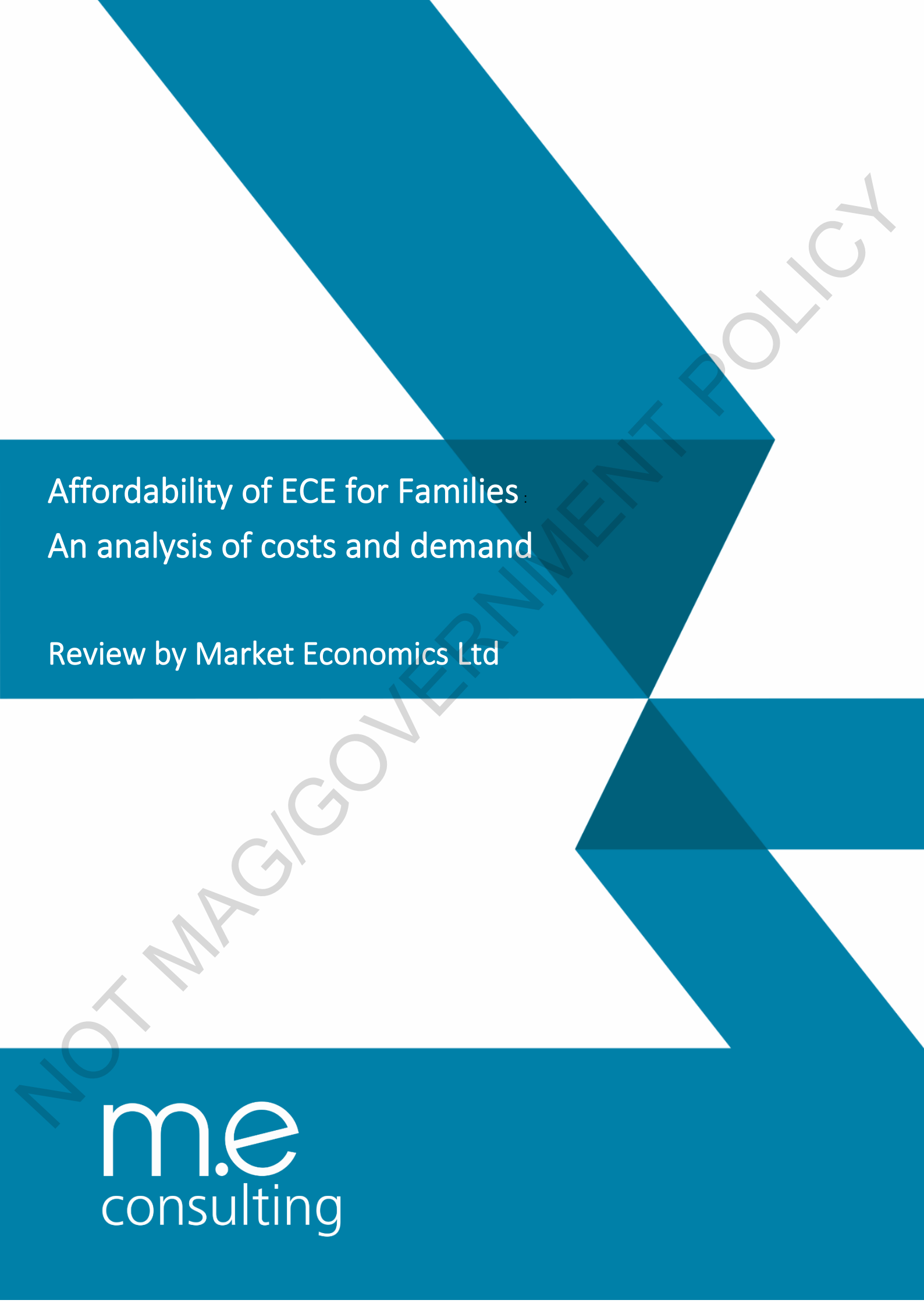




Affordability of ECE for Families: An analysis of costs and demand

Review by Market Economics Ltd

m.e
consulting



Prepared for

Ministerial Advisory Group on Early Childhood Education

Document reference:

Date of this version: 4 March 2026

Report author: Douglas Fairgray

Director
doug@me.co.nz

www.me.co.nz

Disclaimer: Although every effort has been made to ensure accuracy and reliability of the information contained in this report, neither Market Economics Limited nor any of its employees shall be held liable for the information, opinions and forecasts expressed in this report.



