

Achieving Government's Priorities in Early Childhood Education

Proposal

1. I propose to change early childhood education (ECE) policy and expenditure in Budget 2010 to focus effort on our priority of increasing participation in ECE, and to contain costs.

Executive Summary

2. Our priority in ECE is to improve participation for Māori and Pasifika children, and children from lower socio-economic status areas. These children are currently two to three times less likely than others to benefit from ECE before starting school. ECE can provide these children with a strong foundation for ongoing learning by building early literacy and numeracy skills. My baseline alignment proposal for ECE is focussed on aligning spending with priorities.
3. We need to focus on local solutions for specific areas and communities to improve participation for priority groups. We need to direct more support to work done by communities, iwi, ECE providers, and local government.
4. In Budget 2010, I propose to:
 - 4.1. invest in participation in priority areas, based on five intensive community-led participation projects
 - 4.2. remove planned future spending that does not contribute to our participation priority: lifting the six hour daily limit on *20 Hours ECE* and funding for teacher salary costs
 - 4.3. target teacher supply initiatives to priority groups
 - 4.4. support families and ECE providers with a one-off cost adjustment
 - 4.5. align ECE funding with our 80% ECE teacher registration target, finishing the changes we need to make to align incentives and support with our target
 - 4.6. [deleted – collective ministerial responsibility]
5. We have already decided to set an 80% ECE teacher registration target [SOC Min (09) 23/4]; we now need to align our spending with this target. Spending on ECE is almost three times as large as it was five years ago, but most of this spending is universal, not targeted to needs. My proposals for Budget 2010 will take steps to control costs consistent with this plan. In taking these steps, we

need to maintain good levels of ECE participation, start to increase participation in our priority communities, and maintain support for parents to work and study.

6. [deleted – collective ministerial responsibility], the proposed changes may still result in fee increases for some families, and in extreme cases reduce levels of ECE use. I propose to offset these effects by:
 - 6.1. providing a 2.4% cost adjustment based on forecast inflation for 2010/11, to ameliorate changes needed [deleted – collective ministerial responsibility] have to make the appropriate changes
 - 6.2. *[information deleted due to the current constitutional conventions protecting collective and individual ministerial responsibility]*
 - 6.3. providing information for low and middle-income families, *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*, to use the Childcare Subsidy to offset any increased costs. Childcare Assistance has reduced for middle-income families due to changes to income thresholds announced in the Future Focus package which may limit the numbers eligible.
7. This paper also seeks approval for the financial impacts of decisions made earlier to target teacher supply initiatives to priority groups [SOC Min (10) 5/2 refers].
8. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Background

9. Our priority in ECE is to improve participation for Māori and Pasifika children, and children from lower socio-economic status areas. Participation in ECE can provide children with early literacy and numeracy skills for ongoing learning, to support later achievement in education.
10. We need to change policies to achieve this priority. In 2009/10 we will spend almost three times as much as in 2004/05: \$1,120 million, up \$690 million from 2004/05. Most spending is universal, not targeted to areas of highest need or to priority goals, and has done little to improve participation by target groups. One in four Māori children starting school in Counties Manukau last year had not participated in ECE compared with the average of one in 20 across all children nationwide. Participation by both Māori and Pasifika has increased in recent years, but a significant gap between participation rates by these groups and the average remains.
11. Extra funding has improved ECE performance, with a more skilled ECE workforce and more children attending ECE for longer. The number of registered ECE teachers has increased by 63% since 2005. Increases in hours of participation will have improved outcomes for some, but further increased total costs. To achieve these changes, Government has met many costs that were previously met by parents, for example through *20 Hours ECE*.

12. ECE spending is forecast to continue increasing under current policy settings. Recent forecast updates show that by 2011/12 total spending will be \$225 million above current levels, driven by increased volumes of ECE provision and increases in the hourly cost of ECE. More than half the spending growth is due to provision increases, including the 8.2% increase in births between 2006 and 2007 and a 45% increase in average weekly hours of ECE between 2000 and 2009. The remaining spending growth is due to increased cost per hour: mainly from services using more registered teachers, plus other price factors such as uptake of *20 Hours ECE*.

Comment

13. We need to shift ECE from universal spending to making a difference where it is most needed: such as the 10% to 15% of Māori and Pasifika children who miss out on ECE now. We need to boost participation to make the most difference while smoothing the change for families benefiting from ECE now.
14. This paper presents proposals for beginning to align ECE spending to our priorities for Budget 2010. I propose to:
 - 14.1. invest in participation in priority areas, based on five intensive community-led participation projects
 - 14.2. remove planned future spending that does not contribute to our participation priority: lifting the six hour daily limit on *20 Hours ECE* and funding for teacher salary costs
 - 14.3. target teacher supply initiatives to priority groups
 - 14.4. support families and ECE providers with a one-off cost adjustment
 - 14.5. align ECE funding with our 80% ECE teacher registration target
 - 14.6. [deleted – collective ministerial responsibility]

Links to other initiatives

15. These proposals align with our other social policy priorities for families and whānau with young children.
16. *Future Focus*. My proposals to promote access to ECE participation for low income working families will support the Minister for Social Development and Employment's *Future Focus* welfare changes, but other proposals may have a negative impact on some sole parent and low-income families. The combined impacts of the *Future Focus* changes to Childcare Assistance, and the proposals in this paper were considered by Cabinet as part of the *Future Focus* package (see paragraph 63 below).
17. *Transforming Family and Community Services*. I expect that community ECE participation projects would work closely with Community Response Fund regional selection forums.

