

The Treasury

Budget 2021 Information Release

August 2021

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- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
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Treasury Report: Budget 2021: Education Portfolio Bilateral - 17 March 2021

Date:	12 March 2021	Report No:	T2021/504
		File Number:	SH-4-0

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Discuss the contents of this report at your meeting with the Minister of Education on 17 March.</p> <p>Agree with an option for how to provision for Holidays Act payments.</p>	17 March 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Caitlin Andrews	Analyst, Education and Population Agencies	[39]	n/a (mob) ✓
Nicky Lynch	Manager, Education and Population Agencies	[35]	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Executive Summary

This report provides you with information and advice to support you at your Budget bilateral discussion with Hon Chris Hipkins, Minister of Education, 4 – 4.30 pm on 17 March 2021. It also provides advice and seeks your agreement on how to provision for the Education sector Holidays Act Remediation Payments costs.

After the bilateral in December 2020, the Minister of Education was invited to submit an Education package of [33] total operating (over the forecast period) as a starting point for discussion. The Minister of Education has since submitted a package of [33] **operating and [33] capital.**

Given overall pressure on the allowances, we now consider a package of [33] in operating funding is not likely to be manageable, and we recommend indicating a new expectation. The draft Treasury package you received on 5 March included [33] operating funding and [33] capital funding. We have also provided a medium scenario package of [33] operating funding and [33] capital funding.

We expect that the key areas the Minister may wish to discuss are:

- Manifesto Commitments, in particular ‘ECE - Pay parity’ and ‘Reform of Tomorrow’s Schools’
- funding for the Wānanga sector and Pacific Education initiatives
- the level of Budget 2021 investment for school property.

A further consideration for Education investment this Budget is your expectation for the level of growth in the size of the Ministry of Education. We understand that the submitted Budget package requests funding for [33]

A large proportion of the FTE relates to the Tomorrow’s Schools initiative and the Education Service Agency in particular. You could choose to indicate an expectation that the organisational change is managed in part or in full through existing Ministry resource.

All package options for managing the Education portfolio defer significant costs to future Budgets. This approach is unlikely to be sustainable and we recommend asking the Minister to prioritise the Education Work Programme further and develop a multi-year investment plan. We also recommend for further work on the funding models in early learning and school property specifically in order to manage future pressures effectively.

Recommended Action

We recommend that you:

- a **note** the advice in this report to support you at your upcoming Budget bilateral with the Minister of Education, 4 – 4.30 pm on 17 March 2021
- b **indicate** whether you would like the Treasury to provide your office with a draft letter to communicate decisions and follow up actions after the bilateral discussion

Yes/No

- c **agree** to charge the Education sector Holidays Act Remediation Payments costs (\$270 million total):

EITHER

Option One: (Treasury Recommended) against the Operating Allowance (with no impact on fiscal indicators)

Agree/disagree

OR

Option Two: Against the Operating Balance (with a direct impact on the fiscal indicators)

Agree/disagree

- d **refer** to the Associate Minister of Finance, Hon Dr Megan Woods.

Refer/not referred.

Nicky Lynch
Manager, Education and Population Agencies

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget 2021: Education Portfolio Bilateral - 17 March 2021

Purpose

1. This report informs your conversation with the Minister of Education on the Education Budget package, and recommends an approach to provisioning for the Holidays Act Remediation payments.
2. Attached to this report is an annex outlining the Education portfolio initiatives, and package options.
3. An annotated agenda for the meeting, prepared by the Ministry of Education with our input, will be referred to you from the Minister of Education's office.

Context for the Education Budget

4. The Minister of Education's "Education Work Programme" sets the strategic direction for the sector and is wide-ranging and ambitious. Many of the key reviews and strategies that make up the work programme have now moved to implementation.
5. Several initiatives in the Budget process have a direct focus on some of these challenges. Ministers will need to balance the ambitious scope of the Programme with the capacity of the Ministry and sector to implement change. Key strategic decisions for Ministers involve balancing the desire to implement the Education Work Programme with the capacity of the Ministry and sector to enable this.
6. Due to the scope of Budget 2021 the opportunities for the Minister of Education to submit other potentially transformational initiatives targeted at addressing the core challenges of equity, achievement and wellbeing have been limited. The focus of Budget 2021 on time-critical manifesto commitments and cost pressures has limited opportunities to consider other initiatives that seek to address key challenges in the sector.

Process to Date

7. After the bilateral in December 2020, the Minister of Education was asked to submit an Education package of [33] total operating (over the forecast period) as a starting point for discussion. The invitation letter specified the package should contain critical cost pressures and manifesto commitments only, and critical capital cost pressures over the next 1-2 years. This was intended to encourage prioritisation within the portfolio and draw out non-discretionary costs.
8. The Minister of Education submitted a package of [33] operating (over the forecast period) and [33] capital (the "MoE Package"). This included \$1.45 billion total in operating funding for cost pressures and [33] total in operating funding for manifesto commitments. The Holidays Act remediation initiative was submitted separately (on our advice) as there is a wider question regarding how best to provision for this cost (see para 51 below). A late cost pressure initiative related to depreciation impacts of revaluing the school property portfolio has also been submitted and totals [33] over the forecast period. Including the Holidays Act and depreciation bids, as well as some final Ministry cost revisions, the total operating sought becomes [33]
9. The [33] package invite was based off previous Education allocations and intended to draw out priorities from the Minister. This was not intended to be a final

package suggestion. It is clear now that, considering other pressures across Government, [33] is not likely to be an affordable total package size.

