



# **Education Report: Post-Bilateral Changes to the Budget Package**

То:	Hon. Chris Hipkins, Minister of Education							
Date:	19 March 2021	19 March 2021 Priority: High						
Security Level:	Budget Sensitive	Budget Sensitive METIS No: 1254						
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Messaging seen by Communications team:	N/A	Round robin:	No					

## Purpose of Report

This Education Report provides you with an updated budget package, reflecting the bilateral discussion between yourself and the Minister of Finance on 17 March 2021. This budget package reflects operating allowance agreed at the second budget bilateral. Capital comes in at \$760 million, respecting the range indicated to you by the Minister of Finance's Office. This revised budget package is attached in Appendix A.

# **Executive Summary**

You met with the Minister of Finance for the second budget bilateral on 17 March 2021. At this
meeting it was agreed that an operating envelope of would be set for the education
portfolio. This operating envelope needs to include the operating impacts of the capital allowance
and excludes Holiday's Act remediation. The Minister of Finance's office indicated a capital
allowance of around \$700 million following the bilateral.
Advice on a scaled package of approximately was submitted to you on 12 March 2021
[METIS 1251978 refers] with an updated alternative budget package submitted to you on 16 March
2021 [METIS 1250709 refers]. The advice supplied highlights scaling options considered tenable by

This briefing note attaches a copy of our suggested changes to the Budget package since 29 January 2021 (Appendix A). It also reattaches (Appendix B) the advice provided on 16 March 2021 [METIS 1250709 refers] to support a discussion on further scaling to fit within the allowance.

us and forms the basis for the changes to meet the allowance.

Two outstanding issues that were included on the Bilateral agenda but were not discussed were the proposed fiscally neutral adjustment to provide funding for intensive behavioural support, and the extension to the Tertiary student's hardship fund. You have requested information on the hardship fund to support a Cabinet oral item on Monday 22 March 2021 and this was supplied on 18 March 2021 [METIS 125482 refers].

### Recommendations

The Ministry of Education recommends you:

a. **note** that the Ministry has developed a revised package totalling of operating expenditure. Further scaling of excessary to meet the envelope.

Noted

b. **agree** to the further scaling needed to fit within the package and provide feedback on where this should come from.

Agree Disagree

c. **agree** to submit a fiscally neutral adjustment initiative reprioritising \$17.7 million to fund supports for highly challenging behaviour

Agree Disagree

d. **agree** to submit a \$36 million depreciation initiative as a pressure outside of the budget package to the Minister of Finance on Monday 22 March 2021

Agree / Disagree

e. **note** following your agreement to a revised package we will provide a letter and table summarising the package for you to submit to the Minister of Finance on Monday 22 March 2021.

Noted

f. do not release this report at this time as the information contained within is budget sensitive.

Release Do not Release

John Brooker

Group Manager

**Education System Policy** 

19/03/2021

Katrina Sutich

Group Manager

Te Ara Kaimanawa

19/03/2021

Hon Chris Hipkins

Minister of Education

20/3/2021

# Changes to the Budget Package Since 29 January

required in the programme to achieve this.

