



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

NOT MAG / GOVERNMENT POLICY

Pay parity

A deep dive

Proactively Released

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Scope

1. This paper responds to the MAG's commission to better understand the problem definition (including the intervention logic) as it relates to the existing Pay Parity policy, as part of the ECE Funding Review. The commission also notes that, in 2023, the Ministry of Education undertook a Pay Parity Funding Review. Following consultation, the review was not completed or implemented. Earlier this year the Government announced a Pay Parity moratorium which runs from 1 July 2025 to 30 June 2027. This will enable the Review to consider the current policy as it relates to pay parity before the moratorium ends.
2. The commission sets out a number of questions and the paper responds to these in Annex 1 to aid the MAG's discovery process. The paper starts with a pay parity recap, relying partly on earlier material provided to the MAG as part of the overview of ECE funding arrangements paper. We then consider when and why intervention in pay arrangements for teachers by government may be necessary before setting out some high-level conclusions to this question.

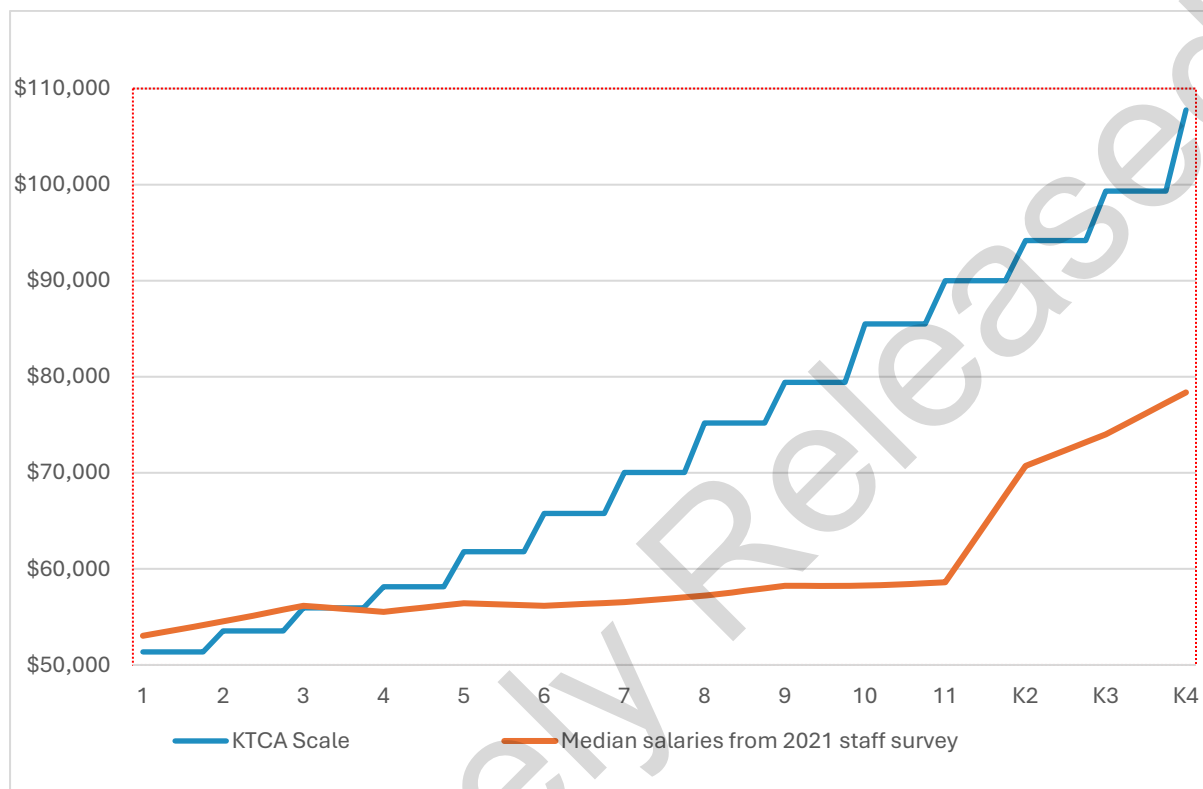
How does the pay parity scheme currently work?

3. The pay parity opt-in scheme (the Scheme) was introduced in January 2022 to start moving certificated teachers in education and care services towards pay parity with certificated teachers in kindergartens.¹
4. It was necessary to implement the Scheme quickly given the previous Government's 2020 election manifesto commitment to continue to work towards pay parity between teachers in education and care centres and their counterparts in schools and kindergartens. This was positioned by the Government in the first instance as a matter of fairness for teachers. It was anticipated that improvements in pay for this large group of teachers could also help with recruitment and retention in education and care services.
5. The Scheme provides three sets of higher funding rates that education and care services may opt into (this includes hospital-based services). As part of opting in, services attest to paying their certificated teachers at least certain steps or part steps of the Kindergarten Teachers, Head Teachers, and Senior Teachers Collective Agreement (KTCA) 11 step pay scale. The steps are minimum amounts and higher pay is permitted. These rates sit alongside a fourth, base, funding rate, which requires payment of a single minimum pay step (step 1). The funding rates were progressively introduced at the following dates.
 - **Parity rate** – introduced on 1 January 2022.
 - **Extended pay parity (EPP) rate** – introduced on 1 January 2023. This also included management roles.
 - **Full Parity (FP) rate** - introduced on 1 December 2023.
6. The Scheme makes use of the existing funding rate framework. Any service opting into each pay parity rate receives the same funding uplift as any other service opting in (an average rate).
7. The additional funding to enable each new pay parity funding rate is based on the funding required to place certificated education and care teachers on the applicable KTCA pay steps from their existing pay (the pay gap). The assessed pay gap is static as it was based on teacher data gathered from a survey of ECE services the Ministry undertook in October

¹ Pay parity is the idea that certificated teachers in education and care services should be paid the same amount as teachers working in equivalent roles in kindergartens, and with the same qualifications and experience.

2021. Figure 1 shows the disparity between the teacher pay in the survey compared to the 2021 kindergarten pay scale steps (the survey data allowed matching of education and care teachers to their equivalent KTCA pay step).² There was starting parity at the lowest pay steps but, beyond this, disparity grows considerably. Teacher pay did not change much as experience grew.

Figure 1: 2021 education and care certificated teacher median pay and 2021 KTCA pay steps



- The funding required to introduce each of the rates was considerable. Table 1 sets out four-year funding allocations over successive Budgets. Funding was also added in the 2023/24 financial year to account for ‘flow-on’ pay step increases following bargaining of new schooling collective agreements in 2023.

Table 1: Four-year Budgeted funding for education and care pay parity implementation (in millions)

Budget 2020	Budget 2021	Budget 2022	Budget 2023	Pay step increase starting 2023/24	Total
\$151.124	\$181.877	\$265.581	\$331.955	\$692.538	\$1623.075

- The use of this approach is problematic and something the Ministry had identified as an issue before the Scheme was rolled out. This meant the Scheme’s design was not considered to be satisfactory in the long-term.
- For services, the Scheme, as designed, would not allow funding to respond to granular, service level, changes in pay as a result of different teacher pay step mixes in each service. Two services could have different pay parity costs due to a different mix of teacher experience levels, even for the same number of full-time teacher equivalents but would

² The gap was calculated based on all certificated teachers and their FTE, not just on in-ratio teachers attached to funded child hours.

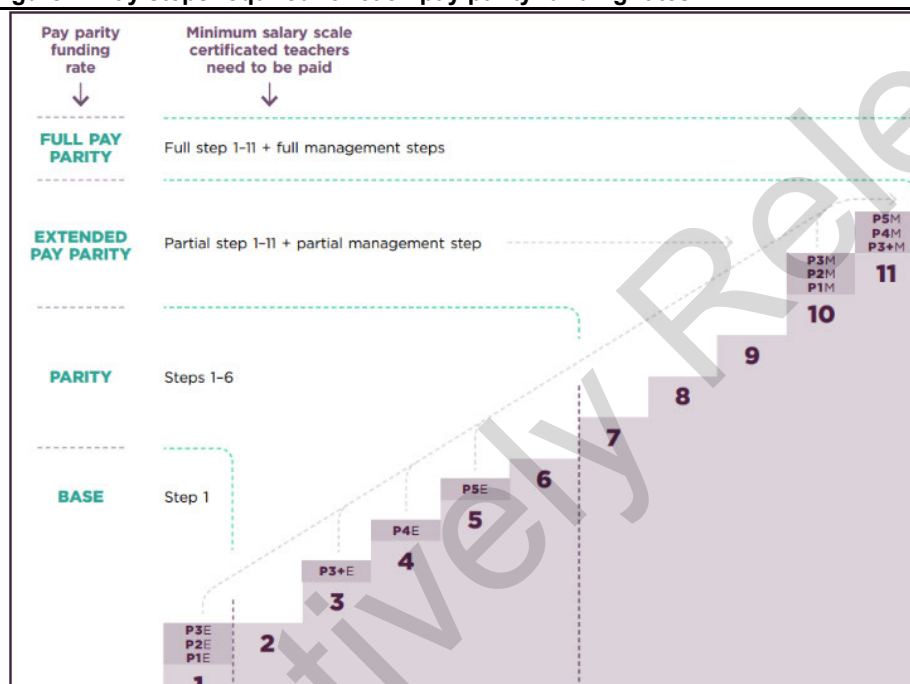
receive the same funding. Furthermore, teacher costs can change over time and become more or less affordable. Although the scheme is opt-in, so a provider has a choice about what level of pay parity to sign up for, in practice, they may also face labour market pressure to commit to higher levels pay parity to retain or attract staff.

