All redactions made under s9(2)(f)(iv) of the OIA unless stated

MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Education Report: Options for the Budget 2022 pay parity initiative

To:	Hon Chris Hipkins, Minister of Education		
Date:	10 December 2021	**Priority:**	High
Security Level:	Budget Sensitive	**METIS No:**	1279010
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Messaging seen by Communications team:	No	**Round Robin:**	No

Purpose of Report

This paper seeks your agreement to the shape of the Budget 2022 teacher pay parity initiative. It presents choices informed by the results of the October 2021 staffing survey of education and care and home-based services.

Summary

1 9(2)(f)(iv) we have created four options for allocating funding to certificated education and care teachers in the Budget 2022 pay parity initiative.

Option	Cost	Option provides
1		**Steps 1-8 for teachers, step 9 for managers with appropriate experience/qualifications** • Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA) pay steps 1-8 for base teachers where their qualifications & experience match those required for these steps in the KTCA. • Steps 1-9 for certificated teachers in management where their qualifications & experience match those required for these steps in the KTCA.
2		**Progress towards step 11, no differentiation for management** • Steps 1-8 for base teachers and certificated teachers in management where their qualifications & experience match those required for these steps in the KTCA. • Partial steps 9-11 for base teachers and certificated teachers in management where their qualifications & experience match those required for these steps in the KTCA (to a maximum of $79,413).

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3	[redacted]	**Steps 1-8 for teachers, Step 8 for managers** • Steps 1-8 for base teachers where their qualifications & experience match those required for these steps in the KTCA. • Step 8 for all management regardless of experience and qualifications.
4	[redacted]	**Some progress towards step 11, premium for all managers** • Steps 1-6 for base teachers where their qualifications & experience match those required for these steps in the KTCA. • Partial steps 7-11 for teachers where their qualifications & experience match those required for these steps in the KTCA (to a maximum of $79,143). • Step 9 for all management regardless of experience and qualifications.

2 All options include $5 million in implementation costs, including costs relating to the review of the ECE funding system.

3 A further [redacted] is included in each option as a contingency for kōhanga reo pay increases. [redacted]

4 [redacted]

5 [redacted] Our assessment is that around 60% of services would opt into these options based on whether extra funding received by a service allows break-even against the additional salary cost in the first year. Other factors may also influence the opt in rate.

6 [redacted]

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Recommended Actions

The Ministry of Education recommends you:

a. **indicate** your preferred allocation of funding for the Budget 2022 pay parity initiative from the following options:

Steps 1-8 for base teachers, steps 1-9 for management according to qualifications & experience [redacted]	**Option 1**
Progress towards step 11, no differentiation for management [redacted] Steps 1-8 for base teachers and management according to qualifications & experience Partial Steps 9-11 for teachers and management according to qualifications & experience (topping out at $79,413)	**Option 2**
Steps 1-8 for teachers, Step 8 for all managers [redacted]	**Option 3**
Some progress towards step 11, premium for all managers Steps 1-6 for teachers Partial Steps 7-11 for teachers (topping out at $79,143) Step 9 for all management regardless of qualifications & experience	**Option 4**

b. **note** that [redacted] each option comprises funding for a contingency to support pay increases for kōhanga reo kaiako and kaimahi and $5 million for implementation costs;

EITHER

c. [redacted]

Agree / Disagree

OR

d. [redacted]

Agree / Disagree

e. **agree** to release this education report as part of the Budget 2022 proactive release, with any information that may need to be withheld done so in line with the provisions of the Official Information Act 1982.

Release / Not release

John Brooker
Group Manager
Te Puna Kaupapahere

10/12/2021

Hon Chris Hipkins
Minister of Education

11 / 12 / 21

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Background

1 The Budget 2021 pay parity initiative allocated $170 million to help move certificated teachers working in education and care services towards pay parity with their equivalents in kindergartens. Parity funding rates come into effect on 1 January 2022 for education and care services that attest to paying their certificated teachers the first five steps they would be eligible for if on the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA).

