MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Education Report: Budget 2022 – Finalising some outstanding items

To:	Hon Chris Hipkins, Minister of Education		
Date:	29 March 2022	**Priority:**	High
Security Level:	Budget Sensitive	**METIS No:**	1284701
Drafter:	Duncan Wilson	**DDI:**	9(2)(a)
Key Contact:	John Brooker	**DDI:**	
Messaging seen by Communications team:	Yes / No	**Round Robin:**	Yes / No

Purpose of Report

This report seeks your agreement for how to manage the agreed reduction in the Pay Parity initiative.

It also recommends you progress advice to Cabinet seeking approval to reprioritise savings and projected underspends from the Equitable Digital Access project to extend existing internet subsidies until the end of the school year.

The report also updates you on minor outstanding Budget 2022 items regarding boarding allowance underspends, four existing tagged contingencies, and the Regional Response Fund.

Summary

You agreed an education Budget 2022 package totalling 9(2)(f) billion that included funding for Māori medium property at the agency meeting on 21 March. This was then shared with the Minister of Finance on the same day.

As you are aware one of the initiatives scaled back to allow for this was the Pay Parity bid. This report seeks your agreement to the final configuration of the Pay Parity initiative in this package and updates you on other Budget related items regarding boarding allowance underspends, four existing tagged contingencies, and the Regional Response Fund.

This report also provides you with a draft Cabinet paper seeking approval to reprioritise savings and projected underspends from the existing Equitable Digital Access project to extend the internet connectivity due to expire in June 2022 through to December 2022.

A bid to increase the rates of boarding allowances through Budget 2022 was unsuccessful, however, the decreasing purchasing power of the allowances remains a concern to the sector. We have identified options within the existing funding pool to make a modest increase to boarding allowances (as demand for allowances has declined meaning there is surplus funding in the baseline).

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The Minister of Finance intends to close four tagged contingencies across Vote Education and Vote Tertiary Education. The Ministry considers that none of these contingencies are now needed, and no risks arise from them being closed.

Budget Ministers have largely agreed with the education package but reserved the right to scale the Tomorrow's Schools initiative, in particular the Regional Response Fund element of this bid. We have included further information to you on the importance of this Fund and what it is being used for in the current year, to support any further discussions you may want to have with Ministers on this issue.

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Recommended Actions

The Ministry of Education recommends you:

a. **agree** to reduce the Pay Parity initiative from 9(2) million to 9(2) million by either:

9(2)(f)(iv)

Agree / disagree

OR

9(2)(f)(iv)

Agree / disagree

b. **note** the attached draft Cabinet Paper (Annex 1) which seeks Cabinet approval to an in-principle expense transfer of up to $12 million in non-departmental baselines from 2021/22 to 2022/23 to extend existing internet subsidies until the end of the school year.

Noted

c. **note** that, while the Cabinet Social Wellbeing Committee previously agreed that any savings achieved in the initial extension to 30 June 2022 should be returned to the centre [SWC-21-MIN-0194], it is open to you to recommend that this funding instead be reprioritised towards the further extension of all existing internet connections

Noted

d. **agree** the Ministry lodge the attached Cabinet Paper: Building COVID-19 resilience through equitable digital access for consideration at Cabinet's Social Wellbeing Committee meeting on 7 April 2022, to ensure decisions can be made prior to Budget moratorium

Agree / disagree

EITHER

e. **agree** that the Ministry of Education increase boarding allowance rates from 2023 by up to 9% (to be confirmed following additional modelling) by using forecast underspends of the allowance funding pool (Ministry's preferred option)

Agree / disagree

OR

agree that the Ministry of Education increase boarding allowance rates from 2023 by approximately 2.75 % to align with other cost adjustments, funded from forecast underspends of the allowance funding pool

Agree / disagree

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f. **note** that an increase to boarding allowance rates will require Joint Ministers approval

Noted

g. **note** that the Minister of Finance intends to close four tagged contingencies across Vote Education and Vote Tertiary Education

Noted

h. **note** Budget Ministers have largely agreed with the education package but reserve the right to scale the Tomorrow's Schools initiative

Noted

i. **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
__/__/____

Hon Chris Hipkins
Minister of Education
30/3/2022

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Background

1 At the agency meeting on 21 March, you agreed an updated Budget Package totalling 9(2)(f)(ii) billion OPEX that included funding for Māori medium property as requested by the Minister of Finance. This was offset by a reduction to the Pay Parity initiative and a small reduction to the cost adjustment rates.

