



# 2025 Early Childhood Education Funding Review Ministerial Advisory Group

## **The Benefits of 20 Hours Free ECE: A brief review of the original policy intent and its impact**

The policy originally called “20 Hours Free ECE” was renamed “20 Hours ECE” in 2009.

Throughout this paper, we use “20 Hours Free ECE” when referring to the policy before 2009, and “20 Hours ECE” when referring to its official name after 2009.

## Executive summary

20 Hours Free ECE for three- and four-year-olds was announced in 2004 and introduced in July 2007. Some changes have been made to the original parameters of the policy over subsequent years. These include extending the range of ECE services that received the higher level of subsidy; extending it to cover all five-year olds in ECE; and allowing home-based services to charge parents at top-up fee for hours for which they receive the 20 Hours ECE funding subsidy.

The original intent of the 20 Hours Free ECE was to support regular and intensive participation by older children in quality ECE, in line with evidence on the benefits of participating for between 15 and 25 hours per week. The provision of 20 Hours Free ECE was/is believed to have benefits to parents, families and the economy. It aimed to send a strong signal to parents about the desirability of ECE participation, and free them up to participate in work, education or training.

The original 20 Hours Free ECE policy was funded at 100 percent of *the average cost of regulated ECE* for three- and four-year-olds (and some five-year-olds) for up to six hours per day, up to 20 hours per week. The intention was that there would be regular reviews of cost drivers to inform consideration of cost adjustments. The 'average' cost was determined via ECE provider surveys which were discontinued from 2013.

A core intent of the policy was that services could not charge fees for the 20 hours of free ECE. However, there has always been a recognition that the average service cost may not reflect the actual cost of delivery for all services, particularly those who exceed regulations or provide additional services. There is provision for services to set optional charges and voluntary donations to cover additional costs, including those associated with exceeding the standards set by regulations. ECE services can also determine the fees charged for hours beyond the 20 Hours ECE. There are no restrictions on services setting other enrolment conditions, such requiring attendance beyond 20 Hours ECE as a condition of enrolment.

It is difficult to assess the impact of the 20 Hours ECE policy on ECE participation of eligible children. This is because of the range of factors that influence participation. However, in 2007, when the Global Financial Crisis (GFC) hit, some people were anticipating a decline in ECE participation. Instead, there was a small increase in participation rates following the introduction of the policy (with much of the growth in ECE participation rates since July 2007 occurring at younger ages). In 2025, just over 50 percent of five-year-olds reported prior participation in ECE of between 15 and 25 hours, with 27 percent attending for more than 25 hours. The effects of 20 Hours (Free) ECE on parental labour market participation are also hard to gauge, particularly as the introduction of the policy coincided with the GFC.

There is a lack of robust data to inform our understanding around the impact of 20 Hours ECE on the amount that parents pay, either through fees for hours outside the 20 hours, optional charges, or minimum enrolment requirements. However, by 2008 nearly half of services had introduced an optional charge, with services reporting most or all parents elected to pay this. In 2010, the policy was renamed '20 Hours ECE', to better reflect that most parents faced costs for these hours. We also know that the value of the 20 Hours ECE subsidy has declined over time. In 2022, the Ministry of Education identified that the real value of the 20 Hours ECE subsidy has declined by 18 percent since 2010, primarily due to limited or no cost adjustments being made during over the period 2009 to 2017.

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## Purpose of this paper

1. In July 2025, the Government set up an ECE Funding Review. Cabinet also agreed to the establishment of a Ministerial Advisory Group ('the Group') to conduct the review. The Terms of Reference (ToR) that guide the Group's work specify that:

*"In considering this funding, the Group will preserve the policy benefits of 20 Hours ECE. The Group may, if necessary, consider the interaction of this funding stream with other funding in scope but is not expected to make a formal recommendation for a reduction to the benefits of 20 Hours ECE".*

2. The Group has sought information about the intended and actual policy benefits of 20 Hours ECE. This paper provides an overview of the 20 Hours ECE policy, the original intent set out in official documents, and changes made to the policy since its initial introduction. It also reviews available evidence and provides additional information about the impact of the policy over the period since its introduction.
3. This paper therefore sets out:
  - The original intended benefits sought from the introduction of 20 Hours Free ECE
  - The evidence around the initial realised benefits of introducing 20 Hours Free ECE
  - The evidence around where 20 Hours ECE<sup>1</sup> sits today in relation to both the policy intent and its benefits

## Introduction to 20 Hours Free ECE

4. The 20 Hours Free Early Childhood Education (ECE) programme was introduced on 1 July 2007 for three- and four-year-old children at eligible teacher-led services. The policy was announced in 2004 following a review of the ECE Subsidy and funding for licence-exempt services to support the implementation of Pathways to the Future: Ngā Huarahi Arataki (the 10-year plan for early childhood education, released in September 2002).
5. While initially announced as only available to three and four-year-olds attending teacher-led community-based ECE services, at the time it was introduced in 2007, 20 Hours Free ECE was applied to all teacher-led services and some kōhanga reo. It was further extended to include playcentres and all kōhanga reo from 1 July 2010. While initially available to only some eligible five-year-old children, it was extended to all five-year-olds enrolled ECE services from 1 July 2010.
6. 20 Hours ECE is not subject to a parental income or activity test. Targeted (primarily means-tested and activity-tested) childcare subsidies to reduce ECE costs are available to parents, but these are not available for the hours that are funded at the 20 Hours ECE subsidy rate.

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<sup>1</sup> 20 Hours Free ECE was renamed in 2009 to 20 Hours ECE. Throughout this paper we refer to 20 Hours Free ECE for the period prior to its renaming in 2009 and refer to 20 Hours ECE for the years post 2009 this was the policy's official name.

