



Education Report: Submission of Proposed Budget 2020 Cost Pressure Initiatives

To:	Hon Chris Hipkins, Minister of Education		
Date:	31 October 2019	Priority:	High
Security Level:	Budget Sensitive	METIS No:	1210549
Drafter:	John Wardrop	DDI:	s 9(2)(a)
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

This report seeks your submission of proposed education portfolio cost pressure initiatives for Budget 2020 to the Minister of Finance; and your approval for the Ministry to submit the supporting information associated with these to the Treasury.

Summary

- 1 The Budget 2020 process requires that by 1 November 2019:
 - vote Ministers must submit letters to the Minister of Finance, detailing the cost pressure bids that they are proposing for inclusion in the Budget, and
 - initiative templates and further information be loaded into the Treasury's CFISnet system in respect of the submitted initiatives.
- 2 This report seeks your agreement to submit 20 cost pressure initiatives, with a five-year operating cost of \$1.59 billion and a ten-year capital cost of \$612.2 million for Budget 2020.
- 3 These initiatives are not final. Following submission, it will still be possible to revise and refine them.

Recommended Actions

The Ministry of Education recommends you:

- a. **Sign** the attached letter to the Minister of Finance, outlining your proposed education portfolio cost pressure initiatives for Budget 2020, and submit it to him by 1 November 2019
 Agree / Disagree
- b. **Agree** that the Ministry of Education submits supporting templates for these initiatives to the Treasury
 Agree / Disagree
- c. **Agree** to not proactively release this Education Report at this time, because the information contained within it is Budget sensitive.
 Agree / Disagree



Damian Edwards
Associate Deputy Secretary
Education System Policy

30/10/19



Grant Klinkum
Deputy Secretary
Graduate Achievement,
Vocations and Careers

31/10/2019



Hon Chris Hipkins
Minister of Education

1/11/19

Background

- 1 The process for Budget 2020 requires that:
 - vote Ministers submit their proposed cost pressure initiatives to the Minister of Finance by 5pm on 1 November 2019, and their proposed new spending initiatives to the Minister of Finance by 5pm on 29 November 2019; and
 - initiative templates and further supporting information for these initiatives are uploaded to the Treasury's CFISnet system by the same deadlines.
- 2 We have discussed potential education cost pressure initiatives with you and the Associate Ministers of Education. Following these discussions, we have prepared a package of cost pressure initiatives for submission. This package is summarised below.
- 3 Submitted initiatives are not final. They will be able to be further refined as the 2020 Budget package is developed — including changes to their titles, descriptions, costings and potentially withdrawing them from the process. However, late cost pressures (i.e., any submitted after 5pm on 1 November 2019) require separate permission from the Minister of Finance to be included in the Budget process.
- 4 The Treasury guidance states that submitted initiatives that are assessed as being substantially underdeveloped may be required to be treated as late initiatives and resubmitted. We do not consider that any of the cost pressures recommended for submission below are substantially underdeveloped.

Budget 2020 Cost Pressure Initiatives

- 5 We recommend that the following initiatives be submitted to the Minister of Finance, as cost pressure initiatives.

Proposed Budget 2020: Cost Pressure Commitment Initiatives (Includes Pre-Commitments)			
Current Working Title	Summary	Five-Year Cost, \$m	Ten-Year Cost, \$m
		Operating	Capital
s 9(2)(f)(iv) OIA			-
Meeting Increased Demand	Funds the impact of Forecast Changes in the 2019 March Baseline Update and October Baseline Update processes.	76.344	-
School High Health Needs Fund (SHHNF)	Since 2014 the number of students supported through the Fund has grown by an average of 16.3% each year, and the cost of support now significantly exceeds funding.	s 9(2)(f)(iv)	-
Adjusting Learning Support Funding for Population Growth	Growth in student numbers and increasing prevalence of certain learning support needs are putting pressure on the 60% of the learning support spend that is not currently adjusted for volume and/or price changes.	36.643	-
English for Speakers of Other Languages (ESOL)	Budget bids for English for Speakers of Other Languages (ESOL) over the last six years have addressed volume increases but not cost pressure increases (eg as a result of an increase in teacher and teacher aide pay rates).	s 9(2)(f)(iv) OIA	-
School Property Programme to Deliver the NEGP	This will support the School Property Programme to deliver roll growth classrooms, land for new schools, property for kura and special education and non-teaching space — funding around 7,000 additional student spaces to the network, and buying land for new for new schools, over and above Budget 2019 funding.		s 9(2)(f)(iv)
Christchurch Schools Rebuild Programme	Funding to complete the Christchurch Schools Rebuild programme that was approved in 2013.		

