



Briefing Note: Budget 2020, Bilateral Meeting with the Minister of Finance on 12 February 2020

To:	Hon Chris Hipkins, Minister of Education		
Date:	4 February 2020	Priority:	High
Security Level:	In Confidence	METIS No:	1219173
Drafter:	John Wardrop	DDI:	s 9(2)(a)
Key Contact:	Wayne Murphy	DDI:	
Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

This report provides you with information, talking points, and supporting information for your Budget 2020 budget bilateral meeting with the Minister of Finance on 12 February 2020.

Summary

- You are to meet with the Minister of Finance on 12 February 2020, to discuss your education budget package.
- We expect the Minister of Finance to ask for your submitted package of cost pressures to be reduced.
- For new spending initiatives, the Government has five wellbeing priority themes for Budget 2020. Each of these has a lead Minister, who submitted a priority-aligning budget package to the Minister of Finance in January.
- These packages do not include a number of education initiatives that you have indicated are a high priority. You have also previously agreed with the Minister of Finance that some of these unfunded initiatives, such as funding for 100% qualified early childhood education teachers and school lunches, are a high priority for the Budget.
- The scope to offset the costs of your new budget initiatives through underspends and reprioritisation of existing expenditure is significantly lower than achieved in the 2018 and 2019 budgets.

Recommendations

The Ministry recommends that you:

- a. **note** that you are scheduled to have a further education budget bilateral meeting with the Minister of Finance on 12 February 2020
- b. **note** that we expect the following issues to arise in the bilateral meeting:
 - the need to reduce your package of submitted cost pressure initiatives
 - the absence of education initiatives that you regard as a high priority from the five wellbeing priority-aligning packages that have been developed, and
 - the limited scope for education portfolio reprioritisation in Budget 2020
- c. **refer** to this briefing in the bilateral discussion with the Minister of Finance.
- d. **agree** that this report is not proactively released.

Release/ Not Release



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Associate Deputy Secretary
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4/2/20



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Hon Chris Hipkins
Minister of Education

 / /

Background

Submitted Education Initiatives

1. Your current package of pre-commitments and cost pressure initiatives includes 23 bids that total \$2.24 billion (operating) and \$259 million (capital).
2. You and the Minister of Finance have noted that the work needed to quantify the substantial Holidays Act compliance cost pressure initiative s 9(2)(i) is still underway, and asked officials to do further work on the robustness of this estimate.
3. Your current package of new spending initiatives includes 64 bids that total \$3.98 billion (operating over five years) and \$689 million (capital over ten years).

Previous Bilateral Meetings

4. On 25 September 2019 you agreed with the Minister of Finance that:
 - s 9(2)(f)(iv)
 - after allowing for pre-commitments and cost pressures, funding for the early years (in particular the Government's commitment to funding for 100% qualified staff in early childhood education) is a top priority.
5. On 5 December 2019 you had a further discussion with the Minister of Finance that focused on the cost pressure bids submitted in November. The Minister of Finance:
 - advised that submitted whole-of-government cost pressure initiatives greatly exceed available funding, and need to be scaled back
 - questioned the robustness of the s 9(2)(i) provision to address Holidays Act liabilities, and
 - undertook to advise you of the funding for cost pressures that will be made available to the education portfolio.
6. Treasury officials have subsequently asked for the education cost pressure initiatives to be prioritised.

2020 Budget Process

7. There are five priority themes for Budget 2020. Each has a lead Minister, who provided priority-aligning budget packages to the Minister of Finance in January 2020. New spending initiatives that don't align with any of these priorities will be assessed by the Treasury and considered by the Minister of Finance.
8. Ministers have also been asked to look at opportunities to reprioritise existing funding.

Issues for the Bilateral Discussion

Cost Pressures

9. Your cost pressure initiatives are outlined in Annex 2.
10. We expect Treasury officials to advise the Minister of Finance that:
 - three submitted cost pressure initiatives¹ do not meet the criteria to be considered as cost pressures, and
 - submitted cost pressures are too large, and need to be reduced through prioritisation and scaling — particularly the cost adjustments for early childhood subsidies, schools operational funding and tertiary tuition subsidies, where there is discretion available.

