Systems to provide for the revised capital charge rate.

Other matters

Extension of contingency expiry date

15. I also seek a further extension to the Administration of the Code of Practice for Pastoral Care of Domestic Tertiary Students operating contingency until 1 January 2022. The current expiry date is 1 February 2021.
16. The contingency was approved in Budget 2020 to fund the administration of the Code of Practice for the Pastoral Care of Domestic Tertiary Students and the associated Dispute Resolution Scheme. Given that the interim code of practice has been extended by the Education and Training bill, I seek an extension of the expiry date of the contingency as well.

Transfer of 2019/20 underspends as part of COVID-19 Response and Recovery Package

17. To support tertiary education and training providers to keep learners and staff engaged in delivering education and training as they responded to COVID-19, in late March I announced that 2020 funding would continue to be paid, and no 2020 funding would be recovered in the event of lower-than-expected student volumes.
18. This gave providers certainty of a key revenue source but required the cost to the Crown of all 2020 funding tied to student volumes to be recognised in 2019/20 rather than spread across 2019/20 and 2020/21. Therefore, as part of the COVID-19 Response and Recovery Fund Foundation Package, Cabinet agreed to bring \$1.186 billion of appropriated 2020/21 funding into 2019/20 to implement the necessary accounting treatment of the funding guarantee [CAB-20-MIN-0219.27 initiative 12660 refers].
19. The agreed description and intent of this transfer was that it would be fiscally neutral across 2019/20 and 2020/21, and that it would have no impact on the funding available to allocate to tertiary education and training providers for 2021 enrolments.
20. As a more definitive view of the implications of the funding guarantee became clearer, the TEC determined that \$83.418 million would need to be transferred back to 2020/21 appropriations in order to ensure the funding available for allocation to providers in 2021 would not be reduced. Further, the funding guarantee locked in an over-allocation of 2020

Student Achievement Component (SAC) funding, meaning that most of the funding to be returned to 2020/21 needs to be unspent Fees-Free funding.

21. I subsequently proposed an in-principle transfer of funding, which was approved (in principle) by us [Joint Ministers] on 22 June 2020 [METIS 1229253 refers].
22. However, due to an administrative oversight, the surplus 2019/20 Fees-Funding should have first been transferred to the 2019/20 SAC category of the Tertiary Tuition and Training Multi-Category Appropriation (MCA) to ensure sufficient funding was available for the proposed transfer into the SAC category for 2020/21. This means that:
 - the in-principle transfer cannot be confirmed; and
 - without a correction, SAC funding available for allocation to tertiary education and training providers for the 2021 calendar will be \$83.418 million lower than intended.
23. In ordinary circumstances, this 'diagonal' transfer of unspent Fees-Free funding across MCA categories and fiscal years would require Cabinet authorisation. However, Education and Treasury officials have agreed that the current exceptional circumstances provide justification for the transfer to be confirmed under Joint Ministers' authority, provided officials and Minister acknowledge this differs to prevailing expectations about the availability and use of unspent Fees-Free funding.
24. I therefore seek your approval of the following changes to appropriations to give effect to Cabinet's intention that the necessary accounting treatment of guaranteeing tertiary education and training providers' 2020 funding would not impact on the funding available to allocate for 2021 enrolments.

	\$000 increase / (decrease)				
Vote Tertiary Education	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Minister of Education					
Multi-Category Expenses and Capital Expenditure:					
Tertiary Tuition and Training MCA					
<i>Non-departmental output expenses:</i>					
Community Education	(3,895)	-	-	-	-
Tertiary Education: Student Achievement Component	(12,800)	83,418	-	-	-
Training for Designated Groups	(5,000)	-	-	-	-
<i>Non-departmental other expense:</i>					
Fees-free Payments	(61,723)	-	-	-	-
Total Operating	(83,418)	83,418	-	-	-

