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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget 2024 Bilateral: Hon Erica Stanford (Education) and Hon Penny Simmonds (Tertiary Education and Skills)

Date:	15 March 2023	**Report No:**	T2024/687
		File Number:	SH-4-0-10

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Discuss** the contents of this report with Hon Erica Stanford (Education) and Hon Penny Simmonds (Tertiary Education and Skills) at 5pm on Tuesday 19 March 2024.	5pm, Tuesday 19 March 2024

Contact for telephone discussion (if required)

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

Minister's Office actions

Return the signed report to Treasury. If agreed, **refer** a copy of this report to Hon Erica Stanford (Education) and Hon Penny Simmonds (Tertiary Education and Skills).

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: Budget 2024 Bilateral: Hon Erica Stanford (Education) and Hon Penny Simmonds (Tertiary Education and Skills)

Executive Summary

This report provides you with advice ahead of your meeting with Hon Erica Stanford (Education) and Hon Penny Simmonds (Tertiary Education and Skills) at 5pm on Tuesday 19 March to discuss the Budget 2024 Education package. We have provided a suggested agenda on page four of this report to support your discussion, focused on: viability and risks of reprioritisation from non-departmental spend; targeted policy savings in Vote Tertiary Education; the approach to funding manifesto commitments, and; priority areas for further funding. The body of this report is structured around these four key areas.

The package is focused on frontline cost pressures and key manifesto initiatives…

The Education and Tertiary combined new spending and cost pressure package includes [33] and [38] in operating and $650.193m in capital funding (not including savings and reprioritisation).[1] Spending is focussed on initiatives that support Government manifesto commitments, maintain frontline services, and meet legislative obligations for the Ministry of Education (MoE).

…and contains significant reprioritisation, including non-departmental spend

The Budget 2024 invitation letter required that MoE put forward reprioritisation options to offset up to 50% of the value of its cost pressures. The package includes savings and reprioritisation of [33] and [38] in operating and $340.803m in capital to help offset costs to the Crown for the Education package and broader Budget 2024 investments.

Given the scale of reprioritisation needed to offset cost pressures, options put forward include non-departmental spend, meaning frontline educational services are impacted (for example, the Laptops for Teachers programme and [33] You may wish to use this meeting to discuss these initiatives and risks of reprioritising funding away from them (we provide further advice on pages [6-8]).

If you decide to invest further in Education, there are choices about where to focus

We understand at the Budget Ministers 2 meeting, you made an initial adjustment to the Treasury recommended package to increase funding for Education in line with a 75% funded cost pressure package (with 25% of the package offset by reprioritisation and scaling). This is a funding increase of [33] and [38] total over the forecast period. We are providing further advice for Budget Ministers 3 on how best to manage the Budget package within allowances.

You are still to make decisions about which specific initiatives in the Education package should be increased by this additional investment. On top of the base Treasury package, you have options including using any additional funding to reduce the amount of reprioritisation to enable the continuation of higher-value non-departmental programmes.

Any additional funding could also focus on (in order of Treasury's recommended priority): meeting other critical frontline cost pressures [38] further increases to operating grants, and; depreciation funding to support property maintenance. While these initiatives each provide strong value for money, you have choices on what (if any) additional funding you wish to provide, noting that any additional education investment presents trade-offs for your wider Budget 2024 package.

[1] Note that all figures in this report are across the forecast period.

We also seek your direction on the Apprenticeship Boost Initiative and student loan treatment

This briefing also provides additional advice on two distinct Tertiary matters which we do not expect will be subjects of the bilateral discussion, but on which we seek your direction ahead of Budget Ministers 3:

- your preferred approach to scaling the Apprenticeship Boost Initiative, and
- the fiscal management approach for the operating impacts from student loans; in particular, whether they impact on Budget allowances or the operating balance before gains and losses (OBEGAL).

This paper also includes the following appendices for information: a summary of your Education capital package; costing estimates for scaled options for the Apprenticeship Boost Initiative; and a line by line of initiatives in the package.

Recommended Action

We recommend that you:

a **discuss** the contents of this report with Hon Erica Stanford (Education) and Hon Penny Simmonds (Tertiary Education and Skills) at 5pm on Tuesday 19 March 2024

b **indicate** your preferred option for the design of the ongoing Apprenticeship Boost Initiative, to be confirmed at Budget Ministers 3, either:

i. targeted to sectors as in the Minister of Tertiary Education's preferred option but limited to first-year apprentices only (Treasury preferred)

Agree / disagree

ii. other option (please indicate)

Agree / disagree

c **agree** to the fiscal management approach for the operating impacts from student loans; in particular, that they should impact on the operating balance before gains and losses (OBEGAL) and not be counted against Budget allowances

Agree / disagree.

d **refer** a copy of this report to Hon Erica Stanford (Education) and Hon Penny Simmonds (Tertiary Education and Skills) to inform your discussion.

Refer / not referred.

Ian Moore
Manager (Acting), Communities Learning and Work

Hon Nicola Willis
Minister of Finance
_____/_____/_______

Proposed Agenda

1. We recommend focussing your discussion on the key points below. The remainder of this report is also structured around these four key items, and provides potential discussion points under the main headers.

Item 1: Savings and reprioritisation initiatives

- **Item 1A:** Viability and risks of reprioritisation from non-departmental spend.
- **Item 1B:** Targeted policy savings in Vote Tertiary Education.

Item 2: Funding within the Education Portfolio

- **Item 2A:** Approach to manifesto commitments, particularly: structured literacy, Ka Ora, Ka Ako | Healthy School Lunches, and Partnership Schools.
- **Item 2B:** Priority areas for further funding.

2. This briefing also provides additional advice on two Tertiary matters (options for the Apprenticeship Boost Initiative, and the fiscal treatment of student loans). We do not expect these will be subjects of the bilateral discussion, but we seek your direction on these here so that your preferences can be reflected in the package ahead of Budget Ministers 3.

Item 1: Savings and Reprioritisation Initiatives

Key discussion points:

- MoE has met its baseline savings target, including contributions from the Education Crown entities.
- MoE's submitted savings will be subject to an Independent Rapid Review (IRR) to determine whether these are credible, and whether further savings can be achieved.

Ministry of Education Initial Baseline Exercise

3. The Ministry of Education (MoE) has met its initial baseline exercise target of $73.6 million per annum. These savings have been found through reducing departmental back-office spend in areas not aligned with the Government's priorities, reducing contractors and consultants, cross-organisational efficiencies, and finding savings through education Crown entities including the Tertiary Education Commission (TEC), Education New Zealand (ENZ), and Education Payroll Limited (EPL). We note TEC has since provided additional savings ($2.480m) meaning MoE has now exceeded its overall target.

4. We consider that the Ministry's plan for managing within baselines is credible, though we note most proposals require further consultation with staff, which means there is a risk savings may not materialise or create future costs. The Minister of Education has directed MoE to undertake expenditure reviews to improve effectiveness and efficiency

beyond the savings target in the first half of 2024, which will help to mitigate this. We note that MoE's submitted savings will be subject to an Independent Rapid Review (IRR) to determine whether these are credible, and whether further savings can be achieved. The IRR will report back in early April to feed into final Budget 2024 decisions.