- For government, the design means an inefficient distribution of funding for the purpose intended – some services get more funding than they need while others get less.

Funding rate pay requirements

- Figure 2 illustrates the number of pay steps included in each of the four funding rates, noting that extended pay parity uses partial step values for steps 7-11 and management roles (set at approximately 85-97% of the full KTCA steps).

Figure 2: Pay steps required for each pay parity funding rates



- A teacher's pay step is agreed upon between the service provider and certificated teacher. Three factors determine a teacher's pay step:
 - Qualification group (eg, holding bachelors degree versus doctorate – these are the P1-5 steps)
 - Recognised service (as a certificated teacher)
 - Previous relevant work experience (in designated types of roles).
- Recognised service and previous relevant work experience allow a teacher to be progressed further along the stepped scale, up to defined step limits.
- One of the conditions in the Scheme, is certificated teachers in education and care services automatically progress up a pay step when they have completed 2080 hours work (equivalent to one year of full-time (40 hours per week) employment) and have been assessed by the service provider as meeting applicable Teaching Council standards. Progression continues until the certificated teacher reaches the highest pay step in the funding band the service has opted into and for which they are eligible.

16. In general, the pay steps and related requirements have been set as closely as possible to the equivalent KTCA requirements.

What changes have been made to the Scheme since its inception?

17. Although the Scheme initially started with pay steps based on the KTCA pay steps, none of the pay steps offered are now at parity with the current kindergarten collective agreement steps. In September 2023, due to the cost of maintaining parity of pay steps with the KTCA, the previous government made the decision to freeze the full pay parity pay scale required to be paid at the 1 December 2023 KTCA pay scale. The KTCA pay scale has increased twice since December 2023 as a result of the terms of the kindergarten teachers' pay settlement in 2023. This means the parity steps used are no longer at parity with kindergarten teacher pay steps.
18. From 1 October 2024, only *permanently employed* teachers (both full and part-time) in services that have opted-in have to be paid at pay parity rates. Previously, any certificated teacher working in the service, including third party relievers, were expected to be paid in keeping with the pay step requirements applicable to their service.
19. From 1 July 2025 until 30 June 2027, education and care (including hospital based) services that have opted into the Scheme, are able to determine the initial salary step for newly certificated teachers and certificated teachers who are new to working in the New Zealand ECE sector (eg, a primary school teacher with no prior experience in ECE). Teachers then progress along the salary scale steps as usual, after the requisite time and performance is reached for each step.
20. In addition to this, following the July 2025 funding period, a two-year moratorium on movement to higher pay parity funding rates is in place for services that are currently attested to paying permanently employed certificated teachers at Parity or Extended Parity salary scale amounts (from 1 July 2025 to 30 June 2027) while the Funding Review takes place.

Is there a rationale for a pay parity scheme?

21. While the previous section provides an overview of the Scheme as it exists now, a fundamental question for this deep dive is whether there is a rationale for an ongoing pay parity scheme of some description. More specifically, why should the government intervene in worker pay when they are not employed by government (owned) organisations? Once that question is answered, consideration as to what form any scheme might take and any transitional arrangements can be contemplated.
22. Below we set out more information on the nature of the ECE labour market.

The ERA framework for pay arrangements

23. Under normal circumstances, pay (and conditions) for workers is reflected in either collective or individual employment agreements. The Employment Relations Act 2000 (ERA) provides the legislative framework for these agreements. Under the ERA, employment agreements are either negotiated between employers (or groups of employers) and employees (or unions on behalf of employees).
24. The ERA's legislative framework essentially allows the parties identified above to go about bargaining pay and conditions agreeable to each other. The framework reflects that bargaining imbalances can occur, so legislative guardrails have, over time, been put in place by government to remedy these 'market failures'. These include legislation for

minimum wage, holiday entitlements (both to limit exploitation) and pay equity (to limit undervaluation of certain workers).

25. The question is whether failure exists in the setting of remuneration for certificated ECE teachers and, if so, the extent that government should intervene to ameliorate this beyond that possible through the generic legislative framework.

Features of the ECE labour market for certificated teachers

26. The ECE labour market is not necessarily typical. It is more a quasi-market – offering services mostly or completely funded by government (through taxes) and provided by non-government organisations. The government has a functional monopsony ie, one dominant purchaser (the Ministry) while parents provide a minority of funding as minority purchasers and even this is, to some extent, restrained in the case of private revenue from 20 Hours ECE provision due to fee limits. The monopsony implies that government has disproportionate control over the level of teacher wages, even though it is not the direct employer of those teachers.
27. Consistent with this, the Ministry receives feedback at times from ECE providers about teacher shortages and the limited scope to raise pay because of limits on government funding. Providers also consider there are limits on sourcing more fee revenue due to the risk of parent demand dropping.

The unique role of KTCA arrangements in pay setting

28. The level of indirect government control via funding over ECE teacher wages intersects with the arrangements in place for the setting kindergarten teacher pay. In the paper to the MAG overviewing kindergarten arrangements, we outlined the KTCA bargaining mechanism. The pay scale in the KTCA effectively results from three features of current bargaining and funding arrangements:
- the government, rather than the kindergarten associations as the employer, directly bargaining with the union (enabled under the Public Service Act 2020)
29. the 'moral' principle that government funds the whole cost of collective agreement changes since it has negotiated them (although there is no legal obligation to do so) and
- that the parity clause in the KTCA requires any variations to the primary school teacher collective agreement unified base pay scale to be offered to kindergarten teachers.
30. These three features combine to present an atypical level of Government involvement in kindergarten employment relations, although a somewhat analogous situation has occurred in the health sector.³ The result is that kindergarten teachers have typically received regular and sometimes significant pay step increases while kindergarten associations are effectively indemnified for bargaining costs, albeit at an aggregated association level.
31. Government could, with its monopsony funding power, largely enable (at least for the hours government funds), if not require, teacher prices (wages) for both of the teacher-led, centre-based service types to be set at the same levels. The cost drivers funding system, introduced in 2005, initially made this the case. At the same time, the government started requiring all education and care services to pay any employed registered teachers at least

³ For example, community health workers in various non-government health organisations received pay increases from 2023 funded through increases to those organisations government-funded (Health New Zealand) contracts. This was to calibrate them with Health New Zealand employed workers in similar roles (see [Government takes action on pay parity for healthcare workers | Beehive.govt.nz](https://www.beehive.govt.nz/government-takes-action-on-pay-parity-for-healthcare-workers))

step one of the three qualification categories of the Consenting Parties Agreement (a collective agreement in place at that time, which government was not a party to that covered a minority of education and care services). In 2020, this requirement changed to Step 1 on the KTCA – a slightly higher pay requirement.

