



**Te Tāhuhu o
te Mātauranga**
Ministry of Education

ECE Funding

How the Ministry of Education funds licensed early childhood services

Te Pou Kaupapahere



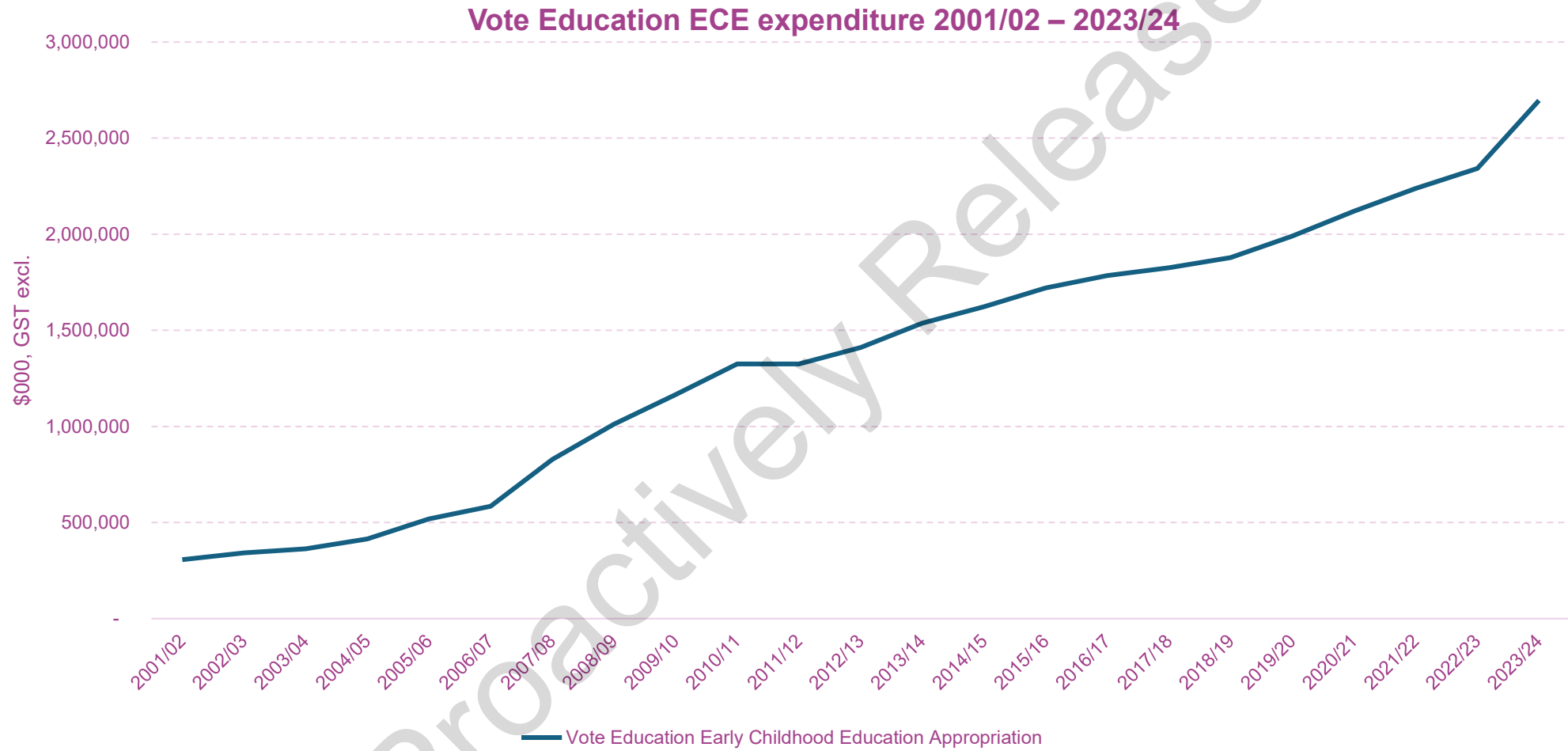
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New Zealand Government