Ministry of Education Reprioritisation Exercise

5. Your Budget 2024 invitation letter set out your expectation that MoE's Budget submission should include options to offset 25% and 50% of its total submitted cost pressures. The Treasury, in consultation with your office, later agreed that MoE was also able to provide options to scale the submitted cost pressure initiatives to contribute toward the 25% and 50% offsets. This allows Ministers greater flexibility to trade-off between reprioritisation options and invited cost pressures.

6. In accordance with this, a significant reprioritisation package totalling $650.881m in operating funding has been submitted across Votes Education and Tertiary Education to offset funding requests for cost pressures.[2] The current Treasury package supports $469.147m of this reprioritisation based on judgements of the relative risks of reprioritisation in comparison to the fiscal benefits to the Crown (Refer Annex C for further information on [33]

Item 1A: Viability and risks of reprioritisation from non-departmental spend

Key discussion points:

- You may wish to discuss consider the implications of reprioritisation options across Votes Education and Tertiary relating to non-departmental expenditure with frontline impacts (for example, laptops for teachers, [33]
- Several reprioritisation initiatives relate to Māori education programmes, which may have a cumulative impact on educational outcomes for Māori. You may wish to discuss Education Ministers' priorities for improving Māori educational outcomes in light of this.

Viability and risks in Vote Education

7. Our recommended Vote Education savings package offsets 58% of cost pressures through reprioritisation and scaling. Reaching this quantum has required challenging trade-offs. You may wish to discuss the following initiatives at this meeting which have been included in the package in order to ensure affordability, but are higher value and popular programmes, such as:

[2] Note the Minister of Education has lodged a Cabinet paper to rephase the NCEA Change Programme, [33]

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
Laptops for Teachers	($2.000m)	*0*	*Support*	We support this reprioritisation initiative as it finds cost efficiencies within an existing programme. However, there is a risk that this will reduce the access to devices for teachers, which could compromise their ability to support students and the Government's goal to improve academic achievement. As a result, we consider this initiative would be a priority for funding if Ministers wished to increase funding to the Education package.
Creatives in Schools	($12.772m)	*0*	*Support*	We support this reprioritisation initiative as it provides savings without impacting core educational services. However, the Ministry have advised that the programme has generally high uptake of participants (approximately 28,000 students in 2023). Given the high uptake of the programme which is indicative of popularity and value, we consider this initiative would be a priority for funding if Ministers wished to increase funding to the Education package.

8. There are other reprioritisation options which we currently support given the lack of compelling evidence around their targeting and value for money. However, they do give rise to difficult policy choices if removed, which are outlined below. We note also that the Minister of Education's Budget submission letter indicated that [33]

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
[33]				
Early Childhood – Targeted Assistance for Participation	[33]	*0*	*Support*	We support this reprioritisation initiative, as the programme is consistently underspent. However, the Ministry have advised that these underspends may be due to restrictive funding settings for this programme. If Ministers wished, you could seek to reform the policy settings for the programme to improve uptake instead of reprioritising this funding.

Viability and risks in Vote Tertiary Education

9. Our recommended Vote Tertiary Education savings package offsets 45% of cost pressures through reprioritisation and scaling, as well as providing additional savings to cover the quantum set for the Workforce Development Councils in the fiscal plan. MoE has also provided targeted savings through student loan initiatives and reducing the cost of Fees Free.

10. We have supported all Tertiary reprioritisation and savings initiatives, and these have been included in the BM2 package. However, as above, there are high-risk reprioritisation initiatives that you may wish to discuss with the Minister for Tertiary Education and Skills. These initiatives include high-value and popular programmes, where closure may result into flow-on cost pressures for similar initiatives.

Title	Draft package		Treasury recommendation and comment
	Total Operating ($m)	Total Capital ($m)	
[33]			

Viability and risks of reprioritising Māori education initiatives in Votes Education and Tertiary Education

11. We note that several reprioritisation initiatives relate specifically to Māori education. In addition to [33] other initiatives listed below are also included in the package for reprioritisation. Reprioritising these initiatives is likely to have a cumulative impact on educational outcomes for Māori students. You may wish to discuss with the Minister of Education and Minister for Tertiary Education and Skills their priorities for improving Māori educational outcomes. We note key qualifications data shows a lower average level of qualifications for Māori students compared with other school leavers (75%) alongside a recent decline in Māori students' attainment (in 2022, 58.6% of Māori school leavers attained NCEA Level 2 or above, which was a decrease of 5.1 percentage points from 2021).[4]

[33]

[4] Ministry of Education, School leavers with NCEA Level 2 or above. July 2023: Indicator-NCEA-Level-2-or-Above-2022_v6_FINAL.pdf (educationcounts.govt.nz)

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
Partnering to strengthen Māori education	($4.092m)	*0*	*Support*	We support this reprioritisation proposal, as it partly comes from the non-essential back-office functions by disestablishing Te Pae Roa, the Ministerial Advisory group and Secretariat for Kaupapa Māori and Māori Medium Education pathways. The initiative signals that other programmes will need to be stopped or scaled to achieve the savings but due to the early stage of work Treasury has not had visibility of any details. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Te Kawa Matakura	($21.950m)	*0*	*Support*	We support this reprioritisation proposal, as it comes from a programme that does not align with the Government's priorities. This initiative was intended to enhance the education system's ability to support ākonga Māori to gain qualifications and enjoy educational success as Māori. However, implementation challenges and relatively low up-take indicates that it was likely not achieving that intent. No new contracts for services have been developed, so the programme ceases with minimal disruption. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
[33]				

Agenda Item 1B: Targeted policy savings in Vote Tertiary Education

Key discussion points:

- Savings from student loans are relatively low in quantum, and you will receive further advice on this ahead of Budget Ministers 3. We understand Associate Ministers of Finance are meeting with the Minister for Tertiary Education and Skills are meeting separately on 18 March to discuss options for the future of the Fees Free programme.

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
Increasing the Student Loan Scheme overseas interest formula by 1% for 5 years	(6.946)	*0*	*Support*	We support this initiative but note it is expected to have a very marginal fiscal impact on the operating balance and savings will be secondary to the related Vote Revenue increased compliance initiative. [33]

				[33] We recommend savings from student loans do not impact on the Budget allowance but flow through to OBEGAL.
Fees Free – Replacing First-Year with Final-Year Fees Free	(770.000)	*0*	*Support scaled*	We recommend that the Fees Free scheme is closed rather than shifted to Final Year as in the National – NZ First coalition agreement, and the savings are scaled up to the total funding allocated to the Fees Free programme. The savings in the BM2 package reflect offsetting student loan expenditure. We recommend the student loan impacts are not counted against the Budget allowance but flow to OBEGAL, as discussed later in this report. Without the student loan offset, savings would be $1139m over the forecast period. On 18 March 2024, the Associate Ministers of Finance are meeting with the Minister for Tertiary Education and Skills to discuss options for this initiative which include closing the programme, further scaling, or a replacement programme to encourage access to tertiary education. You have received a copy of this advice and the Minister for Tertiary Education and Skills should update you on this discussion.

