PPTA
Te Wehengarua

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The gap in school operational grant funding

Analysis of the shortfall and criteria for assessing Budget 2026

PPTA Te Wehengarua

May 2026

Table of Contents

At a Glance

Schools receive around **$2.5 billion a year** in operational grants.

It is the largest source of funding except staffing entitlement for teacher salaries ($5.5b).

Operational grants fund **nearly everything** that schools pay for - except teacher salaries.

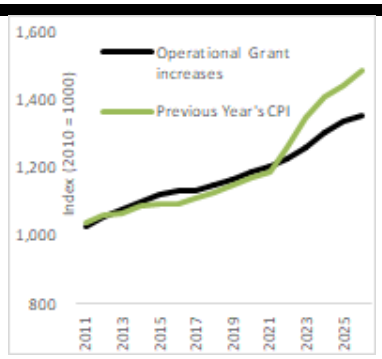
Other sources (e.g. international students, fundraising) are only **10%** of school revenue.

Estimated use of operational grants:

55%: learning resources
15%: administration costs
30%: routine and smaller scale property-related expenses

The Operational Grant is adjusted each year, taking account of **inflation** forecasts.

The increase is announced in the **Budget** and takes effect the next year.

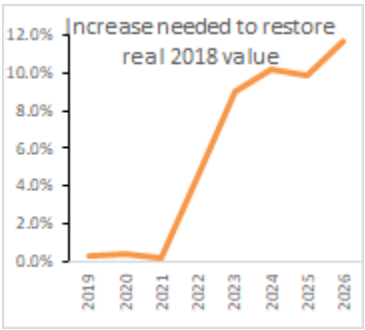


2011-2021:

Increases **kept pace** with inflation

2022-2026:

Increases **fell behind** inflation



As a result,

the value of the operational grant is now

11.7%

below 2018 levels

Shortfall for a middle-sized secondary school:

$230,000

or

$300

per student

Plus - Inflation in 2026:

The Dec 2025 forecast of **2.3%** is out of date.

Treasury's March scenarios equate to a range from **3.0%** through **4.5%** to **6.8%**.

Assessing Budget 2026:

Under 3%: knowingly makes shortfall worse
3- 5%: Fails to address shortfall
5%-12%: Makes some progress on shortfall
12%+: Significantly tackles shortfall

Going forward:

Need to expect increase at least matches the **Budget Day forecast**, and that there is catch-up funding if **actual inflation** exceeds the forecast.

Introduction

Schools in Aotearoa New Zealand are under financial pressure.

Students are presenting with more complex needs, attendance rates are a challenge that needs to be actively tackled, and now fuel costs are rising rapidly with flow-on to a range of other goods and services.

All of this puts pressure on schools' operational grants. It is therefore timely to consider how well successive Governments have done recently at ensuring that operational grants keep pace with the relatively high rates of inflation that we have seen since the international onset of COVID-19.

The answer may surprise many, although probably not the schools themselves as they struggle to keep up with rising costs.

It should concern everyone.

This report estimates that the shortfall in operational grants has grown to 11.7% over the last five years. And it will grow again unless Budget 2026 at least matches inflation for the 2026 year, which even low-end estimates place at 3%.

What is needed is an urgent adjustment to this year's operational grant rates, followed by a substantial lift of 10% or more in the rates for 2027, to take us -- not to nirvana -- but simply back to where we were in 2018.

A note on information sources:

The general rates of increase for the operational grant (Table 1) have been compiled from public sources from the periods in which each increase was announced. In most cases, the rate of increase was specified in a ministerial Budget media release and/or in the Vote: Education Budget minute subsequently released on the Treasury website (https://www.treasury.govt.nz/publications/budgets/budget-information-releases-2005-2025). The adjusted rate for 2011 was calculated using information in the Vote: Education Budget minute.

The Consumer Price Index (Table 1) is from Statistics New Zealand (Infoshare table CPI009AA).

Information on the elements of Ministry of Education funding to schools (Figure 1) and on operational grant components (Figure 2) is from the Ministry's Education Counts website: https://www.educationcounts.govt.nz/statistics/funding-to-schools.