Contents

1	INTRODUCTION	2
1.1	OBJECTIVE	2
1.2	APPROACH	2
1.3	KEY ISSUES	2
1.4	REVIEW STRUCTURE	3
2	TOPIC AREAS	5
2.1	OVERVIEW.....	5
2.2	LITERATURE REVIEW	5
2.3	COST OF ECE TO PARENTS	5
2.4	DEMAND FOR ECE	8
2.5	SUPPORT & SUBSIDIES	9
3	ASSESSMENT	10
3.1	SUMMARY	10
3.2	MAG QUESTIONS.....	10
3.3	RECOMMENDATIONS (DRAFT)	11

NOT MAG/GOVERNMENT POLICY

1 Introduction

1.1 Objective

This Paper presents Market Economics' review of the report *Affordability of ECE for Families - An analysis of costs and demand* prepared for the Ministerial Advisory Group.

That is in the context of an examination of 'Affordability and access' ...as ..." *one of the four overlapping areas of concern regarding the current ECE funding system*" (p4).

1.2 Approach

Our approach to this review is based on two main considerations:

1. whether the Report meets its stated objectives and scope. These are set out as the 9 Questions posed by the MAG (p4).
2. whether the Report contributes to the wider objectives of the MAG study. This is broadly covered in the description that "*this review aims to ensure the ECE funding system is simple and fair and delivers value for money.*" (p1).

We have examined the Report, and considered each of the MAG Questions specifically¹. The Report is not structured around the Questions, rather it is organised around 17 headings which we have labelled as Topic Areas. These together contribute different aspects to answering the MAG questions. That assessment is necessarily generalised as the Topics are not linked to specific Questions, with many contributing to several Questions.

Our review considers the scope and material in each of these Topics covered, with particular focus on the data used, and the analysis and interpretation which has been applied. The wider view is the extent to which the research is able to address the MAG Questions.

1.3 Key Issues

The MAG review is of necessity wide-ranging, to address different aspects of the affordability of ECE. The ECE sector is multi-faceted, and it is important that assessment of affordability addresses that multi-faceted nature.

Affordability for ECE households – those households with children in the 0-5 age bands who require and utilise ECE² - relates primarily to both the financial costs and the time required. Parents need the financial resources to pay for ECE, and the time to utilise ECE services. Both aspects may be affected by a number of nuances.

The ECE sector is funded by a combination of Government funding and private funding (predominantly by families), with the Government funding through a number of different avenues - some as direct contributions to service providers or households, and some through refund systems. Some of the Government funding is applied universally to service providers, while other components are delivered through specific targeting of

¹ These are capitalised for ease of reference.

² This includes households with child(ren) in those age bands, whether or not they participate in ECE.

households and children. Many households benefit from Government funding through more than one mechanism.

Several types of ECE facility operate, with most but not all able to secure Government funding, while individual ECE facilities receive their income through a combination of Government and private sources.

Demand arises from children in the 0 to 5 year age bands (although most children move on when they attain 5 years), and not all children participate in (are enrolled in) ECE throughout their first 5 years. On the supply side, the number, type, employment (size) and location of ECE facilities are identified.

This complexity makes it important to have clear understanding of the whole ECE sector, both its supply and demand sides, and the flows of Government and private funding which reflect the demand and supply side interactions. Although the dimensions and components of the ECE sector are *relatively* straightforward to identify, there is substantial information to enable assessment and evaluation of the sector, and it is not always easy from the information available to identify where each of demand, supply and funding flows fits into the overall structure. The flows of revenue and funding are complicated by the fact that not all ECE facilities and/or families receive funding from any or all sources.

Importantly, since a core purpose of the MAG review is to examine affordability, and the elasticities influencing households' utilisation of the sector and possible responses to changes, it is important to understand the dynamics of the ECE sector. That requires assessment of the critical processes within the sector, and description of the sector needs to be supported by identification and analysis of the key relationships which influence households' behaviours.