2 This package was then supplied to the Minister of Finance on the same day. We understand the Minister of Finance has indicated he is largely happy with this updated education package; however, Budget Ministers have reserved the right to scale the Regional Response Fund component of the Tomorrow's Schools initiative.

3 There is still an outstanding decision over the specific changes to give effect to the reduction in the Pay Parity initiative. 9(2)(f)(iv)

4 As discussed with your office, we are exploring the potential use of existing underspends in the boarding allowance funding pool to increase boarding allowance rates which have not changed since 2014. Potential options are detailed below.

5 The Minister of Finance is identifying centrally held tagged contingencies that can be closed to get a better sense of the Government's fiscal position. The contingencies affected across Vote Education and Vote Tertiary Education are listed below. The Ministry has not identified any risks associated with closing any of these contingencies.

6 9(2)(f)(iv)

Pay Parity in Early Learning

7 At the 21 March agency meeting you agreed to reduce the Pay Parity in Early Learning initiative to 9(2)(f)(ii) million to accommodate the investment in Māori medium property.

8 This reduction can be achieved through two mechanisms:

a. 9(2)(f)(iv)

b.

9 9(2)(f)(iv)

10

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9(2)(f)(iv)

11 The table below illustrates the changes in the pay steps for education and care services relative to the original bid and relative to the KTCA pay scale:

Option	KTCA scale	Original bid 9(2)(f) total	Option a - 9(2)(f)			Option b - 9(2)(f)		
	Full steps	Partial steps	Partial steps	Difference to original bid	Difference to KTCA	Partial steps	Difference to original bid	Difference to KTCA
Step 7	$70,040	9(2)(f)(iv)	$68,103	9(2)(f)(iv)	-$1,937	9(2)(f)(iv)	9(2)(f)(iv)	9(2)(f)(iv)
Step 8	$75,190		$70,431		-$4,759			
Step 9	$79,413		$72,758		-$6,655			
Step 10	$85,490		$75,230		-$10,260			
Step 11	$90,000		$79,413		-$10,587			

Digital connectivity

12 Since March 2020, the Government has made a series of funding decisions to establish and maintain internet connections for over 60,000 learner households [e.g. CAB-MIN-20-0136 refers]. Most recently, the Cabinet agreed to extend internet subsidies until 30 June 2022, as part of the Ministry of Education's COVID-19 related distance learning package and approved $20 million to be charged as a pre-commitment against the Budget 2022 operating allowance [SWC-21-MIN-0194 at 7, 8 and 11 respectively].

13 Current contractual arrangements with suppliers are due to expire in June 2022 [SWC-21-MIN-0194 at 7]. It is, however, the reality of teaching and learning in a pandemic that a significant number of individual learners and teachers are not able to physically access their classrooms, for a period, due to a range of legitimate reasons. It is expected this will continue to be the case beyond June 2022. As a result, many schools and kura are delivering some form of distance or hybrid learning to ensure that learning can continue, as seamlessly as possible, from home.

14 It is recommended that you progress the attached Cabinet Paper to the Social Wellbeing Committee on 7 April 2022. This seeks agreement to reprioritise savings and projected underspends from the Equitable Digital Access project towards the extension of existing internet connections through to the end of the school year through approval of an in-principle expense transfer.

Boarding allowances

15 As recently discussed with your office, we seek your agreement to increase boarding allowance rates, from 2023, using the underspend of the allowance funding pool. As advised in October 2021 (METIS 1273263 refers), rates have been fixed since 2014 despite hostel fees increasing approximately 3.5% annually. A Budget 2022 bid to increase the allowances was unsuccessful, but there are options within the existing funding pool. This is because demand for allowances has declined, likely due to increasing hostel fees and Covid-19 related factors.