Scaling the package post-bilateral

1.	On 17 March 2021 in the second budget bilateral the Minister of Finance indicated an allowance of of operating allowance. Following the bilateral a capital allowance of around \$700 million was indicated by the Minister of Finance's office. The Minister of Finance also indicated that the Holiday's Act Remediation would be managed separately with the Treasury and would not be considered a part of the education package.
2.	You approved a package of for operating expenditure and for capital expenditure for submission on 28 January 2021 [METIS 1249237 refers]. To meet the agreed education envelope requires savings of for operating expenditure and around for capital expenditure.
3.	We have identified scaling of in operating expenditure and of capital expenditure creating a revised education package totalling of operating expenditure and \$760.754 million of capital expenditure. To reduce the package by The Reform of the Tomorrow's Schools System initiative has been scaled by nearly and all school property initiatives are funded at the minimum level the Ministry considers tenable for their successful implementation. Further savings identified during the Ministry's internal costing panel process have also been reflected.
	• Reform of the Tomorrow's Schools System – this has been reduced from to million operating expenditure. Capital expenditure is unchanged at \$54.904 million. This reduction has been achieved by lowering the funding sought for the ESA, Curriculum Centre, and the Network function and This scaling reflects the discussion between yourself and the Minister of Finance.
	• School Property Portfolio – investment into the school property portfolio has been reduced from to \$640 million of capital expenditure. The associated operating expenditure for this capex has decreased from to \$128 million. This change in funding level has been achieved by reducing NEGP funding, Purchasing Land, and Legacy Redevelopment programmes. This funding level provides a short-term continuation of these programmes while an alternative funding arrangement is discussed between officials.
	<ul> <li>Meeting the Operational Costs of a Growing School Property Portfolio – the amount sought for this initiative has been increased to provide funding certainty. This initiative now seeks four years of funding with outyears, rather than one year. This increases the funding sought from</li></ul>
	<ul> <li>Investigating and Negotiating Pay Equity Claims – further analysis and refinement of costs by the Ministry has reduced operating expenditure from \$34.394 million to \$29.346 million. Capital expenditure has been reduced from \$2.228 million to \$29.346 million. No scope change has been required in the programme to achieve this.</li> </ul>
	• Transforming the Education Funding System – costings for this initiative have been revised slightly reducing funding from \$20.297 million to \$18.507 million of operating expenditure. Capital expenditure of \$34.738 million remains unchanged. No scope change has been

•	Maintaining Interventions for Learn	ers who Require Direct Ministry Support – this initiative
	has been scaled from	to \$24.320 million of operating expenditure by
	reducing the inflationary rate used	to calculate staff salary uplift to 1.6%. This 1.6% figure
	matches that used to calculate the	schooling operations grant adjustment.

Further Scaling the package to fit a \$1.8 billion envelope

4.	The proposed education	package (included in Appendix A) is	of operating
	expenditure and	of capital expenditure. A further	of scaling is needed to
	meet the	envelope. Included in Appendix B is our pr	evious advice on where
	scaling efforts could be f	urther explored to fit the package within th	ne envelope
	(highlighted in light red).		

#### Other Issues to Address

Fiscally neutral initiative to fund Highly Challenging Behaviour supports

- 5. On 05 March 2021 you received advice on potential reprioritisation of several existing programmes to create a regional support fund for students with highly challenging behaviour [METIS 1251788 refers]. We are continuing to work with Minister Tinetti on the best options for implementation.
- 6. The proposed reprioritisation of existing programmes requires cabinet agreement and we see the budget cabinet paper as an appropriate avenue for this agreement. The Treasury have therefore requested that we submit this with your updated budget package as a fiscally neutral initiative.

Continuing the Tertiary Student Hardship Fund

- 7. You requested further information on the Tertiary Student Hardship fund for Learners to support your oral item to the Cabinet Committee on 22 March 2021. This has been supplied to you on 18 March 2021 [METIS 1254282 refers].
- 8. The proposal to use underspends from Vote Tertiary Education would create an additional \$10 million saving in the proposed budget package, taking it from a total of

Depreciation impact of the annual valuation of the School Property Portfolio

- 9. At the end of each financial year the Ministry is required to value the School Property Portfolio. The June 2020 book value is \$19.6 billion. Following the valuation, an assessment is made on the impact on the annual depreciation which is used to reinvest in renewing the portfolio. This results in a depreciation expense and Crown revenue funding. For at least the past 10 years this has been approved by Joint Ministers through the October Baseline Update (OBU) process and it has not counted against the Budget envelope.
- 10. During OBU in 2020 when considering the Ministry's request for a \$36 million p.a. increase in depreciation expense and Crown revenue funding, the Treasury reviewed the request against their guidance and determined that Joint Ministers did not have the authority to approve the request in full. However, they agreed the depreciation expense increase was approved as part of OBU. This took the total expense appropriation to \$713 million for 2020/21.