2 The Budget 2022 pay parity initiative is intended to move even more certificated teachers towards pay parity. [redacted]

3 On 3 December, officials discussed with you the make-up of potential options for allocating the initiative funding, noting that the funding would cover at least the following elements:

a. Step 6 of the base salary scale (K1) of the KTCA, which is required to be paid from 1 January 2023 for services opted into the parity rates at that time
b. eligible base certificated teachers being paid at one or more steps above Step 6
c. management staff[1] being paid at certain pay steps (you indicated funding for management was your second priority after funding base teachers [METIS 1276870 refers])
d. kōhanga reo kaiako and kaimahi pay increases
e. resourcing and IT changes to assist with implementation requirements for parity funding rates and the review of the ECE funding system for pay parity.

Pay Parity Staffing Survey

4 We previously indicated that data collected from the October 2021 Pay Parity Staffing Survey (the Survey) would be available in early December to provide you with specific options for the allocation of pay steps in the initiative [METIS 1276870 refers]. The Survey collected data for the Ministry from education and care services and home-based services on the pay, qualifications, and relevant work experience of their certificated teachers.

5 The Survey has given us more granular and comprehensive data than the 2020 remuneration survey used for costing Budget 2020. It had a response rate of 46% versus 9% for the 2020 Survey. We have been able to identify and work to rectify bias where responses were not uniform or complete in all respects.

Results of the Pay Parity Staffing Survey

Key results

6 The Survey suggests that [redacted] over four years is required to close the remaining gap between certificated teachers (in education and care services and home-based services) and their kindergarten equivalents (on top of the $170 million invested in Budget 2021). This is a global figure – it does not guarantee that every

[1] There are three kindergarten management steps. K2 is for Head Teachers (in charge of a single kindergarten). K3 is for Senior Teachers, who work across kindergartens and K4 is for Senior Teachers who manage other Senior Teachers. Unlike the base teacher scale, there is only one pay rate for each position – the teacher does not move up pay based on additional years of experience.

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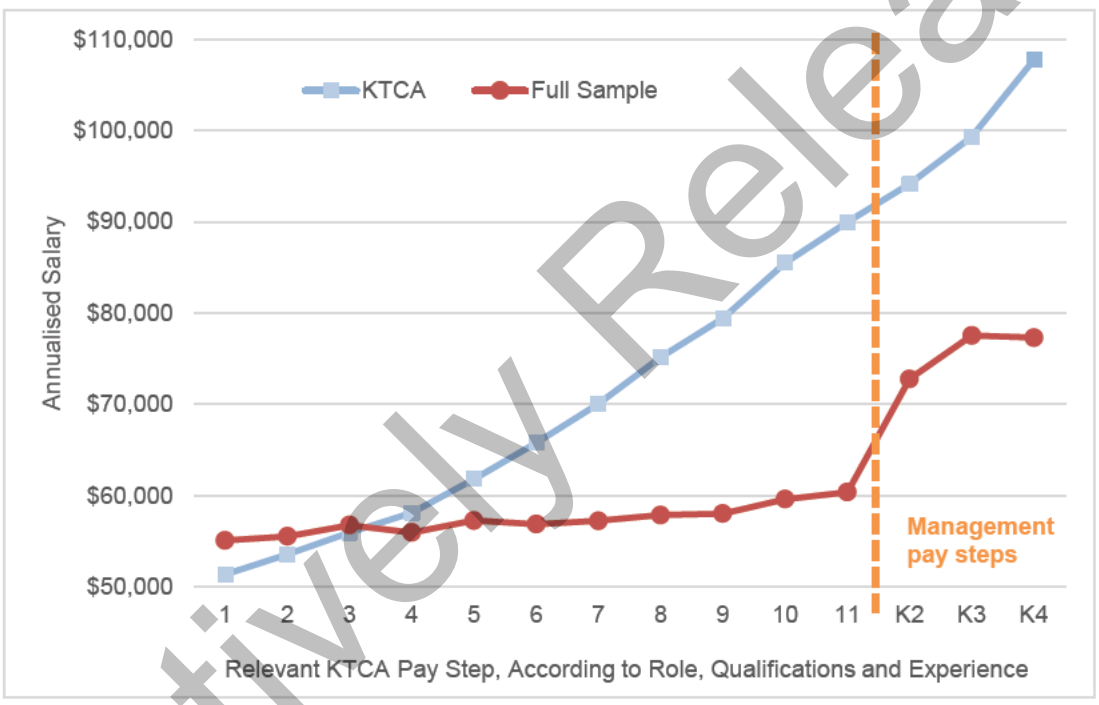
service has enough funding due to the inflexibility of the current funding system to allocate salary funding at a service level.

