



# 2025 Early Childhood Education Funding Review Ministerial Advisory Group

## Overview of Targeted Funding Typologies

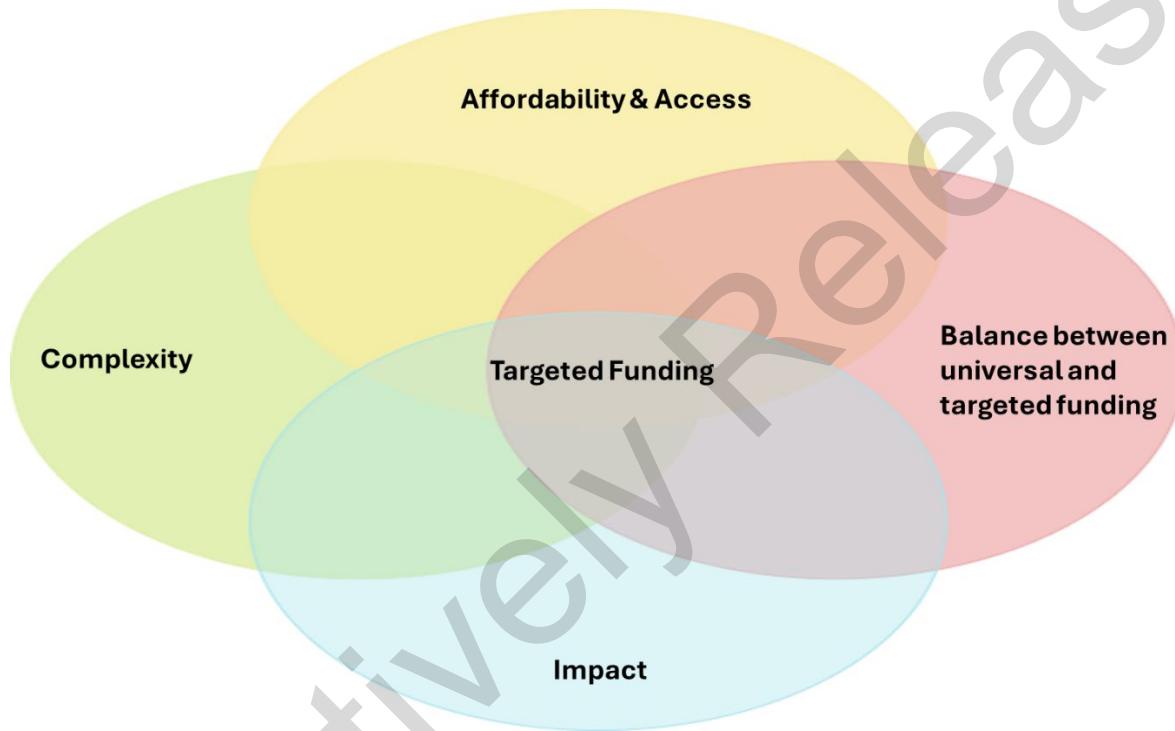
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# Introduction

The Early Childhood Education (ECE) Funding Review Ministerial Advisory Group (MAG) has been tasked with providing strategic advice and recommendations on redesigning the ECE funding system. This work is driven by the need to address four key concerns: affordability and access, system complexity, the balance between universal and targeted funding, and impact. While each of these areas presents distinct challenges, targeted funding affects all four areas and is central to achieving a funding system that supports both child development outcomes and parental employment.

*Figure 1: Targeted funding and the Review's four areas of concern*



The objective of this paper is to support the MAG in developing an understanding of both existing and potential alternative mechanisms for targeting resources within the ECE funding system. This includes an exploration of:

- **Objectives of targeting:** Targeted funding streams have a variety of different objectives they aim to address. The objective of the targeting should largely dictate how funding is designed in relation to the four other categories listed below.
- **Basis for targeting:** This is the rationale behind targeting that serves as justification for providing additional support.
- **Mechanisms for determining eligibility:** Mechanisms for determining eligibility are often closely tied to the basis for targeting. However, due to data availability, these are not always aligned. Additionally, some targeted funding is automatically triggered, whereas others require the recipient to apply.

- **Recipients of payment:** Depending on the goal of the targeted funding, the recipient of the payment may be an ECE service, parent/caregiver, or a third party.
- **Amount of funding:** The amount of investment into a targeted funding stream can influence its effectiveness.

Noting that these five areas do not represent a comprehensive framework, the following sections examine each of them in more detail and uses them as a basis to inform and guide the MAGs thinking around targeted funding typologies.

Targeted funding refers to financial resources that are allocated or directed towards specific purposes, populations, programmes or outcomes, rather than being distributed universally, broadly or generally. For the purposes of this paper, targeted funding includes the Ministry of Education funding streams identified as targeted in the MAG's Terms of Reference, as well as MSD's Childcare Assistance<sup>1</sup> and Inland Revenue's FamilyBoost<sup>2</sup>. A full list of these funding streams is included in **Annex 1**. While other types of funding such as support for additional learning needs or professional learning and development (PLD) could also be considered targeted, they fall outside the scope of the ECE funding review and are not discussed in this paper.

