

## Cabinet Paper material

### Proactive release

Minister & portfolio Hon Chris Hipkins, Minister of Education  
Name of package Raising Early Learning Funding Rates for Education and Care Services  
Date considered 12 December 2022  
Date of release 24 January 2023

#### These documents have been proactively released:

**Cabinet Paper: Raising Early Learning Funding Rates for Education and Care Services**

Date considered: 12 December 2022

Author: Minister of Education

**Cabinet Minute: CAB-22-MIN-0581**

Date considered: 12 December 2022

Author: Cabinet Office

**Cabinet Minute: SWC-22-MIN-0231**

Date considered: 7 December 2022

Author: Cabinet Office

**Rapid Response: EPP Funding Rates**

Date: 15 November 2022

Author: Ministry of Education

**Education Report: Draft Cabinet paper: Raising early learning pay parity funding rates for education and care services**

Date: 25 November 2022

Author: Ministry of Education

#### Material redacted

Some deletions have been made from the documents in line with withholding grounds under the Official Information Act 1982. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

The applicable withholding grounds under the Act are as follows:

Section 9(2)(a) to protect the privacy of natural persons

Section 9(2)(f)(iv) to protect the confidentiality of advice tendered by Ministers of the Crown and officials

Some deletions have been made from the documents as the information withheld does not fall within scope of the Minister's portfolio responsibilities, and is not relevant to the proactive release of this material. You can read the Official Information Act 1982 here:

<http://legislation.govt.nz/act/public/1982/0156/latest/DLM64785.html>



# Cabinet

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Report of the Cabinet Social Wellbeing Committee: Period Ended 9 December 2022

On 12 December 2022, Cabinet made the following decisions on the work of the Cabinet Social Wellbeing Committee for the period ended 9 December 2022:

Out of scope

SWC-22-MIN-0231


**Raising Early Learning Funding Rates for  
Education and Care Services**  
Portfolio: Education

CONFIRMED

Out of scope



Out of scope



Rachel Hayward  
Secretary of the Cabinet

Proactively Released



# Cabinet Social Wellbeing Committee

## Minute of Decision

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### Raising Early Learning Funding Rates for Education and Care Services

Portfolio                      Education

On 7 December 2022, the Cabinet Social Wellbeing Committee:

- 1        **noted** that Budget 2022 approved \$265.6 million in operating funding to further early learning pay parity for teachers in education and care services;
- 2        **noted** that the above Budget funding was used to increase existing pay parity funding rates and to create an additional set of extended pay parity funding rates;
- 3        **noted** that services may opt in to either of the sets of pay parity rates in return for paying teachers at designated pay steps;
- 4        **noted** that the Minister of Education intends to increase the level of the extended pay parity funding rates under statutory powers to maximise the proportion of services that are able to opt into these rates given available funding;
- 5        **noted** that the cost of the above change is forecast to be fiscally neutral over the forecast period, assuming that 40 percent of education and care services opt in to the extended rates;
- 6        **authorised** the Minister of Finance and Minister of Education to jointly approve any fiscally neutral changes to appropriations as necessary to give effect to paragraph 5 above;
- 7        **noted** that a higher than expected opt in percentage may put pressure on the Early Learning appropriation.

Rachel Clarke  
Committee Secretary  
Attendance (see over)

**Present:**

Rt Hon Jacinda Ardern  
Hon Kelvin Davis  
Hon Chris Hipkins  
Hon Carmel Sepuloni (Chair)  
Hon Andrew Little  
Hon Poto Williams  
Hon Damien O'Connor  
Hon Peeni Henare  
Hon Willie Jackson  
Hon Jan Tinetti  
Hon Michael Wood  
Hon Kiri Allan  
Hon Dr David Clark  
Hon Dr Ayesha Verrall  
Hon Priyanca Radhakrishnan  
Hon Meka Whaitiri

**Officials present from:**

Office of the Prime Minister  
Office of the Chair  
Officials Committee for SWC

Proactively Released

## Budget sensitive

Office of the Minister of Education

Cabinet Social Wellbeing Committee

## Raising early learning pay parity funding rates for education and care services

### Proposal

- 1 This paper signals my intention to raise the level of extended pay parity funding rates for education and care services from January 2023.

### Relation to government priorities

- 2 The change described in this paper is linked to the Government's commitment to move towards pay parity for certificated ECE teachers in education and care services, as set out in Labour's 2020 Election Manifesto. The paper also relates to the wider government work programme to improve the wellbeing of New Zealanders and their families.