7. Services were not required to participate in the 20 Hours Free ECE programme. The government does not regulate or limit the supply of services providing 20 Hours Free ECE and parents were/are not guaranteed a space for their child. By 2009, 87 percent of ECE services were participating in the policy and offering 20 Hours Free ECE. Currently 97 percent of all licensed early learning services offer 20 Hours ECE.
8. As well as 20 Hours ECE, the Government subsidises ECE attendance for all children aged zero to five up to a daily cap of six hours per day and a weekly cap of 30 hours per week<sup>2</sup>. There are no fee controls on the ECE Subsidy – services have discretion over the fees they charge parents for those hours.
9. The 20 Hours ECE Subsidy provides a higher subsidy rate for three- to five-year-olds. This is limited to six hours per day and 20 hours per week. This higher rate of subsidy effectively replaces 20 of the 30 hours of the ECE Subsidy for this age group – a child is still eligible for ten hours of ECE Subsidy so 30 hours subsidised ECE remains for all three- to five-year-olds each week.
10. The original 20 Hours Free ECE policy was designed so that the government would fund 100 percent of the average cost of regulated ECE for three- and four-year-olds for up to six hours per day, up to 20 hours per week. The rates for 20 Hours Free ECE were based on the average cost of providing the regulated standard of education and care, as recorded by services in their 2006 operating cost surveys. The intention was that regular reviews of cost drivers would consider adjusting funding to reflect increases in the cost of provision. A 2004 Cabinet Paper states, “the Ministry of Education would regularly review the main costs of ECE provision to ensure the ongoing sustainability of ECE services [...] the results of the review would inform government’s Budget process”<sup>3</sup>. Surveys of operational costs were repeated in 2008, 2011, and 2013, but have not been repeated since.<sup>4</sup>
11. In communicating the changes to ECE funding, include 20 Hours Free ECE, in 2004, the Ministry of Education noted that while the funding rate for free ECE was 100 percent of the average cost of provision for each service type, it may not cover the full amount services would charge if there was no free ECE. This would especially be the case if a service had higher than average costs or exceeded the standards set in regulations (for example, had better adult: child ratios).<sup>5</sup>
12. When the policy was first designed, the intention was that ECE service providers would not charge parents fees for the hours funded at the higher funding rate provided through 20 Hours Free ECE. However, ECE services were allowed to request optional charges or voluntary donations. A 2007 FAQs paper from the then Minister of Education<sup>6</sup> makes the

<sup>2</sup> [education.govt.nz/education-professionals/early-learning/funding-and-financials/ece-funding-handbook/chapter-4-20-hours-early-childhood-education/4-2-funding-conditions#plus-10-ece-1](http://education.govt.nz/education-professionals/early-learning/funding-and-financials/ece-funding-handbook/chapter-4-20-hours-early-childhood-education/4-2-funding-conditions#plus-10-ece-1)

<sup>3</sup> 23 March 2004, Early Childhood Education Funding: Proposed New System. Cabinet Policy Committee.

<sup>4</sup> These surveys have provided information on the extent to which funding subsidies have met average costs, particularly in terms of the government’s commitment to fully cover the costs of 20 Hours Free ECE.

<sup>5</sup> Early Childhood Education Funding System: Implementing Pathways to the Future: Ngā Huarahi Arataki. Ministry of Education, June 2004

<sup>6</sup> [beehive.govt.nz/sites/default/files/FAQ\\_20\\_Hours\\_Free\\_ECE.pdf](http://beehive.govt.nz/sites/default/files/FAQ_20_Hours_Free_ECE.pdf)

point that “a donation is a voluntary contribution. There is no obligation to contribute and no enforcement of payment” and that “an Optional Charge is a request for a contribution that services may request from parents for services additional to the regulations. It can be requested for extra services over and above that required by regulation, or things that parents could choose to provide for themselves if they don't want to pay extra, e.g. food. Parents can choose whether to pay depending on whether they want the additional service”.

13. Services can also use approaches such as requiring attendance beyond the 20 Hours ECE daily cap as a condition of enrolment, with ability to determine the amount of fees that parents are charged for these hours of attendance. This reduces parents' ability to avoid being charged fees, as services can charge parents for the seventh and subsequent hours of attendance. It is possible, for example, for services to charge a full day of fees on the seventh and additional hours.
14. Changes were introduced in 2024 to enable home-based ECE services to 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. For example, an educator charges \$10 per hour per child for hours outside of 20 Hours ECE. The service they are contracted to ‘passes-through’ \$6 per hour for each child from the 20 Hours ECE funding. The educator can require parents to pay the difference of \$4 per hour directly to the educator.<sup>7</sup>
15. Compliance with 20 Hours ECE funding rules is monitored through audits. The Ministry does not collect data on fees charged to parents.
16. Ministry of Social Development (MSD) payments through Work and Income interact with 20 Hours ECE<sup>8</sup>. Parents and caregivers may choose between receiving the Childcare Subsidy or 20 Hours ECE or, in some cases, a combination of both payments. Work and Income's Childcare Subsidy may not be claimed for 20 Hours ECE Hours. Parents/caregivers may be able to claim for hours of attendance not covered by 20 Hours ECE. For example, if a parent is entitled to 50 hours Childcare Subsidy because they are in work, and they receive 20 Hours ECE, then they would still be entitled to Childcare Subsidy for 30 hours. If a parent is going to receive 20 Hours ECE (and they were eligible for the nine hours childcare subsidy) then they are no longer eligible for any Childcare Subsidy.
17. In 2023, (the most recently updated data), the majority (73.3 percent) of total 20 Hours ECE funding went towards education and care, followed by kindergartens (21.4 percent). Kōhanga reo, home-based services, and playcentres received 2.9 percent, 22 percent, and 0.2 percent of 20 Hours ECE funding respectively. Figure 5 shows the bulk of funding received by kōhanga reo, home-based services and playcentres are for under 2's and 2 and over (non 20 Hours).

<sup>7</sup> [www.beehive.govt.nz/release/changes-early-childhood-education](http://www.beehive.govt.nz/release/changes-early-childhood-education)

<sup>8</sup> [www.workandincome.govt.nz/products/a-z-benefits/childcare-subsidy.html](http://www.workandincome.govt.nz/products/a-z-benefits/childcare-subsidy.html)

## Original policy intent

18. In 2007 the government decided to fund 20 Hours Free ECE because it “believes that giving young children the best possible start in life is vitally important, and that quality ECE builds the lifelong foundations of successful learning”<sup>9</sup>. The original policy design was intended to achieve several key impacts across children, parents, and service providers. The key impacts that 20 Hours Free ECE aimed to achieve were:

- Improve children’s learning outcomes via increased participation in quality teacher-led ECE services and eligible kōhanga reo
- Provide parents more choice to increase their participation in work, education, and training
- Reduce the cost barrier to families — ECE would be zero cost for 20 hours per child per week<sup>10</sup>
- Decrease services’ reliance on fee income for operating costs.
- 20 Hours Free ECE subsidy to cover 100 percent of the average cost of delivering the regulated service.

19. While there were many intended or expected benefits of introducing 20 Hours Free ECE, the Government at the time did not specify any expected or measured outcomes against which the success of the policy could be determined (for example, x percent increase in labour market participation, or an increase in enrolments of y percent).

20. 20 Hours Free ECE aimed to increase both the number of children enrolled in quality teacher-led ECE services and eligible kōhanga reo, as well as the number of hours that children were attending each week.