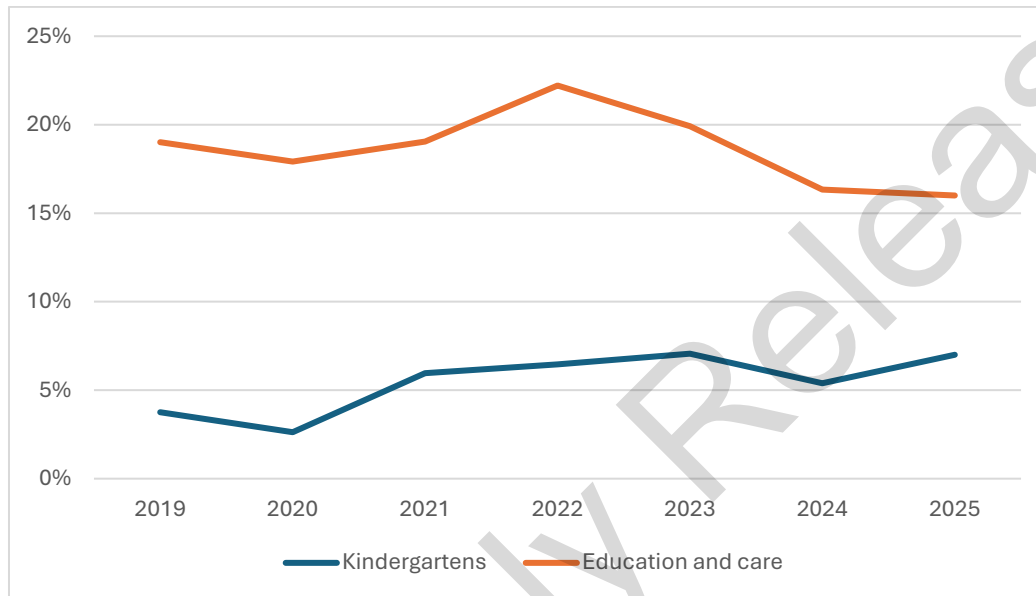
32. From 2011, kindergarten and education and care funding rates diverged. Kindergartens continued to receive rate increases to recognise the government's implied obligation to fund the cost of new settlements while education and care service funding rates were frozen to save money. Although teacher pay information is not available over the period 2005-2011, we assume that teacher pay between the two service funding types began to diverge more from 2011 as a result of funding rate differentiation.
33. The 2005 funding equalisation technically allowed all education and care service employers to pay teachers at the same rates as kindergarten teachers. However, other than the requirement for the initial rate of pay (as set out above) there was no requirement for education and care services to pay at KTCA steps. Kindergartens reported finding teachers were sometimes paid more in an education and care service than a kindergarten.⁴ Some variation in pay in a labour market not governed by a single collective agreement is to be expected, due to factors such as localised differences in competition for workers, pay being connected to performance, different terms and conditions around pay progression, and the use of individually negotiated employment agreements.
34. The settings in place – a combination of government's atypical role in bargaining for some ECE teachers and its use of monopsonistic funding power to differentiate funding between both teacher-led, centre-based service types who compete for the same teachers – has created a structural disparity within the ECE labour market.
35. From a service point of view, pay disparities create the potential for more experienced education and care certificated teachers to be recruited away from them by kindergartens (because of the KTCA rewarding experience). People thinking of working in ECE as teachers may not consider it as attractive when the largest employer segment is known to be a lower payer than other relevant segments (kindergartens and to some extent primary schools).
36. It is unclear how much movement of teachers to kindergartens happens or whether the pattern has changed over time.⁵ The decreasing ratio of kindergarten to education and care provision over the last 20+ years has likely led to a smaller proportion of teachers being lost from education and care services to kindergartens than was once the case.
37. The levels of teacher retention in relevant teacher-led service types may be seen as a rough proxy for changes in relative attractiveness of the two service types, although retention itself can be confounded by other factors, such as teachers seeking to move to work in places other than kindergartens or deteriorating labour market conditions causing people to remain in their current jobs.
38. Figure 3 below shows a steeper drop ie, improvement in relative retention in education and care, compared to kindergartens, since 2022 when pay parity was introduced. Retention still tracks significantly above kindergartens though (with turnover rates being less than half

⁴ This is possible under the Scheme now but in the 2000s most likely applied to education and care services paying less experienced teacher more than initial KTCA pay steps in order to attract sufficient certificated teachers so the service could place in a higher certificated teacher funding band.

⁵ It is possible to gauge patterns of teacher movement between education and care services and kindergartens using the IDI. However, this is likely to be quite involved and has not been carried out for this paper as a result.

of those in education and care services). Kindergarten retention has not shown a similar improvement in retention over the period. Kindergartens may even have experienced some movement of their teachers to education and care services now pay rates are more aligned than previously.

Figure 3 Teacher turnover ratio: education and care vs kindergartens



Note: 2025 figures are provisional.

Future Challenges with Pay Parity

39. Implementing pay parity under the current funding system does not work because it does not adjust well for the experience of teachers (a core feature of the KTCA), and the 'averaging' funding rate system we use does not do this well. Sustainability and efficiency is therefore an issue for both Government and service providers. It is difficult to insulate parents from cost increases in a funding system where cost-sharing is a core feature. The level of Government involvement in pay setting for kindergarten teachers has created an uneven playing field in terms of pay rates for teachers and funding rates for services. Therefore, change is needed.
40. There are several challenges or questions which would need to be worked through.
41. What should the role of Government be setting pay levels in the ECE sector?
 42. If govt is intervening to influence pay levels, what accountability is reasonable?
 43. ECE services (both kindergartens and education and care centres) have developed their business models to respond to current policy settings, therefore any changes to pay parity settings for education and care services (and or pay arrangements in kindergartens) would need to be transitioned carefully over time to avoid service disruption.
44. In basic terms, can and should the scheme be remodelled so as to be sustainable (fiscally neutral) and fair?

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Annexes

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Annex 1: Responses to commissioned questions

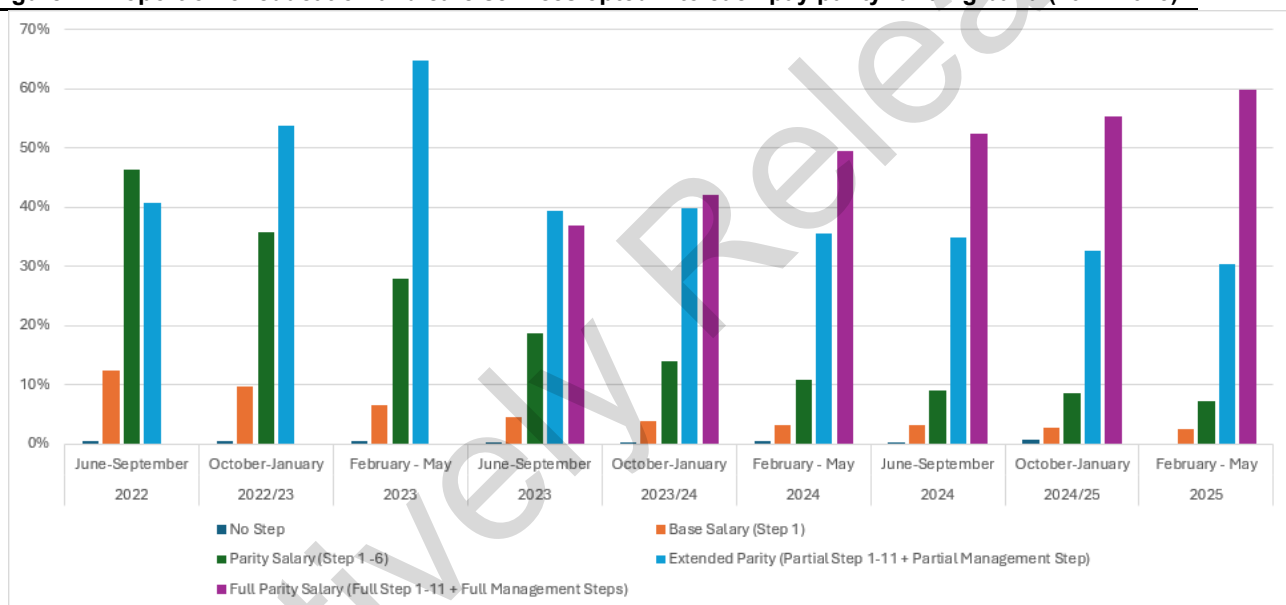
54. This section focuses on questions in the MAG’s commission. We note that, for many of the data driven questions, it is not possible to provide full or partial answers. This is mainly because the data referenced is not collected or there is no up-to-date collection. To a much lesser extent, it may be because it is difficult to link the data in the way required. In general, the data the Ministry collects reflects the existing funding system design and the purpose of the Scheme.

Impacts of the Scheme

Service take-up of pay parity funding rates

55. Services have increasingly opted into the higher funding rates since all three rates other than base were put in place. Over 90% of education and care services had opted into the highest pay parity funding rates (extended and full parity) at the last funding period final figures are available for, as shown in Figure 4.

