



## Briefing Note: Strategy session for Budget 2021

<b>To:</b>	Hon. Chris Hipkins, Minister of Education Hon. Kelvin Davis, Associate Minister of Education (Māori Education) Hon. Jan Tinetti, Associate Minister of Education Hon. Aupito William Sio, Associate Minister of Education (Pacific Peoples)		
<b>Date:</b>	30 November 2020	<b>Priority:</b>	Low
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<b>Drafter:</b>	René Versteegh	<b>DDI:</b>	04 463 7971
<b>Key contact and number:</b>	John Brooker	<b>DDI:</b>	04 463 0912
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### Purpose of Report

In advance of a Budget Strategy session with you and Associate Education Ministers, this briefing provides you with our advice on your Budget investment, starting with manifesto priorities and cost pressures.

### Proactive Release

It is recommended that this Briefing Note is not proactively released at this time as the information contained within is budget sensitive.

### Release / Not Release



John Brooker  
**Group Manager**  
**Education System Policy**

30/11/2020



Katrina Sutich  
**Group Manager Tertiary**  
**Te Ara Kaimanawa**

30/11/2020

Hon Chris Hipkins  
**Minister of Education**

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## Executive Summary

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As you know, the fiscal context for Budget 2021 is tight, and the focus is on pressing manifesto commitments and critical cost pressures. A bilateral discussion is expected between yourself and the Minister of Finance in December to inform an invitation only process for new initiatives in Budget 2021.

The Budget strategy session with Education Ministers provides the opportunity to discuss your priorities for Budget 2021 with officials and the approach you wish to take for Budget 2021 across the education portfolio to manage trade-offs that will arise.

## The approach to Budget 2021

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1. Budget 2021 will focus on manifesto commitments, cost and volume adjustments, and managing critical cost pressures. Manifesto commitments in the fiscal plan will be prioritised, and cost pressures will have to meet a higher bar than in previous budgets. Budget 2021 will operate as an invite only process, with the Minister of Finance inviting the submission of specific initiatives for consideration (whether cost pressures or new initiatives).
2. The key steps in the Budget process for 2021 are:
  - the Minister of Finance will write to you outlining his expectations of the budget process and setting expectations on the fiscal environment and next steps
  - a bilateral discussion will be set up for yourself and the Minister of Finance some time between the 7th and 20th of December
  - prior to the bilateral discussion the Minister of Finance will require you to reply to his initial letter to provide a high-level overview of how education manifesto commitments and critical cost pressures will be managed over the next three budgets. The purpose being to support a conversation on sequencing of major commitments. The timeframe on this reply will be really tight if your bilateral with the Minister of Finance is scheduled early.
  - Following the bilateral discussion, the Minister of Finance will issue invitations to submit initiatives before Christmas. Developed initiative templates to be submitted by the end of January.
3. We have therefore shaped the rest of this briefing note, and the supporting material to support a discussion on manifesto commitments, critical cost pressures, and other Budget 2021 issues. Appendix A is provided to support this discussion, and Appendix B contains cost pressure titles, descriptions, and funding totals.

## Budget Strategy Session

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4. The key issues we therefore want to discuss with you in this session are:
  - a. the approach to phasing, sequencing, and managing the manifesto commitments that are included in the fiscal plan
  - b. the cost pressures the sector and the Ministry are facing, which of these are critical and that we think will meet the Minister of Finance test, and what other cost pressures we don't recommend pursuing and the implications of not funding these on service delivery;



- c. other important budget issues which do not clearly fit into the manifesto fiscal plan, or the critical cost pressures category of the Budget.
5. As discussed with your office we are preparing an annotated agenda to guide the strategy session and capture the decisions made.

## Manifesto commitments

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6. The education manifesto included a fiscal plan. The fiscal plan sets out six initiatives, with a funding envelope for these. The expectation for Budget 2021 is that funding will be prioritised to initiatives costed in the fiscal plan. A funding envelope was set out in the fiscal plan for the following initiatives:
- a. \$320m – Replace deciles with the equity index
  - b. \$600m – ECE Pay Parity
  - c. \$375m (from 2022/23) – Free and Healthy School lunches (outyear funding)
  - d. \$10m – Student achievement, curriculum progress and achievement and NCEA;
  - e. \$15m – Digital access (next steps);
  - f. \$400m – Reform of the tomorrow's school's system.
7. The fiscal plan also highlights continued funding of business as usual cost pressures, such as volume increases and annual cost adjustments to funding rates across early learning, schooling, learning support and tertiary education.
8. The Minister of Finance will want to have a conversation with you about the phasing and scaling of these manifesto initiatives, as he has indicated the priority for Budget 2021 will be on the 'must dos'. There will be challenges in terms of what can be delivered within the funding envelope also the timing of this.
9. In terms of sequencing, funding for free and healthy schools' lunches is the most pressing as this ongoing programme is only funded through until the end of the 2021 school year. This is also the case with other programmes that are already in the implementation phase e.g. the NCEA change programme. The replacement of deciles and next steps for ECE pay parity are offer greater opportunity to sequence across Budgets. The key consideration for the Tomorrow's Schools reform in terms of sequencing is being able to provide certainty of outyears funding to support what will be a multi-year change programme.