7 [redacted]

8 The data collection showed that the gap for Steps 1-5 was $163 million and Step 6 costs $81 million.

9 The Survey shows that the mean salaries of certificated teachers in education and care services and home-based services have a pronounced flattish progression, except for those in management roles. The salary steps of the KTCA are contrasted in blue.

Figure 1: Mean salaries by pay step

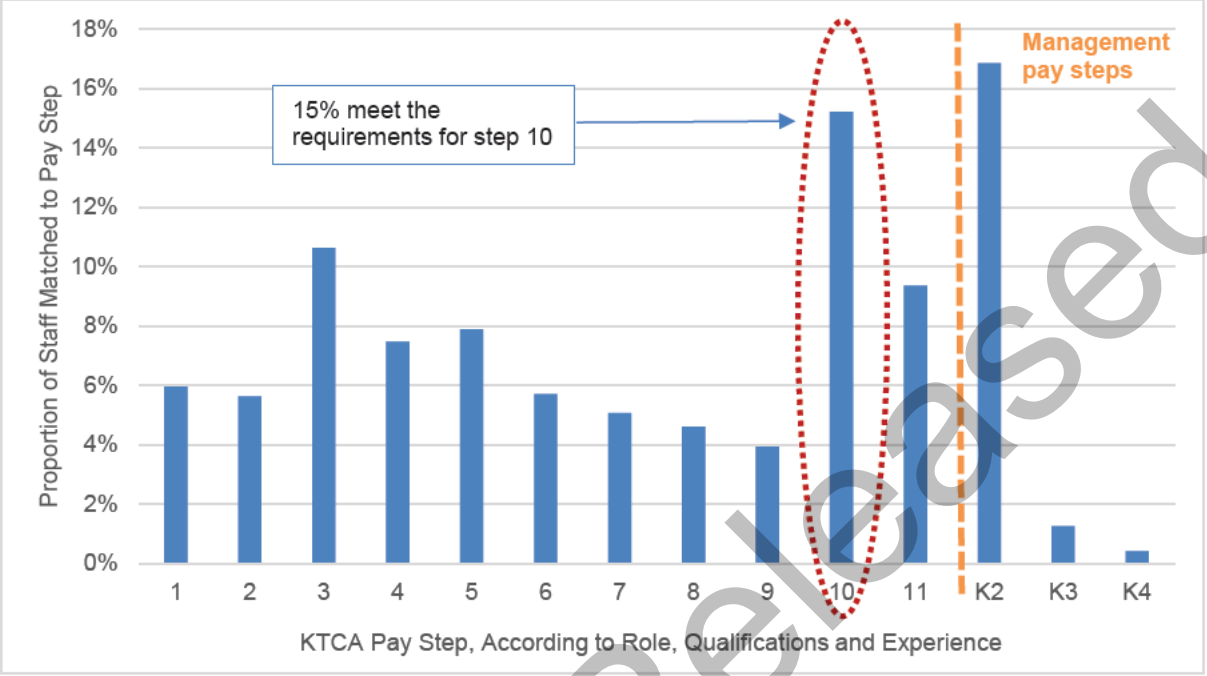


10 The cost of bridging the pay parity gap at each step is not evenly distributed by each pay step. This is because there are larger numbers of certificated teachers eligible for certain KTCA pay steps, particular for higher and management steps. These steps are therefore comparatively more costly than lower, already funded steps. The eligibility of teachers for KTCA steps is shown overleaf in Figure 2.