## Objectives of targeted funding

There is no one-size-fits-all approach to targeting ECE funding, particularly in a tight fiscal environment. Therefore, to ensure targeting is effective, its objectives should guide key design decisions. This includes, but is not limited to, the basis for targeting, the mechanism for determining eligibility, the intended recipients, and the amount of total funding.

Targeted funding can be designed to achieve a range of different objectives, such as improving educational outcomes, reducing fees for low-income families, encouraging parental workforce participation, or increasing participation among at-risk populations. A key example of distinctions in funding designed for different objectives is seen between funding aimed at reducing fees and funding intended to improve educational outcomes. Funding to reduce fees typically comes with strict spending guidelines due to its narrow and specific purpose. In contrast, funding to support educational outcomes tend to allow more flexible use, reflecting the diverse and context-specific approaches that services may have to enhance learning.

There are also secondary objectives that may influence the design of targeted funding, such as administrative efficiency or funding transparency. For example, if a secondary objective of funding is to reduce administrative burden, the targeting approach might avoid paper-based applications and instead rely on existing data sources or automatic eligibility criteria.

Conversely, if the secondary objective of funding is to increase parental visibility, an application-based system may be more appropriate, even if it introduces additional administration.

<sup>1</sup> For the purposes of this paper this term covers the Childcare Subsidy, Guaranteed Childcare Assistance Programme and the Early Learning Payment. This does not include funding for informal childcare (Flexible Childcare Assistance).

<sup>2</sup> There are additionally several discrete participation funds in the New Zealand ECE funding system in scope of the review. However, these are not a focus of this paper and will not be discussed in detail.

These kinds of trade-offs are explored further in the sections below. As you consider different targeting approaches, it's important to be clear about objectives to help the design of the targeted funding best support its intended goal.

## Basis for targeted funding

Compared to universal funding, targeted funding can be a fiscally efficient way to advance key objectives within the ECE system. The broad reach of universal funding can result in resources being allocated to individuals who do not require them, which adds unnecessary cost to the system with limited benefits. In contrast, targeted funding allocates resources based on need, which may achieve greater impact at a lower expense (i.e. a higher return on investment). However, targeting does involve trade-offs, particularly in terms of administrative efficiency. While targeted funding is fiscally efficient, it tends to require more complex administration as additional information is needed to assess eligibility and determine payment levels.

In New Zealand, targeted funding streams are primarily provided on the basis of socio-economic status, household characteristics (such as parental age or income), language, and isolation. The rationale for targeting each of these areas is outlined in further detail below. Given the fundamental nature of the review, it may be appropriate to consider which bases should be retained, expanded, consolidated, added, or removed.

### Socio-economic disadvantage

In New Zealand, children from low socioeconomic backgrounds have been shown to experience higher rates of a range of negative life outcomes across their lifetimes. These outcomes include low academic attainment (Fergusson et al., 1991), low university participation (Fergusson & Woodward, 2000), poor health literacy (Sa'u Lilo et al., 2020) and childhood obesity (Chiavaroli et al., 2019).

Participation in high quality ECE can be an intervention for reducing the likelihood of negative outcomes associated with low socio-economic status. Research shows that children from low-socioeconomic communities benefit greatly from high quality ECE as it can provide an effective substitute to the low-quality learning environments they may experience at home (Van Huizen & Plantenga, 2018; Melhuish et al., 2015). Further, participating in ECE can increase parental engagement in paid work, which is associated with reduced rates of material hardship and child poverty (Ministry of Social Development, 2024).

Despite having the most to gain from ECE attendance, children from low socio-economic backgrounds are participating the least. Roughly 74 percent of 4-year-olds from low socio-economic areas participated in ECE for at least 10 hours per week, compared to 87 percent of children from high socio-economic areas<sup>3</sup>. Accordingly, New Zealand has multiple ECE funding streams aimed at targeting low socioeconomic status children, whānau, and communities.

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<sup>3</sup> This data is sourced from the Early Learning Information (ELI) system for the year end June 2024. Some services, primarily ngā kōhanga reo and playgroups, do not use ELI to report daily attendance data and are therefore not included in this measurement. The socio-economic status of children is measured using the NZ Deprivation index based on the meshblock of a child's primary home address.

## Household characteristics

Household characteristics are another common basis for targeting additional support and may include one or more of the following factors: parental income, employment status, and age.

Although there is some overlap between the populations targeted by household characteristic-based funding and socioeconomic disadvantage-based funding, the two funding types reflect somewhat different rationales for intervention. Funding based on household characteristics tend to have different objectives, primarily focusing on reducing household costs and supporting labour market participation, rather than addressing broader equity objectives such as reducing food insecurity.

For example, the primary objective of MSD funding is to ensure children in low-income households can access suitable and affordable childcare, thereby enabling parents and caregivers to participate in employment, education, or training. Similarly, Family Boost is designed to ease cost-of-living pressures for low- and middle-income families. Given these more narrow purposes, ECE funding targeted on the basis of household characteristics is distributed differently from the broader socioeconomic status-based funding described above.

