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## AIDE MEMOIRE

### First Budget 2019 Bilateral Meeting with Finance Ministers

<b>Date:</b>	26 October 2018	<b>Priority:</b>	High
<b>To:</b>	Minister of Education	<b>METIS No:</b>	1162969
<b>From:</b>	Damian Edwards, Associate Deputy Secretary, ESP Andy Jackson, Group Manager, GAVC	<b>Security Level:</b>	In Confidence

#### Purpose

1. This note provides you with talking points and supporting material for your Budget 2019 bilateral meeting with finance Ministers on 30 October 2018.
2. **Note** this Aide Memoire will not be released at this time due to the content being budget sensitive. It will instead be considered for proactive release once the 2019 Budget is announced.

#### Context for the Bilateral Meeting

3. On 23 October, you approved the submission of [redacted] potential Education Budget initiatives to the Treasury [METIS 1157855 refers]. Since then we have been working with your Office to thematically group these into a package of [redacted] broad initiatives (as per the attached A3).
4. The Treasury has provided the Minister of Finance with advice to support his bilateral conversation with you, which includes a report on the Education Work Programme (EWP) and how it should be prioritised and sequenced. We provided you with our comments on that paper on 25 October [METIS 1160991 refers].
5. On 25 October you lodged a Cabinet paper seeking \$217 million (operating) and \$95 million (capital) for the first tranche of the Learning Support Coordinator roles contained in the draft Disability and Learning Support Action Plan, as a pre-commitment against Budget 2019 [METIS 1162174 refers].
6. We understand the Minister of Finance may raise the following points in your bilateral meeting:

**We get the job done** Ka oti i a mātou ngā mahi

**We are respectful, we listen, we learn** He rōpū manaaki, he rōpū whakarongo, he rōpū ako mātou

**We back ourselves and others to win** Ka manawanui ki a mātou me ētahi ake kia wikitoria

**We work together for maximum impact** Ka mahi ngātahi mō te tukinga nui tonu

**Great results are our bottom line** Ko ngā huanga tino pai ā mātou whāinga mutunga

- i. across government, proposed Budget initiatives greatly exceed the capital and operating allowances
  - ii. your indicative package, with a four-year cost of over ■ billion (operating) and ■ billion (capital) is unaffordable given other Budget pressures, and must be prioritised and scaled
  - iii. the need to prioritise and phase the EWP, and to hold a Ministerial strategy discussion on it
  - iv. the need to identify low-priority expenditure that could be reprioritised to help meet the Government's Budget priorities, and
  - v. the savings initiatives you have proposed fall short of the target of 1 percent of your portfolio baselines.
7. We also understand that the Treasury has advised the Minister of Finance that it supports the Data for Wellbeing initiative, which it sees as an important investment for improving educational outcomes.

## Suggested Talking Points

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### Collaboration

- The Ministry has been working with multiple agencies and Crown Entities to identify and develop initiatives for consideration in Budget 2019. This has included developing joint bids with ERO, the Tertiary Education Commission (TEC), the Education Council, NZQA, the Department of the Prime Minister and Cabinet, the Ministry of Health, the Ministry of Business, Innovation and Employment, Oranga Tamariki and Ministry for Social Development, Education New Zealand and the Police.
- We have also worked with other agencies to develop cross-agency packages such as the Family Violence package that is being submitted by the Ministry of Justice, the Oranga Tamariki (OT) Operating Model package submitted by OT and the Improving child wellbeing through quality physical activity and nutrition submitted by Sport NZ. More examples are on the attached A3.

### Size of the Education Package

- In preparing my proposed package I have had to balance:
  - the need to ensure that the Education system does not slide backwards while we do the necessary work to review and implement much needed changes, whilst
  - also delivering on specific commitments made in the Speech from the Throne, the Coalition Agreement and the Confidence and Supply Agreement, and
  - maintaining the momentum that we started in last year's Budget.
- In developing my proposed package, I have already deferred progressing a number of initiatives to future Budgets.
- The Education envelope will need to allow sufficient funding to progress more than cost pressures. It will need to enable some strategic choices to be made about the overall direction of the Education system and has to deliver on the commitments from the Speech from the Throne and other Government priorities.

- I will continue to refine my package between now and December to ensure that the balance is right between ensuring necessary levels of capacity and quality while investing in the much needed improvements in the Education system.