### Background

- 3 The majority (70%) of children attending early childhood education attend an education and care service<sup>1</sup>. Education and care services are centres staffed predominantly by registered teachers. The qualified teachers in these services on average earn significantly less than their counterparts in kindergartens<sup>2</sup>.
- 4 The Government has invested significant funding to move towards pay parity for teachers in education and care services with those in kindergartens. In Budget 2022, the Government provided \$265.6 million in operating funding over four years towards this goal. This built on the \$170 million over four years provided for pay parity in Budget 2021 and the \$151.1 million provided in Budget 2020.
- 5 The funding for pay parity is only able to be paid to services through standardised hourly funding rates. Furthermore, funding is paid for children's hours of attendance, not teacher hours worked. This funding approach limits how well funding can be allocated to services to meet the varying teacher pay parity costs each service faces.
- 6 For this reason, the pay parity initiatives in Budgets 21 and 22 created different sets of funding rates that services can opt into if they attest to paying their teachers according to a specified pay scale. This optional approach is not ideal for achieving teacher pay parity because not every service will necessarily opt in. I have asked the Ministry of Education to review funding settings to find a better way to allocate funding to specific parity costs so all services are able to offer pay parity. This work is progressing but it is unlikely to result in systemic change before the end of 2024.
- 7 The first set of opt in rates, introduced as part of Budget 21, required services to pay the first five steps of the pay scale in the Kindergarten Teachers, Head Teachers and

<sup>1</sup> There are about 2700 licensed education and care services. These services are sometimes known as day care centres, childcare centres or creches.

<sup>2</sup> Like education and care services, kindergartens are teacher-led ECE centres. The certificated teachers employed in kindergartens are part of the state sector, even though their employers (kindergarten associations) are not. As such the Secretary for Education negotiates kindergarten teachers' terms and conditions with the NZEI.

Senior Teachers Collective Agreement (KTCA). Budget 2022 pay parity funding is being used to:

- 7.1 raise the value of the initial set of pay parity funding rates in return for requiring an extra, sixth KTCA pay step;
  - 7.2 introduce another set of extended pay parity (EPP) funding rates that requires services to pay additional (part) steps between steps 6-11 on the KTCA.
- 8 Both sets of pay parity funding rates are available from 1 January 2023.
- 9 From late October 2022, education and care services were able to attest which rates they wished to opt into. There are 34% of all services now opted into the EPP rates, with 53% opting for the lower pay parity rates and 12% remaining on the base rates.
- 10 To calculate the Budget funding, the Ministry of Education surveyed the sector to understand existing certificated teacher salaries and what KTCA pay step they should be on. This data allows an assessment of the additional KTCA steps that can be 'purchased' with incremental increases in funding from recent Budgets.

### **Altering extended pay parity (EPP) funding rates**

#### *Setting of funding rates*

- 11 Section 548 of the Education and Training Act 2020 provides me, as Minister of Education, with statutory power to set amounts of grants to services (ie, funding rates) and set any conditions on funding once appropriated. Consistent with this power, in May 2022, I confirmed the two sets of pay steps for services to opt into and the respective funding rates as new funding was appropriated.
- 12 A significant complication with offering two opt-in funding rates is that the opt-in percentage needs to be known in advance to set the funding rates accurately. The difficulty is that, if rates are set too high, more services than expected may opt in resulting in higher expense than there is funding appropriated for. This will result in a breach of the Early Learning appropriation.
- 13 The Ministry of Education has a limited set of service data to model the proportion of services that would likely find it financially worthwhile to opt in to given EPP rates. However, because the Ministry did not know everything about services' financial positions or motivations to opt in, a fiscally conservative approach was taken to setting the funding rates. The funding rates I set in May therefore create a fiscal 'buffer', that is, an underspend, by lowering the opt in rate.

#### *Resetting the extended pay parity rate will improve opt in*

- 14 I indicated that 34% of the sector has opted into the EPP rates. I wish to increase this proportion while maximising use of the new funding the Government approved for pay parity in the last Budget using my power to amend the EPP rates. To do this, I intend to reset the EPP rates so they are 3.6%\* higher than the current rate. This is projected to increase the opt in to 40%. I estimate this could open up higher pay to approximately 1000 teachers,

\*Correction - the EPP funding rate increase is 4.5%

## Implementation

- 15 I expect the rate change to be communicated to the sector in the week of Cabinet considering this paper. I intend that the new EPP funding rates will apply from 1 January 2023 in keeping with when the original rates were to take effect.
- 16 Services that have already opted in will automatically have the original rates replaced by the new rates. Services that have not opted in yet can do so up until 31 December in order to receive a February payment for the new rates (applied from 1 January 2023). There is a subsequent funding payment at the start of March 2023 covering services that opt in during January and February. These opt ins can be applied from 1 January 2023.

