

The Treasury

Budget 2022 Information Release

August 2022

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- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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Treasury Report: Budget 2022: Revised Education Package

Date:	4 March 2022	Report No:	T2022/453
		File Number:	SH-4-0

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Note the contents of this report ahead of Budget Minsters 4 on Wednesday 9 March 2022.	Monday 7 March 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Matt Amos	Analyst, Communities, Learning and Work	[39]	N/A (mob) ✓
Ramon Quitales	Graduate Analyst, Communities, Learning and Work		N/A (mob)
Ian Moore	Acting Manager, Communities Learning and Work	[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)

Treasury Report: Budget 2022: Revised Education Package

Summary

This report provides you with advice relating to the Minister of Education’s revised package of Education spending initiatives, totalling [33] operating and \$0.747 billion capital over the forecast period.

At [33] operating, Minister Hipkins’ revised package would still need to be scaled by [33] to come within the \$2 billion limit you set during your bilateral discussion with him on 16 February 2022.

We set out in this report three possible areas of scaling that would achieve this:

- [33], [34], [38]
- B: Reduce cost adjustments [33] to 2.3%);
- C: Defer up to [33] of discretionary initiatives.

Scaling any one of the above areas in full would reduce the package to under \$2 billion. However, if you wish to scale across these three areas to reduce the package by [33] the Treasury would recommend scaling chiefly from A and partly from B and C.

In addition to these options, the Treasury has also identified further potential revisions to the package through three key investment opportunities that could offer better value for money and stronger impact:

- Bringing Māori-medium Property back into the package [33];
- Investing more into the Equity Index [33]; and
- [33]

To do so would require scaling beyond [33] and this report includes a ‘Treasury package’ proposal on how that could be achieved.

The report also seeks confirmation of your preferred approach for how to treat school property depreciation funding, to provide clarity on the rest of the Education Budget process going forward. Alongside your earlier preference for a one-year funding amount, the paper covers other scaled options as well as options to balance additional capital funding in the condition of the school property portfolio.

Recommended Action

We recommend that you:

- a **Indicate** your preference for the package you wish to take to Budget Ministers 4

Minister Hipkins' Revised Package [33] or *Treasury's Recommended Package (\$1.999 billion)*

- b **Signal** your preferred treatment to fund the school property depreciation uplift through:

Budget Allowances or Operating Balance
Agree /Disagree. Agree/Disagree.

At an amount of:

Option 1 Option 2 Option 3
\$796 million total or \$398 million total or \$199 million total
Agree/Disagree. Agree / Disagree. Agree / Disagree.

- c **Note** there are options to invest further Capital into the condition of school property

- d **Discuss** this advice with Minister Hipkins

Agree / Disagree.



Ian Moore
Acting Manager
Communities, Learning and Work

04/03/2022

Hon Grant Robertson
Minister of Finance

____/____/____

Treasury Report: Budget 2022: Revised Education Package

Purpose

1. On 8 December 2021, Minister Hipkins submitted an initial package of 52 spending initiatives totalling [33] operating and [33] capital over the forecast period.
2. At your bilateral discussion on 16 February 2022, you directed Minister Hipkins to develop a revised package totalling no more than \$2 billion operating. This is the maximum quantum recommended by Treasury for the education package given current allowances and other Budget priorities.
3. This report provides you with advice relating to a revised Education Budget package, including an alternative Treasury recommended \$2 billion package that would deliver stronger educational and wellbeing outcomes.

Minister Hipkins has made significant progress towards a \$2 billion package

4. Minister Hipkins submitted a revision of the initial package on 2 March 2022. The revised package scaled the number of spending initiatives from 52 to 35 and reduced the total from [33] operating and [33] capital to [33] **operating and \$0.747 billion capital over the forecast period.**
5. Minister Hipkins and the Ministry of Education have gone to considerable efforts to scale their proposed package down. We assess that the revised package has good value for money overall and shows alignment with wellbeing priorities.