21. A 2008 Ministry of Education report ‘The Early Effects of Free Early Childhood Education’ stated: “Free ECE is an education policy aimed at increasing participation in teacher-led services and eligible kōhanga reo by reducing the cost barrier to families. Free ECE also gives parents more choice about work and study. Funding is provided for up to 20 hours per week to encourage intensive participation in quality ECE”<sup>11</sup>.

22. A 2005 Ministry of Education paper provided to the then Minister of Education stated that “increasing children’s participation in quality ECE should improve children’s learning outcomes and free up more parents for more hours of work, education and training. Funding for free ECE should decrease services’ reliance on fee income for operating costs.”

23. The MoE paper also stated that “the purpose of free ECE is to increase participation in quality ECE. Free ECE does this by ensuring that ECE is zero cost for 20 hours per child per week, lowering the weekly cost of ECE and supporting longer hours of participation, and by sending a signal of the number of hours children should be participating to achieve good outcomes”.

<sup>9</sup> [beehive.govt.nz/sites/default/files/FAQ\\_20\\_Hours\\_Free\\_ECE.pdf](http://beehive.govt.nz/sites/default/files/FAQ_20_Hours_Free_ECE.pdf)

<sup>10</sup> Services were not permitted to charge compulsory fees for those 20 hours

<sup>11</sup> [thehub.sia.govt.nz/assets/documents/41472\\_Early-Effects-of-20-Hours-ECE\\_0.pdf](http://thehub.sia.govt.nz/assets/documents/41472_Early-Effects-of-20-Hours-ECE_0.pdf)

24. This 'signal of the number of hours to achieve good outcomes' comes from a 2004 UK study into the effective provision of pre-school education (EPPE).<sup>12</sup> The study found that some pre-school participation, compared to none, enhanced all-round development in children. It also identified that duration of attendance (in months) was important, and that full time attendance led to no better gains for children than part-time provision.

25. A 2007 list of frequently asked questions published ahead of the policy's implementation<sup>13</sup> explained that "New Zealand has high ECE participation rates, but children attend for relatively few hours per week, at around 14-17 hours per week for three- and four-year-olds. In 2006, 48 per cent of three- and four-year-olds attended for less than 12 hours. In response to the question "why isn't 20 Hours Free ECE extended to children younger than three years old?" the paper states that "making early childhood education free for three- and four-year-olds involves significant changes for services and cost for government, so this policy will now be available for up to 20 hours per week for three- and four-year-olds from July 2007. There are currently no plans to extend it to children under three years of age".

26. The same paper stated that "20 Hours Free ECE is worth up to \$4,500 a year for New Zealand families."<sup>14</sup> Note: \$4,500 in 2007 is equivalent to around \$7,132 in 2025.

27. A 2008 report on early childhood education policy in New Zealand looking into the creation of the 20 Hours Free ECE programme makes two key rationales as to why the policy was limited to three and four years olds only. The first is the obvious cost factor, while the second credits "a key policy shift resulting from the Bailey Report was political acceptance of the view that a preschool education for three- and four-year-olds at a kindergarten and/or playcentre could benefit children prior to their arrival at school at age five"<sup>15</sup>.

28. A 23 January 2007 Cabinet paper 'Free Early Childhood Education: Approval of Funding Rates' noted that funding rates were developed using cost data provided by over half of ECE services' and reflect services practice of smoothing costs across all hours of participation. It also noted that the proposed free ECE funding rates include components to cover all property costs for ECE services, including capital costs. It noted that children who receive free 20 Hours ECE will also be able to receive up to a further 10 hours per week of subsidised ECE provision.

## The effects of 20 Hours ECE and its benefits

29. While the broad policy intent of introducing 20 Hours Free ECE was well articulated by the government in 2007, it did not specify any measurable outcomes against which the success of the policy could be determined (for example, x percent increase in labour market participation, or a y percent increase in enrolments).

<sup>12</sup> [www.dera.ioe.ac.uk/id/eprint/18189/2/SSU-SF-2004-01.pdf](http://www.dera.ioe.ac.uk/id/eprint/18189/2/SSU-SF-2004-01.pdf)

<sup>13</sup> [beehive.govt.nz/sites/default/files/FAQ\\_20\\_Hours\\_Free\\_ECE.pdf](http://beehive.govt.nz/sites/default/files/FAQ_20_Hours_Free_ECE.pdf)

<sup>14</sup> [beehive.govt.nz/sites/default/files/FAQ\\_20\\_Hours\\_Free\\_ECE.pdf](http://beehive.govt.nz/sites/default/files/FAQ_20_Hours_Free_ECE.pdf)

<sup>15</sup> Bushouse, B. K. (2008). Early childhood education policy in Aotearoa / New Zealand: The creation of the 20 hours free programme. Fulbright New Zealand. [https://www.fulbright.org.nz/wp-content/uploads/2011/12/oxford2008\\_bushouse.pdf](https://www.fulbright.org.nz/wp-content/uploads/2011/12/oxford2008_bushouse.pdf)

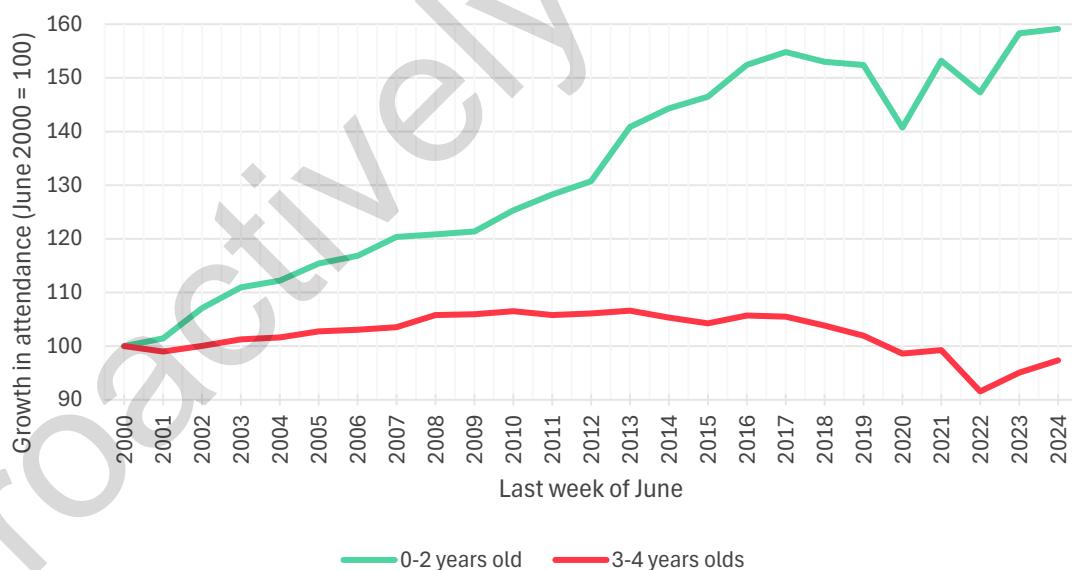
30. In August 2007, not long after the introduction of the policy on 1 July 2007, the Ministry of Education commissioned a study into the early effects of 20 Hours Free ECE on participating services' practices, policies, costs, and revenue. 60 ECE services took part comprising 41 education and care services, 11 kindergartens, and eight home-based services.<sup>16</sup> The survey was conducted between September 2007 and March 2008 – less than a year since the policy had come into effect.

