



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

## 2025 Early Childhood Education Funding Review Ministerial Advisory Group

### Overview of Ministry of Education-Administered ECE Funding

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## Purpose

This paper provides an overview of early childhood education (ECE) funding provided by the Ministry of Education. Separate papers cover ECE funding provided by the Ministry of Social Development and Inland Revenue. It describes historical funding and regulatory settings for ECE, before detailing the system that is in place today.

Key principles of the ECE funding system are covered, including the legal basis for funding, the link between child attendance and funding, differentiation of funding and the way in which the cost of ECE is shared between the government and parents/caregivers.

The main aspects of the system are described, including teacher funding bands, 20 Hours ECE and the pay parity opt-in scheme available for some services.

## Introduction

Early childhood education (ECE) is the initial stage of New Zealand's education and training system, with children able to attend from birth to five years old. While non-compulsory, around 195,000 children attended ECE in 2024.<sup>1</sup>

Just under 5,000 privately run early childhood services provide ECE, the majority of which are operated by for-profit organisations.<sup>2,3</sup> Government is involved in the regulation, curriculum, quality assurance and funding aspects of ECE.

The ECE funding system reflects layers of funding streams and policy goals that have evolved over time. A high-level overview of the system is provided in Figure 1. The diagram shows that ECE is co-funded by both government and parents/caregivers.

Funding is held in three Votes (topic-specific funding allocations): Education, Social Development and Revenue. The funding is paid out by the Ministries of Education and Social Development and by Inland Revenue, with Ministry of Education accounting for about 89% of the total ECE funding.

Most funding is paid directly to early childhood services (including the MSD Childcare Subsidy on behalf of parents), with a smaller proportion paid directly to parents and caregivers, via Inland Revenue's FamilyBoost refund.

A small proportion of Ministry of Education funding is delivered to third parties for specific services or programmes.

In the 2024/25 financial year and across all appropriations, it was estimated that the government would spend around \$3.1 billion on ECE.<sup>4</sup>

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<sup>1</sup> Education Counts Time series data: Participation in ECE (2002 – 2024)

<sup>2</sup> Education Counts Time series data: Number of ECE Services (2002 – 2024)

<sup>3</sup> In the ECE sector, for profit services are often referred to as 'private' and not for profit services as 'community based'.

<sup>4</sup> Sourced from the Budget 2024 Estimates of Appropriations 2024/25 documents for Votes Education, Social Development and Revenue



## Early childhood education and care post-integration

### *Before the late 1980s, childcare and education were split*

Early childhood education up to the 1980s was a mix of provision that was classed as either childcare (with the Department of Social Welfare being the responsible agency) or education (delivered through kindergartens and playcentres – with the Department of Education being the responsible agency). Kindergarten teachers continued to be paid by the government. Playcentre and kindergarten provision was largely free to families.

Childcare and education were officially integrated in 1986, with the Department of Education holding administrative responsibility. Whether childcare and education is integrated in a system varies around the world. New Zealand's integrated ECE system reflects a view that, for very young children, education and care are unable to be separated.

### *Many of the aspects that underpin the current funding system date back to the 1990s, in particular the introduction of bulk-funding and daily and weekly funding hour caps*

Many aspects of today's ECE funding system can be traced back to the 1988 report "Education to be More" often referred to as the Meade Report.<sup>5</sup> This report was produced by the Early Childhood Care and Education Working Group, convened by Dr Anne Meade. It was part of a government-mandated review of the entire education system. This recommended significant changes, in many cases in tandem with those for the schooling sector and implemented as part of the Tomorrow's Schools reforms. The Meade report positioned ECE as beneficial for children, families and society in general and stated that government had a responsibility for partially funding ECE.

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.

It noted that the funding structure was "uneven and inequitable...[and] too low". It stated that there was an "array of early childhood services...each with its own funding arrangements and level of funding". The report produced a range of recommendations, including that ECE services should be bulk funded using universal (all children) per-child hour subsidy rates.

The Government responded to the Meade Report in 1988 with "*Before Five: Early childhood care and education in New Zealand*".<sup>6</sup> The report emphasised the educational, rather than societal, benefits of ECE and largely adopted the recommendations of the Meade Report. Implementation was to occur between 1990 and 1994. Three bulk funding rates (for under two-year-olds, over two-year-olds and kindergartens) were delivered on a per child-place basis for each child by the Ministry of Education.<sup>7</sup> Bulk funding was introduced through a series of transitional steps. Weightings could be given to the three bulk funding rates for

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<sup>5</sup> Early Childhood Care and Education Working Group. (1988). *Education to be More: Report of the Early Childhood Care and Education Working Group*. Wellington, NZ: Department of Education.

<sup>6</sup> Lange, D. (1988). *Before five: Early childhood care and education in New Zealand*. Wellington, NZ: Department of Education.

<sup>7</sup> Bulk funding is where funding is provided as a lump sum to cover a range of costs that are not specifically identified.

costs that were out of services' control, for example, as a result of being in a remote location or enrolling children with learning support needs.

A discretionary grants scheme was set up to provide government assistance for the capital costs of accommodation used by early childhood services.

The new bulk funding scheme did not differentiate between private (for-profit) and community (not-for-profit) ownership of services. Advance funding was introduced to provide financial security and certainty of services. Weekly (30 hours) and daily (two 3-hour sessions) limits were placed on funded child hours, across all service types.

A higher funding rate (called Rate 2) was introduced in 1996, to provide higher levels of funding to 'chartered' services. These were services with agreements to work towards better ratios and qualifications. There was recognition soon after that different service types experienced quite variable access to the Rate 2 funding.

In 1997, the State Sector Act 1988 was altered so the government no longer negotiated pay and conditions on behalf of kindergarten associations (therefore removing the obligation to fund kindergarten teachers' pay increases). This was reversed by changes to the State Sector Act in 2000.

*The early 2000s saw the next set of big changes to the funding system, with a gradual shift from unconditional bulk funded grants to conditional bulk funded grants*

In 2002, Equity Funding was introduced to target additional funding towards services most likely to face additional barriers providing quality ECE for their communities.

In 2002, a 10-year strategic plan for ECE "*Pathways to the Future: Ngā Huarahi Arataki*" was published.<sup>8</sup> The plan included an action to provide pay parity for kindergarten teachers. This was confirmed in July 2002 – phasing in pay parity for kindergarten teachers with primary teachers over a three-year period (who had previously achieved pay parity with secondary teachers in 1998).

