



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

NOT MAG / GOVERNMENT POLICY

Accountability for ECE funding

Background paper for the ECE Funding Review Ministerial Advisory Committee on funding accountability arrangements

Proactively Released

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Executive summary

General funding accountability considerations

There is a legislated expectation for accountability of public funding stemming from provisions in the Public Finance Act 1988. This accountability places expectations on departments and their chief executives in relation to the appropriated funding they are responsible for. This results in expectations being placed on the non-government providers of services receiving the appropriated funding. There is also strong public interest in the proper use of taxpayer funding regardless of legislative requirements.

Funding accountability entails various objectives, such as confirming correct levels of funding are being allocated to providers, knowing how money is being spent and if it is being spent for the purposes intended, understanding if funding provides value for money and being able to explain if these do not occur.

Funding accountability is a subset of accountability. Accountability can extend to areas such as governance or regulatory activity. Accountability is dual or mixed in funded sectors (such as ECE) – private funders (parents) as well as government have an interest in the use of funding.

Funding accountability for service providers can be effected through either contract or grant arrangements. Each of these give funders varying scope to put in place accountability requirements and consequences. These arrangements seek to apply mechanisms that reflect or enable principles of good accountability. These principles include: transparency, efficiency, effectiveness, fairness, simplicity, proportionality, and confidence.

We can put accountability mechanisms into several categories: performance measures, assurance activities, declarations/attestations, performance reviews, public disclosures, and sanctions. Mechanisms may apply to both funders and providers. The appropriate use of these mechanisms needs to be determined through assessment of fit with the principles as well as any mandatory requirements, such as those in the Public Finance Act.

ECE funding accountability

Vote Education ECE funding is provided as conditional grants under section 548 of the Education and Training Act 2020. The Act is the source of accountability focused conditions on funding. The Act also sets out that [minimum] quality requirements are the preserve of licensing regulations but the consequence of not meeting these requirements can be loss of grant funding.

ECE grant funding accountability makes use of a subset of the accountability mechanisms listed above with a focus on checking correctness of claims, placing limits on funding use (for targeted funds mainly), requiring reporting on use, and responses and consequences where appropriate. These have been in place for many years. Assurance of service funding claims is a key activity and checks that administrative requirements set out in the ECE Funding Handbook have been correctly followed.

While the ECE accountability mechanisms in place support certain accountability objectives such as confirming correct levels of funding are being allocated to providers, there is a balance to get implementation of these mechanisms to work equally well for funders and providers. For example, service audits make use of proportional responses and risk-based targeting. On the other hand, adherence to relatively complex absence rules and the verification required to demonstrate this can be confusing and may appear disproportionate for the work required. Double-handling and limits on new technology to assist verification may not be helpful.

The use of reporting mechanisms, either for financial information or targeted funding activities, provide transparency around the use of funding. However, the requirements are also inconsistent and disproportionate in places as layering and changing of policies has occurred over time.

The nature of funding accountability mechanisms under a future funding model cannot be confirmed until the model is set out. Mechanisms may be similar with minor improvements if the system does not change significantly. A more significant accountability change would be linking of funding to outcomes measures - often regarded as best practice.

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Background

1. The Government has tasked a Ministerial Advisory Group on Early Childhood Education (ECE) funding to undertake an independent evidence-based review of the current ECE funding system, including funding from the Ministry of Education, Childcare Assistance from the Ministry of Social Development and Inland Revenue's Family Boost.
2. The review responds to concerns that current levels of ECE funding could be used more effectively to increase the impact of ECE subsidies, to respond to different levels of need for support for affordable and accessible ECE, and to reduce complexity of the funding system for families and ECE providers. The Ministerial Advisory Group is required to provide options within current forecast levels of government funding and to retain the policy benefits of 20 Hours ECE.
3. The MAG will consult on and provide advice and recommendations for changes to ECE funding so that it better supports high quality education and care, equitable access for children, improved child development and educational outcomes, and parental participation in the labour market. The MAG [terms of reference](#) set out the review scope in more detail.

Scope

4. The Ministry has been asked by the MAG to provide a paper that:
 - a. identifies good practice in accountability settings for government funding provided to ECE and other sectors receiving government funding, in light of the costs and benefits that can arise from such practice
 - b. provides detailed descriptive information about current accountability requirements with respect to the use of funding that is in scope of the ECE Funding Review (across Vote Education, Vote Social Development and Vote Revenue). These requirements include record-keeping, attestation, monitoring, reporting, and audit. Accountability also includes the sanctions applied when conditions or requirements are deemed not to have been met (e.g. withholding of funding following audit; withheld funding where the annual ECE census has not been completed or the financial report has not been provided; funding recalculations where funding conditions are breached).
5. Also considers:
 - a. accountability settings associated with different funding mechanisms, and their intended purposes
 - b. the relationship between accountability requirements for funding and relevant legislative and regulatory settings, including with respect to quality
 - c. the extent to which accountability requirements (and any associated sanctions) are proportionate to the funding provided and any associated risks with respect to the use of that funding.
 - d. Whether there is any duplication across the different reporting and accountability requirements.