10. We consider that using an allocation was a useful tool, which has largely enabled the avoidance of scope creep or bid inflation. The majority of the bids met the scope of the Budget, and the package is largely comprised of critical cost pressures. However, there were some bids that had built in funding cliffs to meet the [33] envelope, and in some instances we have recommended ongoing funding where the cost pressures are genuine (this is why recommended costs exceed the amount sought in some initiatives).
11. The Treasury draft packages prioritised initiatives further and included [33] in operating funding and [33] in capital funding for the Education Portfolio.¹ This package defers a number of cost pressures and manifesto commitments that you may wish to discuss with the Minister at your meeting.
12. Now that the draft package has been shared with other agencies, we expect the Ministry of Education to provide further advice to the Minister on options for a middle scenario between the MoE and draft Treasury packages. To inform your conversation, we have included an illustration of what a medium scenario could look like, totalling [33] of operating funding and \$467 million of capital funding, based on Vote team assessments.
13. As you are aware however, the allowances are currently very oversubscribed even based on the draft Treasury package. Given wider pressures on allowances, further reductions may be necessary. We have also set out some options below should you need to reduce the Education total further.

Package Scenarios

14. Figure one below shows the make up of the various options, including a visualisation of funding cliffs/late bids submitted. It demonstrates that the majority of bids submitted have been classed as cost pressures, and both Treasury options have reduced the quantum of investment in manifesto commitments.
15. Figure one also includes the Free and Healthy School Lunches programme which was signalled as a Budget priority at the previous bilateral. Even though this is being funded through the CRRF, it could be considered when thinking about the total new investment in the Education sector in 2021.

[33]

¹ Note: the Treasury high and low draft packages each have the same amount for the Education portfolio.

16. A breakdown of the options is provided below, including the benefits and risks with each [33]

MoE Package (all inclusive) ([33] operating, [33] capital)

Description: The Minister's package meets a number of manifesto commitments, is largely comprised of minimum viable options, and has some initiatives with built in funding cliffs. This package has a high amount invested in the school property portfolio.

Pros: This package meets all critical cost pressures in the sector whilst still progressing four Manifesto commitments. It progresses some out of scope but still valuable initiatives (e.g Pacific bilingual immersion, Duffy books, [33] increased funding for Vocational Education, and funding for the wānanga sector).

Cons: This package is unlikely to be manageable under current allowances. Key risks of this package include funding a potentially unachievable amount of capital investment, largely in the school property portfolio. There are also some costly initiatives (e.g Tomorrow's Schools) that seem unlikely the Ministry will be able to spend in full. There is a high number of FTE funded in this package [33]

Note: it is the Vote team's view that there could be a higher value \$2 billion package than what was submitted by the Minister (that would include the full equity index for example)

Medium Scenario ([33] operating, [33] capital)

Description: The Medium Scenario meets a number of manifesto commitments, is exclusively minimum viable options and scaled options, and removes funding cliffs.

Pros: This package includes all in scope cost pressures in the sector to at least some level whilst still progressing four Manifesto commitments. It is able to meet important costs (e.g wānanga funding) but does not compromise delivery of key services.

Cons: This package does not support a number of initiatives that are out of scope but could be valuable and/or contribute to the Māori/Pacific wellbeing objective (Pacific bilingual immersion, Duffy books, [33]). Some scaling options come with risks of delaying delivery or changing the scale of programmes. There is significantly less funding in school property, which would be a manageable level for the Ministry to deliver.

Treasury draft package ([33] operating, [33] capital)

Description: The Treasury draft package meets only a few manifesto commitments, is comprised of minimum viable options and scaled options, and defers funding some cost pressures.

Pros: This package meets the most critical cost pressures in the sector whilst still progressing two Manifesto commitments. This option enables you to better meet pressures across Government.

Cons: This package defers some key cost pressures that play an important role in retaining and engaging vulnerable students in the system (Attendance services, Support for Alternative Education) as well as deferring decisions on the wānanga sector; this deferral has significant risks. It defers some key manifesto commitments that would potentially be a high call on future budgets (Pay Parity in Early Childhood, Student Achievement).

Further scaling options for the package

17. If you need to reduce the Education total further, we suggest the most likely candidates for further deferral or scaling would be:
 - ‘Ensuring the viability of vocational education and training’, currently \$137 million in the draft package (defer to Budget 2022), and
 - ‘Reform of Tomorrow’s Schools’, currently \$171 million in the draft package (options to scale to component parts).
18. Deferring these initiatives would likely increase the already large costs that are expected to come up in Budget 2022 (see below).
19. Beyond this, the scaling choices could involve reducing funding for cost adjustments to operating funding in early learning, schooling or tertiary education (which we understand you prefer to avoid), or not funding some critical cost pressures. This would increase the risk of impacts on core services.
20. We recommend you discuss with the Minister his views on any areas for further scaling, focused on where further reductions could be made with the least negative impacts.

Items for Discussion

You have some key choices to make around timing and scope of investment in the Manifesto commitments.

21. Overall, you have more optionality around the timing and quantum of manifesto commitments than cost pressures. The below table demonstrates the level of progress each package makes towards the total spend committed in the Fiscal Plan. It also articulates the amount that will be deferred to future Budgets in each scenario.

[33]

The key Manifesto initiatives to discuss with the Minister are ECE Pay Parity and Reform of Tomorrow's Schools

Pay parity

22. We understand pay parity is a high priority for the Minister. The manifesto commits to spending \$600 million across three Budgets to work towards pay parity in the early childhood sector. However, the current early childhood funding system is not designed to achieve wage outcomes, and the Ministry does not have a good base of data on providers' financial position to inform judgements about where subsidy rates should be set. There is a material risk that subsidy rates will not be set at the right level, causing unintended consequences.
23. Our view is that it would be preferable to review the funding system before investing significantly. However, doing nothing this year would worsen the problem, as kindergarten pay rates will increase further in July. Our medium scenario includes \$57 million for this initiative, which would enable an increase to subsidy rates for education and care services to enable pay rate increases roughly equivalent to the upcoming change in rates for kindergarten teachers with no prior experience.

