All redactions made under s9(2)(f)(iv) of the OIA unless stated

MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Education Report: Budget 2022 – updated post bilateral package

To:	Hon Chris Hipkins, Minister of Education		
Date:	25 February 2022	**Priority:**	High
Security Level:	Budget Sensitive	**METIS No:**	1282298
Drafter:	Wayne Murphy	**DDI:**	021 491 294
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Messaging seen by Communications team:	No	**Round Robin:**	No

Purpose of Report

The purpose of this paper is to provide you with an updated Education Budget 2022 package for discussion with Associate Ministers and the Ministry at your Agency meeting on 28 February.

Executive Summary

At the Budget 2022 bilateral on 16 February, the Minister of Finance asked for the Education package to be revised from the billion package, proposed in December 2021, down to $2 billion (excluding non-discretionary costs, i.e. and Precommitments). He also wanted to know the guiding principles that were used to develop the smaller package and the trade-offs that were involved.

You discussed a high-level post-bilateral Education package with Associate Ministers and the Ministry at the Agency meeting on 21 February. At this meeting a more detailed package was requested to aid further discussions at the 28 February Agency meeting.

This paper provides the more detailed Education package in the attached table for you to discuss with Associate Ministers with a view to agreeing an updated Education Package to submit to the Minister of Finance. Associate Ministers' offices were consulted in reworking the proposed Package.

We are exploring other sources of funding to help support the investment sought through the Budget process. A number of these are noted in the attached package. However, it should be noted that outside of a few specific areas, this is proving challenging.

We have identified a number of risks in this proposed package; it currently exceeds the reduced allowance offered by the Minister of Finance, 9(2)(f)(iv) the attached package does not include enough funding for school property to continue the current pipeline of work and will likely require a slowdown from current plans; the investment in ; and 9(2)(f)(iv)

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Recommended Actions

The Ministry of Education recommends you:

a. **forward** the attached Education package and this paper to Associate Ministers

Forwarded

b. **discuss** the attached Education package with Associate Ministers and the Ministry at the Agency meeting on 28 February.

Discussed

c. **note** that following your discussion with Associate Ministers on Monday, we will submit an updated package for your approval and a covering letter to enable you to submit the package to the Minister of Finance by 2 March

Noted

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

Release/Not release

John Brooker
Group Manager
Te Puna Kaupapahere

25/02/2022

Hon Chris Hipkins
Minister of Education

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Background

1 At the Budget 2022 bilateral on 16 February, the Minister of Finance asked for the Education package to be revised from the billion package, proposed in December 2021, down to $2 billion (excluding non-discretionary costs, i.e. and Precommitments). He also wanted to know the guiding principles that were used to develop the revised package and the trade-offs that were involved.

2 Following this meeting, your office commissioned a revised high-level Budget package that included your highest priority initiatives.

3 You discussed this reduced package with Associate Ministers and the Ministry at your Agency meeting on 21 February. At this meeting it was requested that the Ministry provide a more detailed package for further discussion at the 28 February Agency meeting. This more detailed package is attached in Annex 1.

4 Once you have agreed an updated Budget package, you are due to share it with the Minister of Finance by 2 March ahead of a possible further Budget bilateral.

5 The Education Budget package will need to be finalised by the end of March for Cabinet's consideration as Budget 22 decisions are finalised in early April.

Updated education investment in Budget 2022

Precommitments

9 The Education Package being proposed excludes non-discretionary items, such as the (above), Depreciation and Precommitments. This is the approach Treasury took in its advice to the Minister of Finance prior to the bilateral on 16 February.

10 The Education Budget Package submitted to the Minister of Finance in December included three pre-commitments, totalling m operating funding over four years (the ABI ($127m), Internet Connectivity (and COVID response ($10m).

11 Recent data that has come to hand since submitting the package in December, supports reducing the Apprentice Boost Initiative provision by $48.750 million, to almost $78.3 million. This reduces the total pre-commitments you were seeking down to m.