## Critical Cost Pressures

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10. Cost pressures will need to pass a higher bar than usual to be considered. Cost pressures will need to be considered 'critical'; we have not yet received guidance from the Treasury on this and anticipate the Minister of Finance to address this in his letter. We are currently considering critical cost pressures as those which risk a substantial impact to service for learners in the education system, and those with a legal need to respond to.
11. Appendix B is grouped as critical cost pressures, maybe, and non-critical cost pressures. Critical cost pressures are those that we expect to meet the criteria of the Minister of Finance, with the maybe category those that are of high importance, with close alignment to the criteria. Non-critical cost pressures do not clearly meet the expected definition of critical.

12. The most significant operating cost pressures arise in the wage and collective bargaining place. For example, the Holidays Act, Pay Equity claims and 9(2)(j) [REDACTED] These have strong contractual and legal drivers and so are unavoidable and hard to scale without creating a significant fiscal risk 9(2)(f)(iv) [REDACTED]

9(2)(f)(iv)

13. There are also significant capital cost pressures in the schooling infrastructure space. [REDACTED]

9(2)(f)(iv)

14. Significant cost pressures in the tertiary education space include funding to support the vocational education system while Government completes the Reform of Vocational Education which you have asked us to progress as a cost pressure and investment to support the Crown's relationship with the wānanga sector. Funding all cost pressures is not feasible within the Budget 2021 allowance and so trade-offs need to be made, we will discuss with you cost pressures that need to be advanced, and those which can be deferred, or managed in other ways.

### Other Budget Issues

15. There are a number of important budget issues which do not fit within the manifesto fiscal plan, or narrow critical cost pressure definition that we think you should discuss with the Minister of Finance.

#### *Māori and Pacific Learners / Ākonga and te reo Māori*

16. The impact of the COVID-19 recovery highlighted and amplified existing inequities in the education system that are at risk of becoming further entrenched. Supporting Māori and Pacific people will be a high priority for Budget 2021. The Equity Index, Ka Ora Ka Ako (school lunches) and Reform of Tomorrow's Schools system fiscal plan commitments will support this priority.
17. The manifesto also makes strong commitments to broadening learning of te reo Māori, though it will be challenging to secure additional funding to support this goal. We also consider that funding to underpin improving the Crown's relationship with wānanga and supporting them to achieve their aspirations as Mātauranga Māori entities to be a critical cost pressure.

#### *Supporting tertiary learners*

18. A \$20 million Hardship Fund for Learners was established to support tertiary learners, alongside learners being able to access an additional \$1,000 for Course-Related Costs through the Student Loan Scheme were both specifically limited to 2020. [REDACTED]

9(2)(f)(iv)

## Attachments

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Appendix A – Budget Context and Cost Pressure A3

Appendix B – Cost pressure lists

Proactively Released



# Appendix A: Budget 2021 – Context, process, manifesto commitments and cost pressures

Budget & Industrial Relations Sensitive

## CONTEXT

Ministry of Education's Strategic Priority - Achieving educationally powerful connections with family and whānau, employers and communities.

### Economic context

Economy shrank by 12.2 % March-June and 2% over last entire year to June

Unemployment forecast to rise sharply by March 2022 (to 7.8%)

Government facing rising costs and decreasing revenue

Debt is forecast to rise to 55% of revenue by 2024

Inflation expected to remain low

### Education sector challenges

Participation in early learning is expected to decline due to falling birth rates and forecast rise in unemployment

Fall in primary school enrolments due to demographic changes and fall in net migration

Secondary school rolls forecast to rise by 23,000 by 2025 (8.1%) due to demographic change and increased retention

Revenue streams are uncertain (fall in donations/fundraising) while the costs of delivery and supporting student wellbeing rises

Predicted sharp increase in domestic students in tertiary for 2021 and 2022, driven by unemployment forecasts

Significant fall in international student enrolments, particularly in secondary schools and tertiary education resulting in lower revenue

### Objectives for Education

**Learners at the Centre**  
Learners with their whānau are at the centre of education.

**Barrier-Free Access**  
Great education opportunities and outcomes are within reach for every learner.

**Quality Teaching and Leadership**  
Quality teaching and leadership make the difference for learners and their whānau

**Future of Learning and Work**  
Learning that is relevant to the lives of New Zealanders today and throughout their lives.