Item 2: New Funding in the Education Portfolio

Key discussion points:

- [33] and [38]
- You may wish to seek Education Ministers' views on their top priorities for new funding, and the key benefits and risks of funding (or not funding) those priorities.

Cost Pressure funding for Vote Education and Vote Tertiary Education

12. The Education cost pressure package (across Votes Education and Tertiary) includes [33] in operating funding. Initiatives are focussed on spending that helps to maintain frontline services and meet MoE's legislative obligations.

13. Within the Education cost pressure package, there are four key areas of spend:

[33] and [38]

[33] and [38]

Cost adjustments for schools' operational grants and early childhood education (ECE) subsidies – IDs 15707 and 15730 - $328.851m OPEX recommended

- These initiatives provide a 2.5% cost adjustment for schools' operational grants and a 1.5% cost adjustment for ECE subsidies in comparison to predicted CPI of 2.5%. This funding also includes a 3% adjustment for components of the schools' operational grant that are targeted to schools facing greater socioeconomic barriers or in isolated areas.

- The lower recommended adjustment for ECE is in response to Cabinet's retention of the Budget 2023 $373.189m uplift to 20 Hours ECE subsidies, which effectively means ECE providers have recently received a subsidy increase. Additionally, it recognises the lack of visibility Government has over the current impact of ECE subsidy increases. Work on the Ministry for Regulation's review of system settings and the FamilyBoost policy will improve Government understanding of the ECE sector.

- Notwithstanding the uncertainty around impacts of Government subsidies in the ECE sector, we consider investing in operating grants is generally high value for money, as they directly address critical frontline costs of education provision, and we consider providers are well-placed to make choices about how to administer these funds. Higher cost adjustments would reduce the risk of increases in ECE fees for parents, or decreases in service provision in schools, and help to reclaim the real value of grants which have not kept pace with CPI in recent years (e.g. schools' adjustments have increased at an average annual growth rate of 2.14% compared to CPI of 3.55% over the last 6 years).

Additional funding for school maintenance and depreciation expenses – ID 15721 - $580m OPEX recommended

- This initiative provides funding to maintain the existing school property portfolio. While a significant level of funding is recommended, this is intended to make up for depreciation expenses not being fully funded for multiple previous Budgets, leading to an unfunded amount of over $2 billion. Providing significant funding for depreciation is a high value-for-money investment, as it will allow MoE to undertake critical maintenance work on schools, and will help to reduce future costs from long-term damage.

<u>Managing Tertiary Education and Training System Pressures: Increased Subsides and Fees</u> – IDs 15731 and 15735 - $322.398m OPEX recommended

- These initiatives provide funding for a 2.5% cost adjustment for Tertiary Education Subsidies, and funding to support a 6% annual maximum fee movement (AMFM) for student fees following lower increases in recent years. The cost of the AMFM initiative ($56.076m) is due to the impact on student loan borrowing which we recommend does not impact on the Budget allowance.

Agenda Item 2A: Approach to Manifesto Commitments

Key discussion points:

- Further work is underway by MoE to finalise the proposed approach to Ka Ora, Ka Ako | Healthy School Lunches and Partnership Schools. The current package includes scaled funding for both initiatives, recognising Ministers may wish to revisit the funding levels and approach following further advice.
- You may wish to reiterate your expectation that any additional costs of establishing a Departmental Agency to oversee Partnership schools are to be met through baselines or traded off against the number of new and converting partnership schools the available funding would support.
- The package also includes scaled funding for Structured Literacy, which considers the significant Professional Learning & Development funding already available within the MoE baseline. The Minister of Education may see this as a priority for full funding, but we consider our scaled option balances providing greater support with the need to fund other priorities.
- You may wish to discuss with the Minister for Tertiary Education and Skills the options being considered for reducing the costs of disestablishing Te Pūkenga, and views on the continuation of the Apprenticeship Boost Initiative.

Vote Education manifesto commitments

14. Another key area for Ministerial decisions is how best to progress manifesto commitments within a constrained fiscal context, and taking into account the relatively early stage of policy development in the case of Partnership Schools. New spending in the package is focussed on progressing urgent Government priorities and addressing programmes with time-limited funding. The current Education new spending package includes [33] and [38] in operating funding and $55.383m in capital funding for key Government manifesto and coalition agreement commitments. Likely priority areas for Education Ministers to discuss are outlined below.

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
Ka Ora, Ka Ako | Healthy School Lunches Programme	$827.701m	*$3.400*	*Support scaled*	The Government has publicly committed to continuing Ka Ora Ka Ako, and reviewing the efficiency of the programme. This review is currently underway and is being overseen by the Associate Minister of Education. For the purposes of the BM2 Budget package, we have included ongoing funding for a scaled version of the programme. This would cover the 20% of students which are facing the highest socioeconomic barriers (opposed to 27% under the current approach), as identified by the Equity Index. However, we understand that a new approach is likely to be developed through MoE's review for further consideration by Cabinet in April. We will provide further advice based on the Cabinet paper once received.
Partnership Schools	$137.090m	*0*	*Support scaled*	We support providing scaled funding for this initiative to balance support for the partnership school model with uncertainty around key design choices. Our proposed approach would provide funding for up to 50 schools (based on MoE's current costing assumptions) to convert to the partnership school model by the end of 2026. We recommend holding ongoing funding from 2025/26 in contingency. The current package does not include additional funding for FTEs (MoE estimated it would need around 11 additional FTE per annum). Decisions are still to be made on the potential establishment of a Departmental Agency. You may wish to reiterate at your bilateral your expectation that any additional costs of establishing a Departmental Agency are to be met through baselines or traded off against the number of new and converting partnership schools the available funding would support, in the first instance. However, the cumulative impact of the savings and reprioritisation options that have been put forward by MoE through the Budget 2024 process to date mean that there is little remaining capacity to absorb new operating costs at this time. We note also that at this stage, it is not clear that the benefits of a Departmental Agency would outweigh the costs.
Structured Approaches to Literacy	$52.304m	*0*	*Support scaled*	We support providing scaled funding for this initiative in line with MoE's minimum viable option. This will provide immediate support for teachers to deliver a structured literacy approach for students in years 0-3, but also allows for an opportunity for MoE to review its existing $140m per annum in Professional Learning and Development spending to consider if funding could be reprioritised to support this programme. This is a priority programme for the Minister of Education, who may wish to query whether full funding can instead be provided in Budget 2024. However, we consider that our scaled option balances providing greater support for the 75% of schools not currently delivering structured literacy, with the need to fund other priorities.

Vote Tertiary Education manifesto commitments

15. The Vote Tertiary Education new spending package includes [38] operating funding to support the Government's Manifesto Commitments.

