Te Tāhuhu o te Mātauranga
Ministry of Education

Report: Options to reduce ECE service staffing costs

To:	Hon David Seymour, Associate Minister of Education		
Cc:	Hon Erica Stanford, Minister of Education		
Date:	14/02/2025	Deadline:	21/02/2025
Security Level:	Budget Sensitive	Priority:	Medium
From:	John Brooker General Manager Early Learning and System Policy	Phone:	9(2)(a) [redacted]
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Why are we sending this to you?

- We have been asked by your Office to provide advice on fiscally neutral options to reduce early childhood service staffing costs.

Key Messages

- 9(2)(f)(iv) [redacted] The options are partly informed by education and care service provider suggestions.
- Key criteria for selecting the options have been the need to observe fiscal neutrality and ensure no services are worse off than currently.
- 9(2)(f)(iv) [redacted]

Alignment with Government priorities

1. This report relates to the Coalition Government's focus on reducing the regulatory burden on early childhood services and reducing costs to business.

Background

2. We previously provided you with a report seeking an indication of your preferred approach to supporting early childhood services' cost pressures [METIS 1340334 refers]. This included reference to possible approaches to provide regulatory or funding condition relief.

3. At the Agency meeting on 10 December 2024, you indicated that the Ministry should progress a 0.5% increase to all early childhood education (ECE) subsidies as a Budget 2025 bid to support early childhood services' cost pressures.

4. We are progressing a Budget 2025 bid as per your indication. As discussed with your Office, this report provides advice on:

   - how to reduce restrictive requirements associated with the ECE funding system so as to reduce workforce costs for ECE services, specifically including pay parity requirements
   - how this can be managed while retaining fiscal constraint (other than forecast changes due to learner numbers)
   - any sector ideas that have been proposed in the last year that help with the above objectives.

5. We understand your interest in providing additional cost relief for early childhood services is partly due to the limited scope for a cost adjustment at Budget 2025. Sector representatives such as the Early Childhood Council have indicated that pay parity arrangements are creating funding shortfalls for centres, increasing the rates of closure.

Staffing is the largest cost for most services

6. Staffing is the largest cost for most early childhood services and therefore a key area of financial pressure. Regulatory requirements, services' choices to staff at or above minimum adult to child ratio requirements and the usual drivers of per unit staff costs (such as the minimum wage and bargaining pressures) were traditionally the main drivers of staffing cost differences in ECE.

7. However, two aspects of the ECE funding system now also drive higher staffing costs by:

   7.1. setting the minimum salaries of certificated teachers in education and care services (often higher than teachers were paid prior to the scheme starting in early 2022) through the pay parity opt-in scheme – a scheme that provides higher rates of funding for higher salary requirements and,

   7.2. providing for higher rates of funding to services that employ larger proportions of certificated teachers in teacher-led, centre-based services (kindergartens and education and care services).

Options to reduce services' staffing costs

8. Due to staffing being the most significant service cost, we have looked at options that can enable staffing-based cost relief for teacher-led, centre-based services. Staffing cost relief for services must be paid for by one or more of the following actors in the system: government, parents or teachers. These options provide greater autonomy for services in setting teacher pay, moving over time towards a simplified funding system that is less complex for both services and the Ministry. We have considered options that either:

- enable reductions in the cost of employing a certificated teacher, through changing pay parity settings, or,
- 9(2)(f)(iv) [redacted]

9. We have focused on four options targeting pay parity settings in education and care services. 9(2)(g)(i) [redacted] A brief overview of the pay parity opt-in scheme is included in Annex One. The options are analysed against the following criteria in Table 1.
   - Level and breadth of relief to services
   - Implementation considerations
   - Other relevant considerations.

10. The options are all proposed to be time-limited, each spanning a period of two years with commencement at the start of a four-month funding period to help with administrative simplicity. Use of multiple options is possible. This period allows the ECE Funding Review to take place and begin implementation. It is possible that settings resulting from implementing an option may become embedded components of the ECE funding system in the long-term.

Managing fiscal neutrality of the options

11. The options presented in Table 1 can provide varying cost relief to education and care services. However, there is a risk that costs to Government could increase for each of the options presented. This would occur if services leverage the cost reductions offered by each approach to opt into a band higher than the one they are currently in (enabling more funding to be received for lower pay requirements).