Tomorrow's schools

24. The MoE package included [33] to progress the Reform of Tomorrow's Schools. This programme has a number of subcomponents (e.g. Curriculum work programme, Education Service Agency (ESA), network management, and [33]).
25. This is an initiative you could choose to scale further or defer. Further scaling would likely mean slowing down the implementation of some components or reducing the scope of other activities that are more time-sensitive.
26. One of the key judgements you may wish to consider here is the overall size of the Ministry and your level of comfort with further FTE growth. [33]

A large proportion of this relates to the Tomorrow's Schools initiative and the ESA in particular. You could choose to indicate an expectation that the organisational change is managed in part or in full through redeploying existing Ministry resource.

The key cost pressure areas for discussion are the Tertiary Sector and the School Property Portfolio

Vocational Education and Training

27. The Minister has sought a substantial \$279.5 million increase to real-terms Vocational Education and Training (VET) funding rates (in addition to an across-the-board increase linked to inflation).

[33]

29. You may wish to defer funding decisions on VET until next Budget, noting pressures on the sector would continue to grow over the next year and it would delay realising some of the benefits of RoVE.

The Wānanga Sector

30. The Minister has submitted two bids to provide new funding for the wānanga sector at [38] Both bids have been deferred in the Treasury draft package, as they do not meet the definition of a critical cost pressure or a manifesto commitment.

31. [38]

32. A long-term solution is needed to address these issues; the proposed funding would be used on an interim basis whilst long term solutions are progressed. However, progress over the last few years has been slow. It is critical that the Ministry work with the sector to seek enduring solutions to avoid a continued reliance on interim funding arrangements.

[38]

School Property

34. The MoE package includes [33] in capital funding and [33] in operating funding for school property initiatives. We have indicated to the Ministry that this magnitude of funding is unlikely to be realistic given the size of the multi-year capital allowance and other capital pressures.

35. The school property portfolio contains a number of component bids, including the Christchurch School's Rebuild Programme, Land for New Schools, and Legacy Redevelopment Projects. The Medium Scenario and the Treasury draft package are largely in support of one-year funding for these programmes.

36. We consider the property initiative with the most discretion is the National Education Growth Programme (NEGP). The NEGP was provided with \$1.2 billion in capital funding in Budget 19, with the intention for this to support four Budgets worth of investment. To date there has been two drawdowns: Wave 1 in 2019 (\$286.84 million) and Wave 2 in 2020 (\$683.84 million). The recommendation in the draft package to defer further funding is based on the assumption that we would support the amount remaining in contingency (\$229.29 million) being drawn down. There are two key factors in this judgement.

- Providing less funding to the growth plan would slow down progress on adding new capacity. While this is not ideal, and could affect progress towards the goal of 100,000 new places by 2030, critical service failure is unlikely
- We have not seen evidence that gives reassurance that the Ministry could spend and deliver a further increase. The total capital sought for school property in 2021/22 alone [33] would represent an [33] increase to the Ministry's annual departmental capital expenditure since 2019/20. This is a significant intensification of operations, which would require additional investment in the department to manage.

[33]

37. This aligns with the advice from the Capital panel that where investments are not ready, or where there are capacity and capability constraints, they should be deferred.
38. The Ministry of Education has significant concerns with scaling or deferring any of the school property bids, linked to having an uncertain flow of capital with potential inefficiencies and delays stemming from a lack of confidence in the construction sector to take up contracts. Delays to growth projects could mean that the Ministry is unable to meet the near-term demand for student spaces, and delays to redevelopment projects could mean students do not have access to quality learning environments.
39. We continue to see value in working with the Ministry on options for a funding model that could enable potential efficiency benefits from greater certainty over the Ministry's minimum ongoing funding stream. This is likely to become increasingly relevant given that expected programme costs appear unsustainable given the fiscal context.

[33,34]

You may wish to discuss how the package meets the needs of Māori and Pacific learners and equitable learning outcomes

41. The initiatives that make up the package vary in the degree of emphasis on co-design approaches. There is only a focus on the impacts on rangatahi Māori in the new initiatives that seek to change the current system – e.g. the NCEA change programme and the Implementation of the Equity Index.
42. The Minister submitted ^[33] initiatives that explicitly target Māori and Pasifika students, ^[34]
We recommend you encourage the Minister to prioritise successful implementation of existing programmes (e.g Te Hurihanganui) and the use of existing strategies (Ka Hikitia) within the Ministry.

43. Some initiatives removed in the Treasury draft package that focus on Māori and Pacific students have higher proportional representation (Alternative education, Attendance services, support for the wānanga sector). We would recommend these are considered first to address how the package meets the needs of Māori and Pacific students.
44. We believe the 'Supporting Pacific bilingual/immersion education in schooling' initiative is the most implementation ready/highest value out of the targeted Pacific initiatives.

Future Budget pressures

[33]

Underspends

47. In his Budget submission letter of 1 February 2021, the Minister of Education identified \$248.4 million of CRRF underspends to return, largely comprised of two contingencies (Sustaining the Early Learning Network, Critical Funding to Address Supplier Contractual Obligations). You have indicated you wish to confirm these returns.

48. [34]

We recommend you ask the Minister whether any underspends have been identified.

49. We anticipate the Minister will have identified underspends in the following areas:
[34]

51. You may wish to consider using further underspends or fiscally neutral initiatives to manage the pressure on the Education package.