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
Te Pūkenga Disestablishment and Transition	[38]	*0*	*Support*	[33] As outlined in previous advice on the proposed changes to the system [T2024/301 and T2024/641 refer], we expect further costs will be faced to ensure the institutions that replace Te Pūkenga are financially viable and fund other functions (e.g., standard setting) in the system. There are opportunities to reduce these costs, but this requires trade-offs between costs and the desired changes, outcomes or timelines. For example, the more quickly changes are made and the more substantive the changes are (i.e., the further they shift the system away from its current structure and functions), the more the reforms are likely to cost both immediately and longer term. We recommend you discuss what options are being considered with the Minister for Tertiary Education and Skills. The Minister for Tertiary Education and Skills is taking papers to Cabinet seeking policy decisions in March and April on the future of the system, and decisions taken will have a direct impact on the costs for Budget 2024 and future Budgets.
Apprenticeship Boost Scheme	72.853	*0*	*Support scaled*	We did not support the continuation of this initiative, however in response to Ministerial feedback, a significantly scaled quantum for the Apprenticeship Boost Initiative is included in the BM2 package. Since BM2, the Ministry of Education have provided more detailed scaling options and costings which we provide further detail on below. **Decisions are needed on your preferred option for policy design for the scheme.**

Agenda Item 2B: Priority Areas for Further Funding

Key discussion points:

- You have indicated that you may wish to invest further funding into the Education package.
- We would recommend focusing additional funding on continued support for higher-value existing programmes and increasing funding for core educational frontline services (for example, increasing cost adjustments for operational grants).
- You may wish to discuss Education Ministers' priorities for additional funding and note Treasury's recommended areas of focus.

16. We understand that you have made an initial adjustment to the BM 2 package to increase funding for the Education package in line with a 75% funded cost pressure package. We consider the highest priority areas for further investment are those outlined below, and recommend you discuss these with the Minister of Education and Minister for Tertiary Education and Skills. We are providing further advice for Budget Ministers 3 on how best to manage the Budget package within allowances. You have choices on what (if any) additional funding you wish to provide, noting that any additional education investment presents trade-offs for your wider Budget 2024 package.

- <u>Avoiding progressing higher-value non-departmental reprioritisation initiatives</u> such as [33] Creatives in Schools, Laptops in Schools or [33]
  Avoiding reprioritising these initiatives which impact frontline services and are currently in the BM2 package would have an additional fiscal cost of $95.870m.

- [33] and [38]

- <u>Increasing cost adjustments for education providers.</u> Providing further funding for cost adjustments would help to offset the decreased real value of education funding, as cost adjustments have not kept pace with inflation in recent years. As abovementioned, we consider that investment in cost adjustments is a generally high value for money investment. Increasing cost adjustments for ECE, schools and Tertiary providers by a further 0.5% would have a fiscal cost of $139.041m.

- <u>Increasing funding for school property maintenance.</u> Depreciation expenses have not been fully funded for multiple Budgets, which undermines MoE's ability to maintain the school property portfolio. Providing scaled additional funding for depreciation would increase the amount of maintenance work MoE could undertake, reducing the risk of future costs from long-term damage.

Further Decisions on the Education Package:

We are seeking your view on a preferred option for the design of a heavily scaled Apprenticeship Boost Initiative (ID 15738)

17. Budget Ministers requested heavily scaled options for the continuation of the Apprenticeship Boost Initiative (ABI), which the Ministry of Education have provided at

Appendix B. The ABI can be scaled from Ministry of Education's Budget submission of $65m per annum, by:

- reducing the number of sectors that are eligible for support
- changing eligibility to be either for first-year or second-year apprentices, not both
- reducing the current $500 per month payment (the Ministry has provided costings for a reduction to $300).

18. If Ministers wish to proceed with a heavily scaled version of the ABI, we consider that the best option,[5] at an ongoing cost of $29.223m per annum, is the following:

    - target to priority sectors: the Ministry have identified priority sectors to scale the scheme to 81% of apprentices.[6] Further targeting by sector would reduce the breadth of the scheme as well as create a risk of arbitrary distinctions being drawn between sectors, as well as additional complexity to administer the scheme.
    - scale support to first-year apprenticeships only: maintaining support for first year apprentices supports the objective of ABI to increase the number of placements made available, and assumes that second-year apprentices should be less of a financial burden to employers.
    - maintain $500 payments: in the absence of any clear evidence on the impact of the payment level on employer behaviour, we consider that retaining the current payment level is more likely to encourage employers to take on apprentices.

19. We recommend updating the package to reflect this option at $29.223m per annum in ongoing funding. The current BM2 package includes a placeholder option developed by Treasury of $26.6m ongoing per annum, which we consider to be of lower value and was developed without modelling input from the Ministry of Education. It is based on a 50% reduction in sectors, a reduction in the payment to $300 per month, but maintains support for both first- and second-year apprentices.

20. We note that scaling to this degree by removing eligibility for second-year apprentices and targeting by sector will reduce the number of employers and potential apprentices who would benefit from the scheme. However, given the effectiveness of the scheme on influencing employer behaviour to take on and train apprentices, we consider that a reduction in funding is appropriate in the constrained fiscal environment.

We also seek your agreement to a preferred approach for Student Loan Fiscal Management

21. This report also seeks your agreement to the fiscal management approach for the operating impacts from student loans; in particular, whether they impact on Budget allowances or the operating balance before gains and losses (OBEGAL).

22. Student loans have OBEGAL impacts through the initial fair value write down (expense) on the issuance of loans and the interest unwind (revenue) overtime as the loans are repaid. While there would be an impact on OBEGAL and net debt over the

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[5]This option is indicated at Appendix B in red.

[6] *Targeted fields indicated at Appendix B.

forecast period from the issuance of loans, they are considered to be roughly neutral over a longer time horizon.

23. Because over time the OBEGAL impacts of policy changes related to student loans are approximately neutral, Treasury's recommendation is that policy decisions which impact on student loans do not impact on the Budget allowance, but flow through directly to OBEGAL.

24. Alternatively, operating impacts (both savings and new spending) could be counted against the Budget operating allowance to recognise the impact of policy decisions.

25. What counts against allowances is a choice for ministers to make so we seek your agreement to this approach, both for Budget 2024 and future decisions. This should be consistent across savings and new spending.

26. For Budget 2024, this would mean that the student loan savings initiatives in Vote Tertiary Education and Vote Revenue would not impact on the Budget operating allowance, but the impacts would flow through to OBEGAL.

27. Conversely, the increased borrowing through the changes to Fees Free settings and the 'Managing Tertiary Education and Training System Pressures: Increased Fees' initiative would also flow through to OBEGAL and would not need to be met by the Budget allowance.

28. We will update the overall Budget package to reflect your decision.

Appendix A: Vote Education and Tertiary Education Capital Expenditure

Initiatives in the capital package fall into one of three groups: school property investment ($482.310m), digital investment ($43.680m) and other made up of capital pipeline review savings and small amounts of capital associated with initiatives that are primary operating (net savings of $216.000m).