### Policy intent: increase student enrolment and participation

31. In 2007, some people anticipated a decline in ECE participation likely due to the global financial crisis which hit in mid-2007. However, following the introduction of the policy from 1 July 2007, instead of the forecast decline, ECE services reported a small increase in ECE participation in the June 2008 ECE Census (Figure 1).

32. The survey of 60 ECE services, found that by March 2008, nearly half of services believed their enrolment (total hours for all children) had increased since the introduction of 20 Hours Free ECE – particularly in three- and four-year-old children attending ECE, and for longer days or more days per week.<sup>17</sup>

**Figure 1 Change in participation in licensed ECE services, 2000-2024, as a proportion of the population by age group**



Source: Statistics New Zealand population estimates and Education Counts. From 2000 to 2013, ECE Census data was collected from paper-based RS61 returns.

<sup>16</sup> thehub.sia.govt.nz/assets/documents/41472\_Early-Effects-of-20-Hours-ECE\_0.pdf

<sup>17</sup> thehub.sia.govt.nz/assets/documents/41472\_Early-Effects-of-20-Hours-ECE\_0.pdf

33. According to Education Counts (Figure 1), participation (as a proportion of the population) in licensed ECE services for three- and four-year-olds increased by 2.2 percent (equivalent to 3,601 students) in the 12 months following the introduction of 20 Hours Free ECE. In comparison for the year prior, there was a much smaller 0.5 percent annual increase in ECE participation for three- and four-year-olds. In the 12 months following the introduction of 20 Hours Free ECE, participation for zero-to-two-year-olds (not eligible for 20 hours free ECE) increased by 0.4 percent. This indicated that the introduction of 20 Hours Free ECE on July 1, 2007, may have contributed to an increase in participation by an estimated 1.7 percent (equivalent to 2,783 students).

34. By 2009, 96 percent of three-and four-year-olds were attending licensed ECE services, an increase of around 3 percent since 2006<sup>18</sup>.

35. Education Counts data on the participation rate for all children starting school in the 12 months ending June, broken down by ethnicity shows a small increase in the number of children participating in some ECE prior to starting school following the introduction of 20 Hours Free ECE. Whether or not 20 Hours Free ECE is the cause for the small increase is unknown. The change in participation rates at June 2011<sup>19</sup> in comparison to June 2006, by ethnicity are as follows:

- **Pākehā** participation increased from 96.9 percent to 97.9 percent
- **Māori** participation increased from 88.1 percent to 90.4 percent
- **Pacific** participation increased from 83.8 percent to 86.3 percent
- **Asian** participation remained relatively unchanged with a small decrease from 96 percent to 95.6 percent
- **Other ethnic groups** participation increased the most, from 90.8 percent to 95.4 percent

36. In late 2007, the New Zealand Council for Educational Research (NZCER) conducted a national survey of teachers, managers, parents, and committee members in licensed ECE services. The survey was undertaken in October/November 2007, around 3-4 months following the implementation of 20 Hours Free ECE. Around 318 ECE services responded<sup>20</sup>. The survey found that in teacher-led services:

- 20 Hours Free ECE was having positive effects for children and families—benefiting family budgets, enabling some children to participate for longer hours, and enabling some parents to participate in study or paid employment or have more time for family and other responsibilities.
- 15 percent of parents in services offering 20 Hours Free ECE increased the hours their child attended

<sup>19</sup> We would expect to see a slight delay for any increase in ECE participation for 3-4 years olds to flow into a child's future primary school administrative data.

<sup>20</sup> Response rates were 45 percent parents, 43 percent teachers, 39 percent committee members, and 37 percent management.

- 19 percent said they had more time for family responsibilities.
- 6 percent of parents increased their hours of paid employment
- A small 1 percent said they started paid work, and
- 4 percent said they or enrolled in study (NZCER Survey, 2007).

37. While a 2004 UK study into the effective provision of pre-school education<sup>21</sup> found that regular, consistent, part-time ECE attendance was beneficial to children, there's no set evidence around the exact number of optimal hours of ECE participation each week. Figure 2 shows that while 47.3 percent of children attend ECE for only those 'free' hours, 25 percent attend for around 20-25 hours, 15 percent for 25-30 hours, eight percent attend for 30-35 hours, and four percent attend for over 35 hours. Table 1 breaks down the weekly hours that children attend ECE in more detail.

38. In June 2025, 47.3 percent of children were enrolled in ECE for up to 20 hours per week only. Broken down by ethnicity, the proportion of children enrolled in ECE for up to 20 hours per week is:

- **Pākehā:** 47.6 percent
- **Māori:** 53.5 percent
- **Pacific:** 50.9 percent
- **Asian:** 40.6 percent
- **Other ethnic groups:** 40.7 percent

39. Table 1 shows that 51 percent of children attend ECE for between 15-25 hours. Māori children (55 percent) are slightly more likely to attend between 15-25 hours compared to total ethnic groups.