11 As illustrated in figure 2, a relatively large proportion of base teachers meet the requirements for step 10 (15%). From the salary survey, the current mean salary of these teachers is $59,600, which is $25,890 lower than step 10 on the KTCA ($85,490).

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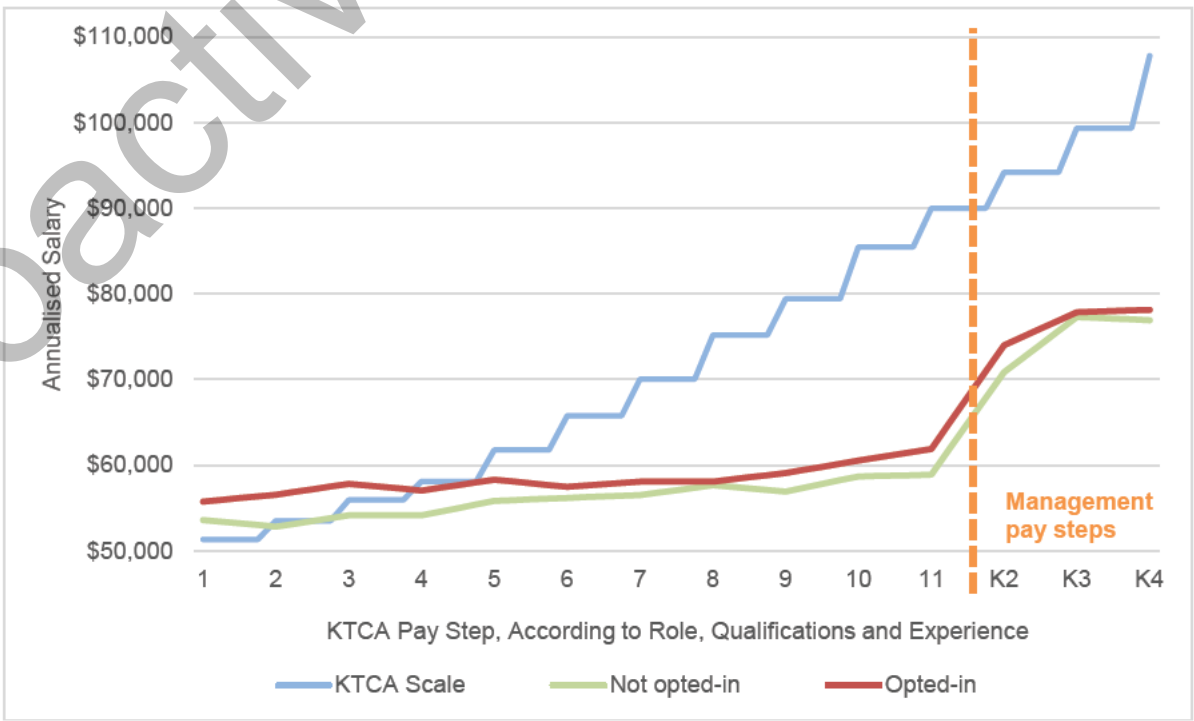
Figure 2: Distribution of Certificated Teacher Equivalent by which KTCA Pay Step they would be eligible for*



* Note: graph shows the distribution of FTEs rather than headcount.

12 Services that have opted into the higher pay parity rates for January 2021 had a lower response rate to the survey (36% response rate) than services that have not opted in (61% response rate). The survey data shows that services that have opted in have a higher mean salary for teachers at all steps of the KTCA – they are already paying their teachers higher than average salaries. This means those services will find it easier to cover their pay gaps with the parity funding rates.