52. We also understand that the Minister may wish to discuss a new fiscally neutral initiative. This initiative intends to provide more targeted support for learners with intensive behavioural needs. The cost would be \$17.7 million across the forecast period and funded entirely from identified savings and reprioritisation opportunities. We have not seen any details of costings or the reprioritisation sources. Should you wish to consider this proposal, we recommend you request the Minister to submit a fiscally neutral Budget bid and we will provide further advice as quickly as possible.

Next Steps - Budget 2021

53. You may wish to indicate to the Minister the overall total level of operating you consider manageable in this portfolio. This approach has worked well to date and may help with conceptualising the trade-offs that will be required.

54. You may also wish to indicate an overall total level of capital investment in the school property portfolio that you consider a reasonable level of delivery for the Ministry. This approach may draw out greater prioritisation between the growth and redevelopment programmes. Alternatively, if you are not comfortable with the risks that were raised for school property by the Ministry, you could agree to a top up of the NEGP contingency (which would impact on allowances). The Ministry has scaling options available.

55. If you wish to reduce the size of the package below the current Treasury draft package, we suggest you ask the Minister to prioritise or find additional scaling options. The Ministry is likely to be better placed than the Treasury to judge the service risks in making additional reductions based off the information we have (beyond the two options identified above).

56. If you set a further allocation for the Minister, it will be important to set clear parameters for what you would like to see in the package. If you proceed with this approach, we could draft a letter confirming decisions and next steps, and reiterate some of the principles highlighted in the original invitation letter (e.g no funding cliffs).

57. Depending on your preference, you could choose whether to consider the Holidays Act remediation payment within an allocation or outside. Either way, we do not think

this initiative should be ‘traded off’ against other initiatives due to the fact there is no discretion around recognising this cost (see further advice below).

Treatment of Holidays Act Remediation

Background

58. At the December Bilateral meeting, you asked officials to work on options for the treatment of the Education Holidays Act Remediation Liability.
59. The Ministry of Education is now at the point of having a reasonable estimate for the majority of the Education Holidays Act Remediation liability.
60. The Ministry has calculated the liability as \$250 million for remediation for schools’ payroll staff^[1] and \$20 million for remediation of Ministry of Education payroll staff. A bid seeking \$277 million to provision for these costs was submitted for consideration at Budget 2021 as part of the wider education “package” (\$270 million for remediation payments and \$7 million for departmental operational costs).

Treatment of the liability

61. There are some aspects of how these costs are treated that you have choice over, and some requirements that must be met:
 - As this portion of the costs can now be reasonably estimated, under accounting standards this means that the liability is required to be recognised. The liability would be recognised as a non-cash expense in the 2020/21 fiscal year, and appropriations would need to be increased as a result.
 - As the expenses relating to the Holidays Act liability will need to be booked in the current fiscal year there will be a direct impact on OBEGAL in 2020/21, as there is no forecast for Budget operating allowances set aside to manage costs in the current year.
 - The initial impact on OBEGAL will be offset over time, however, as there will be less funding available to allocate from the Budget operating allowances over the rest of the forecast period.
 - You do have some choice over how those costs are provisioned for in relation to the allowances, namely:
 - Option 1: charge against the Budget 2021 Operating Allowance.
 - Option 2: let the costs directly impact on fiscal indicators (i.e. outside Budget Allowances).
 - The impact on net core Crown debt will depend on the time at which cash will need to be paid out to settle the liability. This should, however, be fiscally neutral over the forecast period.
62. Our recommendation is that the payroll liability components should be provisioned for in full, within the Budget 2021 operating allowance. The departmental operational costs can be deferred until Budget 2022 or met from baselines. This \$270 million expense has been included in all of the Budget scenarios discussed in this paper.

^[1] The Ministry of Education estimated in 2019 a figure of just over \$84 million for remediation payments for school payroll Holidays Act non-compliance. The Ministry received \$63.4 million of non-departmental funding in Budget 2019 for future Holidays Act remediation costs, supplemented with \$21 million of funding reprioritised from the 2018/19 Ministry baseline.

63. The main argument for treating these costs outside the operating allowance is that this would avoid immediate trade-offs in the short-term against other priorities you may have this Budget, noting that the cash would not actually be disbursed for several years. However, not counting this cost against the allowance would mean there would be an additional adverse impact on OBEGAL in 2020/21 and an additional adverse impact on net core Crown debt as the liability is settled in future years.

[33]

66. We recommend that you indicate to the Minister of Education that you consider this cost should be provisioned for this Budget and note that it has been included in the Treasury draft package. If you wish to indicate a revised Education package total to the Minister, we recommend you are clear about whether this should include or exclude the Holidays Act cost, noting that it is non-discretionary.