## Language

The relationship between bilingualism in indigenous languages and educational outcomes has been widely studied internationally. May et al. (2004) summarises extensive literature on the cognitive benefits of bilingualism. They conclude that research since the 1960s has broadly demonstrated advantages to being bilingual in a variety of cognitive and metacognitive tasks. In a New Zealand context, Māori medium education pathways have been shown to deliver better outcomes for Māori learners compared to English medium pathways. Māori learners in Māori medium education are more likely to leave school with a Level 3 or University Entrance qualification than Māori learners in English medium education (Ministry of Education, 2022).

Additionally, language immersion ECE services may face higher costs than English medium services. This includes challenges with recruiting and retaining qualified teachers who also hold the necessary language skills, as well as the added expense of language-specific teaching resources and PLD.

## Isolation

ECE services in isolated areas face distinct challenges due to their location. One major issue is the difficulty in generating sufficient bulk funding, as these services can often serve communities with a small number of children. Attendance at these services can also be inconsistent at times. Families in remote areas face higher expenses for vehicle maintenance and fuel, and the time required to travel long distances adds further strain. Seasonal employment patterns, such as those in fruit-picking regions, can also lead to fluctuations in attendance during off-peak periods. These factors contribute to irregular attendance, which directly affects the bulk funding services receive.

Staffing is another challenge faced by isolated services as they often struggle to attract and retain qualified teachers due to the pool of educators in remote communities being significantly smaller than in urban areas.

## Alternative basis for targeted funding

Internationally, many countries have similar approaches to targeting ECE funding as New Zealand. Socio-economic status and household circumstances are among the most common criteria used to allocate additional ECE funding. One notable international basis for targeting that does not currently exist in the New Zealand system is ethnicity-based funding. In Australia, children who identify as Aboriginal and/or Torres Strait Islander are eligible for additional ECE subsidies, regardless of their family's income or other household factors. This reflects a broader recognition of the historical and systemic disadvantages faced by Indigenous communities in Australia.

## Mechanisms for determining eligibility for targeted funding

This section outlines the common criteria used to determine who is eligible for targeted support. It also assesses how well current and potential eligibility mechanisms work in practice. This includes looking at considerations such as accuracy, the administrative workload for government and service providers, and what influences whether families take up targeted funding.

### Service level eligibility mechanisms (Indexes and formulas)

Targeted funding eligibility mechanisms often use indexes or formulas to aggregate individual level data and /or multiple indicators (e.g. children's level of disadvantage or isolation) to the service level. Several ECE funding streams in New Zealand currently use this approach, including:

- Equity funding component A – Low socio-economic communities
- Equity funding component B – Special needs and non-English speaking backgrounds
- Equity funding component D – Isolation
- Annual top up for isolated services (ATIS)
- Targeted Funding for Disadvantage (TFFD)
- ECE lunches food programme (Distributed using the new ECE Equity Index)

There are several advantages to distributing targeted funding using an index or service-level formula. Firstly, it enables a more streamlined and automated funding process, as it removes the need for individual applications. This can help reduce administrative burden for families and lowers the risk of excluding populations who may struggle with an application process.

Additionally, using aggregated data helps protect privacy by avoiding the need for the Ministry to collect and store sensitive personal information such as household income, parental employment status, or interactions with the justice system.

However, there are also limitations to using service level information to target funding. Firstly, it may not pick up all nuances, such as disadvantaged children who attend otherwise advantaged services. Further, if the methodology or data behind an aggregated measure is flawed, children with the greatest need may not receive the highest amount of funding. This is a significant problem in our current system, as the methodology for the decile-based ECE equity index has become out of date over time, as has the data it relies on.

A new equity index has been created to address this issue. Developed in collaboration with a sector reference group (SRG), it draws on IDI data related to the children actually attending a service, rather than census-based data on the communities where those children live. This approach provides a more accurate and up to date reflection of the service's users. However, at present, the new index is exclusively used for the ECE lunches programme and occasional pieces of data analysis. In May 2024, the Associate Minister agreed that broader implementation of the new equity index should be considered in the context of the ECE funding review. Accordingly, the MAG may wish to consider using the new index to target funding. Further information about the new index is included in **Annex 2**. The Ministry have also developed a more up to date isolation index that has not yet been implemented.

## Service level eligibility mechanisms (Service characteristics)

Targeted funding can also be distributed based on the characteristics of a service. In New Zealand, this is most commonly done through service types such as the Kaimahi Pay Scheme for kōhanga reo services. However, alternative approaches could include funding based on a service's size or their ability to fill staffing vacancies.

A recent development in this area occurred in May 2025, when the Ministry of Education introduced four new ECE service types designed to better support Māori and Pacific language ECE services. These new service types are:

- Puna Reo
- Reo Rua Education and Care
- Leo o Fanau Moana Immersion
- Leo o Fanau Moana Bilingual

A key reason for introducing these service types was to improve the visibility of Māori and Pacific language services within the Ministry of Education's systems. This enhanced visibility allows for more streamlined and efficient targeting of funding, as services can now be more easily identified and assessed for eligibility. Prior to the introduction of these classifications, determining eligibility for initiatives such as the Waha Rumaki and Pacific immersion teaching allowances involved a highly manual and time-consuming process.