Accountability for government funding of services in New Zealand

Legislation underpins accountability for public funding

6. There is a longstanding expectation of accounting for the use of government funding in New Zealand. The Public Finance Act 1989 ('the PFA') plays a key part in this.
7. The use of third parties come a greater focus on providing for accountability for performance as well as monitoring the allocation of funding. The legislative framework in the PFA consequently sets out:
 - a. that a government department using an appropriation is accountable, through its chief executive, to the Minister responsible for that appropriation on a range of matters, including the efficiency and effectiveness of expenditure under appropriation.¹
 - b. That departments must also produce annual reports and contribute to Estimates in relation to what appropriation funding has achieved.²
8. The effect of the legislative framework is that public entities (usually government departments) need to understand what is being purchased, achieved and for how much when funding provision by third parties (non-government organisations, broadly defined for the purposes of this paper as for profit or not for profit). This may extend to recovery of debts, such as from funding overpayments, as part of the prudent management of taxpayer funding.
9. Government funding agencies seek to keep Ministers informed about spending alongside Parliament, its Officers³ and the public. In general, there is strong public interest that resources, including funding from taxes, provide value for money, and are used legally and competently. There are instances where significant accountability issues with ECE funding have been publicly highlighted in the media.⁴
10. The paper mostly concentrates on accountability for third party provider funding but accountability for FamilyBoost funding targeted at individual households is also canvassed. The accountability arrangements relating to MSD's Childcare Subsidy are dealt with in a separate paper that will be provided by MSD in December covering both accountability and administration arrangements.

What is accountability for funding?

11. In general, accountability refers to answerability for achieving agreed tasks or the performance and the measurable achievement of goals that funding arrangements were designed to meet.⁵ It can be broken down into one or more of the following activities:
 - Demonstrating that the correct levels of funding have been allocated to a provider

¹ See section 35 Public Finance Act 1989: [Responsibilities of chief executives: financial management of non-departmental matters](#)

² PFA 1989 ss 44, 19C.

³ Parliament relies on the independent Office of the Auditor-General role to provide it and the public with an independent view of how public organisations are operating including ensuring public spending is in line with approvals by Parliament.

⁴ Examples include [NZ Herald 2017](#), [Stuff 2011](#), [Stuff 2014](#), [NZ Herald 2015](#).

⁵ See 3.10 of [Principles to underpin management by public entities of funding to non-government organisations](#).

- Being clear why and how money is to be spent
- Ensuring that money is spent for the purpose/s it was provided for
- Having reasonable assurance that the expenditure provides value for money
- Having a credible response where expected services are not provided
- Communicating information to Ministers, Parliament and the public.⁶

12. In the funded sectors (where government contributes but does not necessarily fund all service provision, such as in early learning or aged residential care), private funders (the parents/caregivers in ECE) may also seek accountability for a service's funding use. Private funders may piggyback off accountability requirements created by government. This includes non-financial accountability, such as meeting regulatory requirements or the ERO review process. Private funders may also have differing accountability expectations or channels (eg, requirements on how fees are communicated). This mixed or dual accountability may reflect accountability requirements from a governing body (eg, a parent committee or a board of an association).

Accountability covers multiple dimensions

13. Accountability may encompass multiple dimensions, as below.

Governance. Providers may need to show they have suitable governance structures for making robust decisions and oversight.⁷ Provision of reporting on activities and performance eg, annual reports and (audited) financial statements may be used.

Performance and outcomes. Providers may be required to confirm or agree to outcomes and other performance indicators and report on these.

Financial accountability. This involves assessing if providers have received appropriate levels of public funding and used these responsibly and transparently. This may be based on compliance against procurement and financial management standards. It also covers use of funding for the purpose/s agreed with the funder.

Legal and contractual. This accountability is reflected in observation of contract terms or regulatory requirements and relevant legislation generally. Failure to observe these can lead to responses to address underperformance, complaints, or misuse of funds.

14. Not all of these dimensions solely apply to funding accountability. Funding accountability tends to focus more on performance and outcomes, financial accountability, and legal and contractual dimensions. Accountability does not specify actual technical accounting requirements, as these are governed by a standard setting body (the XRB). However, the providing of financial statements to a funder or service users, compiled according to XRB standards, may be used as an accountability requirement. Accountability may therefore indirectly leverage off transparency and trust created by these external standards.

⁶ Adapted from [Guidelines for Contracting with Non-Government Organisations for Services Sought by the Crown](#). Page 18.

⁷ 9(2)(g)(i)

Funding arrangements can enable accountability

15. Public entities enter into *funding arrangements* with providers in order to disburse funding. Funders use *grants* or *contracts* as their funding arrangements. Accountability is typically linked into such arrangements.
- a. **Grants**: are either:
 - i. **unconditional**, where financial assistance is paid but the recipient has no obligations to perform in return for the money beyond the expectation that the funds will be used for the purpose stated, or
 - ii. **conditional**, where financial assistance is paid by the government and the recipient undertakes to perform specific obligations (conditions) in return. The provider is entitled to payment once it satisfies the conditions.
 - b. **Contracts** are legally binding and require an explicit agreement between the funder and a provider as to their terms (eg, payment schedules, the services required, components being purchased (inputs and outputs or results) or necessary reporting arrangements).
16. Contracts tend to provide more accountability in terms of ensuring service delivery occurs or can be remedied. This includes using civil law processes to settle disputes and remedy poor performance (eg, court awards of damages or making directions to perform the contract's terms).
17. Unconditional grants are not usually legally binding, especially as there are no measures to be delivered on. Conditional grants may be very similar to contracts in that they may be legally enforced if agreements or requirements associated with the grant closely resemble those used for a contract. Legal mechanisms, such as statutory declarations, can also be used alongside grant conditions to create accountabilities and allow for compliance action, if needed (eg, to prosecute fraudulent claims). Withholding or offsetting of grant payments is the principal sanction to ensure delivery of conditions attached to a grant.
18. Grants are often employed where funding only contributes or partially subsidises a provider's activities. Contracts are most appropriate where government is the only funder of the service.

Mechanisms and principles to achieve accountability under funding arrangements

19. Public funders employ a range of accountability mechanisms in relation to non-government organisations. The mechanisms place expectations as to what funding is for and to help the public entity understand if funding has been allocated and used as intended.
20. We can also use principles to understand how well mechanisms are focused on achieving accountability. These principles are set out in Table 1 below. What is best or appropriate accountability practice can be weighed up against these principles. While the general mechanism used may be appropriate, it is ultimately the particular settings of that mechanism that determine if it is well-matched for the situation. Furthermore, the design of the funding system will influence what accountability requirements are appropriate. At times fit against principles may need to be traded off against each other.