Figure 4: Proportion of education and care services opted into each pay parity funding band (2022-2025)



56. The movement towards greater take-up of higher rates suggests that there are likely to be increases in teacher pay, on average. Tempering this is the fact that some teachers, especially those in the lower half of the pay step distribution were likely to be receiving KTCA pay levels already regardless of the Scheme’s requirements.

What has been the policy’s impact on pay rates and other benefits such as workforce recruitment and retention - across the entire ECE workforce?

57. The retention rate for certificated teachers over the time collected was discussed earlier and shows a relative improvement between the two service types. In this section we provide information about the change in teacher pay before and during implementation of the Scheme and, in comparison to kindergarten teachers.

58. There is no data collection series for certificated teacher incomes carried out as part of the Scheme or annual ECE Census. Figure 5 therefore relies on data from the IDI. The pay levels shown have the following caveats.

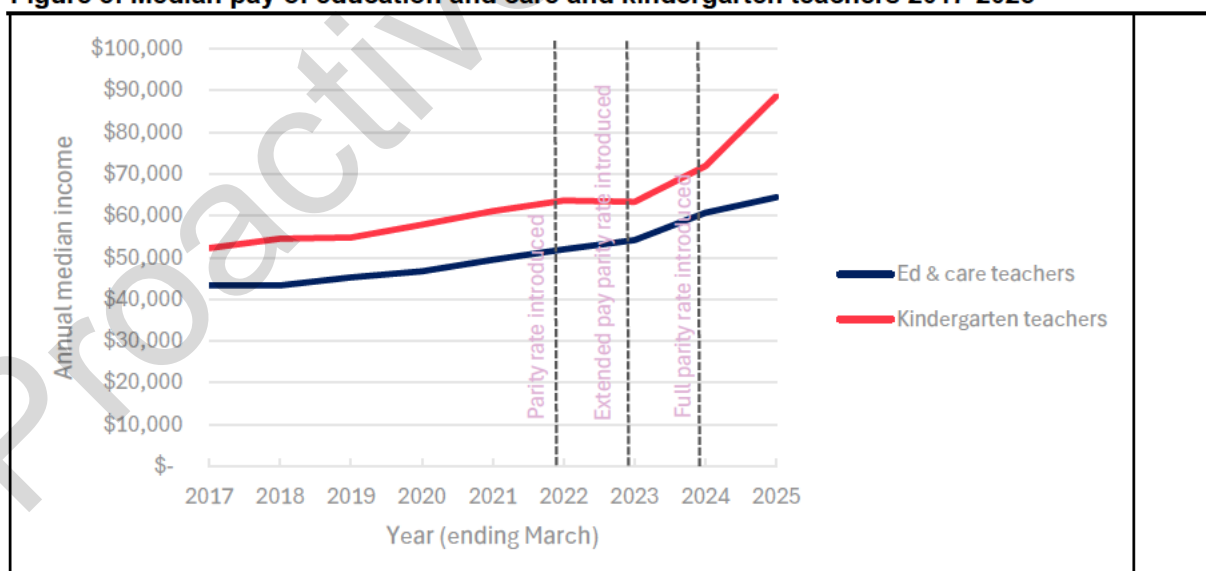
- They only relate to full-time teachers. Because the IDI does not specifically categorise a full-time level, the Ministry has used minimum wage annual amounts rather than hourly pay rates (which are unavailable) to denote full-time status. The use of the full-time limit means a large proportion of teachers are not included (around 75% of teachers in 2024).
- Given both service types now use pay scales based on experience and qualifications, the pay gap between each set of teachers may partly reflect differences in experience and qualification levels for each set of teachers (and therefore average pay step) as well as changes in services' opt-in to different pay parity rates since 2022.
- The IDI provides information on qualified teachers but certificated teachers, who are a subset of these, are not identified in the IDI. However, the ECE Census indicates almost all qualified teachers in the sector are certificated.
- The IDI does not identify kindergarten or education and care services specifically. The Ministry has used geographic proximity to known services to categorise each type.

59. Despite these caveats, the time series shows three trends consistent with expectations. These are:

- A pre-existing gap in pay (biased towards kindergarten teachers) prior to the start of the Scheme to the present day.
- A narrowing of the gap in 2023/2024 as extra pay parity funding and pay requirements became available and were taken up by services, notwithstanding that KTCA pay step values continued to increase.
- A widening of the gap in 2025 consistent with the KTCA pay scale increasing in value while the Scheme's pay scale remains frozen (although the increase in pay value is much larger than the increase in pay scale value).

60. The large percentage change in pay for kindergarten teachers between 2024 and 2025 suggests some caution about the drivers behind the 2025 figures.

Figure 5: Median pay of education and care and kindergarten teachers 2017-2025



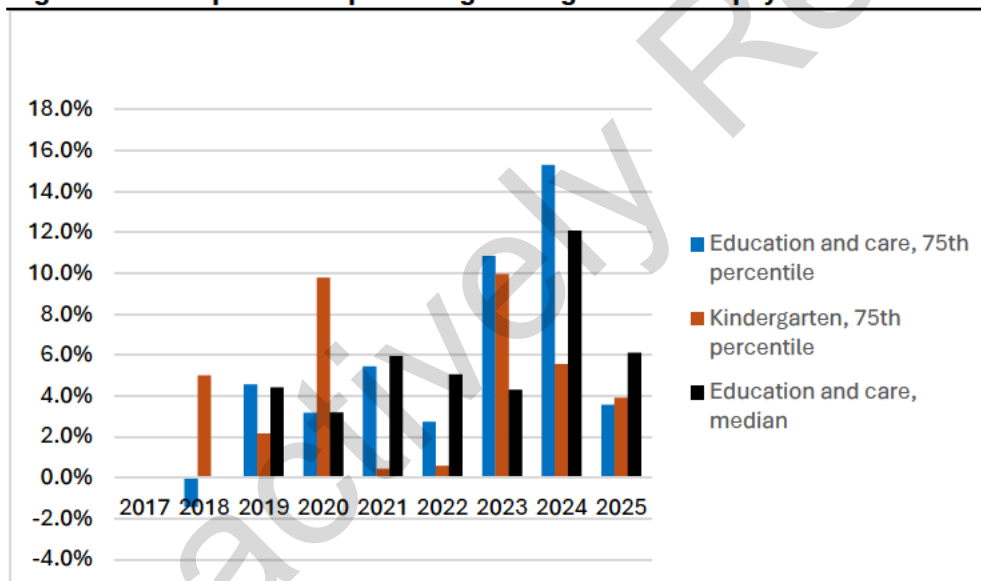
The impact of pay parity on more experienced teachers

61. In the 2021 staff survey discussed earlier, we noted the narrow range in median pay across education and care service teachers of all experience levels. This may reflect

several factors, for example, limits in government funding under a monopsony environment or a predominant service view that length of experience is not a key factor warranting pay recognition. A small step increase was only apparent at the very top end (for teachers likely to be at KTCA steps 10-11).

62. One likely effect of the Scheme, and especially the higher pay parity funding rates (extended pay parity and full parity), which extend more pay steps to teachers, would be a more marked effect on pay for more experienced teachers. While we do not have follow-up teacher and pay step data to the 2021 staffing survey, we might assume that many of the highest earners in the IDI sourced data are more experienced and would therefore see a higher shift in pay than those on lower steps (starting on lower incomes) especially once the extended pay parity and full parity rates took effect in 2023 and 2024.
63. Although there will be some teachers paid in the upper quartile who have relatively low levels of experience (eg, equivalent to pay steps 1-5), we see some evidence in Figure 6 that those teachers at the top quartile received a larger boost in pay in 2023 and 2024 compared to those at the median. This coincides with the introduction of the higher EPP and FP funding rates. In contrast, the median increased slightly more than the upper quartile in 2022 as teachers on lower pay rates, who we assume were less experienced, received more benefit from the initial parity funding rate introduced in 2022.

Figure 6:6 Comparison of percentage change in teacher pay median and 75th percentile



Describe in detail the underlying policy logic, including the roles in the workforce that were intended to be impacted, and those where there was no intended impact (while acknowledging there could be some impacts)

64. As covered earlier, ultimately the Scheme largely reflects choices and imperatives made by government in an attempt to match bargaining arrangements for the kindergarten sub-sector using the control the government has as the major funder for the sector.