Pathways to the Future also initiated a review of the funding system. This review was completed in 2004 and resulted in the introduction of a new funding model in 2005. This differentiated funding by percentage of registered teachers, service types, the age of children and the type of licence (all-day or sessional). The model was originally based on, and intended to be responsive to, changes in service cost drivers such as administrative and licensing requirements, regulated ratio and qualification requirements and property maintenance costs. The approach modified the bulk funding approach so that funding rates could be more directly linked to these cost drivers for specific service types.

Cost drivers were monitored periodically through a semi-regular Survey of Income, Expenditure and Fees conducted between 2006 and 2013,<sup>9</sup> which analysed a variety of costs such as staffing costs, rent, and insurance. In practice, adjustments to the rates did not necessarily rely on movement in these costs as measured by the surveys.

*20 Hours ECE was introduced in 2007*

In 2007, 20 hours of ECE per week for 3 and 4-year-olds was introduced. Originally known as 20 Hours Free ECE, the policy aims to encourage parents/caregivers to enrol their

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<sup>8</sup> Ministry of Education. (2002). *Pathways to the future: Ngā Huarahi Arataki: A 10-year strategic plan for early childhood education*. Wellington: Learning Media.

<sup>9</sup> This survey was actually last carried out in 2015, but low response rates and data quality issues meant findings were not released.



children, aged 3-5-years-old in ECE. This subsidy is discussed in more detail later in this paper.

The 2005 changes still define much of the funding system that is used today alongside some of the Before Five settings. The following sections set out main elements of the current system.

## The legislative framework for ECE funding

Early childhood services are regulated and funded under the Education and Training Act 2020 (the Act) and associated regulations, primarily the Education (Early Childhood Services) Regulations 2008 (the Regulations). While not discussed at length here, key aspects of the Regulations have a funding impact. These include setting of minimum adult-to-child ratios and teacher qualification requirements.

Section 548 of the Act sets out that general grants must be paid to all licensed ECE services from appropriated funding.<sup>10</sup> The Act also empowers the Minister of Education to set the amounts of grants paid to services. This includes specifying types or classes of services and any different types of grants they may receive. The section also allows the Minister to set a wide range of conditions on grant funding. Section 548 of the Act dates back to the system implemented in the early 1990s, in which weightings could be applied to the three available rates to recognise extraordinary costs.

The Act does not require grant funding to cover all the cost of ECE provision, so it is often referred to as subsidy funding, although costs of provision can be fully subsidised. Legally, general grant funding must be paid at the designated levels once a service is licensed and children are enrolled and attending. The ECE Subsidy is this general grant, sometimes called the 'main' subsidy. Other payments under the Act are designated as discretionary grants. These do not necessarily apply to all children or class or type of service.

## Funding is linked to child enrolment and attendance

The funded child hour (FCH) is used as the unit of subsidy funding. It dates back to the Meade Report. An FCH is an hour of child attendance in an early childhood service that the Minister has determined the service can receive grant funding for. There is a set number of FCHs that are funded per licensed child place in a service. This is capped at six FCHs per day and 30 FCHs per week. While the weekly caps come from the "Before Five" report, the six FCH limit was not formalised until the mid-1990s.

The main ECE Subsidy is paid for all children aged 0-5 years attending up to the hourly limits. There are rules (sometimes referred to as funding conditions) that allow some enrolled but non-attended hours to be funded. These absence rules are:

- **The Three-Week Rule for continuous absence** – this rule limits the period of time that the Ministry of Education will fund continuous child absences to three weeks. There are exemptions or extensions for children with learning support needs or illness, or for services with an extended period of non-operation (e.g., the Christmas period).
- **The Frequent Absence Rule** – this rule requires a child's attendance to match their enrolment agreement for at least half of each calendar month. This recognises that

<sup>10</sup> The Ministry of Education also provides funding to playgroups that have been certified in accordance with the Act. Minimum standards for certified playgroups are set out in the Education (Playgroups) Regulations 2008. Certification criteria are used to assess how playgroups meet the minimum standards required by the regulations.

advance funding payments (covered later in the paper) can become increasingly inaccurate if enrolment agreements do not match changing attendance patterns over time.

The use of absence rules in the funding system is intended to provide funding certainty to aid service viability and therefore continuity of ECE provision, but at the same time manage the cost to the Crown of funding children who are enrolled but not attending.

## Funding is differentiated by service type

Licensed early childhood services are separated into service types for funding purposes. The service types are not necessarily identical to service definitions created under the Regulations. Four Kaupapa Māori and Pacific immersion and bilingual service types have also recently been created for funding purposes.

The service types used for funding are:

- **Education and care services**, which are teacher-led<sup>11</sup>, centre-based services. They are also referred to by other descriptions including early learning centres, crèche, daycare, aoga amata and childcare centres. The new Kaupapa Māori and Pacific immersion and bilingual services, Puna Reo, Reo Rua education and care, Leo o Fanau Moana immersion and Leo o Fanau Moana bilingual are included under this term.<sup>12</sup> Some education and care services operate without a regular roll, for example services at ski fields. These are known as casual education and care services.
- **Hospital-based services** are teacher-led services that provide education and care to children under the age of 6 who are receiving health services within premises under the control of the Ministry of Health. While for funding purposes these services are, in effect, very similar to education and care services and receive the same funding rates as those services, there are a few differences. For example, these services receive funding via a notional roll (funding based on average actual attendance for a specified period) to recognise their special circumstances and that what they offer for children and families is a distinctly different service.
- **Kindergartens** are teacher-led centre-based services controlled by a kindergarten association.<sup>13</sup> From a regulatory perspective, they must meet all the same rules and requirements as other teacher-led, centre-based services. The Public Service Commission does, however, undertake employment contract negotiations as the employer on behalf of kindergarten associations.

<sup>11</sup> Teacher-led services are services where one or more qualified teachers are responsible for the overall programme in the service. They are required to have a person responsible (or home-based care coordinator) who is a qualified, certificated, teacher.

<sup>12</sup> *Puna Reo* are kaupapa Māori immersion services where te reo Māori is the principal language of communication and instruction with mokopuna used 81% or more of the time, including in the implementation of the curriculum.

*Reo Rua Education and Care* are kaupapa Māori bilingual services where te reo Māori is used at least 51% of the time as the language of communication and instruction with mokopuna, including in the implementation of the curriculum.