## Application-based mechanisms

Applications are another key method used to determine eligibility for targeted funding. There are a number of targeted funding streams in the current system that require an application from either services, parents, or caregivers:

- Equity funding component C – Languages and cultures other than English<sup>4</sup>
- FamilyBoost
- The Childcare Subsidy
- The Guaranteed Childcare Assistance Payment (GCAP)
- The Early Learning Payment

A key drawback of the application approach is that it can place a significant administrative burden on parents, caregivers and services. For example, MSD's Childcare Subsidy requires applicants to complete a lengthy 28-page paper-based form, which can be time-consuming and

<sup>4</sup> Including sign language

difficult to navigate. Any changes to income and/or childcare hours require the same form to be filled out again. This complexity may discourage families from applying, contributing to low uptake of support. MSD has identified these administrative barriers and low participation rates as key areas for improvement in the delivery of childcare assistance.

Despite these challenges, application-based systems can offer benefits. By collecting detailed information directly from families, applications can enable for more precise targeting of support than some alternatives. This means that those with the greatest need are more likely to receive additional support. The key challenge is finding the right balance between accuracy of targeting and accessibility of targeting, so that support is both well-directed and widely taken up.

## Alternative mechanisms

Although not currently used within the ECE funding system, there are alternative methods for determining eligibility for targeted funding. One alternative approach involves using eligibility for other government programmes with similar target populations to automatically qualify individuals for additional support.

For example, benefit recipients are automatically issued a Community Services Card that allows them to access discounts to health services and public transport<sup>5</sup>. Similarly, the Winter Energy Payment is provided to individuals who are already receiving certain types of support from the Ministry of Social Development without requiring a separate application.

While this method can simplify administration and reduce barriers to access, it is a relatively blunt tool for targeting. It may not accurately capture the full range of individuals or services who would benefit most from additional support, potentially leading to underfunding or overfunding of certain groups. Nonetheless, its simplicity makes it a potential option for streamlining systems and reducing administrative burden for families, service providers, and government agencies.

## Recipients of targeted funding

In New Zealand, the bulk of targeted funding is directed to ECE services rather than parents or third-party providers. However, depending on the specific goals of a targeted funding stream, there are instances where funding may be directed to other recipients. The choice of recipient usually reflects the objectives of the funding and how it's intended to be used. These objectives can be defined either broadly or narrowly and there are advantages and drawbacks to both approaches.

### ECE services (broad parameters)

Equity needs in ECE often extend beyond affordability. Accordingly, targeted funding such as Equity Funding Components A and B and Targeted Funding for Disadvantage are provided to services with broad parameters. Providing funding in this way allows services to respond to a wider range of equity-related challenges than just affordability. For example, services may use this funding to support transport for families, provide meals to children, invest in professional learning and development (PLD) for teachers, or enhance educational resources. Reporting on how services spend their Targeted Funding for Disadvantage (TFFD) is summarised in **Annex 3**.

<sup>5</sup> Non-benefit recipients can still receive a community services card through an application process

The main advantage of this approach is that it allows services to respond to the specific needs of their communities. Local providers are often best placed to identify and address the barriers their communities face, so broad funding parameters can lead to more relevant and effective support. However, this flexibility also has drawbacks. When there are minimal restrictions on how funding is used, it becomes harder for government agencies and parents to see exactly where the money is going, or to know what is making a difference. This lack of transparency and accountability can make it difficult to ensure the funding is achieving its intended outcomes and may result in inconsistent results across different services.

### **ECE services (narrow parameters)**

Targeted ECE funding with narrow parameters can also be provided. For example, the Ministry of Social Development provides its targeted ECE funding to services specifically to subsidise fees for eligible families. A similar approach is taken with the Waha Rumaki and Pacific immersion teaching allowances; as although these allowances are provided to services, they must be directly passed on to teachers.

One of the key advantages of this narrow approach is that it allows for greater accountability and transparency. As the funding is directed toward a clearly defined purpose, it is easier to monitor and evaluate whether the funding is achieving its intended outcomes. This clarity can additionally help reduce the risk of funds being used ineffectively or diverted to unrelated areas.

There are also disadvantages to this approach. The limitations on the fundings use mean services have little flexibility to apply it in ways that could address wider barriers that may be limiting ECE participation and access.

### **Third parties (narrow parameters)**

Funding for the ECE lunches programme is provided to a third party rather than directly to ECE services. The programme involves providing KidsCan with contracted funding, KidsCan is then responsible for supplying food to services.

An advantage of this targeted approach is that it can be effective when the funding objective is narrowly defined. By engaging a specialised provider, the ECE food programme can benefit from established logistics, expertise in food distribution, and economies of scale. This can help ensure effective and consistent delivery of support.

However, there are also disadvantages to this model. The introduction of third-party contracts can add complexity into the system. Managing multiple contracts with different providers may increase administrative overhead and make it more difficult to tailor support to local contexts. While targeted contracting can be effective for specific interventions, it may not be the most efficient or responsive way to address the diverse and interconnected needs within the ECE sector.

