



## Additional Material to Support the Second Budget 2021 Bilateral

<b>To:</b>	Hon. Chris Hipkins, Minister of Education		
<b>Date:</b>	16 March 2021	<b>Priority:</b>	Low
<b>Security Level:</b>	Budget Sensitive	<b>METIS No:</b>	1250709
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<b>Messaging seen by Communications team:</b>	N/A	<b>Round robin:</b>	No

### Purpose of Report

This briefing note provides you with an updated copy of the alternative budget scenario presented to you on 12 March 2021 [METIS 1251978 refers] to reflect the order of initiatives the Treasury have used when preparing their advice to the Minister of Finance.

These options are presented in preparation for your second Budget 2021 Bilateral with the Minister of Finance on 17 March 2021. You have also agreed for us to finalise an agenda with the Treasury to guide the discussion. The Treasury is comfortable with the Ministry providing this agenda and have indicated to the Minister of Finance that he will be receiving this agenda.

**Forward** the attached Agenda (Appendix B) to the Minister of Finance ahead of your Bilateral.

### Proactive Release

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

Dr Andrea Schöllmann  
**Deputy Secretary**  
**Education System Policy**

16/3/21

**Release / Not Release**

Andy Jackson  
**Deputy Secretary**  
**Te Ara Kaimanawa**

16/3/21

Hon Chris Hipkins  
**Minister of Education**

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## Material for the Second Budget Bilateral

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Advice was presented to you on 12 March 2021 [METIS 1251978 refers] providing our advice on the Treasury Budget Team's analysis of the education package and providing an alternative budget scenario. You agreed for us to finalise an agenda with the Treasury to guide the Bilateral discussion.

### *Updates to the Alternative Budget Scenario*

1. On 12 March 2021 [METIS 1251978 refers] we provided you advice in preparation for your second budget Bilateral with the Minister of Finance. Attached to this advice was an A3, Appendix A – Alternative Budget Scenario. This A3 has been updated with a change to the order of the initiatives. The changes made to this A3 reflect the order of advice presented to the Minister of Finance by the Treasury and reflect the order of the agenda.

### *Bilateral Agenda Agreed with the Treasury*

2. In consultation with the Treasury, an agenda has been prepared to guide the conversation between yourself and the Minister of Finance. Several themes have been identified for discussion: the context of the budget, key manifesto commitments, high priority cost pressures, and other issues.
3. The Treasury have consulted on and agreed to the content of an early draft of this agenda. They have also advised the Minister of Finance that they are comfortable with you providing a Ministry prepared agenda to him.

## Attachments

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Appendix A – Alternative Budget Scenario