*Leo o Fanau Moana immersion* are Pacific immersion services where a single Pacific language is the principal language of communication and instruction with children used 81% or more of the time, including in the implementation of the curriculum.

*Leo o Fanau Moana bilingual* are Pacific bilingual services where a single Pacific language is used at least 51% of the time as the language of communication and instruction with children, including in the implementation of the curriculum.

<sup>13</sup> Kindergartens are services under a kindergarten association. The associations were set up and recognised by now repealed legislation.



- **Home-based services** are services where early childhood education is provided for up to four children in an educator's home, the child's own home or a home nominated by the child's parent. Home-based services are supervised by coordinators who are certificated teachers. Homes are grouped together in a service, the person or organisation that operates the group of homes is the service provider.
- **Te Kōhanga reo** is a total immersion te reo Māori whānau programme for mokopuna run under the auspices of Te Kōhanga Reo National Trust. The Trust acts as a fundholder for some, but not all of the bulk funding, provided for individual kōhanga.
- **Playcentres** are services affiliated Te Whānau Tupu Ngātahi o Aotearoa - Playcentre Aotearoa. A primary characteristic of playcentres is that families manage and implement the education programme. Playcentre Aotearoa has increasingly moved to a fund holding role on behalf of individual playcentres.

Ngā kōhanga reo and playcentres are not in the scope of the ECE Funding Review.

## Funding for ECE services also depends on other factors

There are varying funding rates associated with the service types. These partly reflect a point-in-time consideration of the different cost drivers faced by each service type. Subsequent changes to funding settings have affected relativities in funding rates between service types.

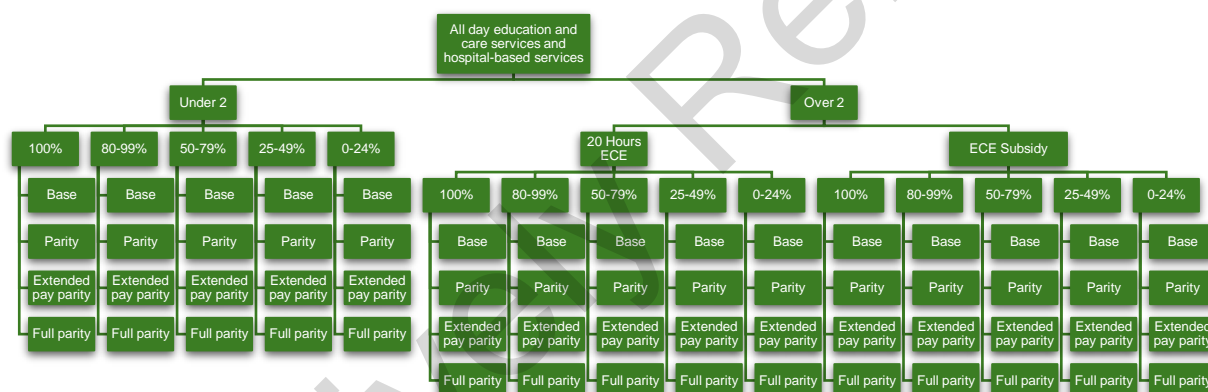
The amount of funding a service receives depends not only on the service type and number of FCHs generated through child enrolment and attendance, but also the following factors:

- **Whether the provision is all day or sessional.** Sessional services are those where a child can only attend a maximum of four or fewer hours in a day. The all day or sessional funding distinction applies to teacher-led, centre-based service types only. All day services receive higher funding rates because they must have more adults-to-children in ratio as well as covering more statutory breaks than sessional services do (e.g., lunch). Very few teacher-led, centre-based ECE services now deliver sessional provision (less than 2%), but it was the predominant length of daily provision until the 2000s.
- **The age of the child.** Since the 1990s, the ECE Subsidy has been paid at higher rates for children aged under two years old, compared to children aged two years and over. This reflects differences in the cost of adults required to meet the different adult-to-child ratios in the Regulations (under two-year-olds require more adults in contact with children than two-year-olds and over). Funding can only be claimed for children who fill a child-place and are less than 6 years of age. Funding cannot be claimed for children enrolled in school, conditionally enrolled children who do not attend or casually enrolled children who do not attend. Further information on the ECE Subsidy is provided later in this paper.
- **Whether a service meets quality criteria.** Quality criteria differ by service type. In kindergartens and education and care services, quality for funding purposes is linked to the percentage of certificated teachers working in ratio with children. This is to allow funding to incentivise greater certificated teacher use. There are five funding bands associated with set proportions of certificated teachers. Further information about certificated teacher funding bands is provided later in this paper. Other service types - home-based, playcentre and kōhanga reo - have funding rates with different quality criteria, usually linked to different adult-to-child ratios and/or staff qualification mixes.

- **Whether FCHs are linked to the ECE Subsidy or 20 Hours ECE.** 20 Hours ECE was set up to cover the full average cost of provision and therefore provides a higher funding rate for children aged 3-, 4- and 5-years-old compared to the ECE Subsidy. Further information on 20 Hours ECE is provided later in this paper.
- **What level of certificated teacher pay is being provided.** For education and care and hospital-based services, there are four funding rates linked to increasing levels of teacher pay steps that services can opt in to paying their teachers: base, parity, extended pay parity and full parity. The pay steps are derived from rates in the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA) as at December 2023. Further information on the pay parity opt-in scheme is provided later in this paper.

Having multiple funding conditions means there are many funding rates. Figure 2 illustrates this multiplicity of rates for all-day education and care services and hospital-based services. This diagram only captures part of the differentiation of rates. Overall, there are around 168 funding rates.<sup>14</sup>

Figure 2: An example of ECE funding differentiation



## More information on certificated teacher funding bands

Certificated teacher funding bands were put in place to incentivise teacher-led centre-based services (education and care services and kindergartens) to employ a higher proportion of certificated teachers (a person who holds a current practising certificate that has been issued by the Teaching Council). The proportion of certificated teachers in an ECE service is one widely accepted measure of quality in ECE provision.

