



Education Report: Report on the Early Learning Sustainability Fund

To:	Hon Chris Hipkins, Minister of Education		
CC:	Hon Grant Robertson, Minister of Finance		
Date:	8 December 2020	Priority:	Medium
Security Level:	In Confidence	METIS No:	1244100
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Messaging seen by Communications team:	No	Round Robin:	Yes

Purpose

This paper fulfils Cabinet's direction that the Ministry of Education report to the Ministers of Education and Finance on Early Learning Sustainability Fund allocation, demand and uptake at the end of the first round of applications [CAB-20-MIN-0388 refers]. 9(2)(f)(iv)

Summary

- 1 In August 2020, Cabinet approved the design and initial draw down of funding for the Early Learning Sustainability Fund 9(2)(f)(iv). This Fund was intended to support the short-term viability of early learning services impacted by COVID-19. This would limit labour market impacts from sudden drops in early learning provision, ensure adequate provision as employment levels recovered, and protect existing provision for disadvantaged children.
- 2 The first round of applications ran over September and October 2020. This resulted in only 30 applications. The Ministry of Education is still finalising decisions on about a third of these but has only approved three grants for the remainder. Many applications were assessed as inconsistent with the Fund's objectives or did not meet the high sustainability threshold required.
- 3 The low number of applications is partly a sign that the sector has been shielded from major sustainability issues to date. This has been enabled through changes to early childhood education funding rules over much of this year. These include the non-claw back of advance funding payments to services even where there have been drops in actual attendance. Generic government Covid-19 support such as the Wage Subsidy Scheme has also shielded providers. Lower than expected unemployment has also helped by limiting decreases in overall demand for early learning provision.

- 4 The Government funding supports are no longer available. The ECE funding rules reverted back to pre-COVID-19 rules for the four-month ECE funding period beginning in November 2020. This current funding period will give us a better indication of need as the effect of drops in attendance are no longer masked by government support. Drops in attendance are likely to arise from weaker labour market conditions.
- 5 9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED] In the meantime, we will invite further applications to the Fund from now until April 2021 9(2)(f)(iv) [REDACTED]

Recommended Actions

The Ministry of Education recommends the Ministers of Finance and Education:

- a. **note** that, in August 2020, Cabinet agreed to the creation of an Early Learning Sustainability Fund (the Fund) 9(2)(f)(iv) [REDACTED] [CAB-20-MIN-0388 refers];
- b. **note** that Cabinet also directed the Ministry of Education to report to the Ministers of Education and Finance on the Fund's allocation, demand and uptake at the end of the first funding round;
- c. **note** that 30 applications were received, with three of these approved by the Ministry to date, comprising a total of \$92,854 at a median grant allocation of \$42,854 each;
- d. **note** that, currently, low numbers of applications to the Fund do not indicate widespread sector viability issues arising from COVID-19 impacts;
- e. 9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]
- f. 9(2)(f)(iv) [REDACTED]
[REDACTED]
- ☒ **Agree** / Disagree ☐ **Agree** / Disagree
- g. **note** that the Ministry will be inviting further applications to the Fund from now until April 2021 9(2)(f)(iv) [REDACTED]

The Ministry of Education recommends the Minister of Education:

- h. **forward** the report to the Minister of Finance for his consideration;
- ☐ **Agree** / Disagree

Proactive release recommendation

- i. **agree** that that this Education Report is proactively released with any information which may need to be withheld done so in line with the provisions of the Official Information Act 1982.

Release / Not release

Release Not release



John Brooker
Group Manager
Education System Policy

08/12/2020

Approved Not approved



Hon Grant Robertson
Minister of Finance

17 / 01 / 2021

Approved Not approved



Hon Chris Hipkins
Minister of Education

15/12/2020

Background

- 1 In Budget 2020, as a result of the potential economic impact of COVID-19 on early learning services, Cabinet agreed to 9(2)(f)(iv) to support the short-term viability of early learning services. Cabinet also required the Minister of Education to seek its approval to a preferred allocation approach 9(2)(f)(iv) [CAB-20-MIN-0219.09 refers].
- 2 Consequently, in August 2020, Cabinet agreed to the creation of the Early Learning Sustainability Fund (the Fund) 9(2)(f)(iv) to support Playcentre Aotearoa sustainability, which had been exacerbated by COVID-19 [CAB-20-MIN-0279 refers].
- 3 9(2)(f)(iv) Cabinet's expectation was that CRRF funding should only be applied where it was needed as a direct result of COVID-19, needed outside of the normal budget cycle to support the response and/or recovery from COVID-19, and the additional costs could not be managed from existing baselines.
- 4 The Fund would run as an application-driven, grant-based scheme with all grants under \$250,000 approved by the Ministry, rather than Minister, of Education [CAB-20-MIN-0388 refers].
- 5 The agreed aims of the Fund are threefold.
 - To mitigate against services exiting rapidly as unemployment rises, as this could lead to an immediate shortfall in the supply of early learning places
 - Ensuring sufficient early learning capacity to deal with demand when the employment rate improves
 - Safeguarding against the likelihood that services in low socio-economic areas or those focusing on children from at-risk populations are more likely to close, thus embedding inequity of provision.
- 6 When seeking Cabinet's approval, the Minister of Education indicated application assessment would also consider:
 - a service's licensing history
 - the use of alternative funding sources
 - understanding of available provision in the local catchment
 - whether other comparable services have capacity to take enrolments in the event of closure, and
 - if financial analysis suggested closure is inevitable without support from the Fund.
- 7 The first round of the Fund was opened to the sector on 14 September 2020 by announcement in the Early Learning Bulletin, which is sent to all early learning providers. Applications closed on 31 October 2020, although some late applications were permitted by the Ministry.