65. The policy's impact was intended to be on the pay of certificated teachers.⁷ The Budget 2021 initiative seeking pay parity funding stated that the funding would lead to a fairer set of working conditions for certificated teachers in the sector and that it may help to improve teacher retention within education and care services.
66. The Scheme was focused initially on teachers covered by the base pay steps (1-11). In 2023, the then Minister of Education confirmed managers would be covered, if certificated. This was based on the view that it was not fair for a certificated teacher working in a leadership position to be paid less than a base teacher. We heard from some services that very experienced base teachers were being paid at or near the same level as managers in the lower pay parity funding rates. This implies we would have had more complaints about pay relativity if management had been left out of the Scheme.
67. Pay parity was not intended to impact unqualified teachers. This group's incomes are commonly targeted by minimum wage requirement changes or possibly living wage benchmarks. Nonetheless, the prospect of markedly higher pay may have motivated a small proportion of unqualified teachers to enrol into ITE programmes. The ECE sector has teacher qualifications designed to be studied while working prior to qualification making this feasible. The ITE enrolment trends later in Figure 7 are not able to identify if this has occurred despite there being a small increase in enrolments since 2022.
68. The previous Government's decision to freeze pay step levels meant that true parity is not now available. This has undermined the policy intent so that the Scheme now acts more as a pay 'reinforcement' scheme. The Scheme has had minor clarifications since its inception, including confirmation that split roles, which included working as a teacher or manager in one of the roles, should be recognised with parity requirements applying to the teacher or manager role but not other roles (eg, as cook).

Narrowing of Scheme scope to only require pay parity for permanently employed teachers

69. We described the 1 October 2024 change earlier in the paper, which limits scope of the Scheme to permanent teachers only. We do not hold pay information based on employment status so cannot tell on whether or how much pay for non-permanent teachers has reduced other than hearing several anecdotal reports soon after the change that reliever prices had come down (referring to prices charged by the agency to the ECE service rather than actual pay to relief teachers).
70. It is possible services may have sought to employ a greater proportion of teachers on non-permanent arrangements (eg, fixed-term) after the change. The most recent 2025 ECE Census figures suggests this has not occurred. In June 2024 6.4% of certificated teacher hours were being worked by non-permanent teachers and 6.3% in June 2025 (the latter being provisional at this time and subsequent to the narrowing to permanent teachers only)

⁷ In brief, these are teachers who form the basis for determining a service's 'certificated teacher funding band' and have either a NZ ECE or primary teaching qualification and a current practising certificate or an equivalent overseas qualification and practising certificate, or a clear Teaching Council primary or ECE discretionary endorsement to the same effect alongside a current practising certificate.

To what extent was the Pay Parity funding intended to contribute to the increased salary costs at a centre level for different role types like covered teachers and covered managers (noting that individuals without teacher certification are excluded even if they performed the same role as a certificated teacher as manager or teacher). What portion of the costs were intended to be paid by parents and was the intended contribution different for different roles (e.g, a higher govt contribution for teachers than managers)?

71. The funding approach for pay parity funding was unable to contribute to changes in salary costs at a granular centre/service level or to reflect specific role and pay step level costs. This is a function of the urgency with which the previous government sought to get pay parity into action and the effort needed to rework the existing ECE funding system to behave in this granular way. The limits of the existing funding system meant the Ministry only viewed the Scheme as a short-term approach to deliver pay parity funding.
72. The average funding rates embedded in the current system are limiting in that they cannot provide funding to each service in a proportionate way according to their different salary costs. What is possible is that two services can get the same pay parity funding rate for the same funded child hours but, under pay parity requirements, they have a different average pay for the same number of teachers due to different step levels. Their total salary cost differs and one may be better off to the extent that its average teacher pay means there is left over from the new funding it gets - a windfall. The second service may be in the opposite situation.
73. Implementing pay parity funding rates at least allowed some teachers to start receiving pay increases.
74. One of the consequences of having to use the existing average cost funding 'bulk funding' approach is that it is not readily possible to designate a fixed proportion of contribution to pay from public sources as opposed to private sources, especially at service level. To do this would begin to involve approaches such as set fee requirements.

Describe the Ministry's intended approach to tracking data on the policy benefits and costs, including tracking the level of recognised service across the 34,000 certificated teachers⁸ in the subsector, and forecasting the impact of pay progression on this group if retention levels improved as a result of the Pay Parity scheme?

75. The key intention of the pay parity policy has been to elevate the pay of certificated teachers to a point where they are at pay parity with kindergarten teachers. Figure 5 shows the considerable, although still partial, movement in this direction. The Scheme essentially leaves each service, not teachers, to decide if its teacher group receive higher pay based on the service's assessment of cost and funding rate implications.
76. The limited ability of the existing funding architecture to deal with service level pay costs led the government to make pay parity requirements optional. This is even when only a few pay steps have been required of services (and many services were close to offering these anyway based on the 2021 staff pay survey).
77. Much cost and lead in time would be involved to track paysteps for teachers in the sector. This would fall on both services and the Ministry. While doing so would enable the setting of a baseline value of salaries from which to adjust forecast funding, such an

⁸ Note there are about 18,650 teachers with certificated status in the education and care sub-sector (as at the [2024 ECE Census](#)).

approach would still only enable global funding rate changes (ie, applying the same rates to all education and care services). Individual services would not necessarily receive the 'correct' amount of funding and some services would remain overfunded or underfunded.

78. In a forecast funding environment, if a decrease in average salary cost occurred (eg, if the average pay step dropped) funding rates would need to decrease and services would need to be prepared for this drop in revenue. This would also be necessary to limit the incentive to hire more costly teachers as the upside risk of more expensive teachers is entirely met by the government. It could be that some behaviour differed from this expectation such as services targeting lower pay step teachers to increase profitability (although if too many services did this, funding rates would adjust down and eventually reduce overfunding).
79. This funding inflexibility is what led to the Ministry's view early on that the existing funding system was not well suited to dealing with pay parity. We note that our 2023 proposals for a more flexible funding system would have built in recording and responding to actual pay steps of teachers at a service level.

While pay has increased for many teachers as a result of the policy, is there evidence of negative pay impacts in some parts of the workforce? If so, what impacts, who has been impacted (e.g. managers, educators, other staff) and do we know why they were impacted?

80. We have not been able to show negative pay impacts ie, wages actually decreasing including in other non-teaching roles. Nor do we see obvious signs of changes in the proportion of certificated teachers in the education and care workforce (which have generally hovered around 65% for many years now).
81. There is anecdotal evidence that less expensive (lower experience) teachers are more sought after in an average price funding environment – to some extent this is a phenomenon that existed before pay parity, especially when teacher supply appeared sufficient. In practice, we expect it does not mean that more expensive teachers are never hired but rather that individual services can only hire a few experienced teachers. We see this with kindergarten associations, which are funded the same way and where the distribution of FTE across kindergartens by pay step does not greatly change. This is because kindergartens would need to pay the additional cost if they only hired very high step teachers (the pay profile of kindergarten funding is essentially baked into the funding model).

What was the policy's impact on other workforce trends, for example supply, recruitment and retention (consider both the roles in the workforce that were intended to be impacted, those excluded and those with unintended impacts)?

82. The Ministry has limited sources of information around changes in supply and demand for teachers or other roles. We have discussed retention trends earlier insofar as these may have any link to pay parity and how it would be quite involved, although possible to track individual teachers in the IDI. For now, the lack of teacher level data linked to services and their pay parity status precludes any insights from teacher movement or pay (eg, whether teachers gaining significant pay increases move more than teachers who receive smaller pay increases).
83. We have indirect measures of supply and demand such as the level of advertisements for teacher jobs in the Education Gazette in Table 1. This was included in the MAG's first meeting as part of a data overview for the sector. The presentation noted that 2024 showed an unusually low level of teacher advertisements (2025 has also tracked at a

similarly low level). This indicates low demand for teachers. However, as with some other statistics cited in this paper, it is difficult to determine exactly what role pay parity has played in the most recent figures, given that difficult economic conditions and demand for ECE can play a role in recruitment patterns.