**Table 1 ECE prior participation of children starting school by ethnicity and weekly hours, June 2025**

Hours attended	Pākehā	Māori	Pacific	Asian	Other	Total
0-5 hours	1.0	1.0	0.8	0.5	0.2	0.9
5-10 hours	3.8	5.5	5.4	4.2	3.7	4.4
10-15 hours	16.7	18.7	18.7	15.1	15.3	17.0
15-20 hours	26.1	28.3	25.9	20.9	21.4	25.1
20-25 hours	25.8	26.7	26.5	24.2	25.2	25.7
25-30 hours	14.8	12.2	14.6	17.0	17.3	14.9
30-35 hours	8.3	5.5	5.2	10.8	10.4	8.0
35-40 hours	3.0	1.6	1.9	4.8	4.7	3.0
<b>More than 40 hours</b>	<b>0.5</b>	<b>0.4</b>	<b>0.8</b>	<b>2.6</b>	<b>1.8</b>	<b>1.0</b>

Source: Education Counts

<sup>21</sup> <https://dera.ioe.ac.uk/id/eprint/18189/2/SSU-SF-2004-01.pdf>

## Policy intent: provide parents with more choice and increase participation in work, education, and training

40. There does not appear to have been any specific evaluation or monitoring by the government on the ongoing impact of 20 Hours ECE on parent's labour market outcomes. The initial introduction of 20 Hours Free ECE coincided with the Global Financial Crisis (GFC) of 2007-2009. It is reasonable to assume that the economic downturn could have masked any effects of 20 Hours Free ECE on labour market participation, particularly women's labour market participation. Other social and economic factors and policy measures (for example the introduction and subsequent expansion of paid parental leave), will also influence parental labour market participation, making it difficult to isolate the effect of 20 Hours Free ECE.
41. A 2018 study from the Auckland University of Technology evaluating the impact of 20 Hours Free ECE on women's labour market participation<sup>22</sup> followed mothers monthly wages from pre-pregnancy to six years post-childbirth and compared their wages against non-eligible mothers, and against comparable women who are not mothers. The study concluded that for mothers with one child, there is some evidence of a drop in labour market participation and earnings. For mothers with two eligible children, there was an increase in labour market participation. However, the papers findings (pattern of reduction in wages) are observed when the treatment child is one to two years old, whereas 20 Hours Free ECE is available for three- and four-year-old children. Given this, it is hard to follow the paper's finding that 20 Hours ECE impacted parents of children not yet eligible for 20 Hours ECE.
42. There are several New Zealand based studies that speak to the broader evidence around the relationship between access to childcare and employment. A 2012 paper from the Ministry of Women's Affairs<sup>23</sup> stated that "the labour participation response of mothers to changes in early childhood education costs' made the claim that there is a consensus that labour force participation among mothers of pre-school children is sensitive to childcare costs, with elasticities usually in the range of -0.1 to -0.8. That is, for every 1 percent increase in the cost of childcare, maternal employment rates drop by 0.1 to 0.8 percent".<sup>24</sup> Knox (2012) also notes that decreases in the cost of childcare (for example through provision of subsidies) consistently have a greater impact on childcare use than on maternal employment, even when the subsidies include a requirement that the parent be employed.
43. A 2023 Motu Economics study by Benison and Sin<sup>25</sup> used the Growing Up in New Zealand longitudinal survey data on the work status of mothers and their stated reasons for not working to estimate the cost of a lack of access to childcare to individual mothers and the New Zealand economy.

<sup>22</sup> aut.ac.nz/\_data/assets/pdf\_file/0010/187129/18\_05-WP-update.pdf

<sup>23</sup> Knox, A. (2012, July). The labour participation response of mothers to changes in early childhood education costs: Selective review of the evidence. Counterbalance Research and Evaluation. Report prepared for the Ministry of Women's Affairs.

<sup>24</sup> Ibid

<sup>25</sup> Benison, T., & Sin, I. (2023, March). The wage cost of a lack of access to affordable childcare in Aotearoa New Zealand (Motu Working Paper 23-02). Motu Economic and Public Policy Research. ([www.motu.org.nz/assets/Documents/resources/Annual-Report/Motu-Annual-Report-22-23.pdf](http://www.motu.org.nz/assets/Documents/resources/Annual-Report/Motu-Annual-Report-22-23.pdf))

44. Motu found mothers with children under three years old may be foregoing total wages of \$116 million per year purely because of childcare access issues. \$32 million of which is attributable to Māori mothers, and \$11 million of which is attributable to Pasifika mothers. This amounts to an annual average of \$660 of wages foregone per mother with a child under 3 years old, \$830 per Māori mother, and \$540 per Pasifika mother.

45. Motu found that many mothers whose young children are not in childcare due to a lack of access report being prevented from working by childcare access issues. However, just over a fifth of mothers whose children are not in care due to access issues do work, and some mothers whose children are in care still report they are unable to work due to childcare issues. In part because childcare providers do not cater well to the nearly 50 percent of working mothers of young children who work irregular hours.

46. Data sourced from Statistics New Zealand's Quarterly Employment Survey shows that in 2007 when the policy was first developed women worked an average of 28.4 total (ordinary time & overtime) hours per week, while in 2025 women work an average of 31.5 hours per week. The increase in the hours worked by the average woman from 2007-2025 shows that the work obligations and commitments of the average family today has changed since the policy was first developed.

47. When the policy was first developed, the 6-hour cap was strongly contested by the Department of Labour, Ministry of Social Development and the Treasury. It was a limit on use that reflected service sustainability and the convention of a 6-hour cap, as well as the international evidence about the benefits of more intensive ECE participation (deemed to be 15-25 hours per week). It also reflected cost to the government.

### **Policy intent: ‘fees-free’ hours of ECE and decreased services’ reliance on fee income for operating costs**

48. When the 20 Hours Free ECE programme began, its impact on ECE prices was large enough to affect the Consumer Price Index (CPI). According to Statistics New Zealand, “In the September 2007 quarter, education prices fell 5.2 percent, due to lower prices for ECE as a result of changes to government funding”.

49. The 2007/2008 Martin Jenkins survey<sup>26</sup> found that following the initial introduction of the policy, most services felt that they were the same or better off financially after nine months of 20 Hours Free ECE. Community-owned services were more likely to say that they felt financially better off than privately owned services. Kindergartens tended to report feeling better off, while home-based services were more likely to report feeling worse off.

50. There is a lack of robust data to inform our understanding around the impact of 20 Hours ECE on the amount that parents pay, either through fees for hours outside the 20 hours, optional charges, or minimum enrolment requirements.

