



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Cabinet Social Wellbeing Committee: Period Ended 24 February 2023

On 27 February 2023, Cabinet made the following decisions on the work of the Cabinet Social Wellbeing Committee for the period ended 24 February 2023:

Out of scope

SWC-23-MIN-0003

Re-authorisation of Forecast Changes and Proposed Changes from Fixed to Demand-Driven Programmes
Portfolio: Education

CONFIRMED

Out of scope

Rachel Hayward
Secretary of the Cabinet



Cabinet Social Wellbeing Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Re-authorisation of Forecast Changes and Proposed Changes From Fixed to Demand-Driven Programmes

Portfolio Education

On 22 February 2023, the Cabinet Social Wellbeing Committee:

- 1 **noted** that in the 2022 March Baseline Update, the Minister of Finance requested that the Ministry of Education (the Ministry) provide Treasury with the requisite Cabinet minute references showing that joint Ministers had proper delegated authority to approve forecast change items in Vote Education;
- 2 **noted** that the Ministry reviewed its records, including those in archives going back to 1992, and has found documents indicating that such authorisations were received, however no documents with explicit approval have been found and therefore Cabinet's explicit re-authorisation of the forecast changes to the demand-driven programmes in Vote Education is sought;
- 3 **agreed** that demand-driven adjustment to teacher salaries, Early Childhood Education funding, schools operational funding, as well as school transport services and Policy One payments to State integrated schools continue to be made as specified in the paper under SWC-23-SUB-0003;
- 4 **agreed** that the funding mechanism for the school donations scheme be changed from fixed to demand-driven, allowing the Ministry to make volume adjustments through forecast changes in the baseline updates based on roll growth in the future for those schools that are eligible in the 2023 school year;
- 5 **noted** that changes in eligibility for the school donations scheme due to the Equity Index, including grandparenting and including additional schools and any roll growth for these schools in future years, will be considered through the Budget process;
- 6 **noted** that in relation to the learning support funding, work is currently underway to establish the level of the learning support services within the population and associated demand-driven factors and that a proposal to change the funding mechanism for the learning support funding will be submitted to Cabinet following finalisation of the students' needs review;

- 7 **agreed** that changes to kōhanga reo kaimahi pay funding be managed through forecast changes at baseline updates based on the following metrics:
- 7.1 staff cost mix;
 - 7.2 levels of participating kōhanga reo;
 - 7.3 levels of funded child hours;
- 8 **authorised** the Minister of Finance and Minister of Education to approve the forecast changes in paragraphs 2 to 6 above through the Baseline Update process in accordance with CO(18)2 *Proposals with Financial Implications and Financial Authorities*;
- 9 **agreed** that any increases in expenditure from forecast changes outlined in paragraphs 3 and 4 above are managed against Budget allowances;
- 10 **noted** that any decreases in expenditure from forecast changes outlined in paragraphs 3 and 4 above may be applied by the Minister of Finance to fund future Budget packages.

Rebecca Davies
Committee Secretary

Present:

Rt Hon Chris Hipkins
Hon Carmel Sepuloni (Chair)
Hon Jan Tinetti
Hon Dr Ayesha Verrall
Hon Priyanca Radhakrishnan
Hon Kieran McAnulty
Hon Ginny Andersen
Hon Rino Tirikatene
Jo Luxton MP

Officials present from:

Office of the Prime Minister
Office of the Chair
Officials' Committee for SWC

[In Confidence]

Office of the Minister of Education

Cabinet

Re-authorisation of forecast changes and proposed changes from fixed to demand-driven programmes

Proposal

- 1 This paper seeks agreement to re-authorise forecast changes that have been sought for demand-driven appropriations in Vote Education as part of the baseline update process for Early Childhood Education expenditure, teacher salaries, schools operational funding, school transport funding and State integrated school property (Policy One) funding.
- 2 It also seeks Cabinet agreement to:
 - 2.1 change the funding mechanism for the school donation scheme and learning support from fixed to demand-driven to ensure the funding is adjusted via the baseline update process based on the changes in the learners' need for services; and
 - 2.2 authorise recently drawn down kōhanga reo kaimahi funding to be subject to forecast changes within the demand driven appropriation.

Relation to government priorities

- 3 This is a routine operational adjustment that requires Cabinet approval.