Managing growth at Public-Private Partnership (PPP) schools	Four of the schools delivered through the PPP model are forecast to require additional teaching space, due to increasing rolls caused by population growth, as forecast in the National Education Growth Plan.	31.493	23.986
s 9(2)(f)(iv) OIA			
Payroll Sustainability	Budget 2017 allocated payroll sustainability funding until 30 June 2020, to enable development of a long-term payroll strategy. Further funding beyond June 2020 is needed to implement the payroll strategy and allow further sustainability work.	2.000	-
Supporting Kōhanga Reo cost pressures	One year of funding was provided to reduce staffing cost pressures, in the context of helping to resolve the Wai2336 Claim. This was used to increase funded child hour rates. Without further funding, this will cease at the end of the 2019/20 year. Ongoing funding will support staff being paid on the basis of 2019/20 funding rates, and mitigate against the prospect of a further Treaty breach.	93.370	-
Pay Equity	Pay equity claims have been lodged and continue to be lodged for staff and teachers employed by the school Boards, and the Ministry is legally required to consider these claims and negotiate settlements on behalf of the Crown.	s 9(2)(f)(iv) OIA	-
Continuing the Early Childhood Education Provider Assessment Group	This enables the Ministry to maintain its regulatory stewardship of the ECE sector. This was funded for two years (2017/18 and 2018/19) in Budget 2017, and subsequently through a one-off expense transfer. The Ministry is unable to internally fund the cost of the group on an ongoing basis.	7.847	-
Cost Adjustments for Early Childhood Education Subsidies	This initiative seeks a cost adjustment of s 9(2)(f)(iv) for the Early Childhood Education subsidy rates. It will enable providers to maintain existing levels of quality in the face of rising costs.	s 9(2)(f)(iv) OIA	-
Cost Adjustments for Schools' Operational Grant	This initiative seeks a cost adjustment of s 9(2)(f)(iv) for operational grant funding, including base funding for Te Aho o Te Kura Pounamu (Te Kura), to ensure schools are able to maintain current service levels in the face of rising cost pressures. It also includes some additional funding for heating, lighting and water,		-
Tuition Subsidy Increase	This initiative seeks a s 9(2)(f)(iv) cost adjustment to tertiary education tuition and training subsidies to support providers to maintain the quality of tuition and training as costs in the face of rising costs.		-
Cost adjustment for Secondary-Tertiary Programmes (Trades Academies)	This initiative seeks a s 9(2)(f)(iv) cost adjustment to the Trades Academy funding rate, to help schools and tertiary education organisations maintain the quality of tuition and training in the face of rising cost pressures.		-
s 9(2)(f)(iv)			
Total		s 9(2)(f)(iv)	s 9(2)(f)(iv)

Comment

- 6 Based on discussions with the Treasury to date, we anticipate that the Treasury may advise the Minister of Finance that several of them arguably do not meet a strict definition of cost pressures, and should be treated as new spending initiatives. In particular, they may advocate that:

- the Government has some discretion around the four ^{s 9(2)(f)(iv)} cost adjustments (for early childhood education subsidies, school operational funding, tertiary tuition subsidies and trades academies), and therefore they do not meet the criteria to be included as cost pressure initiatives, and

- s 9(2)(f)(iv) OIA

- as the Government has some discretion to defer funding, and based on past precedent, the Christchurch Schools Rebuild also does not meet the criteria to be included as a cost pressure initiative.

7 If these funding types are not increased to reflect rising costs then, over time, the delivery of existing services will be compromised. We therefore recommend that they be submitted as cost pressures.

Risks

8 The above initiatives constitute cost pressures as they are either unavoidable, relate to a pre-commitment, and/or are necessary to maintain the delivery of existing services under existing policy settings. If they are not funded then legal obligations may not be able to be met, and/or the continued delivery of existing services could be compromised.

Financial Implications

9 Submitted initiatives will be progressed as part of your 2020 education Budget package. If any of these cost pressures are not funded, then there will be a shortfall in the funding needed to meet legal obligations and/or maintain existing service delivery.

Next Steps

10 New spending initiatives are required to be submitted to the Minister of Finance by 29 November 2019. Will prepare a submission for your consideration prior to this date.

Proactive Release

11 We recommend that this Education Report is not proactively released at this time because the information it contains is budget sensitive. Instead, we recommend that it is considered for inclusion in the Budget 2020 proactive release, following delivery of the 2020 Budget.