[38]

We recommend that the package is scaled by a further [33] _____

6. Although Minister Hipkins has made significant progress towards the \$2 billion limit, the Treasury recommends that the package is scaled by a further [33] meet the limit you set at the bilateral discussion.
7. Minister Hipkins has made difficult trade-offs to get to the current package. It contains high priority initiatives for the sector that generally have strong cases for investment. Although further scaling will require further difficult trade-offs, it will allow other priorities across Government to fit within current allowances.
8. We identify three scaling areas below. Scaling any single area in full on its own would achieve the [33] scaling required, but equally, scaling across these areas could also achieve the same outcome.
9. We consider that the best scaling approach would scale chiefly from Area A and also partly from Areas B and C. This suggested approach is adopted in our recommended \$2 billion package that is discussed in paragraphs 22–50 and fully detailed in Annex 1.

[33], [34], [38]

[33]

[33]

[33]

Scaling Area B: Reduce cost adjustments by [33]

15. While you have asked Minister Hipkins to submit a revised package that includes cost adjustments of [33] for schools¹, early learning services, and tertiary subsidies, you retain the option to reduce these adjustments to 2.3% and bring the revised package below \$2 billion. [33], [34]
16. Cost adjustments for schools should be also considered alongside the significant funding for schools from the *Equity Index* initiative. When combined, these two initiatives represent a total [33] operational grant increase. Paragraphs 31–36 explore the interplay between these bids in more detail and the possibility of increasing the *Equity Index* investment in exchange for a lower general operational grant increase.

Scaling Area C: Do not fund up to [33] of discretionary initiatives

17. While the revised package generally represents good value for money and alignment with wellbeing priorities, there remain a few discretionary initiatives that could be deferred to reduce package size to under \$2 billion, even if there are risks to doing so.
18. For instance, the revised package includes \$73.1 million of further funding for the NCEA Change Programme. This Programme has already received significant funding of \$92.5 million in Budget 21, employs around 140 FTE across MoE and NZQA, and we have not yet seen a convincing rationale for prioritising the full amount sought in the Minister’s revised package.
19. The revised package also includes \$31.7 million to deliver the Literacy & Communication and Mathematics strategies and \$30.2 million for the Te Reo Matatini and Pāngarau strategies. These initiatives are desirable but remain discretionary and deferrable to future budgets, even if doing so carries some risk.
20. The Te Reo Matatini and Pāngarau strategies have not received significant funding in approximately a decade and given wider Government ambitions for Te Reo in our system, further deferring funding risks slowing down implementation and not meeting sector expectations for reform. As such, we see these initiatives – and those focused on Literacy and Mathematics – as a higher priority than the NCEA Change initiative.
21. Three other discretionary initiatives include *Funding to grow Māori Language Education* (\$74.7 million), *Increased funding for Te Kura’s at-risk students* (\$15.5 million), and the ICT transformation component of the *School Transport* initiative [38]

¹ Minister Hipkins’ submitted “[33]” school operational grant cost adjustment is actually a [33] increase as it includes both a general [33] increase and an additional increase for the Special Education Grant component.

Treasury's Recommended \$2 Billion Package

22. Above, we set out how to achieve a \$2 billion package based only on the initiatives included by Minister Hipkins in his revised package. While those recommended changes would meet the minimum requirement of fitting in allowances, further revisions to the package as set out below could offer better value for money and stronger impact, while still remaining below a \$2 billion threshold. We suggest that you may wish to test with Minister Hipkins his response to these further proposals.
23. The three key opportunities to strengthen the package include investing more into the Equity Index than requested by Minister Hipkins, funding the Alternative Education initiative in full, and re-instating the Māori-medium Property bid. These three initiatives represent some of the strongest initiatives submitted by Minister Hipkins in his [33] December package, and we recommend further investment in these areas.
24. These key opportunities are discussed in further detail below (from paragraph 26). A full summary of our recommended \$2 billion package that includes these opportunities is detailed in Annex 1.
25. To fit these opportunities in a \$2 billion package, we first recommend reducing Minister Hipkins' revised [33] billion package by [33] as follows:

Table 2: Recommended Initiatives to Defer/Scale

Initiative	Scale or Defer	Savings	Comment
[38]			
[33]			
Schools Cost Adjustment	Scale (from [33] to 1.5%)	[33]	This initiative also includes an additional increase for the Special Education Grant. When added to the <i>Equity Index</i> initiative, the total operational grant increase is [33], well above inflation. See paragraphs 15–16 and 31–36.
Funding to grow Māori Language Education	Defer	\$74.7 million	We recommend deferring all components of this initiative and re-instating the <i>Māori Medium Property</i> bid in full instead. See paragraphs 26–30 below.
School Transport	Scale	[33]	\$84 million of this initiative is to fund a contractual obligation and a funding cliff. However, [33] funds an ICT transformation that is discretionary and deferrable.
Increased funding for Te Kura's at-risk students	Defer	\$15.5 million	[33] but there is not yet a clear implementation plan. Has deliverability risks and should be deferred to a future Budget after such planning has been completed.

² The overall increase to the operational grant will be [33]. Schools facing higher disadvantage will receive an increase greater than [33] and those facing less disadvantage will receive an increase lower than [33]

NCEA Change Programme – Kaupapa Māori	Scale	\$14.2 million	The Minister's revised package already scales these joint bids, with additional required funding coming from baselines. Further scaling means that the Ministry would need to meet more costs from baselines or lower their ambitions at this time or do a combination of both. See paragraph 18 above.
NCEA Change Programme – NZC delivery model and programme costs	Scale	\$20.1 million	
Teaching, Learning and Assessment for Progress in Literacy and Maths	Scale	\$14.5 million	See paragraph 19 above.
	Total	[33]	

Opportunity 1 – Māori-medium property – bringing back into the package [33]

26. Investing in Māori-medium property is critical to meeting the Government's goals to grow Māori-medium education. This initiative, which is not in Minister Hipkins' revised package, would add capacity where demand for Māori-medium education exceeds supply and purchase land for kura operating on temporary sites.
27. Minister Hipkins' revised package includes the *Māori Language Education* initiative, which is intended to grow Māori-medium education: an investment of \$50m to increase operational grant funding for Māori-immersion kura and \$25m for two discretionary funds run by the Ministry.
28. We recommend scaling or deferring the *Māori Language Education* initiative in order to fund the *Māori-medium property* initiative. We consider building new kura is a more critical step in growing the sector than increasing funding to already established kura.
29. Moreover, the *Equity Index* initiative will significantly increase overall operational grant funding for Māori-medium kura, making the additional increase proposed in the *Māori Language Education* initiative less necessary.
30. As an alternative to investing in *Māori-medium property*, you could suggest that Minister Hipkins directs the Ministry of Education to place greater priority on Māori-medium projects in its *National Education Growth Plan* and school condition investment programmes. Currently the Ministry prioritises building new English-medium schools in high-growth areas and invests relatively little in Māori-medium property.

Opportunity 2 – Equity Index – scaling up by \$84 million

31. The *Equity Index* initiative will increase operational grant funding for schools facing disadvantage and improve how equity resourcing is targeted by replacing the decile system with the more accurate Equity Index. Because it is very well targeted, the Treasury considers this initiative has excellent value for money and alignment with Government priorities. It especially benefits ākonga Māori and Māori-medium kura, for whom deciles underestimate disadvantage.
32. Currently, the *Equity Index* initiative includes an operational grant funding increase of \$75 million per year, to be targeted with the equity index along with existing decile funding. We recommend that this is raised to \$100 million per year. This would cost an additional \$84 million over the forecast period.

33. This increase would need to be matched with an equivalent decrease elsewhere in the package. We recommend doing this by reducing the general schools' operational grant cost adjustment from [33] to 1.5%. When combining the scaled-up *Equity Index* and *cost adjustment* initiatives, the overall operational grant increase would remain well above inflation at [33] ³.
34. This change would strengthen the package by directing more funding to schools facing disadvantage, as opposed to funding a larger across-the-board inflationary increase that would also benefit schools facing lower disadvantage. This targeted approach would have stronger value for money, better impacts on wellbeing and educational outcomes, and better impacts for Māori and Pacific students. However, it would also direct less funding to schools facing low disadvantage, who are still facing inflationary pressures.
35. Schools ranked as significantly more disadvantaged by decile than equity index will lose funding in the shift to the equity index. Deciles overestimate urban disadvantage, so many of the schools facing the largest funding losses are in South Auckland and have a high proportion of Pacific students. By increasing the investment into the Equity Index, the additional funding would be targeted at these schools, significantly reducing the funding losses they will experience. This would provide a much stronger mitigation than an equivalent across-the-board increase, as much of that funding would go to schools facing less disadvantage.
36. We suggest that you discuss this recommendation with Minister Hipkins. The Ministry of Education could then provide further analysis about this proposal.