Annex: Education Portfolio Budget 2021 Package Comparisons

Index	Initiative Title	Description	Department		Medium Scenario		TSY Draft Package		TSY Comment
			OPEX Total (\$m)	CAPEX Total (\$m)	OPEX Total (\$m)	CAPEX Total (\$m)	OPEX Total (\$m)	CAPEX Total (\$m)	
Pay parity, Tomorrow's Schools, and Vocational Education and Training									
1	Moving towards pay parity in early learning	This Manifesto commitment initiative will provide funding for teacher-led centre-based education and care services to move qualified and certificated teacher pay closer to parity with kindergarten teachers. Over four years, this will provide an additional \$170m to the sector. The initiative will, from 1 Jul 2021, raise the minimum salary attestation requirement for certificated teachers in conjunction with increases to existing funding bands. From 1 Jan 2022, services may opt for a new, higher funding band if they attest to pay certificated teachers with relevant work experience at salary steps above the minimum salary attestation. The initiative seeks contingency funding to manage the flow-on costs to kohanga reo.	[33]	0.144	57.640	0.144	-	-	The medium scenario is the Ministry's MVO, and would fund the review of the funding system, as well as mitigate any pay disparities increasing. See TR for further advice.
2	Reform of the Tomorrow's School System	This initiative begins the reform of our Tomorrow's Schools model, moving towards a networked, responsive and supported education system. Funding is sought to: <ul style="list-style-type: none"> establish the Education Service Agency, including key leadership and support functions, strategic network management, a flexible fund enabling frontline staff to support the sector and [33] and put in place a fit-for-purpose national curriculum with supports across early learning and schooling. This includes updating our national curriculum policy statements, implementing Aotearoa New Zealand histories content, replacing Te Kete Ipurangi, implementing rich records of learning, establishing a Curriculum Centre. 	[33]	54.904	171.772	54.904	171.772	54.904	The medium scenario and TSY package does not fund a \$10m pa flexible fund, and scales the remaining funding to 75%. See TR for further advice.
3	Ensuring the viability of vocational education and training	This initiative provides funding to maintain the viability of the vocational education and training (VET) system. Between 2014 and 2019, general funding rates for VET increased by 2.4%, significantly less than wage costs (16%), CPI (7%) and rates for degree education (11.4%). As a result the VET system is likely to face ongoing financial crisis from around 2023 onwards. This initiative provides a 13.4% increase in baseline VET funding by 2024. The funding will also implement the new unified funding system which is essential to get the benefits from the Reform of Vocational Education. It will better support high quality work-integrated provision, improve equity for learners and ensure we maintain VET in our regions.	279.51	-	-	-	137.462	-	Funding for this initiative could be deferred but the risks of doing so include pressures on the sector continuing to grow and some benefits of the Reform of Vocational Education being delayed.
Wananga initiatives									
4	Addressing urgent Treaty commitments to the Wānanga sector	This initiative will prevent a decline in research capability funding for the wananga sector over the coming years, significantly mitigating the risk of a marked deterioration in the Crown's relationship with the wananga sector and of claims to the Waitangi Tribunal. This is a critical cost pressure as current funding provided to the wananga sector to protect and support the matauranga Māori continuum will otherwise decrease. This funding will maintain current research capability funding and provide equal and ongoing access to stop-gap funding for all three wananga.	32.25	-	32.250	-	-	-	This is the more critical of the two wānanga initiatives, and nil-funding this in particular poses immediate legal, reputational, and relationship risks.
5	[38]	[38]							
Pacific Education Initiatives									
6	Supporting Pacific bilingual/immersion education in schooling	This initiative supports Pacific learners to learn in cultural and linguistic supportive environments by providing the first system-level investment in Pacific bilingual and immersion units in schools to meet persistent operating and resourcing needs, to maintain quality provision. This initiative will purchase targeted funding and support through an additional operational grant component, development of further curriculum resources and a targeted professional learning and development programme on Pacific bilingual and immersion education for teachers. This supports the sustainability of current provision of a highly valued community education pathway across 23 schools, serving approximately 1500 learners.	[33]	0.644	-	-	-	-	This initiative does not meet the scope of this Budget. Parts of this initiative (i.e. the new ops grant category) are likely to be implementation ready if further investment into Pacific Education is desired.
	[33]								
8	Deliver sustained Professional Learning and Development to embed Tapasā	This initiative provides funding to purchase the design and delivery of a targeted, sustained professional learning and development (PLD) programme for teachers and leaders in early learning settings and schools with high numbers of Pacific learners to embed the principles and approach of Tapasā, a cultural competencies framework for teachers and leaders of Pacific learners.	[33]	-	-	-	-	-	This initiative does not meet the scope of this Budget, and there are concerns regarding implementation readiness.
School Property Initiatives									
9	Funding the Next Phase of the National Education Growth Plan	This initiative funds the expansion of the School Property Portfolio in response to the Network demands identified in the National Education Growth Plan (NEGP). Around 46,000 of the 100,000 student places forecast by the NEGP are funded. This bid will fund approximately [33] additional student places required in the school network by 2030. Funding will deliver roll growth classrooms, new schools and expansions. This is urgently required to meet the existing Network pressures and forecast demand caused by population growth and demographic changes across the schooling network.	[33]	-	-	-	-	-	The Ministry has provided additional information to confirm there is demand driving the need for growth funding. However, concerns remain around the delivery capacity of the Ministry and its ability to continue to ramp up operations. See TR for additional advice. Further scaling options exist beyond the submitted amount.
10	Property funding to build and expand schools delivering Māori Medium Education	This initiative will provide funding to address growth in existing schools delivering Māori Medium Education. This includes purchasing land for new schools, funding for roll growth classrooms, building new schools for schools who are currently in leased or temporary accommodation and providing additional funding for Kura projects that have incurred price escalation since their original business case.	14.39	77.070	9.960	53.358	4.518	24.200	The Ministry does not recommend scaling this bid below \$77 million however notes that the TSY recommended amount funds the most critical cost pressures of the bid. We consider the Ministry should be prioritising these schools within the Growth Programme. The scaling options meet cost escalations for kura to different degrees.
11	Purchasing Land for New Schools	This initiative will provide funding to cover land acquisitions and associated site work costs for new schools and expansions. The purchase of land for new schools is fundamental to delivering the National Education Growth Plan and expanding the School Property Portfolio to meet demand across New Zealand. This includes the reimbursement for land already acquired during FY2020/21 [33]. The Ministry requires urgent funding to meet the increasing cost of land (due to land appreciation) and the increasing volume of the school-aged population. [33]	[33]	-	12.640	85.000	12.640	85.000	[33]. We support a one year amount based on actual to date spend. There are risks that this approach will restrict the Ministry's ability to purchase land for schools in fast developing areas (e.g. Papamoa). We believe there is a wider policy decision required for the treatment of purchasing land.
12	Meeting Cost Increases in Legacy Redevelopment Projects	This initiative will provide funding to allow the construction on around legacy redevelopments to start within the next 12-18 months. This cost pressure has developed as a result of inflated market rates and suppliers pricing risk and uncertainty in their tenders, which pushes prices up. This is affecting projects currently in design or at the tender stage. The Ministry is seeking to mitigate perceived risks and increase certainty for suppliers through the National School Redevelopment Programme (NSRP) pipeline of work. This is subject to a successful budget bid and multi-year capital allowance. The legacy projects will generate up to [33] worth of work and jobs and provide students/akonga with access to quality learning facilities.	[33]	-	33.755	150.000	33.755	150.000	[33]. The Ministry has noted risks that only half of the 50 projects will be able to get underway, delaying up to 25 legacy projects.
13	Christchurch Schools Rebuild Programme	This initiative aims to rebuild the network of Christchurch schools following the 2010 and 2011 earthquakes. This will be done by funding the Christchurch Schools' Rebuild (CSR) programme for another year. This funding is required to relieve baseline pressures and meet the increased costs as outlined in the Mid-Point Review. [33]	17.10	56.000	17.100	56.000	17.100	56.000	-
14	Supporting the co-location of Marlborough Boys and Girls Colleges and the relocation of Bohally Intermediate	This initiative will fund the co-location Marlborough Girls' and Boys' Colleges and rebuild and relocate Bohally Intermediate School. When condition issues at the Colleges were identified between 2011 and 2013, the Ministry of Education facilitated consultation with the community to determine the future of the Colleges. The schools and community's preference is to co-locate the Colleges. It will be one of the most significant and transformational projects the Ministry has undertaken, enhancing collaboration and supporting stronger education outcomes for minority groups, whilst delivering high-quality, fit for purpose school infrastructure.	[33]	-	6.300	[33]	6.300	The Ministry submitted a one year funding amount for this initiative. We support the one year funding amount that was in the business case provided later in the process. The Ministry notes there are risks to delivery of designs with this approach.	
15	Funding to Cover Price Increases and Associated Running Costs of School Transport Contracts	This initiative will provide funding to cover the increase in the price for a one-year contract extension following recent School Transport procurement issues (CAB-19-MIN-0623) [33]. Funding will also cover the associated costs to run the contract management and audit requirements of the new contract.	[33]	-	-	-	-	-	The amount sought and TSY Package only fund a single year of new contracts [33]. The medium scenario represents a scaled but ongoing funding option for this pressure.
16	Meeting the Operational Costs of a Growing School Property Portfolio	This initiative will address Education Infrastructure Service' departmental operating shortfall (excluding capital charge, depreciation, and Public Private Partnership schools) [33]. This shortfall is due to a reducing baseline and an increase in non-discretionary property costs in an expanding, multi-billion-dollar portfolio (such as building warrant of fitness, school leasing, insurance, health and safety [33]).	19.62	-	[33]	-	19.622	-	[33]. The medium scenario represents a scaled but ongoing funding option.