11. Following OBU, the Treasury has been reviewing how this is managed with other agencies and considering how to approach resolving the matching Crown revenue funding for the Ministry. Two weeks ago, Treasury advised the Ministry that other capital-intensive agencies submit Budget bids for the Crown revenue funding impact of the annual valuation process. They have therefore requested the Ministry submit a Budget 21 bid for the Crown revenue funding associated with the 2020 valuation. This totals some over five years (as was part of Annex A in the most recent Budget paper you received on Friday 12 March as one of two items to be managed outside of the envelope.

12. 9(2)(g)(i)

This will limit the impact on the Budget 2021 operating allowances. There is still the question of whether this should be inside or outside the Budget envelope. We recommend you include it as a pressure outside of the Budget envelope in the package you submit to the Minister of Finance on Monday 22 March.

## **Next Steps**

Submission to the Minister of Finance and the Treasury

- 13. It has been agreed between your offices that your revised education package will be sent to the Minister of Finance on Monday 22 March 2021.
- 14. On your behalf we will prepare a letter to the Minister of Finance outlining the total size of the package, the total profile, and raising the issues discussed above.
- 15. We will also prepare a table of all initiatives in the budget package, including additional initiatives being raised outside the budget package. This table will include titles, descriptions, and the funding sought.

### Attachments

Appendix A – Post-Bilateral Budget Package Appendix B – Alternative Budget Package with Scaling Options

Appendix A – Post-Bilateral Education Budget Package		29 January Package (		Proposed Edu	ication Package	19 March 2021 BUDGET SENSITIVE	
		5-year OPEX	10-year CAPEX	5-year OPEX	10-year CAPEX		
Index 1	Initiative Title  Moving towards pay parity in early learning	<b>Total (\$m)</b> 192.493	<b>Total (\$m)</b> 0.144	Total (\$m) 192.493	<b>Total (\$m)</b> 0.144	Comments  Left at Step 6 of KTCA as per 29 Jan pack	
Τ		192.493	0.144			Left at Step 6 of KTCA as per 29 Jan pack	
2	Reform of the Tomorrow's School System	Total:	54.004	Total:			
	Tomorrow's Schools: ESA		54.904		54.904		
	Tomorrow's Schools: Flexible Fund						
	Tomorrow's Schools: Curriculum centre					Reflects discussion with the Minister of	
						Finance	
	Tomorrow's Schools: Network Function						
	Francisco de accioleita de constitución	270 500		270 500			
3	Ensuring the viability of vocational education and training	279.508	-	279.508	-		
4	Addressing urgent Treaty commitments to	32.250	-	32.250	-		
	the Wānanga sector						
5	Addressing Inequitable Funding of	O(O)(i)					
3	Wānanga	9(Z)(J)					
6	Supporting Pacific bilingual/immersion	20.218	0.644	20.218	0.644		
	education in schooling						
7							
8	Deliver sustained Professional Learning and						
	Development to embed Tapasā						
9	Funding the Next Phase of the National	69.431	534.600	45.189	266.000		
	Education Growth Plan						
10	report, randong to both a companie	14.392	77.070	14.392	77.070		
11	schools delivering Māori Medium Education Purchasing Land for New Schools			14.875	85.000		
12	Meeting Cost Increases in Legacy	_		39.375	150.000		
	Redevelopment Projects						
13	Christchurch Schools Rebuild Programme	17.100	56.000	17.100	56.000		
14	Supporting the co-location of Marlborough Boys and Girls Colleges and the relocation			1.103	6.300	Reflects capital envelope feedback from	
	of Bohally Intermediate					Minister of Finance's Office	
15		_					
4.6	Martin the Country of Country for	_					
16	Meeting the Operational Costs of a Growing School Property Portfolio						
17	Improving the property at State-Integrated	52.800	-	52.800	-		
	Schools						
18	0(2)/i)		•	_			
10	9(2)(j)		•		•		
19	Investigating and negotiating Pay Equity	34.394	2.228	29.346	0.480	Close cost analysis by MoE has reduced	
	Claims					funding required by \$5m	
20	Maintaining pay rates for NZQA's Specialist Workforce	10.000	-	10.000	-		
21	Transforming the Education Funding	20.297	34.738	18.507	34.738	Revised since originally submitted as	
	System	20.237	31.733	10.307	3 11730	costings further developed by MoE.	
22	Database Upgrades for School's Payroll and	15.000	-	15.000	-		
2.2	Holiday's Act Assessment	10.5=5		42.6=2			
23	Continuing Digital Access for Principals and Teachers	12.653	-	12.653	-		
24	Implementing the equity index in schools	18.108	4.800	18.108	4.800		
	and kura						
25	Student Achievement: NCEA Pāngarau, Te	10.000		10.000			
	Reo Matatini, Numeracy and Literacy	10.000		10.000			
26	Educational Supports for Matariki me	12.917	0.048	12.917	0.048		
	Puanga						
27	Addressing Demand Increases for	20.873	-	20.873	-		
28	Attendance Services Annual cost adjustment for Schools'	84.857		84.857			
20	Operational Grant	04.037	-	04.037	-		
29		100.688	-	100.688	-		
	quality in early learning services						
30	Annual Cost Adjustment to Tertiary Tuition	110.747	-	110.747	-		
	and Training Subsidies to maintain real						
31	value of funding Funding increase for Alternative Education	4.444	_	4.444			
	provision	7.777		7.777			
	provision						
32	•		-	24.320	-	Reducing to \$24.320m matches the 1.6% inflationary increase to schools.	

