MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Briefing Note: Delivering the Government's priorities within our Departmental funding constraints

To:	Hon Chris Hipkins, Minister of Education		
Date:	9 December 2020	**Priority:**	Medium
Security Level:	In Confidence	**METIS No:**	1246613
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Messaging seen by Communications team:	No	**Round Robin:**	No

Purpose of Report

The purpose of this paper is for you to:

Note that the Ministry's Financial Sustainability Programme has been established. This aims to strengthen the way we make and prioritise investments and align our work with the Government's priorities, represents the best value for money and makes the biggest difference to the Sector within our constraints.

Note that this Programme will help manage the Ministry's Departmental budget pressures next year and supports the delivery of the key programmes of work (including the EWP) by managing the resources needed to implement them while remaining financially sustainable.

Note that we engage with you on what we need to prioritise. This will include decisions to start, continue, scale, pause or stop activities so we can deliver key programmes of work and the Government's priorities in a fiscally constrained environment.

Agree to forward this briefing note to Associate Ministers of Education Hon Kelvin Davis, Hon Jan Tinetti and Hon Auptio William Sio.

Agree **Disagree**

Agree that this Briefing will not be proactively released at this time because of budget sensitivities.

Agree **Disagree**

Summary

- There are several interrelated drivers pushing the need to take a more proactive and selective approach to choosing what we do and do not invest in within our financial constraints:
    - The Education Work Programme (EWP) provides an opportunity to focus our efforts and resources on those initiatives that build on what has been achieved so far and that will have a meaningful impact on our ambition of achieving an education system that delivers excellent and equitable outcomes for all children and learners.
    - The Ministry's Future Education Programme will establish an Education Service Agency (ESA) and a redesigned Ministry. This programme forms a part of the reform of Tomorrow's Schools system agreed by Cabinet in October 2019 [SWC-19-MIN-0153 refers].
    - The Ministry is facing financial pressure, with most of our Departmental appropriations seeing reductions in FY21/22. Alongside demand pressures, we anticipate we will need to identify around $50m departmental savings next year (Annex 1 refers).
- We need to ensure we can deliver the EWP, the Future Education Programme and the Government's priorities while remaining financially sustainable. The Ministry's Financial Sustainability Programme addresses this by taking a whole-of Ministry approach to choosing and optimising what we do (and don't do). This will include decisions to start, continue, scale, pause or stop activities so we can deliver key programmes of work and the Government's priorities in a fiscally constrained environment.

Zoe Griffiths
Deputy Secretary
Business Enablement & Support

9/12/2020

Hon Chris Hipkins
Minister of Education

10/2/21

Investing in our highest priorities in an increasingly complex environment

1. We are continuing to strengthen the way we make and prioritise investments to align the work we do most strongly with the Government's priorities, represents the best value for money and makes the biggest difference to the Sector within our financial constraints.

2. There are several interrelated drivers pushing the need to take a more proactive and selective approach to choosing what we do and do not invest in within our limited resources. This includes:

    a. The substantial and transformative change being delivered through the EWP, and the importance of building on the progress and achievements of the last three years and focusing our efforts on the implementation and delivery of the programme.

    b. The Ministry's Future Education Programme which will establish an Education Service Agency (ESA) and a redesigned Ministry. This programme forms a part of the reform of Tomorrow's Schools system agreed by Cabinet in October 2019 [SWC-19-MIN-0153 refers].

    c. The increasing demand and complexity of the Sector and the needs of children and learners.

    d. The constrained fiscal environment and the Government's commitment to keep debt under control through stricter management of ongoing spending.

    e. The limited operating and capital allowance for new Budget funding.

    f. The fallout and ongoing impact of COVID, including the need to adapt and respond quickly to a potential resurgence.

    g. The anticipated $50m shortfall in the Ministry's Departmental baseline next year.

Financial Sustainability Programme

3. Work to address this began earlier this year, pre-COVID, and continues to be driven through the Ministry's Financial Sustainability Programme. This is a whole-of-Ministry approach in reviewing what we do, and ensures we are focusing our effort and money on the Government's highest priorities.

4. This addresses the anticipated $50m shortfall in the Ministry's Departmental funding next year. It also supports the delivery the EWP and Future Education by ensuring we have the resources needed to implement these key programmes of work, while remaining financially sustainable.

