

The Treasury

Budget 2024 Information Release

September 2024

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Treasury Report: Budget 2024: Further advice on the Education package

Date:	28 March 2024	Report No:	T2024/863
		File Number:	SH-4-0

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance	<p>Note Treasury's advice on the Minister of Education's proposed package</p> <p>Indicate your preferred approach for the package</p>	28 March 2024

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Joshua Mackay	Graduate Analyst, Communities Learning and Work	[39]	[35] ✓
Thomas Parry	Manager, Communities Learning and Work		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes – [iManage #4937684.1](#)

Treasury Report: Budget 2024: Further Advice on the Education package

You have agreed to an envelope approach for Vote Education

1. At your Education Budget bilateral meeting on 19 March 2024, you asked the Minister of Education to develop a proposed Education Budget 2024 package within a set fiscal envelope, for your consideration.
2. The envelope includes cost pressures within Vote Education, and new spending commitments for the Vote excluding Ka Ora, Ka Ako | Healthy School Lunches and Partnership schools. Capital and Tertiary initiatives are also excluded from the envelope. The Treasury, in consultation with your office, developed the scope of and fiscal ceiling for the envelope based on the current Treasury package funding for the new spending initiatives within scope, your preferred approach of funding 75% of Vote Education's cost pressures, and the reprioritisation initiatives agreed at the Education bilateral. An envelope limit of ^[33] and ^[38] in operating funding over the forecast period was set.

The Ministry of Education has provided us with their preferred package

3. The Minister of Education has written to you with a proposed revised Education package for Vote Education totalling ^[33] and ^[38] over the forecast period. A full breakdown of this package and changes from the TSY package we had provided is included as Appendix 1.

Some of the proposals may carry risks that you may wish to consider further

4. We are broadly comfortable with the Ministry of Education's (MoE) revised package. However, there are several areas where we consider that the suggested funding approach carries risks, and you may wish to consider whether you are comfortable with the proposals put forward in these cases. These are as follows:

NZQA Unsupported HR System Replacement and NZQA IT System Stabilisation – IDs 15841 and 15842 – TSY Recommended ^[33] OPEX, MoE Recommended \$10m OPEX

- These initiatives were invited as late initiatives into the Budget process due to advice received from MoE that the New Zealand Qualifications Agency (NZQA) faced financial viability risks in the immediate term. MoE has recommended providing an immediate funding injection of \$10m for 2024/25, with a fiscal cliff at the end of 2024/25.
- MoE has advised that this funding injection will be sufficient to enable NZQA to continue work on its critical IT and HR systems which require stabilisation, while also developing a plan to address organisational stability by the end of March, and for an overall plan for financial sustainability by July 2024.
- ^[33]

Playcentre – Sustainable Funding – ID 15711 – ^[33]
MoE Recommended \$13.014m OPEX

- ^[33]

[33]

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Essential Digital Services – Internet in Schools, Equipment Replacement and Cyber Security – ID 15640 – TSY Recommended ^[38] \$37.519m CAPEX, MoE Recommended ^[38] \$69.310m CAPEX

- This cost pressure has been scaled up to its full-funded level. We support this proposal, however we note that this approach means the capital component of the initiative has also been increased by \$17.327m, as there are interdependencies between the operating and capital funding.
- Capital is out of scope of the exercise MoE has been asked to undertake. We seek your agreement on whether you are comfortable to absorb this additional \$17.327m capital cost within the Budget 2024 package.

Property Portfolio Revaluation Impact (Depreciation) – ID 15721 – TSY Recommended \$580.000m OPEX, MoE Recommended \$780.000m OPEX

- The Ministry of Education have increased the funding allocated to this initiative relative to the current package as part of developing a cost pressure package within the Education envelope. We support additional funding for school property maintenance, but the phasing proposed by the Ministry of Education decreases over the forecast period as they consider there are immediate pressures that require funding upfront.