The ECE Funding System

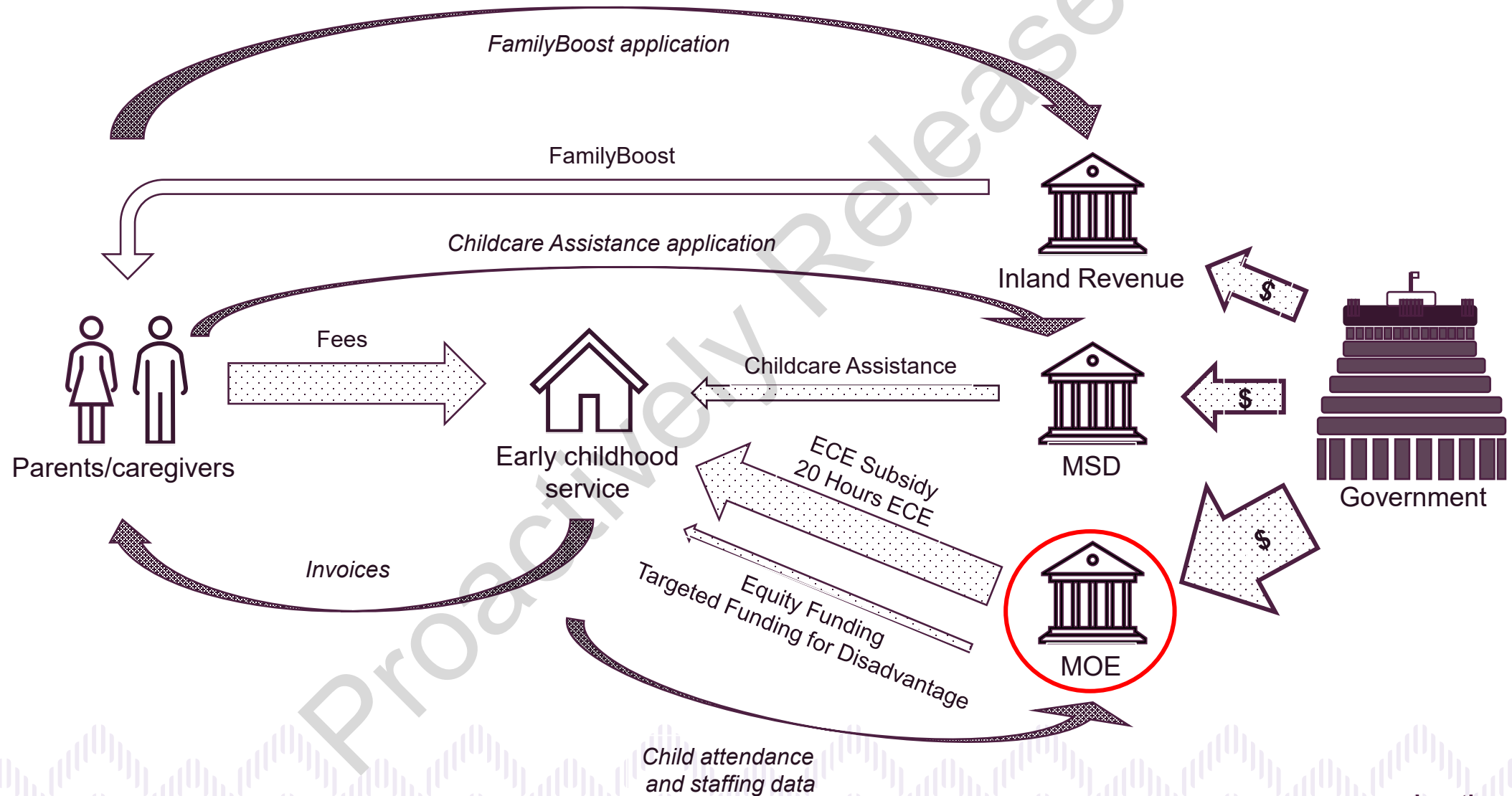
- The system has many layers, which reflects a range of policy goals that have built over time.
- Key feature is co-funding of provision by both government and parents/caregivers.
- Government funding is provided through three Votes:
 - **Education** (a range of provider grants, \$2.8b for 2024/25)
 - **Social Development** (Childcare Assistance, \$196m for 2024/25)
 - **Revenue** (FamilyBoost, \$131m for 2024/25)



Expenditure trend



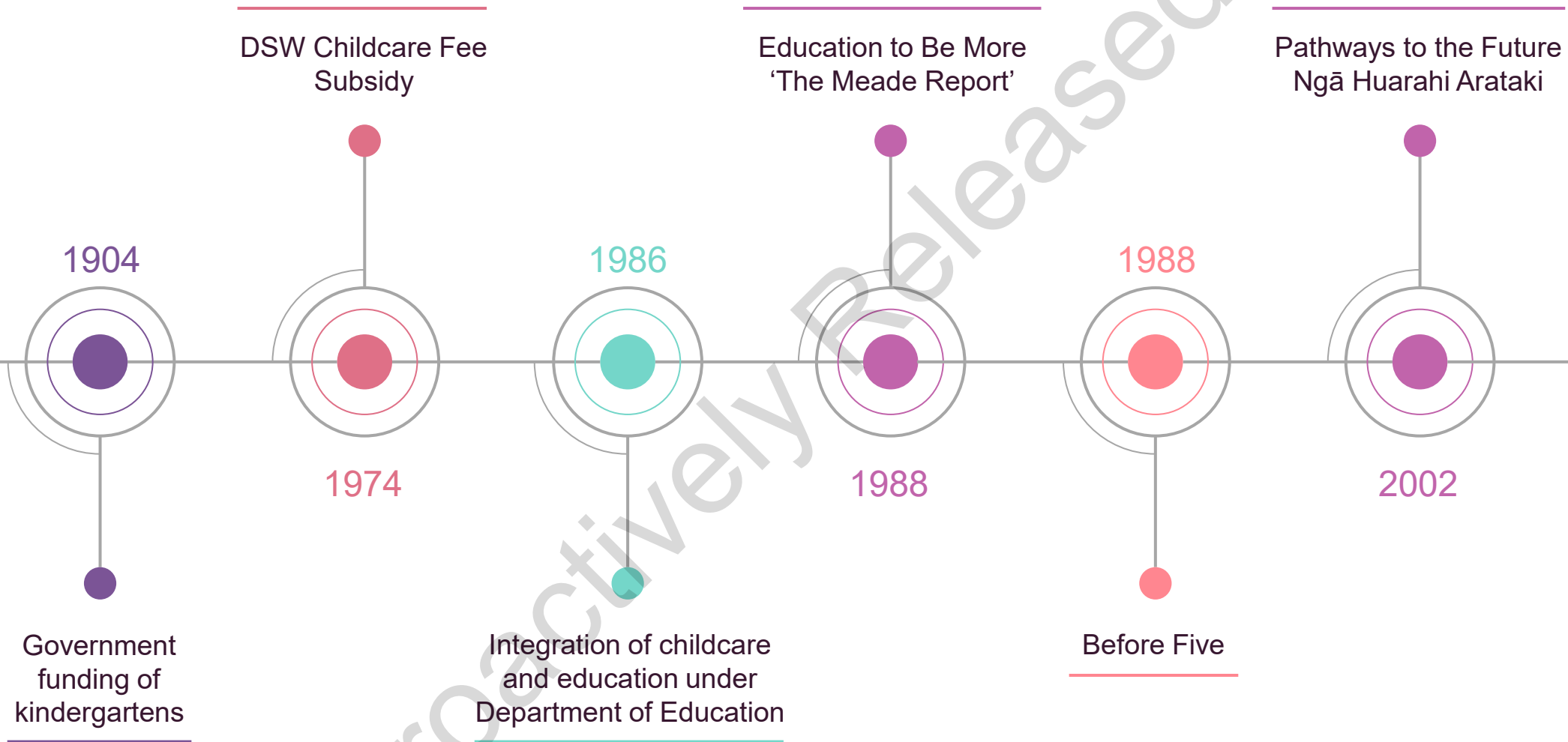
ECE funding system – flows





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ECE funding history



Education to be More (the Meade report)

