

The Treasury

Budget 2011 Information Release

Release Document

June 2011

www.treasury.govt.nz/publications/informationreleases/budget/2011

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [8] 9(2)(h) - to maintain legal professional privilege
- [9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

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

Education Report: Budget 2011 - Approval of ECE Funding Rates

Date:	4 May 2011	Priority:	High
Security Level:	In confidence	METIS No:	561117

Action Sought

Addressee	Action Sought	Deadline
Minister of Education	Approve the final ECE funding rates for 2011/12 Forward to the Minister of Finance	9 May 2011
Minister of Finance	Approve the final ECE funding rates for 2011/12	12 May 2011
Enclosure: Yes		Round robin: Yes

Contact for telephone discussion (if required)

Name	Position	Telephone	1 st Contact
Karin Dalgleish	Acting Group Manager, ECE	[1]	Yes
[1]			

The following departments/agencies have seen this report:

Treasury						

Minister's Office to Complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by events |
| <input type="checkbox"/> See minister's notes | <input type="checkbox"/> Withdrawn |

Comments:

Education Report: Budget 2011 - Approval of ECE Funding Rates

Executive summary

Cabinet has approved the policy for key changes to the early childhood education (ECE) funding rates and delegated authority to the Ministers of Finance and Education to set ECE funding rates for 2011/12 [CAB Min (11) 15/17 and CAB Min (11) 11/10 refer]. This paper seeks your approval of the new ECE Funding Rates for 2011/12 so they can be announced on Budget Day – Thursday 19 May 2011.

Cabinet has approved a 2.92% universal cost adjustment to the non-salary component of ECE funding rates [CAB Min (11) 15/17 refers] which aims to provide an increase to ECE funding rates across all service types to help shield families from potential fees increases.

Cabinet has also approved funding increases to cover kindergarten teachers salary increases as negotiated through the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA) [CAB Min (11) 11/10 refers]. From 1 June 2011 Kindergartens will receive separate rates. This will be funded from the Budget 2010 contingency for salary settlements.

Recommendations

We recommend that the Ministers of Finance and Education:

- a. **note** that you have been delegated authority to approve ECE funding rates for 2011/12 in line with Cabinet's policy decisions [CAB Min (11) 15/17 and CAB Min (11) 11/10 refer]
- b. **note** that Cabinet has approved a 2.92% universal cost adjustment to the non-salary component of ECE funding rates [CAB Min (11) 15/17 refers] which provides an increase (in line with Treasury predicted inflation) to ECE funding rates across all service types to help shield families from potential fee increases
- c. **note** that an implication of the universal cost adjustment decision was that Playcentre subsidy rates were going to be higher than Kōhanga reo, even though Kōhanga reo have higher costs
- d. **note** the Ministry of Education has aligned the Playcentre subsidy rates with Kōhanga reo rates in line with past practice, and Budget 2010. This change has moved funding from under and over 2 rates for Playcentre to the *20 Hours ECE* Playcentre rates
- e. **approve** the changes to 2011/12 ECE funding rates for Playcentre as detailed above

YES / NO
Minister of Finance

YES/ NO
Minister of Education

- f. **note** that the total amount appropriated for the increase to ECE funding rates in 2011/12 is \$61.023 million (GST exclusive) over four years
- g. **approve** the proposed ECE funding rates (GST Inclusive) for 2011/12 (as outlined in Appendix 1)

YES / NO

Minister of Finance

YES / NO

Minister of Education

- h. **note** that these rates include separate rates to cover kindergarten teachers salary increases as part of the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA)
- i. **note** that \$15.780 million, over five years, was drawn down to fund the salary increase to Kindergarten rates from the Budget 2010 contingency - *Schooling: Collective Agreement Bargaining for Teacher and Principal Salaries*
- j. **note** best estimates of the impact of the final rates on expenditure show we can expect higher expenditure of approximately \$1 million more, over four years, than has been provided in the Budget 2011 baseline
- k. **note** the costing increased from the original appropriation due to a revised methodology being needed to calculate separate Kindergarten rates

l. [2]

We recommend that the Minister of Education

- m. **forward** this report to the Minister of Finance by Monday, 9 May.

AGREE / DISAGREE

Karin Dalglish
Acting Group Manager
Early Childhood Education

enc

Hon Bill English
Minister of Finance

___ / ___ / ___

Hon Anne Tolley
Minister of Education

___ / ___ / ___

Education Report: Budget 2011 – Approval of ECE Funding Rates

Purpose of report

1. This report seeks your agreement to the final 2011 early childhood education (ECE) funding rates (attached as Appendix 1) to be announced on Budget Day – Thursday 19 May.
2. This includes two policy changes: a universal cost adjustment to ECE funding rates effective from 1 July 2011; and an increase to the salary component of ECE funding rates for Kindergartens only, a result of the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA) settled in November 2010 with primary school teachers.