A starting point is clear definition and description of the sector, its funding flows and the household sector responses, as well as the wider influences on household behaviour (including income levels). That is important to understand the nature of the relationships and patterns shown. It is feasible to utilise the range of data available to provide a view of the total sector, including its funding flows (from Government and other sources including via FamilyBoost) and using the Parent Survey and IRD data to develop plausible estimates of the 'Private Funding' component of the sector.

These considerations are important for this assessment, relating first to the core purpose of the MAG review *"..to ensure the ECE funding system is simple and fair and delivers value for money."* and also to the stated purpose of the Report into the *"affordability of ECE for families "* to be undertaken through *"an analysis of costs and demand."*

1.4 Review Structure

We note that M.E's review focuses on the matter of affordability, and the analysis and evaluation undertaken to address the MAG Questions. We have taken the MAG Questions as the key matters to be addressed, and used the Topic areas in the Report as the aspects to be examined to address the Questions. We consider (Section 2) the Topic areas as the main content which contributes to the MAG Questions. M.E's review and evaluation are provided in Section 3.

1.4.1 MAG Questions

The MAG's specific Questions are

1. *Understanding what is meant by 'affordability' in ECE*
2. *Why parents make the decision to take-up or not take-up ECE*

3. *The impact of price on the demand for ECE*
4. *The impact of price on parents' labour market participation*
5. *How price interacts with other factors in parental decision-making about how much ECE to use, and the services they choose*
6. *What do households pay for ECE and what does the analysis of ECE costs mean for ECE affordability to parents/caregivers?*
7. *What support do households receive to help pay ECE fees?*
8. *What drives household decisions to use ECE and the amount of ECE used?*
9. *What funding solutions, within the parameters of the Terms of Reference, best support ECE affordability to parents/caregivers?*

These Questions are encapsulated in the Report's general Purpose "*to answer key question commissioned by the MAG to provide information about the cost and affordability of ECE for families in NZ, and the key factors that influence demand for ECE services.*"(p4).

1.4.2 Topic Areas

The Report presents its analysis and findings in three broad areas – Cost of ECE to Parents, Demand for ECE, Support and Subsidies – with specific topics under each.

A. Cost of ECE to parents

1. *Cost as a proportion of Household income*
2. *the Cost of 20 hours of ECE*
3. *the Cost of 30 hours of ECE*
4. *demand for 40 hours ECE*
5. *Family boost: Invoice, Rebate, and out-of-pocket expenses*
6. *Childcare Subsidy (CSS) Invoice, Rebate, and out-of-pocket expenses*

B. Demand for ECE

7. *Participation and Subsidies*
8. *Drivers of Demand for ECE*
9. *Parents labour market status*
10. *Impact of price on work and labour market*
11. *Household incomes*
12. *Sole parent In-work poverty*
13. *Non-standard hours of work, access and waitlists*
14. *Safety and quality of care*

C. Support and Subsidies

15. *FamilyBoost*
16. *Childcare Subsidy*
17. *Other MSD Childcare support*

2 Topic Areas

2.1 Overview

The Report provides a critical literature review, to draw from the range and depth of research in other similar economies including Australia, Canada, the UK and the USA.

The Report then covers each Topic area drawing from the New Zealand data, using a broad range of information from different sources. It makes considerable use of the statistical information to portray the key parameters of the ECE sector, at the national level, with more than 60 tables of data³

For each of the Topic areas, we have considered how the analysis tables and commentary have addressed the Topic, in terms of extent and breadth of assessment, the information relied on, and possible additional information to be drawn on.

An important part of our review has been examination and cross-checking of tabulated data, as distinct from commenting on specific text. The initial approach to list and comment on each table (more than 70) was not continued because the table contents are generally clear and explained, and the issues related to aspects not presented in the tables.

2.2 Literature Review

The literature Review is extensive, with 50+ papers and articles cited, and covering a range of matters which relate directly and indirectly to the matters at hand. Any literature review will realise a range of material, some directly relevant, some only tangentially relevant to the matter at hand. That said, in a multi-faceted area like ECE, most of the literature will contribute to the overall understanding of the research objectives to some degree (ie nothing is wasted).

The core question relating to the Literature Review is that the key subject areas have been covered, and these are addressed in the same Topic structure as the analysis of the New Zealand data. From that perspective, we consider the Literature Review is relevant to the purpose of the research, and has been carried out appropriately⁴.