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12 However, it should be noted just prior to the bilateral Treasury added two National Education Growth Plan precommitments totalling $158.7 million. These arose from decisions in Budget 2019. The Budget 19 funding has been publicly announced and widely agreed. In our view, the Budget 19 funding has already been agreed by Cabinet and therefore sits outside of any new package funded through Budget 22 [METIS 1281669 refers].

Priorities and principles

13 The proposed Education Package has been developed to advance the following five strategic priorities:

a. Building a strong and capable workforce
b. Strengthening teaching and learning for literacy and numeracy
c. Supporting attendance, engagement and wellbeing
d. Strengthening Māori and Pacific medium pathways
e. Improving supports to the early learning and schooling sectors including through Te Mahau

14 The following operational principles were applied for designing the package:

a. Alignment to the strategic priorities (above),
b. The individual items contained in the package are investment-ready and have the best prospects of successful delivery,
c. Resources are focused on front-line services
d. Maintaining funding levels for bids at levels that enable the best chance of successful delivery.

Education package

15 The attached Education package includes all your key priority initiatives and a strong focus on teaching and learning as discussed at your Bilateral with the Minister of Finance.

16 Associate Ministers' offices were consulted in reworking the proposed Package.

Cost adjustment rates

17 As discussed at the Bilateral with the Minister of Finance, the sector cost adjustment rates have been increased from 2% to 2.9%, matching Reserve Bank inflation forecasts. This would increase the direct frontline funding available for the sector but comes at a cost of an extra $215.8 million to the package, which requires trade-offs to accommodate this. The Minister of Finance also asked for 'optionality' around making this increase, in particular, how it might interplay with other initiatives. We have explored this further across all three sub-sectors

18 School cost adjustment - 2.9% adjustment (includes MLP1&2). The total investment here could be considered alongside the significant funding for schools from the Equity Index. When combined, these bids amount to nearly $[redacted]m, most of which goes into schools' operating grant funding. We considered whether this could justify a lower than CPI increase. However, it should be noted that the Equity Index change does have a redistributive effect on current decile-based funding. Even with transition arrangements in place to manage the negative impact some schools, an estimated 636 schools would receive less equity funding than they currently do from year 2 onwards (losses are capped at 5% of ops grant funding for the first 5 years). Retaining the cost adjustment rate at 2% change would save some $45m over 4 years, those schools which receive

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less equity funding in future would also be worse off due to costs they face not being met by the operational grant increase.

19 In addition, operational grant adjustments are used to offset some of the costs of recent collective agreement pay increases [METIS 1249950 refers]. A smaller operational grant adjustment would, in effect, require the Ministry to directly fund more of the salary top-ups negotiated in recent Collective Agreement settlements.

20 For these reasons we advise that the two bids are treated separately and remain at current proposed funding levels.

21 ECE cost adjustment - 2.9% adjustment. We have considered this in light of the significant funding for Early Learning wages through Pay Parity (and the flow on When combined, ECE bulk funding increases by around over the next four years, which equates to a increase. This invites an argument that the cost adjustment rate could remain at 2%. However, there are interplays between these bids that are complex to unwind. To apply a lower or no cost adjustment evenly it would have to apply to kindergarten funding rates along with the opt-in rates for pay parity for education and care services. A cost adjustment would still be needed for those services that don't stand to benefit from Pay Parity or i.e. Playcentre, playgroups, and, to a large extent, Home-based Care.

22 Tertiary cost adjustment: 2.9% adjustment. We have considered whether a 2.9% increase is warranted in light of the likely cost increases faced by tertiary providers and the significant investment in vocational education and training (VET) in Budget 2021. While the bid could exclude VET within the scope of Unified Funding System (UFS) and be targeted to foundation (levels 1 and 2) and degree-and-above study, this would amplify the impact of lower 'delivery component' funding rates for many private training establishments (PTEs) in the shift to the UFS, which you will receive further advice on in mid-March. It would also impact on VET providers' overall ability to adapt their operating models to achieve the outcomes sought from the UFS.

23 On balance, we consider the best approach is to use the 2.9% increase option across all sectors. While there are trade-offs in terms of the wider package, it would result in more funding going directly to support the sector at a time where they are facing cost increases and uncertainty.