Operating Funding (\$ millions)							
MoE Package	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	Total OPEX	OPEX per Annum
Property Portfolio Revaluation Impact	-	280.000	200.000	150.000	150.000	780.000	195.000

- We consider it a priority to ensure maintenance is funded sufficiently on an ongoing basis, and therefore propose an alternative phasing that delivers full funding in 2024/25 to address immediate pressures as well as in 2027/28 and outyears to secure sufficient ongoing funding. This approach minimises the impact on allowances across multiple Budgets, as not providing sufficient funding in outyears would increase the amount of funding sought by the Ministry of Education in future Budgets.
- To ensure the overall envelope is not exceeded, the funding provided in 2025/26 and 2026/27 is scaled, ^[33]

Operating Funding (\$ millions)							
TSY increased Package	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	Total OPEX	OPEX per Annum
Property Portfolio Revaluation Impact	-	280.000	110.000	110.000	280.000	780.000	195.000

Other changes, while low risk, represent a significant departure from the current Treasury package

5. Other changes to the package, while not necessarily carrying risks, represent a significant departure from the previous package approach, that we wish to draw to your attention:

[38]

English for Speakers of Other Languages (ESOL), Volume cost pressures – ID 15733
– MoE Recommended \$45.256m OPEX

- MoE has scaled up this initiative by an additional \$16.971m. We support this proposal. The Minister of Education’s letter to you notes that in her capacity of Minister for Immigration, she will shortly be taking a paper to Cabinet that will mean 80% of ESOL cost pressures will be able to be funded from the Immigration Levy. This means that, once that decision is effective, MoE will be able to return much of this funding to the centre. We will ensure that this expectation is reflected in the Budget 2024 final Cabinet paper financial recommendations.

Ikura | Manaakitia Te Whare Tangata – Period Products in Schools – ID 15840 – MoE Recommended \$14.471m OPEX

- This initiative was not originally invited into the Budget 2024 process, with MoE intending to provide funding for it through reprioritisation as a technical initiative. MoE has since expressed a preference for including it as part of the Education envelope to provide more certainty around ongoing funding for the initiative.
- We support the inclusion of Period Products in Schools in this funding envelope noting the Government’s public commitment and recent announcement to continue this initiative.

The current Education envelope contains reduced reprioritisation options

6. MoE submitted ^[33] over the forecast period in reprioritisation initiatives from Vote Education, ^[33] of which was supported by the Vote Team. The total reprioritisation included for Vote Education in the revised envelope is now only ^[33] over the forecast period. This is due to several changes to the package, including:

- ^[33]
- Cabinet agreeing to reduce the value of Ministry departmental reprioritisation ^[33]

- \$1.252m of the Ministry departmental reprioritisation ^[33] also sits outside of Vote Education, and so was excluded from this envelope. Note that this change was identified after the Minister of Education had sent her letter, and so is not referenced in that letter (resulting in a higher reprioritisation total in the letter of \$165.113m).
- ^[33]

7. You may wish to consider if you want to seek further reprioritisation from the Ministry of Education for Budget 2024 to replace reprioritisation options that have been discounted, or a commitment to providing further reprioritisation through the Minister of Education's upcoming Expenditure Reviews of MoE's baseline spend.

The Minister of Education has also sought your agreement on increasing funding for Early Childhood Education

8. In her letter on the Education envelope, the Minister of Education additionally sought your agreement to increase Early Childhood Education (ECE) cost adjustments from 1.5% to 2%. This would come with a fiscal cost of \$46.577m OPEX over the forecast period, ^[33]

9. The Treasury does not recommend increasing funding for ECE cost adjustments. While the current 1.5% approach does provide funding below CPI and may incur a negative reaction from the sector, we consider that this risk is offset by Cabinet's recent agreement to maintain a funding increase of \$373.189m (4.6%) to 20 Hours ECE subsidies [100-23-MIN-0006 refers].

10. The current lack of fee data for ECE services means that we are uncertain as to the impact of funding increases on parent affordability. Given this, we consider that investment into areas where we have greater visibility of benefits (i.e. Schools' Operational Grants, further funding for depreciation) would have higher value for money in the event you wished to provide more funding for Vote Education.

We will provide further advice on specific queries from the Bilateral in forthcoming advice on BM4 [T2024/823]

11. The following initiatives were discussed at the bilateral, and Ministers did not reach a clear consensus on the way forward:

- School Property Portfolio Growth [ID 15671]
- Redevelopment of Marlborough Colleges and Bohally Intermediate [ID 15680]
- School Property Portfolio Revaluation (Depreciation) approach [ID 15721]
- ^[33]

12. To support you in making final decisions on these initiatives, we will provide further advice as part of your BM4 report [T2024/823 refers]. ^[33]

Recommended Action

We recommend that you:

- a **Note** that at the Education Bilateral meeting on 19 March 2024, you agreed with the Minister of Education to take an envelope approach for funding Vote Education cost pressures and new spending excluding Ka Ora, Ka Ako | Healthy School Lunches and Partnership Schools.
- b **Note** that a value for this package was set at ^[33] and ^[38] over the forecast period in consultation with your office based off your direction to fund 75% of Vote Education’s cost pressures, and the current Treasury recommended funding for new spending initiatives.
- c **Note** that the Ministry of Education have now submitted a package containing these initiatives totalling ^[33] and ^[38] over the forecast period.
- d **Note** that this package includes a low-risk shift in approach for the following initiatives
 - a. ^[38]
 - b. English for Speakers of Other Languages (ESOL), Volume cost pressures
 - c. Ikura | Manaakitia Te Whare Tangata – Period Products in Schools
- e **Indicate** your preferred option for the below initiatives where a higher-risk shift in approach has occurred (using the tick-boxes in the two right hand columns).

