



Education Report: Budget 2021 – Draft letter to support bilateral with the Minister of Finance

| | | | |
|---|--|---------------------|------------|
| To: | Hon Chris Hipkins, Minister of Education | | |
| Date: | 09 December 2020 | Priority: | High |
| Security Level: | Budget Sensitive | METIS No: | 1246102 |
| Drafter: | Svenja Gellert | DDI: | 04 4638808 |
| Key Contact: | John Brooker | DDI: | 9(2)(a) |
| Messaging seen by Communications team: | No | Round Robin: | No |

Purpose of Report

Attached is a draft letter and proposed A3 to support your bilateral discussion with the Minister of Finance on Thursday 17 December.

The purpose of this Education Report is for you to:

Forward the attached draft letter and proposed A3 to Associate Ministers of Education for their feedback.

Provide feedback to the officials on the draft letter and A3 by 10am Thursday 10 December.

Summary

- 1 On 27 November, the Minister of Finance wrote to you outlining the Government strategy for Budget 2021 and asking you to provide a letter indicating critical cost pressures, manifesto commitments, and reprioritisation opportunities or non-spending initiatives over the next three budgets, by 10 December 2020. You will discuss the contents of this letter in your Ministerial Bilateral on 17 December 2020.
- 2 The attached letter outlines your budget priorities focusing on manifesto commitments and critical cost pressure initiatives based on our discussion at the strategy session on 2 December.
- 3 The letter also highlights areas of interest to support outcomes for Māori and Pacific learners that do not meet the strict definition of a critical cost pressure and are not in the fiscal plan but do support commitments made in the Labour Party Manifesto and the Speech from the Throne.

Recommended Actions

The Ministry of Education recommends that you:

- a. **note** you are due to have a Budget bilateral with the Minister of Finance on Thursday 17 December at 3pm

Noted

- b. **note** that the bilateral discussion will cover your Education and COVID response portfolios

Noted

- c. **note** you are required to write to the Minister of Finance no later than 5 working days before the bilateral to provide an overview of the manifesto commitments and cost pressures in your Votes (the letter is due 11 December)

Noted

- d. **note** we have already provided you with advice on a number of potential initiatives for your consideration during our strategy session on 2nd of December. The draft letter and the A3 reflect this discussion.

Noted

- e. **note** following discussions with Associate Ministers of Education we have included initiatives to support the outcome of Māori and Pacific learners. Numbers are still to be confirmed.

Noted

- f. **note** a whole of government approach is needed to effectively address the digital divide

Noted

- g. **forward** the attached draft letter to the Associate Ministers of Education for their feedback

Agree / Disagree

- h. **provide** feedback to officials on the draft letter and A3 by 10am Thursday 10 December

Agree / Disagree

- i. **note** we will provide a final letter to your office on the afternoon of Thursday 10 December for you to send to the Minister of Finance.

Noted

- j. **do not release** this Education Report proactively at this time because the information contained within it is Budget sensitive.

Release / Not release



John Brooker
Group Manager
Education System Policy

09/12/2020

Hon Chris Hipkins
Minister of Education

— / — / —

Background

- 1 On November 27 the Minister of Finance wrote to you outlining the strategy for Budget 2021 agreed by Cabinet. The operating allowance has been set at \$2.625b per annum, with the Multi-Year Capital Allowance set at \$7.8b in total. Due to the tight fiscal environment Budget 2021 will be an invitation only process.
- 2 The Government's priorities are:
 - a. Keeping New Zealanders safe from COVID-19
 - b. Accelerating the recovery
 - c. Laying the foundations for the future.
- 3 Invitations will be issued by the Minister of Finance before Christmas following your bilateral discussion on the 17th of December.
- 4 The Minister of Finance has outlined the following criteria for cost pressures to be deemed critical:
 - a. Initiatives must carry a high level of risk if unfunded
 - b. Personnel pressures must adhere to Government Expectations on State Sector Employment Relations and the public sector pay restraint guidance issued by the Public Service Commissioner
 - c. Initiatives must not have scope to defer to future Budgets
 - d. Any funding in previous Budget rounds must be insufficient to manage current pressures
 - e. Efforts must already have been made to manage the pressure from within existing baselines.
- 5 Labour Party Manifesto commitments considered through Budget 2021 will be limited to initiatives that meet the following criteria:
 - a. Specifically outlined in the Labour Party Manifesto or Speech from the Throne
 - b. High priority or time-sensitive and unable to be deferred to later Budgets.

