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Cabinet

Achieving Government's Priorities in Early Childhood Education

Proposal

1. This paper seeks agreement to changes to early childhood education (ECE) funding as part of Budget 2011. Options are provided that will help support participation in quality ECE by Māori and Pasifika children, and for children from lower socio-economic status areas, and provide short-term measures to control expenditure in ECE.
2. This paper also seeks agreement for the Ministry of Education to proceed to stage two of the business case process for the Early Learning Information (ELI) project. Attached to this paper is the Indicative Business Case.

Executive summary

3. My priorities for Budget 2011 are to increase participation in quality ECE by Māori and Pasifika children, and children from lower socio-economic status areas, and to control expenditure because this is the group that will benefit the most and as yet is still underrepresented in ECE participation rates.

4. [2]

The ECE Taskforce is considering the efficiency and effectiveness of current expenditure and is due to make recommendations in May this year.

5. In Budget 2011, I propose to:
 - 5.1. provide moderate increases to ECE funding rates to help mitigate potential fee increases
 - 5.2. extend Equity Funding to all ECE services that provide ECE to children from the poorest communities
 - 5.3. fund additional Early Learning Payments to children in state care and extensions to Home Instruction Programme for Preschool and Youngsters (HIPPY) as part of our participation project
 - 5.4. set aside contingency funding for the development of an Early Learning Information system to collect and store detailed participation information.
6. I am proposing to provide some universal increases to ECE funding rates to help shield families from possible fee increases. My proposals to extend Equity Funding and provide additional funding for Ministry of Social Development initiatives are interim measures to support increased participation in ECE by Māori and Pasifika children, and children from lower socio-economic status areas. [2]

Background

7. Our priority in ECE is to control expenditure while increasing participation in quality ECE for Māori and Pasifika children, and children from low socio-economic status areas. The proportion of Māori and Pasifika children who have not attended ECE before school is two to three times higher than for other groups. ECE can provide children with a strong foundation for ongoing learning by building early literacy and numeracy skills. The positive effects of ECE can be stronger for children from disadvantaged backgrounds. Access to quality ECE will also assist families receiving benefits to move into work.
8. In November 2009, Cabinet approved funding to develop the Early Learning Information business case, in particular to scope ways of improving collection of individual child data in ECE [CBC Min (09) 12/4 refers]. In developing the attached business case, the Ministry has followed the requirements set out in the Cabinet Office Circular - CO (10)2. The State Services Commission has assessed the ELI project as medium risk and not subject to independent agency monitoring.¹

Context for change

9. In the last Budget I focussed on controlling costs, by reprioritising funding from universal subsidies to more targeted spending to improve overall educational achievement through ECE. I made significant savings decisions (net \$280 million over four years). On 1 November 2010 I stopped ECE services from accessing higher funding rates and, on 1 February 2011, I removed the two highest funding rates.
10. I am not proposing any structural changes to the ECE funding system this year. With the ECE Taskforce reporting in May I am awaiting their recommendations before identifying any further changes to the funding regime.

[2]

¹ ELI has been assessed as not subject to the Gateway process or State Services Commission monitoring.

Short-term measures to contain expenditure

13. This year I propose to send a clear signal to the ECE sector to continue to manage costs and gain greater value from the significant funding they already receive.
14. I have asked the Ministry to investigate short term measures for ensuring Government continues to obtain high value from ECE expenditure. I want to ensure that new ECE services are positively contributing to our participation priority and that services catering for children under 2 are delivering a quality service.
15. In addition, I intend to fund all earthquake related support for the sector from within the Vote Education baseline and Budget 2011 spending allocation.
16. I have not proposed any further extensions to Ministry ECE participation initiatives which provide targeted funding to create new or expanded forms of ECE provision. [2]

Policies announced at Budget 2010 are still being implemented in selected communities, which to date include Waitakere, Northland and Tāmaki.

Proposals

17. This paper presents the following proposals:
 - 17.1. moderate increases to ECE funding rates to help mitigate potential fee increases
 - 17.2. extension of Equity Funding to all ECE services which provide ECE to children from the poorest communities (including Māori and Pasifika children)
 - 17.3. additional Early Learning Payments to children in state care and extensions to Home Instruction Programme for Preschool and Youngsters (HIPPY) as part of the participation project
 - 17.4. contingency funding for the development of an Early Learning Information system to collect and store detailed participation information.
18. My Budget proposals align with our other social policy priorities for families and whānau with young children. Increased engagement with ECE will help address the *Drivers of Crime*, by improving education and social outcomes for children and their families. Increased participation in ECE is an output indicator of the *Drivers of Crime* work [CAB (Min (10)31/1 refers]. My proposals will also assist families on welfare to access ECE, which is a key recommendation of the Welfare Working Group.