- A 1988 Government commissioned report on ECE – predominantly but not only about ECE funding arrangements. The Meade report:
 - Identified five immediate areas for improvement: **the status of the ECE field, equity of access, tangata whenua, status of women and funding.**
 - Noted current funding was “**uneven and inequitable...[and] too low,**” and there was an “array of early childhood services...each with its own funding arrangements and level of funding.”
 - Recommended ECE services be **bulk funded** using **universal (all children) per-child hour subsidy rates.**
 - Stated that government had a responsibility **to partially fund ECE.**

The 'Before Five' report

- A 1988 Government policy statement on ECE. Largely adopted the Meade Report's recommendations.
- Emphasised **educational, rather than societal, benefits of ECE**. Mostly implemented in the early 1990s.
- Initiated **bulk funding** comprising **three funding rates** (under two-year-olds, over two-year-olds and kindergartens) paid on a **per child hour, child-place basis**.
- **Weighting of rates** enabled eg, for remoteness or recognition of children with learning support needs.
- A **discretionary grants scheme** initiated to assist with capital costs.
- Weekly and daily child hour **funding limits**.
- **Advance funding** for service financial certainty.

Pathways to the Future

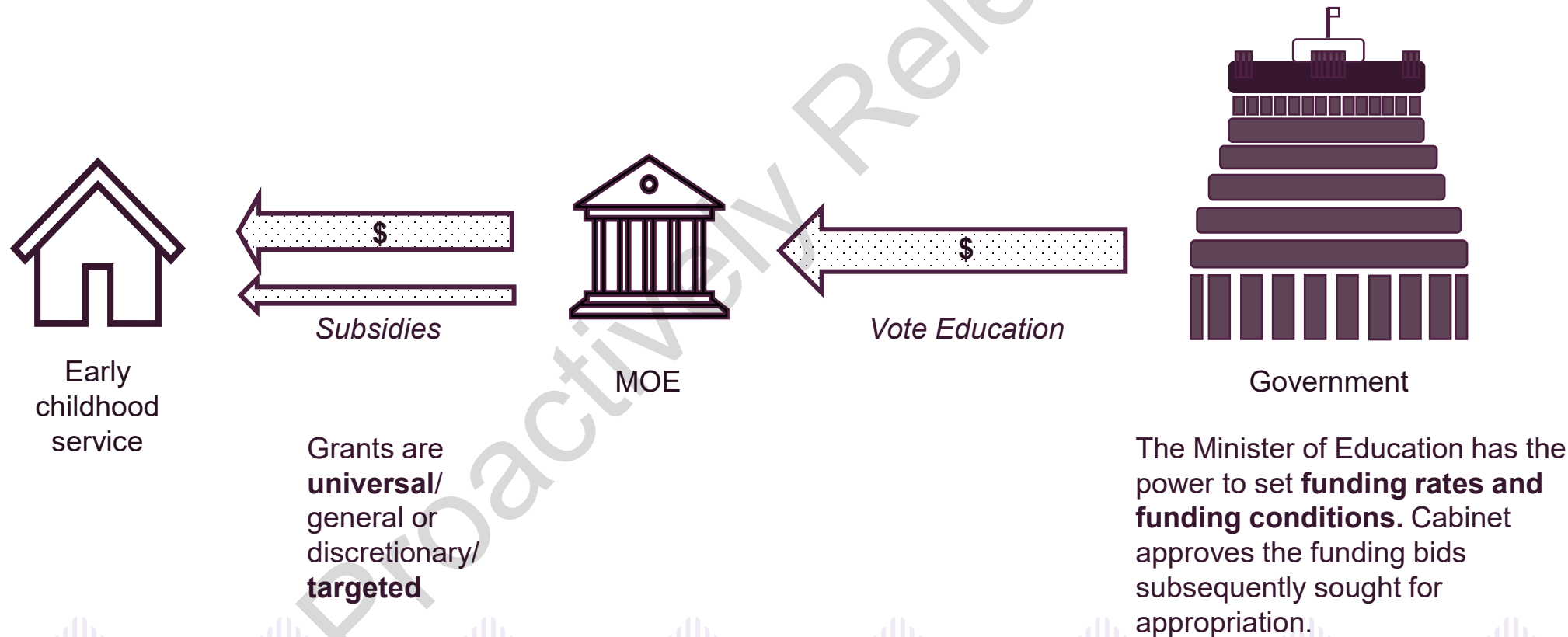
- A funding review was initiated out of the 2002 strategic plan *Ngā Huarahi Arataki / Pathways to the Future* and completed in 2004.
- This led to introduction of a new funding model from 2005 with key differences to past funding:
 - Funding rates began to be varied according to quality (**% of registered teachers**), **service type**, and **licence type (all-day or sessional)**.
 - Funding rates could change to reflect different service **cost drivers**, eg, **qualification requirements, staffing or property costs**.
 - Use of cost driver monitoring to collect and analyse cost drivers.
- In 2007, the 20 Hours Free ECE subsidy was introduced as per *Pathways to the Future*.
- The 2005 funding review changes still define much of today's funding system alongside certain 'Before Five' changes - **bulk funding and per child hour rates**.