18. *Drivers of Crime*. Increased engagement with ECE will reduce the drivers of crime, by improving education and social outcomes for children and their families.
19. *Whānau Ora*. Whānau-centred initiatives will encourage collaborative relationships between government and community agencies. The work being done on intensive community-led projects to promote ECE participation to priority groups is well aligned with this approach, and those projects will seek to make appropriate links with Whānau Ora initiatives.

Proposals

A Participation Package

20. I propose to introduce intensive community-led ECE projects and supporting interventions.
21. Communities with low ECE participation have differing needs. In some areas the main issue is that existing ECE provision does not meet family and whānau expectations. In others, there is not enough provision, provision in the wrong locations, or parents do not value the benefits of ECE for their children. We need to make sure that children's participation in ECE meets the needs of families and whānau within and beyond education. We need to direct more innovative and intensive support to under-participating groups, supporting communities and Iwi to address barriers to ECE participation. We also need to support ECE services in these areas to maintain good standards, to ensure the children attending these services benefit.
22. We have already begun this work with intensive projects in Counties Manukau, and as part of the Tāmaki Transformation Programme. These projects are based firmly in those communities, with initiatives that respond directly to community needs and aspirations. I believe that this model is key to improving participation, and it forms a central part of my Budget 2010 proposals.
23. I propose we introduce a mix of promising trials, initiatives already running, and new proposals to address complex participation problems. I have directed the Ministry of Education to develop the initiatives in consultation with interested agencies¹. I propose that Cabinet approves funding in principle, and delegates discretion over the mix of initiatives and targeting of this new funding to the Ministers of Finance and Education. Appendix 1 contains a summary of proposals for the participation package.
24. I propose the package is introduced in stages over two years. The costs of the participation package include increased spending on ECE subsidies as participation increases, as well as the costs of initiatives themselves. Total costs continue to rise after two years due to the effect of ongoing increased participation in target communities, but the cost per child or family falls over time as some costs are due to one-off establishment of ECE provision, for example building new centres.

¹ Treasury, the Ministries of Social Development, Health, Justice, Pacific Island Affairs and Women's Affairs, the Department of Labour, Te Puni Kōkiri, and Housing New Zealand Corporation

25. I estimate, subject to further work on design and targeting, that this participation package will help around 1,000 families in the first year, rising to over 4,000 in 2013/14. The package has a relatively small scale, which is appropriate given it includes trials of new initiatives, but it could have a material impact on non-participation in ECE. Just under 3,000 children each year start school without having attended ECE. Per-child costs for initiatives range from \$12,000 in year one to \$8,000 in 2013/14. Most funding will meet the cost of paying existing subsidies to new participants – an average of around \$6,500 per annum per child.

\$million (GST excl)	2010/11	2011/12	2012/13	2013/14 & outyears
Total cost of participation package	10.640	21.940	28.840	30.340

B Reprioritising funding to align with our priorities

Six Hour Daily Limit on 20 Hours ECE

26. I propose to reverse the decision we took in Budget 2009 to remove the six hour daily limit from *20 Hours ECE*. We had decided to increase the flexibility of *20 Hours ECE*, with changes including removing the daily limit from July 2011 at a cost of around \$16 million per annum [CAB Min (09) 13/8 (20) refers].
27. Removing the limit would mainly benefit families using ECE now, and few would be from priority groups or communities. Instead, costs would be transferred from those parents already participating to government. I believe this funding would be better directed to areas of high need for the time being. As part of this change, I propose to restore Vote Social Development funding for Childcare Subsidy, which was reduced in Budget 2009 to reflect the previous proposal to extend *20 Hours ECE*.

Planned Funding Increases for Staff Costs

28. I recommend that we reprioritise existing funding in baselines that was set aside by the previous government to recognise potential increases to ECE staff costs.
29. The previous government assumed that increases in teacher salaries resulting from Kindergarten Teachers Collective Agreement settlements would be felt by other services over time, and set aside money for future funding increases to recognise this cost.
30. I believe we can use this planned spending more effectively to contribute to our priorities. Removal of this funding is low-risk and unlikely to have a significant impact on the ECE sector. We can remove this funding without reducing current payments to providers, because it is not yet included in funding rates.
31. Introducing these two measures would have the following impact on baselines:

\$m	2010/11	2011/12	2012/13	2013/14 & outyears
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Do not remove six hour daily limit on 20 Hours ECE	-	(16.000)	(16.500)	(16.500)
Do not remove six hour daily limit on 20 Hours ECE – impact on Childcare Subsidy	-	0.600	0.600	0.600
Reprioritise planned funding increases from teacher collective agreements	(9.253)	(19.605)	(21.064)	(21.745)
Total	(9.253)	(35.005)	(36.964)	(37.645)