Executive Summary

- 4 At 2022 March Baseline Update the Minister of Finance requested the Ministry, as an assurance exercise, to provide the Treasury with the requisite Cabinet minute references showing that joint Ministers had proper delegated authority to approve forecast change items in Vote Education.
- 5 While the Ministry holds the records implicitly showing that authorisation of the forecast changes were obtained in the past, the records with initial authorisations were not found. Therefore, the Ministry seeks re-authorisation of the delegation of authority to joint Ministers to approve these forecast changes.
- 6 At each baseline update, the Ministry seeks Joint Ministers approval to revise appropriations for the following projected changes in expenditure:
 - 6.1 teacher salaries, schools' operational funding and early childhood education subsidies, in response to changes in demand based on

demographic variations such as student numbers, numbers of teachers, average salaries and participation rates in early childhood education settings;

- 6.2 school transport services based on the changes in the Waka Kotahi Diesel Bus Index; and
 - 6.3 contribution towards school maintenance and furniture and equipment modernisation paid to the proprietors of the State integrated schools (Policy One) that is based on the value of State school buildings.
- 7 The Ministry has identified that the school donation scheme and learning support funding are similar in principle to funding which is demand-driven and hence would benefit from a change in funding mechanism from fixed to demand-driven to ensure the policies remain fit-for-purpose. Therefore, the Ministry now seeks Cabinet authorisation to proceed with the change. In addition, recently drawn down funding to cover the additional cost of a new pay framework for kaimahi in kōhanga reo requires authorisation to be included in the forecast process to reflect factors impacting on funding needed over time.

Background

- 8 At 2022 March Baseline Update the Minister of Finance requested the Ministry, as an assurance exercise, to provide the Treasury with the requisite Cabinet minute references showing that joint Ministers had proper delegated authority to approve forecast change items in Vote Education.
- 9 The Ministry has reviewed available records dating back to 1992. There are clear, regular, and ongoing references to Ministers making decisions on forecast changes on the matters discussed in this paper, including teacher salaries, operational grants, early childhood education expenditure, school transport and contributions to proprietors of the integrated school property. As part of the regular MBU and OBU processes, these are managed through ongoing joint work with Treasury and provided to joint Ministers. However, original Cabinet Minutes or references with the initial approval for making forecast changes have not been found.
- 10 In light of this, the Ministry seeks explicit re-authorisation from Cabinet to approve such forecast change items going forward, prior to 2023 March Baseline Update. I support this re-authorisation to provide confidence in both Ministers and the Ministry that delegated authority from Cabinet is clearly in place with a well-defined scope.
- 11 We also seek your feedback on forecasting matters previously discussed with Cabinet, such as:
- 11.1 changes in funding mechanism from fixed to demand driven for the school donations scheme and learning support funding; and

- 11.2 authorisation to include the additional cost of a new pay framework for kaimahi in kōhanga reo in the forecast process.

Forecast changes requiring re-authorisation

- 12 At each baseline update, the Ministry seeks Joint Ministers approval to revise appropriations for the projected changes in expenditure on teacher salaries, schools' operational funding and early childhood education subsidies, in response to changes in demographics variations such as student numbers, numbers of teachers, average salaries and participation rates in early childhood education settings.
- 13 As per Treasury instructions issued under Section 80 of the Public Finance Act (1989)¹, these estimates are mid-point forecasts which take into account short- and long-term cycles. This means that in the forecaster's view there is a 50% chance of overspend and 50% chance of underspend.
- 14 At each baseline update, the Ministry informs me and the Minister of Finance on the summary of changes and associated risks and uncertainties.

Early Childhood Education (ECE) Expenditure

- 15 Forecast ECE expenditure includes under two subsidy funding, 20 hours ECE, two and over subsidy funding, equity funding, Government Superannuation Fund (GSF) employer subsidy, State Sector Retirement Savings Scheme (SSRSS) employer subsidy, isolated services payments and targeted funding for disadvantage.
- 16 The Ministry considers the following factors contributing to the forecast changes in funding for ECE expenditure:
- 16.1 effect of any changes in demand since policies were costed when they were incorporated into the baseline;
- 16.2 information on the latest actual expenditure (out-turns);
- 16.3 population estimates and population projections of 0-4-year-olds by Statistics New Zealand;
- 16.4 participation assumptions based on demand of early childhood within the population base; and
- 16.5 programme changes that reflect refined uptake of funding bands based on the latest out-turns data and advanced funding indications (changes in staff cost mix across the sector and services' operating choices).
- 17 The areas of the forecast considered to carry the greatest level of risk in 2022/23 include shifting participation and attendance patterns, extended pay

¹ 'Forecasts (both departmental and non-departmental) are to be prepared on a midpoint estimates basis using best professional judgment, reflecting information and circumstances at the date the forecasts are provided' as per the Treasury Instructions 2021.

parity opt-in rates in Education and Care Services and the broader economic impacts of COVID-19.

