



Briefing Note: Budget 2020, Bilateral Meeting with the Minister of Finance set for 5 December 2019

To:	Hon Chris Hipkins, Minister of Education		
Date:	28 November 2019	Priority:	High
Security Level:	In Confidence	METIS No:	1213542
Drafter:	John Wardrop	DDI:	
Key Contact:	Wayne Murphy	DDI:	s 9(2)(a)
Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

This note provides you with talking points and supporting information for your Budget 2019 bilateral meeting with finance Ministers on 5 December 2019.

Summary

- This briefing sets out the key points for your meeting with the Minister of Finance on 5 December 2020 to discuss your education budget package.
- A list of the education initiatives will be set out in the submission letter to the Minister of Finance, which will follow this briefing.
- We anticipate that the Minister of Finance will signal that the submitted package is too large, and will need to be reduced through a combination of:
 - withdrawing initiatives (potentially involving deferral to a future budget)
 - scaling and phasing of initiatives, and
 - identifying reprioritisation options to offset the package cost.
- This note provides you with summary information on the budget process and submitted education initiatives, and suggested talking points for the bilateral discussion.



Damian Edwards
Associate Deputy Secretary
Education System Policy

28/11/19



Grant Klinkum
Deputy Secretary
Graduate Achievement,
Vocations and Careers

28/11/19



Hon Chris Hipkins
Minister of Education

1/12/19

Background

Education Initiatives Submitted

1. This briefing sets out the key points for your meeting with the Minister of Finance on 5 December 2020 to discuss your education budget package.
2. A list of the education initiatives will be set out in the submission letter to the Minister of Finance, which will follow this briefing.

September Budget Bilateral Meeting

3. On 25 September you met with the Minister of Finance to discuss the education budget package. In this meeting it was agreed that:
 - i. s 9(2)(f)(iv) OIA [REDACTED]
 - ii. After allowing for pre-commitments and cost pressures, the early years (and in particular the unfunded Government commitment to funding for 100% qualified staff) is the top priority.
 - iii. Remaining unfunded Government commitments are in the following priority order:
 - a. Careers and s 9(2)(f)(iv) OIA
 - b. s 9(2)(f)(iv) OIA [REDACTED]
 - c. Food in Schools.
 - iv. Further discussion is needed on s 9(2)(f)(iv) OIA [REDACTED] funding to support the introduction of the [REDACTED] Māori & Pacific learning, the Ongoing Resourcing Scheme (ORS), Kōhanga Reo and s 9(2)(f)(iv) OIA [REDACTED]. These issues would be further considered in the next budget bilateral meeting.

2020 Budget Process

4. There are five priority themes for Budget 2020. Each of these has a secretariat led by a coordinating Minister, tasked with developing priority-aligning packages for submission to the Minister of Finance in January 2020. These priority themes are:
 - Priority A: Just Transition
 - Priority B: Future of Work
 - Priority C: Māori and Pacific
 - Priority D: Child Wellbeing
 - Priority E: Physical and Mental Wellbeing
5. New spending initiatives that are not aligned with any of these five priorities will be considered by the Minister of Finance and assessed by the Treasury.
6. Any late initiatives for Budget 2020 can only be included in the Budget process with the permission of the Minister of Finance.
7. Cabinet is expected to agree the final Budget package in March 2020. The Budget will be delivered in May, with the exact date still to be confirmed.

s 9(2)(f)(iv) OIA [REDACTED]

Talking Points for the Bilateral Discussion

Overall Size of the Package

8. We expect the Minister of Finance to signal that:

- across government, submitted Budget initiatives greatly exceed the capital and operating allowances
- the total package of education initiatives is unaffordable given other Budget pressures, and must be reduced, and
- there is a need to look for reprioritisation opportunities, to help pay for the education package.