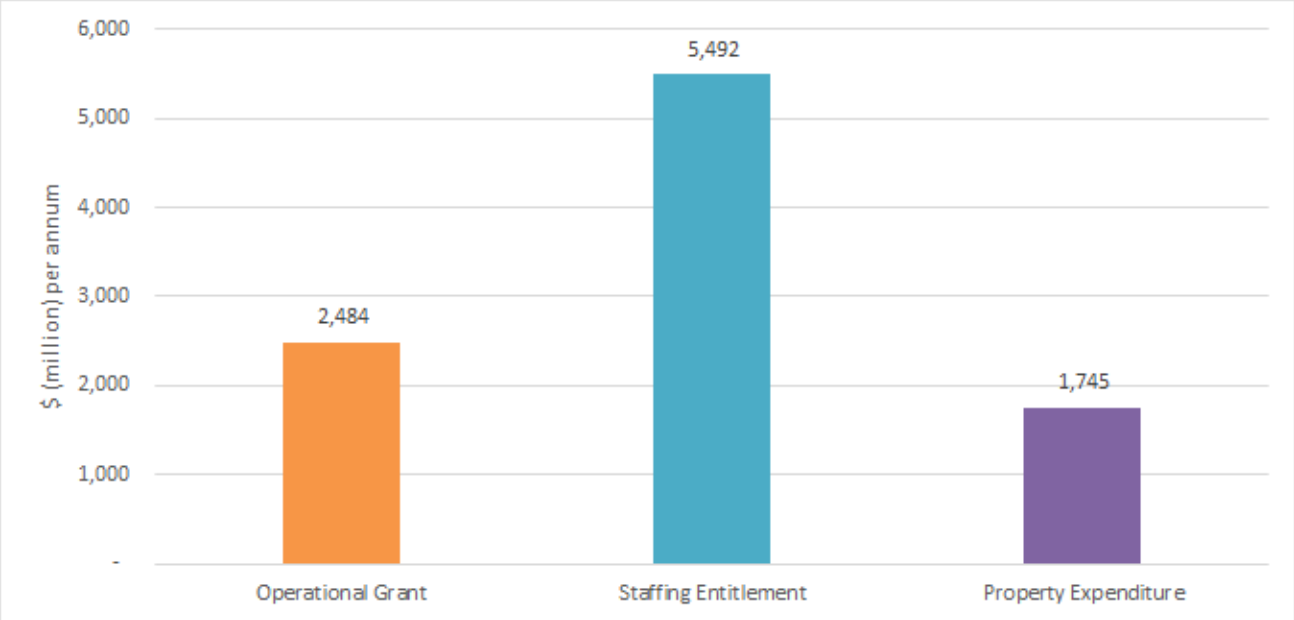
A succession of Budget Economic and Fiscal Updates and Half-Year Economic and Fiscal Updates and associated material, including their Consumer Price Index forecasts (as recorded in Table 3) can be found at https://www.treasury.govt.nz/publications/budgets/current-and-past-budgets.

What is the 'operational grant'?

The 'operational grant' is an umbrella term covering nearly all of the recurrent funding that schools receive from the Government, through the Ministry of Education, apart from the largest single item, which is staffing entitlement i.e. funding for teacher salaries.

The Ministry reports that nearly $2.5 billion was paid to State and State integrated schools as operational grants in 2024. However, substantially more -- nearly $5.5 billion -- was paid by way of staffing entitlement. Property expenditure was recorded as being $1.7 billion (Figure 1).

Figure 1: Main elements of Ministry funding to schools, 2024



The operational grant therefore funds just about everything that schools pay for, apart from (most) teacher salaries, the school lunches programme (for eligible schools) and approved major capital works, which are funded directly by the Ministry.

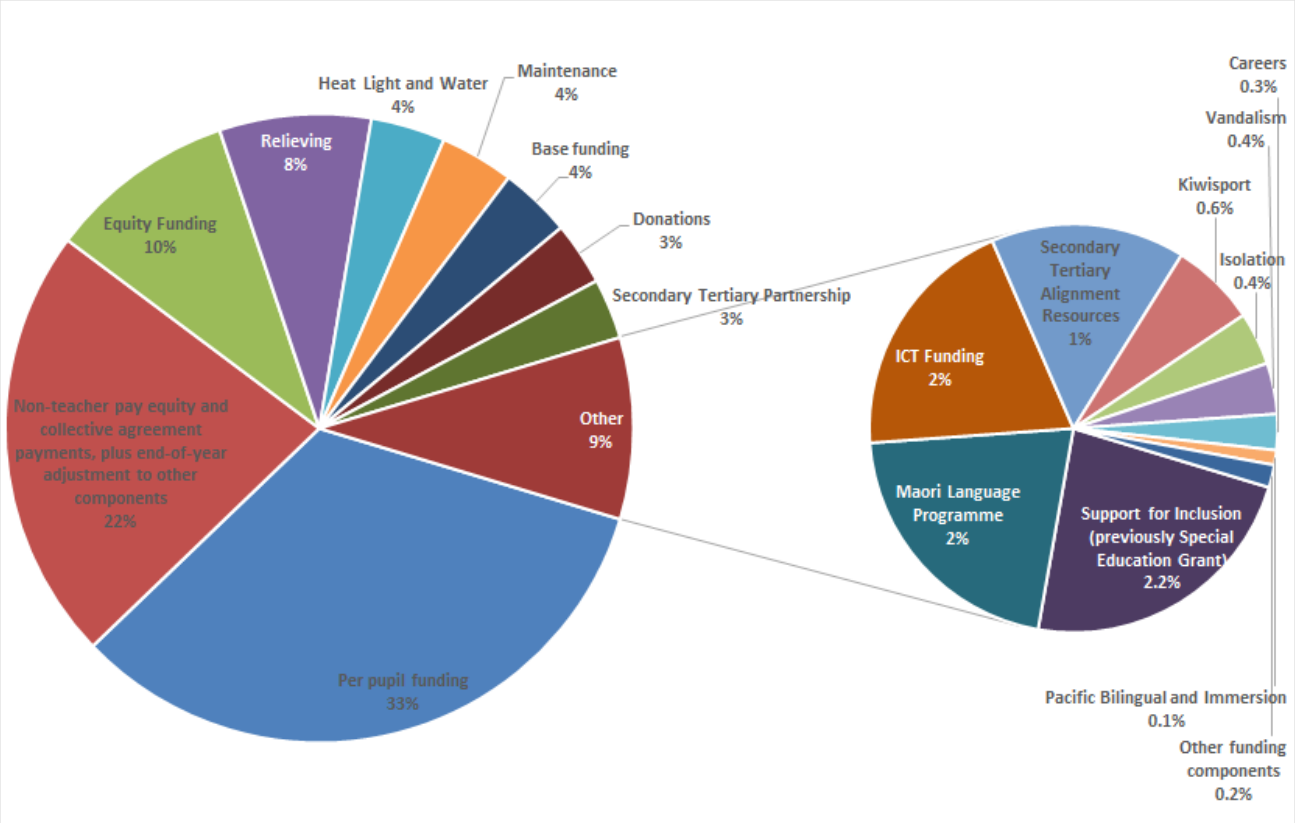
Other sources of funding like fund-raising and international students are valuable at the margins, but only account for about 10% of school revenue on average.