A - Universal Adjustment, Extension of Equity Funding and Kindergartens

19. ECE funding rates are made up of two components – salary and non-salary. For most services the salary component is the greatest proportion of overall costs (around 60-70% of total costs).
20. Demand-driven growth in the quantity of ECE provision will add a further \$542.1 million over four years from Budget 2011. It has been possible to manage this growth in demand within the Vote Education baseline for Budget 2011, but

continued growth will be increasingly difficult to manage in Budget 2012 and beyond.

21. To help manage the cost of ECE to government, I am proposing to provide moderate increases to ECE funding rates. [3]

Providing a moderate universal increase to ECE funding rates mitigates these risks, while also helping to shield families from possible fee increases.

22. This year I also propose to provide additional funding through Equity Funding because it will support our participation priority for target groups.

Universal Adjustment to ECE Funding Rates

23. This year I am proposing a modest universal increase in ECE funding rates [2] A modest universal increase will respond to expectations of the ECE sector and will help to shield families from potential fee increases.

24. A universal increase will benefit over 5,400 ECE services. [2]

This initiative would have the following financial impact:

Vote Education	\$m - increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Universal Adjustment to ECE Funding Rates	[2]				

Note: these costs include adjustments to 20 Hours ECE funding rates.

Extension of Equity Funding to All ECE Services

25. I propose extending Equity Funding to all ECE services which provide ECE to children from the poorest communities. I also seek approval for the Ministers of Finance and Education to approve the final Equity Funding rates.
26. Extending Equity Funding is distinct from my participation initiatives in Budget 2010, which provide targeted funding to create new or expanded forms of ECE provision. Equity Funding provides additional resources to existing ECE services.
27. Equity Funding (\$13.8 million in 10/11) is the best targeted funding stream available within the current funding system. Eligibility for Equity Funding is based on the characteristics of children enrolled and funding is paid to ECE services. The following table outlines how many services received Equity Funding in the 2009/10 financial year. At present 1,277 out of over 5,400 ECE services receive Equity Funding.

Table 1: Summary of Equity Funding 2009/10

Equity Funding components	No. of Services receiving component	Total Amount \$m (GST excl)
A - Low socio-economic	1,017	\$6.619
B - Special needs	1,017	\$3.308
C - Language other than English	571	\$1.051
D - Isolation	389	\$0.790
Totals	1,277	\$11.768

28. Equity Funding was implemented in 2002 to reduce educational disparities between different groups, reduce barriers to participation faced by those groups that are under-represented in ECE services, and support ECE services to raise their level of educational achievement. The objectives of Equity Funding remain valid today. A draft evaluation² indicates that services receiving Equity Funding were more likely to be rated as good or very good compared with services which did not receive it. Services are required to report to parents and the local community about how they have spent their Equity Funding.

29. Equity Funding is currently available only to community-based ECE services [CAB Min (01)11/1 refers]. I consider this to be inequitable because other services also cater for low socio-economic communities. We anticipate up to 550 other ECE services will become eligible for Equity Funding. Eligible services will receive additional funding of between \$0.17 and \$0.62 per funded child hour for the low socio-economic and special needs components.

30. [2]

The Ministry will undertake a small scale evaluation of Equity Funding over the next two years to support the development of an efficient targeting mechanism.

31. Extending Equity Funding is estimated to have the following financial impact:

Vote Education	\$m - increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Extension of Equity Funding to all ECE services	-	5.200	5.400	5.400	5.500

Note: the figures above are estimates. We will not be able to determine actual costs until we have collected detailed information from services and worked out equity index ratings.

Kindergartens

32. Cabinet has already approved funding increases to cover kindergarten teachers salary increases as part of the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA) [CAB Min (11) 11/10 refers]. I am seeking agreement for the Ministers of Finance and Education to approve changes to ECE funding rates for Kindergartens to give effect to this decision.