C Review of Teacher Supply initiatives

32. In October 2009, the decision was made to remove the 2012 target of 100 percent teacher registration and to move the 80 percent teacher registration target out to 2012 [SOC Min (09) 23/4 refers]. On 24 March 2010, Cabinet Social Policy Committee noted that extending the timeframe for the 80 percent target reduced the need for general initiatives aimed at increasing the supply of registered teachers. The Committee agreed to:

- 32.1. close the teacher relief pool, teacher relocation grants, and return to teaching allowance,
- 32.2. no renewal of contracts for the recognition of prior learning programme,
- 32.3. restrict incentive grants in 2010 to services at risk of not meeting the 80 percent target, and
- 32.4. restrict the support grant for provisionally registered teachers from 2011 to services not meeting the 80 percent target [SOC Min (10) 5/2 refers]. I propose to implement this change effective July 2011, to enable us to deliver the range of changes proposed in this paper.

33. This paper seeks approval for the following financial impacts of these decisions:

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Non-Departmental Output Expenses:					
Professional Development and Support	-	(0.356)	(0.356)	(0.356)	(0.356)
Benefits and Other Unrequited Expenses:					
National Study Awards	-	(2.500)	(2.500)	(2.500)	(2.500)
Non-Departmental Other Expenses:					
Early Childhood Education	-	(1.203)	(9.703)	(10.203)	(10.203)
Total Operating	-	(4.059)	(12.559)	(13.059)	(13.059)

34. The Committee also agreed the following initiatives to:

- 34.1. recognise overseas ECE qualified teachers for ECE funding purposes by 1 July 2010 with the following financial impact; and

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Non-Departmental Other Expense: Early Childhood Education					
Recognising overseas ECE teachers by July 2010	-	3.300	3.600	4.000	4.500
Total Operating	-	3.300	3.600	4.000	4.500

- 34.2. recognise qualified primary teachers for ECE funding purposes before November 2010 [SOC Min (10) 5/2 refers]. The financial impact of this change will depend on our approach to aligning funding with the ECE teacher target, and is reflected in tables under paragraphs 50 and 55 below.

D Cost adjustment

35. I propose we provide a one-off cost adjustment of 2.4% to recognise the impact of ongoing cost increases faced by all ECE services, based on forecast inflation for 2010/11. As has been the case in previous years, only the non-staff proportion of funding rates will be adjusted, meaning that services will receive an adjustment of less than 2.4% of their current funding rate. Funding rates would be adjusted separately to reflect any change in ECE teacher salaries due to upcoming teacher collective agreements. I expect this cost adjustment will help offset some of the impact of other funding changes discussed later in this paper.
36. I considered providing the cost adjustment only to ECE centres with less than 80% registered teachers. Such an approach could be seen to align incentives more closely to the 80% ECE teacher target. However, I consider it important at this time to provide a one-off adjustment to all ECE services. An adjustment for all ECE services will reduce the impact of changes for families who use centres on higher funding rates. We will recoup the extra cost of adjusting the 100% and 80-99% funding when these funding rates are removed [deleted – collective ministerial responsibility]
37. Paragraph 57 below comments on the feasibility of using successive inflation adjustments to phase out the higher funding rates over time.

\$million (GST excl)	2010/11	2011/12	2012/13	2013/14 & outyears
Total cost of 2.4% cost adjustment	10.800	11.612	12.023	12.286

E Aligning funding with our 80 percent teacher registration target

38. Teacher-led education and care centres and all-day kindergartens are eligible for higher funding rates, depending on the proportion of registered teachers working

with children. These ECE services still have funding incentives to employ up to 100% registered teachers despite our decision to set an 80% target.

39. Around 2,000 teacher-led education and care centres and all-day kindergartens, with 92,000 children enrolled, are funded for 80% or more registered teachers. In high-income areas around 70% of centres are funded for 80% or higher registered teachers, compared to 55%-60% in the poorest areas.² Around 850 more centres, with 30,000 children enrolled, have less than 80% registered teachers. Funding rates for Playcentres, home-based services, sessional kindergartens, playgroups and kōhanga reo, around 1,500 in total with 54,000 children enrolled, are not linked to the proportion of registered teachers.
40. We have already approved changes to teacher supply initiatives to align that spending with our 80% ECE teacher target [SOC (09) 23/4 refers]. Paragraphs 32 to 34 seek approval for the financial implications of these changes.
41. I now propose to align funding incentives for teacher registration with the changed target by introducing new 80%+ funding rates to replace the 100% and 80–99% rates. This change will control the largest price driver of ongoing ECE cost increases, and direct funding from higher-income families and towards priority groups.
42. Announcing the change at budget time will give ECE providers [deleted – collective ministerial responsibility] to respond. I expect a range of responses to this funding change which are likely to include:
 - 42.1. reducing the numbers of registered teachers
 - 42.2. changes to the services they offer (including meals or excursions)
 - 42.3. fee increases, which might mean continuing to offer parents the option of 100% registered teachers (some parents will want this choice to be available and will be willing to pay for it)
 - 42.4. changes to their hours of operation.
43. *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*
44. *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*

² This compares ECE services in NZDep deciles 1-3 with those in NZDep deciles 8-10.

