



Briefing Note: Update on Budget Process and Inflation Pressures

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| To: | Hon Chris Hipkins, Minister of Education | | |
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| Security Level: | In Confidence | METIS No: | 1281041 |
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| Messaging seen by Communications team: | No | Round Robin: | No |

Purpose of Report

The purpose of this paper is to update you on the Budget Process, in particular the implications that current inflationary pressures have on the Budget package.

Background

1. You submitted a provisional education Budget 2022 package of approximately 9(2)(f)(iv) OPEX to the Minister of Finance on 10 December.
2. When the Minister of Finance invited you to submit a 9(2)(f)(iv) package, he said that the final allocation for the Education portfolio in Budget 2022 will very likely be less than 9(2)(f)(iv). So, as is usual at this stage of the Budget process, the Minister of Finance is likely to indicate to you at the upcoming Budget bilateral that further scaling is needed.
3. The provisional education package included 2% cost adjustments for ECE, Schooling and Tertiary funding based on assumed inflation forecasts at that time. The most recent forecasts predict inflation will be 3.4% for the relevant calendar year. This means the current cost adjustment initiatives are unlikely to fully cover the increased costs of services that providers will face.
4. In addition, the sector is likely facing additional costs of delivery due to the COVID-19 guidelines and working environment. Some of these costs have already been met by Cabinet or will be met through Budget decisions. We are advised that the CRRF is no longer an option to meet these kinds of costs which mean using in-year underspends or Budget 2022 remain the only option to address any further COVID-19 sector costs that may emerge as a result of the current Omicron outbreak.

sustainability of early learning services, increased use of digital learning environments, and additional funding to support distance education.

13. We are putting a process in place to try and identify such emerging issues and costs as they arise.
14. We are advised that seeking funding from the CRRF is no longer an option to meet direct COVID-19 related costs such as this. This leaves us with two possible sources to meet the cost of these emerging requirements, current Vote Education baseline funding or a pre-commitment against Budget 2022.
15. The Primary and Secondary Education MCA is currently oversubscribed (this will be resolved through MBU), and there is considerable uncertainty as to what underspends may crystallize. Repurposing underspends outside of the Primary and Secondary Education MCA, may require Cabinet approval to shift the funding.
16. Likewise, as set out above, Budget 2022 education package is also fully subscribed. Meeting any additional COVID-19 related costs will therefore require trade-offs across the education system.
17. With this context in mind our proposed approach going forward is to use a mix of both these funding sources, that is:
 - the Ministry will continue reviewing existing baselines to identify underspends to meet the sector costs arising from COVID-19. This would be done on a month by month basis, and so underspends would only emerge gradually. Given the Primary and Secondary Education MCA is currently oversubscribed, this is likely to involve repurposing underspends outside of this appropriation and may require Cabinet approval. Using underspends is therefore more useful for costs that are known but where the funding is not required urgently.
 - Using pre-commitments to seek funding through the Budget 2022. These would need to be modest given the size of the current education package and would be most effective for activities where funding certainty is needed sooner, for example, funding for the provision of masks to teaching staff and some students.
18. While this process will identify funding sources where available, these funding sources are unlikely to be sufficient to cover all possible COVID-19 related costs. As such, we will still need to prioritise the competing demands for funding that arise.

Proactive Release

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

Agree Disagree.



John Brooker
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Hon Chris Hipkins
Minister of Education

04/02/2022

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