² Draft Locality-based Evaluation of Pathways to the Future: Ngā Huarahi Arataki Integrated report 2004, 2006 and 2009.

B – Extension of Ministry of Social Development Initiatives

33. I agreed to fund the following two initiatives for the Ministry of Social Development because they will directly support increased participation in ECE by Māori and Pasifika children and children from lower socio-economic status areas:

33.1. funding to subsidise the cost of ECE for children aged 18 months to three years old who are in State care and for funding to continue if a child progresses from foster care to a Home for Life (Early Learning Payments).

33.2. an increase in the number of families receiving Home Instruction Programme for Preschool and Youngsters (HIPPY) in existing sites and the proportion of Government funding across existing and new sites as part of the participation project. HIPPY³ is a programme of local home tutors who work in low income areas to ensure parents have the parenting skills and confidence to prepare their four and five year old children for school. HIPPY also works to encourage engagement with other ECE programmes, WellChild service and general practice health services by children and their families.

34. On 23 March 2011 the Cabinet Social Policy Committee agreed to these initiatives in principle as part of the Vote Social Development priorities, and agreed that the funding for these initiatives will count against the Vote Education operating allowance [SOC Min (11) 5/5 refers].

35. Extending these initiatives will have the following financial impact:

Vote Social Development	\$m – increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Extension of early learning payments to children in state care	-	2.789	2.852	2.913	2.913
Expansion of Home Instruction Programme for Pre-school and Youngsters	-	1.141	1.871	2.731	3.131
Total	-	3.930	4.723	5.644	6.044

C - Early Learning Information (ELI) Project

36. I am seeking approval to proceed to the detailed business case phase for the ELI project. It is my intention to complete the detailed business case by July 2011 so development of a new system can begin after that. Subject to approval of the detailed business case, I will fund the ELI project from within the Vote Education baseline. I will make provision for this within my Budget 2011 package, which will include an operating to capital swap to fund capital costs.

37. The ELI project is developing options to collect detailed participation information from every ECE service about each child attending. ECE services already collect this information for record keeping and funding purposes and most store this information electronically.

³ There are currently 27 HIPPY sites, these include 19 existing sites affected by this proposal and 8 sites which are part of fully funded Family Service Centres and Early Years Service Hubs.

38. [2]

39. Current ECE information is inadequate. The Government is expected to spend \$1.4 billion in ECE this year, almost three times what was spent in 2004/05. Despite significant investment, the Ministry of Education is not currently able to report who is participating in ECE, how long children are participating, and when and where they are participating. We do not accurately find out whether individual children have participated in ECE until they start school, at which time the opportunity to support ECE participation is lost.

40. Children are not uniquely identified in ECE. Services claim funding for the total number of hours provided and provide data on numbers of enrolments. This means that children attending more than one service are recorded more than once and we cannot determine how many hours individual children are attending.

41. I am concerned this limits our ability to actively find children who are not part of the ECE system and target our resources to them. It also limits our ability to understand whether children are receiving enough ECE for educational benefit. We also need ways to deliver funding that are more cost effective.

42. Our processes have fallen behind the capability of the ECE sector. Eighty-one percent of the sector already has internet access and could share data electronically with the Ministry of Education. The Ministry does not have the capability currently to receive the data electronically.

[2]

46. Access to electronic information will enable the Ministry to provide more robust and timely policy advice, assess performance of the ECE sector, reduce

compliance costs for the ECE sector and support the ability to deliver targeted funding.

47. We have estimated this project will have the following financial impact:

Vote Education	\$m - increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Operating Balance Impact	-	0.986	2.157	4.521	5.146
Debt Impact	-	2.160	11.160	4.680	-
No Impact	-	0.086	0.619	1.253	1.440
Total	-	3.232	13.936	10.454	6.586

Note: the figures above are higher than those presented in the Business case because we expect the consolidated Government information option to cost more than the Ministry only option.

48. The main risks associated with this project are insufficient funding, and 19% of the sector not having internet access. I have made provision for the ELI project in the Vote Education baseline. In the detailed phase the Ministry will identify options for services that do not have internet access.
49. In the next phase of the ELI project I will consider how we can work alongside the *ServiceLink – Transforming Government Service Delivery* project being led by the Ministry of Social Development, Inland Revenue and the Department of Internal Affairs. The service delivery organisation being proposed as part of *ServiceLink* may be a future ECE funding delivery option for government.