The structure of certificated teacher funding bands has changed over time but, at present, there are five bands, each with corresponding funding rates:

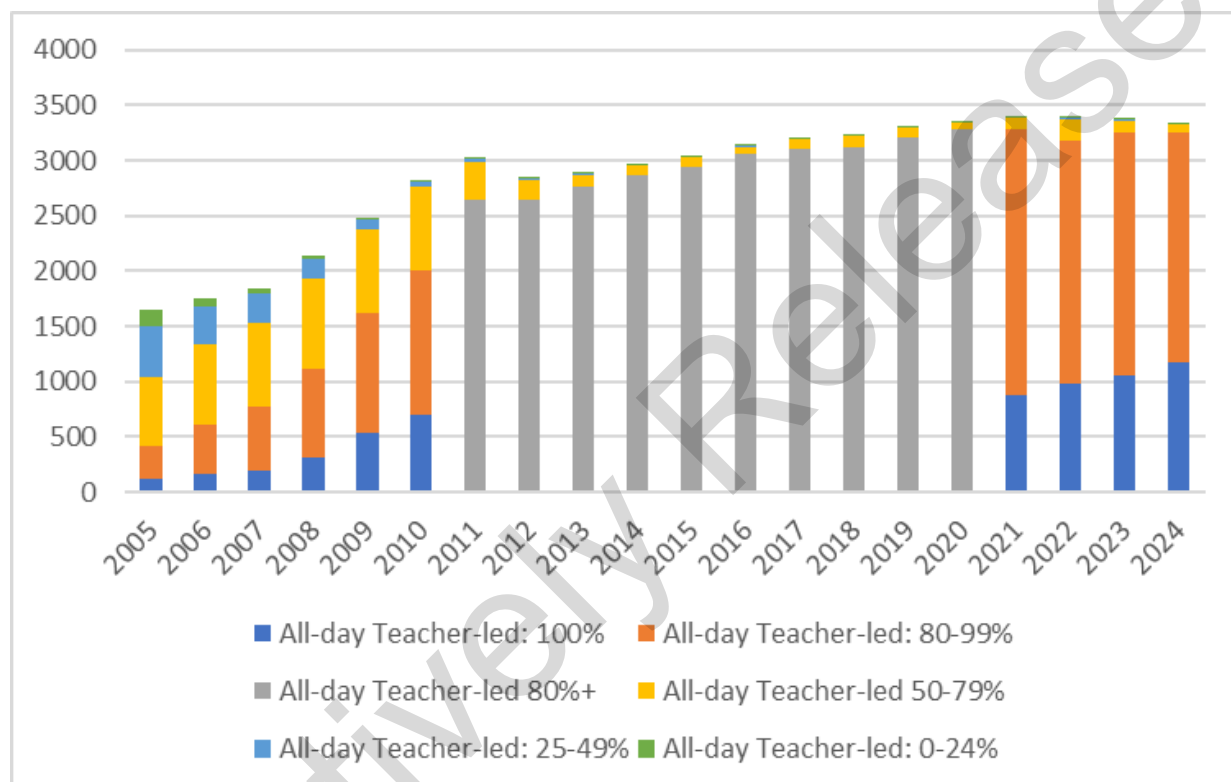
- 100% certificated
- 80-99% certificated
- 50-79% certificated
- 25-49% certificated

<sup>14</sup> Count of rates effective 1 January 2026. Includes parent/whānau-led services.

- 0-24% certificated

These increase in value from the lowest to highest percentage band. A service's funding band can be influenced by a range of factors, for example, the importance placed on being fully staffed by certificated teachers. However, over time, certificated teacher funding bands have influenced a move towards using certificated teachers. The proportion of certificated teachers in teacher-led ECE services has risen from 51.9% in 2005 to 70.4% in 2024. Figure 3 below shows that from 2005, 622 education and care services (39%) were in the 50-79% funding band, compared to 72 services (3%) in 2024.

**Figure 3: Number of education and care services and kindergartens opted into the certificated teacher funding bands**



The 100% certificated teacher funding band was removed in 2011 and replaced by an 80%+ band. This was to align funding incentives with teacher supply targets and to control increasing fiscal costs of ECE to government after the global financial crisis. The 100% certificated teacher funding band was reintroduced in 2021 as part of implementing the *He taonga te tamaiti - Every child a taonga: Early Learning Action Plan 2019-2029*.

The classification of a services' certificated teacher funding band uses the Staff Hour Count. This is the proportion of certificated teachers in ratio compared to all teachers during child contact hours.

To provide staffing flexibility, services can claim 80 discretionary hours per funding period. A discretionary hour is an hour that a service can claim a non-certificated teacher as a Certificated Teacher for the purposes of the staff hour count. This allows a service to have a greater chance of remaining in its current funding band or higher.

## More information on the pay parity opt-in scheme

### Background

The pay parity opt-in scheme was introduced in 2022 to close the pay disparity between certificated teachers in education and care services, and certificated teachers in kindergartens. The scheme was intended to address the fact that, on average, certificated teachers in education and care services were historically paid less than their kindergarten counterparts, taking into account equivalent years of experience and qualifications. There were both fairness and teacher labour market drivers behind the policy change. The opt-in scheme was, however, never intended to be the final funding system to deliver pay parity.

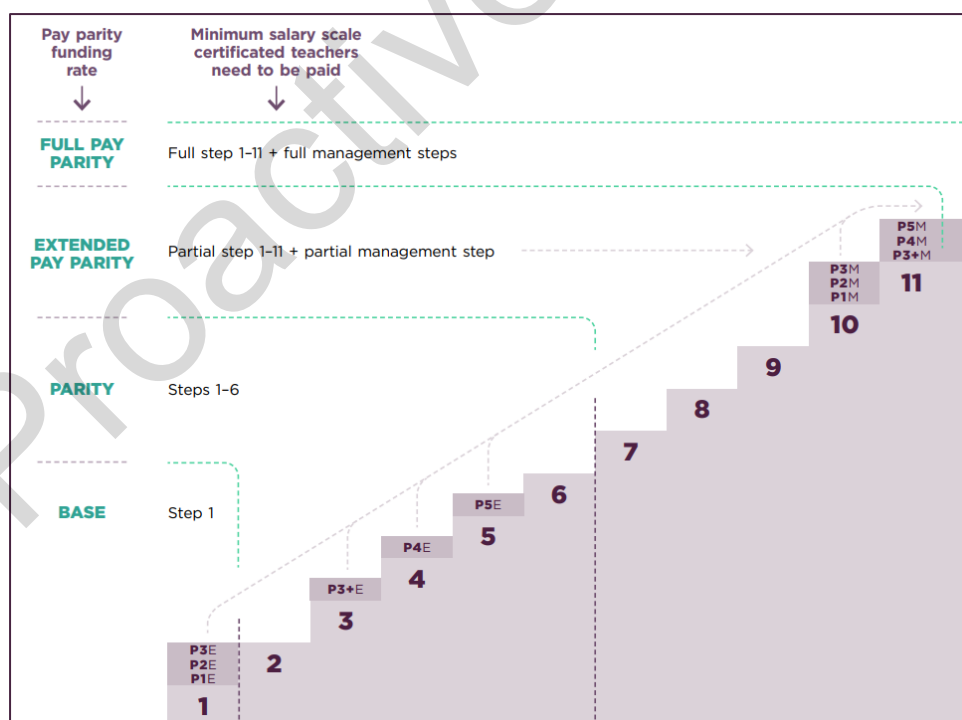
The cost drivers funding system, introduced in 2005, initially treated kindergartens the same as other teacher-led, centre-based services. In addition, from 2005, the government began requiring all education and care services to pay any employed registered teachers at least step one of the three qualification categories of the Consenting Parties Agreement (a collective agreement then in place covering a minority of education and care services).