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16 Noting that Ministers wish to make boarding more affordable for those who can most benefit from it, we have set out below a couple of options that can advance this objective within available resources:

a. a one-off increase of up to 9% this may increase the risk of an overspend in 2023/24 as boarding becomes more affordable but we do not anticipate this risk being long-term as fees continue to increase (Ministry preferred option); or

b. a one-off increase of 2.75% to align with the increase in operating grants (the risk of an overspend could develop in later years if the decision was made to continue to increase rates alongside the operating grant).

17 Both of these options allow for volumes to rise 10% above 2021 levels (volumes have declined since the peak levels of 2018 and 2019). Consequently, the risk of overspends is low and can be further managed, if necessary, by adjusting eligibility to prioritise students with the greatest needs. As most applications are lodged by the end of term 1, this would be the best time to review eligibility criteria. The possibility of tightening eligibility may cause some concern amongst the affected population.

18 The Ministry recommends option a, an increase of up to 9%, as this would best option to reduce the gap between hostel fees and allowance rates that has grown since 2014. However, it is likely that neither of these options fully address stakeholder concerns about the adequacy of the allowances. Option a however, makes significantly more progress than a 2.75% increase. A Budget 2023 initiative will be required if these concerns are to be further alleviated.

19 If you wish to increase boarding allowance rates this will need to be agreed by Joint Ministers. We will provide you a letter to the Minister of Finance to this effect.

Closing tagged contingencies

20 The Minister of Finance is looking across Votes to identify tagged contingencies that are no longer needed. The following table details the affected four contingencies across Vote Education and Vote Tertiary Education:

Vote	Contingency	2021/22	2022/23	2023/24	2024/25	2025/26	Total
OPEX ($m)							
Education	Contingency: Funding Uplift for School Transport Contract	5.849	-	-	-	-	**5.849**
Education	Removal of the charter school model	-	3.773	-	-	-	**3.773**
Education	Contingency: Emergency Support for Casual Workers in State and State-integrated Schools and Kura	0.829	-	-	-	-	**0.829**
Tertiary Education	Administration of the Code of Practice for Pastoral Care of Domestic Tertiary Students	0.179	0.179	0.179	0.179	0.179	**0.895**

21 Final decisions on these contingencies sit with the Minister of Finance and we understand his intention is to close them. The Ministry considers that none of these contingencies are now needed, and no risks arise from them being closed.

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Regional Response Fund in Tomorrow's Schools

22 The Minister of Finance's office has indicated the Budget Ministers are largely comfortable with your revised education package but reserve the right to scale the Regional Response Fund aspect of the Tomorrow's Schools initiative.

23 Throughout the Budget process the Treasury and the Minister of Finance have expressed concern over the Regional Response Fund. They have expressed concerns around the lack of specific plans for how this funding will be used and have not deemed it a priority in this Budget round.

24 The Ministry, however, views the flexibility of the fund to be an advantage as it allows rapid operational decisions to be made in response to emerging local issues and ensures funding is in place to implement solutions without the need to come back for centrally mandated solutions or Cabinet approval. Investment in the Regional Response Fund will support locally led approaches to attendance and engagement with schools, including partnerships with iwi and Pacific organisations, to invest in their relationships with chronically absent students and their families and whānau.

25 If Budget Ministers indicate they are inclined to scale the Regional Response Fund, the Ministry suggests you emphasise that this Fund makes up a key component of the Tomorrow's Schools Reform that recommends the Ministry focus on providing direct frontline support for locally led solutions to education issues as they arise, particularly around attendance and engagement. In addition, it may be helpful to refer to the $10 million Flexible Fund set up in last year's Tomorrow's Schools Budget 2021 initiative that has delivered the start-up of construction academies in schools, development of Māori medium pathways, support for local led re-engagement of youth in Wairoa, Ruatoria and Napier, and targeted support for isolated rural schools, among other programmes.

Annexes

Annex 1: Draft Cabinet paper: Building COVID-19 resilience through equitable digital access extending internet connectivity

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