Appendix B – Bilateral Agenda



		29 January Package		MoE Revised Scenario		
Index	Initiative Title	5-year OPEX Total (\$m)	10-year CAPEX Total (\$m)	5-year OPEX Total (\$m)	10-year CAPEX Total (\$m)	Comments
1	Moving towards pay parity in early learning	192.493	0.144	150.103	0.144	This initiative could be scaled by moving from Step 6 to Step 5 reducing the cost to \$150.103m (with \$139.5m going directly to the sector and \$10.6M implementation costs). If further scaling is required, moving to Step 4 reduces the cost to \$109.105m (with \$98.5m going directly to the sector and \$10.6M implementation costs). Any scaling creates greater costs in future Budgets and slows down progress to achieving pay parity.
2	Reform of the Tomorrow's School System		54.904		55.406	Scaling the Reform of the Tomorrow's School System to requires significant changes to the scope and scale of the ESA, . The Treasury budget team have recommended scaling this to \$171m, the proposed amount is not workable without substantial changes to the programme and deferral of core components of the reform. Further scaling this initiative will increase the need for funding in future budgets.
	Tomorrow's Schools: ESA					
	Tomorrow's Schools: Flexible Fund					
	Tomorrow's Schools: Curriculum centre					
	Tomorrow's Schools: Network Function					
3	Ensuring the viability of vocational education and training	279.508	-	222.500	-	The \$279.508m option provides for a 5% funding increase in 2022 and an 8% increase in 2023. Scaling this initiative to \$222.5m would provide for a 5% increase in 2022 and a 5% increase in 2023. Scaling to \$222.5m or lower means needing to seek funding from future Budgets along with delays in necessary changes in delivery models and provider behaviour to achieve RoVE objectives. The Treasury budget team have proposed scaling this to \$137m, roughly a single 5% increase in 21/22. Scaling to a single 5% increase would require seeking a large bid in Budget 2022 to provide for the second increase in 2023.
4	Addressing urgent Treaty commitments to the Wānanga sector	32.250	-	32.250	-	Reduced funding for this initiative which seeks to rectify an existing funding cliff would negatively impact on the Crown's obligations under Te Tiriti to actively protect and promote wānanga, and increase the likelihood of reactivated and/or new claims to the Waitangi Tribunal – both with consequential impacts on Māori-Crown relations. Additional funding would need to be sought from Budget 2022. Any Waitangi Tribunal process would require significant reprioritisation of Ministry resources from critical projects. The Treasury budget team have not supported this initiative.
5	Addressing Inequitable Funding of Wānanga	9(2)(j)				
6	Supporting Pacific bilingual/immersion education in schooling	20.218	0.644	20.218	0.644	Limited ability to scale this initiative without severely reducing the number of schools involved and losing regional coverage. This initiative is Minister Sio's top priority. The Minister of Finance indicated support for a \$12m option during the Pacific Minister's bilateral, which would remove the PLD component of the initiative.
7						
8	Deliver sustained Professional Learning and Development to embed Tapasā		0.032		0.032	This could be deferred due to fiscal pressures. The teaching workforce will be less responsive to the needs of Pacific learners and within multi-cultural classroom settings and any potential to reduce racial inequities will be lost. The Treasury budget team have not supported this initiative, 9(2)(g)(i)
9	Funding the Next Phase of the National Education Growth Plan			45.189	266.000	<p>The Treasury budget team have not supported funding this initiative and have proposed drawing down the balance of the NEGP contingency only. The funding in this contingency has already been allocated to projects. No additional NEGP funding delays around 10,000 student places worth of projects and will undo progress on growth achieved since Budget 2018. Scaling this bid to \$266m CAPEX represents the minimum capital required to maintain programme progress for another year.</p> <p>The Ministry will no longer be able to fund short-term roll growth (STRG) solutions, which are relied on to meet time-critical projects. Overcrowding of schools in high demand areas like Auckland will increase. To adjust to this funding position the Ministry will need to defer the following planned projects (equating to around 10,000 new student places):</p> <ul style="list-style-type: none"> <li>• 166 short-term roll growth classrooms;</li> <li>• 74 complex roll growth classrooms;</li> <li>• The design and enabling work for 11 new schools;</li> </ul>