Potential other funding sources

24 As discussed at your agency meeting on 21 February, we are exploring other sources of funding to help support the investment sought through the Budget process. We have identified three ways of doing this:

a. *Using 2021/22 underspends* to meet some or all of the costs of bids which have one-off costs or high upfront costs. For example, 2021/22 underspends can be used to support 'Schools Payroll' initiative and the 2022/23 departmental costs of the 'Physical Restraint Rules and Guidelines'.

b. *Re-purposing funding from within existing* baselines to support specific initiatives. We have identified that there is an opportunity to support the PLD elements within the 'Strengthening NZ Sign Language' and the 'Further Delivery of Tapasā'. In addition, we will fund a further 6 months of internet connectivity through baselines.

c. Looking at how departmental underspends across the Ministry could be reprioritised to support other time-limited programmes. For example, We will seek to meet this shortfall through a mix of reprioritisation across Te Tāhuhu and making further choices about how to manage the reduced

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spend across the four initiatives in the cluster. We will report back to you on how much reprioritisation is possible, and the impact this will have on the outputs of these four initiatives. Should we identify reprioritisation opportunities, this could be used to support other areas of the package.

Risks

25 This revised package has been significantly reduced from the 10 December submission, however, it still slightly exceeds the allocation you discussed with the Minister of Finance's at your bilateral. The attached Education Budget package remains at [redacted] billion excluding precommitments. The Minister of Finance may ask you to reduce this back towards the $2 billion he requested at the 16 February Bilateral. If required, this will exacerbate the pressures across the areas of investment in the package. However, we consider this a credible starting point for further discussions.

26 [redacted]

27 [redacted]

[redacted]

29 [redacted]

30 [redacted]

[redacted]

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Next steps

32 The attached Education package is due to be discussed with Associate Ministers and the Ministry at your Agency meeting on 28 February.

33 You are then due to provide the Minister of Finance with an updated Education package by 2 March. You may then have a further Budget bilateral to discuss this updated Education package.

34 Once an Education package has been agreed between yourself and the Minister of Finance it will be provided to Cabinet for consideration in early April.

Annexes

Annex 1: Update post-Bilateral Education package

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Key	Recommend remain in consideration	Recommend be deferred