Drawing upon an analysis of school annual reports by the Ministry[1], it is possible to roughly estimate the broad categories of spending that the operational grant is used for. These are average figures across all schools, and there may be considerable variation from one school to another.

- Approximately 55% of operational grant expenditure goes on *learning resources*. This includes teacher aide wages, salaries for teachers additional to staffing entitlement, information and communication technology, staff development, purchase of materials and equipment for learning, applying the curriculum and expenses related to extracurricular activities.
- Approximately 15% goes on *administration*. This includes the salaries of non-teaching support staff and other administrators, expenditure of the school board, operating leases, insurance, legal fees and communications, and audit-related expenses.
- Approximately 30% goes on routine and smaller scale *property-related expenses*. This includes the salaries of cleaners and caretakers, heating, light and water requirements, expenses for the upkeep of school grounds, and repairs and routine maintenance of school sites.

[1] Ministry of Education, *The pathways of education: Ngā Ara o te Mātauranga | 2024 (Incorporating New Zealand Schools | Ngā Kura o Aotearoa)*, October 2025, "Appendix A: Resourcing of New Zealand schools", https://www.educationcounts.govt.nz/publications/schooling2/school-networks/nga-ara-o-te-matauranga-education-system-report/the-pathways-of-education-nga-ara-o-te-matauranga-2024.

Figure 2: Components of the School Operational Grant, 2024



Different components of the operational grant are allocated in differing ways. Some components are associated with particular purposes (e.g. Relieving; Heat, Light and Water; ICT Funding), but these components tend to be relatively small and the largest component ('Per pupil funding') is provided for general purposes (Figure 2). In any case, almost none of the operational grant is ring-fenced to any particular use.

Headline impact: operational grant falling behind inflation

The second column in Table 1 below presents the increases that have been put in place for the operational grant for each of the last sixteen years. There have been increases each year except for 2017; they have ranged from 1.00% in 2016 to 3.5% in 2024.

Table 1: Increases to operational grant compared with CPI inflation, 2011-2026

Year	Operational grant increase that takes effect that year	Consumer Price Index increase for previous calendar year	Notes re operational grant figures
2011	2.84%	4.03%	Adjusted for impact of quarterly roll counts[2]
2012	2.90%	1.85%	
2013	2.00%	0.95%	
2014	1.90%	1.63%	
2015	2.00%	0.76%	
2016	1.00%	0.08%	
2017	0.00%	1.34%	Excludes increase to equity funding[3]
2018	1.30%	1.59%	
2019	1.60%	1.89%	
2020	1.80%	1.85%	Excludes introduction of school donations scheme and new loading for non-teacher pay equity and collective agreement payments
2021	1.60%	1.44%	
2022	1.60%	5.95%	
2023	2.75%	7.22%	Excludes increase to equity and isolation funding
2024	3.50%	4.66%	
2025	2.50%	2.22%	Excludes increases to equity and isolation funding
2026	1.50%	3.11%	

The third column in Table 1 compares those increases with previous year of inflation as measured by the Consumer Price Index (CPI). Operational grant increases are generally conceived as 'catch ups' to inflation and the

[2] 2.84% is an adjusted figure. The official figure is 4.0%, but for secondary schools 30% of the value of this increase was offset by a reduction in the value of the operational grant due to the shift to allocate secondary school operational funding using quarterly roll counts, rather than the 1 March roll count only. The Cabinet minutes for Budget 2010 explicitly state that the 4.0% increase is intended to "counter-balance the reduction in operational funding caused by the introduction of quarterly roll counts in 2011".

[3] By contrast to footnote 2, adjustments have not been made to account for increased school operational funding outside of the across-the-board operational grant increase. Targeted increases occurred in 2017, 2020, 2023 and 2025. However, these increases impacted differentially on schools and were undertaken for specific policy purposes, so it would not appropriate to take these into account when assessing whether the general value of the operational grant across all of its components has kept pace with inflation.

inflation rate for the preceding calendar year is the standard benchmark for this (see next section for discussion).