### **Parents / Caregivers (narrow parameters)**

FamilyBoost is paid directly to parents and caregivers, and provides financial assistance to families with ECE costs, with the aim of alleviating cost-of-living pressures. This approach is relatively uncommon in New Zealand's ECE funding system, where funding is typically provided to services either directly or indirectly.

One clear advantage of a direct rebate to parents / caregivers, such as FamilyBoost, is that it offers high levels of visibility to families. While tied to ECE fees invoiced, the provision of money

directly to families can help them meet wider cost of living pressures. However, there are also disadvantages to this approach. Firstly, as families are required to pay fees upfront to receive FamilyBoost this initiative may be inaccessible to low-income families. Additionally, providing funding directly to parents/caregivers may lead to unintended consequences in the ECE market. Services may respond to the increased financial assistance to parents by raising their fees, reducing the intended benefits of the policy. Research by the Australian Competition and Consumer Commission has shown that ECE services often set their fees based on local market conditions and parents / caregivers' willingness to pay.

## Alternative recipients

Other approaches are available that are not currently used in New Zealand such as parent-based funding with broad parameters or third party-based funding with broad parameters. Examples of these are provided below:

- **Parents (broad parameters):** Providing families with specific characteristics (such as low income) with an amount of funding they can use for child-related costs according to their specific needs, similar to the Best Start payment or Working for Families tax credits.
- **Third party providers (broad parameters):** Providing contracted services with a specified amount of funding to achieve specific outcomes or deliver a range of services to address needs. An example here would be the use of outcomes-based contracting for a provider to deliver additional support to targeted services or families. Outcomes based contracting does not specify the exact nature of what is delivered and relies on providers to identify what best meets needs<sup>6</sup>.

These approaches have similar strengths as service-based funding with broad parameters as they offer greater flexibility to respond to a variety of unique equity challenges. On the other hand, these funding approaches may face challenges with measuring child outcomes. Collecting and reporting robust outcome data would require substantial effort. Further, it can be difficult to attribute specific outcomes to a single intervention given the many interrelated factors that shape children's experiences in their early years.

## Amount of targeted funding

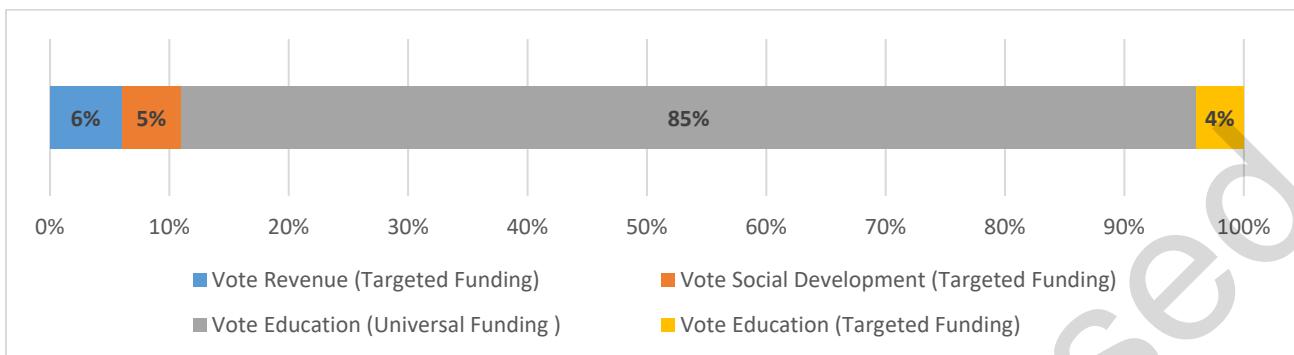
The level of investment is another important factor to consider when evaluating targeted funding in ECE. The amount of funding, and the extent to which it is capped or demand-driven, can be important factors in determining targeted funding's overall effectiveness in achieving its intended goals.

Compared to universal funding, targeted funding represents a small portion of the government's overall expenditure on ECE. The sector has told Ministry of Education officials that this level of investment can constrain targeted funding's ability to address deeper or more complex equity challenges.

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<sup>6</sup> The Social Investment Agency is currently leading work on the consolidation of existing contracts that social sector organisations hold with one or more government agencies into a single outcomes-based agreement. The aim is to reduce compliance burden, simplify reporting and provide more flexibility to organisations in how they deliver services. See <https://www.sia.govt.nz/social-investment-fund/pathway-two-contract-consolidation>.

Figure 2: Targeted funding as a proportion of the overall ECE spend 2024/25



As part of consultation on the Early Learning Action Plan in 2018, 97% of respondents supported reviewing equity funding. Respondents felt that funding needed to be better targeted to the needs of the child and that the amount of equity funding was insufficient. In response, the government had previously planned to introduce the new Equity Index with an uplift of funding. They also intended to streamline the system by merging Equity Funding Components A and B with Targeted Funding for Disadvantage, aiming to reduce complexity and duplication. As noted previously, this work was put on hold to be considered in the context of the wider MAG-led ECE Funding Review.