2.3 Cost of ECE to parents

The Report presents detail on costs paid by parents/caregivers, with median values by provider type, and hours attended; median and mean costs per hour; median and average weekly costs for one, two and 3-4 child households; and costs and hours paid for by numbers of children.

The information is directly relevant to the Topic, and covers key points, particularly the detail on mean weekly costs and hours, for different child age bands. The limitations of the Parents Survey⁵ in terms of coverage are acknowledged, which offers limited range for estimating key statistics (lower quartile, median, upper quarter, average).

³ The tables number 1 to 47, however a substantial amount of information is also covered in information presented in table format though not specifically numbered or titled.

⁴ We note that we have not examined the literature to check that the summary material in this report is accurate, and have relied on a professional approach being applied.

⁵ Ipsos-MoE Parents Survey 2025.

There is examination of the mean per hour costs of ECE for parents, a key consideration for parents' decisions on how many ECE hours to purchase.

The Report provides appropriate commentary and questioning of the results, and noting the differences and potential anomalies.

In this Topic, the Parents Survey data is the only source drawn on, and the median and average figures from the Survey results are not cross-referenced with other data including the FamilyBoost statistics.

2.3.1 Cost as a proportion of household income

This topic is covered with six tables providing detail on households in each income band, and examples of specific households and household types. This information is useful and relevant to the matter at hand.

Two tables draw on the FamilyBoost data to examine the mean expenditure on ECE according to each household income band, for different ages of child, and expressed as a share of Household income. The average shares of household income spent on ECE range from 6% to 10% for households of 0-2 year olds, and 4% to 7% for households of 3-5 year olds. The estimates are for household income before tax.

Table 9 provides figures for two family "archetype" examples which are in receipt of a benefit shows substantially higher proportions at 12% to 16%. The incidence of these archetype households in the population of households participating in ECE is not identified.

The tables 10-12 drawn from the Survey data also indicate higher shares of household weekly income being spent on ECE, at 10% for households with one child aged 3-5, and 13% for one child aged 0-2 with a range from 8% to 19%. However, these tables apply an adjustment to household after-tax income to allow for housing costs.

The tables present specific circumstances for different types of household, and reflect a range of situations for the household types indicated. These specific case studies are not cross-referenced to show the numbers of households in each category represented, which limits the ability to interpret the examples more widely, or apply them to the total population of households which utilise ECE services.

2.3.2 The cost of 20 hours ECE

This topic is covered with three tables providing detail on households in each income band, and examples of specific households and household types. The tables include important data on the weekly costs of Education and Care for children in the 0-2 and 3-5 age bands. This information is useful and relevant to the matter at hand.

There is considerable reference to the study reported in Stuff, though the provenance of that work is not clear.

2.3.3 The cost of 40 hours of ECE

This Topic is addressed with reference to two tables drawing on the parents' survey, and citing average weekly costs for three types of facility, and different weekly hours. The analysis does not address the difference in costs per hour, which would be useful in establishing the link from participation in ECE to utilisation of ECE in terms of hours.

This section refers to adults' working hours and options, however there is no link in the data to hours worked by the survey respondents. It focuses on the average values, and there is limited attention to the distribution

of values, or how total costs would vary, or comment on the differences in costs between different types of ECE facility.

There is discussion around the notional 7% as an affordable benchmark, and reference to the StatsNZ figure of mean annual household income. This data has not been triangulated against Census or other data on the distribution and range of incomes for households with ECE age children⁶.

It is important that this assessment is triangulated with Census or other relevant data.

The Report also concludes (p53):

*“It’s therefore highly likely that if the cost of full-time ECE was made more affordable to parents that this would drive demand for more hours. The increase in demand would sit somewhere between its current rate and at the more extreme end, that of the CCS where the average household cost of ECE is around \$39 per week. For more information around parental demand for ECE see **Error! Reference source not found.**”*

This statement offers conclusions which may be supportable according to the Survey responses and anecdotal evidence. However, it is important that conclusions such as “highly likely” are able to be referenced back to some overall reference to the scale and nature of demand for ECE. While it is plausible from the array of evidence that a significant number of parents and caregivers would prefer to be able to purchase more ECE hours for their children – for example, the FamilyBoost data shows that willingness to purchase ECE hours is positively related to household income and implied affordability – it is not straightforward to establish the extent to which ECE demand might increase for any given change in affordability.