Draft Letter to Minister of Finance

We developed a draft letter based on your feedback at the Strategy Session on 2 December

- 6 We developed the letter based on your feedback at the strategy session on 2 December. Key points to note are:
 - a. Manifesto commitments:
 - We have included the proposed sequencing of manifesto commitments as set out in the annotated agenda for the Strategy Session which would significantly reduce the call on the Budget 2021 operating allowance.
 - We propose seeking a reduced total of 9(2)(f)(iv) from \$1.72 billion for Budget 2021 for manifesto commitments.
 - b. Cost pressure initiatives reflect the criteria as set out by the Minister of Finance. We have developed a cost pressure package totalling 9(2)(f)(iv) over four years. This includes:

- Wage and Collective Bargaining
 - Sector Cost Pressures
 - Agency Cost Pressures
 - Education Infrastructure
- c. Following discussions with Associate Ministers of Education we have included initiatives that focus on strengthening the outcome for Māori and Pacific learners. Initiatives and numbers are still being developed.
- 7 The government has set aside \$15 million in the fiscal plan to take the next steps on digital access. 9(2)(f)(iv)
- [REDACTED]

Next steps

- 8 The Minister of Finance invited you to respond to his letter with manifesto commitments and cost pressure initiatives in your portfolio that require funding over the next three years by 10 December. You will have a chance to discuss this letter in your Ministerial bilateral with the Minister of Finance on 17 December.
- 9 Following the bilateral the Minister of Finance will invite you to submit initiatives for Budget 2021 by Christmas 2020. Initiatives will be due to be submitted by 29 January 2021. Treasury will publish further guidance on the submission process in early December.

Proactive Release

- 10 We recommend that this Education Report is not released at this time because the information it contains is Budget sensitive. This is consistent with section 9(2)(f)(iv) of the Official information Act 1982, which states that good reason for withholding official information exists if withholding it is necessary to maintain the constitutional convention that protects the confidentiality of advice tendered by officials.

Annexes

- Annex 1: Draft Letter to Minister of Finance
- Annex 2: Supporting A3

Hon Chris Hipkins

MP for Remutaka

Minister for COVID-19 Response

Minister of Education

Minister for the Public Service

Leader of the House



10 December 2020

Hon Grant Robertson

Parliament Buildings

WELLINGTON

Dear Grant,

As requested in your 27 November letter, I am providing you with the manifesto commitments and critical cost pressures in my Education and COVID-19 Response portfolios that will require funding over the next four years to deliver our Government's priorities. I look forward to discussing these with you at our Budget 2021 bilateral on 17 December.

For our discussion, I have applied your criteria to identify critical cost pressure initiatives that should progress alongside our highest priority manifesto commitments. These initiatives are non-discretionary and present significant risks to education service levels if unfunded. Some of the education manifesto commitments can be staged over the next three budgets which would significantly reduce the call on the Budget 2021 operating allowance.

Initiatives I would like to discuss with you fall under the following categories:

1. Labour Party Manifesto commitments
2. Critical Cost Pressures
3. Strengthening outcomes for Māori and Pacific learners.

Labour Party Manifesto commitments

Our Labour Party Manifesto commitments in the fiscal plan include initiatives where I anticipate funding being prioritised.

- a. \$320 million – Replace deciles with the equity index
- b. \$600 million – ECE Pay Parity
- c. \$375 million – Free and Healthy School lunches
- d. \$ 15 million – Digital access (next steps)
- e. \$ 10 million – Student achievement, curriculum progress and achievement and NCEA
- f. \$400 million – Reform of the Tomorrow's Schools system

Within the manifesto but outside of the Education Fiscal Plan

- g. 9(2)(f)(iv) – supporting the proposed Matariki holiday (as part of a cross-agency bid)

Cabinet agreed that our manifesto commitments for Budget 2021 would focus on programmes that are ready to go and must progress immediately. I therefore propose sequencing the following education manifesto commitments over the next three budgets.