45. Aligning funding to the ECE teacher target will affect ECE participation and provision. It will also start to control cost pressures. The estimated savings from this proposal do not include any allowance for reduced participation due to the funding change, although some reductions are possible. Impacts are discussed further from paragraph 59 below.
46. I expect that some low to middle income families will respond to ECE fee increases by claiming the Childcare Subsidy, if they are not already doing so, and that other families may be able to increase the amount of Childcare Subsidy they claim. A small consequential increase in spending on the Childcare Subsidy is reflected in the financial recommendations of this paper

Recommended approach– implement in 2011

47. *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*

48. I propose to prevent any more services from accessing the higher funding rates from November 2010. If we did not stop access to the higher rates early, I expect that ECE providers would move quickly to maximise their teacher numbers, and funding, once these proposals are announced. This could be disruptive to families and providers as services compete for registered teachers.

49. *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*

50. Implementation will require capital expenditure of \$3.910 million for changes to the ECE funding payment system, with consequent operating costs of \$1.123 million per annum in the longer term.

\$million (GST excl)	2010/11	2011/12	2012/13	2013/14 & outyears
Aligning funding to ECE teacher target	[deleted – collective ministerial responsibility]			
Aligning funding to ECE teacher target - impact on Childcare Subsidy	-	0.200	0.200	0.200
Aligning funding: Operating Costs	0.888	0.217	0.047	0.047
Aligning funding: Depreciation	0.196	0.782	0.782	0.782
Aligning funding: Capital Charge	0.098	0.294	0.294	0.294
Recognise primary teachers for funding from November 2010	4.957	5.078	5.502	5.934
Total	[deleted – collective ministerial responsibility]			

Alternative option – [deleted – collective ministerial responsibility]

51. *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*

52. *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*

53. Earlier implementation has a higher delivery risk. Providers will be less ready for the change, and sector IT systems and government agencies will be less able to support them to make changes. There is a significant but manageable risk that the Ministry of Education may need to use manual processes to deliver funding to ECE services, reducing its capacity to respond to services' needs.

54. Earlier implementation would increase savings from the rate change, *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*. There would be small changes to costs to the Childcare Subsidy, less than \$0.200 million per annum.

55. Implementation will require capital expenditure of \$3.910 million for changes to the ECE funding payment system, with consequent operating costs of \$1.123 million per annum in the longer term.

\$million (GST excl)	2010/11	2011/12	2012/13	2013/14 & outyears
Aligning funding to ECE teacher target	[deleted – collective ministerial responsibility]			
Aligning funding to ECE teacher target - impact on Childcare Subsidy	0.111	0.182	0.188	(0.015)
Aligning funding: Operating Costs	0.888	0.217	0.047	0.047
Aligning funding: Depreciation	0.196	0.782	0.782	0.782
Aligning funding: Capital Charge	0.098	0.294	0.294	0.294
Recognise primary teachers for funding from November 2010	2.981	5.078	5.502	5.934
Total	[deleted – collective ministerial responsibility]			

Other options for more gradual change

56. I considered alternative options that would eliminate or reduce impacts for families and children using ECE now. I cannot recommend we pursue these options, as they do not meet our need to control cost increases and reprioritise funding in ECE as a matter of priority.

57. *Eroding the value of higher funding by not adjusting for annual inflation* would provide no savings, as there are no inflation adjustments in ECE baselines. It would take 10 years of annual cost adjustments for all current 100% funding rates to erode to the new 80%+ rates; assuming Government provided inflation and wage adjustments each year. We would need to reduce spending on other priorities by \$50 to \$60 million per annum to take this approach.

58. *Lower funding for children who start ECE after the change* would take five years to take full effect. We could remove higher funding rates gradually as children pass through the ECE system, but it is not possible to target ECE funding to reach individual children. I am also advised that this approach would not be effective, because many providers currently subsidise younger children with fees from older children. We would need to reduce spending on other priorities by \$40 million per annum until 2015 to take this approach.

Impact of Changes

59. *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*

[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]

60. Many of the changes would benefit targeted families and ECE providers, including approximately 1,000 families in the first year, rising to over 4,000 in 2013/14, reached through the participation package. Others would have no direct impact on providers because they remove future funding increases rather than current funding.
61. The main impact of this package is to remove higher ECE funding rates for providers with more than 80% registered teachers. There are approximately 90,000 children enrolled in around 2,000 affected ECE services currently funded for 80% or over registered teachers, including 36,000 children in the 750 services funded for 100% registered teachers. Providers can currently receive around

\$600,000 per annum of Vote Education funding, including \$11-12 per child per hour for *20 Hours ECE*.³