Similarly, the Report suggests that options could be explored with IRD to calculate subsidy rates to achieve specific outcomes (p53). However, there are many combinations of circumstances discussed, and it is not apparent how specific circumstances might be estimated, nor is there indication of the overall demand response (elasticity level) to shifts in ECE costs for households in any household income bands (after tax, or taking housing costs into account).

The International Comparison (p54-55) is very useful to provide direct context.

2.3.4 FamilyBoost: Invoice, rebate, and out-of-pocket cost

Weekly cost of ECE

The discussion of uptake rates and FamilyBoost incidence in this Topic is useful. The core data on average weekly costs (Table 17) is very useful, to show weekly costs as a national average, and across each region. The mean rebates and net final cost figures are directly useful.

Similarly, Table 18 showing weekly value of the FamilyBoost rebate is valuable as it provides detail on how rebate levels (and implied ECE consumption) vary by household income band, and by age of child.

⁶ We note that Census 2023 data shows that for households with at least one child in the 0-2 age band and none in the 3-4 age band, only 17% had incomes of \$200,000 or greater. For those with at least one child in the 0-4 age band, the share was the same. For those with one or more children in the 3-4 year age band and none in the 0-2 age band, the share was slightly higher at 18%.

2.3.5 Childcare Subsidy (CSS): Invoice, rebate, and out-of-pocket cost

The detail on the distribution of the Childcare Subsidy and its incidence across provider types (Tables 26-28) is useful, and offers important detail on the CCS funding within the total funding picture, including breakdown by age of child.

2.4 Demand for ECE

2.4.1 Participation and Subsidies

The picture of total demand as at June 2025 is very important. It shows the overall participation per head of population as at June 2025, referencing StatsNZ data.

The conclusion about likely response from parents if ECE was more affordable is repeated here (p64).

2.4.2 Drivers of demand for ECE

2.4.3 Drivers of children not enrolled in ECE

The two tables from the Survey on reasons why children are not enrolled in ECE, and the degree of choice in ECE selection are useful to confirm the rationale for parental choices.

2.4.4 Parents Labour Market Status

Similarly, the Report provides detail on households categorised by workforce status of parents, and the incidence of children in each age band, according to Census 2023 data. This is valuable, although we note it captures only one dimension of the workforce participation of two parent households. It shows partnered women and partnered men as separate tables, rather than the parents' work-status combinations (such as one partner employed full-time and the other partner employed part-time – this is examined in the Un-met Demand report). similarly, it would be useful to identify the population size represented in the tables.

2.4.5 Impact of Price on work and labour market

The Survey results on the effects of ECE price on work and study opportunity is valuable as a guide to parents' underlying decision processes around ECE participation. In the same way, the indicated work response to lowering the cost of ECE is especially useful, indicating more than half of parents would respond to a lessening of ECE costs by increasing work hours. It is not clear whether this response is related to participation or not in FamilyBoost.

That is consistent with the response that 55% (partnered) and 61%(sole parent) response that their work and/or career progression has been impacted by the cost of ECE, and similar indication that they would have returned to work sooner with access to more affordable ECE options.

2.4.6 Household Incomes

The assessment of the effects of household income levels places focus on median values (pp69-71).

This is a very important aspect, however there is limited consideration of the influence of income on ECE use. In particular, the IRD FamilyBoost data provides substantial detail on numbers of households and their expenditure on ECE in each income band. The Survey results provide considerable detail on the mean weekly cost of ECE, and hours attended, to provide at the least an indication of ECE costs per hour. in similar vein,

there is substantial information showing a well-developed ECE provider sector, while detail from the FamilyBoost data which indicates mean weekly costs (according to claims) are relatively consistent across different regions. This implies that the mean hourly cost estimates for each provider type might be used - with caution – as a basis for estimating how use of ECE varies according to household income levels.

The Report also offers detail on Sole parent in-work Poverty, the effects of Non-Standard hours of work, and matters of Safety and Quality of Care.