¹ Right Sizing School Property, Continuing the Early Childhood Education Provider Assessment Group, and Payroll Sustainability

11. We recommend that you advise the Minister of Finance that:

- you are working with the Ministry of Education on potential scaling of cost pressure initiatives, and
- further work is being undertaken on the large Holidays Act compliance bid, including discussions between the Ministry of Education, its auditors and the Treasury on whether it is appropriate to defer this initiative to Budget 2021.

New Spending Initiatives

Priority Packages

12. Based on information we have received from the Wellbeing Priority Secretariat Groups; a number of the initiatives that that you have indicated are high priority are not included in the five wellbeing priority-aligning packages recommend to the Minister of Finance. Annex One shows the priority ranking of your new spending initiatives, and indicates in red the initiatives which we understand are not funded in the priority-aligning packages.
13. A more detailed breakdown of the Priority-aligning packages is available in Annex Two. This also shows how much of the funding sought is recommended for each bid. Recommended funding for most bids is at their minimum viable option.
14. We note that the majority of your high priority initiatives that currently remain unfunded sit within Priority D – Child Wellbeing. Unfunded initiatives include, but are not limited to:
- a. 100% Qualified Early Childhood Education Teachers
 - b. s 9(2)(f)(iv)
 - c.
 - d.
 - e. School Lunches.
15. Annex Three shows the impact of not funding your high and medium priority initiatives.
16. In light of this, you may wish to discuss the implications of priority initiatives not being funded with the Minister of Finance, and explore whether there is any scope for these to be funded outside the budget priority packages process.

Non-Aligned Package

17. In addition to the initiatives that have been submitted through the five wellbeing priority groups, you have also submitted two non-aligned new spending bids². We expect that the Treasury will not support these.
18. The impact of not funding these initiatives is also shown in Annex Three.

Underspends and Reprioritisation

Underspends

19. In contrast to the 2018 and 2019 budgets, we expect that underspends returned in Budget 2020 will be small. In this regard:
- The past two budgets you reprioritised significant current-year and expected future underspends out of Vote Tertiary Education. s 9(2)(f)(iv)
 - The Ministry of Education currently faces a very challenging financial position, and we expect the its departmental funding to be close to fully spent; or needed for in-

² s 9(2)(f)(iv)

principle transfers related to project delays such as the complex Holiday's Act remediation programme.

- To date, we have identified around \$8.1 million of underspends that we expect to return in Budget 2020. No action is required to return these, as appropriations automatically lapse at the end of the financial year, and any unspent funding that has not been transferred to another financial year or appropriation ceasing to be available.
 - Further underspends may be identified as we get closer to the end of the financial year.
20. There will also likely be savings from appropriation reductions to reflect updated forecasts for a number of demand-driven appropriations. Such changes will flow through the March Baseline Update as forecast changes and be reflected in Budget 2021.

Reprioritisation

21. There is an expectation that Ministers will look at opportunities to reprioritise existing expenditure within their votes to help offset the cost of submitted budget initiatives.
22. We have prepared a separate report discussing underspends and seeking decisions on reprioritisation [METIS 1219174 refers]. This outlines the opportunities we have identified to reprioritise expenditure through policy changes.
23. We recommend that you advise the Minister of Finance that:
- work has been undertaken to identify underspends and opportunities for reprioritisation
 - significantly less funding will be able to be returned from underspends and reprioritisation in the education portfolio than was achieved in the 2018 and 2019 budgets, and
 - you are currently considering officials' advice, and will shortly write to him on Budget 2020 reprioritisation.