Package Index		29 January Package		Proposed Education Package		19 March 2021 BUDGET SENSITIVE	
	Initiative Title	5-year OPEX Total (\$m)	10-year CAPEX Total (\$m)	5-year OPEX Total (\$m)	10-year CAPEX Total (\$m)	Comments	
	Completing the Reform of Vocational	33.400	13.850	33.400	13.850	Comments	
34	Education – Transition and Integration  NCEA Change Programme – A Strengthened	92.513	8.149	92.513	8.149		
	NCEA for All New Zealanders Prime Minister's Vocational Excellence	4.200	-	4.200	-		
	Awards	10.000		10,000		Cabinat annual aculd be accept to	
	Extending the temporary Hardship Fund for Learners in tertiary education for the 2021 calendar year	10.000	-	10.000	-	Cabinet approval could be sought to reprioritise existing underspends. Listed again below.	
	Literacy success and child wellbeing	11.893	-	11.893	-	Scaling this initiative risks the overall	
	through Reading Together® Te Pānui Ngātahi partnerships and Duffy Books in					package having only limited direct support for teaching and learning.	
	Homes Subtotals						
	Subtotuis						
			ide the Pa		I		
	Holiday's Act Remediation Costs  Depreciation Impacts of Revaluing the	277.500 36.000	-	277.500 36.000	-		
	School Property Portfolio	30.000	_	30.000	-		
40	Intensive support for primary students with wellbeing and behavioural needs that may be challenging to others	-	-	-	-	Reprioritises \$17m of existing funding	
	Extending the temporary Hardship Fund for	-	-	-	-	Funding from underspends would red	
	Learners in tertiary education for the 2021 calendar year					\$10m from the package	
	Totals	313.500	-	313.500			
				<b>\</b>			
		\C					