5. There are two core components of the Financial Sustainability Programme:

    a. Prioritisation

       Choosing what we do within our given constraints by identifying, prioritising and funding the investments that align most strongly with Government priorities and makes the biggest difference to the sector.

b. Optimisation

Once we have agreement with you on what we prioritise we will consider any changes required to get the best value for money. This aligns with the work on Future Education by looking at how we deliver services differently and better.

6. This will be challenging, and it will require some work to be stopped, scaled or deferred so we can deliver other higher priority work such as the EWP. We cannot do everything, but we know that focusing on a small number of interventions will be more powerful and more achievable than a plethora of programmes. We have also learned through COVID that the system responds best when it is focused on a small number of things at one time.

Departmental position next financial year

7. In January 2020, as part of Budget 2020, we discussed the financial position of the Ministry with you. This showed that we were anticipating a drop in Departmental funding between FY19/20 and FY20/21. However, largely due to the COVID pandemic, this drop in funding did not materialise. Rather, the Ministry saw an increase in Departmental funding through one-off expense transfers (from delayed work programmes impacted by COVID) and funding from the COVID Response and Recovery fund (CRRF).

8. While the drop in funding between FY19/20 and FY20/21 was avoided, this was a unique situation arising from the pandemic. It did not resolve the problem, but instead shifted it out to the next financial year (FY21/22).

9. Next year, early estimates suggest we need to find around $50m in departmental savings (see Annex 1). This is being driven by:

a. A drop in the Ministry's Departmental baseline next financial year

Most of our appropriations are expected to see a reduction in funding. This drop is being driven by the end of time-limited funding and funding received through the CRRF. While some of these costs relate to true one-off activities, we anticipate other activities will need to continue and will need to fit within the existing baseline if additional Budget funding cannot be secured (e.g. Reform of Vocational Education). The short-term nature of time-limited funding for investments that require longer term funding certainty can impact our ability to maintain a consistent programme of work. Further work to understand the impact of time-limited funding dropping of next year is currently underway and will be part of the more detailed report-back in the first quarter of the 2021 calendar year.

b. Increasing costs

Our costs are also increasing, driven by increased demand, complexity and continuing inflationary pressures.

10. Given the broader economic and fiscal environment, we know we cannot rely on Budget bids and other sources of funding to address this to the same extent as we could in the past. As such, Budget 21 submissions are only addressing Manifesto commitments and the most critical cost-pressures. While this will alleviate some pressure on the baseline, it will not fully address the funding gap given the quantum of savings we need to find.

11. Other initiatives and Manifesto commitments funded out of Budget may also add additional pressure if we do not receive enough new funding to cover the full cost to deliver and support them, as any supplementary funding would need to come from the baseline.

Next Steps

12. We plan to complete this work as fast as possible (end of April 2021) to allow enough time to plan, prepare and optimise our investments once we have certainty on what we decide to do. Similarly, to allow enough time to wind-down work we stop, pause or scale. As this work progresses, it will also inform and support Budget 2021 bids (including any Departmental cost pressure bids) and the Future Education Programme.

13. We will provide a more detailed report-back on our financial position and progress to date in the first quarter of the 2021 calendar year.

Proactive Release

14. We recommend that this Briefing is not released at this time because of budget sensitivities.

Annex 1: A3 Ministry of Education – Financial snapshot (Departmental)
See separate A3 attachment

Annex 1: Ministry of Education – Financial snapshot (Departmental)