Figure 3: Salaries for education and care services by attested opt in status for parity funding rates in January 2022, by pay step



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13 9(2)(ba)(i) [redacted]

Options for allocating initiative funding

14 In light of the Survey results, the initiative funding constraint and our previous discussion with you, we present the following four options for allocating funding between different certificated teacher groupings.

15 All of the options top up the Budget 2021 pay parity rates by $80 million over four years to accommodate step 6. The Budget 2022 initiative will need to introduce a new set of parity rates that services can opt into that go further up the KTCA scale, as outlined below. Another set of parity rates are necessary because some services may be able to afford Steps 1-6 but may not be able to afford the higher steps because of the experience profile of their teachers.

16 Each option includes $5 million implementation costs (IT changes and resourcing for parity funding rates and the review of the ECE funding system) [redacted]

	Option	Cost	Description
Prioritises Base Teachers	1	Total: [redacted]	**Steps 1-8 for teachers, step 9 for managers with appropriate experience/qualifications** • Steps 1-8 for base teachers where their qualifications & experience match those required for these steps in the KTCA. • Steps 1-9 for certificated teachers in management where their qualifications & experience match those required for these steps in the KTCA.
	Considerations + $10 million less than other options. + Provides more full parity steps for teachers (up to Step 8) - Funding only covers qualified and experienced management based on their teaching role, therefore inexperienced managers are disadvantaged. This means for example that a centre manager with 5 years of experience as a certificated teacher would be lifted to Step 6, which may be the same as other teachers in the service without management experience. For these teachers, services will need to fund management premiums themselves. - Managers with requisite experience and qualifications would receive Step 9, which provides a management premium for these teachers. 52% of managers fit into this category.		
	2	Total: [redacted]	**Progress towards step 11 for teachers, no differentiation for management** • Steps 1-8 for base teachers and qualified and experienced managers, as per Option 1. • Partial steps 9-11 for base teachers and qualified & experienced management (to a maximum of $79,413).

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	Considerations + Partially increases pay even for the highest step teachers so benefits the highest number of teachers. + Provides more full parity steps for teachers (up to Step 8). - Funding only available to qualified and experienced management based on their teaching role, which disadvantages inexperienced managers. Services would need to fund separately any top-up of management salaries not covered by the option.		
Adds Priority to Manage-ment	3	Total: [redacted]	**Steps 1-8 for teachers, Step 8 for all managers** • Steps 1-8 for base teachers as per Option 1. • Step 8 for all certificated management regardless of experience and qualifications.
	Considerations + Provides full steps for teachers up to Step 8. + Provides a significant step for all management. - If services have base teachers on Step 8 they will likely consider they need to fund a management premium for their managers		
	4	Total: [redacted]	**Some progress towards step 11, premium for all managers** • Steps 1-6 for base teachers. • Partial steps 7-11 for teachers (to a maximum of $79,143). • Step 9 for all certificated management regardless of experience and qualifications.
	Considerations + Provides significant steps for all management. + Partially increases pay even for the highest step teachers so may seem fairer for all. - Only provides full steps to Step 6.		

17 Options 1 and 2 prioritise base teachers whereas Options 3 and 4 prioritise management by ensuring all certificated teachers in management positions receive at least the highest pay a base teacher could receive. Options 2 and 4 fund partial steps. These provide even but partial increases for teachers eligible for higher steps to fully utilise the [redacted] envelope. This allows all the most experienced teachers to receive at least a partial increase, albeit not to the level of full KTCA parity.

18 Options 1 and 2 refer to 'qualified and experienced management'. These are certificated teachers in management roles who would normally be matched against the K2, K3, or K4 management (non-base) KTCA salary scales. These two options provide funding based on paying management base teacher scale pay steps where their qualifications and experience match those required for these pay steps in the KTCA.[2]

19 Education and care management who would be on management (non-base) KTCA salary scales are eligible for various pay increases across the options. The KTCA

[2] For example, in option 1, '*qualified and experienced* management' are funded up to Step 9. A manager who would normally receive a K2 salary would instead receive up to Step 9, depending on their teacher qualification and experience. This makes it possible for less desirable scenarios to occur where a manager who is only qualified and experienced for Step 5 for example, to receive a Step 5 salary rather than a K2 salary. Services could still choose to pay management any salary above the steps they are eligible for.