Capital Pipeline Review process:

MoE has engaged with the Capital Pipeline Review process, and proposed a total of $228.303m capex savings from two initiatives:

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
Te Pūkenga Transformation Programme (B23) – Return of Funding	*0*	($220m)	*Support*	We support this savings proposal, as it comes from a programme that does not align with the Government's priorities and is no longer required given the Government's commitment to disestablish Te Pūkenga.
[33]				

Further capital investment in education:

We broadly support the MoE submitted package across the school property and digital investment portfolios, with some scaling to account for constrained allowances. We have recommended substantive changes to the below initiatives:

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
Marlborough Boys' and Girls' Colleges and the relocation of Bohally Intermediate – New Initiative	$9.761m	$51.310m	*Support scaled*	We recommend scaling to the minimum viable option as it achieves the key benefits of full funding while significantly reducing the level of funding required.
School Property Portfolio Growth Cost Pressure	$56.250m	$400.000m	*Support scaled*	We recommend tagging a portion of this funding for land purchases over the coming years ($150m). This has the dual benefit of enabling more strategic land purchasing likely at reduced cost while enabling MoE to shift away from the current reimbursement model. Increased investment in land purchases is supported by work undertaken by Te Waihanga | Infrastructure Commission showing that advance site protection, such as purchasing land, can significantly reduce costs for infrastructure projects.[2] We recommend that this portion of funding is put in contingency subject to a report to Joint Ministers on MoE's land purchasing approach.

<u>We consider the proposed capital package strikes the right balance between benefits and risk.</u> Nonetheless several key risks remain including school capacity risk, market capacity risk and cyber security risk. We consider appropriate mitigations are in place such as MoE's portfolio approach to school property investment enabling them to pivot to respond to critical school capacity issues or market capacity issues. The upcoming School Property Independent Review provides an opportunity to reassess, refine and confirm the approach ahead of Budget

2025 being spent in the 2024/25 financial year. Cyber security risk could also be reduced further by providing funding for more schools to receive equipment replacements.

In addition, we note that new significant initiatives have been signalled through Quarterly Investment Reporting for Budget 2025 and beyond on top of existing growth (NEGP) and maintenance (NSRP) programmes. [33]

Appendix B: Excerpt from Scaling Estimates for Apprenticeship Boost Initiative (March 2024)

[33]

No targeting	2024/2025	$78,816,000	$63,885,000	$57,194,000	$63,109,000	$50,912,000	$54,460,000
	2025/2026 (and out years)	$78,541,000	$48,522,000	$35,156,000	$46,879,000	$22,491,000	$29,525,000
				$29,223,000			

Appendix C: Further Initiatives in Vote Education and Tertiary Education

Further Initiatives in Vote Education:

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
Arts Coordinators – funding	(0.712)	-	Support	We support this reprioritisation proposal, as it comes from a low value programme that does not align with the Government's priorities. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.

[33]

Title	Total Operating ($m)	Total Capital ($m)	Treasury recommendation	Comment
Christchurch Schools Rebuild (Budget 23 and Prior)	-	-	Support	We support the proposal to not return funding from the Christchurch Schools Rebuild programme, and we consider this to be consistent with the alignment, value for money and capacity objectives of the Capital Pipeline review. There remains a need for investment
Christchurch Schools' Rebuild - Cost Pressures	34.400	143.500	Support	We support funding in full as the initiative is urgent this Budget due to most projects already being contractually committed. This initiative funds the final tranche of the programme which successive Governments have supported since 2013. This initiative compares well against other options consistent with the programme scope agreed by Cabinet as it provides the most certainty to the market to assist in managing capacity. We do not recommend scaled options as these increase costs for Budget 2025 and continue current issues (e.g. earthquake prone or weathertightness) present at some schools. The initiative is supported by robust management and reporting and has a strong delivery record with 89 out 115 schools delivered. A related initiative is in the Capital Pipeline Review.

[33] and [38]

Title	Total Operating ($m)	Total Capital ($m)	Treasury recommendation	Comment
Continued Teacher Supply Supports	19.713	-	Support Scaled	We recommend a scaled amount of funding. Some funding is critical and urgent this Budget to enable MoE to meet contractual obligations linked to key teacher retention initiatives and to continue time-limited support to schools facing the greatest recruitment and retention challenges. Teacher supply remains a challenge, particularly in secondary schools and for particular subjects and parts of the country. The risk of scaling is mitigated as MoE has ongoing baseline funding of around $60 million p.a. for a range of other recruitment and retention initiatives. We recommend that MoE undertakes (i) a review of the impact of baseline spend on teacher supply and (ii) a wider review of teacher supply needs through the development of a comprehensive education workforce strategy.
Creatives in Schools - return of funding	(12.772)	-	Support	We support this proposal, as it comes from a programme that does not align with the Government's priorities. The Ministry has advised that removing this programme may attract public criticism as it has had a relatively high number of participants in recent years. There are hundreds of individual funding contracts currently in place. Fully disestablishing this initiative will have FTE impacts (including potential redundancy costs) and may also have wind-down costs, meaning that savings will not be realised until 24/25.
Cyber Security and Digital Support (CSDS) for schools	-	-	Support	We support the agency's proposal to not return funding from this initiative. Our assessment is based on the rationale that this funding ($13.284 million operating funding in 2023/24) could be used to offset part of the cost of a closely related new spending initiative (15640 – Essential Digital Services), focused on the same school cybersecurity priorities. Cybersecurity remains a risk to the effective and safe operation of schools and our wider education system, and removing this funding would reduce the protection available to schools and increase the risk of disruption to their operations.

Digital Era Learning Teaching Assessment	(0.309)	-	Support	We support this reprioritisation proposal, as it comes from a non-essential back-office function. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown. The funding for in-person meetings is time-limited and so funding is only available for reprioritisation in the 23/24 financial year.
Early Childhood – Targeted Assistance for Participation	[33]	-	Support	We support this proposal, as it comes from a low value programme. Targeted Assistance for Participation is a package of property assistance grants that contribute to the costs of building new or expanding infrastructure for existing services. TAP is the Ministry's key lever to support establishing new services in under-served communities. However, the programme is persistently underspent. The Ministry has advised this is likely due to the funding settings being too restrictive.
Early Childhood Education - Cost Adjustment	150.074	-	Support Scaled	We recommend a scaled cost adjustment of 1.5%. Funding is critical to help maintain the real value of early childhood education subsidies. Our scaled recommendation accounts for a recent $373.189 million increase to 20 Hours ECE subsidies. A lower cost adjustment risks providers increasing fees, though impacts are uncertain due to a lack of fee data. We consider the risk of higher fees is mitigated by the separate recent funding increase and the Government's FamilyBoost policy which will provide a fee rebate to parents.
Education Payroll Ltd efficiency savings	(4.800)	-	Support	We support this savings proposal, as it comes from non-essential back-office functions in Education Payroll Limited. We note that proposed efficiencies are subject to consultation with Education Payroll Limited staff and therefore there is a risk that the proposed savings may not eventuate as planned, but we consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Education Resourcing System	-	-	Support	We support the proposal to not return funding from the Education Resourcing System programme and consider this to be consistent with the alignment, value for money and capacity objectives of the Capital Pipeline Review. There remains a need for investment because the new system, Purato, is needed to replace the current 35-year-old EDMUIS system, which is nearing end of life. The programme is being reset to deliver a minimum viable product (MVP) within the current budget in response to delivery issues identified through Gateway. It is likely the MVP could not be delivered if savings were taken from this programme, which would create significant risk to the Ministry of Education's ability to deliver $10.8 billion p.a. of funding to schools and early learning services.
English for Speakers of Other Languages (ESOL), Volume cost pressures	22.628	-	Support Scaled	Funding is urgent due to a significant increase in net migration. We recommend scaled funding because the agency's estimates for the number of ESOL learners appears to be inflated when compared against existing uptake and some of the Ministry's proposed initiative components are discretionary. This initiative is contingent on decisions regarding the immigration Fee and Levy review, which proposes to shift the majority of ESOL costs to the immigration levy and so this initiative could be further scaled (see initiative 15830).
Essential Digital Services - Internet in Schools, Equipment Replacement and Cyber Security	[38]	51.983	Support Scaled	We support scaled funding. Some funding is critical and urgent to address a funding cliff in 2024 and meet cost increases for key protections provided by MoE and its Crown entity Network for Learning. The cost and disruption of cyberattacks can be significant, and risks of attack are increasing. Nil funding would require schools to fund services (risking greater cost and loss of economies of scale, and requiring schools to not fund other learning priorities) or accept increased risk of cybersecurity breaches. Our scaled option reflects MoE's minimum viable option, and funds all the services at 75% of funding in the full option without leaving funding cliffs. This means that rollout of upgrades in schools will be slower, but still balances meeting urgent needs with wider fiscal pressures.
Holidays Act Remediation for School Employees, updated liability estimate	32.200	-	Support	Funding is critical and urgent for the Ministry of Education to meet the financial compliance requirements for Holidays Act 2003 liabilities. Generally accepted accounting practice requires the Ministry have this funding available in the year that the liability is recognised (2023/24) even if this funding will not flow through to schools' pay in this financial year. As this funding is required to meet legal pay obligations, it cannot be scaled. The proposed option adequately addresses the source of this cost pressure as it is a one-off cost.