However, from 2011, differentiated funding rates were again introduced between kindergartens and education and care services. Kindergartens began receiving higher rates to recognise the government's implied obligation to fund at levels recognising the cost of new KTCA settlements – this was similar to the funding rate approach used in the early 1990s.

### How the opt-in scheme works

The pay parity scheme provides three sets of higher funding rates that education and care services may opt into. This is in conjunction with attesting to paying their certificated teachers at least at certain steps or part steps of the KTCA pay scale (the steps are minimum amounts and higher pay is permitted). These rates are on top of a base funding rate requiring payment of a single minimum pay step. Figure 4 illustrates the number of pay steps included in each of the four funding rates:

Figure 4: Minimum required pay steps for each pay parity funding rate



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

- Qualification group
- Recognised service
- Previous relevant work experience

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

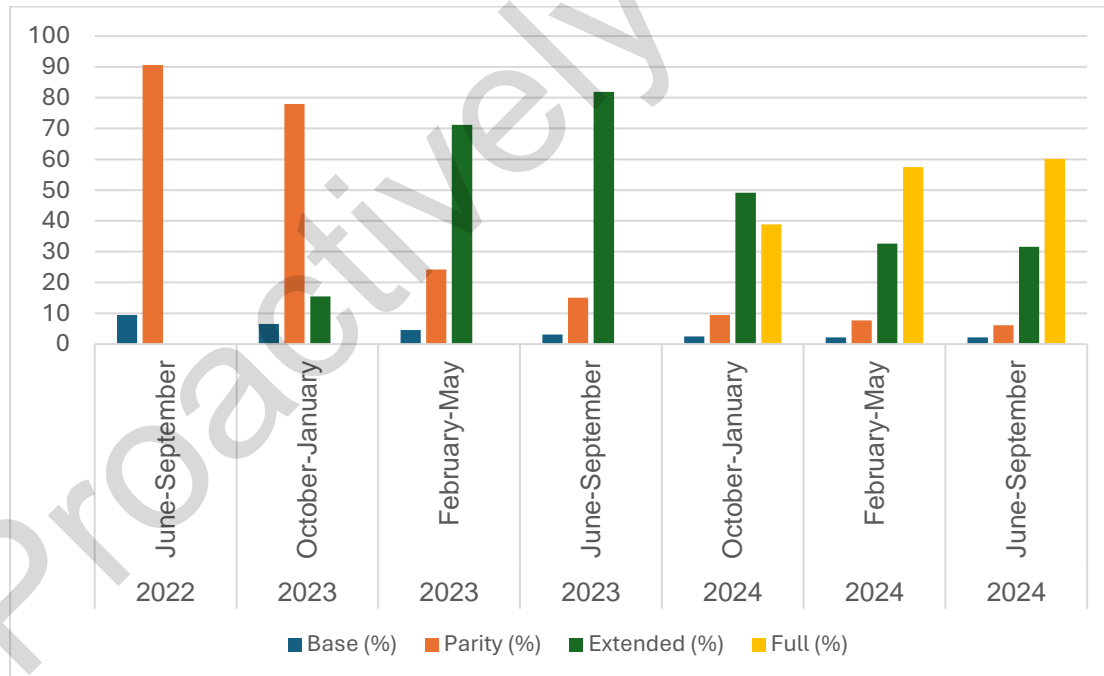
A certificated teacher progresses a pay step when they have completed 2080 hours work (equivalent to one year of full-time employment) and have been assessed by the service provider as meeting applicable Teaching Council standards. Progression continues until the certificated teacher reaches the highest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

Although the scheme still refers to pay parity, none of the pay steps offered are at parity with the current KTCA steps. In September 2023, due to fiscal pressures, the government made the decision to freeze the highest full pay parity pay scale at 1 December 2023 KTCA pay scale. The KTCA pay scale has increased twice since December 2023 as a result of the most recent kindergarten teachers pay settlement.

### Services are increasingly opting into the higher funding bands

There is a trend of services moving into the higher bands. Over 90% of services have opted into extended pay parity and full parity funding rates at the last funding period final figures are available for, as shown in Figure 5.

**Figure 5: Proportion of education and care services opted into each pay parity funding band (2022-2024).<sup>15</sup>**



The scheme's 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

<sup>15</sup> Extended parity was introduced on 1 January 2023 and full parity was introduced on 1 November 2023.

rates may result in excess funding while others cannot financially justify opting in without increasing fees or adjusting their staffing mix.

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 proportionately match funding to total teacher pay at a service level. The funding system has not been altered to provide funding in this way, although such an approach was consulted on in 2023.

From 1 July 2025 until 30 June 2027, education and care (including hospital based) services that have opted into the pay parity scheme, are able to determine the initial salary step for newly certificated teachers and certificated teachers who are new to working in the New Zealand ECE sector (e.g. a primary school teacher with no prior experience in ECE).

In addition to this, following the July 2025 funding period, a two-year moratorium on services who have currently attested to paying permanently employed certificated teachers at Parity or Extended Parity salary scale amounts will be in place. This allows time for the ECE Funding Review to take place and for recommendations arising from the Review to be considered.

## The fiscal cost of ECE is demand driven

Ministry of Education ECE subsidies are demand driven, not capped. This means that the funding needed each year varies depending on changes in the number of FCHs and the average value of FCH funding rates. The Ministry of Education forecasts changes in the funding required at the biannual March and October baseline updates – these updates are used to adjust forecast funding needed in several demand-driven areas across government (for example, social welfare payments).