**World Class Inclusive Public Education**  
New Zealand education is trusted and sustainable.

## BUDGET PROCESS

The scope of Budget 2021 is to include pressing manifesto commitments and critical cost pressures only. Budget bids will be by invitation only across both streams.

### Key steps

- Minister of Finance to write to Ministers outlining budget expectations
- Letter of reply ahead of bi-lateral meetings outlining the main manifesto commitments and cost pressures sequenced over the next three budgets.
- Bi-laterals to occur December
- Minister of Finance will issue invitations to submit budget initiatives December
- Final Budget initiatives

### Due

w/c 23<sup>rd</sup> November  
9<sup>th</sup> December  
7<sup>th</sup> - 20<sup>th</sup>  
20<sup>th</sup> - 24<sup>th</sup>  
29<sup>th</sup> January

## MANIFESTO COMMITMENTS IN THE FISCAL PLAN

**Equity Index across schools (2022) and early learning (2023)**

Opex \$320m

Key considerations - Cost of transition and sequencing of roll-out

**Beginning pay parity in early learning**

Opex \$600m

Key considerations - Extent of parity and sequencing

**Extending funding for free and healthy lunches**

Opex \$375m

Key consideration - Service levels

**Student Achievement – NCEA Numeracy and Literacy**

Opex \$10m

Key consideration - Speed and extent of reform

**Taking the next steps on Digital Access**

Opex \$15m

Key consideration - Service levels

**Reform of the Tomorrows School System**

Opex \$400m

Key considerations - Order of priorities and certainty

# Budget 2021 – Critical and non-critical cost pressures

## Critical Cost Pressures

**9(2)(j)**

Providing Digital Access for the increased number of Principals and Teachers

**9(2)(f)(iv)**

**9(2)(f)(iv)**

Improving the property at State-Integrated Schools  
Opex \$52.8m

Holidays Act Compliance (Non-Departmental) and running costs (Departmental)  
Opex \$250.00m

Addressing critical front line Departmental cost pressures

**9(2)(f)(iv)**

**9(2)(j)**

**9(2)(f)(iv)**

Investigation & Settlement of Pay Equity Claims  
Opex \$34.713m

Addressing increased Volume, Price and Regulatory Costs for an expanding multi-billion-dollar school property portfolio

**9(2)(f)(iv)**

Co-location of Marlborough Boys and Girls College and the relocation Bohally Intermediate

**9(2)(f)(iv)**

Meeting the Cost Increase of expanding Mangere Refugee Resettlement Centre (MRRRC)  
Opex \$0.58m  
Capex \$1.96m

**9(2)(f)(iv)**

Completing RoVE: Change Management and Data Collection  
Opex \$32.25m / Capex \$13.85m

**9(2)(f)(iv)**

Unavoidable Cost Adjustment: School Transport Forecast for the 2020/21 calendar year  
**9(2)(f)(iv)**

Addressing urgent Treaty commitments to the Wānanga sector  
Opex \$32m

Education Resourcing System  
Opex \$16.432m  
Capex \$34.737m

Funding the next stage of the Christchurch School Rebuild Programme

**9(2)(f)(iv)**

Unforeseen Additional Price Escalation Holding Up Legacy Redevelopment Projects

**9(2)(f)(iv)**

Addressing past real-terms funding declines in VET  
**9(2)(f)(iv)**

NCEA Change Programme  
Opex \$87.338m / Capex \$8.149m

Funding the next phase of the NEGP to deliver the student spaces remaining to meet target of 100,000 student spaces by 2030)

**9(2)(f)(iv)**

Addressing critical cost pressures in the Attendance Service safeguarding continuation of provision  
Opex \$20.033m

Payroll - Additional Education Payroll Limited (EPL) Funding to Upgrade the Oracle Application Software  
Opex \$10.00m

Funding the Ministry for New School Land Purchases

**9(2)(f)(iv)**

## Maybe Critical Cost Pressures

Annual Cost Adjustment to Schools Operational Grant to meet rising costs  
Opex \$84.84m

Annual Cost Adjustment for Alternative Education Funding to maintain real value of funding  
Opex \$4.44m

Annual Cost Adjustment to maintain quality in early learning services  
Opex \$100.09m

Annual Cost Adjustment to Tertiary Tuition and Training Subsidies to maintain real value of funding  
Opex \$111.78m