[33]

Ka Ora, Ka Ako | Healthy School Lunches Programme: Continuing beyond	827.701	3.400	Support Scaled	We support scaled funding for this initiative to reduce the coverage of students in the programme from ~25% to 20% of the Equity Index (EQI), which further targets the programme to students facing the highest socioeconomic barriers. However, in line with our fiscal management approach, our recommendation does provision for ongoing funding to avoid the risk of future fiscal cliffs. We have outstanding questions around the overall VFM of the programme, given the current lack of quantitative evidence to support impacts on school attendance and the impact on educational attainment has not been evaluated.

[33]

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Kohanga reo property maintenance - cost ent	12.000	-	Support	Kohanga Reo National Trust has demonstrated ability to deliver projects according to a prioritisation framework and provides regular progress reports to MoE. Scaling may be seen as impacting Treaty obligations.

[33]

Laptops for Teachers	(2.000)	-	Support	We support this reprioritisation proposal, as it finds cost efficiencies within an existing programme. The Ministry has identified the risks that the leases are held by schools and therefore they must agree to any changes to the lease; and that 4 years may extend beyond a device's operating life which could lead to an increase rate of breakages and failures. However, the Minister of Education has indicated that these risks are outweighed by the fiscal benefit to the Crown.
Learning Support Property Modifications	-	-	Support	We support the agency's proposal to not return funding from this initiative. The programme is halfway through two years of investment delivering learning support modifications to improve school accessibility. The agency has committed the majority of funding for 2023/24, demonstrating sufficient demand and accurate costings. The programme is supported by robust management and reporting arrangements. We do not consider this programme could be delivered with significantly reduced funding unless it is heavily rescoped, noting that this could negatively impact school accessibility for students with disabilities. [33]
Marlborough Boys and Girls Colleges and the relocation of Bohally Intermediate (Budget 2023 and Prior)	-	-	Support	We support the proposed approach to not make changes to this project. This project began in 2015 and can no longer be deferred due the critical maintenance work required. Further, the Minister of Education has publicly committed to entering into construction quickly. For the corresponding new spending initiative (15680) linked to this programme, we have recommended the significantly scaled minimum viable option to continue the project. We therefore recommend the existing funding is retained to support reorientation of the project per the Minister's direction, which can include repurposing uncontracted or unspent funding rather than returning it to the centre. The initiative is supported by robust management and reporting arrangements including dedicated project governance.
Marlborough Boys' and Girls' Colleges and the relocation of Bohally Intermediate – New Initiative	9.761	51.310	Support Scaled	We recommend scaled funding which would fund the agency's Minimum Viable Option (MVO). Funding is critical and urgent this Budget as the project began in 2015 and cannot reasonably be deferred any longer. The Minister of Education has also publicly committed to entering construction quickly. Funding the MVO achieves the key benefits of the full funding option, while significantly reducing the level of funding required. It does this by reducing the project's scope and undertaking maintenance work on existing sites rather than through relocation of schools. The initiative is supported by robust management and reporting arrangements including dedicated project governance. Our recommendation assumes no existing funding is returned as part of the related Capital Pipeline Review initiative.
Ministry departmental: Reduce duplication through cross organisational and business group efficiencies	(10.436)	-	Support	We support this savings proposal, as it comes from low value programmes and non-essential back-office functions (including contractor and consultant expenditure). MoE are still undertaking consultation on the proposed efficiencies with their staff, and therefore there is a risk that the proposed quantum of savings may not materialise as expected or may create future cost pressures for MoE. However, we consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Ministry Departmental: Reduce spend on contractors and consultants	(82.984)	-	Support	We support this savings proposal, as it comes from low value programmes and non-essential back-office functions (including contractor and consultant expenditure). MoE are still undertaking consultation on the proposed efficiencies with their staff, and therefore there is a risk that the proposed quantum of savings may not materialise as expected or may create future cost pressures for MoE. However, we consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Ministry departmental: Reduce spend on professional services	(3.868)	-	Support	We support this savings proposal, as it comes from low value programmes and non-essential back-office functions (including contractor and consultant expenditure). The Ministry of Education (MoE) are still undertaking consultation on the proposed efficiencies with their staff, and therefore there is a risk that the proposed quantum of savings may not materialise as expected or may create future cost pressures for MoE. However, we consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.

Ministry departmental: Reduce travel and meeting related spend	(6.552)	-	Support	We support this savings proposal, as it comes from non-essential back office expenditure on travel and meetings. These savings do not come from frontline services and support to schools and learners. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Ministry departmental: Reduce workforce through stopping low mmes	(167.960)	-	Support	We support this savings proposal, as it comes from low value programmes and non-essential back-office functions (including contractor and consultant expenditure). MoE are still undertaking consultation on the proposed efficiencies with their staff, and therefore there is a risk that the proposed quantum of savings may not materialise as expected or may create future cost pressures for MoE. However, we consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.