Phasing in gradually the following three manifesto commitments

1. Funding in Budget 2021 to introduce the new equity index for schools 9(2)(f)(iv) this has been developed and can commence immediately. The introduction of the ECE equity

index can be deferred until Budget 2022 as this is still in development. This would free-up 9(2)(f)(iv) from the Budget 2021 operating allowance.

2. An initial investment of 9(2)(f)(iv) over four years for ECE Pay Parity in Budget 2021 to build on the momentum from the step we introduced in Budget 2020. 9(2)(f)(iv)
3. Funding the immediate cost pressure to continue the Free School Lunches programme through the CRRF contingency. This would provide the resource to maintain this high-priority programme but would have the effect of deferring \$375m until Budget 2022 or Budget 2023.

Seeking full funding for the education manifesto commitments that are ready to go

Alongside the proposed sequencing of the three manifesto commitments above, I propose we move forward urgently on the Tomorrow's Schools, digital access and NCEA commitments. These things are already well developed, and it is important to get a funding commitment to them at the earliest opportunity.

We set aside \$15m in the fiscal plan to take the next steps on digital access. Closing the digital divide can significantly strengthen the resilience of learners and the education system. 9(2)(f)(iv)

The effect of the proposed sequencing of education fiscal plan commitments reduces Vote Education's call on the Budget 2021 operating allowance from \$1.72 billion to 9(2)(f)(iv).

The Matariki holiday is a wider manifesto commitment for Government. 9(2)(f)(iv)

Critical Cost Pressures

Recent forecast changes have boosted Government's fiscal position heading into Budget 2021

Forecast changes have been the first call against the education allocation in previous budgets. This year, the March and October Baseline Updates returned \$1.06 billion to the centre, significantly boosting the Government's fiscal position heading into Budget 2021. My view is that this should be considered when setting the education allocation for critical cost pressures in Budget 2021.

Across my education portfolio, critical cost pressures have been identified that need to be addressed to avoid a severe impact on service levels if unfunded. Annex A sets out the required investment in education in further detail, totalling in operating funding over four years. These critical cost pressures include:

- Wage and collective bargaining
- Sector cost pressures
- Agency cost pressures, and
- Education infrastructure.

This implies a net impost of these cost pressures of 9(2)(f)(iv) of operating spending after forecast adjustment are taken into account.

Wage and collective bargaining 9(2)(f)(iv)

In Budget 2021 we need to make allowance for bargaining the next non-teaching staff collective agreement as this expires in February 2021. The Ministry has also received 11 claims under the Pay Equity Act to date, that must be investigated. We also need to fund the continuation of the time-limited pay increase for NZQA's specialist workforce.

We also need to discuss a way forward in terms of managing the impact of the Holidays Act 2003 on the education system. Current schools' and Ministry of Education payroll practices are not compliant with the Holidays Act. Given this is the largest government payroll in New Zealand, the number of people affected, and therefore the cost to make the payroll service compliant, is significant funding (estimated at \$275m). Although any payments by the Ministry are unlikely to be made until the 2022/23 financial year, financial reporting standards require the Crown to book the costs once we have an informed estimate. Therefore, there is a question about how to best manage this liability. There is not room within Education votes currently to accommodate this cost. I would like to have a conversation with you about how we can resolve this issue.

Sector cost pressures 9(2)(f)(iv)

Addressing long-standing under-funding

Education sector providers are facing a number of cost pressures over coming years. Some of these arise as a result of long-standing under-funding across a number of years, eg, critical funding pressures faced by the vocational education and training (VET), Wānanga, and alternative education sectors and also 9(2)(f)(iv) and attendance services. Given the long-standing nature of this under-funding in the VET and wānanga sectors, and the number of learners they serve, the amount sought for these pressures is significant.

Increased demand in capped funding streams

Others arise as a result of increased demand in what are capped funding streams, for example, 9(2)(f)(iv) or providing laptops for principals and teachers. 9(2)(f)(iv)

Addressing time-limited funding commitments to ongoing cost pressures in previous Budgets

A number of the cost pressures facing the education system are also as a result of decisions we have made in earlier Budgets to provide time-limited funding as a way of managing costs. In some cases, they fall against ongoing costs or service delivery, e.g. Ongoing Resourcing Scheme (ORS), support for at-risk learners from the CRRF, and the PM's Vocational Excellence Awards. In other cases, we made time-limited responses, for example, to support tertiary students as a result of COVID. These pressures need to be addressed if we want to maintain the delivery of these critical services.