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Current ECE funding arrangements

Section 548 of the Education and Training Act 2020 requires licensed services to be paid grants



Funding is linked to enrolment and attendance

- The funded child hour (FCH) is the unit of funding.
- FCHs are capped – 6 per day and 30 per week per child place.
- Funding is mainly based on actual attendance. So ECE subsidies are **demand-driven**, meaning the funding needed each year varies depending on changes in FCHs and the value of FCH funding rates.
- Funding conditions or rules do allow some enrolled but non-attended hours to be funded:
 - **The Three-Week Rule** - continuous child absences up to three weeks are funded.
 - **The Frequent Absence Rule** – a child's attendance must match their enrolment for at least half of each calendar month.

Bulk funding

- Service funding has traditionally been referred to as bulk funded – payment of **totalled up** amount of money each funding period.
- In its purest form bulk funding can be spent as ECE services see fit, so long as regulatory requirements are met.
- This is consistent with an unconditional grant arrangement.
- Bulk funding is now more limited due to conditional cost requirements introduced over time – different funding rates attached to specified **certificated teacher levels** (in teacher-led, centre-based services) and different funding rates **for pay parity** in education and care services (discussed later).
- Bulk funding is further characterised by hourly funding rates not being promulgated as comprising specific component proportions eg, 10% of the rate for rent.

Universal subsidies

- Around 97% of Ministry of Education-administered funding is provided on a universal basis.
- Universal means all children are eligible.
- This is through the two major subsidies: the **ECE Subsidy** and **20 Hours ECE**.



The ECE Subsidy

- The ECE Subsidy is the general grant that all licensed services must be paid (as per section 548 of the Act).
- Policy intent is that it partially funds an hour of ECE costs.
- Is capped at 6 hours per day and 30 hours per week per child place.
- Funding for this subsidy is child-place based, not child-based. This means each service can provide ECE to a maximum number of children at any one time under a licence condition.

20 Hours ECE (formerly 20 Hours Free ECE)

- Effectively a universal subsidy for 3–5-year-olds (inclusive) but is not universal to all ages of children participating in ECE.
- Capped at 20 hours a week and 6 hours a day per child.
- Offers a higher rate of funding than the ECE Subsidy for the same age child. Services can opt to receive it and almost all do.
- Higher funding was intended to encourage parents/caregivers to enrol their children in ECE. Research at the time from this age group indicated benefits for child development and parental/caregiver labour market outcomes from ECE participation.

20 Hours ECE (continued)

- Hourly funding rate originally set using the full average cost of provision for the service type.
- Services may not charge fees for these hours of provision, conversely, the MSD Childcare Subsidy cannot be claimed for the hours. Voluntary donations, optional charges and home-based educator top up payments can be sought for the hours.
- Funding is linked to the child (**child-based**) rather than a child-place as occurs with the ECE Subsidy.



Subsidy rates depend on a range of factors

- Main subsidy rates depend on:
 - **Service type:** funding rates differ according to service type. Mainly a reflection of assessed differences based on cost drivers for each service type in the lead up to the 2005 funding changes.
 - **Subsidy type:** 20 Hours ECE gets higher rates than the ECE Subsidy (due to fully-funded average cost assumption).
 - **Child age:** Rates are different for under 2-year-olds vs 2-year-olds and over, as regulatory requirements for adult to child ratios for these age groups impact significantly on staffing cost.
 - **Quality criteria:** certificated teacher levels in teacher-led, centre-based services and staff qualifications and adult:child ratios in certain other service types.
 - **All-day versus sessional length**
 - **Pay parity attestation level** (for education and care services only).
 - **Cost adjustments** applied over time.

Service types for funding purposes

Service type	Description
Education and care services	Teacher-led, centre-based services. Includes Kaupapa Māori and Pacific immersion and bilingual service types: Puna Reo, Reo Rua education and care, Leo o Fanau Moana immersion and Leo o Fanau Moana bilingual, and casual education and care services (operate without a regular roll).
Hospital-based services	Teacher-led services that provide education and care to children in public hospitals. They receive funding via a notional roll.
Kindergartens	Teacher-led centre-based services controlled by a kindergarten association. Kindergarten associations are limited to those set up under now repealed legislation.
Home-based services	Teacher-led services in a home for up to four children. Home-based services are supervised by coordinators. Homes are grouped together to form a service run by a service provider.
Te Kōhanga reo	Full immersion te reo Māori early learning service. Run under the auspices of Te Kōhanga Reo National Trust.
Playcentres	Services that are affiliated Te Whānau Tupu Ngātahi o Aotearoa - Playcentre Aotearoa. Parent-led - families manage and implement the education programme.

Targeted (equity) subsidies

Subsidy/Component		Description
Equity Funding	Equity Funding components A and B	To support children enrolled from lower socio-economic communities, with special needs and from non-English speaking backgrounds. Service eligibility is based on a service's Equity Index score, which measures the extent to which a service draws children from low socio-economic communities. Funding is attached to FCHs.
	Equity Funding component C	For services providing ECE in a language and culture other than English (including sign language). This is applied for by services and paid as a fixed monthly grant.
	Equity Funding component D	Funding for the geographical isolation of a service, paid as a monthly grant.
Targeted Funding for Disadvantage		A subsidy for services with a high proportion of children from disadvantaged backgrounds. Disadvantage is defined as the 20% of children attending services who have spent the largest portion of their life as the dependent of a beneficiary.

Other targeted funds

- **Waha Rumaki & Pacific immersion teaching allowances:** these allowances support certificated teachers working in Puna Reo, Reo Rua education and care, Leo o Fanau Moana Pacific immersion and Leo o Fanau Moana bilingual early childhood services. These allowances are intended to support the recruitment and retention of these teachers in ECE.
- **Puna reo property:** Provides property maintenance funding for puna reo services.
- **Ngā Puna Reo O Aotearoa:** This funding recognises the unique role of puna reo in Māori medium early years education and in the revitalisation of te reo Māori and tikanga Māori. The funding supports the continued operation of Ngā Puna Reo O Aotearoa as a national body for kaupapa Māori immersion early years education, and its participation in national and Government education hui to support quality learning and teaching, teacher supply, and equitable resourcing for curriculum approach and training.
- **Annual top-up for isolated services (ATIS):** additional funding to services with a limited capacity to generate FCHs due to their isolation. Available to services that sit at least on a certain threshold on the Isolation Index and generate small (<\$20k) levels of subsidy and equity funding.