[33]

National Education Growth Plan	-	-	Support	We support the proposed approach of not making changes to the National Education Growth Plan (NEGP) programme which provides for more student places. Initiative 15647 provides for maintenance of existing schools. It is necessary to expand the property portfolio to match population growth and demographic changes across the school network. Scaling would lead to further overcrowding of schools, and evidence indicates this will negatively affect educational outcomes. It would lead to cost pressures in coming years if population growth continues to outmatch funding to grow the school network. There is an associated cost pressure initiative 15671 for this programme, so we have focused on scaling options for the cost pressure initiative rather than identifying savings within existing expenditure.
National School Redevelopment Program	-	-	Support	We support the proposed approach of not providing savings from the National School Redevelopment Programme. The Budget 2022 funding has been fully spent, and so cannot be returned. A portion of this Programme is funded through baseline funding, which we also do not recommend being provided as savings. We consider this programme compares well against other options for meeting school maintenance requirements as it enables effective prioritisation across the school property portfolio and achieves economies of scale that come with a whole-of-portfolio approach. The programme has demonstrated delivery in that it has delivered 97 projects totalling over $800 million since 2019 and is supported by robust management and reporting arrangements.

[33]

Nga Iti Kahurangi – Small and Rural Schools Programme	-	-	Support	We consider the proposed approach of not making changes to the Nga Iti Kahurangi – Small and Rural Schools Programme is consistent with the alignment, value for money and capacity objectives of the Capital Pipeline Review. The programme delivers higher quality outcomes at a lower cost than equivalent school run programmes so removing this funding would likely lead to greater cost pressures for affected schools.
NIWE (Property Immediate High Need & Response Property Repair and Rebuild)	-	-	Support	We support the proposed approach. Its purpose to repair schools damaged by the North Island Weather Events is consistent with the alignment, value for money and capacity objectives of the Capital Pipeline Review. We consider there remains a need for investment because several schools are still being repaired or will undergo repairs soon. This programme compares well against other options for meeting this need as without dedicated funding these schools would need to be prioritised against other projects in the agency's maintenance pipeline. The programme has demonstrated delivery in that it has enabled lesser impacted schools to resolve issues quickly, while schools with more significant repairs are still being delivered over the next two years.

[33] and [34]

[33] and [34]

Partnering to strengthen Māori Education	(4.092)	-	Support	We support this reprioritisation proposal, as it partly comes from the non-essential back-office functions by disestablishing Te Pae Roa, the Ministerial Advisory group and Secretariat for Kaupapa Māori and Māori Medium Education pathways. The initiative signals that other programmes will need to be stopped or scaled to achieve the savings but due to the early stage of work Treasury has not had visibility. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Partnership Schools (Charter schools | Kura Hourua)	137.090	-	Support Scaled	We support scaled funding. Some funding is critical to enable charter schools to open or convert from Term 1 2025. This timing will be challenging and needs primary legislation by the end of 2024. Our scaled option (reducing the expected number of schools by 2026 from 80 to 50) balances giving momentum with a need to fund other Government priorities. We recommend no new FTE funding at this stage as FTE impacts of the programme depend on Ministerial decisions yet to be made, including on a potential Departmental agency, for which we do not see a strong case at this stage. MoE notes a delivery risk if it cannot fund or find the staff to deliver the programme. We recommend funding from 2025/26 onwards be in contingency to allow key design decisions to be resolved.
[33] and [38]				
Playcentre - Sustainable Funding	13.014	-	Support Scaled	We recommend scaled funding based on the agency minimum viable option. Funding is urgent to maintain the service viability of Playcentre Aotearoa. The sustainability of Playcentre's parent-led model is being impacted as labour market participation rates for parents have risen and made it increasingly difficult to rely upon consistent volunteer support. Without further funding, Playcentre will continue to face service viability issues, and may have to cease operations in some areas.
Prime Minister's Vocational Excellence Award – return of funding	(4.368)	-	Support	We support this reprioritisation proposal, as it comes from a low priority programme. The award is intended to support the development of a pipeline of vocational trainees and to increase the status of this sector, however there are other programmes which also address this objective. Therefore, we consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Property Portfolio Revaluation Impact	580.000	-	Support Scaled	This initiative responds to increasing and ongoing cost pressures in the tertiary sector due to falling domestic student numbers, low international enrolments and high inflation. This is complementary to increasing fees. With a funding increase at the proposed rate there is still likely to be loss of provision; a lower rate may impact on the viability of some tertiary education organisations which could lead to future costs for the Crown. The 2.5% cost adjustment responds to forecast CPI increases for 2025.
Public-Private Partnership Schools Expansions Programme	-	-	Support	We support the proposed approach of not making changes to the Public Private Partnerships (PPP) Schools Expansion programme. The scope of the programme has recently been reduced significantly due to a return of around $39 million in operating funding and around $200 million in capital funding from the Budget 2023 tagged contingency to fund other cost pressures within the Education portfolio (SWC-23-MIN-0107 refers). We consider there remains a need for investment because this programme will address a significant shortage of required student spaces in rapidly growing areas. Any further reductions in scope would lead to significant programme risks, and the Government has not signalled any intentions to de-prioritise PPP expansions to date.
Removal of Persistent Underspends	(16.200)	-	Support	We support this reprioritisation proposal. It comes from stopping, reprioritising, and generating efficiencies from current work programmes and non-essential back-office functions in the Ministry's regional offices. There is a risk that reducing or stopping work will impact the delivery of programmes and frontline services. The Ministry intends to mitigate this risk by close engagement with stakeholders. We note due to the early stage of work Treasury has not had visibility over which specific programmes will be stopped or scaled.
[33] and [38]				
School High Health Needs Fund – Volume Pressure	9.382	-	Support	This funding is critical for high needs students to safely attend school because there has been both an increase in students who meet the criteria for this funding and an increase in the length of time that the funding is required for. Alternative options to providing this

				funding would either require placing a cap on the number of students eligible for funding or changing the current policy settings. Both alternatives would result in inequity in the system and decreases in education and health outcomes for high needs students.
School Property Portfolio Growth Cost Pressure	56.251	400.000	Support Scaled	We support scaled funding and recommend putting a portion in contingency to enable a shift from the existing reimbursement model for land purchases. Funding is urgent this Budget due to roll growth resulting in 137 schools operating above capacity (greater than 105% utilisation). Our scaled recommendation accounts for fiscal constraints and market capacity concerns if the initiative was fully funded. We have prioritised investment in land purchases which has no associated operating expenditure and is not impacted by market capacity issues. The initiative is supported by robust management and reporting arrangements and has a strong delivery record with almost 40,000 student places delivered since 2019. A related initiative is in the Capital Pipeline Review.
Schools Operational Grant - cost pressure	178.777	-	Support Scaled	We support a scaled cost adjustment of 2.5%, with 3% for targeted funding components. Funding is critical to maintain the value of schools' operational grants, as CPI increases have significantly outpaced funding in recent years. Schools have limited options to increase revenue elsewhere and will likely scale back curriculum and learning support services without funding. Our scaled recommendation accounts for the high cost of this initiative and the constrained fiscal environment.
Services Academy National Hui – full saving option	(0.124)	-	Support	We support this reprioritisation proposal, as it comes from a low value programme that does not align with the Government's priorities. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Structured Approaches to Literacy - Further Teacher Professional Learning and Development (PLD)	52.304	-	Support Scaled	We recommend a scaled amount of funding that is focused solely on areas critical and urgent for this Budget. This funding will mean MoE can implement from Term 3 2024 a range of supports to equip primary teachers with the knowledge/skills to deliver the structured literacy approach to improve reading outcomes for students in years 0-3. There is an urgent need to improve literacy outcomes and the programme is based on robust domestic/ international evidence. The risk of scaling is mitigated as MoE has ongoing baseline funding of around $140 million for other Professional Learning and Development initiatives. We recommend that MoE conducts a review of the impact of existing PLD on student outcomes to refocus/reprioritise where required to higher priority/value programmes, such as this.
[33]				
Te Kawa Matakura – return of funding	(21.950)	-	Support	We support this proposal, as it comes from a programme that does not align with the Government's priorities. This initiative was intended to enhance the education system's ability to support ākonga Māori to gain qualifications and enjoy educational success as Māori. However, implementation challenges and relatively low up-take indicates that it was likely not achieving that intent. Although discussions have been held, no new contracts for services have been developed, so the programme ceases with minimal disruption.