Index	Initiative Title	Description	Department		Medium Scenario		TSY Draft Package		TSY Comment
			OPEX Total (\$m)	CAPEX Total (\$m)	OPEX Total (\$m)	CAPEX Total (\$m)	OPEX Total (\$m)	CAPEX Total (\$m)	
17	Improving the property at State-Integrated Schools	This cost pressure bid will provide a one-off funding package to upgrade learning environments at eligible state-integrated schools across New Zealand. This funding will be allocated by the Ministry to the Association of Proprietors of Integrated Schools (APIS) to ensure that it goes towards essential upgrades to improve learning environments. These projects are ready to go in the next 12 months and will stimulate the economy for smaller regional contractors. The Government has stated its intention to provide all schools with quality learning environments by 2030, this includes state-integrated schools. If state-integrated property deteriorates at a faster rate, this could put pressure on the state network and result in cost liabilities further down the line.	52.80	-	-	-	-	-	[33]
Workforce Initiatives									
[38]									
19	Investigating and negotiating Pay Equity Claims	This initiative will fund the resourcing staff and related operational costs – associated with the assessment and negotiation of pay equity claims for education sector workforces. These claims seek to remove gender-based undervaluation in the Education system. The Ministry is legally required to consider these claims, and to negotiate and recommend settlements on behalf of the Crown.	29.35	0.480	[33]	0.480	[33]	1.472	Note: the Ministry provided a revised costing later in the process and this is why the Treasury draft package has a higher number. The medium scenario removes a 10% cost escalation contingency.
20	Maintaining pay rates for NZQA's Specialist Workforce	This initiative will maintain payrates for 4,000 contracted Specialist Workforce employed by NZQA. Comprised of Exam Markers, Exam Developers, Exam Moderators and Material Critiquers, the workforce is necessary for the integrity and operation of the NCEA and Scholarship assessment process and to support quality education assessments in New Zealand.	10.00	-	9.000	-	9.000	-	Medium Scenario and Treasury Package continue current rates rather than increasing the baseline.
Digital Initiatives									
21	Transforming the Education Funding System	This initiative is to complete the new system for the \$8.4b per annum operational funding payments for schools and early learning services administered by the Ministry. A modern resourcing system will transform education funding processes from 30-year-old high-risk systems and manual processes to simple, easy to use and easy to understand, accurate, largely automatic and timely processes, and is a crucial investment for protecting the government's ability to reliably and transparently fund the education sector and to swiftly implement responses to emerging or urgent needs.	[33]	34.738	[33]	34.738	17.507	31.378	We agree that it is essential that the current system is replaced. The scaled option in the Treasury draft package removes a \$5m risk contingency.
22	Database Upgrades for School's Payroll and Holiday's Act Assessment	This initiative provides funding to upgrade the existing Oracle database software used by Education Payroll Limited and fund the programme costs associated with historic non-compliance of the Holiday's Act 2003. These workstreams support the delivery of the Schools Payroll with an annual spend of \$5.6 billion and pays almost 100,000 teachers and support staff every fortnight. The Oracle software is several versions behind with formal vendor support ceasing in December 2020. Recent independent reviews by PricewaterhouseCoopers and Enterprise IT found the upgrade as 'crucial' and 'urgent'. This funding provides a safe pathway to complete the upgrades whilst maintaining the stability of the schools' payroll.	15.00	-	10.000	-	10.000	-	We are confident that \$10m is required to support the ongoing Oracle upgrade for Education Payroll Ltd. The additional \$5m is a one year funding amount for Ministry staff to work on Holidays Act compliance. Other agencies have been required to manage this cost through baselines.
23	Continuing Digital Access for Principals and Teachers	This initiative will provide funding for projected price increases and additional digital devices and licenses to ensure principals and teachers continue to access the digital technology required to provide education services to learners. The Ministry of Education's digital devices and software schemes are oversubscribed as uptake has increased over time without additional funding. Additionally, the software contract is up for renewal in 2021 and initial discussions indicate prices will go up. Without additional funding, the Ministry will have to start declining some schools access to the scheme resulting in a higher cost to schools who fund it themselves and inequitable educational service at schools who cannot or choose not to provide digital technology to their staff.	12.65	-	11.938	-	11.938	-	-
24	Implementing the equity index in schools and kura	This initiative is the first step in implementing the equity index as a replacement for deciles from the 2023 school year. This is a key Government manifesto commitment. The shift from deciles to the equity index is a significant change for the education sector and for the Ministry. Funding from this initiative will cover system changes and other implementation costs that are required to support a smooth transition to the new system from 2023. This provides the foundation for future investment in equity funding to ensure schools and kura are best supported to mitigate the socio-economic barriers faced by learners, the wider school community and whanau.	[33]	4.800	18.048	4.800	18.048	4.800	This amount funds a one year implementation cost [33] Minor difference in numbers is due to the Ministry revising costs later in the process.
Numeracy and Literacy [33] and Attendance Services									
