The Treasury

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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2017/929 SH-4-4

Date: 5 April 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: None

Aide Memoire: Budget 17 Early Childhood Education Price Adjustment - Further Options

Purpose

This aide memoire sets out the implications of four further scaling options for Budget 17 initiative 9531 - Early Childhood Education (ECE): Targeted Funding for Disadvantage. At Fiscal Issues on Tuesday 4th April you asked for more information about options for this initiative, in particular for options which were less narrowly targeted.

Previous Advice

On 22 March 2017 we provided a draft aide memoire (T2017/724) with five options for initiative 9531, [33]

On 4 April 2017 we provided more information on the [33] per annum recommended scaled option in an aide memoire ahead of Fiscal Issues (T2017/892).

Options

The Ministry of Education has modelled four further options for scaling this initiative which target the funding to a larger number of ECE centres (services with a lower concentration of at-risk children).[1] The four scaled options are described in Table 1 below, alongside the agency funding request.

1 The analysis is based on an assumption of an average 1,000 child funded hours per year per child and a risk index targeting mechanism. Using a risk index, every child is assigned a risk score based on the proportion of time they have been dependent on welfare. 20% of children attending ECE are considered at-risk (40,000 children).

Table 1: Further scaling options for Budget 17 initiative 9531 – Early Childhood Education (ECE): Targeted Funding for Disadvantage

[33]

* Note: to avoid identification of children, services with very low at-risk hours would receive no funding.

Implications

The two purposes of this Budget initiative request are to:

- target a cost adjustment to centres that are less able to cover rising costs by increasing fees (without affecting participation or service quality); and
- feed insights from the targeting mechanism into the review of education funding systems.

Targeting services most in need

The Ministry recommends providing funding to services with 15% or above at-risk children. Their research suggests that a 15-20% concentration of at-risk children begins to have a material impact on student progression.

If you choose an option which targets centres with a lower concentration of at-risk students, the price adjustment is likely to accrue to some centres which could raise additional funding by raising fees and/or reducing margins without impacting participation or quality. By concentrating funding to a smaller number of services, that are less able to respond to rising costs in this way, funding is more likely to have an appreciable impact on quality and/or participation.

Insights for the funding review

If funding were spread across a larger number of services, the Ministry would still be able to gain useful insights to inform moving toward a per child funding model. However, lower amounts of extra funding per service would make assessing the effect more difficult in any impact evaluation.

Comparison to the Schooling Sector

At Fiscal Issues on 4 April 2017, you asked about how this ECE cost adjustment compares to the adjustment being made to schools' operational grants in Budget 17.

The Budget 17 package includes a 1.3% universal adjustment to schools' operational grants, and a 4% increase to the Targeted At Risk Grant (TARG) allocated to schools based on the estimated number of benefit dependent students. In 2016/17, operational grants make 26.2% of funding to schools in 2016/17, and for individual schools, TARG makes up between 0 and 2.89% of their operational grant.

The total annual average cost adjustment of $15.13 million included in the Budget 17 package for schooling represents 1.12% of total operational grants, or 0.3% of total funding to schools including teachers' salaries. The average price increase per at-risk child made by Budget 16 TARG funding was 5%. Table 1 above depicts the percentage increase in total ECE subsidies, and average percentage increase per year per at-risk child, which would be implied by the different funding options.

ECE subsidies and operational grants are not directly comparable, because:

- we do not have comprehensive information about the total income of ECE providers because they also receive income from private sources by charging fees, and indirectly through the childcare subsidy administered by the Ministry of Social Development; and
- schools receive separate funding for salary costs and increases, while ECE centres must meet these from subsidies and fees (salaries make up 60-70% of ECE services' costs).

However, centres with a higher concentration of at-risk children are more likely to rely more heavily on subsidies, due to their relatively constrained ability to raise fees.

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