9. You may wish to make the following points in response:

- **The education package will fit to the available funding.** The Priority Groups' assessment will inform decisions on withdrawal, phasing and scaling of bids. In addition, work is underway to identify savings that could be reprioritised to offset the cost of the package.
- **Unavoidable cost pressures were much higher than anticipated.** The package of cost pressures submitted contained a number of items that were materially larger than initially anticipated. These included Holidays Act compliance s 9(2)(f)(iv) OIA maintaining kōhanga reo funding (\$93 million) to help s 9(2)(f)(iv) OIA and pay equity litigation s 9(2)(f)(iv) OIA
- **Holidays Act compliance is a particular problem.** The unexpected need to find s 9(2)(f)(iv) OIA to address the liability from historical non-compliance with the Holidays Act 2003 has weighed heavily on development of an education package. While this liability has to be funded in Budget 2020, you indicated an intention to seek to meet this liability outside the Education budget package.
- **A number of policy commitments were previously deferred to Budget 2020.** The Government has made a number of education policy commitments. Some were funded in the 2018 and 2019 budgets, but a number remain unfunded. The Education package seeks to meet outstanding policy commitments, and maintain progress on the Government's priorities for the education sector.
- **Scaling options have been developed.** In addition to the costings that have been prepared, scaling options and minimum viable options have also been developed for most initiatives.
- **Reprioritisation will be more challenging for this Budget.** You have a track record of identifying savings to help manage new spending. Budgets 2018 and 2019 saw reprioritisation of \$123 million and \$500 million of operating funding. s 9(2)(f)(iv) OIA

Officials are looking at additional reprioritisation opportunities, but are unlikely to find savings of the scale realised in previous budgets because:


- s 9(2)(f)(iv) OIA
- uptake of the School Donations initiative funded in the 2019 Budget has been high (around 90%) and therefore any associated underspend will be relatively low, and
- many of the readily achievable savings from spending not well aligned with your policy agenda have already been identified and realised in the 2018 and 2019 Budgets.

Issues & Risks

Pre commitments

10. Cabinet has approved the following three pre-commitments totalling s 9(2)(i) (operating):

s 9(2)(f)(iv)



Alignment with Budget Priorities

11. The Minister of Finance will emphasise that new spending initiatives should fit with the Government's five Budget priorities.
12. Because of the foundation nature of education, most education initiatives support multiple budget priority areas, and submitted initiatives are well aligned to the Budget priorities originally agreed by Cabinet.
13. However, we have concerns about the direction of the Priority B: Future of Work package:
- Cabinet agreed that this priority was about enabling all New Zealanders to benefit from new technologies and lift productivity through innovation; with two sub-priorities:
 - enabling workers to adapt to technological change by continually upskilling, re-skilling, and participating in productive and fair employment, and
 - supporting businesses by enabling uptake of new technology and improving access to global markets, skills, and infrastructure.
 - The current framing of Priority B now appears to be focussing on improving workforce utilisation, and improving workplace fairness — which implies prioritising the current workforce and labour market; rather than the future workforce, technology, and the changing economy themes. This effectively deprioritises investment in future workers' skills, uptake of new technology, and improving access to global markets.
 - Education initiatives were submitted under Priority B initiatives because they aligned well with the themes originally agreed by Cabinet. However, they are less well aligned to a focus on labour force utilisation.
14. You may wish to raise the process followed by Priority B with the Minister of Finance.

The Proposed Package Removes a Number of Risks

15. Previous budget discussions about the education portfolio signalled significant risks that need to be carefully managed. The 2020 Budget package contains a number of initiatives that, if funded, will eliminate a number of significant risks currently facing the Crown. These include: resolving historical liabilities arising from the Holidays Act 2003, s 9(2)(f)(iv), s 9(2)(j)

Work With Other Agencies

16. In addition to this package, there are a number of initiatives progressing that are connected to the education portfolio, but which are being submitted by other agencies against their votes. These include:

Next Steps

17. Lead Ministers are expected to finalise the budget packages for each of the five priority areas, and submit them to the Minister of Finance in January 2020. Following this, Cabinet Committees will be consulted, and finance Ministers will then recommend a Budget package to Cabinet in April 2020.

Proactive Release

18. We recommend that this Education Report is not proactively released at this time because the information it contains is budget sensitive. Instead, we recommend that it is considered for inclusion in the Budget 2020 proactive release, following delivery of the 2020 Budget.