## Funding is provided on either a universal or targeted basis

Most Ministry of Education-administered ECE funding is provided on a universal basis (i.e., all children are eligible) via the ECE Subsidy and 20 Hours ECE. Children trigger this funding as they attend a licensed early childhood service. This accounts for around 85% of all ECE funding across Votes in 2024/25. The 20 Hours ECE programme is more universal in nature due to its extensive reach, although technically it is targeted (by age: 3–5-year-olds).

### Universal subsidies

#### *The ECE Subsidy*

As noted earlier, the ECE Subsidy is the only general grant applying to all services and children. It is intended to partly cover the cost of ECE provision. It is child-place based, rather than child-based. Child-place funding means that each service is licensed to provide ECE to a maximum number of children at any one time. While more than one individual child can occupy a place over time, only one child can occupy an FCH attached to a child place at any one time. Children may be enrolled at more than one ECE service, but funding cannot be claimed by two services for the same hours of attendance for the same child.

#### *20 Hours ECE*

In 2007, 20 hours of ECE per week for 3 and 4-year-olds was introduced. This was originally known as 20 Hours Free ECE. The 20 Hours ECE policy intention is to encourage parents/caregivers to enrol their children aged 3-5 years in ECE. The age range was chosen in part because more research on the positive impact of ECE was available for children of this age range for child development and parental/caregiver labour market outcomes.

The initiative was intended to be only available to children in community-based, teacher-led services and kaiako/whānau-led kōhanga reo but, prior to implementation, was expanded to



include private providers. In 2010 it was extended to all 5-year-olds<sup>16</sup>, kōhanga reo and playcentres.<sup>17</sup>

A subsidy originally based on 100% of average cost for the service type is paid for the 20 hours. This results in a higher rate of funding than the ECE Subsidy. Services are not permitted to charge fees for these hours of provision, although they may ask for voluntary donations and still charge fees on provision outside of 20 Hours ECE. The 20 Hours funding is voluntary with early childhood services choosing whether to opt in to receive it. However, nearly all early childhood services are currently opted in.

Funding is linked to the child (child-based) rather than a child-place. Parents can claim a total of 20 Hours ECE for their child across more than one service, as long as they do not claim for the same hours across services. The 6-hour daily limit still applies.

The policy was renamed 20 Hours ECE in early 2009, although it is still sometimes mistakenly referred to as 20 Hours Free ECE.

The Ministry of Social Development's Childcare Subsidy cannot be paid for the same hours that 20 Hours ECE is paid. The only exception is when home-based educator top-up payments are charged for those hours. 20 Hours ECE abates the hours of Childcare Assistance that the Ministry of Social Development will fund.

### Targeted funding

Targeted funds are directed towards various equity goals, such as supporting ECE participation and quality of provision for children from low socio-economic backgrounds. This includes the previously mentioned Equity Funding, introduced in 2002, and the more recent Targeted Funding for Disadvantage, introduced in 2017. These two funds account for around 3% of the total Vote Education ECE spend.<sup>18</sup>

Equity Funding includes four components:

- **Equity Funding components A and B.** This is funding for services to reflect children enrolled from lower socio-economic communities, with special needs and from non-English speaking backgrounds. Eligibility for this funding is based on a service's Equity Index, an index that measures the extent to which a service draws children from low socio-economic communities, using Statistics NZ Census data. Funding is linked to FCHs and is paid on the same cycle as the universal subsidies.
- **Equity Funding component C.** This component is 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.** This is funding for the geographical isolation of a service. It is paid as a monthly grant.

Targeted Funding for Disadvantage is aimed at early childhood services that have a high proportion of children from disadvantaged backgrounds. It is based on an estimate of the number of FCHs generated by children from disadvantaged backgrounds in eligible early childhood services. Disadvantaged background is defined as the 20% of children attending early childhood services who have spent the largest portion of their life as the dependent of a beneficiary. This is for the purpose of the funding calculation only. The Targeted Funding

<sup>16</sup> Up until the child is enrolled for school, which must happen before 6-years-old.

<sup>17</sup> When first introduced, only five-year-old children with learning support needs could continue to receive 20 Hours Free ECE while they were engaged in a transition to school plan.

<sup>18</sup> Based on 2022/23 financial data, Education Counts – Public Expenditure on ECE

for Disadvantage hours generate a fixed amount of funding, which is paid in three instalments to services in addition to the universal subsidies. Funding entitlement is based on an estimate of the number of Funded Child Hours (FCH) that children from disadvantaged backgrounds will attend the service in the coming year. Each year all early childhood services are assessed for their eligibility to receive this funding.

There are other small, targeted funds including:

- **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, as defined earlier. These allowances are intended to support the recruitment and retention of these teachers in ECE.
- **Annual top-up for isolated services (ATIS):** this initiative provides additional 'top-up' funding to services with a limited capacity to generate FCHs due to isolation. It is available to services that sit at a certain level on the Isolation Index<sup>19</sup> and generate small levels of subsidy funding. It then tops up these services' incomes to either \$15,000 or \$20,000.
- **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.

### Discrete participation funds

There are several small discretionary grants aimed at increasing participation in ECE. These include:

- **Targeted Assistance for Participation:** Targeted Assistance for Participation (TAP) provides property funding that contributes toward establishing new child places, or retaining existing places in Māori, Pacific, low socio-economic, or rural/isolated communities, where participation rates are low and there are insufficient child places available. Services must apply for this funding and be assessed as meeting set criteria.
- **Early Learning Taskforce:** A flexible participation fund that supports projects to engage non-participating whānau.
- **Engaging Priority Families:** Funding to engage with priority families whose children aged between three and four years old 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. The objectives of this initiative

<sup>19</sup> The isolation index is a statistical index that rates a service's relative isolation according to its distance in kilometres from services of three different population sizes. It is used for both the ATIS and Equity Funding component D.

include increasing presence, participation and progress in early childhood education, creating good health outcomes, a reduction in child poverty and safe communities for all.

Figure 6 shows the value of Vote Education ECE funding budgeted to be paid to services or other parties (but not parents) for the 2024/25 financial year.