Budget 22 Post Bilateral Package Outlook				
Row	**Initiative Title**	**December Pack**	**Minister's Post Bilateral $2b Package**	**Comment**
		1. Ministerial Directives		
1	Continuing to move towards pay parity for education and care teachers	**OPEX** [redacted] **CAPEX** [redacted]	**OPEX** [redacted] **CAPEX** [redacted]	[redacted]
2	Equity Index – Implementation in schools and kura, and system infrastructure costs for early learning services	**OPEX** [redacted] **CAPEX** [redacted]	**OPEX** [redacted] **CAPEX** [redacted]	$75m per annum.
3	Cost Adjustment for Schools' Operational Grant	**OPEX** [redacted]	**OPEX** [redacted]	2.9% adjustment (includes MLP1&2). The total investment here could be considered in light of the significant funding for schools from the equity index. Combined these bids total nearly $500m, the bulk of which goes into schools operating grant funding. This could justify a lower than CPI increase. However it should be noted that the Equity Index change does have a redistributive effect on current decile based funding. Even with transition arrangement in place to manage the impact on losers, 636 schools would lose funding from year 2 (losses are capped at 5% of ops grant funding for the first 5 years). While doing a 2% change would save some $45m over 4 years, it would mean more schools would be net worse off.
4	Cost adjustment for early learning services	**OPEX** [redacted]	**OPEX** [redacted]	2.9% adjustment. Should be considered in light of the significant funding for early learning wages through pay parity ([redacted]) and [redacted] In total this would increase ECE bulk funding by around [redacted] over the next four years. Around a [redacted] increase in funding. There are interplays between these bids but they would be complex to unwind. An alternative is that this justifies a lower than CPI increase. To apply this evenly it would also have to apply to kindergarten funding rates.
5	Cost Adjustment to Tertiary Tuition and Training Subsidies	**OPEX** [redacted]	**OPEX** [redacted]	2.9% adjustment. Should be considered in light of Tertiary providers financial position and significant vocational investment in Budget 2021. The bid could be restricted to degree plus only study, and study at levels 1 and 2. The risk here is that PTEs in the VET space are already facing falls in funding rates from the shift to the UFS. These would be amplified if no funding adjustment is provided at this level.
	Sub-Total	**OPEX** [redacted]	**OPEX** [redacted]	
		2. Unavoidable commitments		
6	Resolving the funding shortfall in Kāhui Ako (Communities of Learning)	**OPEX** [redacted]	**OPEX** [redacted]	Legal obligation
7	EPL Fees Review	**OPEX** [redacted]	**OPEX $10m**	Minimum required to maintain EPL operations. Number has been revised down following discussion with EPL and further work underway to assess impact of reduced funding.
8	Replacement of an Unsupported Payroll/HRIS system (NZQA)	**OPEX $3.5m**	**OPEX $3.5m**	Required for continued secured NZQA payroll operation
9	School Transport – baseline and ICT transformation	**OPEX** [redacted] **CAPEX** [redacted]	**OPEX** [redacted] **CAPEX** [redacted]	Contractual obligation
10	PPP School Expansion	**OPEX** [redacted]	**OPEX $6.515m**	Contractual obligation
11	Managing Export Education Levy Revenue Pressure	**OPEX** [redacted]	**OPEX $0.723m**	[redacted]
12	Funding higher demand for tertiary education and training	**OPEX $224m**	**OPEX $121.7m**	Funds only the 2023 calendar year as a minimum. Once we have March enrolment data we can consider whether this could be lower.
	Sub-Total	**OPEX** [redacted]	**OPEX** [redacted]	
	Subtotal of all unavoidable initiatives	**OPEX** [redacted]	**OPEX** [redacted]	

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Key	Recommend remain in consideration	Recommend be deferred

Budget 22 Post Bilateral Package Outlook				
Row	**Initiative Title**	**December Pack**	**Minister's Post Bilateral $2b Package**	**Comment**
		3. Other Cost Pressures		
13	Schools Payroll: investigation of future delivery and investment options	**OPEX $4m**	**-**	Could be funded from underspends given fiscal allowances
14	[redacted]	[redacted]	**-**	[redacted]
	Sub-Total	[redacted]	**OPEX $0m**	
		4. Tomorrow's Schools		
15	Continuing the Reform of the Tomorrow's Schools System	**OPEX** [redacted] **CAPEX** [redacted]	**OPEX** [redacted]	The bid focuses on a $10m per annum discretionary fund which is focused on supporting local solutions for attendance, engagement and supporting small schools initially. In addition, the funding will be used to support school leadership through leadership adviser roles.
	Sub-Total	**OPEX** [redacted]	**OPEX** [redacted]	
		5. Curriculum and Assessment		
16	Teaching, Learning and Assessment for Progress in Literacy and Maths	**OPEX** [redacted] **CAPEX** [redacted]	**OPEX $31.72m**	The scaled options which have been pro-rated across curriculum will allow us to manage the cost of this cluster within the $135M envelope and still making a meaningful investment in Literacy and Numeracy across both English and Māori medium settings and address the significant cost pressure we face in delivering the NCEA change package. We will seek to meet this reduction in funding through a mix of reprioritisation across Te Tāhuhu and making further choices about how to manage the reduced spend across the 4 initiatives in the cluster.
17	Developing Te Reo Matatini, Pāngarau and Aromatawai Research, Tools, Resources and Supports for Workforce and Ākonga	**OPEX** [redacted] **CAPEX** [redacted]	**OPEX $30.15m**	
18	[redacted]	[redacted]	[redacted]	
19	[redacted]	[redacted]	[redacted]	
	Sub-Total	**OPEX** [redacted]	[redacted]	
		6. Digital		
20	Cybersecurity & Managed Digital Services for Schools	**OPEX** [redacted] **CAPEX** [redacted]	**OPEX $27.40m**	Fund only critical components for 2022/23 including Business Cases development for long-term solution
21	[redacted]	[redacted]	[redacted]	[redacted]
22	Continued internet connectivity to support equitable digital access	[redacted]	**-**	We will fund a further 6 months from June 2022 to December 2022 at a costs of $13.1m through reprioritising baseline funding.
23	[redacted]	[redacted]	[redacted]	[redacted]
	Sub-Total	**OPEX** [redacted]	**OPEX $27.40m**	
		7. Education Infrastructure		
24	Te Pūkenga – New Zealand Institute of Skills and Technology Capital Investment Fund	**CAPEX $40m**	**CAPEX $40m**	Fully funded
25	Land purchases for new schools identified in the NEGP	**OPEX $14.875m** **CAPEX $85m**	**OPEX $14.875m** **CAPEX $85m**	Fully funded