Teacher Salaries

- 18 Forecast teacher salaries expenditure includes service pay and associated contributions such as SSRSS, Kiwisaver, ACC, GSF and Holidays Pay.
- 19 The Ministry considers the following factors contributing to the forecast changes in funding for teacher salaries:
 - 19.1 information on the latest actual expenditure (out-turns);
 - 19.2 adjustments through service pay representing change in average salary (due to the mix of teachers in the workforce);
 - 19.3 superannuation adjustment; and
 - 19.4 FTTE changes based on the projected number of students in National School Roll Projections (NSRP)..
- 20 The areas of this forecast considered to carry the greatest level of risk in 2022/23 are teacher supply and retention, student population, net migration and engagement in the schooling system.

Operational Funding

- 21 The Ministry considers the following factors contributing to the forecast changes in funding for operational funding:
 - 21.1 effect of any changes in demand since policies were costed when they are incorporated into the baseline;
 - 21.2 information on the latest actual expenditure (out-turns); and
 - 21.3 population updates based on NSRP.
- 22 Forecast uncertainty in 2022/23 is caused by funding items (such as Teacher Travel, and Special Reasons Staffing) that do not have a systematic trend and have been observed to be highly variable from year-to-year.

School Transport

- 23 The Ministry funds school transport services through contracts with the transport service providers and schools. The service price of the contracts is indexed using the Waka Kotahi Diesel Bus Index, published quarterly, to account for movements in cost (fuel, labour etc) over time.
- 24 The following services are subject to the adjustment:
 - 24.1 daily bus service provides student transportation to and from school through services provided by commercial transport providers;

- 24.2 technology bus service provides transport for year seven and eight students to access technology facilities;
 - 24.3 direct resourcing includes bulk funding provided to schools to arrange transport for eligible students;
 - 24.4 Te Kura Kaupapa includes transport funding provided to Māori Medium Schools to arrange transport for students; and
 - 24.5 specialised school transport assistance funds transport for students with safety or mobility needs who require additional assistance.
- 25 Payments for the daily and technology bus service and specialised school transport assistance are adjusted quarterly and payments for Te Kura Kaupapa and direct resourcing are adjusted annually.

Integrated School Property

- 26 The buildings at State integrated schools are owned by a proprietor of a school and a contribution towards the maintenance and modernisation of the buildings is made by the Crown. This is Policy One funding and is calculated on a per student basis.
- 27 The integrated schools property per-student rate paid to proprietors is based on the value of State school buildings divided by the State school roll.
- 28 Accordingly, the Ministry adjusts the funding as part of the baseline update process based on the results of the annual property revaluation and updated student roll numbers.
- 29 As part of the Policy One, Ministry also makes a contribution to the state integrated school to modernise and replace the furniture and equipment.
- 30 This is calculated as a fixed percentage between 10.6% and 13.3% of the proprietor's Policy One budget. The percentage amount depends on the school type.

Proposed changes from fixed to demand-driven programmes

School donations scheme: funding for roll changes in eligible schools and kura

- 31 The donations scheme was a manifesto commitment, established for school year 2020 and funded through Budget 2019. I know how difficult it can be for parents to afford the donations that schools request, particularly in light of other costs, especially at the start of the school year. I consider the policy is beneficial for both schools and families - schools benefit from greater certainty of revenue, and families do not face additional pressure to fund donations from within their household budget.
- 32 Eligible schools can opt in to receive \$154.13 per student if they agree not to solicit donations from parents. The scheme is intended to change behaviour in the schooling system. It seeks to reduce schools' reliance on additional

voluntary funding from parents and to change the expectation for parents that they should contribute financially to the cost of schooling.

- 33 The donations scheme is not currently subject to forecast changes and has a capped appropriation. From 2023 onwards, eligibility for the scheme is determined by the Equity Index, replacing the previous decile-based eligibility settings. The threshold is an Equity Index of 432 or higher. As a result of this shift from decile to the Equity Index, additional schools became eligible to ensure the threshold remained at 70% of schools (as under deciles), and this has been funded by utilising projected underspends from the 2022/23 financial year.
- 34 However, within the current capped appropriation, this approach is not sustainable for future years. Additional funding may be required to fund roll growth within schools and kura that are currently eligible for the scheme. Forecast-driven changes for roll growth in eligible schools is in line with the approvals I am seeking to re-confirm described above. This aligns with how we treat roll growth for other operational funding.