12. To eliminate this fiscal risk and keep the options fiscally neutral, the Ministry considers it critical that the options only be pursued if there is a moratorium on services opting into higher funding bands than they are currently on while the option is in place. Without a moratorium, the fiscal risk would have to be included as a cost of the policy change and require new funding to be sought. Services would still retain the ability to opt down into lower funding bands.

13. We recommend that services on base funding still be able to move up a funding band, as such services tend to be at more risk of financial difficulty and the options otherwise provide no scope for staffing savings to this group of services. We consider this would carry relatively low fiscal risk, as there are only a very small number of services (91 services) on base funding rates.

14. If these options are pursued, timing between the moratorium, opt-in submissions from services and its announcement will need to be carefully managed. Minimising the time between the announcement and the moratorium being in place reduces the fiscal risk of services opting into higher rates and receiving more funding than otherwise forecast.

Discounted options

15. The Ministry considered and has discounted the following options for cost relief, 9(2)(f)(iv) [redacted]

    15.1. 9(2)(f)(iv) [redacted]

    15.2. 9(2)(f)(iv) [redacted]

[redacted]

15.3. [redacted]

15.4. [redacted]

15.5. [redacted]

15.6. [redacted]

15.7. 9(2)(f)(iv) [redacted]

Table 1: Options to reduce education and care service staffing costs through changes to pay parity scheme settings

Proposed Change	Level and breadth of relief for providers	Implementation considerations	Other considerations
1. Grant services discretion to determine the initial pay step for both newly certificated teachers and certificated teachers who are new to the sector (eg, teachers coming from primary). Prior relevant experience as well as qualification level would not need to be recognised.	(+) The estimated maximum possible cost reduction for providers is **$22 million** over two calendar years.[1] During the 2023 census period (June 2022-2023), 551 education and care services (approximately 20%) hired a new permanent certificated teacher who was new to the ECE sector, indicating the magnitude of services that could benefit from this change. Note: The actual cost reduction for providers for this option, as well as options 3 and 4, are challenging to estimate due to data limitations, such as how constrained the teacher supply market is, service willingness to use the new conditions and our limited knowledge of the pay step distribution for new teachers.	(+) Can be implemented within 6 months. (+) Ministerial decision only to change requirements.	*Addressing providers concerns* (+) This option addresses a key concern raised with you by sector leaders about initial pay levels for beginning teachers, particularly those with higher level non-ECE qualifications, and relativity concerns with New Zealand trained teachers. *Effect on system complexity and monitoring* (+) Low as new conditions can be easily communicated and put into effect by the Ministry and services. *Implications for ECE Funding Review* (-) Time-limited to enable FR changes to then take effect. Will create uncertainty about durability of the pay parity scheme and could be interpreted as a signal for a Ministerial Advisory Group as to the Government's likely decisions on the scheme. *Workforce* (-) Likely that some teachers' pay will be less than it would otherwise have been under the status quo. Makes teaching in education and care services

[1] The maximum cost reduction for providers figure for Option 1 is based on the number of new permanent certificated teachers that were new-to-the-sector and started in an education and care service from June 2022 – June 2023 (752). The calculation assumes that there will be a similar number of new-to-the-sector teachers from when this change takes place, and that all of these teachers will start on step 1 and the teacher starts at the beginning of the year. Because the Ministry does not hold information on the pay steps of current certificated teachers, we have assumed the pay step distribution for the ECE sector using internal modelling, and that the distribution of pay steps for starting teachers is identical to that of the full workforce according to this modelling.

			less attractive for those considering studying and entering the ECE workforce.

9(2)(f)(iv)

[redacted]

9(2)(f)(iv)

[redacted]

9(2)(f)(iv)

[redacted]

Conclusions

16. Pay parity was introduced by the previous Government through an opt-in funding scheme that was not fit for purpose. The result is that the impact has fallen unevenly across the system and providers, introduced additional complexity to an already complicated funding system, and was not fiscally sustainable (hence the previous Government removed the direct link to the KTCA in September 2003). The options in this paper begin the process of proactively moving away from the opt-in pay parity system and providing greater autonomy to providers to negotiate with teachers on matters of pay. The wider funding review you are seeking Cabinet approval for provides the opportunity to complete this process.

17. We have identified four options that do not leave any services worse off than currently and, in many cases, provide the potential for them to strengthen their viability and place in the network due to reduced staffing costs. 9(2)(f)(iv) [redacted]. It is possible some services may prefer to retain the ability to move to higher rates under existing conditions though.