*Table 3: Investments in school operational grants in the package
(Treasury recommended change shown in blue)*

Initiative	Total cost over forecast period	Annual \$ increase for ops grant	% increase for ops grant	Note
[33] (1.5%) operational grant cost adjustment	[33] \$108m	\$30m	1.8%	*General increase of [33] (1.5%) plus \$5m extra for Special Education Grant makes total increase [33] (1.8%)
Equity Index	\$308m \$392m	\$75m \$100m	4.4% 5.8%	Targeted on disadvantage, particularly benefits ākongā Māori, especially those at Māori-medium kura
Overall operational grant increase	[33] \$500m	\$130m	7.6%	

**Opportunity 3 – [33]
scaling up by [33]**

Education –

37. Alternative Education supports disengaged students in Year 9–12. Supporting these students is critical but the current system is under-resourced and oversubscribed.

³ The overall increase to the operational grant will be 7.6%. Schools facing higher disadvantage will receive an increase greater than 7.6% and those facing less disadvantage will receive an increase lower than 7.6%.

38. In Minister Hipkins' revised package, this initiative has been scaled from [33] to \$4 million. The scaled initiative provides a [33] cost adjustment for existing services, [33]

39. [33]

40. We have included the full *Alternative Education* initiative by scaling a number of other areas of the package, such as deferring the *Tomorrow's Schools* initiative and curriculum initiatives. We consider this change would improve the wellbeing impact of the package and note that the Ministry can reprioritise within baselines to meet short term costs relating to departmental initiatives.

Maintaining the condition of the school property portfolio through depreciation funding and the National School Redevelopment Programme

41. The Minister of Education's letter accompanying the revised package outlines the potential impacts that budget decisions could have on the condition of the Education property portfolio.

42. We agree that investment in school property is worthwhile, given the implementation readiness and flexibility of the programmes. The Ministry of Education estimates that without the depreciation uplift, there would be 128 school projects (40% of the pipeline) that would not be delivered by 2030.

43. As it stands currently, the National School's Redevelopment Programme initiative (additional Capital investment in condition) is not included in the Minister's package.

44. The Minister of Education presented several scaled options for funding the depreciation uplift.

Table 4: Options for investment in the condition of the school property portfolio

Option (funding source)	Operating	Capital	Impact
Depreciation Funding Options			
Funding for depreciation uplift - Option 1 (Budget Allowances or OBEGAL)	\$796m	-	No delays
Funding for depreciation uplift - Option 2 (Budget Allowances or OBEGAL)	\$398m	-	Defers delivery of up to 50% of pipeline projects by 4-5 years
Funding for depreciation uplift - Option 3 (Budget Allowances or OBEGAL)	\$199m	-	Defers delivery of up to 75% of pipeline projects by 4-5 years
Additional Capital Investment in School Property Condition			
National School Redevelopment Programme - NSRP (Budget Allowances through Education Package (opex) and MYCA (capex))	\$17.5-70m	\$100-400m	Accelerates the planning and delivery of 20 schools with poor condition buildings by 3-4 years; and