Figure 6: Vote Education ECE funding

Name of fund	Amount 2024/25 financial year	Percentage of Vote Education ECE Funding
<b>Universal subsidies<sup>20</sup></b>		
The ECE Subsidy – Under 2's	\$580,424,419	20.29%
The ECE Subsidy – 2 and overs	\$691,082,287	24.16%
20 Hours ECE	\$1,490,591,447	52.11%
<b>Total</b>	<b>\$2,762,098,153</b>	<b>96.57%</b>
<b>Targeted funding<sup>21</sup></b>		
Equity Funding Targeted Funding for Disadvantage	\$73,582,847	2.57%
Waha Rumaki & Pacific immersion teaching allowances	\$2,947,000	0.10%
Puna reo property	\$828,000	0.03%
Ngā Puna Reo O Aotearoa	\$407,000	0.01%
Annual Top-Up for Isolated Services (ATIS)	\$135,000	0.005%
<b>Total</b>	<b>\$77,892,847</b>	<b>2.72%</b>
<b>Discrete participation funds</b>		
Targeted Assistance for Participation (TAP)	\$7,500,000	0.26%
Early Learning Taskforce	\$1,593,000	0.06%
Poipoia te Mokopuna	\$1,255,000	0.04%
Engaging Priority Families	\$3,777,000	0.13%
Whānau in-home Learning	\$4,308,000	0.15%
Kā Au Kahuraki	\$1,639,429	0.06%
<b>Total</b>	<b>\$20,072,429</b>	<b>0.70%</b>

## Shared funding of ECE

A fundamental principle of the funding system is that costs may be shared by public and private funding sources – effectively government and parents/families. The ECE Subsidy reflects this policy – through statements agreed by Cabinet – that it is intended to pay for part of the cost of each hour a child spends in ECE and the ability of services to charge fees for ECE Subsidy hours. This reflects the fact there are both private and public benefits to ECE.

Hours of ECE attendance outside of the hourly and weekly caps are not funded through Ministry of Education subsidies. Early childhood services determine how to fund these hours, generally via parent/caregiver fees. Some parents and caregivers may be eligible for funding to offset the cost of these fees, via the Ministry of Social Development or Inland Revenue.

<sup>20</sup> Note that these totals include Kōhanga and Playcentre funding that is out of scope of the Review

<sup>21</sup> Note that these totals include Kōhanga and Playcentre funding that is out of scope of the Review

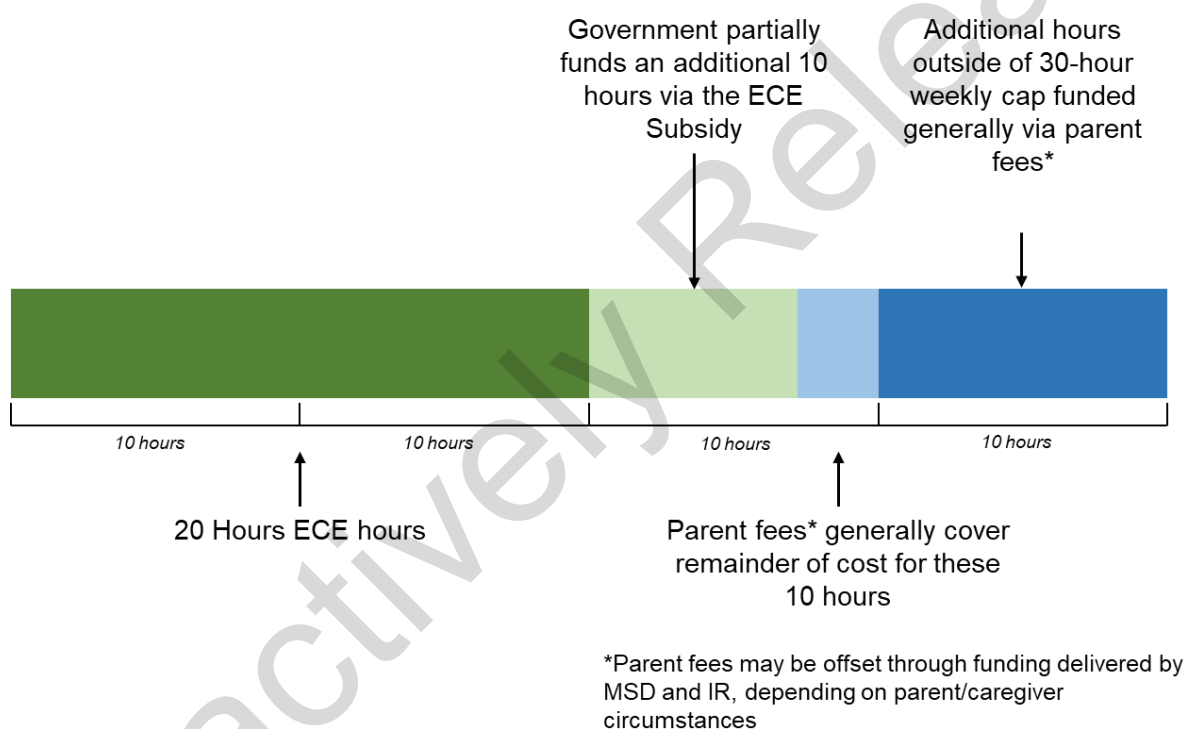
There is no requirement to charge fees and, in some cases, services may be able to cover all or most of their cost of provision through government subsidies received in order to limit fees charged to parents.

Figure 7 illustrates the varying funding contributions to a theoretical week of child attendance. As shown in the diagram, a theoretical 40-hour week of attendance for a 3-year-old child could be made up of:

- 20 hours funded at the higher 20 Hours ECE funding rates
- 10 hours funded through a combination of ECE Subsidy funding and parent fees
- 10 hours funded generally through parent fees.

Depending on the circumstances of the child's parents/caregivers, they may receive funding from the Ministry of Social Development or Inland Revenue to offset the cost of fees.

Figure 7: Example of a theoretical funding contribution split for a 3-year-old child at ECE for 40 hours per week



## Parent and caregiver fees

Early childhood services are generally able to charge parents and caregivers fees or optional charges and ask for donations. Services have discretion over how they structure fee schedules; for example, some charge a daily rate, while others charge weekly. Some may offer discounts for siblings, and some require minimum hours or days of enrolment depending on the age of the child. The Ministry of Education does not collect data on parent/caregiver fees.

The only limit on fee charging is in relation to 20 Hours ECE. Fees are not chargeable for the hours of 20 Hours ECE as a condition set under section 548 of the Act. If the child is in the early childhood service for more than 20 hours or 6 hours a day, there may be fees charged for the additional hours.

Home-based educators may require payments from parents to 'top up' the amount of 20 Hours ECE funding pass-through from their service provider to match their hourly fees for hours outside of 20 Hours ECE. Home-based educators provide the education and care for children. Most are independent contractors, but some are direct employees of parents (colloquially known as nannies).