Table 1: Common accountability principles

Transparency	Accountability results are disseminated publicly to inform parents/funders and the wider public.
Efficiency	Accountability assists with assessing whether the funding for services is well utilised ie, targeted to where it will make the greatest contribution to achieving government/service objectives.
Effectiveness	Accountability assesses whether funding produces net positive results (the social investment framework imposes a form of accountability as does outcomes reporting).
Fairness	Accountability mechanisms are clearly applied the same way across all providers or, if not, clearly justified why not. This may include undertaking accountability activities based on risk.
Simplicity	Accountability mechanisms are easy for services and the public to understand and report against.
Proportionality	The accountability does not impose an undue effort to monitor and report given the need for, and benefits resulting from, the requirement.
Confidence	The accountability mechanism leads to interested parties being sure that processes work and performance is as indicated.

21. Which mechanisms are used or emphasised depend on which purposes (listed in paragraph 11) are in focus (eg, audit-type activities if the focus is to understand whether funding is being appropriately claimed).

22. Common mechanisms are outlined in Table 2 below.

Table 2: Funding accountability mechanisms

Mechanism type	Description and purpose
1. Performance measures	Involves setting agreed outputs or results (outcomes) to be produced by the funding. Reporting requirements and the methodology required to demonstrate these may also be agreed. May be applied to providers and funders.
2. Assurance activities	Involves audit-type activities by the funder or external assurance provider to confirm payment claims and the use of funding is correct against funding rules and agreements.
3. Declarations/attestations	Requirements for recipients of funding to confirm they are aware of their responsibilities and to allow for corrective action.
4. Performance reviews	Funding issues may lead to action/spending plans aimed at remedying these issues and enabling funder oversight.
5. Public disclosures	Reports published to enable public awareness of service performance and focus (eg, annual reports).
6. Sanctions	May involve funding being withheld or recovered, penalties being imposed or other specified activities required to be undertaken for providers. These remedy issues detected by other accountability mechanisms.

23. Tests of best practice in the use and application of mechanisms and principles are necessarily fluid. For example:

- Risk-based proportionality is typically expected to link to features such as funding size, and organisation-level risk factors (eg, whether a new provider, past issue history/lack of issue history)
- Proportionality of reporting and administration may be tied to a ratio eg, no more than 10% of funding value spent on this administrative resource, limiting data requirements that are not used for decisions or determination of funding, or placing more requirements as funding streams increase in value

- Funders deliberately seeking compliance cost information from providers to help proportionality of requirements (eg, time required to submit claims)
- Ensuring definitions of requirements are as simple as possible
- 'Killing two birds with one stone' rather than multiple processes to collect or verify the same information (eg, piggybacking off financial statement preparation required by other entities).

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Accountability for ECE funding

Grants are the main ECE funding delivery mechanism

24. As noted in an earlier paper to the MAG,⁸ almost all Vote Education ECE funding is enabled under section 548 of the Education and Training Act (the Act). This funding is specified by the Act as being grant-based. While it is unclear why funding was set up as grants in the now repealed Education Act 1989, it is likely that early learning subsidies were only intended to be a contribution to the cost of provision.

25. Section 548 grant arrangements tend to be common to categories or classes of services. There is not a bespoke set of terms between the Ministry and each service (individualised service-level grants could be set but have not been to date). This reduces administration on both parties, including through use of consistent terms and creates transparency around funding terms and requirements.

26. The legislation allows the Minister or delegate to set grant arrangements and amounts. This is a wide power only limited by the purposes in section 4 of the Act. It has, for instance, placed accountability focused conditions on funding.⁹ The legislation also sets out two accountability-related provisions:

- that service providers must use funding for the purpose specified by the Minister if a purpose is in fact specified¹⁰ and
- that a grant may be withheld in whole or part if (ECE) regulations made under the Act or licence conditions are not being met.¹¹ Funding is, therefore, stopped when services lose their licence or it is suspended.

27. The second of those provisions is a key connect between funding and regulation. This means that services may not be funded if a breach has led to a provisional licence (a licence issued, among other reasons, to a service that is not complying with ECE regulations or conditions placed on a licence). In practice, services on provisional licences usually continue to be funded, in recognition that non-funding would be disproportionate and likely close a service even if a full licence could be regained.

The effect of this funding-regulation connection is that accountability for meeting [minimum] quality standards lies in regulatory, rather than funding accountabilities, for example, meeting of regulated adult-to-child ratios or other regulated standards.

Brief history of ECE accountability policy aims

28. The 1988 reports *Education to be More* and *Before 5* briefly set out directions on funding accountability. The timing of these reports also coincided with the passing of the Public Finance Act. *Education to be More* considered that services should have:

- A charter that contains a statement on how annual accounts will be audited or certified

⁸ Overview of Ministry of Education-administered funding.

⁹ See [Chapter 2-7](#) of the ECE Funding Handbook specifying the ability to recover grant funding by the Ministry.

¹⁰ Education and Training Act 2020 s 548(6)(b).

¹¹ Education and Training Act 2020 s 548(5)(c).