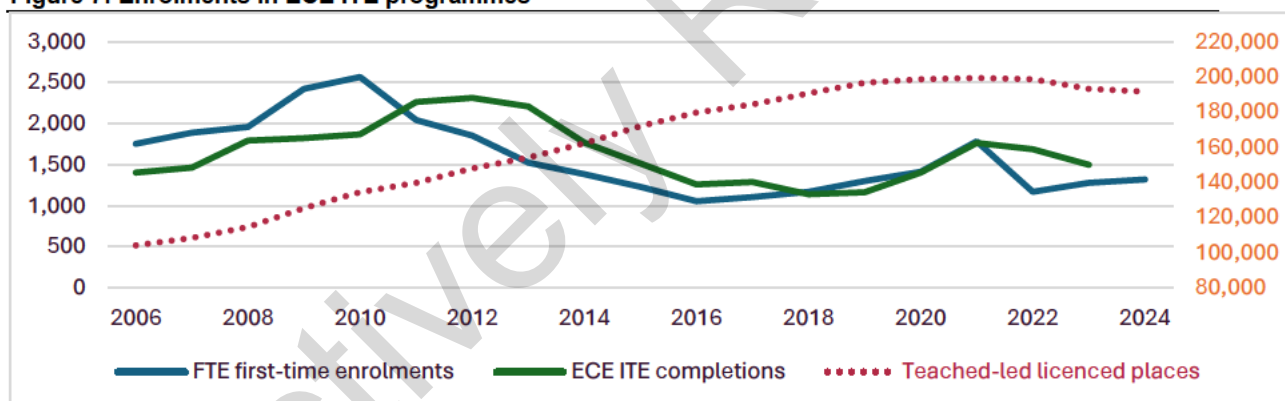
Table 2: Education Gazette listed positions

Contract type	2018	2019	2020	2021	2022	2023	2024	July 2025
Contract	22	4	2	5		6		
Fixed-term	378	369	370	432	402	431	344	172
Long-term relieving	42	38	15	23	35	15	36	17
Permanent	4,791	4,928	3,836	5,018	5,614	5,401	3,477	1,575
Total	5,233	5,339	4,223	5,478	6,051	5,853	3,857	1,764

84. The demand for ECE in the last 30 months has also been relatively stable suggesting that demand for child hours has not lowered the level of job advertisements.

85. We also see in Figure 7 below that ITE enrolments are tracking slightly up since pay parity was introduced in 2022. However, it is not clear if a significant cohort has been encouraged to begin teacher training because of changes in prospective pay. This is especially so because enrolment in tertiary courses generally tracks upwards as economic conditions deteriorate (specifically, when youth unemployment is high).

Figure 7: Enrolments in ECE ITE programmes



How does this impact on wider workforce trends vary across different parts of the workforce, for example as between certificated teachers at different steps on the three Pay Parity salary scales, as between teachers and unqualified educators, for leaders and managers, and other allied workers such as centre cooks and administrators, and including owners performing teacher or manager roles without employment agreements (i.e. not covered by the policy)

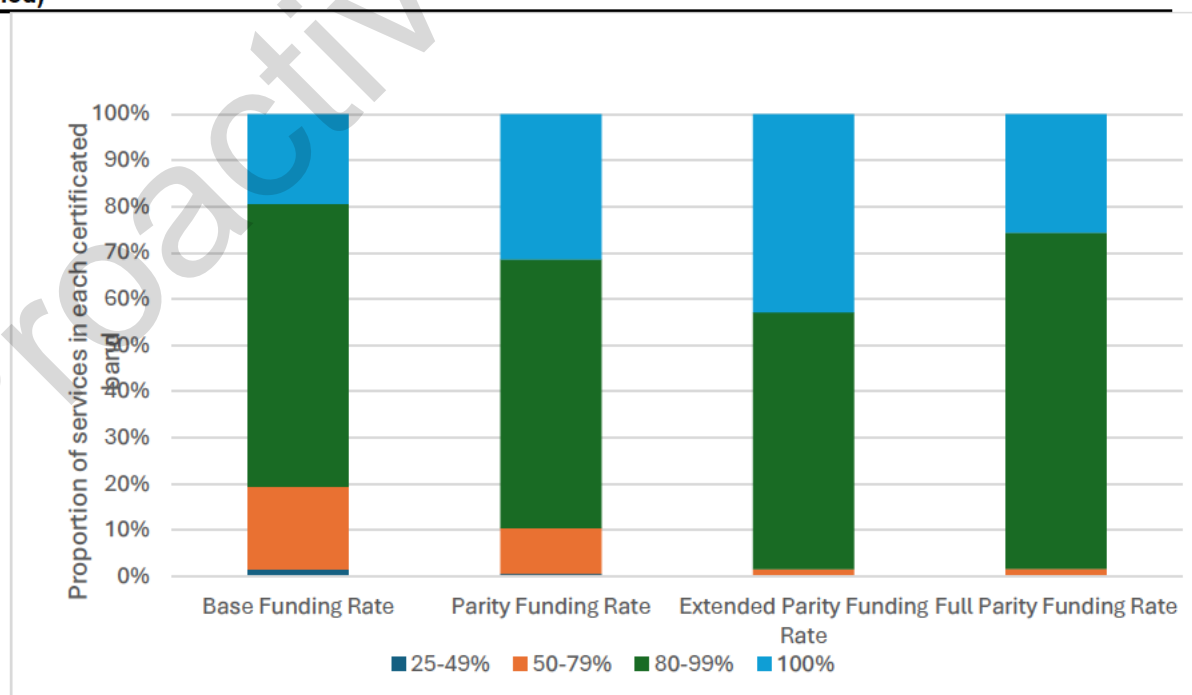
86. The Ministry does not hold pay step level data for individual teachers apart from approximate step data collected in 2021 to inform further funding of the pay parity roll out. Similarly, we do not have data for the non-certificated teacher roles listed. Identification of trends such as differences in staff turnover would need bespoke collection of information relating to people in these roles and to be carried out on an ongoing basis.

What other consequences have there been, perhaps unintended or not anticipated during policy development? These could be in relation to supply of services (e.g. closures), financial sustainability (funding gap), or in terms of access, affordability, equity or impact (quality) of ECE services for households and children. What does the available data and evidence tell us about this? Both positive and negative

87. The key change from pay parity work has been to create uplifts in certificated teacher pay in education and care services. Besides this, the consequences and challenges we have been aware of since 2021, although not necessarily always able to confirm or quantify, are as follows:

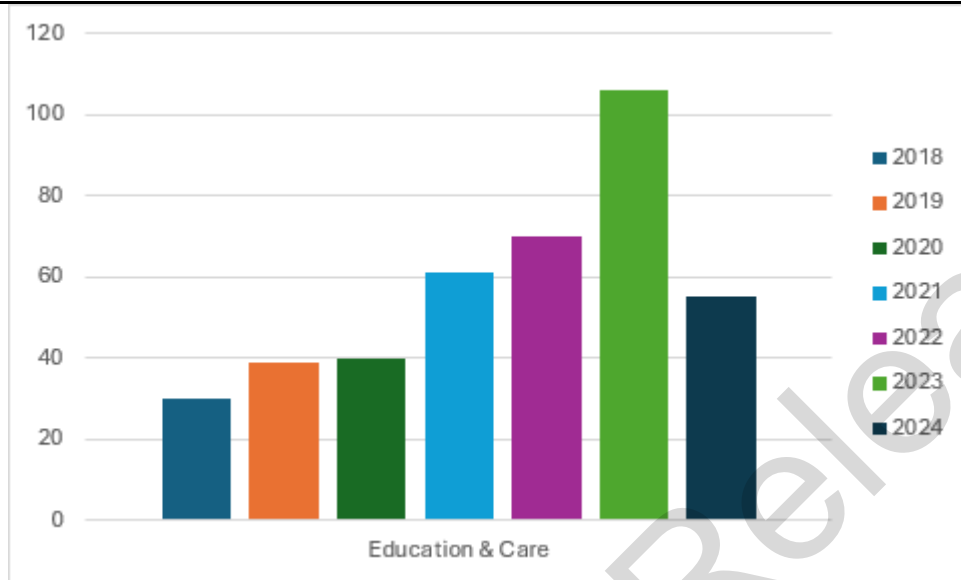
- Challenges precisely modelling the funding needed to meet the pay gap to reach pay parity.** The Ministry initially had to estimate likely total uplift in current salaries to meet KTCA pay steps using a mix of the 2020 Remuneration Survey, KTCA pay scales and ECE Census FTE data. This was used for the first parity funding rate available from 1 January 2022. To inform subsequent Budgets and additional funding rates, the Ministry then conducted a staffing survey in October 2021. The survey data was necessarily assumed to be robust enough to calculate the gap but this assumption was somewhat uncertain due to response bias/rate and variability in assessments of teacher qualifications and experience.
- The potential for teachers to be attracted to services opted in to more extensive pay parity funding rates and therefore higher pay.** It may be possible to do this through the IDI but would require considerable work and may not be completely accurate. The lower tier would be less able to be in higher (quality) certificated teacher funding bands if they could not attract teachers due to pay rates. Linking of funding band and pay parity funding rate data shown in Figure 8 suggests services on base and parity rates are more likely to be in lower certificated teacher funding bands. The relationship does not necessarily mean pay parity is the reason for services being in lower funding bands but it may be a factor.