The overall pattern is that operational grant increases mapped quite closely against inflation over 2011-2021 before falling behind inflation during 2022-2026 (Figure 3).

Figure 3: Index of Operational Grant Increases compared with Consumer Price Index

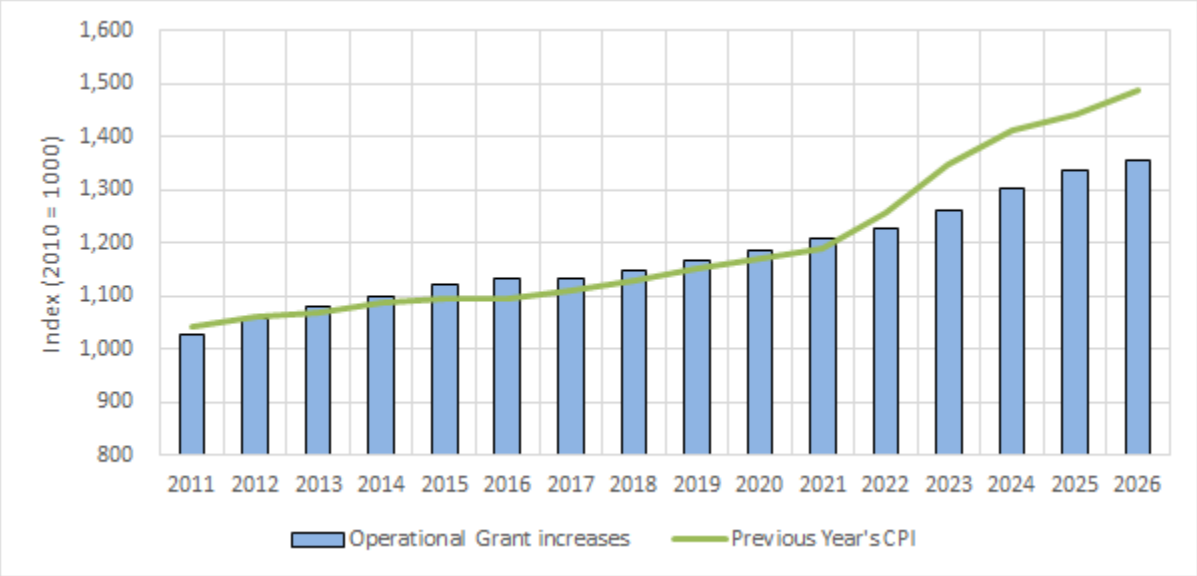
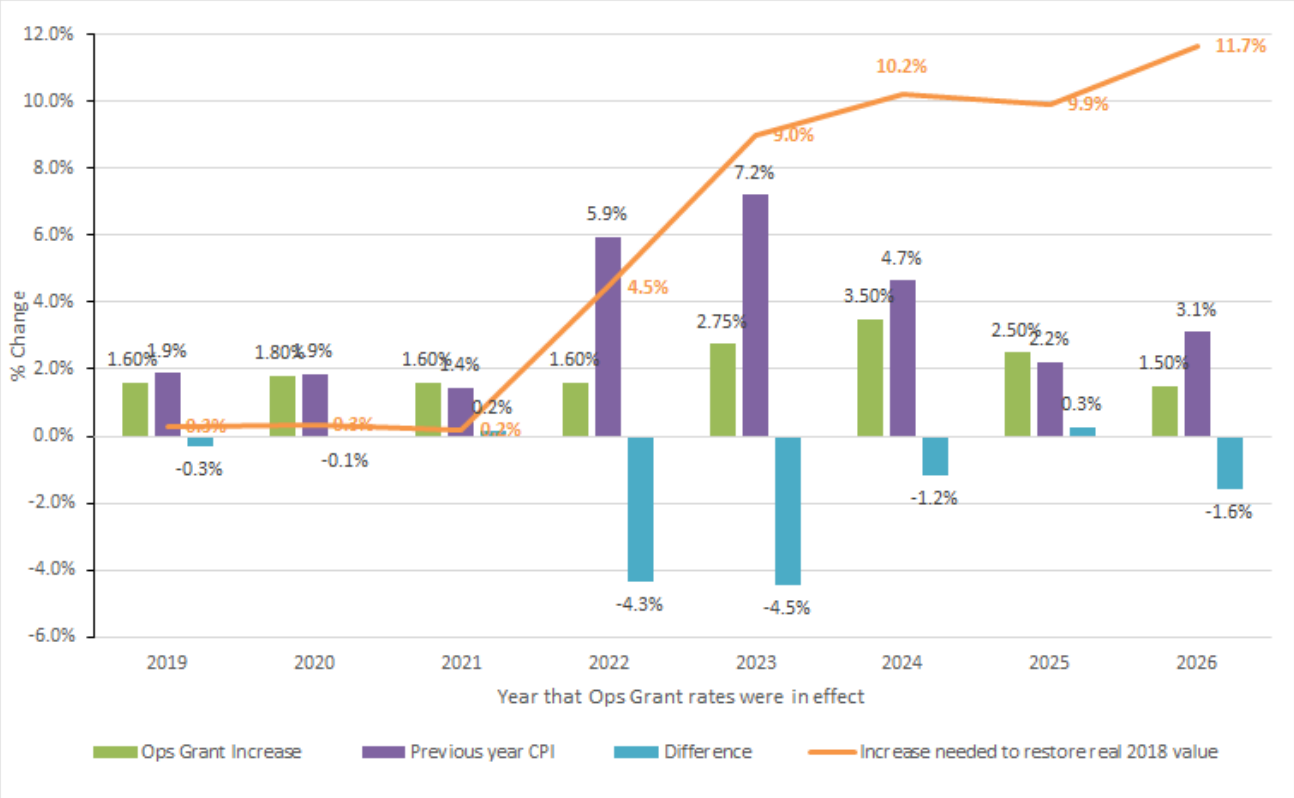