Initiative	Ministry of Education Approach	Treasury Approach
NZQA Unsupported HR System Replacement and NZQA IT System Stabilisation		
Playcentre – Sustainable Funding		
Property Portfolio Revaluation Impact		
Early Childhood Education – Cost Adjustment		

- f **Agree** to increase the capital funding for *Essential Digital Services – Internet in Schools, Equipment Replacement and Cyber Security* by \$17.327m to provide full funding for this initiative.

Agree / disagree.

Thomas Parry
**Manager, Communities
 Learning and Work**

Hon Nicola Willis
Minister of Finance

_____/_____/_____

Appendix 1: Variation from Treasury Package

15840	Ikura Manaakitia te whare tangata - Period products in schools	-	-	-	14.471	3.618	-	Variation	Increase in operating funding of \$14.471m over the forecast period (\$3.618m per annum). This initiative was not initially included in the Budget package, but has been included here given the Government's commitment to provide ongoing funding for this programme.
15705	Kohanga reo property maintenance - cost adjustment	12.000	3.000	-	12.000	3.000	-	No Variation	
[33]									
15853	Laptops for Teachers	(2.000)	(0.500)	-	(2.000)	(0.500)	-	No Variation	
15867	Ministry departmental: [33]	[33]	[33]	-	(92.027)	(23.007)	-	Variation	[33]
15842	NZQA IT System Stabilisation			-	3.500	0.875	-	Variation	[33] decrease in funding is due to MoE only providing one year of time-limited funding in 2024/25 for NZQA initiatives. Note that final figures for this initiative and ID 15841 are still TBC, but will total to \$10.000m provided in 2024/25.
15841	NZQA Unsupported HR System Replacement			-	6.500	1.625	-	No Variation	Note that final figures for this initiative and ID 15842 are still TBC, but will total to \$10.000m provided in 2024/25.
15849	Partnering to strengthen Māori Education	(4.092)	(1.023)	-	(4.092)	(1.023)	-	No Variation	
[33]									
15711	Playcentre - Sustainable Funding	[33]	[33]	-	13.014	3.254	-	Variation	[33]
15858	Prime Minister's Vocational Excellence Award – return of funding	(4.368)	(1.092)	-	(4.368)	(1.092)	-	No Variation	
15721	Property Portfolio Revaluation Impact	580.000	145.000	-	780.000	195.000	-	Variation	Increase in operating funding of \$200.000m over the forecast period (\$50.000m per annum). This increases funding for the initiative in line to MoE's MVO in order to provide for further maintenance of the school property portfolio.
15861	Removal of Persistent Underspends	(16.200)	(4.050)	-	(16.200)	(4.050)	-	No Variation	
[33]									

15723	School High Health Needs Fund – Volume Pressure	9.382	2.346	-	15.166	3.792	-	Variation	Increase in operating funding of \$5.784m over the forecast period (\$1.446m per annum). This increases funding for the initiative above the funding previously sought by MoE.
15707	Schools Operational Grant - cost pressure	178.777	44.694	-	199.484	49.871	-	Variation	Increase in operating funding of \$20.707m over the forecast period (\$5.177m per annum). MoE have advised us that there was an error in their previous costings for a scaled option that provided a 2.5% adjustment and a 3% adjustment for targeted components. This increase corrects that error.
15857	Services Academy National Hui – full saving option	(0.124)	(0.031)	-	(0.124)	(0.031)	-	No Variation	
15839	Structured Approaches to Literacy - Further Teacher Professional Learning and Development (PLD)	52.304	13.076	-	67.036	16.759	-	Variation	Increase in operating funding of \$14.732m over the forecast period (\$3.683m per annum). This increases funding for this initiative above the amount previously sought by MoE. Increased funding for this initiative is in line with the Minister of Education's priorities.
[33]									
15852	Te Kawa Matakura – return of funding	(21.950)	(5.488)	-	(21.950)	(5.488)	-	No Variation	
TOTAL		[33] and [38]		51.983	[33] and [38]		69.310		[33] and [38]