NZQA: NCEA/Scholarships Assessments  
**9(2)(f)(iv)**

## Non-Critical Cost Pressures

Access to Period Products  
**9(2)(f)(iv)**

Prime Minister's Excellence Awards  
Opex \$4.2m

**9(2)(f)(iv)**

**9(2)(f)(iv)**

**9(2)(f)(iv)**

Support the Growth and Development of Wānanga  
**9(2)(f)(iv)**

## Other budget considerations

Māori and Pacific Learners/Ākonga

Tertiary student response to an increase in benefit rates

COVID-19 time-limited funding e.g. international students, school's urgent response fund

## Appendix B – Budget 2021 Cost Pressure List

## Budget & Industrial Relations Sensitive

Index	Initiative Title	4 year cost and MVO	Description / Scope Statement	Categorisation
1	9(2)(j)			Critical cost pressure
2	Holiday's Act Compliance (Non-Departmental) and running costs (Departmental)	OPEX \$250M	Current schools' payroll practices are not compliant with the Holidays Act 2003. Funding will be required to complete the as-yet funded Stage Three (Development and Delivery) of the programme, which includes the process changes and system development work required to make the payroll service compliant (Non-Departmental). Funding also provided for running the team/processes (Departmental). The Ministry will be non-compliant with the Holidays Act 2003.	Critical cost pressure
3	Investigation & Settlement of Pay Equity Claims	OPEX \$34.713m  <i>Note: does not include settlement funding</i>	This initiative will fund the assessment, negotiation and settlement of pay equity claims lodged by NZEI and PPTA on behalf of staff and teachers employed by the school Boards of Trustees. These claims seek to remove gender-based undervaluation in the schooling system. The Ministry is legally required to consider these claims, and to negotiate and recommend settlements on behalf of the Crown.  9(2)(j)  These new claims cover a mixture of the education workforce and Ministry staff	Critical cost pressure
4	9(2)(f)(iv)			Critical cost pressure
5	Addressing urgent Treaty commitments to the Wānanga sector	OPEX: \$32m	This initiative will maintain interim funding to the wānanga sector at current levels and ensure equitable treatment of all three wānanga. A drop in current levels of interim funding support to wānanga would significantly increase risk of deterioration in Crown-Wānanga relationship and applications to Waitangi Tribunal for urgent hearing of claims.	Critical cost pressure
6	Addressing past real-terms funding declines in VET	9(2)(f)(iv)	This initiative addresses a substantial drop in funding and is critical to ensure the sustainability and quality of the vocational education and training (VET) system. Total public funding for VET through tuition subsidies decreased by 25% in real terms from 2010 to 2019. While this is mainly due to volume decreases, the average tuition subsidy for VET decreased in real terms by about 0.5% between 2010 and 2019. In comparison, public higher education funding increased by around 2.5% over the same period. Without further investment, VET provision will not be financially viable. This funding will also implement the unified funding system for vocational education, part of the Reform of Vocational Education, providing an opportunity for increased benefits for learners, employers and communities. Current levels funding for vocational education are unable to deliver Government's RoVE's objectives. At current settings, sector revenue will decline as economy recovers from impact of COVID-19.	Critical cost pressure
7	Addressing critical cost pressures in the Attendance Service safeguarding continuation of provision	OPEX \$20.033m	This initiative comprises of a critical increase in the number of students that can be reached by the attendance service. Over the last three years the numbers of learners with chronic absences has grown by 82%. To maintain the same levels of support that were provided in 2017 we need to increase funded places by 7,500 per year. This increase maintains the percentage of students that are supported through the attendance services. In addition, an underlying increase in funding per place is required to keep pace with unavoidable inflation driven pressure so that the current service level can be maintained. Without the increase to the funding per place the number of learners that can be supported will reduce.	Critical cost pressure
8	Providing Digital Access for the increased number of Principals and Teachers	9(2)(f)(iv)	This funding is to allow for the TELA laptop scheme to continue in its current form. The costs of the scheme are increasing largely due to the increased number of teachers. This is a good news story as the recent increase in teachers has helped resolve some of the teacher supply issues, we have been facing. The number of learners in schools has also increased over the last few years which has driven this demand. The TELA laptop scheme programme doesn't have enough funding to provide laptops to the additional teachers and principals. Without further funding we will either breach appropriations or will need to erode the scheme and pass on some of the costs to teachers, principals or schools.	Critical cost pressure



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## Budget & Industrial Relations Sensitive