Next Steps

50. My proposed timeline for the ECE package is set out in the following table.

Table 1 – proposed timeline for ECE Budget package - 2011

Activity	Date
Ministers of Finance and Education approve new ECE funding rates	April 2011
Budget Day	19 May 2011
Complete Detailed Business Case – Early Learning Information Project New ECE Funding rates apply	July 2011
Begin development of Early Learning Information system	August 2011
Eligible services receive new Equity Funding rates (backdated to 1 July 2011)	November 2011

Risks

51. [3]

My proposals to provide modest universal increases to funding rates and extend Equity Funding will help shield families (in particular, lower income families) from the majority of the increases. There may also be strong sector reaction to not increasing the *20 Hours ECE* funding

rates in line with inflation and creating separate funding rates for Kindergartens. The Ministry is responsible for monitoring the quarterly index of the fees charged by ECE services produced by Statistics NZ. My communications will also emphasise the need to target our resources where they are needed most.

52. Proposals to control expenditure in the short-term are unlikely to be positively received, given they could constrain supply in some areas or reduce existing supply. My communications will emphasise that the ECE sector needs to manage costs and gain greater value from the significant funding they already receive.
53. While the majority of the ECE sector would support moving towards electronic information exchange, the New Zealand Playcentre Federation has indicated it could not fund internet access for all Playcentres. In the detailed business case process we would work through different implementation options to address this concern.

Consultation

54. The following agencies have been consulted during the development of this paper: The Treasury, the Ministries of Social Development, Justice, Pacific Island Affairs and Women’s Affairs; the Department of Labour, Education Review Office, State Services Commission and Te Puni Kōkiri. The Department of the Prime Minister and Cabinet has been informed of the content of this paper.

Financial implications

55. The proposals in this Cabinet paper for a modest increase to ECE funding rates, extension of Equity Funding to all ECE services, expansion of Ministry of Social Development initiatives and an Early Learning Information project will have the following financial implications (Appendix One provides a summary of all the ECE initiatives):

	\$m - increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Universal Adjustment to ECE Funding Rates	[2]				
Extension of Equity Funding to All ECE Services	-	5.200	5.400	5.400	5.500
Ministry of Social Development proposals	-	3.930	4.723	5.644	6.044
Early Learning Information Project	-	0.986	2.157	4.521	5.146
Operating Balance Impact	[2]				
Debt Impact					
No Impact					
Total					

56. I intend to fund the capital costs of the Early Learning Information project through an operating to capital swap from within the Vote Education baseline.

Human rights

57. The proposals in this paper appear to be consistent with the Human Rights Act 1993 and the New Zealand Bill of Rights Act 1990.

Legislative implications

58. There are no legislative or regulatory implications in this paper.

Gender implications

59. My decision to provide a smaller cost adjustment than in previous years could have a negative impact on women's ability to participate in the labour market if services significantly increase fees in response.

Disability perspective

60. Under existing settings, many ECE services do not have access to funding specifically intended to support children with disabilities. Extension of Equity Funding to other services will help support children with disabilities to participate in ECE.

Publicity

61. I propose these announcements be coordinated with Budget 2011 announcements, including opportunities for early announcements. The Ministry of Education will provide follow-up information for ECE providers.

Recommendations

62. The Minister of Education recommends that Cabinet:

62.1. **note** that Government's highest priorities for early childhood education (ECE) are to improve participation in quality ECE by Māori and Pasifika children, and children from lower socio-economic status backgrounds, and control government expenditure;

62.2. **note** that the proportion of Māori and Pasifika children who have not attended ECE before school is two to three times higher than for other groups;

62.3. **note** that the costs of ECE to Government have increased markedly in recent years, and I have proposed a number of options to control expenditure in the short-term;

62.4. [2]

62.5.