While the sector has expressed support for increasing the amount of targeted funding, doing so within the constraints of a fiscally neutral funding review would require reallocating existing universal funding. Universal funding also plays an important role in promoting equity. There are a number of reasons for this:

- It is not always possible to accurately identify those who have additional needs. For example, some populations who are not covered by targeted supports may still struggle with ECE access and affordability (e.g. those just outside eligibility criteria or above income thresholds, or middle-income families facing high financial outgoings)
- It can be important for ensuring there is sufficient supply of services to meet demand (e.g. by providing a baseline level of funding that provides certainty and supports viability)
- It can help avoid possible stigma associated with some targeting approaches and minimise the adverse effects of barriers to take-up of targeted assistance.
- It can have stronger political and public support than narrowly targeted approaches, given it has broad benefits across a wider group of recipients.

Nevertheless, as previously discussed, from a value-for-money or return on investment perspective, targeted funding can be more efficient compared to universal funding. Universal funding often results in resources being distributed to individuals who may not actually need financial assistance. This broad allocation can increase costs for the system without delivering significant additional benefits. In contrast, by focusing support based on need, targeted funding can achieve a greater impact while keeping the overall ECE spend lower.

While there is no commonly agreed ‘optimal’ balance between universal and targeted funding, there is a general acceptance internationally that targeted funding has an important role in an ECE system, from an efficiency, equity, and effectiveness perspective. Similar to New Zealand, most OECD countries operate under fiscal pressures while having a number of competing funding priorities (OECD, 2025). Therefore, the OECD highlights that opting to invest in targeting can be a fiscally efficient way to allocate resources to achieve the largest impact. The OECD also highlights that targeting needs to be supported by high-quality data, as this allows funding to reach the services and individuals with the greatest need.

Striking the right balance between targeted and universal funding requires careful consideration of the specific objectives that funding is intended to achieve, including equity and efficiency objectives. Accordingly, it may be constructive to begin by considering the amount of funding that is targeted in relation to its intended outcomes, rather than simply as a proportion of the total expenditure. This can then help assess the extent to which the proportion of overall ECE funding allocated via targeted mechanisms is appropriate or should be changed.

For example, a key issue with the current system is that the amount provided through some targeted funding streams doesn’t align with the objective the funding intends to address. Equity Funding Component D is partly designed to help isolated services attract and retain qualified teachers. However, the monthly payment (which ranges from \$100.40 to \$291.75 depending on level of isolation) is unlikely to make a meaningful difference in addressing that challenge.

## Conclusion and key insights

Based on the discussions above, there are eight key insights in relation to targeted funding the MAG may choose to consider as it continues its work:

- 1. There is a strong rationale for targeting ECE funding.** There is robust evidence that participation in high-quality ECE reduces the likelihood of negative life outcomes commonly linked to socio-economic disadvantage. Children from low socio-economic backgrounds are less likely to participate in ECE. The provision of targeted funding (either to parents or providers) can support ECE participation by addressing access and affordability barriers. This provides a strong basis for targeting funding on the basis of socio-economic disadvantage and household characteristics such as income.
- 2. Targeted funding can support both efficiency and effectiveness of ECE resourcing** by allocating resources in a way that maximises the benefits or value achieved from the investment, but it also has downsides (e.g. administrative and compliance costs, challenges in ensuring target populations can easily access the additional support).
- 3. Targeted funding approaches must be objective-driven:** The design of any targeted funding mechanism should be closely aligned with the specific objective it seeks to achieve. As no single targeted funding approach is universally optimal, the effectiveness of targeting depends on how well the design reflects the intended objectives.
- 4. New Zealand currently has a large number of targeting mechanisms in use to support a range of objectives for ECE.** These include a mix of approaches in relation

to key design elements - the basis for targeting, eligibility, recipients, and the level of resourcing provided. There is broad acknowledgement by the sector that there is scope to target resources more effectively and improve the adequacy of targeted funding to support equity objectives.

5. **Given the fundamental nature of the review, it may be appropriate to consider which bases for targeting should be retained, expanded, consolidated, added, or removed:** This requires consideration of the intervention logic behind each of the current bases for targeting, and whether these remain fit for purpose. The MAG may also want to consider how well each basis for funding aligns with the two primary goals of ECE (supporting child development outcomes and parent labour market participation).
6. **There is also a need to consider the different objectives of current targeted funding mechanisms** (equitable child outcomes; supporting parental labour market participation; and financial assistance to parents with childcare costs), the extent to which these are achieved via existing targeted funding, and potential synergies and trade-offs between them. This will also inevitably involve consideration of whether current targeted funding is sufficient to achieve objectives, and if not whether there should be some reallocation across various targeted funding stream, or if a portion of universal funding should be redistributed towards targeted mechanisms.
7. **There is a range of options available in considering how current targeted funding settings could be modified** (including in the context of wider changes to the ECE funding system). At a broad level, these include:
  - reallocating funding differently between the universal and targeted elements of the overall funding system
  - reallocating funding across specific targeting mechanisms to improve value and impact
  - consolidating and simplifying the number / range of targeting mechanisms in use (particularly those with similar or overlapping objectives)
  - changing the design features of specific targeted funding (e.g. the basis for eligibility, who receives it, whether there are broad or narrow parameters for its use)
  - changes to administrative settings to support take-up and administrative efficiency.
8. **Recent developments by the Ministry of Education may offer insights:** The Ministry has undertaken work in the targeted funding space that could support the MAG's development of recommendations, particularly in relation to equity, isolation, and service type-specific funding. Recent work includes:
  - The development of two new indexes for equity and isolation to replace existing ones which have become outdated over time. These updated indexes offer more robust and accurate basis for targeting and could be incorporated into future

funding models. Further information about the new equity index is included in **Annex 2**.