Figure 4 presents a more detailed picture of the second half of that time period, 2019-2026. This shows that the shortfall has been primarily driven by three years, 2022-2024, at the end of the COVID period. The operational grant increases in those years, while in some cases historically high, were dwarfed by inflation rates that peaked at 7.2%. This has been compounded by the current year where moderately high inflation has again outpaced an historically quite modest grant increase.

Figure 4: How shortfalls against inflation eroded the value of the Operational Grant



The cumulative shortfall between operational grant increases and inflation over that period has reached **11.7%.**

To put that another way, it would take an 11.7% increase to operational grants for 2027 – over and above the inflation rate for 2026 – to restore the real value of the operational grant to where it was in 2018.

The following example (also summarised in Table 2) illustrates what that means in concrete terms for an individual school:

If secondary schools are ordered from largest to smallest, then the school in the middle of the pack has a roll of 782 students (in other words, this is the median secondary school).

A school of this size would (depending on its specific characteristics) have received an operational grant of around $1.8 million in 2021 and spent that on a bundle of goods and services that advance teaching, learning, student wellbeing and the maintenance of the school.

By 2026, the general increases to operational grant set out in Table 1 would have increased that operational grant by about $220,000.[4] However, based on the CPI, the costs of the bundle of goods and services that that money was buying would have increased by about $450,000, nearly twice as much.

So this middle-of-the-range school would be worse off by about $230,000.

That's a shortfall of about $300 per student for a school of that size.

(Smaller schools tend to receive more operational grant per student to reflect some of the fixed costs of running a school, so the overall shortfall will be smaller but the shortfall per student might be getting up towards $500.)

Table 2: Impact of the operational grant falling behind inflation for a middle-sized (median) school

School Roll	Operational grant in 2021 (approx.)	Value of general increases to operational grant (approx.)	General increase to operational grant to keep up with inflation (approx.)	Total shortfall	Shortfall per student
782	$1,800,000	$220,000	$450,000	$230,000	$300

[4] Note that this does not included target increases for particular purposes that differed from one school to another, as discussed in footnote 3.

Drilling deeper: dynamics of CPI forecasting and Budget process

This section goes into a little more depth for those who are interested in the dynamics of the relationship between the CPI and the setting of operational grant rates.

It is intended to help provide some understanding on why, despite what seems to be a standing intention by successive Governments to keep operational grant rates broadly in line with inflation, this does not always happen in practice.

Part of the reason for this, of course, is simply the (political) decisions Governments make about the most important priorities for new Government spending. The operational grant is a relatively large expenditure item and is often 'traded off' against other education (and non-education) costs and initiatives.

But there are also features of the Budget process that have an influence on operational grant increases being inadequate – while, at other times, 'bailing out' Governments who had taken a more miserly approach.

Firstly, it is worth underlining the fact that the operational grant has generally been set with reference to the rate of inflation the year before. So, for the 2026 operational grant for instance, its increase is intended to reflection the erosion in its buying power (a.k.a. inflation) that occurred during 2025 (i.e. the 2025 calendar year, also known as 'the year to December 2025'), rather than what we think inflation will be during 2026 itself.

But, secondly, the increase for each operational grant is set by the government Budget the year before. For instance, the decision to put in a 1.5% increase to the operational grant in 2026 was announced at the 2025 Budget in May 2025. What this means of course is that at the time that they made that decision, the Government didn't actually know what the inflation for the year to December 2025 would be. They were relying on a forecast.

But the Budget isn't all worked out from scratch in May. The Budget process takes many months, with the first round of 'Budget bids' being submitted to the Minister of Finance and Treasury the previous December. At that stage, the forecast of 'year to December' inflation that they are relying on is the one that Treasury publishes in the Half-Year Economic and Fiscal Update, or 'HYEFU'. The HFEFU comes out each year in December.

So the 'bid' for an operational grant increase that goes into the first version of the 'Education package' for the Budget will tend to have been developed taking account of the HYEFU forecast.

But, towards the end of the Budget process, Treasury produces a new CPI forecast, which gets published on Budget Day in the Budget Economic and Fiscal Update, or 'BEFU'. The BEFU forecast of inflation for the 'year to December' that year may be higher (or lower) than the HYEFU forecast. For instance, HYEFU 2024 forecast that 'year to December 2025' inflation would be 2.1%, but the BEFU forecast had been revised up to 2.3%.