Universal Adjustment to ECE Funding Rates

62.6. **note** that I am proposing a modest increase to ECE funding rates to help shield families from potential fees increases;

62.7. **agree** to a universal adjustment to ECE funding rates effective from 1 July 2011;

62.8. **approve** the following appropriation changes to put into effect these universal increases, with a corresponding impact on the operating balance:

Vote Education Minister of Education	\$m - increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Non-Departmental Other Expense:	[2]				
Early Childhood Education					

62.9. **agree** that the above changes to appropriations be funded from Education's 2011 Budget allocation;

Extend Equity Funding to All ECE Services

62.10. **agree** to extend Equity Funding (a targeted funding stream) to all ECE services, which provide ECE to children from the poorest communities effective from 1 July 2011;

62.11. **approve** the following appropriation changes to extend Equity Funding to all ECE services, with a corresponding impact on the operating balance:

Vote Education Minister of Education	\$m - increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Non-Departmental Other Expense:					
Early Childhood Education	-	5.200	5.400	5.400	5.500

62.12. **agree** that the above changes to appropriations be funded from Education's 2011 Budget allocation;

62.13. **agree** to delegate authority to the Minister of Finance and Minister of Education to set the specific ECE funding rates in line with the policy decisions this paper and the decisions for Kindergartens in CAB Min (11) 11/10 in time for announcement as part of the 2011 Budget;

Ministry of Social Development Initiatives

62.14. **agree** to fund expansion of Home Instruction Programme for Pre-school and Youngsters (HIPPY) and Early Childhood Education for Children in Care as shown in the following table;

Vote Social Development	\$m – increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Extension of early learning payments to children in state care	-	2.789	2.852	2.913	2.913
Expansion of Home Instruction Programme for Pre-school and Youngsters	-	1.141	1.871	2.731	3.131
Total	-	3.930	4.723	5.644	6.044

62.15. **approve** the following changes to appropriations to fund the Vote Social Development Budget 2011 initiatives above, with a corresponding impact on the operating balance:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Departmental Output Expense:					
Care and Protection Services (funded by revenue Crown)	-	2.789	2.852	2.913	2.913
Family and Community Services (funded by revenue Crown)	-	0.053	0.053	0.053	0.011
Non-departmental Output Expense Strong Families	-	1.088	1.818	2.678	3.120
Total Operating	-	3.930	4.723	5.644	6.044

62.16. **agree** that the above changes to appropriations be funded from Education's 2011 Budget allocation;

62.17. **authorise** the Minister of Finance and the relevant Vote Minister to approve jointly any technical adjustments to baselines necessary to remove any errors or inconsistencies identified while finalising the 2011/12 Estimates and the fiscal forecasts in relation to these initiatives;

Early Learning Information (ELI) Project

62.18. [2]

[2]

62.19. **approve** the Ministry of Education to proceed to the detailed business case stage for the ELI project in line with the attached Indicative Business case;

62.20. **note** that I will provide for the following operating and capital funding for the ELI project from Education's 2011 Budget allocation:

Vote Education Minister of Education	\$m - increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears
Operating Balance Impact	-	0.986	2.157	4.521	5.146
Debt Impact	-	2.160	11.160	4.680	-
No Impact	-	0.086	0.619	1.253	1.440
Total	-	3.232	13.936	10.454	6.586

62.21. **approve** the use of an operating to capital funding swap to fund the above;

62.22. **agree** that the funding for the ELI project be set aside as a contingency item and that corresponding funding be set aside in the between-Budget spending contingency;

62.23. **agree** to delegate to the Minister of Finance and the Minister of Education jointly the authority to draw down on this contingency once the detailed business case has been approved in accordance with Cabinet Office Circular CO (10) 2 dated 1 August 2010; and

62.24. **note** that I propose these changes be announced in Budget 2011.

Hon Anne Tolley
Minister of Education

_____/_____/_____

APPENDIX ONE: PROPOSED ECE BUDGET PACKAGE

Vote Education (\$m)	2010/11	2011/12	2012/13	2013/14	2014/15 & Outyears	Four Year Total
Forecast changes to demand-driven ECE expenditure	125.439	80.113	91.783	102.924	141.836	542.095
PROPOSED ECE BUDGET PACKAGE						
Universal Adjustment to ECE Funding Rates						[N]
Equity Funding – All ECE services	-	5.200	5.400	5.400	5.500	21.500
Ministry of Social Development proposals						
<i>Early Learning Payments</i>	-	2.789	2.852	2.913	2.913	11.467
<i>HIPPY extensions</i>	-	1.141	1.871	2.731	3.131	8.874
Ministry of Social Development proposals	-	3.930	4.723	5.644	6.044	20.341
Early Learning Information Project	-	3.232	13.936	10.454	6.586	34.208