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Key	Recommend remain in consideration	Recommend be deferred

Budget 22 Post Bilateral Package Outlook				
Row	**Initiative Title**	**December Pack**	**Minister's Post Bilateral $2b Package**	**Comment**
26	Christchurch Schools Rebuild	**OPEX $30.295m** **CAPEX $88m**	**OPEX $30.295m** **CAPEX $88m**	Fully funded
27	National Education Growth Plan (NEGP)	**OPEX** **CAPEX**	**OPEX $29.83** **CAPEX $280m**	This reduced package will keep things going but limit the Ministry's ability to accelerate delivery. The reduction will be achieved by Reducing NEGP from to 280m but also flattening the phasing. This balances the need to reduce the OPEX impact with continuing to keep the growth programme going at current levels. There is some risk we may need to slow the programme down.
28	Furniture and Equipment Grant for School Property	**CAPEX $145.4m**	**CAPEX $145.4m**	
29				
30	Māori Medium Property	**OPEX** **CAPEX**	-	
	Sub-Total	**OPEX** **CAPEX**	**OPEX $75.000m** **CAPEX $638.404m**	
			8. Māori Education	
31	New Funding to grow Māori Language Education Provision Across the System	**OPEX**	**OPEX $74.650m**	$74.65m for Māori language provision broken up into $49.650m for phased increases to MLF, level 1 only, in schools, $10m for the Tertiary high proficiency fund, and $15m for system-wide improvements.
32	Iwi / Māori Workforce Support Package	**OPEX $** **CAPEX**	**OPEX $5.000m**	Reduced bid will support 50 teachers in 2023, 100 in 2024, and 150 in 2025 and onwards. This reduced cohort is unlikely to be able to cover all iwi so will need to focus on high density areas first.
33				
	Sub-Total	**OPEX**	**OPEX $79.650m**	
			9. Pacific Education	
34	Pacific bilingual and immersion education- Growing and retaining workforce	**OPEX** **CAPEX**	**OPEX $12.952m**	Reduced funding would deliver just curriculum resource and English language support components.
35	Dawn Raids Apology: Maintain value of Tulī Takes Flight, Pacific Education Foundation and Tagaloa scholarships.	**OPEX $2.048m** **CAPEX $0.017m**	**OPEX $2.048m**	These scholarships remain a high ministerial priority. This would be refocussed to just deliver growth in the number of scholarships given Treasury and MoF concern about indexing only these MoE scholarships and no other.
36				
	Sub-Total	**OPEX**	**OPEX $15m**	

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Key	Recommend remain in consideration	Recommend be deferred