## Financial Implications

- 17 The change I am intending to make is expected to be fiscally neutral based on the Ministry of Education's modelling. This is because the existing opt in level of 34% leads to a projected underspend of \$127.4 million over four years versus the \$265 million in operating funding allocated in Budget 2022.
- 18 Table 1 shows the result of increasing the funding rate by 3.6%\*. This leads to an increase in cost that nearly matches the current projected underspend over the four-year period. Under the new rates, the initial years cost more than originally forecast before being underspent in later years. This is the result of changes in the opt in rate assumptions.

\*Correction - the EPP funding rate increase is 4.5%

Table 1: Spending profile of current versus new EPP rates

	2022/23	2023/24	2024/25	2025/26	2026/27	5 year total
	underspend (-) / overspend					
<b>Current rates</b> (\$ millions)	-9.5	-30.6	-43.4	-44.0	-44.5	<b>-171.8</b>
<b>New rates</b> (\$ millions)	7.6	5.1	-6.6	-6.7	-6.8	<b>-7.3</b>

- 19 As part of MBU 23, I expect that joint Ministers would confirm the rephrasing of appropriated funding against the revised spending profile above.
- 20 The main issue I am concerned about is if the opt in turns out to be higher than the predicted 40%. If this is high enough, for example, 50% or higher, then this will place reasonable pressure on the Early Learning appropriation, as this opt in would require at least \$50 million more than is appropriated.
- 21 I consider that this pressure, should it arise, can be dealt with as follows:
- 21.1 the cost of any additional risk known by March 2023 could be met from the Budget 2023 Education allocation;
- 21.2 for 2023/24 onwards, the need for additional funding could be treated as a first call on Budget 2024 or as a pre-commitment. By this stage, it is likely to be clear where opt in rates have settled. I also expect the new funding approach being developed would eventually negate concerns about opt in rates when it is implemented late in 2024.



## Legislative Implications

22 This paper does not have legislative implications.

## Impact Analysis

### Regulatory Impact Statement

23 This paper does not contain regulatory changes.

### Climate Implications of Policy Assessment

24 This paper does not contain climate implications.

## Population Implications

25 There are limited population impacts, given the nature of the change I am intending to make. The main impact will be that more women would have access to higher rates of pay as additional education and care services opt into the higher funding rates. This is because about 97% of ECE teachers are female.

## Human Rights

26 There are no human rights implications arising from this paper.

## Consultation

27 The Treasury was consulted on the development of this paper. The Department of the Prime Minister and Cabinet was informed.

## Communications

28 The change to the EPP funding rates will be communicated to education and care services and the early learning sector generally through the Ministry of Education's Early Learning Bulletin immediately after Cabinet has considered this paper. The Bulletin is sent by the Ministry to all early learning providers. The specific funding rates will be amended in the online ECE Funding Handbook. This contains all ECE funding related information.

## Proactive Release

29 I intend proactively releasing this paper once announcement of the amended funding rates is made. Release will be subject to redaction as appropriate under the Official Information Act 1982.

## Recommendations

The Minister of Education recommends that the Committee:

- 1 **note** that \$265.6 million in operating funding was approved in Budget 2022 to further early learning pay parity for teachers in education and care services;
- 2 **note** that the Budget funding was used to increase existing pay parity funding rates and to create an additional set of extended pay parity funding rates;

- 3 **note** that services may opt in to either of the sets of pay parity rates in return for paying teachers at designated pay steps;
- 4 **note** that the Minister intends increasing the level of the extended pay parity funding rates under statutory powers to maximise the proportion of services able to opt into these rates given available funding;
- 5 **note** that the cost of this change is forecast to be fiscally neutral over the forecast period, assuming 40% of education and care services opt in to the extended rates;
- 6 **authorise** the Minister of Finance and the Minister of Education to jointly approve any fiscally neutral changes to appropriations necessary to give effect to recommendation 5 above;
- 7 **note** that a higher than expected opt in percentage may put pressure on the Early Learning appropriation;

Authorised for lodgement

Hon Chris Hipkins

Minister of Education



## RAPID RESPONSE

**Drafter:** Graham Bussell, ECE Policy, Te Puna Kaupapahere  
**Date:** 15 November 2022  
**METIS:** 1299708

### Request

This document provides information on revisiting Budget 22 pay parity funding for discussion after the Budget strategy session on 16 November.