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<sup>26</sup> [thehub.sia.govt.nz/assets/documents/41472\\_Early-Effects-of-20-Hours-ECE\\_0.pdf](http://thehub.sia.govt.nz/assets/documents/41472_Early-Effects-of-20-Hours-ECE_0.pdf)

51. Notably, in 2008 nearly half of services introduced an optional charge<sup>27</sup>. Optional charges ranged from less than 50 cents per hour to \$3 per hour. By March 2008, most services reported that most or all parents paid the optional charge, although small numbers reported that some parents had chosen not to pay. Services reported that while some new parents (i.e. parents whose children had enrolled at the service since the implementation of 20 Hours Free ECE) did not expect to have to pay anything for those 20 hours. However, most parent came to understand why the optional charge was in place and decided to pay it.<sup>28</sup>

52. Since the policy was introduced, there has been several impacts of the 20 Hours ECE policy that have resulted in provider behaviours that may undermine the original policy intent. This is due to several factors:

- **Minimum hours:** The 20 Hours ECE funding rates has, according to some providers, become insufficient to cover the actual operating costs of high-quality services, especially those with better teacher-to-child ratios or higher-paid staff. As a result, many centres require families to enrol for more than 20 hours per week (e.g. minimum enrolment of seven hours per day while 20 Hours ECE is 'for up to six hours per day'). This effectively means parents cannot access any free hour of ECE unless they pay for some hours. Advice provided to the Minister in 2022 mentions that the current 6-hour daily cap means services can use approaches such as requiring attendance beyond the 20 Hours ECE daily cap as a condition of enrolment. This reduces parents' ability to avoid being charged fees, as services can charge parents for the seventh and subsequent hours of attendance<sup>29</sup>. Options were developed to increase the daily cap from six to eight hours or to remove the daily hours cap entirely.
- **Optional charges and donations:** While a donation is a voluntary contribution and optional charges can only be requested for extra services over and above that required by regulation, or things that parents could choose to provide for themselves if they don't want to pay extra, the fee structures are often complex, making it difficult for parents to understand exactly what they were paying for and why the 20 Hours ECE hours are not entirely free.
- Services often claimed that without these additional charges or minimum hours, they would not be financially viable, especially smaller services or those striving for higher quality. This has led to tensions around the policy (e.g. a proposal in 2023 to extend to two-year-olds and to require services to offer 20-hours-only enrolments).

<sup>27</sup> Ibid

<sup>28</sup> Ibid

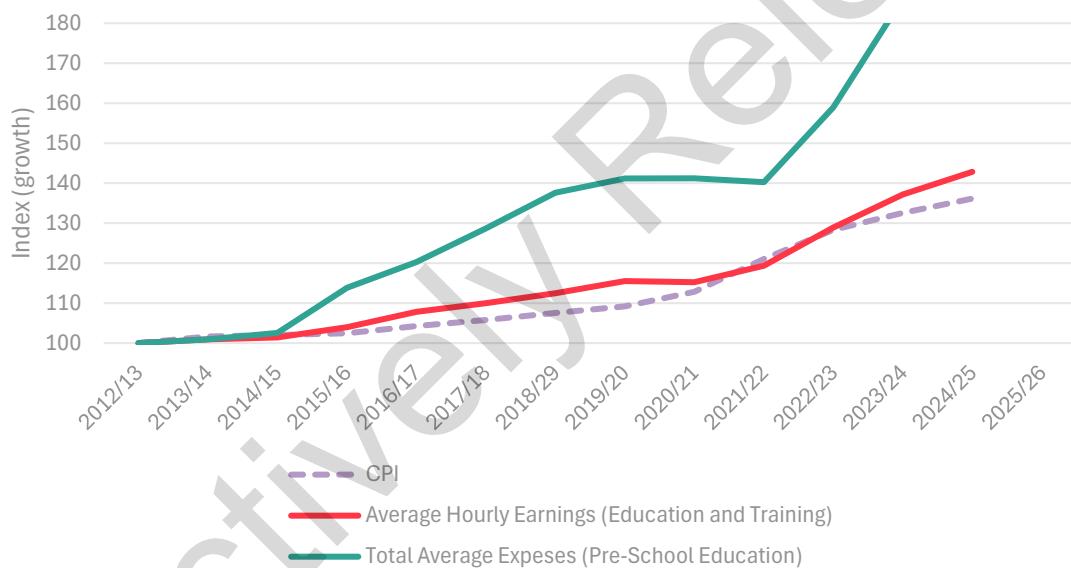
<sup>29</sup> Education Report: Advice for Income Support Minister's November meeting, 7 November 2022

**Policy intent: 20 Hours Free ECE subsidy to cover the average cost of delivering the regulated service.**

53. There is a lack of comprehensive data on the increased cost of ECE provision by service type over the 18 years since 1 July 2007 in comparison to increases in funding for 20 Hours ECE per child hour. The original intent in 2007 was for the 20 Hours Free ECE subsidy to cover 100 percent of the average cost of delivering the regulated service.

54. In 2025 many ECE service providers say that the funding received for the 20 hours free does not cover the cost of delivering the service <sup>30</sup>. While this may be correct, it is largely anecdotal. Without an updated operating cost survey from ECE services, it's hard to evidence these concerns nor measure what the gap in funding needs currently are.

**Figure 2 Growth in the total average expenses of Preschools, CPI, and wages**



Source: Statistics New Zealand, Annual Enterprise Survey, total average expenditure for preschools is sourced from IRD – business IR10 forms (n=1,500 preschools).

\*Note: Pre-School Education is defined as “units mainly engaged in providing preschool education, including kindergarten and early childhood education... It includes Kindergartens, Preschools, Early childhood education centres (for children below compulsory school age, with a primarily educational rather than custodial purpose). It excludes Childcare services that are mainly custodial”.

55. Figure 3 shows that average expenditure for preschool education has outpaced CPI and the average hourly ordinary wage for those working in education and training since June 2013.

56. Figure 3 shows the growth in preschool expenses in comparison to the growth in inflation (CPI), and the average hourly wages for those working in the education and training

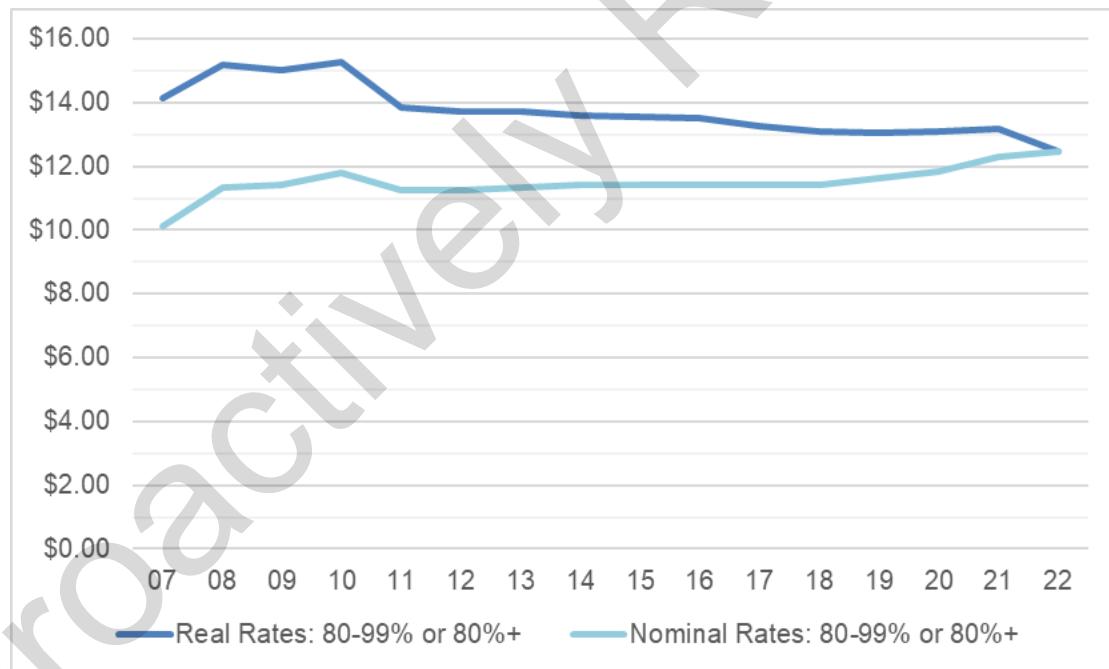
<sup>30</sup> <https://tinynation.co.nz/not-free-ece/>