Figure 8: Percentage of services in each certificated teaching band, by parity attestation, (July 2025 pay period)



- **Difficulty translating and assessing compliance with pay parity funding conditions.** This includes readily defining or explaining KTCA conditions or creating interpretations that match in a generic yet close enough way to education and care services (the Ministry's approach has been to maintain parity of pay-related conditions as stated in the KTCA unless this is simply not feasible). There is more diversity and volume in education and care and situations have arisen that may not be usual in kindergartens eg, position descriptions. The Ministry has also had to manage complaints and disputes including as part of auditing service records. At times, teachers and employers have had to be directed to formal employment dispute channels such as MBIE or the Employment Relations Authority where jurisdiction over employment disputes is more appropriate.
 - **Applying the same funding rates across services would create inequity between services.** Services that employ a high proportion of teachers on lower pay steps would be in a better position than those that do not. A considerable portion of pay parity funding would go to services that did not necessarily need the funding at that time (overpaying). The consequence is inefficient distribution of funding and a segment of services that would be averse to changes to the status quo.
 - **Potential for services that opt into pay parity requirements where their costs are not fully met by government funding to be put under pressure.** This pressure could be to increase parent fees or on general financial viability and is likely to fall unevenly on services depending on staffing flexibility (eg, smaller providers).
 - **Additional administration on services (at least initially) to integrate teaching staff into the Scheme.** initially this was a significant one-off before becoming more manageable over time. Pay assessments and classifications are similar to those used for many years for the KTCA by kindergarten associations.
88. The MAG has previously heard about the levels of education and care closures in recent years and the possible links to pay parity, especially 2023 closures. The Ministry's view is that it is possible some services have closed since 2022 because they opted into a pay parity rate that was unsustainable. However, while pay parity may be putting pressure on some services, we do not have the detailed service level financial information required to pinpoint particular services where this has been the case or where fee increases have clearly resulted from the policy.
89. It is not obvious that trends in education and care service closures can be linked to pay parity. While 2023 spikes, we can see in Figure 9 that last year tracks down towards longer term levels (2025 closures are looking to be at similar levels to 2024).

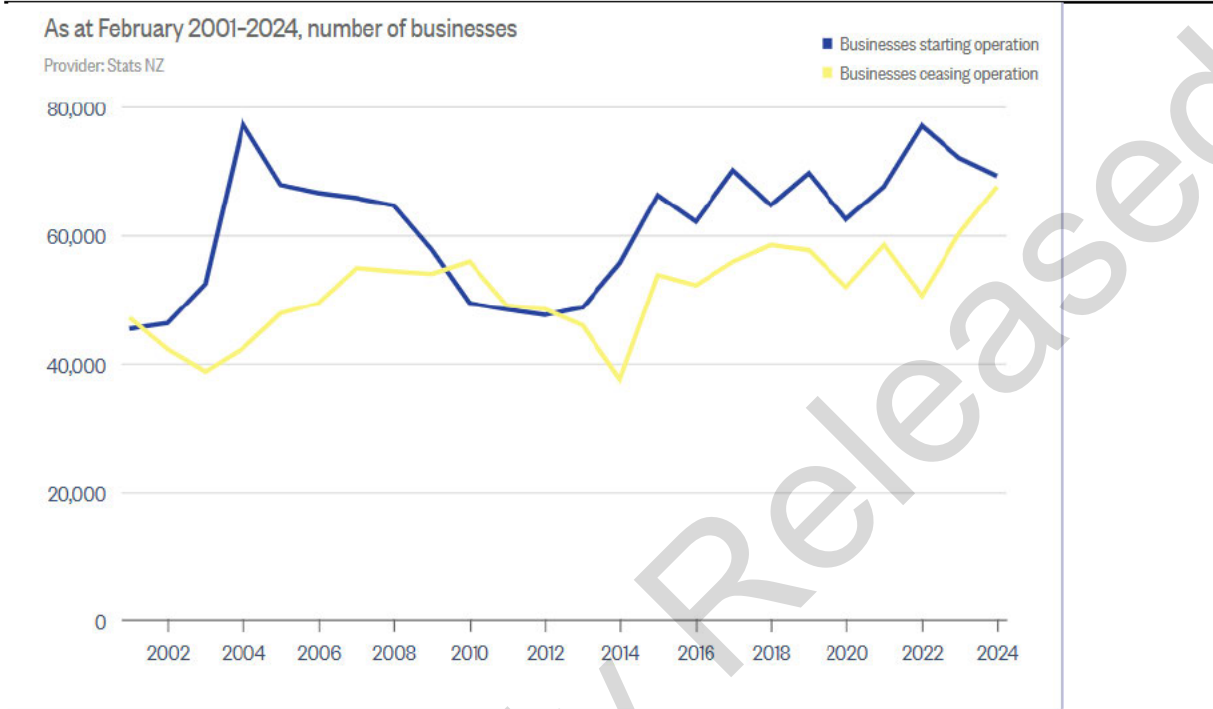
Figure 9: Education and care service closures by year 2018-20247



90. While 2023 produced an all-time high level of closures for the sector, on the surface, it is difficult to connect this record level directly or fully to pay parity. This is partly because we would not expect so many services to have underestimated the impact of pay parity after only about a year in the Scheme.

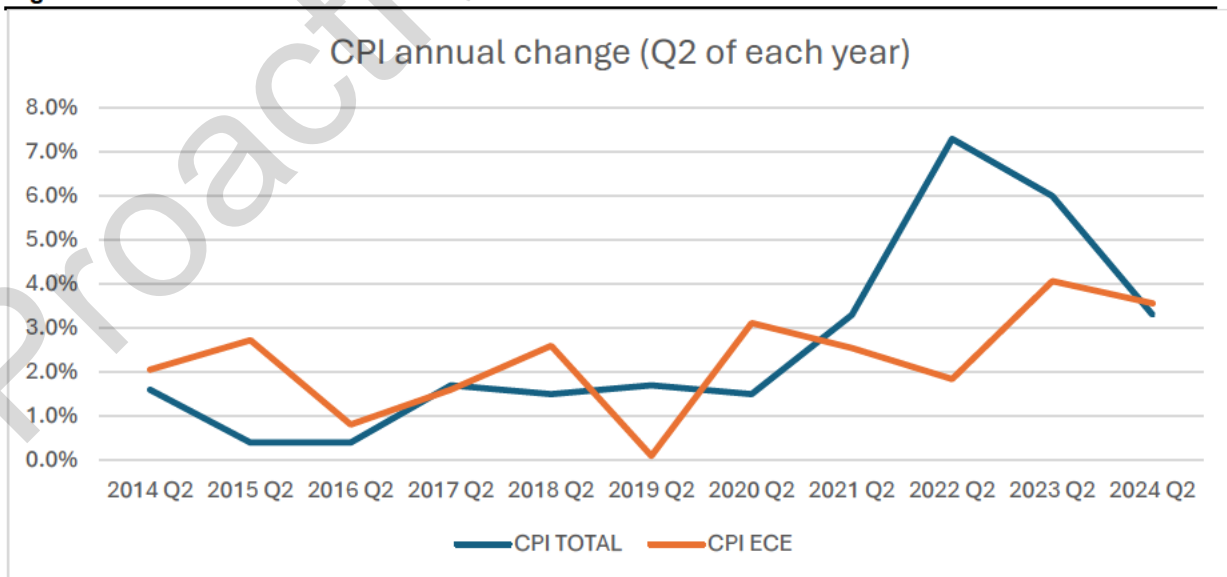
91. More likely is the effect of the post-Covid economic environment. In ECE this led to the Ministry rolling out a raft of financial protections from 2020 to 2022 to support services through a period of unprecedented uncertainty. These included funding band protections, no clawback of negative washups and suspending absence rules. These protections all came to an end by early 2023. We suspect that these and more variable and lower enrolment and attendance levels in 2023 affected a higher than usual number of services (enrolment and attendance have now largely recovered). To support this assumption, we see all business-related closures spiking between 2022 and 2023, not just ECE services, in Figure 10. In fact, ECE closures stabilised in 2024 while other businesses continued to close.