School donations scheme: funding for changes in eligibility in future years

- 35 The Equity Index will be updated every school year, to ensure that the latest available information is used to direct resourcing where it is most needed. As a result, schools will receive a new Equity Index number each year. Based on the current threshold of 432, this means that some schools will become newly eligible for the donations scheme each year. Some schools would also lose eligibility due to their Equity Index falling outside the threshold.
- 36 Under current settings, schools are grand-parented into the scheme including in the transition from deciles to the Equity Index. This is to support the behaviour change described above, and to give families, whānau and schools certainty about their options and their funding. It aligns with the policy intent of the scheme and means that the Ministry can maintain a fixed eligibility threshold, which also provides certainty for the schooling sector.
- 37 However, I acknowledge that grand-parenting arrangements and making new schools eligible each year are policy choices.
- 38 I recommend that funding each year for the following year's newly-eligible schools will be sought through the Budget process.
- 39 I note that this approach has the following risks:
- 39.1 If funding is not approved, the scheme could not extend to newly-eligible schools, which the sector expect.
- 39.2 Further, as the Equity Index is calculated in May (when Budget has been finalised), the Ministry would need to make assumptions on which schools become eligible and how many opt in.

39.3 If insufficient funding is secured, any unexpected changes in uptake or roll growth could require operational decisions to remove schools from the scheme.

40 I have asked my officials to do further work on this with the Treasury.

Learning Support Funding

41 The need for learning support interventions has been increasing due to population growth, better identification of need, the changing prevalence of different needs, and the rising cost of delivering interventions.

42 Around 60% of the funding for learning support interventions is not automatically adjusted for changes in demand because it comes from fixed funding pools. This means that when the number of students in need of learning support increases, the funding for learning support does not grow in response resulting in a decline in service delivery.

43 The change in the student population is not the only driver affecting the service. The highest needs review identified that a significant number of students are not receiving the right levels of support. The results of the review will be available in the next 12 months at which point the Ministry will be able to establish the levels of support required and the proportion of students in the population requiring intervention services.

44 Cabinet agreement is required to change the funding mechanism from a fixed funding pool to funding that is automatically adjusted in line with demand. This would mean that the funding would then be adjusted as part of OBU and MBU that is consistent with how the appropriations for primary and secondary education are currently adjusted in line with changes in the number of school-aged students in the population.

45 This change is an important step towards ensuring that funding is designed to keep pace with changing patterns of need for learning support interventions. At this stage we seek in-principal agreement and will come back to the Cabinet with the proposed forecast methodology when the service levels and demand-driven factors are established.

Kōhanga reo funding draw down requiring authorisation to be subject to forecast changes

46 Joint Ministers have recently agreed to the drawdown from operating contingency of \$80.414 million over five years to fund the additional cost of a new pay scheme for kōhanga reo kaimahi (staff). This funding will be paid to kaimahi through a payroll administered by Te Kōhanga Reo National Trust. The funding will be provided to the Trust from the Ministry via a funding agreement. It is expected kaimahi will begin to receive improved pay rates from March 2023.

47 The funding required each year is necessarily subject to change due to changes in certain factors or metrics. These are:

- 47.1 **Staff cost mix:** this reflects any change in cost due to movement of kaimahi between pay bands and different roles.
- 47.2 **Levels of participating kōhanga reo:** the new pay scheme is not compulsory for each kōhanga reo meaning cost could vary if more or fewer kōhanga reo participate in it over time.
- 47.3 **Levels of funded child hours:** changes in funded child hour levels will affect the number of kaimahi FTE able to be covered by the funding agreement.
- 48 We seek Cabinet's agreement that the factors listed are authorised to be reflected in forecast changes as part of the baseline update process covering funding in the Early Learning appropriation. While kōhanga reo-driven changes are likely to be small compared to total change in that appropriation, we seek this authorisation to meet the Minister of Finance's request for clarity around the forecast change elements approved for joint Ministers.

Implementation

- 49 If approved, this will be managed through existing processes with the Treasury and joint Ministers of Education and Finance. If this is not approved, there is a significant fiscal risk that the Ministry will need to seek through Budget 2023 and ongoing Budgets. This will impact the Ministry's ability to deliver these services.