industry. The graph begins in 2013 because this is where consistent data across each variable begins. 2013 is also a meaningful year to begin, because, according to the 2013 Survey of Income, Expenditure and Fees at ECE Services, the average costs for 20 Hours ECE were still being met by the government subsidy in 2013 (except playcentres, where it covered about 80 percent of costs).

57. More comprehensive data would be required to gain a clearer picture around whether the original policy intent of 20 Hours ECE to 'cover 100 percent of the average cost of the regulated service' still holds.

58. Advice to the Minister from November 2022 (METIS 1297558) discussed how mainly due to limited or no cost adjustments between 2009 and 2017, the real value of the 20 Hours ECE subsidy had declined by 18 percent since 2010 – from \$15.26 per funded child hour to \$12.45 in 2022. This is illustrated in Figure 4 which shows the actual (nominal) funding rates for the most common 20 Hours ECE subsidy as well as those rates adjusted to November 2022 dollars (real rates).

**Figure 3 Common\* 20 Hours ECE funding rates for education & care services, 2007 – 2022**



*Note on Figure 4: Most children enrolled in licensed ECE services (61%) attend an education and care service. The 80-99% certificated teacher funding band is currently the most common funding band for this service type. The 80%+ certificated teacher funding band was the most common funding band for education and care services from 2011-2020. The nominal rates are converted to real rates using the Consumers Price Index figure from the second quarter of 2022*

59. The sharp decrease shown in Figure 4 from 2010 is associated with the replacement of the 80-99 percent funding band with the lower 80 percent+ rates in 2011. There was also a step change in inflation resulting from the change in GST in October 2010. Real value and

nominal value align in 2022 because real value is calculated relative to the 2022 CPI, causing nominal value to appear identical to real value in 2022.

60. The decreased real value of 20 Hours ECE rates means there is an incentive for services to pass costs not fully met by 20 Hours ECE onto parents through the practices discussed above.
61. When 20 Hours Fee ECE was first introduced Budget 2007 allocated \$313 million<sup>31</sup> in funding towards 20 Hours Free ECE (for three- and four-year-olds). All-day teacher-led centre-based services with 100 percent registered teachers received \$10.89 (incl. GST) per child per hour. “The projected cost of the 20 Hours Free ECE policy is \$313 million in 2007/08.”
62. In Budget 2010<sup>32</sup>, when 20 Hours ECE was extended to include all 5 years old, and extended the programme to include Playcentres and all kōhanga reo, the government allocated an estimated \$696.73 million to 20 Hours Free ECE.
63. At Budget 2023, a cabinet paper discusses a 4.6 percent increase to the 20 Hours ECE subsidy. Stating that “the 4.6 percent subsidy increase is significant and will help to offset the decrease in the real value of the 20 Hours ECE payments due to the lack of investment in the subsidy rate between 2010 and 2017.” — Budget 2023 provided \$1.53 billion, [over four years] towards 20 Hours Early Childhood Education<sup>33</sup>.

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<sup>31</sup> [https://www.beehive.govt.nz/sites/default/files/FAQ\\_20\\_Hours\\_Free\\_ECE.pdf](https://www.beehive.govt.nz/sites/default/files/FAQ_20_Hours_Free_ECE.pdf)

<sup>32</sup> Ibid

<sup>33</sup> [treasury.govt.nz/sites/default/files/2023-06/est23-v2-educ.pdf](https://treasury.govt.nz/sites/default/files/2023-06/est23-v2-educ.pdf)

## Appendix Proportion of funding allocated to 20 Hours ECE

64. Table 2 shows the proportion of government funding for ECE that goes to the 20 Hours ECE programme beginning in July 2007 through to June 2023. Table 3 and Figure 5 show the proportion of government funding for ECE that goes towards each programme by service type.

65. For the year ending June 2023, 52 percent of total ECE funding went to 20 Hours ECE. 22 percent went to Under 2's, 24 percent went to 2 and over (non 20 Hours ECE), three percent went to equity funding, and a small 0.4 percent went to targeted funding for disadvantage.

**Table 2 Proportion of total Vote Education funding allocated to 20 Hours ECE, 2007-2023 (%)**

	2007/08	2010/11	2013/14	2016/17	2019/20	2022/23
Education & Care	41	54	56	54	53	50
Home-based	33	38	37	32	30	30
Kindergarten	90	90	86	81	79	75
Kōhanga reo*	9	28	30	31	29	30
Playcentre*	0	7	13	17	17	15
Total	47	57	58	55	54	52