62. Some providers may respond by increasing fees, leading parents to reduce hours of children's attendance, move to a lower cost ECE service, or remove children from ECE altogether. The funding reductions are likely to be between \$20 and \$45 per child per week, based on full time ECE use. This could amount to a 5 to 15% decrease in total government funding. I have not made allowance for reduced participation in the estimated savings. Any overall reduction in participation would increase savings further, for example a 1% overall reduction would increase savings by \$10 to \$15 million.
63. *Future Focus* changes will affect ECE providers that receive a significant amount of their income from Childcare Subsidy, and are likely to affect decisions about work for second earners in couple families. Eligibility for Childcare Subsidy will reduce for families with incomes between \$60,000 and \$90,000 per annum, and threshold indexation will stop. The combined effects of reduced income thresholds for Childcare Assistance and reduced funding for providers to support teachers in training could result in some decreases in participation and some concern from families who absorb the costs.
64. I propose to offset the effects of fee increases on participation by:
- 64.1. announcing the changes early, [deleted – collective ministerial responsibility] option. Early enough notice will mean that providers can reduce registered teacher numbers through staff turnover
- 64.2. *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*
- 64.3. working to ensure families eligible for Childcare Assistance are aware of their entitlement. Around 38,000 families currently receive Childcare Subsidy for their children's ECE, which indicates that another around 20,000 of the 90,000 families affected by this change may be eligible based on their income.⁴ It is likely that any increase in Childcare Subsidy take-up in response to fee increases would be modest, as only a proportion of eligible families are likely to apply for the Subsidy. It is difficult to estimate the number of families who might be eligible for childcare assistance, and there are many reasons why families who appear to be eligible may not wish to access this support.
65. *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*

³ These estimates refer to a notional all-day ECE centre with 80-99% registered teachers and space for 50 children.

⁴ *[information deleted in order to maintain the current constitutional conventions protecting collective and individual ministerial responsibility]*

66. I do not expect that these measures will impact on children's learning through ECE. I do not expect the changes to affect standards of ECE provision, as they should lead to a more even distribution of qualified teachers, including those services located in low socio-economic status areas that typically have difficulty in attracting qualified teachers.

Monitoring and Evaluation

67. I propose that the effects of these proposals on ECE participation, provision and the quality of ECE be monitored. The Ministry of Education will monitor the overall effect of the proposals through funding claims received three times per year, a more detailed annual census, and its regular engagement with sector groups and individual providers.
68. Participation initiatives will have specific evaluation designed into their implementation. It is important we continue to gather data on new initiatives to ensure what we are doing is working.

Further Work on ECE after Budget 2010

69. Budget 2010 will begin to align ECE spending to our priorities. Further work is needed to contain increasing costs and deliver the results we need. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
70. The Ministry of Education's Performance Improvement Action in ECE is to increase participation of priority groups within Budget 2009 forecasts. These measures will not bring spending back to 2009 forecast levels, but they will limit ongoing cost increases. More significant, wide-ranging policy changes are needed if the Ministry is to meet its Performance Improvement Action target and we are to ensure the system is serving those groups with the highest needs. This will include considering the results of the proposed ECE participation initiatives.

Consultation

71. The Treasury, the Ministries of Social Development, Health, Justice, Pacific Island Affairs and Women's Affairs; the Department of Labour, Te Puni Kōkiri, and Housing New Zealand Corporation, have been consulted on drafts of this paper and their views reflected. The Department of the Prime Minister and Cabinet has been informed of the content of this paper.

Treasury comment

72. The Treasury supports the proposal to remove financial incentives to employ more than 80% registered teachers in early childhood education centres *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
73. As this paper notes, ECE funding and provision has expanded dramatically since 2004 and represents a significant expansion in the role of the state. Policy and funding decisions were made when the economy was buoyant. Current policy settings are not financially sustainable and change is inevitable.

74. Making policy changes sooner rather than later creates savings earlier which can be used within Vote Education to manage other known pressures *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. Ongoing pressures within the education sector may lead to future reductions in public funding for ECE. Incremental reductions beginning in 2010 may be a way of smoothing the impact of the total level of funding constraint required over time.

Financial Implications

75. The combined effect of the proposals in this paper will be as follows.

\$million (GST excl)	2010/11	2011/12	2012/13	2013/14 & outyears
Education: Departmental Capital				
Net Asset Schedule of the Ministry of Education	3.910	-	-	-
Total Capital	3.910	-	-	-
\$million (GST excl)	2010/11	2011/12	2012/13	2013/14 & outyears
Education: Departmental: Support and Resource for Education Providers:				
Operating Costs	0.888	0.217	0.047	0.047
Depreciation	0.196	0.782	0.782	0.782
Capital Charge	0.098	0.294	0.294	0.294
Education: Departmental Output Expense				
Strategic Leadership in the Sector (funded by revenue Crown)	0.240	0.240	0.240	0.240
Education: Non-Departmental Output Expenses:				
Professional Development and Support-Teacher supply	(0.356)	(0.356)	(0.356)	(0.356)
Benefits and Other Unrequited Expenses				
National Study Awards – Teacher supply	(2.500)	(2.500)	(2.500)	(2.500)
Education: Non-Departmental Other Expenses: Early Childhood Education:				
Participation initiatives	10.400	21.700	28.600	30.100
Aligning funding to ECE teacher target – [deleted - 2.4% Cost Adjustment	collective	ministerial	respons-	ibility]
Do not remove 6 hour daily limit on 20 Hours ECE	10.800	11.612	12.023	12.286
Reprioritise planned funding increases from teacher collective agreements	-	(16.000)	(16.500)	(16.500)
Teacher supply initiative changes	(9.253)	(19.605)	(21.064)	(21.745)
Recognising overseas ECE teachers by July 2010	(1.203)	(9.703)	(10.203)	(10.203)
Recognising primary teachers by November 2010	3.300	3.600	4.000	4.500
Recognising primary teachers by November 2010	4.957	5.078	5.502	5.934
Social Development: Non-Departmental: Childcare Assistance:				
Aligning funding to ECE teacher target – impact on Childcare Subsidy	-	0.200	0.200	0.200
Do not remove 6 hour daily limit on 20 Hours ECE – impact on Childcare Subsidy	-	0.600	0.600	0.600
Total Operating				[deleted – collective ministerial responsibility]