Figure 10: Business births and deaths in New Zealand



92. In Figure 11, we find that there was an increase in inflationary pressure on parent fees as pay parity was being introduced, although it eased into last year (we have discounted later data points due to confounding from FamilyBoost’s introduction).⁹ Nonetheless, ECE inflation still tracked lower than general inflation at this time.

Figure 11: ECE CPI vs CPI Total 2014-2024



⁹ The ECE CPI mainly samples from education and care services so much of the change can be attributed to that service type.

93. Overall, the Ministry expected that the sector could largely manage pay parity under the current Scheme for some two-three years post introduction. After this it would become increasingly difficult to predict impacts as well as continuing to be inefficient. This led to the Ministry seeking a more suitable approach to distributing funding.

At the present time, how large is the funding shortfall for providers across different Pay Parity salary scales (i.e. as between actual cost and the funding provided)? What is the distribution of this funding shortfall (or potentially a surplus in some cases) and what factors seem to contribute to the size of the shortfall or surplus?

94. The Ministry is unable to calculate provider level cost and funding implications. This is principally because we do not have current data by service on the FTE levels or distribution of teachers against the various pay parity scale requirements. There are also considerations such as whether a 'shortfall' is prospective or retrospective.

95. In 2022 and 2023, the Ministry used a mix of the 2021 staff survey referred to earlier and a financial survey conducted in March 2022 to both estimate the funding gap (shortfall) and likely take up distribution of the base, parity, extended pay parity and eventually full parity funding rates. While the data from those surveys provided a much better idea of how much pay parity funding was needed and how it would be allocated across providers, the adequacy of the data was still limited by the questions asked, provider knowledge and response rate.

96. Given the Scheme's funding rates are based on the additional estimated *average* cost of paying certificated teachers according to the pay step salary scale, rather than actual costs incurred by each individual service, there will always be windfalls, where, for some services, pay parity funding rates may result in excess funding, while for others there are shortfalls. For the latter opting in can only be rationally justified if parent fees are raised or services adjusting their staffing mix or adult to child ratios.

97. The only way shortfalls can be avoided besides changes to staff mix is through very significant injections of government funding. This is where paying through an inefficient mechanism becomes fiscally untenable. As a result, the Scheme cannot guarantee full pay parity for all education and care teachers. A system would need to proportionately match existing funding to total teacher pay at a service level. The funding system has not been altered to provide funding in this way, although such an approach was consulted on in 2023. We discuss this in the next section.

What advice and options did the Ministry develop to progress changes to the Pay Parity scheme following the Pay Parity funding review in 2023?

98. In April 2023, the Ministry publicly consulted on a proposal to change the funding system as it applied to education and care services. In brief, the proposal was to replace the existing two main early learning subsidies (the ECE Funding Subsidy and 20 Hours ECE subsidy) with two new subsidies. Current funding provided for the main early learning subsidies would be redistributed to the new subsidies and any additional funding needed to bridge the pay gap that may have been received from future Budgets.

99. One of the new subsidies was to be called the Teacher Salary Subsidy. It would be the government-funded contribution to teacher salary costs. The second would be called the Operating Subsidy and would be the government-funded contribution to a service's other costs.

100. Overall, the feedback received was not supportive of the proposed funding model, although submitters were broadly supportive of specific ideas. One of the main issues was that service providers wanted certainty in advance about how the proposal would specifically affect their financial position compared to the status quo.
101. After receiving advice on the feedback to the pay parity proposal, Cabinet agreed to pursue a wider funding review in lieu of reworking funding arrangements only for pay parity. This was announced in August 2023 alongside introduction of the full parity funding rate later that year. Further advice and options were not proceeded with and the change of government later that year paused the work.

Describe and outline the current relationship between the Pay Parity policy and the Kindergarten Teachers Collective Agreement (KTCA) including the legal position and process relating to kindergarten teachers' negotiations and bargaining (not in scope for review), setting funding rates, the funding approach to subsequent settlements and the timing for varying the collective (including the potential for primary and secondary-triggered adjustments), and the sequence/process for flowing-on pay step changes to the education & care subsector and what improvements could be made to that process.

102. As indicated earlier, pay parity funding rates were initially set against the current KTCA pay steps but are now frozen at the December 2023 KTCA pay steps. These have since increased for kindergarten teachers. Cabinet decisions in Budgets 2021-2023 meant that it effectively agreed to pass the flow-on costs of KTCA negotiations to education and care services using money set aside for this purpose. However, the final collective agreement settlements across the KTCA and primary and secondary school equivalents (the PTCA and STCA) later in 2023 increased the cost of the flow-on increases beyond the funding set aside. The funding available covered the December 2023 pay steps only (this was assumed but also uncertain due to doubt about the level of opt in to full parity rates).¹⁰
103. Whether additional pay parity funding is provided is entirely a discretionary decision for Government (via Cabinet) and usually made through the Budget process. No Budget increases have been agreed since Budget 2023. It is highly unlikely this process could be altered and one of the implications of this is that funding decisions are usually made under Budget secrecy and not usually freely consulted on or negotiated.
104. In the meantime, the KTCA bargaining cycle continues with negotiations between the Public Services Commissioner under powers in the Public Service Act 2020 (a responsibility usually delegated to the Secretary for Education) on behalf of the kindergarten associations) and the union, New Zealand Educational Institute Te Riu Roa. The next round of bargaining will take place after the current KTCA expires on 4 April 2026. Under the KTCA agreement, changes in the unified base pay scale applying to school teachers in their collective must be offered to kindergarten teachers.

Describe how the core funding rates for kindergartens are set, to reflect new KTCA agreements? How does this differ from the way core funding rates are set for education and care centres, across the different Pay Parity salary scales.

105. The funding cost of variations to the KTCA agreement for teacher is calculated through several steps:
- Getting data from kindergarten associations on the number and full-time equivalence of their teachers as well as their KTCA pay step.

¹⁰ This flow-on funding is shown in Table 1.

- Using the data to calculate the salary cost of the existing workforce for a base year, then calculating what that workforce would cost at higher KTCA salary rates and then adjusting for any forecast growth of full-time teacher equivalents (FTTE) (due to forecast changes in child hours). Adjustments are also made for any related cost increase reasons eg, additional FTTE for increased head teacher professional time or sick leave.
 - The total cost (or pay gap) across all kindergartens is the difference between the existing cost and the new cost. GST is added to this amount.
106. The cost is then divided across Funded Child Hours for the corresponding period in which the new salary rates are applied (under 2 hours are counted as double the hours).
- Funding rates for 20 Hours ECE and the ECE Subsidy for 2 year-olds and over are increased by the dollar increase per child hour found in the previous step. Under 2 rates are increased by double the dollar increase.
107. The process used to calculate the rate levels for the various pay parity funding rates was similar, although not identical, to that used for kindergartens. For Budget 2022 and 2023, funding of extended pay parity and full parity funding rates involved:
- calculating an overall pay gap comprised of individual teacher pay gaps found using the 2021 staffing survey and with FTTE adjusted to take into account all child hours, not just those reflected by those responding to the survey. This was then adjusted for forecast child hour changes over the four-year Budget period
 - Unlike kindergartens, the Ministry had to estimate what proportion of services would opt into each type of pay parity funding rate. This was broadly informed by the financial survey of education and care services undertaken in 2022. The proportions chosen then determined the amount of the pay gap funding assigned to the subset of funded child hours attached to each pay parity funding rate.
 - The portion of total pay gap funding for each funding rate was then divided by those funded child hours to create the funding rates. Under 2 hours were counted as double in the same way as kindergarten rates.

Annex 2

Salary scales (\$ per annum)

Step	Education and care (full steps)	Current KTCA steps	KTCA premium over ed & care full steps	Education and care (Partial steps)
1	\$57,358	\$61,329	6.9%	\$57,358
2	\$59,544			\$59,544
3	\$61,948	\$64,083	3.4%	\$61,948
4	\$64,133	\$66,586	3.8%	\$64,133
5	\$67,794	\$70,779	4.4%	\$67,794
6	\$71,869	\$75,340	4.8%	\$71,869
7	\$76,261	\$80,224	5.2%	\$74,152
8	\$81,566	\$86,123	5.6%	\$76,403
9	\$85,915	\$90,960	5.9%	\$78,715
10	\$92,175	\$97,920	6.2%	\$81,112
11	\$96,820	\$103,086	6.5%	\$85,457
K2	\$101,120	\$105,664	4.5%	\$85,457
K3	\$106,427	\$113,315	6.5%	
K4	\$115,123	\$122,574	6.5%	