- A charter that contains a statement on how the Board will report to parents/whānau on the service's achievements and progress¹²
29. Charters were instruments in the Education Act 1989. Under the 1989 Act, all ECE centres were required to be licensed, but in addition to the licence, a charter was required to access funding for both centres and home-based ECE services. Charter requirements were removed from the Education Act in 2006, their requirements incorporated charter requirements into licence requirements, and all centres were required to be licensed. However, the essence of these two approaches continues in present-day accountability expectations for ECE funding. The approaches reflect the mixed accountability to parents (as private funders) and the government (as public funder).
30. The Working Group set up in 2002 to design equity funding considered the policy intention for that new funding. It stated that recipients of equity funding ought to be held accountable for the expenditure of the funding and that ECE services, which receive such funding, would employ it to alleviate those pressures for which the money was intended.¹³ The Group also considered requirements should fit in with existing accountabilities and demands from sources other than the government funder.
31. As part of the review of funding in 2004, the funding system subsequently put in place largely carried through accountability requirements that already existed – for example auditing of service funding claims (albeit based on a different set of funding rules and obligations to previously). The new funding policy targets of teacher registration and 20 Hours ECE introduced additional funding conditions, and additional eligibility checks into the existing requirements.

Specific ECE accountability mechanisms

32. The ECE funding accountability mechanisms in place for both Vote Education and Vote Revenue funding are summarised in Table 3 and 4 below. In general, these mechanisms reflect:
- checking on correctness of claims
 - limits on funding use
 - reporting on use, or
 - sanctioning/incentivising to support the first two mechanism purposes.
33. There are relatively few mechanisms employed. Despite this, the direct impact of withholding or reducing grant funding (a key sanction) provides a strong incentive to comply with funding conditions.
34. We note that most requirements in the ECE Funding Handbook primarily define and operationalise how services calculate their funding claim. Accountability provisions exist to confirm the process of recording and storing of specified inputs for making claims according to these requirements. Even without accountability requirements, many funding conditions would remain in place to reflect the policies that services must factor into calculation of funding (eg, the need to apply a different funding rate for under 2 year olds versus 2 year olds and over).

¹² Education to be More: Report of the Early Childhood Care and Education Working Group. 1988. Page 53

¹³ Equity Funding for Early Childhood Education: Final Report of the Ministerial Working Group. 2002. Page 52.

Table 3: ECE Funding accountability – Ministry of Education funding mechanisms

Accountability mechanism type	ECE mechanism description	Purpose	Requirements on providers/claimants	Requirement source
1. Assurance activity	<p>Funding claim audits (See Annex 2 for audit activity data)</p> <p>Checks carried out by the Ministry on providers that claim funding for the grant types listed in the ECE Funding Handbook (ECE Subsidy, 20 Hours ECE and equity related grants).</p> <p>Requires services to maintain and retain records relating to enrolments, attendance and staffing (the latter to demonstrate that certificated teachers are being paid according to Teacher Pay Parity Scheme requirements and for certificated funding band classification).</p>	<p>The purpose of a funding claim audit is to confirm the correct amount of government funding is being claimed by services. This is achieved by relying on information submitted for claims rather than allowing services to claim without reference to records.</p> <p>Specifically, audits:</p> <ul style="list-style-type: none"> • verify that the service is claiming and receiving the correct amount of funding • verify that a service is meeting the record keeping requirements • provide advice and assistance to services about record keeping requirements. • May lead to recovery of debts or correction of underpayments (a <i>sanctions</i> accountability mechanism) • may lead to criminal prosecution where significant funding claim fraud is detected (noting services formally attest to the accuracy of data submitted). This can include sanctions wider than debt recovery. 	<p>Services need to maintain enrolment, attendance and staff records records for up to 7 years.</p> <p>This information is mostly required under funding rules to assist with calculating funding. Some information is recorded for employment relations and IR purposes – specifically concerning teacher pay arrangements.</p> <p>Providers that are selected to be audited will need to allocate time (usually no more than two days) to engage with Ministry auditors and their requests for information.</p>	<p>ECE Funding Handbook.</p> <ul style="list-style-type: none"> • Chapter 11 • Chapter 2-7 <p>Requirements in the Handbook may be created using ministerial powers in section 548 of the Education and Training Act 2020.</p> <ul style="list-style-type: none"> • Section 626(3) of the Act for physical entry and inspection of a service • Crimes Act 1961

Accountability mechanism type	ECE mechanism description	Purpose	Requirements on providers/claimants	Requirement source
2. Public disclosure	<p>Provision of annual financial reports to the Ministry.</p> <p>The reports required are:</p> <ul style="list-style-type: none"> - general purpose financial statements (for community-based services) or - either general purpose financial statements or special purpose financial reports¹⁴ (private services) - required to be communicated to parents at a service. 	<p>The reporting enables the Ministry and parents to have an understanding of how much, and on what, government funding is being spent.</p> <p>Reporting can also assist with identifying services with a higher risk of not meeting assurance requirements.</p> <p>There is some overlap between the purpose of these requirements and those of the Charities Commission for some not-for-profit providers.</p>	<p>Usually means services must use an accountant and reflect XRB and Ministry requirements when reporting on funding use.</p> <p>Requirements on community-based services are often the same as required by the Charities Commission (this limits additional workload).</p>	<p>ECE Funding Handbook.</p> <ul style="list-style-type: none"> - Chapter 12 - GMA03 (a licensing criteria)
3. Public disclosure	<p>Each service's annual audited general purpose financial statements or special purpose financial report must include information about <i>targeted funding</i> the service has received.</p> <p>For services receiving more than \$2000 of Targeted Funding For Disadvantage (TFFD),¹⁵ they must report to the community on:</p>	<p>These requirements provide some checking and visibility that services are spending the targeted funds on the areas specified by government.</p> <p>Service level reporting is not required on the outcomes of targeted funding</p>	<p>Requires tracking of spending by a service's administrative staff and time to compile reporting.</p>	<p>ECE Funding Handbook.</p> <p>Chapter 12 Chapter 13-4 Chapter 10-2</p> <p>Separate guidelines for TFFD use</p>

¹⁴ Community-based services provide more detailed General Purpose Financial Reports while privately-owned services only have to report on Ministry income and spending, and a high-level breakdown. This is known as a Special Purpose Financial Report (it does not require detail on non-Ministry funding).

¹⁵ This is approximately 1400 services.