Index Index Intervention Index Intervention Index Intervention Interve	Appendi	x B - Advice Provided 16 March 2021 [METIS	29 January	/ Package	MoE Revised Sco	enario 16 March	19 March 2021	
Syste OPEX   19year CAPEX   Total (Sim)		· · ·		Included the second of the sec				
Moving towards pay partly in early learning 192.493 0.144 150.103 1510 1036 1521 1530 1036 1530 1036			5-year OPEX	10-year CAPEX	5-year OPEX	10-year CAPEX		
Sign	Index				-			
required, morning to Step 4 reduces the cost to \$109.000m [20] and step step step step step step step step	1	Moving towards pay parity in early learning	192.493	0.144	150.103	0.144		
2 Refurmed the Tomprove's Schools (EA) Tomprove's Scho							( / V/	
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Arready Scaled.    Timorrow's Schools: Network Function		Tomorrow's Schools: Flexible Fund						
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Sinsuring the viability of vocational education and training 279.508 222.500 2							Alleady Staled.	
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Supporting Pacific bilingual/immersion education in schooling  20.218  0.644  20.24  20.218  0.644  20.24  20.218  20.24  20.	5	Addressing Inequitable Funding of	$\Omega(\Omega)$					
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Boys and Girls Colleges and the relocation	13		17.100	56.000	17.100	56.000		
	14				1.103	6.300	Already scaled.	
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Appendix B - Advice Provided 16 March 2021 [METIS 1250709 refers] with scaling possibilities highlighted		· · ·		MoE Revised Scenario 16 March		19 March 2021  BUDGET SENSITIVE	
Index	Initiative Title	5-year OPEX Total (\$m)	10-year CAPEX Total (\$m)	5-year OPEX Total (\$m)	10-year CAPEX Total (\$m)	Comments	
15							
16	Meeting the Operational Costs of a Growing School Property Portfolio						
17	Improving the property at State-Integrated Schools	52.800	-	52.800	-		
18	9(2)(j)						
19	Investigating and negotiating Pay Equity Claims	34.394	2.228	29.346	0.480		
20	Maintaining pay rates for NZQA's Specialist Workforce	10.000	-	10.000	-		
21	Transforming the Education Funding System	20.297	34.738	18.507	34.738		
22	Database Upgrades for School's Payroll and Holiday's Act Assessment	15.000	-	15.000			
23	Continuing Digital Access for Principals and Teachers	12.653	-	12.653	-		
24	Implementing the equity index in schools and kura	18.108	4.800	18.108	4.800		
25	Student Achievement: NCEA Pāngarau, Te Reo Matatini, Numeracy and Literacy	10.000	-	10.000			
26							
	Attendance Services	20.873	-	20.873			
	Operational Grant	84.857	<b>♦</b> -	84.857	-		
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.	
	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	provision	4.444		4.444	-		
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		
34	NCEA Change Programme – A Strengthened NCEA for All New Zealanders	92.513	8.149	92.513	8.149		

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	x B - Advice Provided 16 March 2021 [METIS	29 January	/ Package	MoE Revised Sce	enario 16 March	19 March 2021
1250/09	refers] with scaling possibilities highlighted	5-year OPEX	10-year CAPEX	5-year OPEX	10-year CAPEX	BUDGET SENSITIVE
Index	Initiative Title	Total (\$m)	Total (\$m)	Total (\$m)	-	Comments
35	Prime Minister's Vocational Excellence Awards	4.200	-	3.840	-	<b>\$0.360m OPEX Scaling.</b> The Treasury budget team have not supported this initiative. Current funding expires in 2020/2021. Addressing this funding cliff would enables 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	-	-	-	\$10m OPEX if Funded from Underspends. 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					
	Percentage of 29 Jan Package					
	Saving from 29 Jan Package					
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					Can be submitted for 1-year at \$36m. Treated as outside the package. Crown Revenue item relating to
	School Property Portfolio					reinvestment in the school property portfolio as a result of the June 2020 Portfolio Valuation increase in
	Totals					depreciation expense approved through the October Baseline Update
	Totals					
	Percentage of 29 Jan Package					
	Saving from 29 Jan Package					