



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

<b>To:</b>	Hon. Chris Hipkins, Minister of Education		
<b>Date:</b>	19 March 2021	<b>Priority:</b>	High
<b>Security Level:</b>	Budget Sensitive	<b>METIS No:</b>	1254442
<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
<b>Messaging seen by Communications team:</b>	N/A	<b>Round robin:</b>	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 [REDACTED] 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 [REDACTED] 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 [REDACTED] 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 us and forms the basis for the changes to meet the [REDACTED] allowance.

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 [REDACTED] 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 [REDACTED] of operating expenditure. Further scaling of [REDACTED] is necessary to meet the [REDACTED] envelope.

**Noted**

- b. **agree** to the further scaling needed to fit within the [REDACTED] 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

---

### *Scaling the package post-bilateral*

1. On 17 March 2021 in the second budget bilateral the Minister of Finance indicated an allowance of [REDACTED] 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 [REDACTED] of operating expenditure and [REDACTED] of capital expenditure for submission on 28 January 2021 [METIS 1249237 refers]. To meet the agreed education envelope requires savings of [REDACTED] of operating expenditure and around [REDACTED] of capital expenditure.
3. We have identified scaling of [REDACTED] in operating expenditure and [REDACTED] of capital expenditure creating a revised education package totalling [REDACTED] of operating expenditure and \$760.754 million of capital expenditure. To reduce the package by [REDACTED] The Reform of the Tomorrow's Schools System initiative has been scaled by nearly [REDACTED] 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 [REDACTED] to [REDACTED] 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 [REDACTED] [REDACTED] 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 [REDACTED] to \$640 million of capital expenditure. The associated operating expenditure for this capex has decreased from [REDACTED] 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.
  - *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 [REDACTED] to [REDACTED] of operating expenditure.
  - *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.
  - *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 required in the programme to achieve this.

- *Maintaining Interventions for Learners who Require Direct Ministry Support* – this initiative has been scaled from [REDACTED] 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 [REDACTED] of operating expenditure and [REDACTED] of capital expenditure. A further [REDACTED] of scaling is needed to meet the [REDACTED] envelope. Included in Appendix B is our previous advice on where scaling efforts could be further explored to fit the package within the [REDACTED] 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 [REDACTED] to [REDACTED].

##### *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 [REDACTED] 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) [REDACTED]  
[REDACTED]  
[REDACTED] 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 [REDACTED] 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 Education Package		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
1	Moving towards pay parity in early learning	192.493	0.144	192.493	0.144	Left at Step 6 of KTCA as per 29 Jan pack
2	Reform of the Tomorrow’s School System	Total:	54.904	Total:	54.904	Reflects discussion with the Minister of Finance
	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	-	279.508	-	
4	Addressing urgent Treaty commitments to the Wānanga sector	32.250	-	32.250	-	
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	
7						
8	Deliver sustained Professional Learning and Development to embed Tapasā					
9	Funding the Next Phase of the National Education Growth Plan	69.431	534.600	45.189	266.000	Reflects capital envelope feedback from Minister of Finance’s Office
10	Property funding to build and expand schools delivering Māori Medium Education	14.392	77.070	14.392	77.070	
11	Purchasing Land for New Schools			14.875	85.000	
12	Meeting Cost Increases in Legacy Redevelopment Projects			39.375	150.000	
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 of Bohally Intermediate			1.103	6.300	
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	Close cost analysis by MoE has reduced funding required by \$5m
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	Revised since originally submitted as costings further developed by MoE.
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	Educational Supports for Matariki me Puanga	12.917	0.048	12.917	0.048	
27	Addressing Demand Increases for Attendance Services	20.873	-	20.873	-	
28	Annual cost adjustment for Schools’ Operational Grant	84.857	-	84.857	-	
29	Annual cost Adjustment for maintaining quality in early learning services	100.688	-	100.688	-	
30	Annual Cost Adjustment to Tertiary Tuition and Training Subsidies to maintain real value of funding	110.747	-	110.747	-	
31	Funding increase for Alternative Education provision	4.444	-	4.444	-	
32	Maintaining interventions for learners who require direct Ministry support		-	24.320	-	Reducing to \$24.320m matches the 1.6% inflationary increase to schools.

Appendix A – Post-Bilateral Education Budget Package		29 January Package		Proposed Education Package		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
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	
35	Prime Minister’s Vocational Excellence Awards	4.200	-	4.200	-	
36	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.
37	Literacy success and child wellbeing through Reading Together® Te Pānui Ngātahi partnerships and Duffy Books in Homes	11.893	-	11.893	-	Scaling this initiative risks the overall package having only limited direct support for teaching and learning.
	Subtotals					
Outside the Package						
38	Holiday's Act Remediation Costs	277.500	-	277.500	-	
39	Depreciation Impacts of Revaluing the School Property Portfolio	36.000	-	36.000	-	
40	Intensive support for primary students with wellbeing and behavioural needs that may be challenging to others	-	-	-	-	Reprioritises \$17m of existing funding
36	Extending the temporary Hardship Fund for Learners in tertiary education for the 2021 calendar year	-	-	-	-	Funding from underspends would reduce \$10m from the package
	Totals	313.500	-	313.500	-	



Appendix B - Advice Provided 16 March 2021 [METIS 1250709 refers] with scaling possibilities highlighted		29 January Package		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
1	Moving towards pay parity in early learning	192.493	0.144	150.103	0.144	<b>\$42.39m OPEX Scaling.</b> This initiative could be scaled by moving from Step 6 to Step 5 reducing the cost to \$150.103m 9(2)(i). If further scaling is required, moving to Step 4 reduces the cost to \$109.105m 9(2)(i). 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	Already Scaled.
	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	-	<b>\$57.008 OPEX Scaling.</b> 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 in 2023.
4	Addressing urgent Treaty commitments to the Wānanga sector	32.250	-	32.250	-	
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	<b>\$8m OPEX Scaling.</b> 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					<b>OPEX Scaling.</b> 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)(i)
9	Funding the Next Phase of the National Education Growth Plan	69.431	534.600	45.189	266.000	Already scaled.
10	Property funding to build and expand schools delivering Māori Medium Education	14.392	77.070	11.409	56.060	<b>\$2.983 OPEX \$21.01m CAPEX Scaling.</b> 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> . <b>We do not recommend scaling below \$77m CAPEX.</b> 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	Already scaled.
12	Meeting Cost Increases in Legacy Redevelopment Projects			39.375	150.000	Already scaled.
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 of Bohally Intermediate			1.103	6.300	Already scaled.



Appendix B - Advice Provided 16 March 2021 [METIS 1250709 refers] with scaling possibilities highlighted		29 January Package		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						
27	Addressing Demand Increases for Attendance Services	20.873	-	20.873	-	
28	Annual cost adjustment for Schools' Operational Grant	84.857	-	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.
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	-	
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	

Appendix B - Advice Provided 16 March 2021 [METIS 1250709 refers] with scaling possibilities highlighted		29 January Package		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
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	-	-	-	<b>\$10m OPEX if Funded from Underspends.</b> 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 School Property Portfolio					<b>Can be submitted for 1-year at \$36m.</b> 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					
	Percentage of 29 Jan Package					
	Saving from 29 Jan Package					