Accountability mechanism type	ECE mechanism description	Purpose	Requirements on providers/claimants	Requirement source
	<ul style="list-style-type: none"> • The total amount of Targeted Funding received. • Their key objectives for Targeted Funding. • How they have spent Targeted Funding. • How Targeted Funding benefited the children in their service. <p>How equity funding is spent must be communicated to parents and community.¹⁶</p> <p>The following minimum standards are required:</p> <ul style="list-style-type: none"> • outline of the amount received under each Equity Funding component • brief description of the purpose to which the funding was applied (e.g. purchase of goods or services) • brief outline of the reasons for spending the funding in that way • the report is included in the service's annual report for presentation at its annual general meeting. <p>The value of the Annual top up for isolated services (ATIS) is also</p>			

¹⁶ How this is done is not mandated so can vary (eg, a service may put a paper copy of its financial statements on the service noticeboard or may send electronic versions to parents).

Accountability mechanism type	ECE mechanism description	Purpose	Requirements on providers/claimants	Requirement source
	required to be included in the annual financial reporting (although ATIS is only paid to a small number of playcentres).			
4. Public disclosure, performance measures	ECE providers are required to submit attendance/enrolment data to ELI each month and once per year data on child and staff characteristics (the ECE Census). 9(2)(g)(i) [REDACTED]	Provides service and system level data about child attendance patterns and child and staff characteristics. This provides transparency about provision contributed to by taxpayer funding. The main purpose of these collections is to enable policy development and reporting on overall delivery for funding received	Service administrators must compile attendance information and census requirements (over the year this may require appreciable work although student management systems do automate some of the task).	ECE Funding Handbook Chapter 14-1
5. Public disclosure, performance measures	The Ministry provides Estimates measures reported to Parliament each year relating to early learning funding. Scrutiny of these occurs via Expenditure Review process and publication eg, in the Statement of Appropriations reported to Parliament	Provides transparency of system performance for the funding received.		
6. Indirect performance measures	Being paid funding is dependent on meeting licensing requirements.	This creates an indirect accountability for funding to be used to provide a service at a certain minimum standard. The accountability mechanism provides for fairness in and transparency across services.		Section 548(5)(c) of the Act. Education (Early Childhood Services) Regulations

Accountability mechanism type	ECE mechanism description	Purpose	Requirements on providers/claimants	Requirement source
				2008

Table 5: IRD funding accountability mechanisms

Accountability mechanism type	Sector specific mechanism description	Purpose and principles underlying mechanism	Requirements on providers/claimants	Where is requirement set out?	Notes	
Inland Revenue	Performance measures agreed - speed of processing claims	Internal performance measure	Efficiency of processing: Percentage of claims processed within 10 working days	-	Not a formal requirement or audited measure, but generally included in IR's annual report.	FY 2025 result was 91.7% of FamilyBoost claims processed within 10 working days
	Fiscal targets: FamilyBoost Payments PLA appropriation	Expenditure measure	-	-	Various performance indicators are published publicly: https://www.ird.govt.nz/about-us/tax-statistics/major-spending-decisions/budget-2024-familyboost	
	Internal IR decision support processes	IR uses its core software (START) to manage some automated decision making	Ensure eligibility criteria are met – some FamilyBoost claims require manual review and others do not	-	-	
	OCR software for verifying invoices	The software scans invoices attached to FamilyBoost claims	This verifies that the details which customers are inputting match the invoice	Reinforces requirement on ECEs to provide correct information regarding	-	This is an integrity measure and speeds up automated

				fees, subsidies and donations Reinforces requirement for families to provide the correct 'claimable amount'		decision making
	Anti-avoidance / fraud provisions in legislation	IR has legislative powers to investigate and pursue fraud. This extends to tax credits and other payments.	To discourage tax minimisation or claiming amounts not entitled to	Provide accurate information for registrations and claims	Tax Administration Act 1994 41C(5)(b)	
Early Childhood Education providers	Early Childhood Education providers as private businesses subject to tax obligations [not a specific FamilyBoost requirement]	IR is able to use its powers under the Tax Administration Act to investigate/audit where ECE centres are non-compliant with tax obligations.	Integrity of the tax system	All private sector entities must meet their obligations under the tax acts.	Tax Administration Act 1994 Goods and Services Act 1985	The provision of quarterly statements to parents is not a tax-related obligation but is intended to make FamilyBoost claims easier.
Wider government (MoE/IR)	Enrolment at licensed ECE service confirmed via info-exchange	The Ministry of Education and Inland Revenue exchange information regularly	This verifies that <ul style="list-style-type: none"> a child who is being claimed for exists, and is actively enrolled in a licensed ECE service 	Providers need to provide information to MoE (existing requirement). This is then shared with IR (new for FamilyBoost purposes).	Tax Administration Act 1994 schedule 7 46B(1): Information Sharing Agreement	Data share covers <ul style="list-style-type: none"> details of operational licensed ECE

						providers child enrolment details for children included in FamilyBoost claims
Families	Evidence required to support claim	Families who claim FamilyBoost must upload invoice(s) or quarterly statements from their ECE provider each time they lodge a claim	A key policy parameter of FamilyBoost is the link to the actual cost of early childhood education. The invoice confirms the amount claimable after other subsidies and credits	Parents or caregivers must provide the invoice(s) each quarter.	Tax Administration Act 1994 41C(3)	
	Registration required, including child's IRD number	IRD numbers are generally used as a unique identifier	The purpose is to verify that a person (child) exists and preventing duplicate claims for the same child	Claimants must obtain an IRD number for their child	Tax Administration Act 1994 41C(3)	This requirement is the same for Working for Families tax credits and Child support
	Requirement to meet tax obligations	A family's income tax obligations must be met for a FamilyBoost claim to be accepted	FamilyBoost is a tax credit. While not directly related to an income tax liability, the customer/taxpayer should be up to	If the customer(s) meet the requirements to file an income tax return for income tax purposes, they must do so.	Income Tax Act 2007 MH(4), MH(5)	

			date with their income tax obligation in order to claim a tax credit	For customers who receive reportable income only (such as many salary/wage earners) there is no obligation to file a return.		
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Analysis of existing ECE funding accountability settings

35. In this section, we note some issues that are identifiable in relation to the various Ministry of Education funding accountability mechanisms.