Financial Implications

24. Decisions in the bilateral meeting have a direct bearing on your 2020 Budget package.

Next Steps

25. The total package of submitted education initiatives clearly exceeds the funding that will be available. Following your bilateral discussion with the Minister of Finance, we will work with you and your Office to identify:
- which cost pressure initiatives should be scaled or withdrawn
 - the impact of scaling proposed in the wellbeing priority-aligning packages, and
 - whether initiatives not included in the wellbeing priority-aligning packages should be scaled or withdrawn.
26. We have provided you with separate advice on reprioritisation options. Once you have considered this, we will prepare a letter to the Minister of Finance that reflects your decisions.

Proactive Release

27. We recommend that this Education Report is not proactively released as it is Budget-related. This is consistent with s9(2)(f)(iv) of the Official Information Act 1982, which provides that a reason for withholding information exists if it is necessary to maintain the constitutional convention that protects confidentiality of officials' advice. A proactive

release of Budget 2020 reports will be proposed for your consideration, as part of a wider communications strategy for your Budget 2020 package of initiatives.

Attachments

Annex One: New Spending Initiatives State-of-Play

Annex Two: Priority Aligned Packages shown within Total Education Portfolio

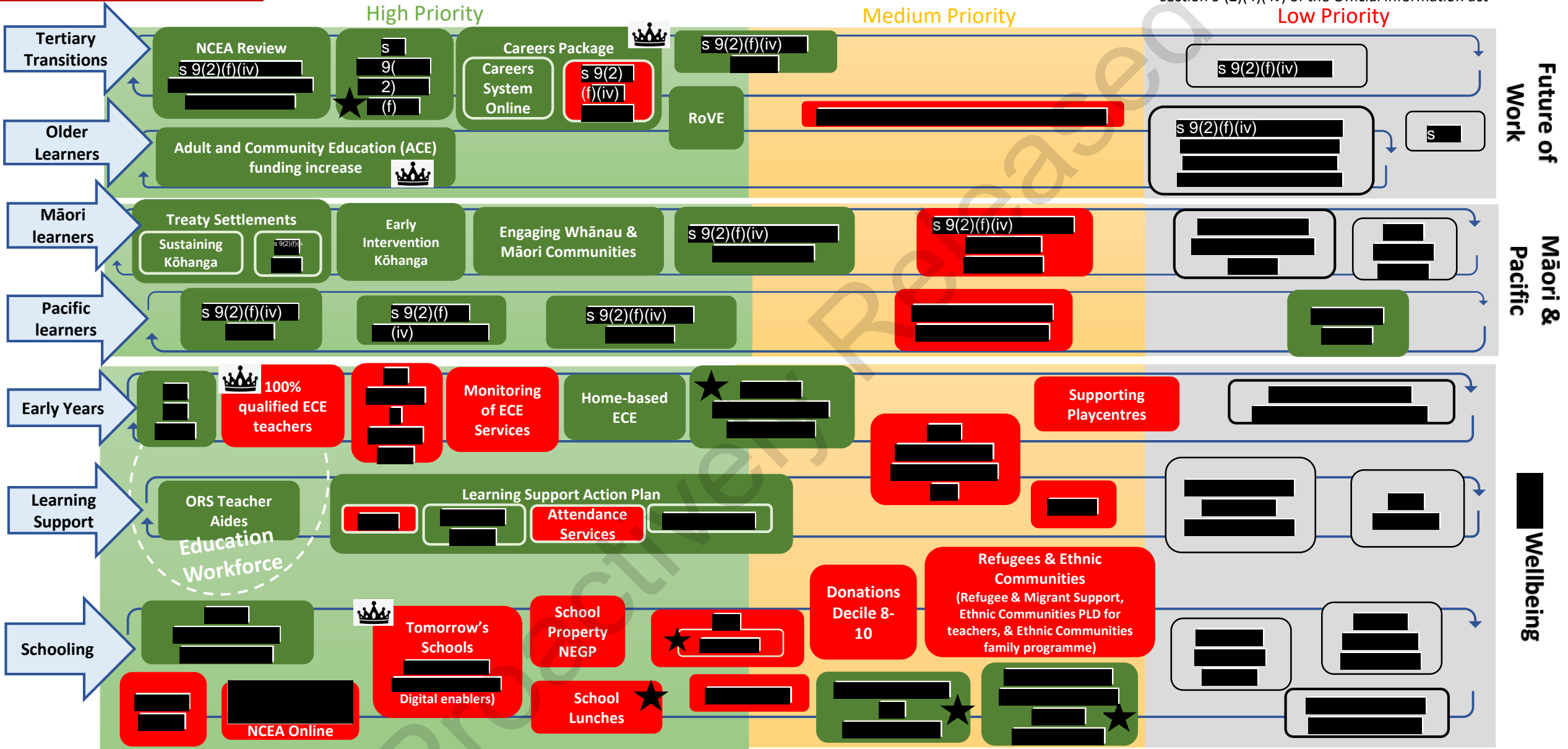
Annex Three: Impacts of not funding New Spending Initiatives