Budget 22 Post Bilateral Package Outlook				
Row	**Initiative Title**	**December Pack**	**Minister's Post Bilateral $2b Package**	**Comment**
			10. Wellbeing	
10.1 Wellbeing – At risk				
38	Creating safe, inclusive schools – Targeted and Intensive supports for Māori & Pacific learners at risk of disengaging	**OPEX $7.745m** **CAPEX $0.017m**	**OPEX $7.745m**	Funding for the full bid which focuses on engagement for learners targeted for Māori and Pacific. This is part of a wider collective of initiatives that focuses on engagement of learners. These includes tomorrow schools and supporting schools to improve attendance engagement and participation.
39	Supporting schools to improve student attendance, engagement and participation	**OPEX $**	**OPEX $6.000m**	The Attendance Service redesign will bring the service closer to schools and mana whenua. Increasing funding would enable schools, clusters of schools and Iwi/Māori to purposefully invest in their relationships with chronically absent students and their families and whānau.
40	Redesign of Alternative Education Provision – Cost Pressure and Incremental Improvements	**OPEX $** **CAPEX**	**OPEX m***	This will meet cost pressures at 2.9% for maintain service. *note we propose the cost adjustment in future years will be a part of the annual cost adjustment process.
41	Increased funding for Te Kura's at-risk students to better align funding rates with alternative education settings	**OPEX**	**OPEX $15.541m**	This initiative is based on the successful Big Picture approach (piloted with 80 students since 2014 and in the recent "TK400" initiative") to improve engagement and outcomes for all of Te Kura's at-risk students. It increases per student funding for Te Kura for learners who come through the at-risk gateway, to allow Te Kura to use the blended learning approach developed through Big Picture and used in TK400, to get better outcomes for these learners.
10.2 Wellbeing – Learning Support				
42	Price increase for Incredible years programmes	**OPEX** **CAPEX**	**OPEX $7.832m**	Funding of a known price increase
43	Strengthening New Zealand Sign Language in Education - cost pressure	**OPEX** **CAPEX**	**OPEX $4.830m**	Sustaining NZSL@School and FirstSigns. Re cost on what we provide now just with inflation not the expansion of numbers and service A significant portion of the December bid ($6.460m) was for PLD for schools. We propose to fund this as a priority call on PLD funding. Combined with the new funding above, this would allow for a more meaningful investment in NZSL this Budget.
44	Creating safe, inclusive schools: Strengthening Positive Behaviour for Learning School-Wide (PB4L-SW)	**OPEX** **CAPEX**	**OPEX $11.203**	PB4L School-Wide is currently oversubscribed, which is having an unsustainable impact on the quality of implementation support to schools. The bid seeks funding for 14 FTE for new School-Wide Practitioners (SWP) to walk alongside schools. This would provide for high-quality, tailored support to implement SW effectively and meet the unique needs of each school community.
45	Community Learning Hubs - Maintaining and expanding support for ethnic communities' engagement in education	**OPEX $6.394m** **CAPEX $0.016m**	**OPEX $6.394m** **CAPEX $0.016m**	This is to maintain community learning hubs.
10.3 Wellbeing – Recommend be Deferred				
46				
47				
48	Physical Restraint Rules and Guidelines – supporting schools to meet their statutory obligations	**OPEX $** **CAPEX**	-	Bulk of the funding is in 2022/23. This should be considered for funding through Ministry 2021/22 underspends
49				

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Key	Recommend remain in consideration	Recommend be deferred

Budget 22 Post Bilateral Package Outlook				
Row	**Initiative Title**	**December Pack**	**Minister's Post Bilateral $2b Package**	**Comment**
50				
	Sub-Total	**OPEX $**	**OPEX $**	
	Education package total excluding precommitments	**OPEX**		
Outside of Education Package				
53				
Precommitments				
54	Completing the Apprenticeship Boost Initiative	**OPEX $127.048m**	N/A	The $127.048 million for ABI charged as a precommitment against the education portfolio package for Budget 2022 can be reduced by $48.750 million following updated estimates using Dec and Jan data. It effectively means that the precommitment would now be $78.298m.
55	Continued internet connectivity to support equitable digital access	**OPEX $20m**	N/A	
56	COVID-19 cost pressures in schools	**OPEX $10.00m**	N/A	
57	National Education Growth Plan (NEGP)	**OPEX $55.840**	N/A	NOTE: Precommitment from Budget 2019
58	NEGP wave 2 & 3 operating in excess of existing funding	**OPEX $102.893**	N/A	NOTE: Planned precommitment
	Sub-Totals	**OPEX**	N/A	
Depreciation				
59	Increase school property depreciation due to revaluation	**OPEX**	N/A	

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