Funding claim audits (Table 4 mechanism 1)

36. While services typically prefer a high trust model (where funding claims are accepted and paid with minimal funder checking), data around audit levels and results suggest that the funding claim requirements lead to a reasonably high level of claim inaccuracies for those services subject to audits.

37. 9(2)(g)(i)

38. The OAG provides best practice guidance that public entities should be proactive in identifying where the risk lies in funding non-government organisations and allocating sufficient resources to manage those risks satisfactorily. The Ministry therefore directs its limited assurance resources to a risk-based selection of services.¹⁷ This is consistent with ensuring accountability of services is proportional to the risk of mis-claiming funding.

39. 9(2)(g)(i)

. The high proportion of funding errors found (whether genuine mistakes or fraud) suggests the risk-based approach is well-targeted. Furthermore, while the amount adjusted from services was very small as a proportion of total ECE funding, it is likely the figure would be more significant if a larger percentage of services were audited.

40. The Ministry not only applies risk-based targeting approaches but also adopts a graduated approach to correcting funding claim irregularities, for example, through the use of voluntary, assisted, directed and enforced actions (VADE framework). This allows a proportionate response to allow for the continuum of reasons for irregularities ranging from errors through to deliberate fraud.

Provision of annual financial reporting (Table 4 mechanism 2)

41. The requirements to provide financial reporting (depending on service organisational structure) create several issues.

42. **Differences between community-based (not-for-profit) and private (for-profit) services financial reporting requirements.** The different reporting standards for these two provider definitions means there is no information about income for private services outside of Ministry income. This also limits comparisons between the two service types.

- **Consolidated reporting at service provider (covering multiple rather than individual services).** Multi-service providers sometimes submit aggregated rather than licence-level reporting. Public benefit entity providers (hospitals/councils) may submit reports for the umbrella organisation and these do not tend to separate out ECE income and expenditure.
- **Currency / Financial year inconsistency.** The financial year reported on is inconsistent due to variation in balance dates (they may be in either March, June or December). This also provides considerable variation in the timing of reporting being submitted. The need

¹⁷ Risk-based targeting makes use of factors such as complaints, licence status, past results and financial reporting.

for a completed financial year means that reporting is always in relation to the previous financial year and can be received up to 18 months after that time.

- **Exemptions.** The accountability requirements contain service exemptions - services earning Ministry of Education income of less than \$80,000 per year or not operating a full financial year, such as where management has changed in the financial reporting year.
- **Format** – formats can be submitted in a range of formats impacting on usability by the Ministry or parents.

43. In summary, the Ministry and stakeholders are not necessarily able to easily utilise the data provided to understand aspects of a service's performance. The principles of simplicity and transparency are not well met as a result. In some cases, the information gaps (ie, around private revenue) are not strictly requirements needed for accountability of government funding but to support policy development.
44. Principles of efficiency, effectiveness and fairness are arguably not well engaged with the financial reporting required. The reporting does not necessarily give a strong sense of how well (in either an effective or efficient sense) government funding is being spent. This is unsurprising given the accountability is focused on providing reporting on spend rather than analysis of how impactful it is. Provider funding is only withheld if they cannot accurately account for *use* of the tax-payer funded subsidy.
45. There is also not a clear rationale for treating community-based and private providers differently. There were more generous funding arrangements for community-based providers in the past and we suggest this is likely to be the reason for the difference. Funding differences no longer exist and makes the different requirements appear arbitrary and unfair.

Targeted funding reporting requirements (Table 4 mechanism 3)

46. Targeted funding reporting requirements provide transparency of both Equity Funding and Targeted Funding for Disadvantage spending. Nonetheless, the Funding Handbook requirements and associated spending guidance create issues. These include:

- **Clarity of the spending guidelines.** The guidance for equity funding especially is, at times vague, contradictory and open to use on non-priority areas.
- **Assurance that funding is being spent as intended.** The Ministry does not typically check reported spending (ie, that a service really spends on what it claims to have) or penalise services that spend funding outside of requirements. This is even though there has been evidence of misspending in the past.
- **Lack of consistency in reporting between Equity Funding and TFFD.** Even though the two funds are similar, there are differences in the threshold to report (>\$2000 for TFFD but all services receiving Equity Funding) and timelines for submission (1 Feb current year for TFFD but 30 June for Equity Funding). The February deadline can be problematic for some services to compile especially if they are closed for the Christmas and New Year period.
- **Pooling of funding.** Multi-service providers can pool funding generated by their services. This can allow economies of scale for spending but may direct resources away from where the most need is (away from the service generating the funding).

47. When considering these requirements against accountability principles, it can be concluded that matters such as inconsistent or unclear reporting requirements lessen transparency and simplicity. Furthermore, trade-offs such as greater simplicity (having the same requirements

on all providers) may not seem fair if the funding received by one provider is many times that received by another.

Submission of data to ELI (Table 4 mechanism 4)

48. As indicated in the table above, funding conditions and associated scope for sanctions are used to ensure services submit key data. The data itself is not used for service level accountability although failure to submit the data is an accountability (a funding condition that, if not met, can lead to funding being withheld). The data is instead used to inform Ministers and the public about what is being produced by the system and who is receiving taxpayer funded ECE services (eg, through appropriation reporting required of the Ministry). This is also consistent with expectations in the Public Finance Act about what appropriated funding achieves.