18. The options are kept fiscally neutral through placement of a moratorium or freeze on service movement up pay parity funding rates. Nonetheless, funding system interconnections mean that reducing the costs for one participant leads to another participant paying – for these options teachers would pay the cost of any relief for services.

19. 9(2)(g)(i) [redacted]

20. The options presented in Table 1 only target relief to education and care services and exclude the remainder of the sector. Other subsectors may argue they also have financial pressures. The benefits to education and care services are likely be unevenly realised, as in most cases cost relief depends on labour market pressures (which can be very localised), a service's existing staffing arrangements and preferences and funding band opt-in behaviour. This makes it particularly difficult to confidently ascertain actual total cost reduction for education and care services. The reduction in staffing costs for each service will also be difficult to communicate to the sector.

21. Altering settings of the pay parity opt-in scheme may be seen as pre-empting the work of the ECE Funding Review, 9(2)(g)(i) [redacted] Making these options time-limited may lessen this pre-emption risk but does not eliminate it, especially as interim measures can tend to become permanent. 9(2)(g)(i) [redacted]

Next Steps

22. We seek your decision as to the option(s) you wish to pursue to provide cost relief to education and care services.

23. You are able to make decisions around funding changes set out in the options without recourse to Cabinet, provided no additional funding is required to be appropriated. This is because section 548 of the Education and Training Act 2020 empowers the Minister of Education or their delegate to determine the amount of every grant under section 548(2) within appropriated funding. The Minister also has statutory authority to determine the means of calculation or ascertainment of grants (s 548(3)) and may add conditions to grants (s 548(5)).

24. This legislation means that you, and not Cabinet, are empowered to make decisions about how grants are allocated, as indicated above, when the cost is within existing appropriated

funding for grants (subsidies such as 20 Hours ECE and the ECE Subsidy are examples of such grants). You may, however, wish to inform Cabinet that you are making such decisions if, for example, you expect these will lead to considerable public interest.

Annexes

The following is annexed to this paper:

Annex 1: The pay parity opt-in scheme

Recommended Actions

The Ministry of Education recommends you:

a. **note** that the Ministry agreed with your Office to provide advice on fiscally neutral options to reduce early childhood service staffing costs

Noted

b. **note** that other potential staffing savings options were discounted due to difficulty minimising cost to government, high administration burden and unequal redistributive effects on services

Noted

c. **agree** to one of the following options, which provide cost relief for education and care services, noting that multiple options may be chosen:

   i. **Option 1:** Grant services discretion to determine the initial pay parity step for newly certificated teachers and teachers who are new to the sector, for a period of two years from the start of a new funding period

   Agree / Disagree

   ii. 9(2)(f)(iv) [redacted]

   Agree / Disagree

   iii. 9(2)(f)(iv) [redacted]

   Agree / Disagree

   iv. 9(2)(f)(iv) [redacted]

   Agree / Disagree

d. **note** that all options must be accompanied by a moratorium on services on parity or extended parity bands being able to shift into higher bands in order to maintain fiscal neutrality and the need for appropriation of new funding

Noted

e. **note** that the potential savings for education and care services provided by Options 1 to 4 would be funded through reductions in teacher pay

Noted

f. **note** that Options 1 to 4 enable varying levels of financial relief to individual services depending on services' adoption of new conditions

Noted

Proactive Release:

g. **agree** that the Ministry of Education release this paper after public announcements are made to progress any of the options with any information needing to be withheld done so in line with the provisions of the Official Information Act 1982.

Agree / Disagree

John Brooker

General Manager

Te Pou Kaupapahere

14/02/2025

Hon David Seymour

Associate Minister of Education

2/3/25.