Index	Initiative Title	4 year cost and MVO	Description / Scope Statement	Categorisation
9	Addressing critical front-line Departmental cost pressures	9(2)(f)(iv)	The Ministry has been facing a number of challenges associated with both inflation and an expanding work programme for a number of years. The most concerning of these relates to the Departmental Appropriation Intervention for Target Student groups. This appropriation is where the Ministry engages directly with learners who require additional support. Without additional funding in this appropriation the Ministry will need to carefully review programmes and determine how it can remain within the appropriation which has been eroded in real terms. This is likely to see a reduction in the services the Ministry provides to learners. The non-departmental appropriation within this MCA (Learning Support) doesn't face all of these issues as, for example staffing costs for teachers are increased through bargaining and we also receive additional funding for ORS as demand increases.	Critical cost pressure
10	Addressing increased Volume, Price and Regulatory Costs for an expanding multi-billion-dollar school property portfolio	9(2)(f)(iv)	This initiative will address the funding cliff in Education Infrastructure Service (EIS) departmental operating budget (excluding capital charge, depreciation, and Public Private Partnership schools). This shortfall is due to a reducing baseline, and an increase in non-discretionary property costs in a growing portfolio (such as building warrant of fitness, school leasing, insurance, health and safety) and the reduction of available revenue conversion. Funding will enable EIS to maintain progress for its various work programmes without compromising crucial services such as rationalisation and personnel. The Ministry has insufficient funding to cover the volume, price and regulatory increases and non-discretionary costs and contractual obligations (such as building warrant of fitness, school leasing, insurance and health and safety) without compromising crucial services and condition of the School Property Portfolio. EIS will have to slow down existing projects and will be unable to gear up for any new pipelines of capital spend and service delivery to schools. This will put pressure on frontline services and cut down on spending for rationalisation and disposal of surplus property and school housing maintenance.	Critical cost pressure
11	Completing the Reform of Vocational Education – Change Management and Data Collection	OPEX: \$32.25m CAPEX: \$13.85m  MVO OPEX: \$26.25m MVO CAPEX: \$10.8m	This initiative provides funding to complete the Government's Reform of Vocational Education (RoVE) change management programme and to build a data collection system to underpin the unified funding system for vocational education. Successful implementation of RoVE is crucial to ensuring the vocational education system delivers the skills and opportunities New Zealand's learners, workers, employers and regions need to recover from the impacts of COVID-19. Led by the Minister of Education. Time-limited funding for RoVE Programme ends at June 2021. Absence of funding from Budget 2021 would put delivery/achievement of Government's RoVE objectives at significant risk.	Critical cost pressure
12	Education Resourcing System	OPEX \$16.432m CAPEX \$34.737m	The Ministry's current funding system EDUMIS and nearing end of life and is experiencing repeated issues requiring regular remedial work, placing the delivery of operational funding to ECE and schools at risk. EDUMIS is unable to accommodate upcoming policy changes, such as the equity index. The impact of not funding the outstanding costs of this programme is that the Ministry cannot implement the new funding system before EDUMIS fails. To prevent this and self-fund the Ministry would have to divert funding from business-critical activity.	Critical cost pressure
13	NCEA Change Programme	OPEX \$87.338m CAPEX \$8.149m  MVO OPEX: \$52.411m MVO CAPEX: \$8.149m	This is a cost pressure due to the lack of funding over the previous three years and is unable to be funded from baselines going forward. This initiative will provide funding to address cost pressures relating to Cabinet decisions to redevelop the NCEA qualifications, introduce new literacy and numeracy requirements, provide mana ōrite mō te mātauranga Māori in NCEA, replace the expiring Achievement Standards with coherent and high quality assessment packages, and provide enhanced support for vocational pathways. The strengthened NCEA will work better for families and whānau, will prepare students for further education and work, and support schools and kura to deliver higher quality programmes of learning. The proposed bid includes NZQA funding requirements to support the change programme. This is additional funding over and above an assumed \$9m per year baseline funding for ST. I.e., the total funding required next year is \$34 million (of which \$7m is NZQA funding) compared to \$17 million this year. Nil funding will require either: - Service reductions/reprioritisations within Ministry and NZQA baselines to fund the required activity; and/or - Changes in scope, quality and scheduling to scale/phase the required expenditure. Significant changes in scope, quality and scheduling would require changes to the policy decisions agreed in principle by Cabinet in February 2020, as the current package includes the minimum level of funding the Ministry of Education and NZQA consider necessary to implement the changes without threatening the stability/credibility of the qualification.  Significant impacts are: - Inability to meet the Ministry's obligations as a Qualification Developer and Standard Setting Body under the NZQF - Stopping while in delivery mode, with a series of difficult to slow or stop processes (such as the Review of Achievement Standards) - Inability to meet the agreements incorporated into the MoE-PPTA-NZEI Accord - changes to the subject area for the 7 remaining Teacher Only Days. Inability to fully support the objectives of the Reform of Vocational Education in schooling, Ka Hikitia, the Pacific Education Plan, and the Learning Support Action Plan.	Critical cost pressure