Background

3. Cabinet has authorised the Ministers of Finance and Education to set the specific 2011/12 funding rates for ECE, consistent with the policy in CAB Min (11) 15/17 and CAB Min (10) 11/10.
4. The ECE funding rates for licensed services are subsidies that reflect teaching salary costs and components of operating costs (operating, capital, property operating and non-teaching staff costs). Funding rates are set annually. For teacher-led services, salary costs generally comprise 70% of the funding rates, and operating costs comprise approximately 30% of the funding rates.

New 2011 ECE Funding Rates

Policy Changes to ECE Funding Rates

5. Cabinet has approved two policy changes that affect the value of the ECE funding rates, as set out in the following table:

Policy Change	Impact on ECE funding rates
Universal cost adjustment to the non-salary component of all rates, at 2.92%	Increase to each funding rate of between 0.03c and 0.24c per funded child hour
Increases of 2.75% to the salary component of ECE funding rates for Kindergartens	Increase to Kindergarten funding rates only of between 0.03c and 0.23c per funded child hour

Universal Cost Adjustment

6. Cabinet agreed to a universal cost adjustment to ECE funding rates effective from 1 July 2011 [CAB Min (11) 15/17 refers]. Universal cost adjustments are intended to compensate services for increases to their non-salary costs.

7. This universal cost adjustment to ECE funding rates will affect over 5,400 ECE services. The adjustment provides increases of between 0.03c and 0.24c per funded child hour.

Adjustments to Playcentre ECE Funding Rates

8. We have adjusted funding rates to keep Playcentre rates aligned with those for Kōhanga reo. Using the methodology applied to other ECE funding rate adjustments, Playcentre would receive a higher increase than Kōhanga reo.
9. In previous years we have aligned funding rates for Playcentre and Kōhanga reo. This approach maintains equal subsidy funding for the two types of parent and whānau-led licensed ECE services. Higher rates for Playcentres would be inconsistent with Kōhanga reo having higher overall costs.
10. This alignment means that Playcentre rates have been reduced from the strict 2.92% calculation. The difference from this reduction has been added to Playcentre's *20 Hours ECE* rates. Playcentre and Kōhanga reo rates for *20 Hours ECE* have not been aligned in the past as costs for Kōhanga reo are higher. This means that:
 - a. Playcentre and Kōhanga reo funding rates for children under-2 and over-2 are the same.
 - b. Playcentre and Kōhanga reo receive different rates for *20 Hours ECE*.
 - c. Playcentres will receive, overall, the same amount of funding they would have done under the original calculation, but funding is weighted towards *20 Hours ECE*.

ECE Funding Rates for Kindergartens

11. Kindergarten teachers are part of the state sector, so Government negotiates collective agreement settlements on behalf of kindergarten associations. The outcome of the latest round of negotiations was an increase of 2.75% to the salary component of Kindergartens' ECE funding rates.
12. A total of \$15.780 million, over five years, was drawn down to fund the salary increase to Kindergarten rates from a Budget 2010 contingency – *Schooling: Collective Agreement Bargaining for Teacher and Principal Salaries*.
13. Government has previously provided similar adjustments to the salary part of all ECE funding rates to reflect the likely wage cost pressures that other services may face. However, this year the decision has been made not to pass on these increases.
14. As a result of this, Kindergartens will now have separate rates from the rest of the ECE sector.
15. Due to increases resulting from the universal cost adjustment and the KTCA, ECE funding rates for Kindergartens will increase by between 0.06c and 0.35c per funded child hour.

The Impact of the Interaction of Budget Initiatives on Appropriations

16. The final rates that are proposed in this paper result in slightly higher expenditure than was estimated for the policy proposal that was approved by Cabinet. Best estimates of the impact of the final rates suggest that expenditure will be almost \$1 million higher over four years, than has been provided in the Budget 2011 baseline.

Table 1: Predicted expenditure over four years

\$m GST excl	11/12	12/13	13/14	14/15	4 Year Total \$m
Appropriation	14.412	15.083	15.564	15.964	61.023
Final Costing	14.624	15.317	15.824	16.246	62.011
Difference between appropriation and costing	-0.212	-0.234	-0.260	-0.282	-0.988

17. The costing increased from the original appropriation due to a revised methodology being needed to calculate separate Kindergarten rates.
18. We considered setting lower rates to stay within the appropriation but this would not have allowed the full amount of the universal cost adjustment to be passed on through the rates. This approach would have resulted in an underspend and would not have been consistent with Cabinet's decision to provide a 2.92% increase to the non-salary component.
19. [2]

Quality Assurance Processes

20. The proposed ECE funding rates have been fully quality assured by the Ministry of Education following the Ministry's Policy Costing and Rate Setting (PCRS) Corporate Policy. The process ensures the Ministry has accountability and quality assurance processes in place that promote the accurate and timely calculation of the cost of new policies and the determination of funding rates.
21. The costing compares each proposed rate change to BEFU11 forecast hours, accounting for interactions between funding rate changes, checking assumptions against decisions and noting any variances between estimated costs of policy and funding to be appropriated.