Annex Four: Talking Points for the Bilateral Discussion

Annex One – New Spending Initiatives State-of-Play

Information on this page has been withheld under section 9 (2)(f)(iv) of the Official information act

Low Priority



Key:

- DPMC Supported / Cross Sector ★
- Speech from the Throne (Crown icon)
- Bids that overlap colours = significantly scalable
- Full / Part Funded in Priority Packages
- NOT Funded in Priority Packages
- Other Initiatives
 - Community Science Initiatives (Priority A)
 - School Transport – Wage Floor (Non-aligned)
 - Holidays Act Compliances (Non-aligned)

Annex Two - Priority Aligned Packages shown within Total Education Portfolio

*Budget Sensitive -
Current as of 4 February 2020 - draft Package*

Annex Two - Priority Aligned Packages shown within Total Education Portfolio				
		Total Education Portfolio Package		
Cost Pressures & Pre-Commitments	Initiative Title	5 year Opex Total (\$m)	10 year Capex Total (\$m)	Notes
	Pre-commitments:	584.840		
	School Property Programme to Deliver the National Education Growth Plan	17.380		CAB-19-MIN-0174.13
	Increase to Teacher and Principal Bargaining Contingency	374.869		CAB-19-MIN-0276
	Collective Bargaining - incl living wage	192.591		CAB-19-MIN-0627
	Cost Pressures:	1160.949	258.977	
	s 9(2)(g)(i), s 9(2)(f)(iv)			
	Meeting Increased Demand	76.344		forecast changes
	Supporting Kōhanga Reo Cost Pressures	93.370		legal obligation
	School Investment Package (SIP)			
	School High Health Needs Fund (SHHNF)			
	Adjusting Learning Support Funding for Population Growth	36.643		
	English for Speakers of Other Languages (ESOL)			
	Managing Growth at Public Private Partnership (PPP) Schools	31.493	23.977	
	Christchurch Schools Rebuild Programme			
		TBC		
	Pay Equity			
	Cost Adjustment for Early Childhood Education Subsidies			
	Cost Adjustment for Schools’ Operational Grant			
	Tuition Subsidy Increase			
	Cost adjustment for Secondary-Tertiary Programmes (Trades Academies)			
	Contingency - Administration of Code of Practice for Pastoral Care of Domestic Students			
	Right Sizing School Property			
	Payroll Sustainability	2.000		
	Continuing the Early Childhood Education Provider Assessment Group	7.847		
	Cost Pressures & Pre-commitments Total			
Priority A - Just Transition Total Funding Sought:				Total Education Funding Allocated: 0.000
	Initiative Title	Opex	Capex	Status in draft Priority Package Opex Outputs of Allocated Funding
				Out of Scope