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## Budget & Industrial Relations Sensitive

Index	Initiative Title	4 year cost and MVO	Description / Scope Statement	Categorisation
14	Payroll - Additional Education Payroll Limited (EPL) Funding to Upgrade the Oracle Application Software	OPEX \$10m This figure represents the costs of upgrading the existing Oracle software capability in the short term (foundational upgrades only).	This initiative will provide funding to upgrade the existing Oracle database software used by Education Payroll Limited. Oracle support for the current technology platform server ends in December 2020. It was identified for an urgent upgrade in the recent PricewaterhouseCoopers Financial Review and a technical quality assessment of the software upgrade options and risks completed by Enterprise IT. Upgrade of the current technology platform is crucial to addressing the significant operational and security risks associated with a system that supports the annual spend of \$5.6 billion and pays almost 100,000 employees every fortnight.	Critical cost pressure
15	9(2)(f)(iv)			Critical cost pressure
16	Co-location of Marlborough Boys and Girls College and the relocation of Bohally Intermediate	9(2)(f)(iv)	This cost pressure will fund co-location Marlborough Girls' and Boys' College and rebuild and relocate Bohally Intermediate School. When condition issues at the Colleges were identified between 2011 and 2013, the Ministry facilitated consultation with the community to determine the future of the Colleges. The schools' and community's preference is to co-locate the Colleges. It will be one of the most significant and transformational projects the Ministry of Education has undertaken, enhancing collaboration and supporting stronger education outcomes for minority groups, while delivering high-quality, fit for purpose infrastructure. Nil funding will result in pre-committed future baseline funding that would otherwise go towards other redevelopments within the school property portfolio.	Critical cost pressure
17	9(2)(j)			Critical cost pressure
18	9(2)(f)(iv)			Critical cost pressure
19	Funding the next stage of the Christchurch School Rebuild Programme	9(2)(f)(iv)	This initiative aims to rebuild the network of Christchurch schools following the 2010 and 2011 earthquakes. This will be done by funding the Christchurch Schools' Rebuild (CSR) programme for another year. This funding is required to relieve baseline pressures and meet the increased costs as outlined in the Mid-Point Review. Funding to complete the programme will be sought through future budgets. Note - CSR is currently undergoing a Three-Quarter point review directed by KPMG. 9(2)(f)(iv)	Critical cost pressure
20	Funding the next phase of the NEGP to deliver the student spaces remaining to meet target of 100,000 student spaces by 2030	9(2)(f)(iv)	This initiative will support the School Property Programme to expand its portfolio in response to the Network demands identified in the National Education Growth Plan (NEGP). Currently, around half of the 100,000 places forecast by the NEGP are funded. 9(2)(f)(iv) Funding will deliver roll growth classrooms, construction for new schools/expansions, and non-teaching spaces. This is urgently required to meet the existing Network pressures and forecast demand caused by population growth and demographic changes across the schooling network. Halt the planning, engagement and delivery of expanding the School Property Portfolio (e.g. roll growth, construction, Kura*, Learning Support Satellites*, non-teaching space) *unless funded through a separate bid	Critical cost pressure