25	Student Achievement: NCEA Pāngarau, Te Reo Mātatini, Numeracy and Literacy	This initiative provides funding for literacy and numeracy interventions for students across the Māori and English medium education pathways, with a focus on key transition points, to support students' opportunities to attain new NCEA co-requisites which will be in place from 2023.	10.00	-	7.460	-	-	-	The scaled option in the medium scenario is based on funding in full for three years only, to support cohorts of students in the run up to the introduction of the NCEA literacy and numeracy requirements in 2023.
[33]									
27	Addressing Demand Increases for Attendance Services	This initiative funds a critical increase in the number of akonga that can be reached by the Attendance Service. Over the last 3 years the numbers of learners with chronic absences has grown by 82%. To maintain levels of support and percentage of akonga supported through the Service, as provided in 2017, an increase of 7,500 places is required. In addition, an underlying increase in funding is required to keep pace with unavoidable inflation cost pressure so that the current service level can be maintained. Without regular attendance at school academic outcomes for these akonga are unlikely to be achieved, and they are more likely than others to be involved with other agencies such as the Police and Oranga Tamariki.	20.87	-	20.873	-	-	-	Addressing attendance is a core challenge for the Education sector and a priority in the Education Work Programme.
Cost Adjustments									
28	Annual cost adjustment for Schools' Operational Grant	This initiative provides funding for schools to purchase staffing, supplies, utilities and other essentials required to continue operating. A cost increase of 1.6% is applied to the existing schools operational grant funding to accommodate the increased price of providing these essentials at existing levels. Schools have few alternative funding sources to cover these increased costs and without this funding the quality of education provided is likely to degrade, lowering educational achievement. The cost adjustments will take effect from 1 January 2022.	84.86	-	84.857	-	63.639	-	The Treasury draft package has a 1.2% increase, in line with CPI forecasts. 1.6% was sought to address the increased costs of ops grant funded teacher salaries associated with recent bargaining settlements.
29	Annual cost Adjustment for maintaining quality in early learning services	This initiative will fund a 1.2% increase to early childhood education (ECE) subsidies and targeted funding that enable service providers to continue delivering quality ECE. This increase is part of the Government's manifesto commitment to fund annual cost adjustments. This funding applies to the rates for all licensed service types (education and care, kindergarten, playcentres, home-based and kohanga reo), and is required to maintain existing levels of quality ECE in the face of rising costs. The initiative will increase the ECE Subsidy for under 2s, ECE Subsidy for 2s and overs, 20 Hours ECE, and Equity Funding from 1 January 2022, and Targeted Funding for Disadvantage from 1 March 2022.	100.69	-	100.688	-	100.688	-	-
30	Annual Cost Adjustment to Tertiary Tuition and Training Subsidies to maintain real value of funding	This initiative provides funding for a 1.2% increase in tertiary education tuition and training subsidies to enable providers to maintain the quality of tuition and training as costs increase over time. The increase in per-student subsidies will support providers to ensure their delivery remains relevant and responsive to students' and employers' needs, especially as they continue to manage the impact of COVID-19 on their operations. The increase strikes a balance between helping providers manage increases in delivery costs with an expectation that providers make effective and efficient investments to maintain quality and sustainability.	110.75	-	110.746	-	110.747	-	-
Other Learning Support									
31	Funding increase for Alternative Education provision	This initiative will strengthen education provision to the most at-risk young people by addressing the inflationary cost-pressure that Alternative Education (AE) has experienced since 2012 (the last time we fully addressed this pressure). This initiative will increase AE funding by \$1.111m per annum (\$4.444m over four years), allowing a per place rate increase of 5%, from \$11,792 to \$12,380 (\$588 per student place). This will stabilise funding for AE while we redesign the system of support for at-risk akonga.	4.44	-	4.444	-	-	-	Deferred in Treasury Draft Package
32	Maintaining interventions for learners who require direct Ministry support	The Ministry is facing challenges associated with both inflation and an expanding work programme. The most concerning of these relates to Interventions for Target Student Groups funding. The Ministry engages directly with learners who require additional support through this output. Without additional funding the Ministry will need to review and change programmes to remain within this baseline which has been eroded in real terms. This is likely to see a reduction in the services the Ministry provides to learners. Related non-departmental funding (Learning Support) doesn't face the same issues where teacher funding is adjusted through bargaining and other programmes are compensated for demand increases.	[33]	-	-	-	-	-	The Medium Scenario and Treasury draft package use a 2% inflationary increase on the core baseline, rather than the total current baseline which includes temporary CRRF funding.
RoVE and NCEA change programmes									
33	Completing the Reform of Vocational Education – Transition and Integration	This initiative provides funding to retain capability, and to build a data interface, to support the transition and integration phase to complete the Government's Reform of Vocational Education (RoVE). This will enable implementation of changes to the Vocational Education and Training system required to deliver the skills and opportunities that learners, employers, industry, and regions need and to support recovery from the impacts of COVID-19. Lack of continued investment in capability to implement RoVE will give rise to significant risks for learners, including Māori, Pacific and disabled learners, employers, industry and regions.	[33]	13.850	26.250	10.800	26.250	10.800	The figure supported in both the Medium Scenario and the Treasury draft package represent a scaled 'minimum viable option'.