76. The alternative proposal would have the following implications.

\$million (GST excl)	2010/11	2011/12	2012/13	2013/14 & outyears
Education: Departmental Capital				
Net Asset Schedule of the Ministry of Education	3.910	-	-	-
Total Capital	3.910	-	-	-

\$million (GST excl)	2010/11	2011/12	2012/13	2013/14 & outyears
Education: Departmental: Support and Resource for Education Providers:				
Operating Costs	0.888	0.217	0.047	0.047
Depreciation	0.196	0.782	0.782	0.782
Capital Charge	0.098	0.294	0.294	0.294
Education: Departmental Output Expense				
Strategic Leadership in the Sector (funded by revenue Crown)	0.240	0.240	0.240	0.240
Education: Non-Departmental Output Expenses:				
Professional Development and Support-Teacher supply	(0.356)	(0.356)	(0.356)	(0.356)
Benefits and Other Unrequited Expenses				
National Study Awards – Teacher supply	(2.500)	(2.500)	(2.500)	(2.500)
Education: Non-Departmental Other Expenses: Early Childhood Education:				
Participation initiatives	10.400	21.700	28.600	30.100
Aligning funding to ECE teacher target – [deleted – collective ministerial responsibility]	[deleted -	collective	ministerial	responsibility]
2.4% Cost Adjustment	10.800	11.612	12.023	12.286
Do not remove 6 hour daily limit on 20 Hours ECE	-	(16.000)	(16.500)	(16.500)
Reprioritise planned funding increases from teacher collective agreements	(9.253)	(19.605)	(21.064)	(21.745)
Teacher supply initiative changes	(1.203)	(9.703)	(10.203)	(10.203)
Recognising overseas ECE teachers by July 2010	3.300	3.600	4.000	4.500
Recognising primary teachers by November 2010	2.981	5.078	5.502	5.934

Social Development: Non-Departmental: Childcare Assistance:				
Aligning funding to ECE teacher target - impact on Childcare Subsidy	0.111	0.182	0.188	(0.015)
Do not remove 6 hour daily limit on 20 Hours ECE – impact on Childcare Subsidy	-	0.600	0.600	0.600
Total Operating	[deleted -	collective	ministerial	responsibility]

Human Rights Implications

77. These proposals are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative Implications

78. No legislative implications.

Regulatory Impact Analysis

79. Not required.

Gender Implications

80. These proposals will assist some parents from priority groups to help their children participate in ECE, including Māori and Pasifika mothers, and mothers from low socio-economic status backgrounds. It may also assist these parents to increase their labour market participation.

81. The proposals will, however, have some negative impact on women from higher-income families, including on their ability to participate in the labour market. These changes will impact on women's choice and opportunity to use their skills and qualifications, and need to be carefully monitored to assess their wider impact on the economy as a whole.

Disability Perspective

82. No impact.

Publicity

83. I propose these announcements be coordinated with Budget 2010 announcements, including opportunities for early announcements. The Ministry of Education will provide follow-up information for ECE providers.

Recommendations

84. The Minister of Education recommends that Cabinet:

84.1. **note** that Government's highest priority for early childhood education (ECE) is to improve participation by Māori and Pasifika children and children from lower socio-economic status backgrounds;

84.2. **note** that the costs of ECE to Government have increased markedly in recent years, but to achieve a corresponding improvement in participation for priority groups we need to direct effective intensive support to these groups;

84.3. **note** this paper seeks Cabinet agreement to Budget 2010 early childhood education initiatives to achieve these goals;

Participation

84.4. **agree** in principle, subject to further work on targeting and implementation, to fund a package of initiatives designed to increase participation in ECE by priority groups, to consist of:

84.4.1. intensive community participation projects

- 84.4.2. establishing and testing new ways of providing ECE
- 84.4.3. service development to help existing services respond to their communities
- 84.4.4. refocus existing initiatives to engage families in ECE and provide property support

84.5. **approve** the following changes to appropriations to implement the package of intensive participation initiatives effective from 1 July 2010, with a corresponding impact on the operating balance and debt:

Vote Education Minister of Education	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Departmental Output Expense: Strategic Leadership in the Sector (funded by revenue Crown)	-	0.240	0.240	0.240	0.240
Non-Departmental Other Expense: Early Childhood Education	-	10.400	21.700	28.600	30.100
Total Operating	-	10.640	21.940	28.840	30.340