Discrete participation funds

- **Targeted Assistance for Participation:** an application-based property fund to assist with establishing new child places or retaining existing places under the following criteria: Māori, Pacific, low socio-economic, or rural/isolated communities, where participation rates are low, and there are insufficient child places available.
- **Early Learning Taskforce:** A flexible fund that supports projects to engage non-participating whānau.
- **Engaging Priority Families:** Funding to engage with priority families whose children aged 3-4 are not currently attending ECE.
- **Poipoia te Mokopuna:** Funding to support Tamariki Māori under three years old by working with whānau to address issues that may be preventing them from attending ECE.
- **Whānau In-Home Learning:** A programme to help children develop strong education foundations at home and transition into ECE.
- **Kā Au Kahuraki:** A cross-agency collaboration in East Christchurch focused on building protective factors for children aged 0-5. Objectives include increasing presence, participation and progress in ECE, creating good health outcomes, and reduction in child poverty.

Shared funding of ECE cost

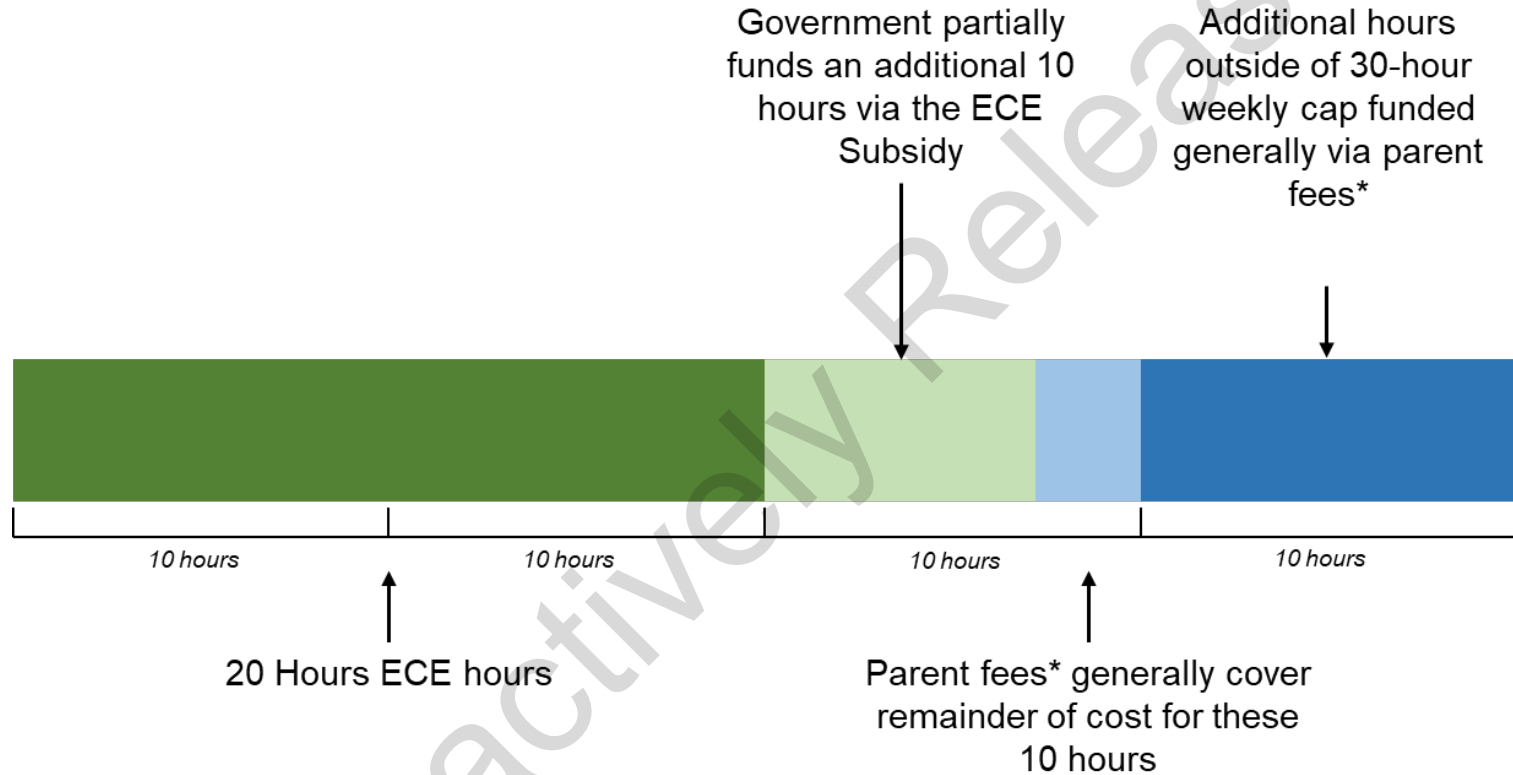
- Current funding still reflects Meade report principle that cost is shared by public and private funding sources.
- Based on existence of private and public benefits from ECE.
- Early childhood services are generally able to charge parents and caregivers fees 20 Hours ECE exception noted earlier – no fees chargeable for those hours although fees can be charged on ‘bundles’ of child hour types.
- A key, recent exception to the 20 Hours ECE rule is that home-based educators may require payments from parents to **‘top up’** the amount of 20 Hours ECE funding **passed through** from their service provider

Shared funding of ECE cost (continued)

- Early childhood services may seek agreement from parents and caregivers to pay optional charges.
- Optional charges are payment for a specific purpose.
- Parents may choose whether or not to take on optional charges – they need to be for provision above what is required to meet regulated standards and be separated out and measurable.
- Fee arrangements and levels are not collected for each service by the Ministry.