Annual funding rate adjustments to maintain the real value of education resourcing.

In the education, as in other sectors, since Budget 2018, we have also made annual funding rate adjustments across early learning, schooling and the tertiary sectors. These are committed in the fiscal plan in the Education Manifesto and amount to around \$300 million over the current Budget cycle. These are important to maintain the real value of funding in the education system at a time when providers are under pressure as a result of COVID.

Agency cost pressures 9(2)(f)(iv)

The Ministry of Education's departmental funding is currently under pressure due to increasing inflation eroding the value of baselines and increasing expectations to fund new initiatives out of existing baselines. TEC was not funded on an ongoing basis for the programme needed to

complete the reform of vocational education (RoVE). These pressures will prevent the Ministry from maintaining current service levels and the TEC from successfully completing the RoVE.

I have asked officials to focus on the most critical areas of need for Budget 2021, in particular, front-line learning support staff employed by the Ministry, completing the Education Resourcing System, implementing the NCEA change programme and the programme costs to TEC of completing the RoVE.

Education Infrastructure 9(2)(f)(iv)

The school property portfolio needs significant investment over the next 10 years to address condition and growth issues. Our condition-focused critical cost pressures target weathertightness and earthquake strengthening issues in schools. These pressures fit within a wider programme to address by 2030 a legacy of deferred maintenance and condition issues across the portfolio. Two programmes have been endorsed by Cabinet to address growth and condition issues, the National Education Growth Plan (NEGP) and the National School Redevelopment Programme (NSRP).

The NEGP has benefited significantly from the multi-year capital allocation from Budget 2019, which has accelerated the planning, design and construction of new classrooms. Through Budget 2021, I want to build on the momentum of the NEGP and extend this approach to meet both our critical cost pressures and address the deferred maintenance and condition issues identified in the NSRP.

Officials are working with the Treasury to develop the mechanism to provide funding certainty and spread the impact over several Budgets. This will allow new capital to complement the Ministry's baseline funding to address the immediate critical cost pressures for weathertightness and earthquake strengthening and deliver additional capacity for growth and address the wider condition issues across the school portfolio by 2030.

By committing to fund these programmes through a multi-year approach and providing the Ministry of Education with a mechanism to drawdown funding when needed we will be able to accelerate a number of shovel-ready projects, and stimulate the economy for several years through construction projects that will employ thousands of people across New Zealand.

The Ministry is currently finalising the funding required to complete and close out the Christchurch Schools Rebuild Programme. Some funding will be needed in Budget 2021 to keep the programme going until this cost is finalised. School Transport and Payroll are also facing cost pressures in relation to the new school bus contract. I have also included funding to provide maintenance for property at state integrated schools.

Strengthening Education Outcomes for Māori and Pacific learners (costs to be confirmed)

You have indicated in your letter to Ministers that supporting better outcomes for Māori and Pacific peoples should be a key focus for Budget 2021. A number of the manifesto and critical cost pressures I am seeking your support for in Budget 2021 and from the CRRF will do this. In particular, our ongoing investment in Free and Healthy School Lunches, the Tomorrow's Schools Reforms, investing in the schooling property portfolio and the introduction of the Equity Index for schools.

However, there are a small number of Māori and Pacific priorities in the Education Manifesto that do not fall within the strict funded manifesto commitments or critical cost pressure requirements for Budget 2021 that myself and the Associate Ministers for Māori and Pacific Education would like your support on for Budget 2021.

In the case of the Māori education portfolio, I would like to discuss your views on the development of specific proposals to: 9(2)(f)(iv)

9(2)(f)(iv) and invest in kura property (to address both the current poor condition and for growth) to increase the effectiveness of the Māori Medium Education Network plan we are proposing to put in place through the Tomorrow's schools package.