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management scales have not been applied in these options due to cost. It is also consistent with your prioritising of base teachers over management.

20 The service-level data in the Survey has allowed us to estimated uptake of options based on the match between a service's expected additional parity funding and extra teacher salary costs (break-even point). Other factors may also influence opt in rate, such as services' ability to raise parent fees to offset any shortfall. Our analysis suggests about 60% of services would opt in across all options.

21 The costings assume 100% opt in to the parity rates. We have assumed 100% opt in because services may opt in even if the rates are not financially beneficial in the short term, due to increasing pressures when recruiting and retaining teachers in an environment of current fairly high churn.

22 After Budget 2022 parity funding comes into effect, we may see higher than 60% opt-in to one level of parity or another from the sector. This would be spread across those who remain opted-in to Steps 1-6 and those who decide to opt-in to the higher rates associated with each of the options above.

23 We have mentioned in a previous report that you could overfund rates to 'top up' services' costs. This would increase financial incentive to opt-in. However, our analysis suggests this would only shift service breakeven by less than five percent even if an extra $40-50 million was invested. Breakeven changes from overfunding are not that changeable unless funding is increased by an extreme amount.

[redacted]

25 Home-based services had a response rate of 24% to the salary survey, although this was almost entirely from the largest providers. Home-based coordinators have a mean salary of $61,424. This is equivalent to Step 5 on the KTCA.

26 [redacted]

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[redacted]

Budget 2022 pay parity initiative risks

31 The following key risks exist for the initiative design:

- uncertainty in the data collected due to the sample size means overall funding is under or overestimated notwithstanding we have taken steps to reduce uncertainties and account for biases where possible.
- As with Budget 21, the need to use the same funding rates for all services means some services may still not receive sufficient funding to meet their salary expense gap.

Next steps

32 After confirmation of your preferred approach, we will proceed with work to implement the higher parity funding rate following Cabinet's confirmation of Budget 22 allocations.

Proactive Release

33 It is proposed that this Education Report is released as part of the Budget 2022 proactive release, with any information which may need to be withheld being done so in line with the provisions of the Official Information Act 1982.

Annex

34 Annex: Comparison of KTCA scale and mean salaries from the survey.

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Annex: Table comparing KTCA salary scale and results of the salary survey

KTCA Step	KTCA salary from 12 July 2021	Mean salary – ed&care opted into B21 parity rates	Mean salary – ed&care not opted into B21 parity rates	Home-based coordinators – mean salary**
1	$51,358	$55,766	$53,599	
2	$53,544	$56,575	$52,843	
3	$55,948	$57,838	$54,186	
4	$58,133	$57,058	$54,160	
5	$61,794	$58,332	$55,851	
6	$65,776	$57,488	$56,202	
7	$70,040	$58,079	$56,530	
8	$75,190	$58,104	$57,665	
9	$79,413	$59,093	$56,952	
10	$85,490	$60,564	$58,703	
11	$90,000	$61,912	$58,900	
K2	$94,175	$74,011	$70,872	$61,424
K3	$99,327	$77,859	$77,293	
K4	$107,770	$78,134	$76,935	

** Home-based coordinators are certificated teachers who work with and oversee the adults delivering education to children. We have therefore assumed Home-based coordinators would be equivalent to K2 in a full parity scenario.

K2 is the only salary available for head teachers (i.e. the teacher managing the kindergarten).

K3 and K4 are salaries for Senior Teachers. Senior Teachers are teachers who carry out professional support and guidance, administrative and management roles under delegation from their employer. K4 is for Senior Teachers whose management responsibilities also include other Senior Teachers.

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