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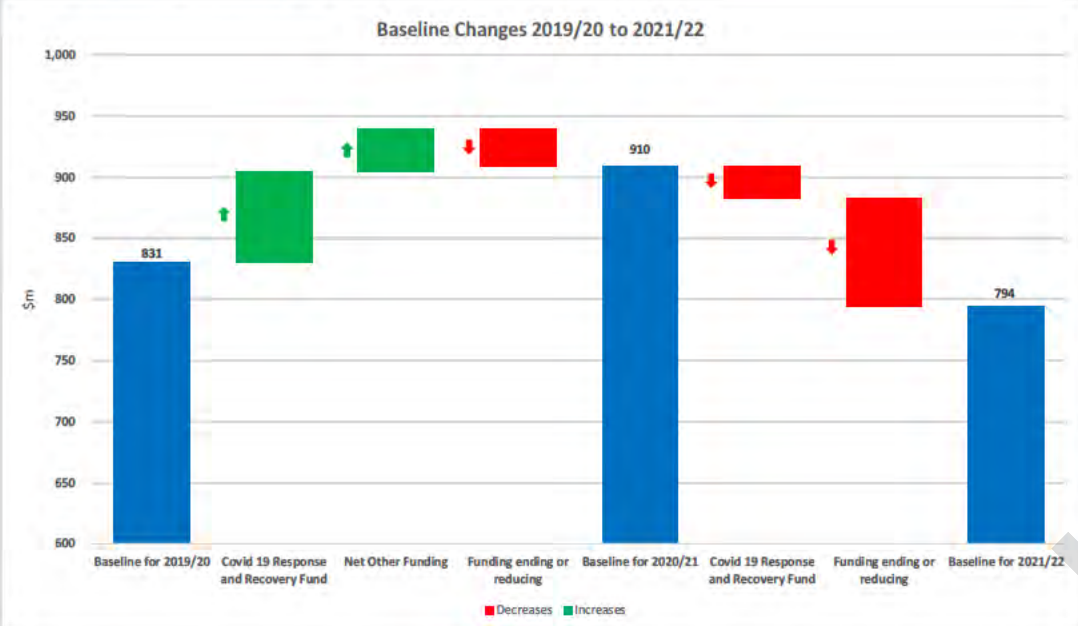
BUDGET SENSITIVE

The Ministry is facing financial pressures which is being driven by a drop in funding and increasing costs. We anticipate that as a result of these changes we will need to identify around $50m of departmental savings in FY21/22.

1. Our funding is dropping...

Our departmental baseline is in the next financial year*:



This is being driven by:

The end of time-limited funding

The high level of expense transfers in FY20/21 (single year; driven by COVID)

This decline is being seen across most departmental appropriations

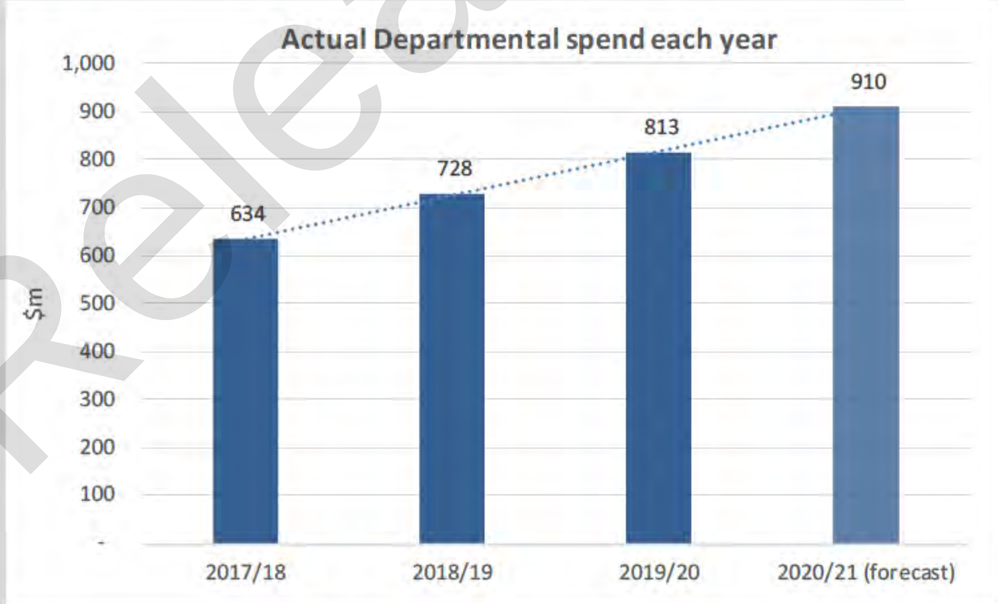
- The current FY20/21 year includes time-limited funding which is coming to an end or reducing in FY21/22. This includes funding from CRRF and expense transfers for work programmes that experienced delays due to COVID.
- Not all of the reduction in funding (FY21/22) will have an impact on future activity. FY19/20 provides a better guide to historic funding, the reduction between FY19/20 and next year (FY21/22) is around $37m (4.4%). We have used this amount in our estimate of FY21/22 budget baseline pressure.