For Pacific Education, the key priority is to support Pacific wellbeing by ensuring our learning environments are culturally safe spaces for Pacific learners. This includes an initial investment in Pacific bi-lingual and immersion education to answer a long-standing inequity and call from the sector, continuing to focus on the cultural competence of educators working with Pacific students in mainstream schools, and 9(2)(f)(iv)

COVID-19 Portfolio Commitments

You indicated our bilateral discussion would also cover my COVID-19 portfolio responsibilities. Under current policy settings, no additional funding will be required to support the public health response to COVID-19 at Budget 2021. However, if policy settings were to change, for instance in the event that New Zealand establishes safe travel zones, funding may be required to support the implementation of this policy, such as additional funding for DHBs to provide staffing at airports not currently accepting international flights, or to support the setup of quarantine centres.

Thank you for the chance to share the opportunities for investment in the Education sector. I look forward to discussing these with you on 17 December.

Yours sincerely



Hon Chris Hipkins
Minister of Education
Minister for COVID-19 Response

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

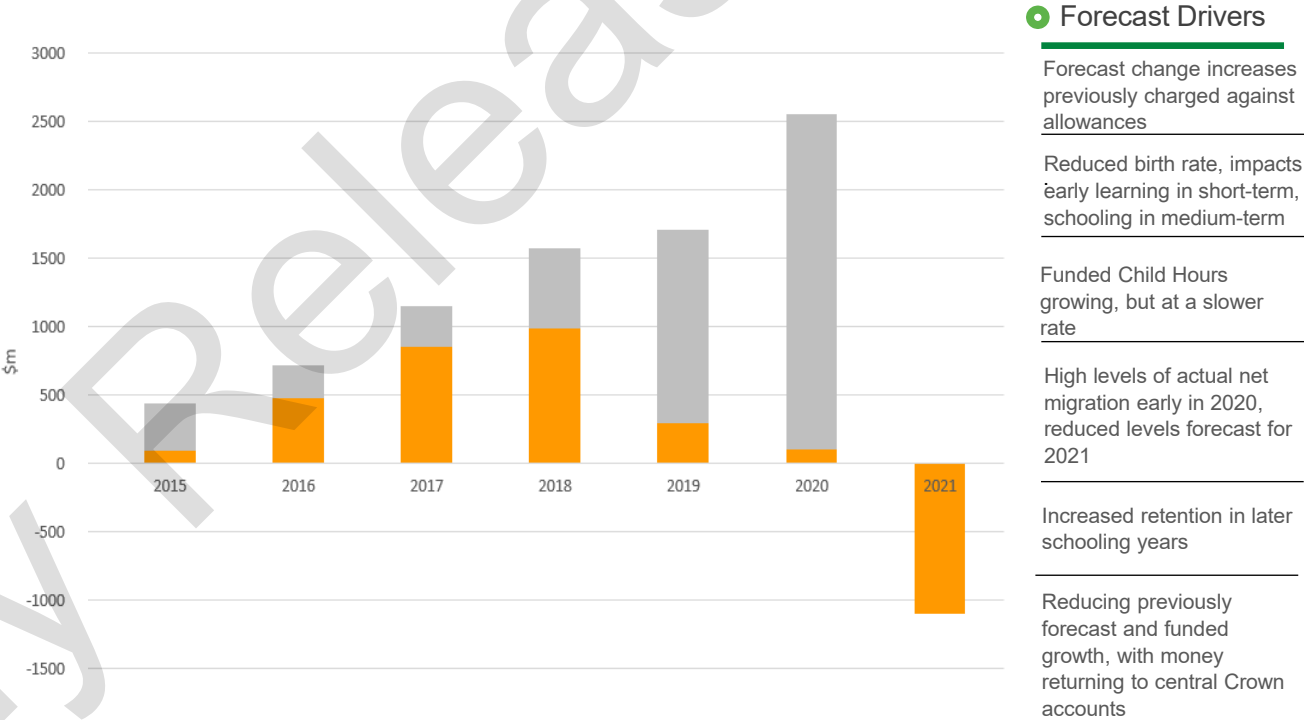
Future of Learning and Work
Learning that is relevant to the lives of New Zealanders today and throughout their lives.

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

Investing in education infrastructure
to improve condition and accommodate 100,000 new learners.