This can create challenges late in the Budget-setting process, where the Minister and Ministry need to prune other bits of their 'Education package' to make room for a higher operational grant increase or else ask the Minister of Finance to adjust their overall 'envelope' of funding to take account of this.

But it doesn't end there. Inflation forecasts continue to be adjusted (e.g. in the subsequent HYEFU) and the actual rate of inflation for the 'year to December' gets published in January the following year (i.e. once the new operational grant rates are already in effect). This produces the final verdict on whether the Budget increase to the operational grant had actually been adequate.

In the case of 'year to December 2025', the forecast went up quite significantly in HYEFU 2025 to 2.9%, and the actual rate turned out to be 3.1%. In other words, the 'best information' available during the Budget process had severely underestimated how high the increase would need to be.

On the other hand, the increase the Government decided on was just 1.5%, lower than even the HYEFU 2024 forecast (2.1%). Even so, this was not as big a gap as eventually materialised.

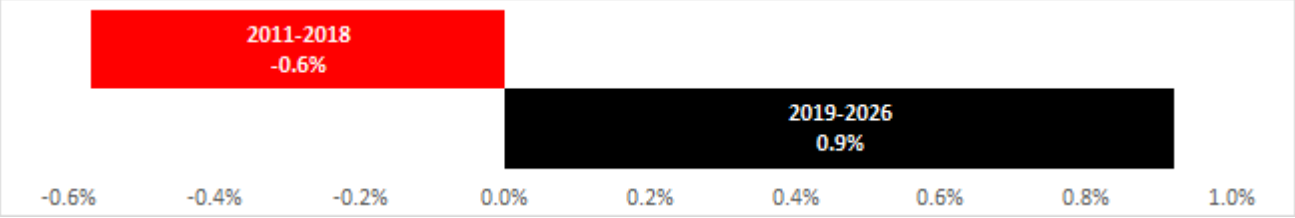
Table 3: Forecasts of CPI compared with actual CPI and operational grant increases, 2011-2026 (all figures in %)

Year grant in effect	CPI forecasts			Actual CPI (year to previous December)	Increase to operational grant rates	Difference between BEFU forecast and actual CPI
	HYEFU the year before rate set	BEFU the year rate is set	HYEFU the year rate is set			
2011	2.0	5.4	3.9	4.0	2.84	-1.4
2012	2.9	3.1	3.1	1.8	2.9	-1.2
2013	2.0	2.1	1.4	0.9	2.0	-1.2
2014	1.8	1.8	1.3	1.6	1.9	-0.2
2015	1.9	1.6	1.0	0.8	2.0	-0.8
2016	1.9	0.5	0.7	0.1	1.0	-0.4
2017	2.1	0.6	1.2	1.3	-	0.7
2018	1.6	1.7	1.9	1.6	1.3	-0.1
2019	1.7	1.3	2.0	1.9	1.6	0.6
2020	1.8	1.7	1.6	1.9	1.8	0.2
2021	1.8	0.4	1.1	1.4	1.6	1.0
2022	1.2	2.2	5.5	5.9	1.6	3.7
2023	3.5	6.1	7.1	7.2	2.75	1.1
2024	4.9	4.5	5.1	4.7	3.5	0.2
2025	2.9	2.5	2.0	2.2	2.5	-0.3
2026	2.1	2.3	2.9	3.1	1.5	0.8

Table 3 sets out the various forecasts of CPI along the Budget process and afterwards, over the last sixteen years. Bear in mind that the CPI forecasts and actuals shaded in orange are information that was not available at the time the operational grant increase was set.

The final column in Table 3 shows how the inflation figure shifted after the Budget decision was made. One readily apparent feature is that administrations over the first half of this period (2011-18) were often (seven times out of eight) 'gifted' with a final rate of inflation that was *below* what was forecast on Budget day, whereas during the second half (2019-26) the final rate was often (seven times out of eight) *above* what was forecast on Budget day (see also Figure 5).

Figure 5: Average shift between BEFU forecast of 'year to December' CPI and actual CPI, 2011-2018 and 2019-2026



This helps to explain why inflation parity was maintained during the first half of our period, despite what might have been less commitment to actually doing so.

Figure 6: Operational grant increases compared with CPI forecasts at the start (HYEFU) and end (BEFU) on the Budget process and actual CPI