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Index	Initiative Title	4 year cost and MVO	Description / Scope Statement	Categorisation
			Compromise the Government's ability to keep up with growth curve and meet Government commitment of 100,000 new student spaces by 2030. Increased risk of delays to school open date, resulting in overcrowding in existing schools.	
21	Funding the Ministry for New School Land Purchases to fund the remaining spaces needed to meet the 100,000 student spaces target by 2030	9(2)(f)(iv) [REDACTED]	This initiative will provide funding to cover land acquisitions and associated site work costs for new schools and expansions. The purchase of land for new schools is fundamental to delivering the National Education Growth Plan and expanding the School Property Portfolio to meet demand across New Zealand. In Budget 20, the Ministry signalled the consequences of nil funding would result in the Ministry's change in approach from funding in arrears to seeking funding in advance. This bid, therefore, includes the reimbursement for land already acquired during FY2020/21, 9(2)(f)(iv) [REDACTED]. The Ministry requires urgent funding to meet the increasing cost of land (due to land appreciation) and the increasing volume of the school-aged population.	Critical cost pressure
22	Improving the property at State-Integrated Schools	\$52.800 Opex Phased over two years.	This cost pressure bid will provide a one-off funding package to upgrade learning environments at eligible state-integrated schools across New Zealand. This funding will be allocated by the Ministry to the Association of Proprietors of Integrated Schools (APIS) to ensure that it goes towards essential upgrades to improve learning environments. These projects are ready to go in the next 12 months and will stimulate the economy for smaller regional contractors. The Government has stated its intention to provide all schools with quality learning environments by 2030, this includes state-integrated schools. If state-integrated property deteriorates at a faster rate, this could put pressure on the state network and result in cost liabilities further down the line. Without this mechanism Proprietors of state-integrated schools will be unable to accelerate upgrades of school property. The Crown funds routine maintenance and upgrade through existing funding streams, however these will not accelerate delivery to meet the Government's 2030 condition target [SWC-18-MIN-0004].	Critical cost pressure
23	9(2)(f)(iv) [REDACTED]	[REDACTED]	[REDACTED]	Critical cost pressure
24	Meeting the Cost Increase of expanding Mangere Refugee Resettlement Centre (MRRC)	OPEX \$0.588m CAPEX \$1.960m	This initiative will provide funding to cover the unforeseen cost increases of completing the expansion of education facilities at the Mangere Refugee Resettlement Centre (MRRC). As advised by MBIE, this uplift was due to the disruption of the Auckland construction market and wider impacts of COVID-19. Due to the urgency of completing this work and meeting the refugee quota increase of 1st July 2020, the Ministry were not in the position to go back out to the market and obtain alternative pricing for the additional classrooms. This funding represents the actual costs for work already underway whilst the centre was unoccupied due to COVID-19 border measures. The Ministry was advised by the Treasury to use interim funding and submit a cost pressure bid for this project through Budget 21.	Critical cost pressure
25	Unavoidable Cost Adjustment: School Transport Forecast for the 2020/2021 calendar year	OPEX \$8.78m	This initiative will provide funding to cover the increase in the price of current contracts following Cabinet's agreement to provide a one-year contract extension following recent School Transport procurement issues (CAB-19-MIN-0623). The Ministry has insufficient funding to cover the volume, price and regulatory increases and non-discretionary costs and contractual obligations (such as building warrant of fitness, school leasing, insurance and health and safety) without compromising crucial services and condition of the School Property Portfolio. EIS will have to slow down existing projects and will be unable to gear up for any new pipelines of capital spend and service delivery to schools. This will put pressure on frontline services and cut down on spending for rationalisation and disposal of surplus property and school housing maintenance.	Critical cost pressure
26	Unforeseen Additional Price Escalation Holding Up Legacy Redevelopment Projects	9(2)(f)(iv) [REDACTED]	This initiative will provide funding to allow the construction on shovel ready legacy redevelopments to start within the next 12 months. This cost pressure has developed as a result of inflated market rates and suppliers pricing risk and uncertainty in their tenders, which pushes prices up. This is affecting projects currently in design or at the tender stage. The Ministry is seeking to mitigate perceived risks and increase certainty for suppliers through the National School Redevelopment Programme (NSRP) pipeline of work. This is subject to a successful budget bid and multi-year capital allowance. The legacy projects will generate up to 9(2)(f)(iv) [REDACTED] worth of work and jobs and provide students/ākonga with access to quality learning facilities. School redevelopment projects will need to be deferred or de-scoped in line with competing priorities until sufficient depreciation funding is generated. Further delays increase the risk of price escalations in material/labour costs as the school's condition continues to deteriorate.	Critical cost pressure
27	Annual Cost Adjustment to Schools Operational Grant to meet rising costs	OPEX \$84.843m MVO OPEX: \$63.641m	This initiative will provide a cost adjustment of 1.6% to schools' operational grants from 1 January 2022. The operational grant funds school operating costs including support staff salaries. COVID-19 has increased cleaning and other ongoing costs. Without a cost adjustment, schools will be unable to maintain their current levels of education provision. They may reduce the quality of education by reducing teacher aide hours and the breadth and depth of curriculum. This would directly impact on teaching and learning, and the educational achievement and wellbeing of children and young people. Schools have limited alternative revenue streams to replace the funding shortfall if they do not receive this increase.	Maybe