An example of how costs may be shared



*Parent fees may be offset through funding delivered by MSD and IR, depending on parent/caregiver circumstances

Administrative requirements

- Funding requirements for services are contained in the Ministry's online ECE Funding Handbook.
- Requirements may be:
 - Process-based eg, how often services need to submit data to receive payments and how to submit or
 - Reflect policy decisions made by the Minister or Cabinet eg, the application of absence rules to assist service viability.
- There is a balance between workload on services from administrative requirements and enabling funding allocation transparency and appropriate claiming behaviour.
- Early childhood services almost always use a student management system (SMS) to support administrative requirements eg, capturing child attendance.

How and when funding is paid

- Subsidy funding payments are made three times a year (March, July and November).
- Payments consist of an advance for the next four months and a 'wash-up payment' for the previous 4 months.
- Services in scope of the review receive either a 75% advance (education and care, home-based) or 100% (kindergartens). These assist with cashflow.
- A service's actual funding for each payment is advance funding plus washup – the latter may be a negative amount.
- Funding for multiple services run by one service provider are usually paid to that service provider, which then allocates funding to each service.

Auditing

- There are two main monitoring processes of ECE funding :
 - **Funding claim audits:** The Ministry does not require verification of service data when making funding claims. Instead, audits are conducted on a subset of services annually to check funding rules are being met. An audit does not verify how a service allocates its money.
 - **Auditing of financial statements:** Licensed early childhood services must report at a high level how government funds have been spent. This involves submitting audited **financial declaration** information for the previous financial year.



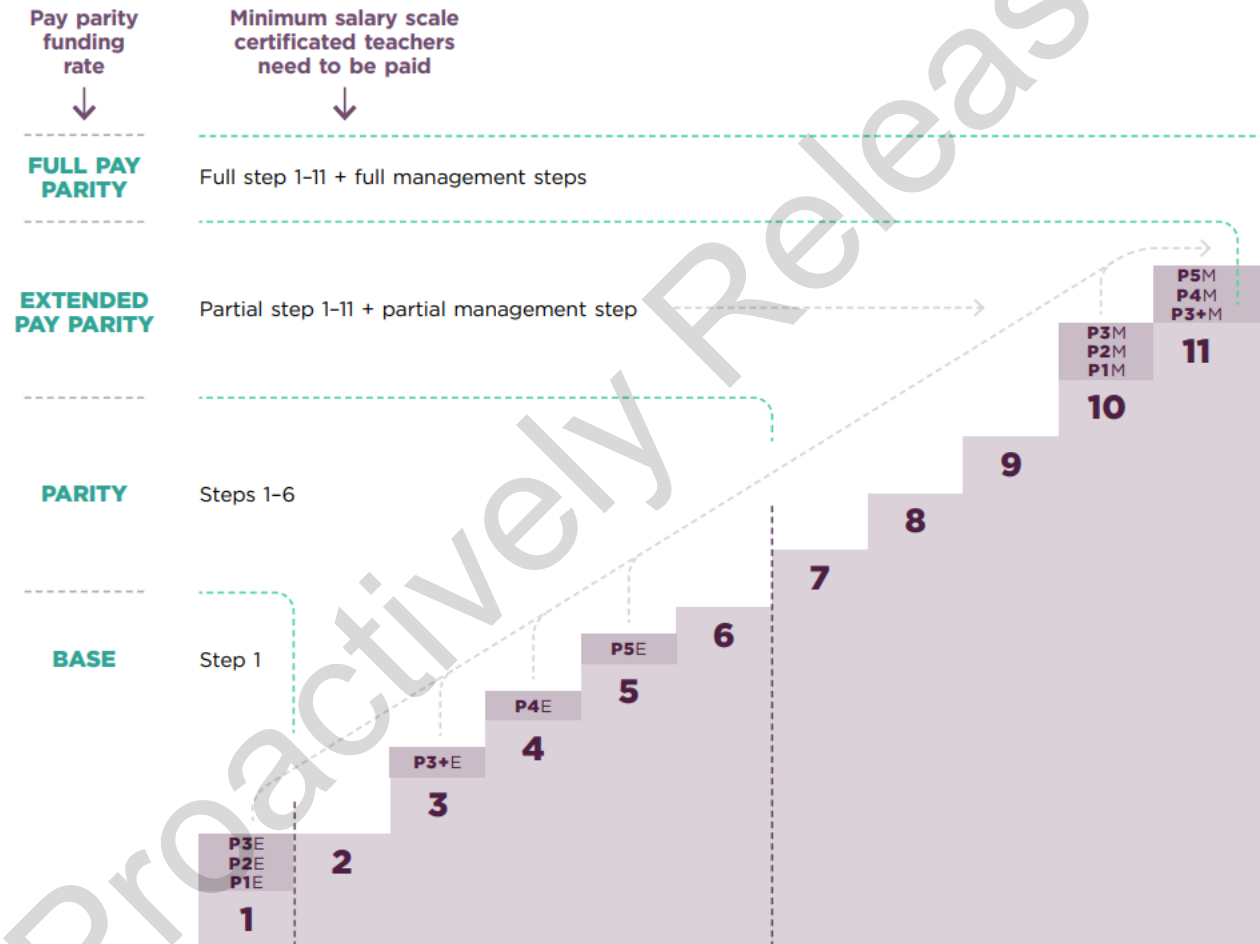
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Key funding policy: Pay Parity

Pay Parity Scheme

- The pay parity scheme began in 2022 under the previous Government.
- Intended to address **certificated teachers** in education and care services being paid less on average than kindergarten equivalents.
- The scheme provides **four sets of higher funding rates** for education and care services to opt into. Services need to attest to paying their certificated teachers at least increasingly higher steps or part steps taken from the KTCA pay scale.
- A teacher's pay step is agreed between service providers and certificated teachers. Determining factors include **qualification group, recognised service and previous relevant work experience**.
- Funding rates were based on the additional estimated **average cost** of paying certificated teachers according to the minimum salary scale.
- The scheme was intended as an interim approach to deliver pay parity only. Average funding rates lead to excess funding for some services. Other services can experience a shortfall.