- Exploring the option to consolidate existing equity funding components (A and B) with Targeted Funding for Disadvantage and uplifting the overall funding pool. This approach may reduce some of the complexity and duplication in the system.
- The introduction of new service types for Māori and Pacific immersion and bilingual services, which enable more direct targeted funding to support language.

Proactively Released

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# Annex 1: Targeted funding in scope of the ECE Funding review

Funding stream	Description	Intended purpose	Known problem areas	% of Govt overall ECE spend
<b>Equity funding</b>	Multiple equity funding streams to eligible providers to address different needs. Equity funding for disadvantage is a loading on subsidy funding per child hour. Equity funding for language and isolation is a set grant.	Equity objectives (socio-economic disadvantage; special needs; languages and cultures other than English; geographically isolated locations)	Relies on out-of-date data in current Equity Index (see Annex 2). Creates complexity in the system as Components A & B are largely duplicates of each other	2.3%
<b>Targeted Funding for Disadvantage (TFFD)</b>	Top-up / loading on per child subsidy amount for services with higher % of disadvantaged children	Equity objectives (supporting children from disadvantaged backgrounds)	Creates complexity by duplicating the purpose of equity funding	0.4%
<b>Childcare subsidy, Guaranteed Childcare Assistance Payment (GCAP) and Early Learning Payment (ELP)</b>	Targeted fees subsidy. Eligibility and amount (up to per hour maxima) based on family income, parental activity, and hours of ECE. Paid to providers.	Support parental employment and ECE participation by reducing ECE costs for low-income households	Administratively burdensome which contributes to low up take by families Subsidies have not consistently been adjusted to keep pace with fees increases.	5%
<b>FamilyBoost</b>	Rebate to parents of percentage of ECE fees paid (up to specified maxima). Amount rebated dependent on parental income.	Provide financial assistance for low and middle-income families paying ECE fees	Requires parents to pay fees upfront so may not be accessible to low-income families. The income threshold has been	4%

		Supporting ECE participation by reducing ECE costs to parents	increased due to low up take. This means additional support may not be going to families facing cost barriers to ECE participation.	
<b>Annual Top-Up for Isolated Services (ATIS)</b>	Annual grant payment to eligible services based on geographic isolation and if they are under a certain bulk funding threshold	Support ECE provision in isolated locations	The bulk funding threshold has not updated to account for yearly cost adjustments, meaning that over time fewer services are eligible for the grant	Negligible
<b>ECE food programme</b>	Contract with third-party provider to deliver service (lunches) in eligible ECE services	Equity objectives (educational, health and social)	Recently introduced, too early to identify any issues	Negligible
<b>Waha Rumaki, Pacific immersion teaching allowances</b>	Teacher allowances provided to Māori and Pacific immersion and bilingual ECE services.	Aid Māori and Pacific immersion and bilingual ECE services to attract and retain qualified teachers with the necessary language capabilities	Used to have an administratively burdensome applications process, recent introduction of the new service types has fixed this issue.	Negligible

## Annex 2: The new ECE Equity Index

From 2019 to 2024, the Ministry conducted a review of the current funding targeting socio-economic disadvantage in ECE. The review was undertaken in response to Action 2.1 of *He taonga te tamaiti: Every child a taonga - the early learning action plan*, which directed the Ministry to review equity-focused funding to ensure the funding allocation mechanisms and amount of funding overall were appropriate. The review also sought to combine components A and B of equity funding, and Targeted Funding for Disadvantage to reduce complexity and duplication of funding.

As part of the review, the Ministry created a new targeting mechanism, using data from the Integrated Data Infrastructure (IDI), that more accurately reflects the equity challenges of children attending services. This aligns with work to replace school decile funding with a new schooling Equity Index. Key comparisons between the current and new index include:

*Figure 3: Comparisons between the new and old ECE equity indexes*

Current equity index	New equity index
Early learning services are assigned an index number between 1-4 or 5+	Early learning services are assigned an index number between 1-226
Uses Census 2006 data	Uses data from the IDI for most services. A proxy index is calculated outside the IDI for new services & kōhanga reo
Looks at socio-economic circumstances at the mesh-block level (neighbourhoods)	Looks at socio-economic status at an individual child level
5 variables used to calculate a service's index number	17 variables used to calculate most services' index numbers (excl. services on a proxy index)
Only updated if a service requests a recalculation of their number	Is updated annually to reflect changing circumstances