## Appendix B – Budget 2021 Cost Pressure List

## Budget & Industrial Relations Sensitive

Index	Initiative Title	4 year cost and MVO	Description / Scope Statement	Categorisation
28	Annual Cost Adjustment to maintain quality in early learning services	OPEX \$100.09M	This initiative will fund increases to the early childhood education (ECE) subsidies and targeted funding that enable early learning service providers to deliver quality ECE for the children in their care. This increase is part of the Government's Manifesto to fund annual cost adjustments. This funding is required to enable providers to maintain existing levels of quality ECE in the face of rising costs. The initiative will increase the ECE Subsidy for under 2s, ECE Subsidy for 2s and overs, 20 Hours ECE, Equity Funding (all components) and Targeted Funding for Disadvantage. The increase would take effect from 1 January 2022.	Maybe
29	Annual Cost Adjustment to Tertiary Tuition and Training Subsidies to maintain real value of funding	OPEX \$111.782m  <b>Note: No MVO unless HYEPU CPI is below 1.2%</b>	This initiative will provide funding for a 1.2 percent increase in tertiary education tuition and training subsidies to enable providers to maintain the quality of tuition and training as costs in the tertiary education system increase over time. The increase in per-student subsidies will support providers to ensure their delivery remains relevant and responds to students' and employers' needs, especially as they continue to manage the impact of COVID-19 on their operations. The increase strikes a balance between helping providers manage increases in delivery costs with an expectation that providers make effective and efficient investments to maintain quality and sustainability. It is highly likely that not increasing tuition and training subsidies for the 2022 calendar will adversely impact on the quality and/or accessibility of tertiary education and training, with a consequential impact on learners. No increase would also likely exacerbate the impact of COVID-19 on providers and learners. Providers have limited ability to raise revenue through other sources to manage increases to the cost of delivering tertiary education and training.	Maybe
30	Annual Cost Adjustment for Alternative Education Funding to maintain real value of funding	OPEX \$4.444m	This initiative addresses the inflationary cost-pressure that AE has experienced since 2012 (the last time inflationary pressure was addressed), by increasing AE funding by \$1.111m per annum. This increase allows a per place rate increase of 5%, from \$11,792 to \$12,380. This will reduce the funding drop that AE settings will experience at the end of 2021 (when short-term Covid-19 funding ends) and will help to maintain provision for a highly vulnerable group of ākonga.	Maybe
31	NZQA: NCEA/Scholarships Assessments	9(2)(f)(iv)	This initiative seeks continued critical funding, initially approved by Cabinet in Budget 2019 (CAB-19-MIN-0174.13), for increased pay rates for NZQA's approximately 4,000 contracted Specialist Workforce (SW). The SW supports the NCEA/Scholarship assessment process and is a critical resource for the integrity and operation of New Zealand's NCEA and Scholarship assessment process. Cabinet agreed to interim funding that ceases as at 30 June 2021 pending the completion of the NCEA Review and any consequential decisions regarding NCEA and Scholarship assessments e.g. removing NCEA Level 1 external assessment etc. As there has been no further decision on longer-term NCEA assessments that may reduce the SW requirements to deliver NCEA assessments, a longer-term baseline funding structure is now required to maintain the continuity of the pay rates established from Cabinet's decision in 2019/20. If it is not funded the integrity and operation of New Zealand's NCEA and Scholarship assessment process will be critically compromised and new pay rates that have been established in 2019/2020 will not be sustained. The consequence of not continuing it will be either pay cuts for markers (and degradation in quality), reductions in numbers (and degradation in quality) and the NCEA Assessment cycle will be significantly compromised without adequate experienced Specialist Workforce in place. This is not readily scalable. Any scaling that occurs throughout the process once the Cost Pressure is submitted needs to be done mindful of how to manage any fiscal risk scaling creates.	Maybe
32	Access to Period Products	9(2)(f)(iv)	Provide ongoing operational funding to support the provision of free period products in selected schools and kura to enable students to maintain participation and achievement.	Non-critical cost pressure
33	9(2)(f)(iv)			Non-critical cost pressure
34	9(2)(f)(iv)			Non-critical cost pressure

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Index	Initiative Title	4 year cost and MVO	Description / Scope Statement	Categorisation
35	9(2)(f)(iv)			Non-critical cost pressure
36	Prime Minister's Excellence Awards	OPEX \$4.200m MVO OPEX: \$3.840m	This initiative would fund the Prime Minister's Vocational Excellence Award from 2021 onwards. The Award is a \$2000 prize for the top student in a vocational programme of learning in each public secondary school and wharekura in New Zealand as chosen by the school. It aims to raise the status of vocational education through celebrating the successes of vocationally aligned students in every school as part of school prize giving ceremonies.	Non-critical cost pressure
37	9(2)(f)(iv)			Non-critical cost pressure
38	9(2)(f)(iv)			Non-critical cost pressure
39	Support the Growth and Development of Wānanga	9(2)(j)		Non-Critical cost pressure
40	9(2)(f)(iv)			Non-critical cost pressure
41	9(2)(f)(iv)			Non-critical cost pressure