Application activity

Applications to the Fund

- 8 The Ministry received 30 applications in this round (see the Annex at the end of this paper for application details), with an average amount of \$94,800 sought by each service and a median of \$50,000.¹ Applications were spread across 13 of the 17 education regions, as indicated below.

Education region	Number of applications
Auckland	6
Bay of Plenty	1
Canterbury	4
Tai Tokerau	1
Hawkes Bay/Tairāwhiti	6
Waikato	2
Wellington	4
Nelson/West Coast	2
Taranaki/Manawatu/Whanganui	3
Otago	1

- 9 All early learning service types are represented in the applications. Twenty-one education and care services applied along with one kindergarten, one kōhanga reo, two playcentres, four home-based services and one playgroup.
- 10 The Ministry's assessment of applications has resulted in approval of three of the 30 applications received and 11 declined. There are nine applications with outstanding information requested at the time of this paper – these applications are yet to be considered. The median amount granted so far is \$42,854 compared to a median amount of \$13,717 sought per provider. In total, \$92,854 of grants have been made via the Fund.
- 11 The Ministry received two applications for funding in excess of \$250,000 (the level at which Cabinet agreed the Minister of Education, rather than the Ministry, would need to approve a grant). One of these applications was in respect of two services, one of which is in the process of having its licence cancelled for breaches. Our assessment was that funding for this was not warranted at all; for the second, we are still engaging with the service provider. No approvals have therefore yet been sought from the Minister of Education.

Themes from assessment of applications

The number of applications is very low

- 12 We received a very low number of applications. There are approximately 4,500 services in New Zealand. The 30 applications received therefore represent less than 0.1% of potentially eligible services.
- 13 The pattern of service closures since the pandemic started looks like previous years. This suggests we would have been unlikely to receive more than a few dozen sustainability-focused applications over a two to three-month period.

¹ One application of \$862,500 considerably skews the average amount.

- 14 The low number of applications indicates that there is not currently a material risk to the capacity of the network as a whole. So far, the applications approved have all been where the service in question is one of only a few services or the only service.

Some applications did not meet the Fund's objectives

- 15 For some applications, while we could identify that the service was in financial difficulty, the service did not contribute to the objectives of the Fund. For example, some services wanted funding to improve existing provision through the undertaking of capital repairs or upgrades to premises. This was inconsistent with the Fund's objectives.
- 16 In some cases, the requests sought funding for purposes better aligned with the Ministry-administered Urgent Response Fund (URF). The URF was set up to support children and young people's attendance, re-engagement with learning and wellbeing after the COVID-19 lockdowns.

Applications not meeting the financial sustainability threshold

- 17 Six of the applications were assessed as ineligible because the service could not demonstrate it would inevitably face closure without additional support. We note that in cases where services were at risk of closure due to their financial position, most were incurring losses prior to COVID-19 and were not necessarily operating sustainably beforehand.
- 18 We have engaged with six of the 11 services declined to date in order to identify whether they qualify for other Ministry financial support, including the ECE Demand Stimulation and Targeted Assistance for Participation funds.

Incompleteness of information from applicants

- 19 Considerable effort has had to be put into ensuring applicants provide information required by the Ministry's formal checklist. This is especially the case for financial information. It is unclear why many services have found it difficult to provide this information in the first instance, given that much of this information is already required under early learning licensing rules. It may be a symptom of services already under financial pressure.

Ensuring services in need apply to the Fund

- 20 It is important that services who would likely qualify for the Fund apply. In general, we think services facing viability issues are aware of the fund and have been applying to it. Each service provider was directly notified of the Fund via mail. There has been significant website and download activity relating to the Fund. It has been communicated via the Early Learning Bulletin, which is sent to all providers.
- 21 Despite awareness of the Fund, some services may still encounter challenges with making an application, particularly with regard to the financial information required. The Ministry has to exercise caution encouraging applications when it is also the decision-maker. However, our regional staff have been in touch with services who may be in need and providing limited assistance on a no promises of success basis.

Ongoing management of the Fund

Understanding low demand for the Fund to date

- 22 The low demand for the Fund is a positive sign for the early learning sector so far. It also reflects the impact of two key factors.