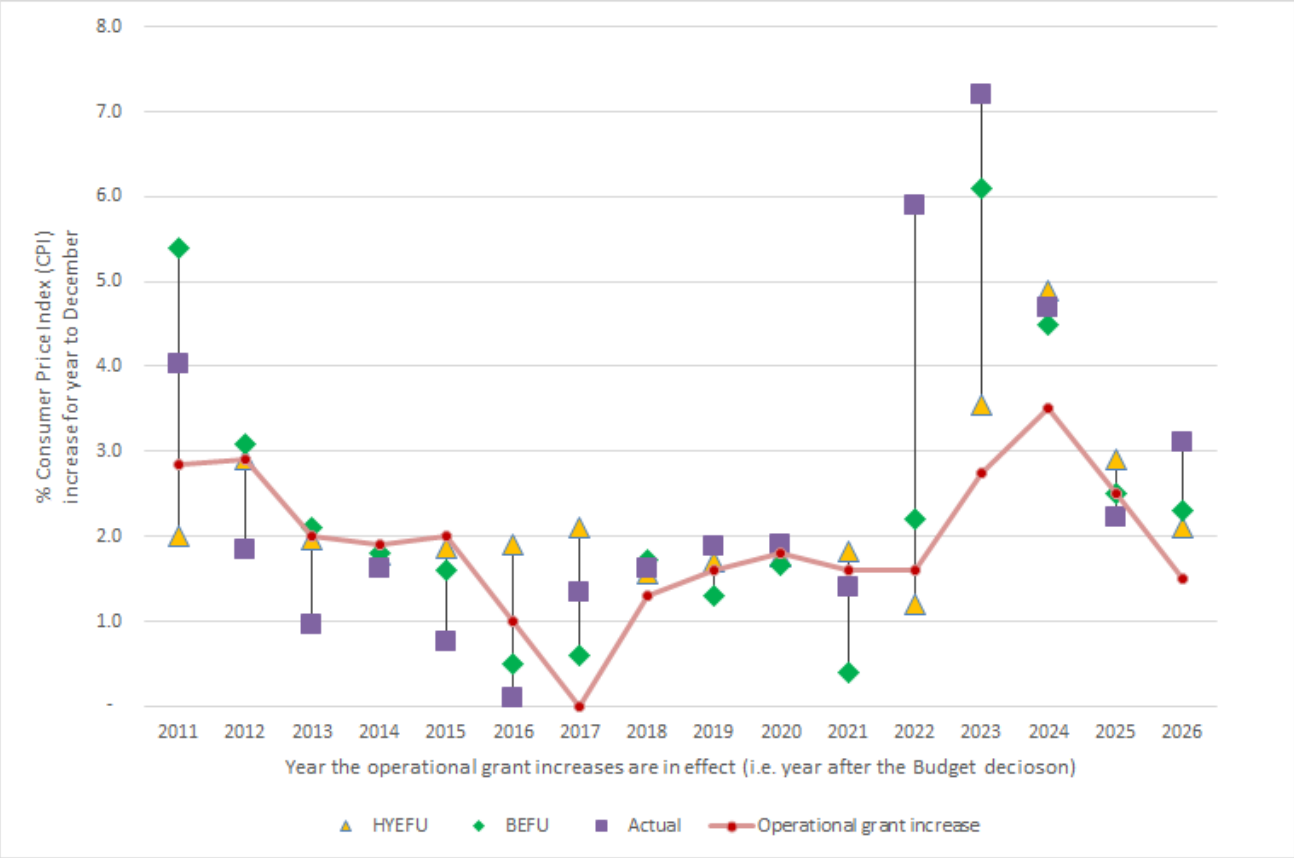


Figure 6 depicts graphically the iterative way the rate-setting has interacted with information becoming available during the Budget process, and how it is seen in hindsight once the actual rate of inflation is known. In most cases, the operational grant increase is closely aligned with the HYEFU forecast at the beginning of the Budget process. Where inflation falls subsequently, the result looks quite positive; where it rises afterwards, it looks bad.

Cases in point of the 'stickiness' of HYEFU are 2011, 2022 and 2023 where Budget decisions seemed to have be unable or unwilling to respond to an upwards revision in CPI between December (HYEFU) and the Budget (BEFU). Fortuitously, in 2011 actual inflation was below what as predicted on Budget Day; less fortunately, in 2023 actual inflation was higher again. 2022 is a particular unlucky instance where, while it was known on Budget Day that the increase would be a bit short, inflation then escalated dramatically from 2.2% to 5.9%, after the operational grant increase had already been set.

This understanding of the dynamics of rates-setting suggests a few things that might be helpful in mitigating against those times when operational grant increases are at risk of falling behind CPI, which are mainly in periods of high and rapidly-escalating inflation (as is the case at present):

1. It would be helpful to promote greater awareness within the media and the sector that operational grant increases should be expected to keep pace with inflation, and that this should not be assessed against a general 'vibe' of the cost of living but rather can be judged quite specifically on the day of the Budget by reference to the forecast of inflation for the year to December that year, as presented in the BEFU.
2. Rather than starting from scratch each year, Government should, at the beginning of the Budget process, consider last year's increase in light of post-Budget revisions to inflation. In the first instance, this would mean any increase in forecast CPI between the BEFU and HYEFU, and would later take account of the final figure when that is published. If there was a shortfall, the next year's increase should adjust for that over and above its usual inflation reference-point.
3. In extreme cases of post-Budget spikes to inflation, an out-of-cycle increase to operational grant rates should occur.

What's next?: inflation prospects for 2026

In December 2025, Treasury published its Half-Year Economic and Fiscal Update (HYEFU), which included a forecast of inflation for the year ended December 2026 of 2.3%.