Home-based services typically split funding responsibilities. Parents contract with educators to pay them directly, unlike other service types. Parent fees are usually set by educators and can vary from educator to educator within a network. Parent fees are usually charged per hour and go directly to educators. Providers do not necessarily have oversight over the parent fees charged by their educators, though some providers offer platforms to help facilitate these payments.

Early childhood services may seek agreement from parents and caregivers to pay optional charges. Optional charges are a request for a payment for a specific purpose that parents may choose whether or not to make, which can be one-off or ongoing, and:

- is for the education and care of the child and
- is above what is required to meet the regulated standards and
- can be separated out and measured.

Examples of acceptable optional charges include for food or excursions and entrance fees.

## The use of bulk funding in ECE

As a result of the Before Five changes, early childhood services were given considerable flexibility to spend their funding, as long as the service was provided to the regulated standard. While cost drivers, such as staffing costs and rent, originally underpinned the funding levels, these were not separated out or identifiable in the rates. Furthermore, funding was, and still is provided as a single amount, calculated at an underlying average funding rate per child hour attended and rolled up to be paid as a single 'bulk' amount each funding period.

The 2005 changes led to differentiated funding rates for differing levels of certificated teachers. This indirectly altered services' spending flexibility for the funding paid. Funding was linked to a higher cost requirement – early childhood services had to employ certificated (generally more costly) teachers, rather than unqualified teachers. In effect, conditionality began to be added to the bulk-funding system.

Spending flexibility has been further limited through the pay parity opt-in scheme for education and care services described previously, which also links funding to defined teacher pay requirements.

## Cost drivers and cost adjustments

Changes in service cost drivers have mainly been recognised through universal and targeted subsidy funding rate cost adjustments provided through various Budgets. Cost adjustments are at the discretion of the government of the day. They do not necessarily reflect general inflation. Some cost adjustments change funding rates for non-staff cost changes, rather than all cost changes or adjusted rates for particular subsidies or service types. A summary of cost adjustments since 2010 is provided in Figure 8.

Figure 8: ECE cost adjustments since 2010

Budget	Percentage increase
2025	0.5% (all subsidies)
2024	2% (all subsidies)
2023	5.3% (all subsidies except non-salary component only for kindergartens and education and care services)
2022	2.75% (all subsidies)
2021	1.2% (all subsidies excluding the standard rate for home-based)
2020	1.6% (all subsidies excluding the standard rate for home-based)
2019	1.8% (all subsidies excluding the standard rate for home-based)
2018	1.6% (ECE subsidy for under twos, ECE subsidy for 2s and overs, 20 Hours ECE – excluding the standard rate for home-based)
2017	No cost adjustment
2016	No cost adjustment
2015	No cost adjustment
2014	2.5% (non-salary components only, therefore funding rates increased by 1%)
2013	2% increase to non-salary components of all ECE funding rates
2012	No cost adjustment
2011	2.92% increase for non-salary components
2010	2.4% increase for non-staffing component of ECE subsidy and 20 Hours ECE

## When and how funding is paid to early childhood services

Funding payments are made three times a year – on the first working day of March, July and November. Each payment is made up of an advance for the next four months and a ‘wash-up payment’ for the previous 4 months. Most services receive a 75% advance, and kindergartens receive a 100% advance to assist with cashflow. Some services or service types have specific arrangements to help manage their cashflow or reduce the risk of overpayment.



A service's 'actual funding entitlement' is the amount the service is actually paid in a funding round:

$\text{advance funding} \pm \text{wash-up funding} = \text{actual entitlement}$
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If a service provider operates a number of services, the total funding for all those services is paid to the service provider. Payment to individual services is the responsibility of the service provider.

The Ministry of Education has just implemented a new ICT system for delivering funding to services to replace the previous one, which had been in place for around 30 years.

## Administrative requirements

Funding requirements for services are compiled in the Ministry's ECE Funding Handbook. Some requirements are process-based and inform services how and how often to submit data to receive accurate subsidy payments. For example, services complete returns showing the number of actual funded child hours per day for the previous four months and the expected number of days of operation for the coming 4 months. The Ministry of Education uses this information to calculate the value of the service's advance payment and subsequent wash up payments.

Other requirements reflect policy decisions. Absence rules, as described earlier, are a key example. These reflect a policy decision to assist service viability and ongoing ECE provision. While aimed at assisting services, absence rules place an administrative load on services to ensure the rules are met. Absence rules involve parents confirming enrolment intentions, which, along with attendance records are a core part of the funding system and a fraud control measure.

Many early childhood services use a student management system (SMS) to support their administrative obligations. SMS functionality may include recording attendance, assisting with staff rostering, calculating funding owed to a service and transferring data to the Ministry of Education. The Ministry maintains a list of approved SMS providers.

## Auditing

There are two main Ministry of Education monitoring processes in relation to funding of early childhood services. These are funding claim audits and the auditing of financial statements.

### 1. Funding claim audits

Services are monitored for the accuracy of their funding claims. The Ministry undertakes audits on a subset of services each year to check they are meeting funding rules set out in the ECE Funding Handbook.

Services do not have to provide verification of their data when making funding claims, nor does the Ministry regularly audit every service.

The focus of an audit is to verify the accuracy of the funding claim (known as the RS7). The purpose of a funding claim audit is to verify that the service has claimed and received the correct amount of funding.

The funding claim audit does not involve verifying how a service allocates its money. Expenditure is detailed in a service's independently audited financial statements.

## 2. Audited financial statements

Licensed early childhood services are required to report on how government funds have been spent as a condition of their licence, to ensure that services have accurately accounted for the expenditure of government funding subsidies. It is a condition of funding that licensed early childhood services submit audited financial declaration information to the Ministry annually, by the end of June each year, for their financial year ending during the previous calendar year.

### Key Points

The system of Vote Education 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, with government funding required under legislation. Funding is provided using a bulk approach generally, is differentiated in several ways and is provided on both universal and targeted bases and has become more conditional over time. The cost of ECE is shared between government and parents, with parents contributing primarily via fees.

The multiple layers of funding differentiation can generally be traced back to policy objectives from specific time periods, particularly the reforms of the *Before Five* and *Pathways to the Future: Ngā Huarahi Arataki* reports. More recent changes include the introduction of the pay parity opt-in scheme.

This high level of differentiation in the funding system supports diverse ECE provision using a range of service types.