Annex One: The pay parity opt-in scheme

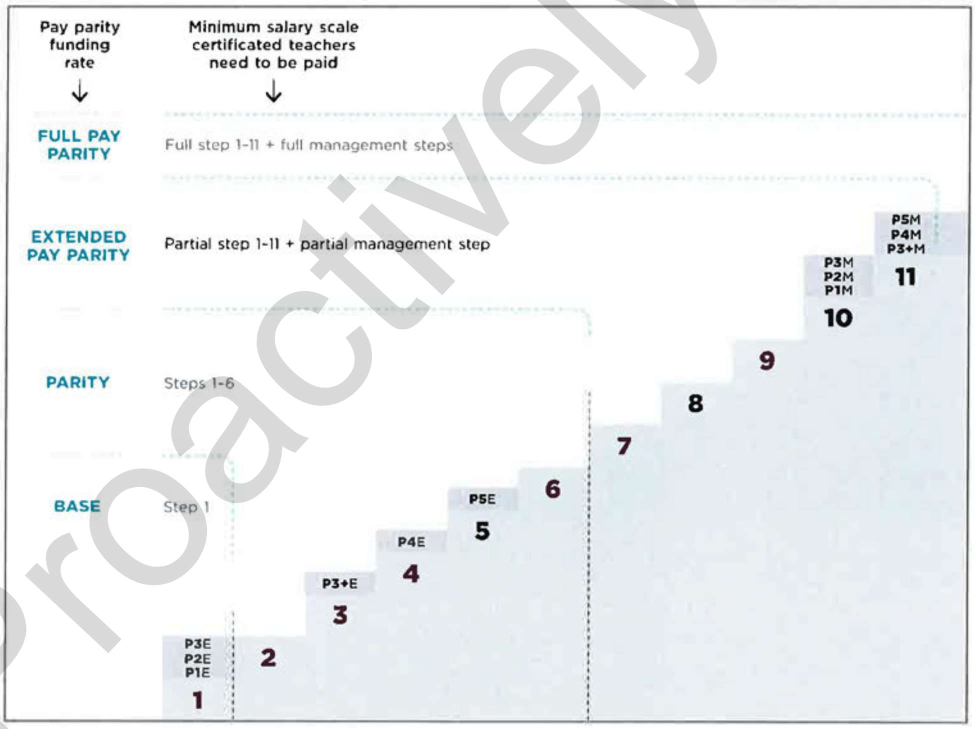
1. The pay parity opt-in scheme was phased into the ECE funding system from 2022 to address the pay disparity between certificated teachers in education and care services, and certificated teachers in kindergartens. This was allocated $909 million over Budgets 2020-2023. On average, certificated teachers in education and care services have historically been paid less than their kindergarten counterparts, even when they have equivalent years of experience and qualifications.[5]

2. This average disparity is likely to have arisen from several factors. Most notable is that kindergarten teachers are all paid according to the salary scale set out in the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA). The KTCA has usually led ECE sector pay expectations. It is driven by increases in school collective agreements (the KTCA has a parity clause in it so kindergarten teachers must be offered increases in line with the primary school collective agreement). At various times, kindergartens have received higher funding rates than education and care services limiting scope for the latter to compete on pay.

3. The pay parity scheme does not guarantee full pay parity for all education and care teachers. This is a consequence of the current funding system, which cannot match funding to total teacher pay at a service level. To do so would require a significant reworking of the ECE funding system. A proposal to this effect was attempted by the previous Government but abandoned after sector feedback about the uncertainty of how much funding would be re-allocated between services.

4. The scheme provides three sets of higher funding rates that education and care services may opt into alongside attesting to paying their certificated teachers according to various steps or part steps of the KTCA salary scale. This is on top of a base funding rate with a single pay 'floor' requirement. Figure 1 illustrates the number of salary steps included in each of the four funding rates:

Figure 1: Minimum required pay steps for each pay parity funding rate.



[5] Findings from the 2020 Early Childhood Education Remuneration Report indicated that certificated teachers in education and care services with 1-2 years' experience earned, on average, 7% less than kindergarten teachers with equivalent experience, those with 2-5 years' experience earned 10% less, and with 10+ years' experience earned 12% less on average.

5. A teacher's salary step is agreed upon between service providers and certificated teachers. Three factors determine a teacher's pay step:

- **Qualification group:** A certificated teacher's qualifications determines their starting pay step. The highest pay step on the salary scale (step 11) is reserved for certificated teachers with qualifications in addition to those required for certification, from level 7 and above on the New Zealand Qualifications Framework (NZQF).
- **Recognised service:** Time spent working as a certificated teacher in New Zealand, whether in a licensed early childhood service, kindergarten, or in a state or state integrated school including Kaupapa Māori.
- **Previous relevant work experience:** defined work experience that may be relevant to the certificated teacher's role. It is between the service provider and certificated teacher to agree what previous work experience may be relevant to the role.