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						<ul style="list-style-type: none"> <li>The design and enabling work for 4 staged expansions;</li> <li>The Ministry will no longer be able to fund short-term roll growth (STRG) solutions, which are relied on to meet time-critical projects</li> <li>Any additional satellite unit capacity for students with learning support needs.</li> </ul> <p>Returning to an uncertain flow of capital will have a negative impact on the construction sector who rely on Ministry contracts for business and most importantly have been able to gear up based on confidence of a future pipeline of work which the multiyear appropriation has up until now allowed us to do. Provides reduced stimulus to the economy and no employment opportunities.</p> <p>After Budget 21 a longer-term solution to funding the NEGP will be worked through with The Treasury and presented to Cabinet for decision.</p>
10	Property funding to build and expand schools delivering Māori Medium Education	14.392	77.070	11.409	56.060	The Treasury budget team has suggested funding 9(2)(i) of CAPEX. This only funds the delivery of one project ( <i>Te Wharekura o Manurewa</i> ) however it is insufficient to deliver <i>TKKM o Te Wananga Whare Tapere o Takitimu</i> and <i>Manukura</i> . We do not recommend scaling below \$77m CAPEX. However, 9(2)(i) of CAPEX is required to fund all three of the programmes urgent cost escalation projects.
11	Purchasing Land for New Schools			14.875	85.000	The Treasury budget team has suggested scaling to \$85m CAPEX. This reimburses land purchases for the previous year only, creating uncertainty about funding land going forward. This represents the minimum acceptable option for the Ministry.
12	Meeting Cost Increases in Legacy Redevelopment Projects			39.375	150.000	The Treasury has recommended funding only \$150m of this bid. Scaling this bid will mean shovel-ready legacy projects will be able to get underway. Loss of benefits of stimulus to the economy (across New Zealand). This will delay the construction up to legacy projects by 12-24 months and will have a flow on effect of delaying up to NSRP projects by 12-24 months. The Ministry has already allocated \$500m of baseline funding, this
13	Christchurch Schools Rebuild Programme	17.100	56.000	17.100	56.000	The Treasury supports this scaled bid for CSR.
14	Supporting the co-location of Marlborough Boys and Girls Colleges and the relocation of Bohally Intermediate			1.103	6.300	Scaling this bid reduces the planning and design work that can be completed. The Treasury budget team have proposed scaling this initiative to \$6.3m CAPEX, this would allow for 12 months of work to be completed presenting a feasible option. However, at least two-years of funding are needed to provide certainty to the design stages of the programme.
15	9(2)(i)					
16	Meeting the Operational Costs of a Growing School Property Portfolio					The Treasury have supported our scaled option which provides one more year of operating funding. This option provides funding for one more year but does not provide on-going funding certainty. This creates a funding cliff at the end of the year and will result in another bid for Budget 22. Time-limited funding provides no certainty for a growing portfolio that faces an increase in non-discretionary costs along with reducing baseline and reduction of revenue available.
17	Improving the property at State-Integrated Schools	52.800	-	52.800	-	<p>The Treasury do not support this bid. Without this funding Proprietors of state-integrated schools will be unable to accelerate upgrades of school property. Without this funding state-integrated schools may struggle to meet the Government's 2030 goal.</p> <p>Note – The New Zealand Catholic Education Office (NZCEO) has filed for judicial review of the decision to exclude state-integrated schools from the School Investment Package announced in 2019.</p>
18						
19	Investigating and negotiating Pay Equity Claims	34.394	2.228	29.346	0.480	Close cost analysis by MoE has reduced funding required by \$5m. Reducing this initiative further will create reputational risk for the Government as it will be unable to manage the volume of Pay Equity claims. The Treasury budget team have supported this initiative at \$31m, a level just above the Ministry's revised number.