Further Initiatives in Vote Tertiary Education:

Title	Draft package		Treasury recommendation and comment	
	Total Operating ($m)	Total Capital ($m)		
[33]				
Adult and Community Education in Schools Co-ordination Funding - Revoke	(1.750)	-	Support	We support this savings proposal, as it comes from a low value programme that has seen limited uptake and achieved limited outcomes in the past. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Adult Literacy Educator Grant – Revoke	(2.214)	-	Support	We support this reprioritisation proposal, as it comes from a low value programme. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown. This initiative is to support reprioritisation for cost pressures.

Apprenticeship Boost Scheme Continuation	72.853	-	Support Scaled	We did not support the continuation of this initiative, however in response to Ministerial feedback, a significantly scaled version of the current Apprenticeship Boost Initiative is included in the package.
Centres of Asia-Pacific Excellence (CAPEs) – One-off Accounting Impact	(10.000)	-	Support	We support this reprioritisation proposal, as it comes from a low value programme. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown. This initiative is to support reprioritisation for cost pressures.
Centres of Vocational Excellence Disestablishment	(15.000)	-	Support	We support this savings proposal, as it comes from a programme that does not align with the Government's priorities. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Education New Zealand: 5% baseline reduction	(5.400)	-	Support	We support this savings proposal, which reduces the Education New Zealand baseline by consolidating and refining existing work programmes to find efficiencies. It also reduces some funding to services, however we consider that that Education New Zealand has provided a sufficient plan to minimise the impact on the service experienced by users. Overall, we have limited visibility of the impact of Education New Zealand and its value-for-money as a Crown Entity.[33]
Fees Free – Replacing First-Year with Final-Year Fees Free	(770.000)	-	Support Scaled	We recommend that the Fees Free scheme is closed. Our recommended option increases the total ongoing savings for this initiative compared to the agency option of $68 million p.a. Recent estimates of the savings from disestablishing the scheme indicate a saving of up to $220 million p.a. We consider the existing scheme to be low value. There is limited evidence that it has increased participation in tertiary education or that the proposed replacement would incentivise progression in study. If Ministers wish to maintain the manifesto commitment, we consider a broad eligibility approach represents the greatest value for money. It is more likely to reach students who otherwise would not pursue tertiary study and is less administratively complex.
Forecast 2023/24 Underspends within Vote Tertiary Education - Return of Funding	(61.061)	-	Support	We support this proposal to return underspends as there is no impact on outputs. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Gateway Fund – Return of Unutilised Funding	(7.500)	-	Support	We support this savings proposal to reduce Gateway funding by $1.500m per annum, to a funding level that meets critical ongoing need. Gateway is a high value programme that has been successful in supporting learners at risk of disengagement from the education system into further vocational study or work. The proposed reduction is, however, low risk as it comes from a COVID-19 related funding increases.
Higher Education Collaboration Fund – Revoke	(5.000)	-	Support	We support this savings proposal, as it comes from a programme that does not align with the Government's priorities. To date, no funds from this programme have been allocated and it has not been publicly announced. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.
Increasing the Student Loan Scheme overseas interest formula by 1% for 5 years	(6.946)	-	Support	We support this savings proposal, as it aligns with the Government's priority of delivering effective and fiscally sustainable public services. We consider any risks associated with this initiative are low and are outweighed by the fiscal benefit of savings to the Crown. We have not supported funding for administration costs as these should be able to be met within existing baselines. Therefore, our recommendation reflects the gross savings of this initiative.
Managing Tertiary Education and Training System Pressures: Increased Fees	56.076	-	Support	We support this initiative as it responds to increasing, ongoing cost pressures in the tertiary sector due to falling domestic student numbers, low international enrolments and high inflation. This is complementary to increasing subsidies. The annual maximum fee movement for 2024 was 2.8%. Without an increase, real funding rates will decline and impact the sustainability of tertiary institutes. A lower rate may impact on the viability of some tertiary education organisations.
Managing Tertiary Education and Training System Pressures: eased Subsidies	266.322	-	Support	We support this initiative as it responds to increasing and ongoing cost pressures in the tertiary sector due to falling domestic student numbers, low international enrolments, and high inflation. This is complementary to increasing fees. A lower rate may impact on the viability of some tertiary education organisations which could lead to future costs for the Crown. The 2.5% cost adjustment responds to forecast CPI increases for 2025. This increase does not address current funding shortfalls.

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[33]

Te Pūkenga Disestablishment and Transition	[38]	-	Support	We recommend the full funding for this initiative should be set aside in a tagged contingency noting there are opportunities for scaling depending on upcoming Cabinet decisions. Funding is required this Budget as the Government has committed to disestablishing Te Pūkenga and signalled the future structure will be in place by 1 January 2025. Funding is required as relevant organisations would not be able to fund and establish the new structure alongside their current work programmes without additional funding. There is uncertainty around costings as Cabinet is yet to make decisions on the future structure, meaning scaling may be possible. Scaling at this stage is not recommended due to the risk that any necessary funding that is scaled in Budget 2024 would be sought out of cycle.
Te Pūkenga Transformation Programme (B23) - Return of Funding	-	(220.000)	Support	We support this savings proposal, as it comes from a programme that does not align with the Government's priorities and is no longer required given the Government's commitment to disestablish Te Pukenga.
Tertiary Education Commission: 5% baseline reduction	(12.400)	-	Support	We support this savings proposal. It comes from stopping, reprioritising, and generating efficiencies from current work programmes and non-essential back-office functions in TEC. TEC is confident that this saving can be made without reducing capability and capacity. [33] . We note that, due to the early stage of work, Treasury has not had visibility over which specific programmes are intended to be stopped or scaled.
Workforce Development Councils Disestablishment	(227.500)	-	Support	We support this savings proposal, as it comes from a programme that does not align with the Government's priorities and is a targeted saving identified in the Government's Coalition Agreements. Some Workforce Development Council (WDC) functions, including standard setting, will need to be continued after their disestablishment. Funding has not been allocated for this. The savings identified in 2024/25 rely on legislative changes enabling the disestablishment of WDCs from the beginning of 2025. Any delay to legislative changes will have a direct impact on these savings being realised. There are risks that the transition period could have negative impacts on the delivery of functions (e.g. through the loss of key expertise) or lead to decreased industry confidence in these functions.