Government support to counteract COVID-19 impacts

- 23 The Government provided considerable additional financial support to services when COVID-19 Alert Levels were introduced. This included specific Early Childhood Education (ECE) funding rule changes that meant advance funding provided to services for much of the last eight months was able to be kept, regardless of lower attendance levels than the funding was based on. We also increased the advance funding paid as a proportion of total funding. This meant services had more cash on hand at the start of a funding period.
- 24 The Government also offered a range of general financial support to businesses. Parts of the early learning sector have been able to qualify for these supports. The Wage Subsidy Scheme is the most prominent example. We also note that some early learning services were able to receive business interruption insurance to mitigate COVID-19 losses.
- 25 The Government funding supports are no longer available. The ECE funding rules reverted back to pre-COVID-19 rules for the four month ECE funding period beginning in November 2020. This current funding period will give us a better indication of need as the effect of drops in attendance are no longer masked by government support. Drops in attendance are likely to arise from weaker labour market conditions.

Labour market conditions

- 26 Attendance in early learning services has largely rebounded close to levels seen at the same time last year. During October 2020, hours of attendance in early learning were only about 5% lower than the same period in 2019.² This reflects a labour market that has not weakened as much as was predicted by the Treasury in its May 2020 *Budget Economic and Fiscal Update*.
- 27 In the more recent *Pre-Election Economic and Fiscal Update*, the Treasury forecasts unemployment to peak at 7.8% in the March 2022 quarter, rather than at 9.8% in the September 2020 quarter (the actual September 2020 unemployment rate was 5.3%).

The impact of a longer economic downturn

- 28 A longer, albeit less severe, economic downturn is still likely to impact on the early learning network's resilience and ability to support parental participation in the labour market. 9(2)(f)(iv)
- [REDACTED]
- [REDACTED]

9(2)(f)(iv)

[REDACTED]

9(2)(f)(iv)

- 30 The Ministry will still run a further round of applications to the Fund starting this month and concluding in April 2021. Applications would be funded from the balance of the \$30.2 million remaining in appropriation. 9(2)(f)(iv)
- 31 We would expect to report to you around April 2021 on what applications to the Fund are indicating about sector sustainability. This would also consider whether more funding is still warranted.

Financial Implications

- 32 9(2)(f)(iv) We note there are potentially financial implications for some services if the remaining funding in appropriation proves insufficient to protect the network over the next six months.
- 33 9(2)(f)(iv) There is also just under \$30 million remaining in appropriation, notwithstanding that processing of applications from the first round is still underway.

Proactive Release

- 34 It is intended that this Education Report is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

Annex: Application details

Application date	Service Name	Region	Amount applied for (\$)	Amount granted	Application status as at 7 December 2020
16/09/2020	9(2)(b)(ii)	Auckland	34,180	-	Declined
26/09/2020		Auckland	100,000	-	Declined
30/09/2020		Wellington	10,000	-	Declined
6/10/2020		Canterbury	120,000	-	Declined
8/10/2020		Wellington	32,346	-	Declined
21/10/2020		Canterbury	46,000	46,000	Approved
22/10/2020		Waikato	5,000	-	Declined
23/10/2020		Tai Tokerau	4,000	4,000	Approved
28/10/2020		Bay of Plenty	5,192	-	Declined
28/10/2020		Canterbury	70,000	-	Awaiting panel review
28/10/2020		Nelson/West Coast	13,717	42,854	Approved
30/10/2020		Auckland	35,000	-	Declined
30/10/2020		Hawkes Bay/Tairāwhiti	22,067	-	Declined
30/10/2020		Auckland	862,582	-	Awaiting panel review
30/10/2020		Wellington	150,000	-	Declined
30/10/2020		Wellington	100,000	-	Declined
30/10/2020		Waikato	165,381	-	Outstanding information from service
30/10/2020		Nelson/West Coast	208,195	-	Outstanding information from service

2/11/2020	9(2)(b)(ii)	Auckland	50,000	-	Outstanding information from service
5/11/2020		Auckland	90,000	-	In review
6/11/2020		Taranaki/Manawatu/Whanganui	2,250	-	In review
9/11/2020		Canterbury	28,097	-	Awaiting panel review
11/11/2020		Taranaki/Manawatu/Whanganui	78,500	-	Outstanding information from service
12/11/2020		Taranaki/Manawatu/Whanganui	120,000	-	Awaiting panel review
12/11/2020		Hawkes Bay/Tairāwhiti	137,500	-	Outstanding information from service
12/11/2020		Hawkes Bay/Tairāwhiti		-	Outstanding information from service
12/11/2020		Hawkes Bay/Tairāwhiti		-	Outstanding information from service
12/11/2020		Hawkes Bay/Tairāwhiti		-	Outstanding information from service
12/11/2020		Hawkes Bay/Tairāwhiti	336,000	-	Outstanding information from service
18/11/2020		Otago	18,000	-	In review
Total			2,844,008	92,854	