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20	Maintaining pay rates for NZQA's Specialist Workforce	10.000	-	10.000	-	This bid was scaled back by 50% to just two years funding while NCEA review takes place. Further scaling would require a reduction in pay rates provided by NZQA, making it difficult to retain staff and reducing sector support. The Treasury budget team have proposed scaling this to \$9m.
21	Transforming the Education Funding System	20.297	34.738	18.507	34.738	Revised since originally submitted as costings further developed by MoE. No ability to scale further without creating significant risks of failure for the technology system that provides the payroll function for most of the Education sector. The Treasury budget team have proposed scaling this initiative to \$17.507m of OPEX and \$31.378m CAPEX, below what is required for the programme.
22	Database Upgrades for School's Payroll and Holiday's Act Assessment	15.000	-	15.000	-	The Treasury budget team have proposed \$10m of funding for this initiative. Scaling this initiative by \$5m removes the Holiday's Act assessment cost. This would result in a shortfall for the Ministry that would require funding to be reprioritised from elsewhere or for work to slow down, further creating baseline pressures.
23	Continuing Digital Access for Principals and Teachers	12.653	-	12.653	-	Scaling this initiative would require rationing access to digital devices for principals and teachers. This would result in declining access and higher costs for schools who fund it themselves. This will also result in inequitable educational services widening the digital divide between schools. The Treasury budget team have proposed scaling this initiative to \$11.938m below the MVO for this initiative.
24	Implementing the equity index in schools and kura	18.108	4.800	18.108	4.800	This initiative only covers the set-up costs for the Equity Index and most of the investment deferred until Budget 2022. Any reduction in the amount of funding compromises our ability to successfully deliver the change by 2023.
25	Student Achievement: NCEA Pāngarau, Te Reo Matatini, Numeracy and Literacy	10.000	-	10.000	-	Reducing funding for this initiative increases the risk of students failing to achieve the Literacy and Numeracy co-requisites for NCEA that have been confirmed for 2023. At system level this will result in a declining rate of NCEA attainment.
26						
27	Addressing Demand Increases for Attendance Services	20.873	-	20.873	-	Reducing funding impairs the capacity of Attendance Services and increases the risk of low / no school attendance and low school and academic outcomes. Not addressing inflationary pressures will increase sustainability pressure on service providers.
28	Annual cost adjustment for Schools' Operational Grant	84.857	-	84.857	-	This initiative increases the Schools Operations Grant by 1.6%. The Treasury budget team recommend scaling this initiative to 1.2% in line with the early learning and tertiary cost adjustments. However, the 1.6% figure accounts for changes in staffing costs included in collective agreements. While technically there is some capacity to reduce, e.g. a smaller % increase, this would directly impact school's ability to meet learners needs.
29	Annual cost Adjustment for maintaining quality in early learning services	100.688	-	100.688	-	While technically there is some capacity to reduce, e.g. a smaller % increase, this would directly impact the quality of service provided to learners and their families. The Treasury budget team have supported this initiative at the \$100.688m funding level submitted by us.
30	Annual Cost Adjustment to Tertiary Tuition and Training Subsidies to maintain real value of funding	110.747	-	110.747	-	There is some capacity to reduce, e.g. a smaller % increase. However, reducing this too far would impact the quality of service provided to learners, including support for priority learners. Should further scaling be needed there is some room to move on this bid, e.g. reducing the increase to 1% (i.e. below inflation). The Treasury budget team have supported this initiative at the \$110.747m funding level submitted by us.
31	Funding increase for Alternative Education provision	4.444	-	4.444	-	COVID-19 has further increased the pressure on Alternative Education providers, with many turning to charity to top up their funding. Delaying or decreasing this funding increase will exacerbate the issue, increasing pressure on future budgets. Funding pressures in the sector also risk sector capacity in the long-term. The Treasury budget team have not supported this initiative.
32	Maintaining interventions for learners who require direct Ministry support		-	24.320	-	As inflationary pressures drive up staffing costs, without a commensurate increase in funding we will have to reduce staffing numbers over time. The effect of less staffing is that fewer learners / ākonga will be able to access services, or they will receive reduced services. While we strive to achieve more with the resources we have, inflationary pressures make this increasingly challenging. Scaling this initiative to \$24.320m represents a 1.6% increase, inline with how staff are treated in the School's operations grant adjustment. The Treasury budget team have proposed scaling this initiative to
33	Completing the Reform of Vocational Education – Transition and Integration	33.400	13.850	33.400	13.850	The Treasury budget team has proposed scaling this initiative to \$26.250m of OPEX and \$10.8m of CAPEX. This would create significant a risk to the successful implementation of RoVE, and be counter to the



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						recommendations of Treasury's Gateway Review of RoVE and other Independent Quality Assurance (including by Sir Brian Roche).
34	NCEA Change Programme – A Strengthened NCEA for All New Zealanders	92.513	8.149	92.513	8.149	The submitted \$92.513m initiative represents the minimum needed to continue with the programme at its current scope. The Treasury budget team have suggested scaling this to \$62.113m and continuing the programme at full scope using underspends. However, this assumes that current baselines are ongoing and does not account for time-limited funding for unfunded activity. Scaling this initiative would require a Cabinet agreement to reduce the scope of the Programme or increase the risk of Programme failure. These changes would result in reputational and fiscal risks and delays to the curriculum work programme.
35	Prime Minister's Vocational Excellence Awards	4.200	-	3.840	-	The Treasury budget team have not supported this initiative. Current funding expires in 2020/2021. Addressing this funding cliff would enable the Prime Minister's Vocational Excellence Awards (set up in 2019) programme to be continue.
36	Extending the temporary Hardship Fund for Learners in tertiary education for the 2021 calendar year	10.000	-	-	-	The Treasury budget team have not supported this initiative. It may be possible to fund this initiative by seeking Cabinet approval to reprioritise existing underspends.
37	Literacy success and child wellbeing through Reading Together® Te Pānui Ngātahi partnerships and Duffy Books in Homes	11.893	-	11.645	-	Scaling this initiative risks the overall package having limited direct support for literacy and numeracy. This bid provides support to families' and children's literacy and numeracy.
	Subtotals					
38	Holiday's Act Remediation Costs	277.500	-	277.500	-	This initiative is being treated as outside the package. \$270m of this funding is necessary to recognise the liability of Holiday's Act remediation, with \$7.5m necessary to investigate and implement the remediation. The Treasury budget team have proposed scaling \$7.5m from the initiative, creating a \$7.5m shortfall that EIS would have to cover, further increasing departmental baselines.
39	Depreciation Impacts of Revaluing the School Property Portfolio				-	Treated as outside the package. Crown Revenue item relating to reinvestment in the school property portfolio as a result of the June 2020 Portfolio Valuation increase in depreciation expense approved through the October Baseline Update
	Totals					