At this point in time these are the departmental appropriations that will be hit hardest:

21% decline	20% decline	19% decline
Support and Resources for Teachers	Support for Education Providers	School Property Portfolio Management

2. Our costs are increasing...

The Ministry's spend has been increasing on average 12% each year*.



This is being driven by:

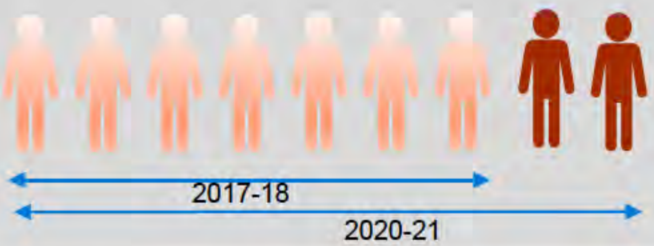
Increased demand and complexity of our work and sector needs

Increased FTE and contractor costs

Inflation (approx. $12m-20m per annum)**

- Greater sector demand (e.g. through population growth, heightened expectations from the sector and public etc.) has increased our costs.
- Greater complexity in our work and in the needs of learners and the sector is also inflating costs.
- Unfunded inflation and wage increases continues to add significant pressure on our baseline. We expect the FY21/22 impact to be between $12m to $20m.
- In response to increased demand and complexity we have increased the number of FTEs.

The number of FTEs has increased by 33% since FY17/18 to address increased demand***



**OBU Departmental baseline after depreciation, capital charge and public private partnerships, **Estimate subject to change; includes 2% wage inflation, ***Excludes contractors.*

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Annex 1: Ministry of Education – Financial snapshot (Departmental)

BUDGET SENSITIVE

We need to focus our effort (and money) on the investments that align most strongly with the Government's priorities, represents the best value for money and makes the biggest difference the Sector within our financial constraints.

3. This means we face a potential shortfall of $50m next financial year.

The drop in funding and increase in cost mean we are anticipating a potential shortfall of around $50m* next financial year**.

This funding covers Ministry services including Learning Support Services, front line staff costs, support and resources for parents, education providers and teachers, managing school property, policy advice etc.

We will need to find around $50m departmental savings next year.

**Indicative, based on early estimates. Excludes contingency and B21 bids that may require supplementary funding from baseline. Further analysis will be undertaken to understand the extent of the funding shortfall, and impact of time-limited funding ending, and will be reported back to Ministers in the new year.*

- The Ministry is facing financial pressure, we anticipate we will need to identify around $50m ($37m reduction in funding plus $12m to $20m inflationary pressure) departmental savings in FY21/22.
- We may have activities where funding is coming to an end, there may be the expectation that this work will need to continue and will need to fit within the stretched departmental baseline if additional Budget funding cannot be secured.
- We will also continue to have demand and inflationary pressures on our base spend.
- We also know we cannot rely on other sources of funding (e.g. Budget bids, asset sales etc) to address this to the same extent as we could in the past.
- As such, Budget 21 submissions are only addressing Manifesto commitments and the most critical cost-pressures. This will alleviate some pressure on the baseline but it will not fully address the funding gap given the quantum of savings we need to find.
- Other initiatives and Manifesto commitments funded out of Budget may also add additional pressure if we do not receive enough new funding to cover the full cost to deliver and support them, as any supplementary funding would need to come from the baseline.

4. This gives us the opportunity to take stock of our work and focus our effort and money on the activities that makes the biggest difference to the sector.

- This level of financial pressure will be challenging. We must live within our means but still deliver the outcomes that Ministers, the Sector and the public expect of us.
- This gives us the opportunity to take stock of our work and, ensure what we choose to do and how we choose to do it aligns with the Government's priorities, represents the best value for money and makes the biggest difference the Sector within our financial constraints.
- This will be a challenging piece of work that will require trade-offs and for some work to be stopped, scaled or deferred so other higher priority work can be delivered.
- This will be delivered through the Financial Sustainability Programme.

***OBU Departmental baseline after depreciation, capital charge and public private partnerships*