Appropriation consolidation

25. As part of the first stage of public finance modernisation, there has been an effort to reduce the total number of appropriations by consolidating small appropriations. Round one of this work was completed in 2019/20 and took effect from 1 July 2020; round two is scheduled to be completed between now and Christmas 2020 to take effect from 1 July 2021.
26. I do not intend to consolidate any remaining appropriations that fall within the scope of the proposals that Cabinet agreed to on 2 September 2019 [CAB-19-MIN-0439.01 refers] for 2021/22, as these smaller appropriations in Vote Tertiary Education will all be phased out during the forecast period without any further intervention. These include:
- Scholarships for Inbound International Students – last year 2020/21
 - Support for Private Training Establishments of Strategic Importance – last year 2020/21
 - University-led Innovation – last year 2023/24
 - Support for Te Wānanga o Raukawa – last year 2022/23
 - Careers System Online – last year 2021/22
 - Support for Lincoln University – last year 2024/25

Other Cabinet decisions

27. A number of items listed in Table 2 -Baseline Changes Report attached to this submission do not require Joint Ministers' approval. The Secretary for Education has assured me that all Cabinet decisions relating to this Vote made after the Budget Update have been included in this update and are listed in detail in Table 2 attached to this letter.
28. All appropriation changes agreed as part of the Pre-election Economic and Fiscal Update (PREFU) are prefixed "PREFU" in Table 2 and do not require further approval. The PREFU changes are reported here for reconciliation purposes only.

Baseline Rollout Adjustments

29. The baselines comprise five years: the current year and four outyears. In the October Baseline Update, the forecast period is extended by a year and the initial baseline for a new outyear is established. In this update, the new forecast year is 2024/25.
30. The opening baseline for 2024/25 has been based on the existing baseline for 2023/24 with the exception of the following as they are time limited and the amount has changed:
- Meeting Increased Learner Need for Tertiary Education, a reduction of \$26.550 million as the funding for this initiative ends in 2023/24 [CAB-20-MIN-0219.27 initiative 12666 refers]
 - Lincoln University Science Facilities Rebuild: Capital Funding, an increase of \$5 million [GOV-19-MIN-0046 and CAB-19-MIN-0583 refer]
 - Refugee Quota Increase: Draw down of tagged contingency funding for increased settlement services, an increase of \$469,000 [MBIE 1738 18-19 refers]; and
 - Extending the Pilot of the Community Organisation Refugee Sponsorship Category, a reduction of \$283,000 as the funding for this initiative ends in 2023/24 [CAB-20-MIN-0155.33 initiative 12506 refers]

Forecast Financial Statements

31. The baseline update also includes forecast financial statements, although approval for these is not sought from the Minister of Finance. The baseline changes sought in this letter have been incorporated in the forecast financial statements of the Ministry of Education for Vote Tertiary Education, together with the adjustments necessary to accurately reflect estimated operating expenditure, capital expenditure and cash flows.

Recommendations

32. I recommend that you:

- a. **agree** the changes to the 2020/21, 2021/22, 2022/23, 2023/24, and baselines as set out in Table 2 – Baseline Changes Report (attached to this letter);
- b. **agree** that the proposed changes to appropriations for 2020/21, covered by recommendation a above, be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- c. **note** that the \$83 million adjustment from 2019/20 to 2020/21 will require the transfer of unspent fees-free spending into different categories within the MCA which would usually require Cabinet approval given it constitutes a significant policy change. Treasury and Ministry of Education officials have agreed Cabinet approval is not required given the particular circumstances of this transfer on the understanding that this does not create a precedent for the management of fees-free underspends;
- d. **grant** an exemption for appropriations in Vote Tertiary Education that fall within the scope of the appropriation consolidation proposals that Cabinet agreed to on 2 September 2019 [CAB-20-MIN-0439.01 refers] from this process this year for 2021/22; and;
- e. **note** that Table 2 includes for completeness other changes to baselines for the appropriations in Vote Tertiary Education that have been approved by Cabinet or Joint Ministers since the previous baseline update or do not require such approval.



Hon Chris Hipkins
Minister of Education