

The Treasury

Budget 2021 Information Release

August 2021

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- [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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Reference: T2021/744 SH-4

Date: 23 March 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: None
(if any)

Advice on revised Education Portfolio Budget Package

Purpose

At the Education bilateral on 17 March, you asked the Minister of Education to submit a revised operating package of [33]. The Minister submitted a revised Education Portfolio budget package of [33] operating and [33] capital on the 22 March.

This note provides a short summary and our advice on the revised package to support you to take Budget decisions. You will be receiving a report tomorrow with the draft material for Budget Ministers 3. You could indicate any changes that you wish to make to the revised Education package as part of your feedback on the overall Budget 2021 package in that report. However, we welcome any feedback you may have in the interim on areas where you would like further information.

Summary of Changes

[33] **operating and** [33] **capital has been removed from the package**

There are two key changes from the [33] package the Minister submitted on 29 January.

Reform of Tomorrow's Schools: The Minister has reduced the Tomorrow's Schools bid to [33] operating (down from [33]). This reduction is in line with the expectations you set in the bilateral, and [33]

School Property Portfolio bids: The Minister has reduced the amount sought for school property from [33] to [33]. This package would still represent a significant increase in capital expenditure on the school property programme but is likely to present fewer delivery risks than the previous package. If you consider this revised capital package is not affordable in the context of other calls on the multi-year capital allowance this Budget, we would suggest the most feasible scaling option would be to reduce the investment in the National Education Growth Programme, given this programme has \$229 million capital remaining in a contingency. As we have previously noted, this would mean the Ministry would exhaust the contingency this year and would

lack certainty about future funding beyond that, with potential implications for maintaining an efficient pipeline of projects.

Initiatives outside the revised package

The revised package submission proposes two initiatives be funded from outside of the Education package, totalling [33] operating across the forecast period.

***Holidays Act remediation* ([33] *sought*):**

Following our advice on the Education Budget package (T2021/504) we understand that you are considering charging this cost directly to the operating balance (i.e. outside Budget allowances). If you choose to do so, **we recommend that only the remediation costs estimate [33]) is charged outside Budget allowances.** The remaining \$7.5 million is for departmental funding to continue the work on Holidays Act remediation calculations and compliance. It is a more traditional cost pressure that we consider could be managed within baselines or the Education Budget package.

Depreciation Impacts of Revaluing the School Property Portfolio (\$36 million sought):

This late initiative seeks one year of funding for an increase in depreciation funding associated with the revaluation of the School Property Portfolio in 2020. However, the total cost across the forecast period of this pressure is [33]

We consider that there is a need for additional depreciation funding required for this purpose given the current condition of the portfolio.

[34]

In your response letter at OBU, you noted the issue and indicated that the Minister would need to submit a cost pressure initiative for consideration in Budget 2021, consistent with the process that other Votes follow, if an alternative solution was not found before then. No solution has been identified since then, so we requested the Ministry submit a Budget bid to resolve the issue.

Charging this initiative within or outside allowances can be argued either way, and ultimately it will come down to what you consider is affordable. Charging this pressure within allowances brings the treatment in line with that of other Votes and we consider the immediate one-year pressure can be managed within the operating allowance or through the Ministry's baselines. However, charging this pressure outside allowances is consistent with previous treatment of the Education portfolio for at least the past decade, and would provide an opportunity to address the full [33] now rather than defer some of the pressure to a future funding round.

However, this issue will re-emerge when there is another revaluation (at OBU 2021).
[33]

Fiscally Neutral initiative

The revised package includes a new fiscally neutral initiative: ***Intensive support for primary students with wellbeing and behavioural needs***. The initiative would respond to concerns raised by the education sector recently about increasing incidents of severe behaviour in schools. We have had limited information on the initiative but understand it would focus on intensive support for Year 3-8 students with wellbeing and behavioural needs who are at risk of exclusion from mainstream settings.

This initiative costs \$17.728 million operating across the forecast period and is proposed to be funded from reprioritised baseline funding. The proposal represents a significant policy change (as it funds a new programme and funding for two current programmes will cease). This will need to be approved by Cabinet and it is appropriate to consider this alongside Budget initiatives.

[34]

Options for further scaling

If the revised package does not fit within the operating allowance, the following could be options for further scaling/deferral if required:

Package ID	CFIS ID	Initiative name	Amount sought (\$m)	Scaling option (\$m)	Comment
36	13358	Extending the temporary Hardship Fund for Learners in tertiary education	10	0	A Cabinet paper has been lodged to fund this initiative for the 2021 calendar year from existing baselines. If agreed, this would remove it from the package.
1	13363	Moving towards pay parity in early learning	192.5	57.6	Using the Minister's MVO for Pay Parity of \$57.6m could remove \$134.9m from the package. This option still progresses the manifesto commitment, while allowing time for MoE to review funding levers in place.
17	13307	Improving the Property at State-Integrated Schools	52.8	0	[33] It is likely that costs can be met through a future Budget if required.
35	13277	Prime Minister's Vocational Excellence Award	4.2	0	These initiatives do not meet the scope of the current Budget and could be deferred to a future Budget.
[33]				0	
[33]				0	
8	13352	Deliver sustained Professional Learning and Development to embed Tapasā	[33]	0	
Total				57.6	Net reduction of package: [33]

Note: Any scaling of capital initiatives will also have a corresponding scaling effect on the associated operating costs.

Next steps

If you would like to put forward any changes to the Minister's revised package, we recommend you indicate these in the Treasury Report you will receive tomorrow on the Budget package ahead of Budget Ministers 3.

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