**Over 60 percent of my proposed package is made up of unavoidable and critical cost pressures**

- Limited funding increases over the past decade mean that the system is facing significant pressures and challenges in order to maintain current levels of quality, meet increasing demand for core services and address disparities in opportunities and achievement.
- Largely due to school roll growth, I face unavoidable cost pressures of around [REDACTED] billion (operating) and [REDACTED] million (capital) that must be funded in Budget 2019.
- I also face further cost pressures of around [REDACTED] billion (operating) and [REDACTED] billion (capital), which need to be substantially addressed to meet demand and maintain quality of delivery. They include:
  - [REDACTED] million (operating) and [REDACTED] billion (capital) to ensure that school capacity is sufficient to accommodate rising student numbers
  - [REDACTED] million for funding rates for ECE, school operations, alternative education, and tertiary tuition and training to keep pace with costs
  - over [REDACTED] million is likely to be needed to ensure a broad range of delivery by Polytechnics nationwide
  - [REDACTED] million to meet increasing demand for learning support, and
  - maintaining the frequency and quality of reviews conducted by the Education the Education Review Office (ERO) and the New Zealand Qualifications Authority (NZQA), given rising volumes and costs.

**A further 25 percent of my proposed package is focused on modernising and improving the Education system to achieve the Government's vision for Education**

- We have promised a number of specific improvements to the Education system over this term of government. I have carefully prioritised those that I consider we should progress in this Budget.
- These improvements cost around [REDACTED] billion (operating) and [REDACTED] million (capital), and include:
  - [REDACTED] million to put learning support coordinators in place, as per the Disability and Learning Support Action Plan
  - [REDACTED]
- The remaining 14 percent is focused on delivering other priorities identified by the Government.

**I understand that you have discussed the Pacific education package with Minister Salesa as part of her bilateral conversation and you are intending on discussing the Māori education package with Minister Davis as part of his bilateral**

### **The Education Work Programme needs to be managed carefully**

- I agree that careful prioritisation and sequencing are necessary for successful delivery and implementation of the EWP.
- EWP initiatives proposed for this Budget relate to progressing policy work and consultation, and to implementing commitments we have already made, rather than to implementing the recommendations of the reviews underway.
- The majority of further costs will come from implementing review recommendations, rather than conducting the reviews. We can't prioritise these yet as the recommendations of the reviews aren't known, and I don't want to pre-empt the broad sector consultation that is a key feature of the EWP.
- The best time to hold a Ministerial strategy session on the EWP will be in 2019, when we will know more about where the various work streams are heading.

### **Agency capacity to deliver**

- I have prioritised investments in data infrastructure and departmental capability to enable the Ministry of Education to deliver on the commitments in the Child Wellbeing Strategy, Learning Support and Disability Action Plan, Early Childhood Strategy, improving outcomes for Māori and Pacific learners and the shift to a wellbeing approach across government.

### **The Education package includes allowances for managing some significant risks**

- There are a number of risks that need to be managed in 2019, notably s 9(2)(j) [REDACTED].
- s 9(2)(j) [REDACTED]
- The Ministry is currently facing a number of actual and potential Treaty of Waitangi Claims, such as the WAI 2336 Kōhanga Reo Claim, s 9(2)(j) [REDACTED]

### **The reprioritisation target needs to be set at a challenging but achievable level**

- The Treasury has advised that one per cent of the Education baseline equates to a savings target of \$588 million over four years. The bulk of Vote Education, Vote Tertiary Education and Vote Education Review Office funds the direct delivery of Education.
- Generating the level of savings in the Education portfolio suggested by the Treasury would require me to make system changes that are not feasible, such as reducing teacher salaries, employing fewer teachers, increasing class sizes, or reducing the per-pupil operational funding rates (across ECE, schools and tertiary providers).
- The savings target for Education should exclude those types of items in the same way that benefits are excluded from the calculation of the Social Development target.

**A significant savings contribution has been identified for reprioritisation given the pressure faced in the Education system**

- I fully support the need to try and find savings to fund our programme:
  - The Education portfolio contributed over \$220 million to Budget 2018 following a robust line-by-line review of Education appropriations, which was one of the largest savings contributions to Budget 2018 by agencies.
  - In addition to this, I returned a further \$48 million fees-free payments underspend for 2017/18 and more than \$7 million once 2017/18 underspends across other tertiary funds were confirmed.
- The majority of what could be reprioritised was identified and returned last year. This year I am able to return around \$270 million of savings, including some underspends, to the centre in the 2019 Budget. Any more than this comes with some significant risks if implemented.