Product

Priority C - Māori and Pacific Total Funding Sought:				Total Education Funding Allocated:		
Priority C Package [draft]	Initiative Title	Opex	Capex	Status in draft Priority Package	Opex	Outputs of Allocated Funding
	Sustaining Kōhanga reo and revitalising te reo Māori	99.956		Fully Funded	100.000	<ul style="list-style-type: none">Funding to increase funding rates for each kōhanga reoIncreases annual funding the Ministry provides for the Te Kōhanga Reo National Trust to support the kōhanga reo network
	Early intervention: Te Kohanga Reo – Learning Support initiative	2.524		Fully Funded	2.524	<ul style="list-style-type: none">Funding to deliver targeted professional learning and development to support kōhanga whānau (made up of parents, extended family, kaiako and other kōhanga staff) to effectively identify, assess and manage the learning support needs of their tamariki
	s 9(2)(g)(i), s 9(2)(f)(iv)	s 9(2)(g)(i), s 9(2)(f)(iv)				
Not included in Priority aligned Package	s 9(2)(g)(i), s 9(2)(f)(iv)			Out of Scope		
				Out of Scope		
				Out of Scope		
				Out of Scope		

Priority D - Child Wellbeing Total Funding Sought:			Total Education Funding Allocated:			
Priority D Package [draft]	Initiative Title	Opex	Capex	Status in draft Priority Package	Opex	Outputs of Allocated Funding
	s 9(2)(g)(i), s 9(2)(f)(iv)	s 9(2)(g)(i), s 9(2)(f)(iv)				
	Home-based ECE – Support for educators to become qualified			Funded at MVO	36.300	<ul style="list-style-type: none">Funding for the transition of services on the standard funding rate to the quality funding rateFunding for changes to the Ministry’s IT infrastructure to allow collection of more information on educators and homes
	ORS Teacher Aides – Increasing hours			Funded at MVO	133.500	<ul style="list-style-type: none">Funding to increase the weekly number of teacher aide hours by 5 hours incrementally over four years.
	s 9(2)(g)(i), s 9(2)(f)(iv)					s 9(2)(g)(i), s 9(2)(f)(iv)
ed in Priority-aligned Package	100% qualified ECE teachers			Out of Scope		
	s 9(2)(g)(i), s 9(2)(f)(iv)			Out of Scope		
				Out of Scope		
				Out of Scope		
				Out of Scope		
				Out of Scope		
	Expanding the Free and Healthy School Lunches Prototype	15.608	0.180	Out of Scope		
	- NCEA Online: Transforming Assessment for Learners	38.675		Out of Scope		
				Out of Scope		
	Supporting playcentre sustainability			Out of Scope		
			Out of Scope			
			Out of Scope			

Not include	s 9(2)(g)(i), s 9(2)(f)(iv)		-	Out of Scope	
				Out of Scope	
				Out of Scope	
				Out of Scope	
				Out of Scope	
				Out of Scope	
				Out of Scope	
				Out of Scope	
				Out of Scope	
				Out of Scope	
Non-aligned New Spending Total Funding Sought:				Total Non-aligned Funding Allocated:	0.000
TSY - Not Supported		=		Out of Scope	
				Out of Scope	
Total Education Portfolio				Total Funding from Priority B, C and D	737.904

Annex Three - Impacts of not Funding New Spending Initiatives					
Priority B - Future of Work					
Out of Scope	Initiative Title	Opex	Capex	Impact of Nil Funding	
				s 9(2)(f)(iv)	
				databases creating data integrity concerns and decision making	
				issues	
• Business critical funding to ensure the best use of taxpayer funds					
Priority C - Māori and Pacific					
Out of Scope	Initiative Title	Opex	Capex	Impact of Nil Funding	
				s 9(2)(f)(iv)	
Priority D - Child Wellbeing					
Out of Scope	Initiative Title	Opex	Capex	Impact of Nil Funding	
	100% qualified ECE teachers	s 9(2)(f)(iv)		• Nil funding will lead to centres using 80-99% certified staff rather than a fully certified workforce	
	s 9(2)(f)(iv)			• Nil funding will also alienate sector stakeholders due to promises made to reinstate funding for centres that employ 100% qualified and registered teachers in early childhood education	
					and Achievement work programme creates a high likelihood of difficulty for children
					transitioning from early learning to school
					• Ministry monitoring of Early Learning Services remains the same and EROs' enhanced review regime will not be fully supported by timely regulatory Ministry intervention, directly impacting on the safety of children
					• Reduced ability to strengthen the accountability on service providers to ensure children’s wellbeing and improve the quality of service provision
					• No improvement in educational outcomes for tamariki. No long-term improvement in outcomes for tamariki in employment, earnings, justice interactions and health.
			s 9(2)(f)(iv)		