Financial Implications

- 50 The Ministry will continue to communicate forecast change adjustments approved through the periodic baseline update process to the Joint Ministers and through the annual Budget process to Cabinet. These adjustments, depending on the demand, may result in both savings or increases to expenditure.
- 51 If there is an increase in expenditure, this will have a corresponding reduction in the funding available for future Budget allowances, while if there is a decrease in expenditure, the Minister of Finance may apply these savings to fund future Budget packages.
- 52 Subject to in principle agreement by Cabinet of the change to the funding mechanism for the school donations scheme and learning support, the Ministry will report back to Cabinet for final approval with the financial implications.

Legislative Implications

- 53 There are no legislative implications of the proposals in this paper.

Impact Analysis

Regulatory Impact Statement

54 No Regulatory Impact Statement is required for the proposals in this paper.

Climate Implications of Policy Assessment

55 There are no climate implications of the policies contained in this paper.

Population Implications

56 The impacted policies are aimed at addressing system-level needs.

57 While this Cabinet paper does not seek any changes to these policies, explicit re-authorisation to continue to adjust the appropriations for demand for teacher salaries, ECE funding, operational funding, school transport services and payments to proprietors of integrated school property will ensure these services continue to be delivered as intended by the initial policy settings.

58 Learning support is the 'additional support' provided to children and young people with additional learning needs to engage and achieve in education. Additional support includes building capability in adults around those children and young people, and the embedding of universal approaches to strengthen inclusion and inclusive practices.

59 The school donation scheme impacts families of children attending eligible schools, reducing expectations of parental contribution to the cost of education.

Human Rights

60 New Zealand has obligations as a signatory to the UN Convention on the Rights of the Child and the UN conventions on the Rights of Persons with Disabilities to ensure that all children have the right to access an inclusive education system where their needs are understood and the barriers to their full participation, wellbeing and learning are planned for and met. These obligations are met by provision of the learning support services.

61 There are no human rights implications of the other policies contained in this paper.

Consultation

62 The Treasury were consulted on this Cabinet paper, and they emphasised the importance of re-authorisation of the forecast changes by Cabinet.

Communications

- 63 No communications with the sector is required as this Cabinet paper seeks re-authorisation or change of the funding mechanism for the existing policies with no underlying changes to these policies.

Proactive Release

- 64 We intend to proactively release this Cabinet paper and associated advice once Cabinet decisions have been announced and we have made any necessary decisions enabling the Ministry to implement these proposals.

Recommendations

The Minister of Education recommends that the Committee:

- 1 **note** that in 2022 March Baseline Update the Minister of Finance requested the Ministry of Education to provide the Treasury with the requisite Cabinet minute references showing that joint Ministers had proper delegated authority to approve forecast change items in Vote Education.
- 2 **note** that the Ministry reviewed its records, including those in archives going back to 1992, and has found documents indicating that such authorisations were received. However, no documents with explicit approval have been found and therefore Cabinet's of explicit re-authorisation of the forecast changes to the demand-driven programmes in Vote Education is sought in this paper.
- 3 **agree** to continue to make demand-driven adjustment to teacher salaries, ECE funding, schools operational funding, as well as school transport services and Policy One payments to State integrated schools, as specified in this paper.
- 4 **agree**, for the school donations scheme, to change the funding mechanism from fixed to demand-driven allowing to make volume adjustments through forecast changes in the baseline updates based on roll growth in the future for those schools that are eligible in the 2023 school year.
- 5 **note** that changes in eligibility for the school donations scheme due to the Equity Index including grandparenting and including additional schools and any roll growth for these schools in future years, will be considered through the Budget process.
- 6 **note** that, in relation to the learning support funding, work is currently underway to establish level of the learning support services within the population and associated demand-driven factors and that the proposal to change the funding mechanism for the learning support funding will be presented to Cabinet following finalisation of the students' needs review.
- 7 **agree** to manage changes to kōhanga reo kaimahi pay funding through forecast changes at baseline updates based on the following metrics:

- 7.1 staff cost mix;
 - 7.2 levels of participating kōhanga reo;
 - 7.3 levels of funded child hours.
- 8 **approve** the delegation of authority to the Minister of Education and the Minister of Finance to approve the forecast changes in recommendations 2-6 through the Baseline Update process in accordance with CO(18)2 *Proposals with Financial Implications and Financial Authorities*.
- 9 **agree** that any increases in expenditure from forecast changes outlined in recommendations 3 and 4 above are managed against Budget allowances; and
- 10 **note** that any decreases in expenditure from forecast changes outlined in recommendations 3 and 4 above may be applied by the Minister of Finance to fund future Budget packages.

Authorised for lodgement

Hon Jan Tinetti

Minister of Education