Pay parity funding rate pay step groupings



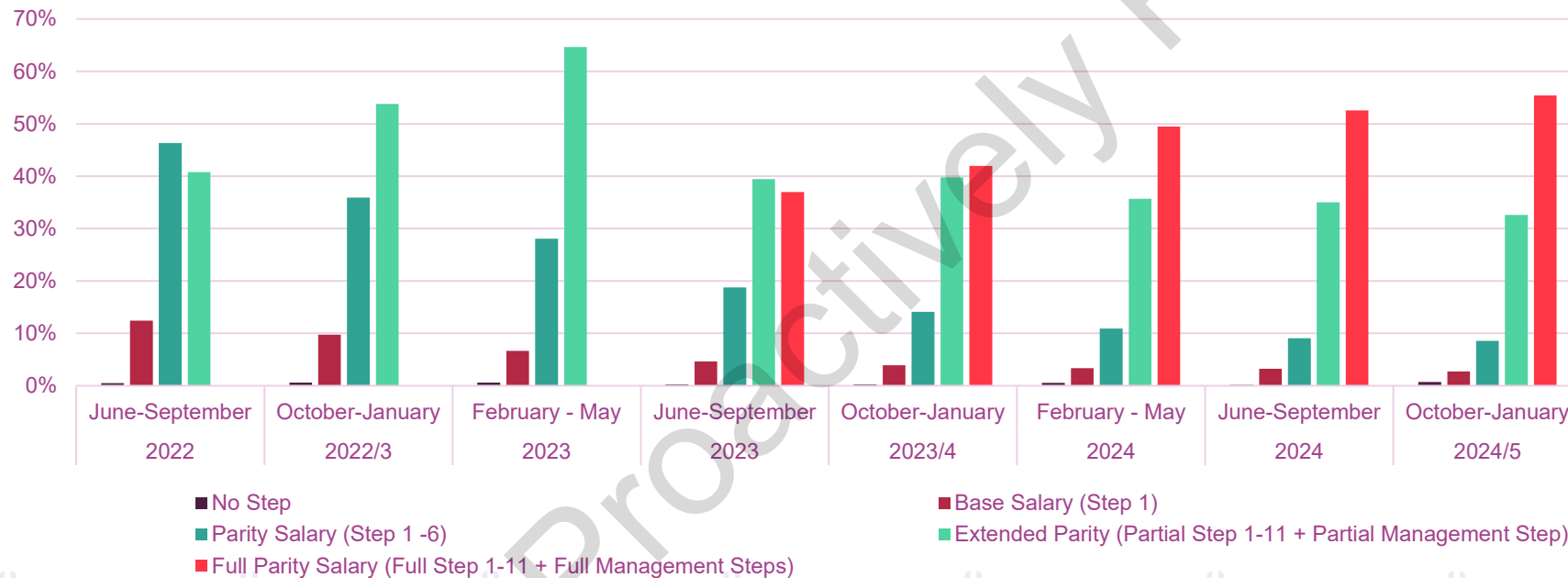
Changes to the Pay Parity Scheme

- Since introduction, required pay steps were frozen by the previous Government at the levels contained in the KTCA as at 1 December 2023. The KTCA has since had step increases.
- The Scheme originally applied to permanent and non-permanent staff but from August last year was changed to apply only to permanent certificated teachers employed in a service.
- Changes have also been made limiting the initial salary step possible for newly certificated teachers and certificated teachers who are new to working in the ECE sector.
- A moratorium is also in place limiting services from moving up pay parity funding rates. This and the previous change is in place while the Funding Review takes place.

Pay Parity Scheme uptake

- There is a trend of more education and care services moving into higher funding bands.
- Over 90% of service hours are opted into extended pay parity and full parity funding rates.

Proportion of education and care service hours by pay parity funding band (2022-2024/25)



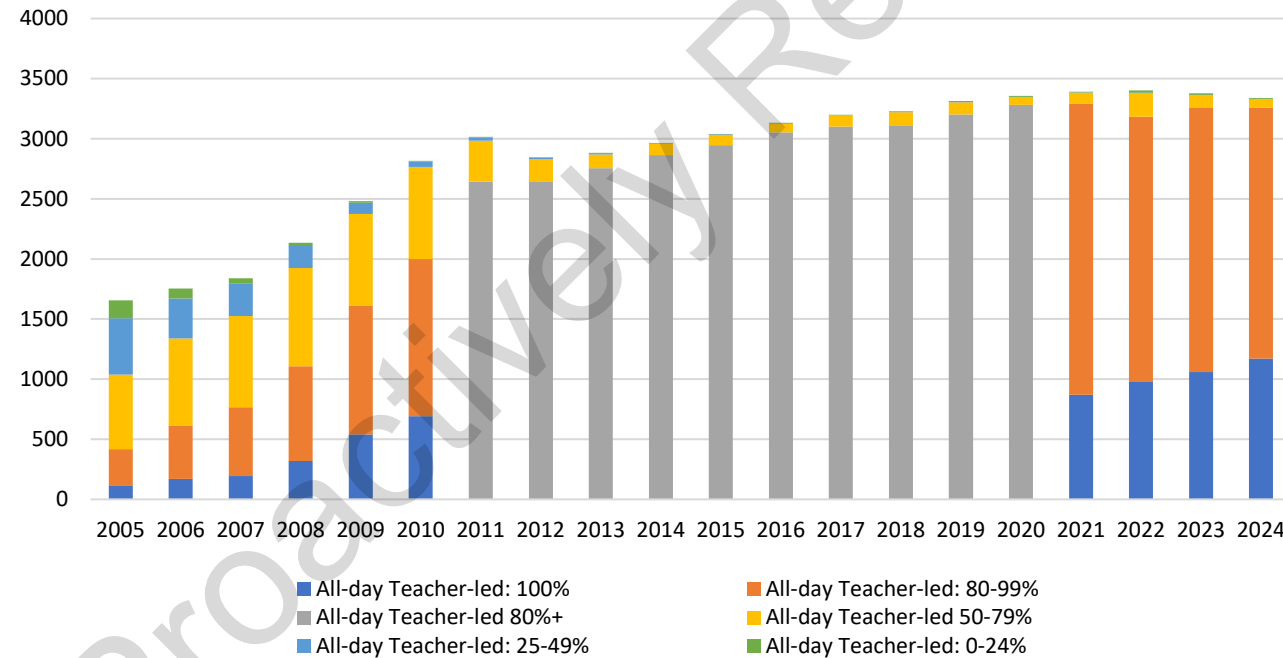
Key funding policy: Certificated teachers