Source: Education Counts

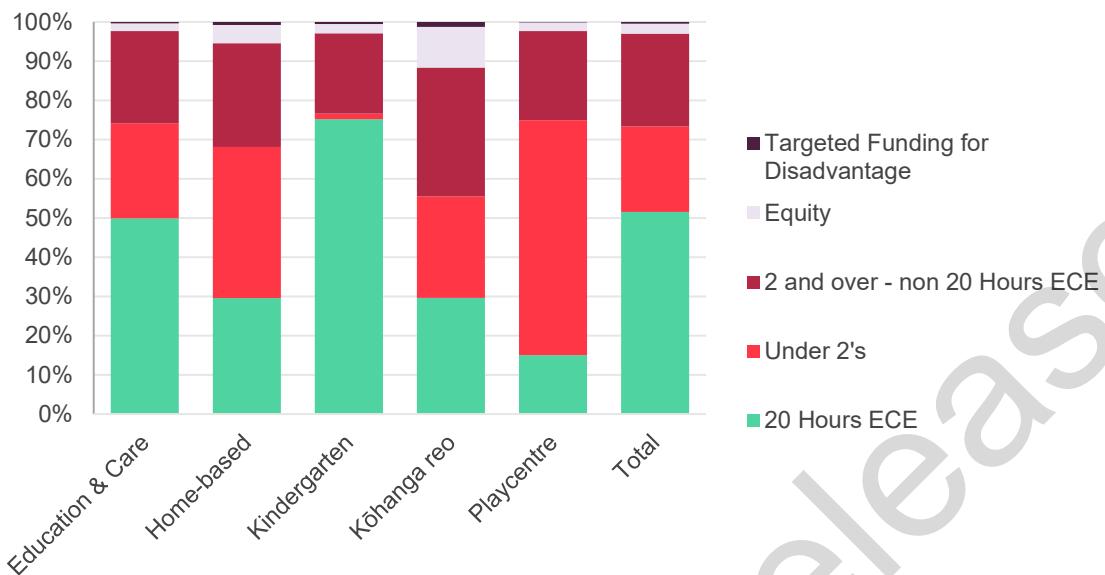
\*Note: 20 Hours ECE was extended to include playcentres and all kōhanga reo from 1 July 2010

66. While Table 2 shows that the proportion of total funding going towards 20 Hours ECE for kindergartens has dropped over time, funding for 2 and over - non 20 Hours ECE has increased from 9 percent for the year ending June 2010 to 20 percent for the year ending June 2023.

**Table 3 Proportion of total Vote Education funding by programme, year ending June 2023 (%)**

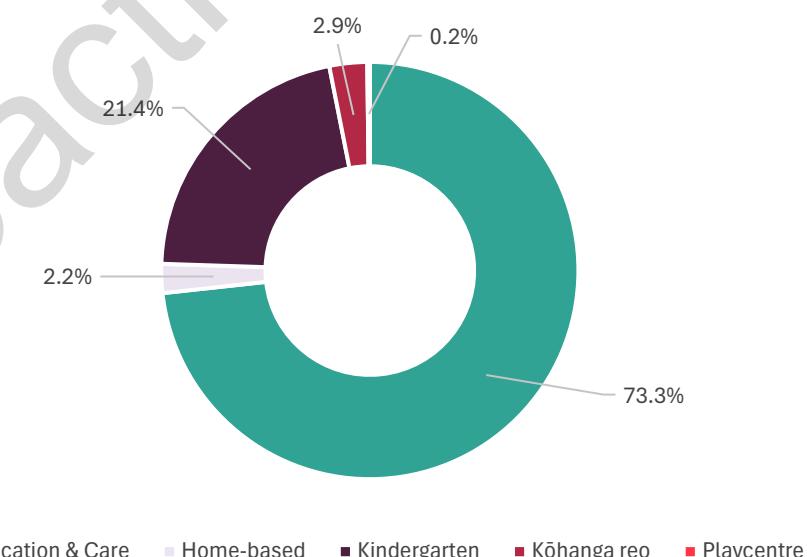
Programme	Education & Care	Home-based	Kindergarten	Kōhanga reo	Playcentre	Total
20 Hours ECE	50	30	75	30	15	52
Under 2's	24	39	1	26	60	22
2 and over - non 20 Hours ECE	24	26	20	33	23	24
Equity	2	5	2	10	2	3
Targeted funding for disadvantage	0.4	0.8	0.5	1.3	0.1	0.4
Total (\$000, GST exclusive)	1,753,069	90,656	339,353	117,779	15,655	2,316,512

Source: Education Counts

**Figure 4 Proportion of total Vote Education funding by programme, year ending June 2023 (%)**

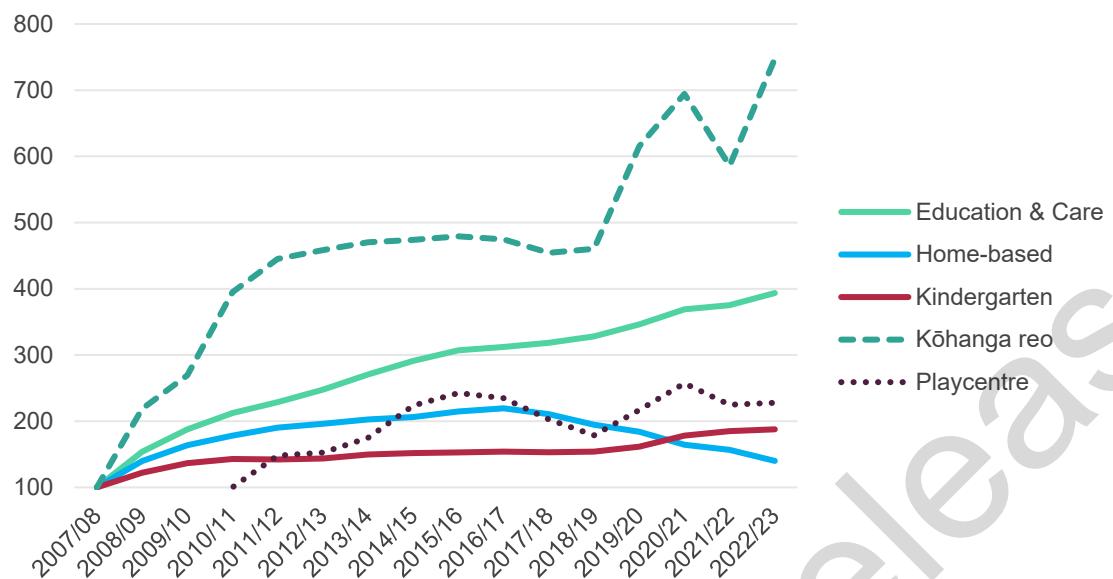
Source: Education Counts

67. Figure 5 shows the majority (73.3 percent) of total 20 Hours ECE funding goes towards education and care, followed by kindergartens (21.4 percent). While kōhanga reo, home-based services, and playcentres receive 2.9 percent, 2.2 percent, and 0.2 percent of 20 Hours ECE funding respectively. Figure 5 shows the bulk of finding received by kōhanga reo, home-based services and playcentres are for under 2's and 2 and over (non 20 Hours).

**Figure 5 Distribution of 20 Hours ECE funding across provider types, year ending June 2023 (%)**

Source: Education Counts

**Figure 6 Increase in government funding towards 20 Hours ECE by service provider, 2007-2023**



Source: Education Counts