## Annex 3: Summary of TFFD reporting

Figure 4: Breakdown of TFFD spending across all eligible service<sup>7</sup>

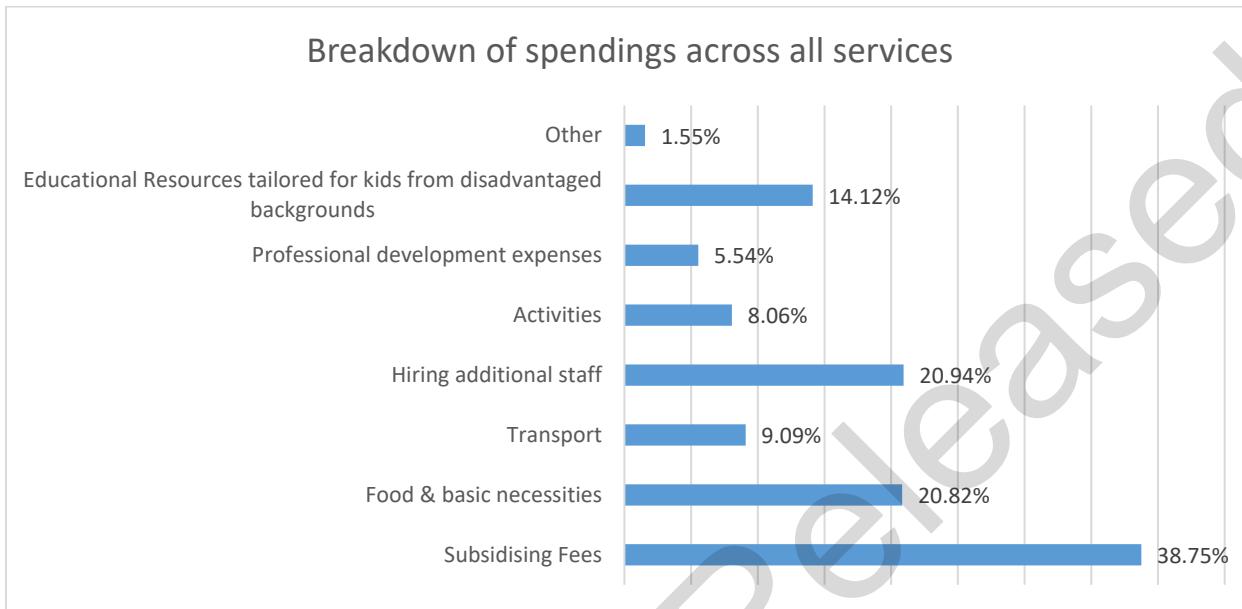
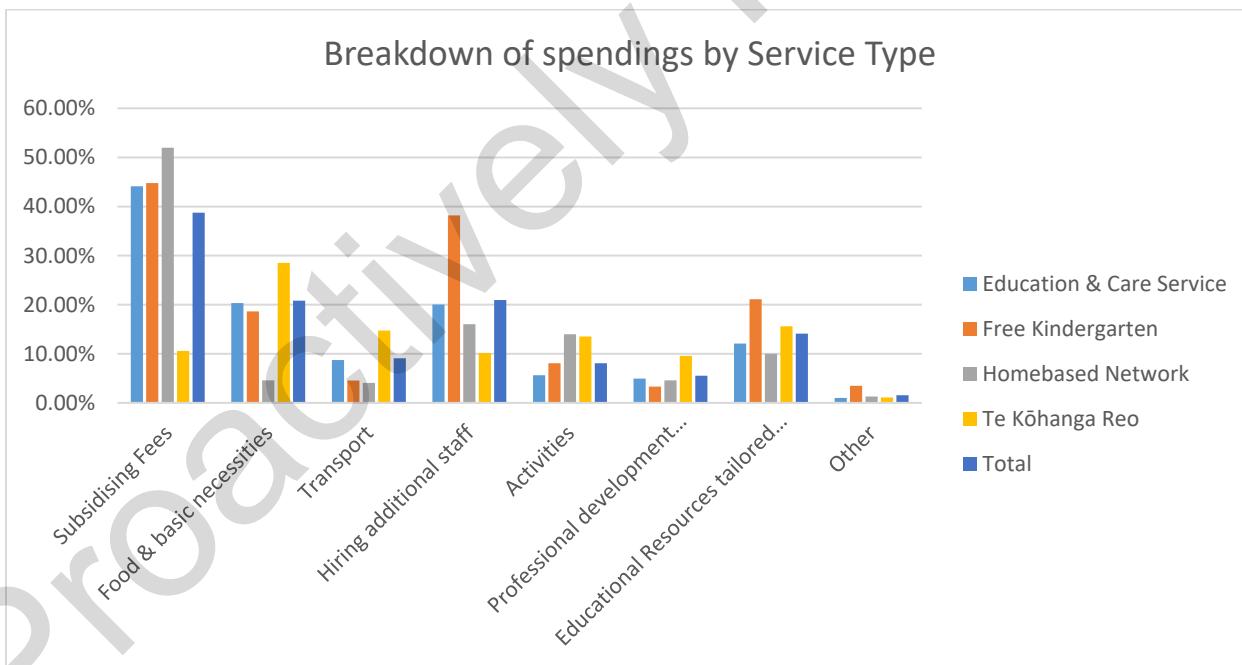


Figure 5: Breakdown of TFFD spending differentiated by service type



<sup>7</sup> These percentages do not add up to 100 as some services reported spending more than 100 percent of their TFFD funding.