			Keeps the NSRP on track to meet the target of all schools having quality learning environments by 2030.
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45. At your bilateral meeting you signalled a preference to manage the depreciation uplift cost for one year, outside of operating allowances, which would therefore directly impact on the Operating Balance (option 3).
46. Our first preference remains that all new costs should be interrogated through the budget process and managed via the operating allowance, particularly as an enduring approach to costs of this nature.
47. However, given the pressure your current allowances are under, we understand the rationale for your preference for only providing funding outside of the operating allowances. We recommend that when you are making a final decision on funding you take into consideration the trade-offs between the credibility of the fiscal management approach and implications on investments in school property.
48. In calendar year 2021, there was a reduction in Vote Education appropriations from forecast changes of \$355m total which has been agreed through baseline updates and represented in our fiscal forecasts. You may wish to take this reduction in appropriations into consideration when thinking about managing Education charges against the operating balance. You will receive separate advice on using this return as a part of your overall budget management strategy.
49. Therefore, an option to manage the cost of the condition of the portfolio is to fund a portion of the depreciation cost and a portion of the NSRP. The balance of this investment is ultimately what you consider to be affordable in your operating and capital allowances alongside the operating balance. However, the Ministry notes that a net \$800m total investment is what it considers to be required to continue the condition programme as planned.
50. Currently the NSRP initiative is not in the Treasury package due to the outstanding depreciation funding decision. Further scaling of the package would be required to remain under \$2 billion total operating if it were included. However, we understand that the Ministry could potentially manage the associated operating through its baselines as additional capital for school condition remains a priority.

Next Steps

51. Indicate any changes you wish to be made to Minister Hipkins' current package to be included for Budget Ministers 4 material.
52. Discuss the above with Minister Hipkins.

Annex 1: Treasury's recommended \$2 billion package

	Initiative	MoE package		TSY	TSY package	
		opex	capex	change	opex	capex
Manifesto	Expanding pay parity in early learning	[38]				
	Equity Index	308	5.1	↑	392	5.1
	Continuing the reform of the Tomorrow's Schools system	[33]	0.4	↓	-	-
Cost adjustm.	Cost Adjustment to Tertiary Tuition and Training Subsidies		-		[33]	-
	Cost Adjustment for Early Childhood Education	[33]	-		[33]	-
	Cost adjustment for Schools' Operational Grant	[33]	-	↓	112	-
Critical cost pressure	Funding higher demand for tertiary education and training	[33]	-		[33]	-
	School Transport – baseline update and ICT transformation	[38]				
	Resolving the funding shortfall in Kāhui Ako	[33]	-		[33]	-
	Cybersecurity and Managed Digital Services	[38]				
	EPL Fees Review	10	-		10	-
	Public Private Partnership (PPP) School Expansion	6.5	-		6.5	-
	Unsupported Payroll/HRIS system replacement	3.5	-		3.5	-
	Managing Export Education Levy Revenue Pressure	0.7	-		0.7	-
	Te Pūkenga Capital Investment Fund for high-priority remediation	-	40		-	40
	Curriculum	NCEA Change Programme - NZC programme costs	42.3	-	↓	22.2
NCEA Change Programme – Kaupapa Māori - Supplementary funding		30.8	-	↓	16.6	-
Teaching, Learning and Assessment for Progress in Literacy & Maths		31.7	3.0	↓	17.2	1.7
Creating safe, inclusive schools: Strengthening PB4L		11.2	0.3		11.2	0.3
Te Reo Matatini, Pāngarau and Aromatawai		30.2	0.56		30.2	0.6
Learning support	Redesign of Alternative Education Provision	[33]	-	↑	[33]	-
	Price increase for Incredible years programmes	7.8	-		7.8	-
	Sustain New Zealand Sign Language in education	4.8	0.02		4.8	0.02
Māori Education	Māori Medium Property	-	-	↑	[33]	[33]
	Targeted supports for Māori & Pacific learners at risk of disengaging	7.7	0.02		7.7	0.02
	Iwi / Māori Workforce Support Package	5	0.02		5	0.02
	Growing Māori Medium and Māori language provision	74.65	-	↓	-	-
Other	Pacific bilingual and immersion education - workforce	13.0	-		13.0	-
	Community Learning Hubs for ethnic communities	6.4	0.02		6.4	0.02
	Supporting Schools and Communities to Improve Attendance	6	-		6	-
	Dawn Raids Apology: Maintain value of Pacific scholarships	2.0	-		2.0	-
	Increased funding for Te Kura's at-risk students	15.5	-	↓	-	-
Property	Christchurch Schools' Rebuild Programme	30.3	88		30.3	88
	National Education Growth Plan (NEGP)	29.8	280		29.8	280
	Land Purchases for New Schools	14.9	85		14.9	85
	Furniture and Equipment Grant for School Property	-	219.2		-	219.2
Total for initiatives		[33]	747	↓	1,999	[33]

[38]