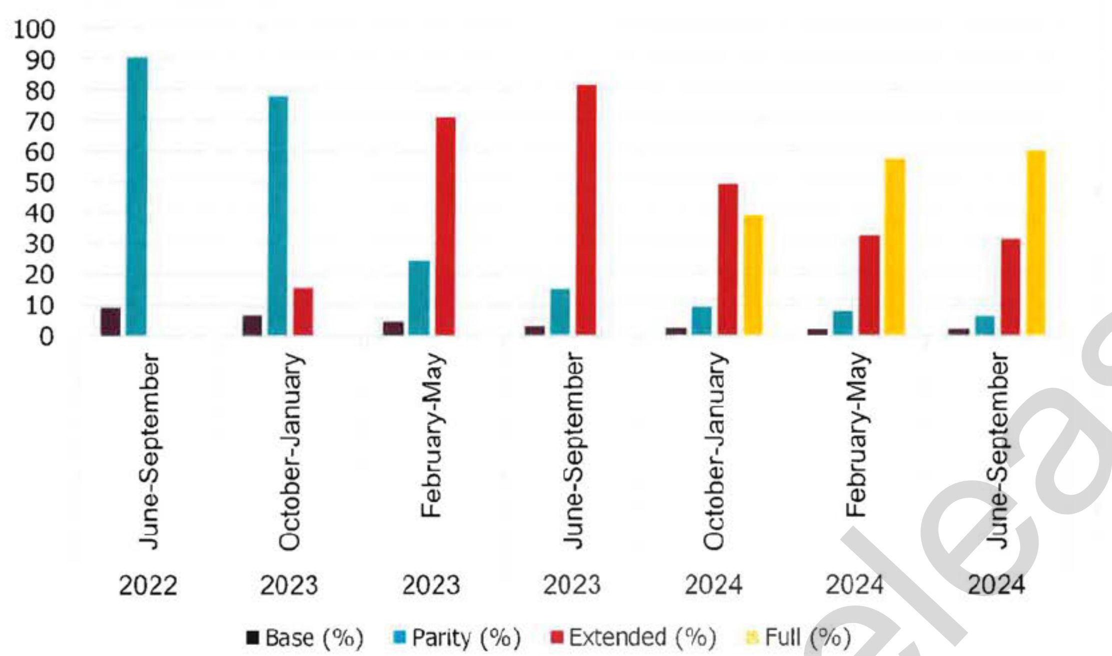
6. Recognised service and previous relevant work experience allow a teacher to be progressed further along the stepped scale within defined limits.

7. A certificated teacher progresses a salary step when they have completed 2080 hours work (equivalent to one year of full-time employment) and have been assessed by the service provider as meeting the applicable Teaching Council of Aotearoa New Zealand's Standards. Progression continues until the certificated teacher reaches the highest salary step in the funding band the service has opted into, for which they are eligible.

8. Although the scheme still refers to pay parity, none of the pay steps offered are at parity with the current KTCA steps. The previous Government paused further commitment to passing on in full increases in the kindergarten pay scale arising from subsequent KTCA agreements, as it was beyond the funding that had been appropriated. Therefore, the highest full pay parity pay scale was frozen and still matches the KTCA pay scale as at 1 December 2023

9. While individual service providers will make staffing and funding band choices based on their own cost benefit analyses, higher funding rates appear to have proved an incentive to services overall. Over 90% of services have currently opted into extended pay parity and full parity funding rates, as shown in Figure 2. Providers have been very fast to respond to the funding incentives to opt-in to pay parity.

Figure 2: Proportion of education and care services opted into each pay parity funding band (2022-2024)[6]



10. There is likely a range of reasons underpinning the shift of services to higher funding bands. For example, since 2017, cost adjustments have been typically applied to full funding rates. This followed a period of limited or no adjustments, allowing services more scope to move up funding bands as long as teacher pay has been restrained.

11. The pay parity scheme funding rates are based on the additional estimated average cost of paying certificated teachers according to the minimum salary scale, rather than actual costs incurred by each individual service. This means that, for some services, full parity funding rates may result in a windfall gain while other cannot financially justify opting in without increasing fees or adjusting staffing mix.

12. The coalition Government has continued to support pay parity under the pay rates and conditions set by the previous Government, with the exception of the change in October 2024 that the scheme would only apply to permanent part or full-time certificated teachers [METIS 1331042 refers].

[6] Extended parity was introduced on 1 January 2023 and full parity was introduced on 1 November 2023.