84.6. **agree** to delegate decisions on the mix of initiatives and targeting of funding for these initiatives to the Ministers of Finance and Education, after consultation with other interested agencies, to be taken in time for specific initiatives to be included in Budget announcements;

Savings

84.7. **agree** to the following savings that do not affect current ECE funding:

84.7.1. rescind, for the time being, the Budget 2009 decision to remove the six hour daily limit on *20 Hours ECE* from July 2011 [CAB Min (09) 13/8(20) refers], and

84.7.2. reprioritising funding set aside in previous budgets for the flow-on effects of kindergarten teacher salary increases for other ECE providers;

84.7.3. with the following financial impact:

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Retain six hour cap - ECE	-	-	(16.000)	(16.500)	(16.500)
Retain six hour cap – Childcare Subsidy	-	-	0.600	0.600	0.600
Reprioritise flow-on salary costs	-	(9.253)	(19.605)	(21.064)	(21.745)

Operating Balance Impact	-	(9.253)	(35.005)	(36.964)	(37.645)
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- 84.8. **approve** the following changes to appropriations to implement savings that do not affect current ECE funding, with a corresponding impact on the operating balance and debt:

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Vote Education Minister of Education					
Non-Departmental Other Expenses:					
Early Childhood Education	-	(9.253)	(35.605)	(37.564)	(38.245)
Vote Social Development Minister for Social Development and Employment					
Benefits and Other Unrequited Expenses:					
Childcare Assistance	-	-	0.600	0.600	0.600
Total Operating	-	(9.253)	(35.005)	(36.964)	(37.645)

- 84.9. **note** that changes to target teacher supply initiatives more closely to need were agreed by Cabinet on 24 March 2010 [SOC Min (10) 5/2 refers]

- 84.10. **approve** the following changes to appropriations to implement the targeting of teacher supply initiatives, with a corresponding impact on the operating balance and debt:

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Vote Education Minister of Education					
Non-Departmental Output Expense:					
Professional Development and Support	-	(0.356)	(0.356)	(0.356)	(0.356)
Benefits and Other Unrequited Expenses:					
National Study Awards	-	(2.500)	(2.500)	(2.500)	(2.500)
Non-Departmental Other Expense:					
Early Childhood Education	-	(1.203)	(9.703)	(10.203)	(10.203)
Total Operating	-	(4.059)	(12.559)	(13.059)	(13.059)

- 84.11. **approve** the following changes to appropriations to implement the recognition of overseas ECE qualified teachers for funding purposes, with the following financial impact:

Vote Education	\$m - increase/(decrease)			
	2010/11	2011/12	2012/13	2013/14 & outyears
Minister of Education				
Non-Departmental Other Expense: Early Childhood Education				
Recognising overseas ECE teachers	3.300	3.600	4.000	4.500
Total Operating	3.300	3.600	4.000	4.500

- 84.12. **agree** to a cost adjustment of 2.4% to non-teacher costs for all ECE funding rates with the following financial impact

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Vote Education					
Minister of Education					
Non-Departmental Other Expenses: Early Childhood Education	-	10.800	11.612	12.023	12.286
Total Operating	-	10.800	11.612	12.023	12.286

- 84.13. **agree** to align funding with our 80% teacher registration target, and remove financial incentives for ECE services to employ more than 80% registered teachers, by introducing a new 80%+ rate to replace the 100% and 80% - 99% rates:

EITHER (preferred)

84.13.1. [deleted – collective ministerial responsibility]

84.13.2. [deleted – collective ministerial responsibility]

84.13.3. **agree** to fund associated modifications to the Ministry of Education funding systems

84.13.4. **agree** to implement the recognition of primary teachers for funding purposes

84.13.5. with the following financial implications:

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
<i>Early Childhood Education - align funding to teacher target and recognise primary teachers for funding purposes</i>	[deleted -	<i>collective</i>	<i>ministerial</i>	<i>responsib-</i>	<i>ility</i>
<i>Childcare Subsidy - align funding to teacher target</i>	-	-	0.200	0.200	0.200
<i>System changes</i>	-	1.084	0.999	0.829	0.829
Operating Balance Impact	-	4.046	(44.369)	(48.594)	(51.041)
Debt Impact	-	3.910	-	-	-
No Impact	-	0.098	0.294	0.294	0.294
Total	[deleted – collective ministerial responsibility]				

84.13.6. **approve** the following changes to appropriations and/or projected balances of net assets to implement the removal of financial incentives for ECE services to employ more than 80% registered teachers [deleted collective ministerial responsibility] and recognise primary teachers for ECE funding purposes, with a corresponding impact on the operating balance and debt:

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Vote Education					
Minister of Education					
Net Asset Schedule of the Ministry of Education :					
Capital Investment	-	3.910	-	-	-
Non-Departmental Other Expense:					
Early Childhood Education	[deleted -	<i>collective</i>	<i>ministerial</i>	<i>resonsib-</i>	<i>ility]</i>
Departmental Output Expense:					
Support and Resources for Education Providers (funded by revenue Crown)	-	1.182	1.293	1.123	1.123
Vote Social Development					
Minister for Social Development and Employment					
Benefits and Other Unrequited Expenses:					