2.5 Support & subsidies

Finally, the Report provides considerable description of the core elements of support and subsidies, including their overall incidence, that includes FamilyBoost, Child Care Subsidy, and other MSD Childcare support (pp73-77). These matters are detailed appropriately in our view.

3 Assessment

3.1 Summary

The Report provides a substantial amount of directly relevant and valuable information which contributes both generally and specifically to the MAG Questions.

In our assessment, the material in each of the Topic areas contributes positively and usefully to addressing the MAG Questions.

The information and analysis presented is predominantly case-specific in nature, supported by tables showing average and median results. The assessment of affordability is focused on specific examples rather than analysis of the patterns and structures which the examples represent. There are multiple examples to describe circumstances of particular household types.

The information resource to inform the research is extensive, with substantial material directly on key aspects of ECE, and/or of sufficient quality and scope to inform the research.

However:

- a. there is not a Framework or overall structure of the ECE sector into which the case study material is able to be cross-referenced against wider patterns. This limits the ability to consider the implications of the case-study findings to the overall picture of the ECE sector;
- b. there is limited assessment of the patterns of parents' take-up of ECE services, particularly integrating results from different sources to identify how take-up of ECE varies with household income, and with the work-force status of parents – two key drivers of demand for ECE, and indicators of how take-up may vary in response to future changes;

These matters limit the potential of the Report to contribute to and inform the wider MAG objectives.

3.2 MAG Questions

We consider that the Report has addressed aspects of each of the MAG's specific Questions. These add considerably to the understanding of the ECE sector. However, the findings are not complete, and offer information mainly on the processes in play, rather than being definitive.

Specific aspects in relation to affordability per se (Q1), how affordability affects parents' decisions to take up ECE or additional ECE hours (Q2), and the impacts of ECE prices on demand for hours (Q3) are not able to be covered. Similarly, the impacts of ECE prices on parents' decisions to participate in the labour market (Q4) and the inter-play between ECE prices and other factors (Q5) have not been expressed in terms of the elasticities in the links between incomes and affordability, and affordability and uptake of hours. There is useful information on what parents pay for ECE (Q6), and the support parents receive for ECE (Q7), although that has not been further applied through modelling or similar analysis to inform other key questions. Similarly, there is good information on what drives household decisions to use ECE (Q8).

As indicated, a Framework or model approach is required to reflect the case-specific and mean and median information, and better contribute to establish how key characteristics influence the ECE sector's performance, and support analysis of how funding solutions may influence ECE sector outcomes (Q9).

3.3 Recommendations (Draft)

We provide below specific (draft) recommendations which would strengthen the Affordability assessment.

3.3.1 Extending the Framework

One important issue is that the case-specific findings are not able to be applied more widely across the population of ECE households which make up demand for ECE, to draw inferences or conclusions for the ECE sector as a whole. Although there are many nuances within the total demand picture, there are nevertheless key parameters of ECE demand – among the 243,000 or so households - which may be used to inform the assessment.

There is not an overall Framework which draws together the ECE demand and supply sides, and captures the inter-relationships between demand and supply.

On the ECE demand side, the Framework is limited with a single table (Table 29). this provides a critical overall summary of the resident population and total children enrolled in ECE licensed facilities for 2025, for children in each one-year age band. However, it does not have further information on the ECE households which generate demand, especially detail on household income bands, household types (such as 1-parent or 2-parent families, multi-family and so on), or detail on the employment situation of adults. These are key influences on decisions to take-up ECE capacity, and on affordability.

There is considerable commentary (including the literature review) about how affordability is affected by household income, and information (from the FamilyBoost statistics) indicating how take-up of ECE is influenced by household income. Augmenting that single dimension with information on how the incidence of ECE demand (children by age band) varies according to household characteristics, directly influencing decisions and affecting affordability.

We note that such information is readily available, and has been drawn on for the Un-Met Demand report, using Census 2023 information on how ECE demand (numbers by age band) varies by household income, type, type and income, and employment structure, to help interpret how household income and working characteristics affect affordability and access to ECE.

We recommend adding to the information on ECE households (Census information on numbers and characteristics income, type, employment) for households of children in each 0-5 age band) to provide a more suitable demand-side of a Framework for the affordability analysis. This would enable direct referencing of the case-specific examples used in the Report to the total ECE demand pattern. That linking would substantially strengthen any conclusions able to be drawn from the Parents Survey or the IRD data.