FORECAST BASELINE FUNDING CHANGES

Forecast changes will return over \$1.06b from Vote Education to central Crown accounts



MANIFESTO COMMITMENTS IN THE FISCAL PLAN

| Manifesto Commitments | 21/22 | 22/23 | 23/24 | 24/25 | Allowance in Fiscal plan (4yrs) |
|---|---------------------|--------|--------|--------|------------------------------------|
| Replace deciles with equity index Focusing on schools initially and deferring ECE until B22 | \$50m | \$100m | \$90m | \$80m | \$320m |
| Beginning pay parity in early learning Commence work in B21 and sequence over later budgets. | \$40m | \$120m | \$200m | \$240m | \$600m |
| Free and Healthy School Lunches (outyear funding) | Funded through CRRF | \$125m | \$125m | \$125m | \$375m |
| Taking the next steps on digital access 9(2)(f)(iv) | \$15m | | | | \$15m (Fiscal plan) 9(2)(f)(iv) |
| Student Achievement – NCEA numeracy and literacy | \$6m | \$2m | \$1m | \$1m | \$10m |
| Reform of Tomorrow's Schools | \$100m | \$100m | \$100m | \$100m | \$400m |
| Matariki – Curriculum resources to support the public holiday | 9(2)(f)(iv) | | | | |
| TOTAL Manifesto commitments in fiscal plan 9(2)(f)(iv) | \$211m | \$447m | \$516m | \$546m | \$1,720 |

Critical Cost Pressures

Strengthening Education outcomes for Māori and Pacific Learners

Wage and collective bargaining

9(2)(f)(iv)

9(2)(j)

- Pay equity investigation and negotiation
- Maintaining pay rates for NZQA specialist workforce

9(2)(f)(iv)

Agency cost pressures

9(2)(f)(iv)

- Critical frontline departmental pressures
- Completion of the Reform of Vocational Education (TEC/ MoE)
- NCEA Change Programme
- Education resourcing system

9(2)(f)(iv)

Opex \$32m
Capex \$14m

Opex \$87m
Capex \$8m

Opex \$17m
Capex \$35m

Deliver sustained Professional Learning and Development to embed Tapasā

9(2)(f)(iv)

9(2)(f)(iv)

9(2)(f)(iv)

Support Pacific bilingual and immersion units in school

9(2)(f)(iv)

Sector cost pressures

9(2)(f)(iv)

- Providing digital access for the increased number of principals and teachers
- Addressing past real-term funding declines in VET
- Addressing urgent Treaty commitments to the Wānanga sector and critical crown investment
- Addressing tertiary student hardship

9(2)(f)(iv)

9(2)(f)(iv)

- Continuation of the attendance service
- Prime Minister’s vocational excellence awards
- Annual funding rate adjustments for early learning, schools, and tertiary
- Addressing inflationary cost pressure experienced since 2012 for Alternative Education

\$20m

\$4.2m

\$297m

\$4.4m

Education infrastructure

9(2)(f)(iv)

Sector Infrastructure

- 9(2)(f)(iv)
- Co-location of Marlborough Boys and Girls college and relocation Bohally Intermediate
- Improving the property at State Integrated Schools
- Growth – funding the next phase of the NEGP to meet the target of 100,000 student spaces and expanding the Mangere Refugee Resettlement Centre
- Funding new school land purchase
- Funding the next stage of the Christchurch re-build programme

9(2)(j)

MoE Cost Pressures

- Time-dependent technology upgrade to stabilise payroll system
- Addressing regulatory costs for expanding multi-billion property portfolio

Opex \$10m

9(2)(f)(iv)

Investment in kura property

Capex \$60m+

Funded from NEGP and Land funding

Other

Literacy success and child wellbeing through Reading Together®
Te Pānui Ngātahi partnerships and Duffy Books in homes

9(2)(f)(iv)

For Discussion

Holidays Act Compliance (Non-Departmental) and running costs (Departmental)
Current Ministry and Schools’ payroll practices are not compliant with the Holidays Act 2003.
Opex \$275.00m

Deferred to Future Budgets

9(2)(f)(iv)

Access to Period Products Out Years

9(2)(f)(iv)

Technical Cost Pressure

Budget & Industrial Relations Sensitive