Childcare Assistance	-	-	0.200	0.200	0.200
Total Operating	[deleted – collective ministerial responsibility]				
Total Capital	-	3.910	-	-	-

84.13.7. **note** that as a result, the projected net asset position of the Ministry of Education will increase by the amount of capital injection;

OR (Treasury)

84.13.8. [deleted – collective ministerial responsibility]

84.13.9. [deleted – collective ministerial responsibility]

84.13.10. **agree** to implement the recognition of primary teachers for funding purposes

84.13.11. with the following impact on baselines:

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
<i>Early Childhood Education - align funding to teacher target and recognise primary teachers for funding purposes</i>	[deleted -	collective	ministerial	responsib-	ility]
<i>Impact on Childcare Subsidy</i>	-	0.111	0.182	0.188	(0.015)
<i>System changes</i>	-	1.084	0.999	0.829	0.829
Operating Balance Impact	-	(28.574)	(44.387)	(48.606)	(72.773)
Debt Impact	-	3.910	-	-	-
No Impact	-	0.098	0.294	0.294	0.294
Total	[deleted – collective ministerial responsibility]				

84.13.12. **approve** the following changes to appropriations and/or projected balances of net assets to implement the removal of financial incentives for ECE services to employ more than 80% registered teachers effective [deleted – collective ministerial responsibility] and recognise primary teachers for ECE funding purposes, with a corresponding impact on the operating balance and debt:

	\$m - increase/(decrease)				
	2009/10	2010/11	2011/12	2012/13	2013/14 & Outyears
Vote Education					
Minister of Education					
Net Asset Schedule of the Ministry of Education :					
Capital Investment	-	3.910	-	-	-
Non-Departmental Other Expense:					
Early Childhood Education	-	(29.769)	(45.568)	(49.623)	(73.587)
Departmental Output Expense:					
Support and Resources for Education Providers (funded by revenue Crown)	-	1.182	1.293	1.123	1.123
Vote Social Development					
Minister for Social Development and Employment					
Benefits and Other Unrequited Expenses:					
Childcare Assistance	-	0.111	0.182	0.188	(0.015)
Total Operating	-	(28.476)	(44.093)	(48.312)	(72.479)
Total Capital	-	3.910	-	-	-

- 84.14. **note** that as a result the projected net asset position of the Ministry of Education will increase by the amount of capital injection
- 84.15. **agree** to delegate authority to the Minister of Finance and Minister of Education to set the specific 2010/11 funding rates for Early Childhood Education consistent with the policy decisions above in time for announcement as part of the 2010 Budget.
- 84.16. **authorise** the Minister of Finance and the Vote Minister to approve jointly any technical adjustments to baselines necessary to remove any errors or inconsistencies identified while finalising the 2009/10 Supplementary Estimates, the 2010/11 Estimates and the fiscal forecasts.

84.17. **note** that I propose these changes be announced in Budget 2010.

Hon Anne Tolley
Minister of Education

16/4/10

Appendix 1: Summary of Participation Package Initiatives

Intensive community participation projects

1. Five two-year intensive community-led participation projects, such as those in Counties Manukau and Tāmaki, will be established in areas of high priority. Community-led projects are best placed to identify and respond to unique and complex local participation needs.
2. I propose to contract non-government organisations to engage communities and facilitate these projects. Through local participation strategies, the projects will identify and coordinate appropriate initiatives. The Ministry of Education will resource these projects, and engage other government and local government agencies to assist and be part of the strategies.

New flexible ECE provision

3. I propose to establish and test some new models of ECE which are designed to respond to diverse community needs. Within the intensive local initiatives, I propose to extend the trials of playgroups supported by an educator already underway [CBC Min (09) 12/4 refers], and work with existing community organisations and Iwi to establish new services responsive to the language, identity and culture of Māori and Pasifika learners.

Help existing services to respond to communities

4. There are areas where ECE places are available, but where services do not appear to be responding to the demands of the surrounding community. I propose to introduce initiatives to improve services' responsiveness to the language and culture of local groups. *Ka Hikitia – Managing for Success* and the *Pasifika Education Plan* both emphasise the importance of education which is responsive to the language, culture and identity of children and their families and whānau. Existing professional development initiatives will complement the projects and help services respond to students with special education needs.

Better engage families in ECE

5. The Ministry currently funds two initiatives to increase ECE participation by increasing parents' engagement with education, the Promoting Participation in ECE Project (PPP) and Parent Support and Development (PSD). I propose to redesign and refocus these existing initiatives. They are small in scale (estimated total of \$3.5m in 2009/10) and are not sufficiently intensive to make fast progress on our priorities. They can be improved, but need to be complemented by the new participation package proposed above.

New and expanding ECE providers

6. Further support, focussed on property provision, will continue to be available for areas where there are no ECE places available. \$14.4m per annum is currently available in the Discretionary Grants Scheme, a low-value-for-money property fund which placed a high compliance burden on applicants. I propose to direct this money to a new fund, which will focus on providing new places more quickly and at lower cost by part-funding in partnership with ECE providers and others. This will continue to create new child places in areas of high need.