Accountability workload on providers

49. The principle of proportionality requires that there is an appropriate balance between administrative load on providers to track and report on spending versus the accountability that this achieves. There is a risk of potential lack of transparency from under-reporting versus unduly high provider compliance costs caused by bureaucratic reporting requirements. Such costs may hinder providers' ability to deliver what the arrangement requires them to. How a balance is reached depends on circumstances – for example, in monitoring using a risk-based approach means low-risk services do not unnecessarily use up scarce monitoring resource.
50. This balance is a common tension in government funding of third-party services. Services value financial independence but rely on funding that often comes with requirements set by government. However, funders are ultimately accountable and so requirements tend to be detailed and enforced above a threshold. Fewer requirements constitute a high trust model for providers. However, for a funder, lower trust models are more likely to meet the level of Parliamentary scrutiny that may be directed at them (ie, from the Office of the Auditor-General).
51. The degree of administrative load on providers also centres on more granular operationalisation of accountability requirements. For example, we noted earlier that annual financial reporting requirements for community-based services is set in a way that mirrors requirements set by the Charities Commission so additional workload is minimised for services that are registered charities.
52. The load placed on services selected to undergo an audit mainly consists of services allowing the Ministry access to existing records. This only tends to take a limited amount of time. The Ministry also conducts an audit debrief, which is quite short where records are maintained correctly and accessible but obviously longer when issues have arisen.
53. The following case study examines the administrative load and reasoning for seeking verification and recording of funding claim data and highlights the implications from how this is operationalised. This was recently raised with the MAG and has been raised periodically by providers with the Ministry for many years.

Case study: Requirement for attendance verification by parents

Use of enrolments and attendance for funding

54. Chapters 11-1 and 6-3 of the Funding Handbook set out that certain enrolment and attendance records need to be kept by a service. These requirements can be used to audit

service funding claims but principally to enable services to generate funding claims. The former purpose links back to previous discussion of funding oversight promoted by the Public Finance Act. Record keeping of attendance also plays a role for supporting health and safety and regulatory requirements such as demonstrating that adult to child ratios have been met.

55. The information that needs to be recorded reflects policy parameters - principally a mix of enrolment and attendance decisions that drive funding.¹⁸ Enrolment and attendance-based policies balance stability of funding for ECE services, which helps to guard against undue shocks to the network of provision, against targeting public funding to actual delivered service. An enrolment approach can mean that funding is paid even if no service is used by a child. Targeting funding to actual delivery therefore enables efficient use of public finances. It could be seen as a form of system level accountability.
56. The term 'enrolment' requires definition in the funding system as a result. This is partly to help define what funding for a unit of enrolment consists of and also what the boundaries of an enrolment are. Defining an enrolment in terms of attendance and specifically child hours provide a granular means of achieving this. Child hours are commonly used to allocate ECE funding internationally. They are useful for distinguishing actual attendance at a suitably granular level and can be differentiated to reflect various cost drivers for children (eg, to reflect staff ratios for particular child ages).

Absence rules exist to protect service capacity while balancing cost to government

57. The Funding Handbook contains two absence rules, which have been in place in their current form since 2005. These provide a buffer between funding for strict attendance hours versus funding for enrolment regardless of actual attendance. The rules provide more certainty of funding for services than a strict attendance-based approach to funding.
58. One rule ('continuous absence') allows for up to three weeks of continuous absence before a child is no longer eligible for government funding. It is possible for funding to be claimed for up to 12 weeks continuous absence if a child has learning support needs or health problems. This typically requires additional forms (EC12 and EC13s) to be held should the Ministry seek to view them – a medical practitioner needs to complete the EC13.
59. The second 'frequent absence' rule requires a child's attendance to match their enrolment agreement for at least half (i.e. 50 per cent or more) of each calendar month. Once the 50% match has not occurred in three consecutive months, funding for absences in the fourth month are not claimable (but funding in the prior three months is paid even if the child did not match the enrolment hours thus forming a funding buffer). Funding is continued if the enrolment agreement is amended to reflect actual attendance pattern and reconfirmed with the parent/guardian. There are three situations used to define the 50% match:
- when a child is absent on the same enrolled day or days of the week for more than half of these days in a calendar month or 2.
 - when a child attends for fewer days per week than they are enrolled to attend, in more than half of the weeks in a calendar month or 3.
 - when a child attends fewer hours than they are enrolled to attend, on a daily basis, on more than half of their enrolled days in a calendar month. Note: this does not apply to sessional services.

¹⁸ The focus on enrolments and attendance is captured in absence rules (section [6-5](#), [6-7](#)) and in [2-4](#).

60. The absence rules not only assist with financial certainty for services but, in the case of the frequent absence rule, incentivise funding claims to closely match the service delivered. A secondary effect is that it helps keep advance funding for services closer to actuals.
61. The settings used in this buffer approach are essentially arbitrary. There is no compelling reason for exactly three weeks to be chosen (although it may have been chosen as a reasonable time for a child to recover fully from illness). Similarly, the definition of a 50% match could be set differently, for instance, attendance only needing to occur for at least 50% of enrolled hours during a period. While possible, these buffer changes have implications for the level of actual provision that ends up being funded.