Out of Scope

Initiative Title	Opex	Capex	Impact of Nil Funding
Expanding the Free and Healthy School Lunches Prototype	15.608	0.180	<ul style="list-style-type: none">Primarily wellbeing impacts: negative impact on learning and development as evidence shows food insecurity has a high impact on children's learning, health and general wellbeing;
Digital Transformation Package - NCEA Online: Transforming Assessment for Learners	38.675		<ul style="list-style-type: none">Nil funding will result in no digital exams after 2020, inability to meet the expectations of schools and students, diminished public confidence in the integrity of NCEA qualifications due to lack of alignment with digitally enabled teaching and learning, loss of opportunity to address Māori and Pasific equity, accessibility detriments, and a lack of rich data — A loss of momentum from the over 14,400 students from 2011 schools participating in digital assessments in 2019 is likelyFinancial implications may be felt due to withdrawing from contractual obligations with suppliers

s 9(2)(f)(iv)

Out of Scope

Supporting playcentre sustainability			<ul style="list-style-type: none">Funding shortfalls are expected to lead to Playcentre Aotearoa having to sell property assets to meet payroll by July 2021 placing approximately 100 play centres at risk of closureNil funding risks closure of play centres and decreased participation in early learning
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s 9(2)(f)(iv)

Out of Scope

s 9(2)(f)(iv)			<div></div> <div></div> <div></div> <div>funding some schools with high levels of disadvantage will be waiting several years to receive their actual equity funding allocation</div>
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Non-aligned New Spending

Out of Scope

Initiative Title	Opex	Capex	Impact of Nil Funding
s 9(2)(f)(iv)			

Annex Four: Talking Points for the Bilateral Discussion

Cost Pressures

- You are working with the Ministry of Education on potential scaling of cost pressure initiatives.
- Further work is being undertaken on the large Holidays Act compliance bid, including discussions between the Ministry of Education, its auditors and the Treasury on whether it is appropriate to defer this initiative to Budget 2021.

New Spending Initiatives

- A number of your high-priority initiatives are not included in the five wellbeing priority-aligning packages that have been developed. The majority of these sit within Priority D – Child Wellbeing. Unfunded initiatives include, but are not limited to:
 - a. 100% Qualified Early Childhood Education Teachers
 - b. s 9(2)(f)(iv)
 - c. [REDACTED]
 - d. [REDACTED]
 - e. School Lunches.
- The initiatives that are not funded include a number that have previously been agreed with the Minister of Finance to be a high priority for the Budget, such as 100% qualified early childhood education teachers and school lunches.
- Is there scope for new spending initiatives to be funded outside of the wellbeing priority packages process?

Underspends and Reprioritisation

- In contrast to the 2018 and 2019 budgets, it is not expected that there will be large underspends returned in Budget 2020:
 - s 9(2)(f)(iv)
 - [REDACTED]
 - The Ministry of Education currently faces a very challenging financial position, and we expect the its departmental funding to be close to fully spent; or needed for in-principle transfers related to project delays such as the complex Holiday's Act remediation programme.
 - To date, a small amount of underspends have been identified (\$8.1 million). Further underspends may be identified closer to the end of the financial year.
- You are considering officials' advice on opportunities to make policy changes to reprioritise funding, and will shortly write to the Minister of Finance on this.
- significantly less funding will be able to be returned from underspends and reprioritisation in the education portfolio than was achieved in the 2018 and 2019 budgets.