Certificated teacher funding bands

- Funding rates are used to incentivise teacher-led centre-based services (kindergartens and education and care services) to employ a higher proportion of certificated teachers. The proportion of certificated teachers is used as a marker of ECE quality.
- There are five certificated teacher funding bands, each with corresponding funding rates. Funding rates increase in value from the lowest to highest teacher funding bands.
- A service's band proportion is calculated by dividing certificated teacher hours in regulated ratio by all teacher hours during child contact hours.
- To provide staffing flexibility and likelihood of remaining in the current funding band, services can claim 80 discretionary hours per funding period. A discretionary hour allows a service to substitute a non-certificated teacher hour into the calculation above.

Changes in certificated teachers

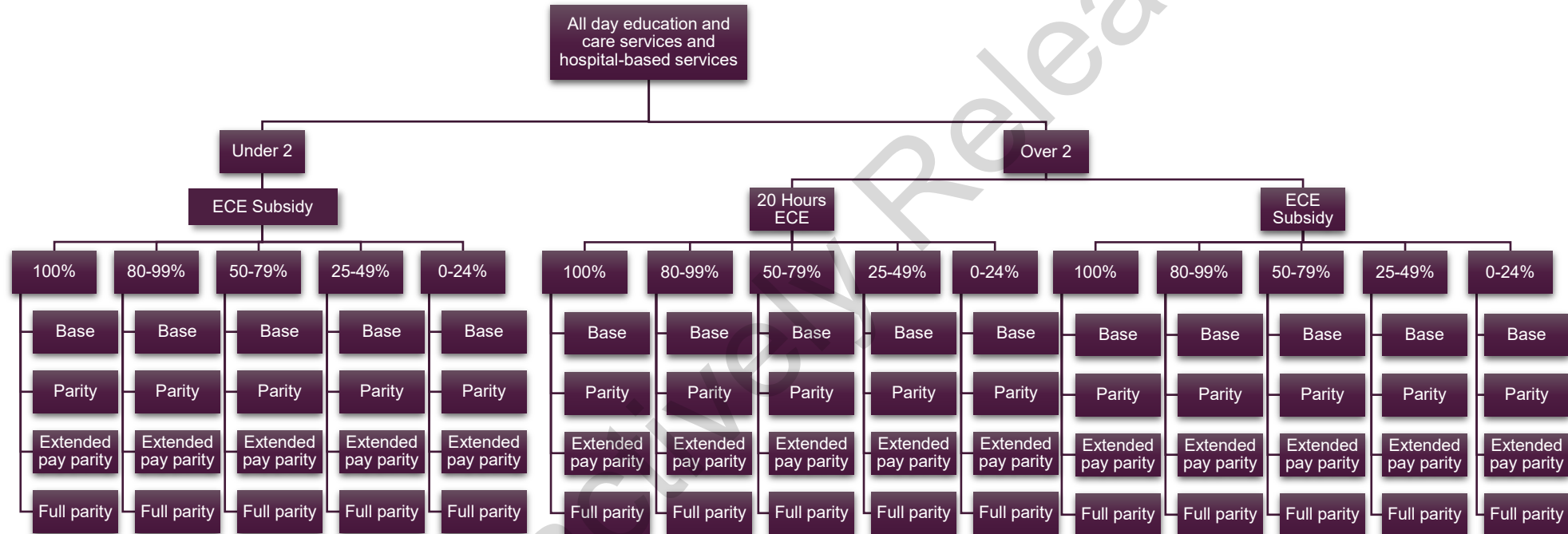
- Funding bands have influenced greater use of certificated teachers over time. In 2005, 622 education and care services (39%) were in the 50-79% funding band, compared to 72 services (3%) in 2024.
- The 100% band was removed between 2011 and 2021.



Number of education and care services and kindergartens opted into the certificated teacher funding bands

Policy settings impact the number of funding rates

- Pay parity and certificated teacher funding bands have led to many funding rates, especially for teacher-led, centre-based services.



Recap

- The system of Vote Education ECE funding reflects multiple policies and reviews over time.
- The system is based on **demand-driven child enrolment and attendance** and the **average cost of provision**.
- Funding is provided using a **bulk approach** generally. A more conditional, cost driven approach to setting funding is now used. Funding is mainly provided on a **universal** basis with a much smaller **targeted** component.
- Funding of ECE provision is **shared** between government and parents.
- Funding **differentiation** exists and supports diverse ECE provision through a range of service types.



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He mea tārai e mātou te mātauranga
kia rangatira ai, kia mana taurite ai ōna huanga.

We shape an education system that delivers
equitable and excellent outcomes.



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