Accounting for attendance relies on collecting and verifying attendance and this creates workload for services

62. The incorporating of actual attendance (and buffers) into the funding model means careful recording of child attendance is needed to inform funding claims. As a result, hour-based attendance must be collected and absence rules factored into that attendance. Services are expected to maintain an attendance register that is marked by staff on a daily basis, regularly examined by the parent/guardian of each child and confirmed as the child's attendance record.¹⁹ Attendance records may be in paper format with parent confirmation made by pen.
63. Electronically verified (by parents) attendance records may be used in place of paper. This approach is facilitated by student management systems used by ECE services and must be consistent with principles set out in the Funding Handbook. For example, electronic systems must not allow a system administrator to override or change the parent's marked attendance information each day. Again, these safeguards are best practice to limit fraud but may limit the flexibility services may wish to have to easily submit funding claims.
64. Ensuring regular parental examination to verify child attendance as recorded requires oversight and resource from services. We understand that larger services may devote whole FTEs to maintain the register and follow up of parents to confirm and potentially alter their child's past attendance and reconfirming future enrolment requirements. We are also aware that home-based educators sometimes default to filling in registers using booked, rather than actual, hours. This then requires correcting. The administrative resource used reflects a mix of effort for verification (accountability focus) and funding claim information (an administrative focus).
65. While there is an administrative load to provide verification, parental verification of attendance records is a basic control and key to reducing fraud risk, such as in the media examples cited earlier in this paper. Almost all fraud in the ECE sector relates to service providers marking children as attending when they are not and where parents have not explicitly verified attendance.
66. The Ministry does find there are sometimes misunderstandings about the extent of the requirements. For example, there is no explicit funding condition that parents/guardians sign in and out daily, although this is best practice in terms of checking accuracy. The only requirement is that a parent/guardian of each child has regularly examined and confirmed their child's attendance record. This misunderstanding unsurprisingly leads to questions about why both processes are needed.

¹⁹ Regular examination is defined as once a month for sessional teacher led and parent/whanau led services and once a week for all-day teacher led and homebased services.

What changes could be made to existing accountability requirements?

Accountability depends partly on the proposed new funding model

67. In general, we suggest that the MAG settle on its preferred funding model and then determine the accountability arrangements required for that model as a more ordered approach.
68. It is the detail of accountability mechanisms that will be of most interest to stakeholders. Again, what detail should be applied relies firstly on confirming the proposed funding model. Will, for example, accountability be providing transparency and confidence about expenditure based on a predominantly voucher-funded attendance-driven model within a managed market? Or will a new model incorporate a shift to contract-based block funding? This would affect whether there is a need to focus as much on auditing funding claims versus managing delivery against contractual expectations.
69. Should the proposed funding system retain much of the same features as the status quo, then it may be a case of modifying existing accountability arrangements to provide incremental improvements. For example, targeted funding might remain but be combined into one fund. This would allow for accountability reporting requirements to be unified with a single set of well-defined use expectations in order to provide better reporting content and spending focus.
70. There remains scope to make efficiency improvements to verification requirements – for example, if parents are signing children in and out daily, then weekly or monthly verification checks may not be necessary. Use of electronic signatures by parents to verify attendance may also reduce burden by shifting away from pen and paper recording requirements.

Accountability for outcomes

71. Best practice for accounting for government funding reflects more than just ensuring accuracy of funding claims or reporting on what funding is spent on. Outcomes-based reporting and performance measures are generally regarded as the gold standard for accounting for the effectiveness of funding use as well as demonstrating the results of quality provision. This contrasts with the focus of current ECE accountability mechanisms. A fit-for-purpose accountability system would ideally incorporate reporting on outcomes, if not attaching incentives to achievement of those outcomes.
72. For the purposes of this paper, we do not explore outcomes-based accountability further, other than to say that the principles of effectiveness and efficiency are not obviously reflected in the existing framework – certainly not at a service level. Despite this, we recognise that expanding to outcomes is likely to be highly challenging for reasons such as:
- A lack of clearly agreed or developed outcomes measures for the ECE sector – either in terms of effectiveness or efficiency.
 - Difficulties measuring and attributing key outcomes to particular services (the latter is a control over outcome problem)
 - The potential for outcome measures to create perverse behaviours in order to meet expectations.

Past advisory group ideas for accountability changes

73. The issue of accountability has been touched on by the last two advisory groups for ECE. It is worth being aware of the ideas they arrived at, although whether these remain relevant depends on factors such as the degree of change to the funding model proposed and changes to information collection through ELI in recent years.

74. In 2011, the ECE Taskforce suggested improving accountability could be achieved by:

- standardised performance and outcome reporting on government expenditure on early childhood education
- mandatory performance reporting by services, linked to their funding

75. The Taskforce brief extended beyond funding so it also had ideas about accountability that extended beyond funding accountability (eg, curriculum implementation information). We note that with ELI now well embedded, system level performance information is much better than it was in 2011, although ELI does not extend to collecting outcomes data at this point.

76. The Early Learning Action Plan (2019) based on an advisory group's work contained the following service funding related accountability recommendations:

- requiring services to publish information about the amount of government subsidy children attract
- requiring services to report annually to government on income and expenditure by licence in specified categories

77. We note that the explanation of these ELAP recommendations and strength of rationale was limited – for example, it was not clear how much the second recommendation differs from the existing reporting requirements.

Conclusions

78. The government funding framework leads to an expectation of clarity around the use and claiming of funding - accountability. This is focused not only on organisations funded to deliver services but also on the agencies providing the funding.

79. From a service perspective, the layering of multiple funding policies and a claim-based approach leads to significant requirements on services to collect and classify data in order to get the correct ECE funding entitlement. This can increase potential for errors to be made and therefore the likelihood that accountability processes establish funding claim inaccuracies.

80. Even where accountability is appropriate, the expectation and impact it can place on services means the operationalisation of the accountability, such as the verification method chosen to confirm attendance, needs to be carefully set to minimise double-handling and disproportionate outlay on administration.

81. FamilyBoost funding accountability arrangements apply a similar approach to ensure claims being made by parents / caregivers correct and legitimate.

82. The current accountability framework assists with key objectives such as ensuring correct claims and an awareness of what funding is purchasing. Current accountabilities are not necessarily gold standard though as a more complete accountability framework would track child and labour market outcomes arising from funding (eg, increased private income effects).

Annexes

9(2)(g)(i)



Proactively Released