3.3.2 Integrating Results

There is limited integration of the results from different aspects. That includes direct analysis of the ECE take-up patterns to inform the assessment of affordability. The Report and interpretation rely heavily on case study examples. There is a high degree of reliance on the Parent Survey, and less use of other information which may be drawn on to substantiate some indicators.

The Survey does provide information on specific questions and responses, which may be linked directly to segments of the market. However, there is potential to utilise inferred links and relationships shown in other datasets by relying on knowledge of the actual economic processes in play, in order to draw conclusions. This means some of the big picture indicators could be used more effectively. That includes major patterns

including parents' behaviours in purchasing ECE services (IRD Family Boost data), the nature of the ECE industry *per se* (an established and multi-faceted sector with outlets in all markets), behavioural research into households' decision-making and consumption of many different goods and services of which ECE services is one, and Census and other information relating to households' needs and characteristics.

Specifically in regard to the objectives of the research, an important component is the potential to use the Survey data on mean ECE costs per hour in combination with the IRD Family Boost statistics on amounts paid by household income band, to develop estimates of ECE hours purchased. Although the sample size of the Survey does constrain the reliability of its specific figures as to costs and costs per hour, other information suggests that the Survey figures may be used for this, including:

- a. broad comparability across regions of the mean weekly ECE costs, reflecting differences in regional economic conditions;
- b. comparability across regions in terms of the mean weekly costs at each income level;
- c. the size and competition within the ECE sector, indicating limited scope for charges to vary significantly among ECE users;
- d. the substantial numbers of users and children in the FamilyBoost data together with the scrutiny of receipts to indicate the data on expenditure by income band is reliable;

This is important as it is the combination of costs and cost per hour offers a key source of information on how ECE use (hours purchased) varies according to household income. That is a core aspect of affordability, and matters of elasticity. The estimated distribution of demand for ECE hours across household income bands matches quite well with the distribution of hours from the ECE Census.

On that basis, we consider the information from FamilyBoost could be drawn on as indicating ECE hours purchased, and linking this behaviour with household income band. The implied variation in hours purchased according to income band is only broadly examined in the Report.

We recommend using the information available from the Parent Survey on mean ECE costs per hour in combination with the IRD data on receipts for payment be used to estimate purchase of ECE hours according to household income band. That is an important step to understanding how affordability varies, and the sensitivity of each segment (income band) of the market to the costs of ECE.

3.3.3 ECE Sector Total Framework

We also comment on the need for a Framework which includes both the Demand and Supply sides of the ECE sector. The recommendation above to extend the Demand-side information to place the case study perspectives into place is important. However, in our view it is important when considering affordability, and examining options, it is important to be able to consider the Demand and Supply sides together. This is especially because affordability reflects the combination of demand and supply aspects, and options on both sides will affect affordability, and market responses.

the current situation is that the information drawn together for the Review covers most aspects of two of the three axes which define the ECE sector:

- a. the Demand axis is covered or potentially available (numbers of households, and numbers of children in each ECE-specific age band, for households according to incomes, type, working status and so on).
- b. The Supply axis is covered in terms of ECE supply (facilities, capacity, locations and accessibility), and the high-level funding flows from Government and from parents to ECE facilities for ECE services (places, hours).

- c. However, the third dimension of the ECE sector is not covered, which is the interactions between demand and supply side, and the dynamics including affordability and elasticities – households' responses to the ECE sector offer. This is the variations in the utilisation of ECE services by the household sector and segments of the household sector.

The research including the Unmet Demand study shows that utilisation per household is not uniform across the sector. There are differences in utilisation, with some households making maximum or optimal use of the available ECE capacity, while other households make much less use, and some make no use at all. Accounting for the variations in demand, including use of the research showing that the interaction between ECE costs and household incomes is a core influence, will represent substantial progress in achieving the MAG objectives.

We recommend that the Framework for assessing the ECE sector is extended to cover both the Demand and Supply sides, and their interactions, in order to effectively address the MAG Questions. We note that a Framework or modelling approach to reflect both demand and supply dimensions and their interactions is quite standard for policy or project assessment.

J D M Fairgray

4 March 2026