But that feels like a different world. It was before the War against Iran, and ensuing fuel crisis and economic shocks.

Treasury will publish a new forecast on Budget Day. It will almost certainly be higher, but how much so?

On 23 April 2026, The Minister of Finance made public three forecasting scenarios that the Treasury had presented her with a month earlier. The most optimistic one, which Treasury considered was the most likely, had inflation peaking at 3.9% in the year to June 2026 before falling back to 1.5% in the year to June 2027.[5]

Translated to December years, this would likely equate to at least 3.0% for the year ended December 2026.

Treasury is unlikely to have revised its forecasts to be more optimistic than that, so it's likely the Budget Day (BEFU) forecast would be around that amount.

But such a forecast would come with significant upside risk. It was based on Persian Gulf oil flows gradually resuming following a ceasefire in early to mid-April. In the case of a prolonged conflict Treasury forecasts inflation to reach 5.2%, or 7.2% if the conflict was more severe.

These would likely equate to CPI increases for the year ended December 2026 of around 4.5% or 6.8%, respectively (summarised in Table 4).

And even these scenarios have been described as "pretty optimistic", especially in terms of how quickly they predict economic conditions would return to normal settings.[6]

In these volatile and uncertain circumstances, it would be prudent for the setting of the operational grant increase to include a significant buffer above whatever inflation forecast is presented in BEFU.

Table 4: Summary of a range of possible estimates for CPI increases for the year to December 2026

HYEFU forecast of 2026 inflation	Estimate based on Treasury's most optimistic scenario	Estimate based on Treasury's midpoint scenario	Estimate based on Treasury's least optimistic scenario
2.3% Out of date	3.0%	4.5%	6.8%

[5] Anna Whyte, "New Zealand's economic recovery 'delayed, but not derailed', says Finance Minister, with Treasury's new worst case inflation scenario at 7.4%", *Interest.co.nz*, 23 April 2026, https://www.interest.co.nz/economy/138222/new-zealand's-economic-recovery-'delayed-not-derailed'-says-finance-minister.

[6] Tom Pullar-Strecker, "Treasury's hope for rapid return to normality hard to reconcile", *The Post*, 4 May 2026.

Putting it right: assessing adjustment(s) in Budget 2026

In light of the preceding analysis, it is possible to put together a simple but robust analytical tool for assessing the operational grant increase that will be announced as part of Budget 2026.

This is set out in Table 5 and gives rates of increase a score out of ten, taking into account:

- that the inflation forecast for 2026 in the Budget (BEFU) will be higher than the 2.3% forecast at the start of the Budget process and may be around 3.0%
- that whatever forecast Treasury arrives at will have unusually-high upside risk due to the fuel crisis and ongoing international volatility
- that the operational grant needs an 11.7% boost (over and above adjusting for 2026 inflation) to tackle the shortfall that has built up from 2022 onwards, and
- that current and emerging pressures are becoming urgent and there is a need for some adjustment to operational grants during the 2026 year, ahead of a further adjustment in 2027.

Table 5: Tool for assessing the increase to operational grant funding for 2027

Category	Score (out of 10)	Characteristics of Increase
Knowingly makes shortfall worse	0	Less than 2.3%
	1	2.3% (the out-dated HYEFU estimate)
	2	Between 2.4% and 2.9%
Fails to address shortfall	3	3.0%*
	4	More than 3.0%* and up to 4.0%
	5	Between 4.1% and 5.0%
Makes some progress on shortfall	6	A total increase of between 5.1% and 6.0%, of which at least 2.0% is paid as an initial adjustment during 2026
	7	A total increase of between 6.1% and 8.0%, of which at least 2.5% is paid as an initial adjustment during 2026
	8	A total increase of between 8.1% and 12.0%, of which at least 4% is paid as an initial adjustment during 2026
Significantly tackles shortfall	9	A total increase of between 12.1% and 16.0%, of which at least 4% is paid as an initial adjustment during 2026. (Based on 4.0% inflation, a 16% increase would fully address the shortfall in the operational grant.)
	10	More than 16%, recognising that there is a further underlying underfunding in the system and that schools' cost-inflation exceeds the CPI.

In this table, "3.0%" is used to denote an amount equal to the BEFU estimate of inflation, which is thought likely to be around 3.0%.

Conclusion

The 11.7% shortfall in schools' operational grants has, until now, been unheralded.

But it is a major, and growing, impediment to schools being able to deliver on the educational and student wellbeing outcomes that everyone wants to see.

By shedding light on this major gap, which underpins or compounds many of the other problems facing education today, this report sets important challenges for a range of groups, going forward:

For the current Government:

- To deliver in this month's Budget an urgent increase to this year's operational grant and an increase for 2027 that at least addresses forecast inflation and makes some progress on tackling the shortfall.

For all political parties:

- To set out before the election a funded timetable for fully eliminating the remaining shortfall.

And for the sector, sector organisations and the media:

- To hold the Government of the day accountable, each Budget, for an increase to operational grants that at least matches the Budget Day forecast of inflation for that year; and
- To expect that, when actual inflation exceeds the Budget Day forecast, that this is factored into the following year's operational grant increase.