Communications

22. On Budget day two sets of funding rates will be published. One set of rates will apply from 1 June 2011 only to Kindergartens that reflect the increase to salary related costs of 2.75% as negotiated through the KTCA. From 1 July 2011, a further set of funding rates will apply. These rates will reflect the universal cost adjustment and will be made to both Kindergarten and non-Kindergarten rates.
23. This is the first time there have been separate rates published for Kindergartens since 2005. Budget communications will provide information on all Budget 2011 ECE initiatives, including why there are separate rates for Kindergartens.

Financial implications

24. There are financial implications regarding the higher expenditure of almost \$1 million dollars over four years that is now forecast, as outlined in paragraphs 16 to 19.

Appendix 1 – ECE Funding Rates

Table 1 - ECE Funding Rates – All ECE service types except Kindergartens

ECE Funding Rates (GST inclusive)				Funding Rate to 30 June 2011	New Funding Rate 1 July 2011
Education and Care	20 Hours ECE	All-day	80%+	\$11.12	\$11.25
			50-79%	\$10.14	\$10.25
			25-49%	\$ 8.91	\$ 9.01
			0-24%	\$ 8.13	\$ 8.22
		Sessional	80%+	\$ 6.13	\$ 6.20
			50-79%	\$ 5.57	\$ 5.63
			25-49%	\$ 4.92	\$ 4.98
			0-24%	\$ 4.55	\$ 4.60
	Non 20 Hours ECE	All-day	80%+	\$ 6.53	\$6.60
			50-79%	\$ 5.63	\$ 5.69
			25-49%	\$ 4.49	\$ 4.54
			0-24%	\$ 3.73	\$ 3.77
		Sessional	80%+	\$ 4.76	\$ 4.81
			50-79%	\$ 4.25	\$ 4.30
			25-49%	\$ 3.66	\$ 3.70
			0-24%	\$ 3.29	\$ 3.33
	Under 2s	All-day	80%+	\$11.80	\$11.93
			50-79%	\$10.68	\$10.80
			25-49%	\$ 8.62	\$ 8.72
			0-24%	\$ 7.37	\$ 7.45
		Sessional	80%+	\$10.49	\$10.61
			50-79%	\$ 9.54	\$ 9.65
			25-49%	\$ 7.77	\$ 7.86
			0-24%	\$ 6.76	\$ 6.84
Home-based	20 Hours	Quality	\$9.09	\$9.17	
		Standard	\$8.59	\$8.66	
	Non 20 Hours	Quality	\$4.36	\$4.40	
		Standard	\$3.87	\$3.90	
	Under 2s	Quality	\$8.15	\$8.22	
		Standard	\$7.14	\$7.20	
Playcentre	20 Hours	Quality	\$5.19	\$5.43	
		Standard	\$4.65	\$4.88	
	Non 20 Hours	Quality	\$4.34	\$4.37	
		Standard	\$3.80	\$3.83	
	Under 2s	Quality	\$8.63	\$8.70	
		Standard	\$7.56	\$7.62	
Te Kōhanga Reo	20 Hours	Quality	\$8.11	\$8.17	
		Standard	\$7.64	\$7.70	
	Non 20 Hours	Quality	\$4.34	\$4.37	
		Standard	\$3.80	\$3.83	
	Under 2s	Quality	\$8.63	\$8.70	
		Standard	\$7.56	\$7.62	
Playgroups			\$1.40	\$1.44	

Table 2: ECE Funding Rates - Kindergarten Rates

ECE Funding Rates (GST inclusive)				Funding Rate to 31 May 2011	New Funding Rate 1 June 2011 to 30 June 2011	New Funding Rate 1 July 2011
Kindergartens	20 Hours ECE	All-day	80%+	\$11.12	\$11.29	\$11.40
			50-79%	\$10.14	\$10.28	\$10.38
			25-49%	\$ 8.91	\$ 8.99	\$ 9.08
			0-24%	\$ 8.13	\$ 8.16	\$ 8.24
		Sessional	100%	\$ 7.49	\$ 7.63	\$ 7.70
	Non 20 Hours ECE	All-day	80%+	\$ 6.53	\$ 6.67	\$ 6.73
			50-79%	\$ 5.63	\$ 5.74	\$ 5.79
			25-49%	\$ 4.49	\$ 4.56	\$ 4.60
			0-24%	\$ 3.73	\$ 3.75	\$ 3.79
		Sessional	100%	\$ 6.25	\$ 6.37	\$ 6.43
	Under 2s	All-day	80%+	\$11.80	\$11.98	\$12.09
			50-79%	\$10.68	\$10.83	\$10.93
			25-49%	\$ 8.62	\$ 8.71	\$ 8.79
			0-24%	\$ 7.37	\$ 7.40	\$ 7.47
		Sessional	100%	\$12.46	\$12.69	\$12.81