## Agenda – Second Budget Bilateral Budget 2021 – 17 March 2021

Section One – Context of the Package	Recommendation
<p>The Ministry of Education Submitted a package of [REDACTED] of Operating and [REDACTED] of Capital, made up of:</p> <ul style="list-style-type: none"> <li>• Critical Cost Pressures: [REDACTED] OPEX and [REDACTED] CAPEX</li> <li>• Manifesto Commitments: [REDACTED] OPEX and [REDACTED] CAPEX</li> </ul>	<p><b>Discuss</b> an allowance for the education package</p>
Section Two – Manifesto Commitments	Recommendation
<p>[BID#1] Pay Parity in Early Learning – \$192.5m [BID#2] Reform of the Tomorrow's Schools System - [REDACTED]</p>	<p><b>Discuss</b> funding of education Manifesto Commitments in Budget 2021</p>
Section Three – Cost Pressures	Recommendation
<p>[BID#3] VET Funding - \$279.5m [BID#4] Addressing urgent Treaty commitments to the Wānanga sector – \$32.250m [BID#5] Addressing Inequitable Funding of Wānanga – 9(2)(j) [REDACTED] [BID#34] NCEA Change Programme – A strengthened NCEA for all New Zealander's - \$92m OPEX \$8m CAPEX</p>	<p><b>Agree</b> on Cost Pressures in Budget 2021.</p>
<p>A <b>capital investment</b> in the school property portfolio of [REDACTED] is sought. This investment addresses:</p> <ul style="list-style-type: none"> <li>• [BID#9] Funding the Next Phase of the National Education Growth Plan - [REDACTED]</li> <li>• [BID#10] Property funding to build and expand schools delivering Māori Medium Education - \$14m OPEX, \$77m CAPEX</li> <li>• [BID#11] Purchasing land for new schools [REDACTED]</li> <li>• [BID#12] Meeting Cost Increases in Legacy Redevelopment Projects [REDACTED]</li> <li>• [BID#13] Christchurch Schools Rebuild Programme - \$17.1m OPEX, \$56m CAPEX</li> <li>• [BID#14] Supporting the co-location of Marlborough Boys and Girls Colleges and the relocation of Bohally Intermediate- [REDACTED]</li> </ul>	<p><b>Agree</b> on Capital Investment in School Property in Budget 2021.</p>
Section Four – Other Issues	Recommendation
<p><i>Investing in Pacific education and Māori education</i></p> <ul style="list-style-type: none"> <li>• [BID#6] Supporting Pacific bilingual/immersion education in schooling - \$20.2m OPEX, \$0.65m CAPEX</li> <li>• [REDACTED]</li> <li>• [BID#8] Deliver sustained Professional Learning and Development to embed Tapasā - [REDACTED]</li> <li>• [REDACTED]</li> </ul> <p><i>Intensive Behaviour Support</i></p> <ul style="list-style-type: none"> <li>• The Ministry has identified \$17.7m across four years that could be used to provide more targeted support for learners with intensive behaviour needs.</li> </ul> <p><i>Funding the Tertiary Hardship Fund</i></p> <ul style="list-style-type: none"> <li>• The Ministry has identified possible underspends to fund the \$10m tertiary and hardship fund. This would require a cabinet decision.</li> </ul>	<p><b>Discuss</b> Other issues in the education portfolio</p>