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34	NCEA Change Programme – A Strengthened NCEA for All New Zealanders	This initiative provides funding for increased personnel capacity and capability that has been recruited following Cabinet decisions to implement the NCEA Change Programme. This redevelopment of the NCEA qualifications introduces new literacy and numeracy requirements, provides mana orite mo te matauranga Māori in NCEA, replaces the expiring Achievement Standards with coherent and high quality assessment packages, and provides enhanced support for vocational pathways. The strengthened NCEA will support schools and kura to deliver higher quality programmes of learning, the programme will better prepare students for further education and work with flow-on benefits for families and whanau.	92.51	8.149	62.113	7.721	62.113	-	Scaling in the Medium Scenario and TSY draft package assumes the Ministry is able to meet some of the costs from baselines, as in previous years.
Other									
35	Prime Minister's Vocational Excellence Awards	This initiative seeks continuous funding for the Prime Minister's Vocational Excellence award from 2021 onwards. It is given to the top student in a vocational programme of learning in each public secondary school and wharekura in New Zealand as chosen by the school. The Award aims to raise the status of vocational education through celebrating the successes of vocationally aligned students as part of each school's prize giving ceremonies.	4.20	-	4.200	-	-	-	Deferred in Treasury packages
36	Extending the temporary Hardship Fund for Learners in tertiary education for the 2021 calendar year	This initiative will provide funding for a temporary extension of the COVID-19 Hardship Fund for Learners in tertiary education for the 2021 calendar year at a cost of \$10 million. Some learners will have lower incomes, reduced financial support from their families and may face additional costs this year due to the ongoing impacts of COVID-19 that go beyond the current levels of support, or may not be supported by student loans and allowances. This initiative will help students in hardship remain connected to their education provider and engaged in their learning.	10.00	-	-	-	-	-	Deferred in Treasury packages
37	Literacy success and child wellbeing through Reading Together® Te Pānui Ngātahi partnerships and Duffy Books in Homes	This initiative funds an expansion of Reading Together® Te Panui Ngatahi and Duffy Books in Homes to increase children's literacy and educational achievement with focus on equity and Māori, Pacific, migrant, and refugee learners. With capability building for culturally responsive partnership implementation, the Reading Together® Te Panui Ngatahi programmes, provides greater reach to parents, whanau, iwi and communities with effective strategies to support their children learning to read and increased reading enjoyment. Duffy Books in Homes will expand ownership of books at home through children's choice of loved books. The approach to this initiative will be to develop and embed sustainable high-trust partnerships for ongoing improvement in children's wellbeing and education success.	11.89	-	-	-	-	-	This initiative while valuable, does not meet the scope of this Budget.
38	Holiday's Act Remediation Costs	This initiative will fund remediation payments associated with historic non-compliance with the Holidays Act 2003. This bid covers both the Ministry and Schools' payroll workstreams.	277.50	-	270.000	-	270.000	-	The scaling option in Treasury advice removes the departmental FTE component of this bid. \$270m meets accounting requirements.
39	Depreciation Impacts of Revaluing the School Property Portfolio (late initiative)	The Ministry of Education (Ministry) requests approval Crown Revenue funding for reinvestment in the school property portfolio as a result of the June 2020 Portfolio Valuation increase in depreciation expense approved through the October Baseline Update and requests that Cabinet delegate authority to Joint Ministers of Education and Finance for future impacts of changes in the value of the school property portfolio which result from the annual revaluation exercise.	[33]	-	[33]	-	-	-	This bid was submitted late (and so is not in the TSY draft package) and aligns with instructions in your OBU 2020 letter. In principle we are in support of the Ministry receiving funding for depreciation based on revaluation. However, there is optionality regarding your approach to this initiative and we can provide additional advice if required.
Totals (excluding Holidays Act)			[33]						
Totals (including Holidays Act)			[33]						