The request responds to the proportion of ECE services that have opted into the extended pay parity (EPP) rates, due to take effect on 1 January 2023. The EPP opt in proportion stands at 34% based on funding attestation returns submitted by providers to the Ministry in late October.

The request advises on rate options that would incentivise a higher proportion of services to opt in to EPP funding rates for the March 2023 funding round. This would increase funding rates using the projected underspend from the current opt in rate. This will provide an extra economic incentive for services to opt in.

### Ministry Response

#### *Current opt-in projections*

To distribute the funding from Budget 2022 for pay parity into funding rates, we needed to set uptake assumptions. We made a fiscally conservative uptake assumption for the 2022/23 financial year that 65% of education and care services would opt into extended parity rates. This included a buffer in case there was higher opt in. However, setting the opt in assumption at 65% meant that the available funding had to be spread over a higher number of Funded Child Hours, and therefore the funding rate was lower than it would have been with a lower opt in assumption.

Limited modelling on the approximately 1000 services that provided data through the 2021 Staffing Survey indicated that the EPP funding rate would mean 39% of these services had economic incentive to opt in (ie the additional funding would cover the additional cost). Some services opt in even though the additional funding does not cover the additional cost - in November 2021, 5% of the sector opted into the first set of parity opt in rates despite not appearing to have an economic incentive to do so.

The November funding payment was the first opportunity for services to opt into the extended parity rates, which come in on 1 January 2023. 34% of education and care services have opted into the extended parity rates. If opt in rates stay at 34% over the next four years, the underspend is forecast to be \$125 million over that period.

#### *Resetting the EPP funding rates*

As part of responding to your request, we have updated the analysis on the economic incentive to opt in. The more up-to-date analysis indicates a lower proportion of services have an

economic incentive to opt in (33%). However, the analysis is still limited as it covers less than half of all education and care services.

We have modelled several changes to the set of EPP funding rates and the altered economic incentive these would provide for services to opt in compared to the current rates. This is assuming only the funding in Budget 22 for pay parity of \$265.581 million is available.

Three options are presented. These provide a sense of the changes in opt-in rate and level of unspent funding as rates are increased. The options leave between approximately \$0-50 million of Budget 22 funding unspent over the four years. The options are not necessarily exhaustive.

The opt in projection for options A-C represents the estimated economic incentive for services to opt in. It does not include a buffer. Options B and C leave additional headroom in the appropriation for a higher level of opt in – it would be possible to include a buffer to account for additional opt in.

Option A is the maximum increase that is possible with the forecast underspend, but bears the highest risk of breaching the ECE appropriation if even a slightly higher than anticipated opt in rate eventuates. Option A substantially increases the extended parity funding rates – it creates a large premium (8.3%) over the funding rates for steps 1-6, compared to the 3.7% premium with the current parity rates. Option A would also close the gap to current kindergarten funding rates.

All three options increase the funding for the 34% of services already opted in, which makes up most of the cost of the increased rates. The costings below assume a proportion of services currently opted into parity rates (steps 1-6) would switch to the higher rates.

#### *Summary of option impacts*

Option	Change to the current EPP funding rates	Approx. differential to parity funding rates (steps 1-6)	Approx. differential to current kindergarten rates	Opt-in projection for Jan 2023	4-year cost (\$m)
<b>B22</b>	-	3.7% higher	6.2% lower	65%	\$265.581
<b>Option A</b>	3.6%	8.3% higher	2.1% lower	40%	\$265.538
<b>Option B</b>	3.1%	7.8% higher	2.5% lower	38%	\$242.534
<b>Option C</b>	2.5%	7.2% higher	3.1% lower	35%	\$214.663

#### *Four-year fiscal profile*

The following table breaks down the four-year cost for each option and compares to the original Budget projections. Costs assume the new rates start on 1 January. In practice, actual funding amounts will now have altered as a result of baseline updates.

	2022/23	2023/24	2024/25	2025/26 & outyears	4-year cost
	\$m				
<b>Budget 22</b>	32.936	68.92	80.642	83.083	265.581
<b>Option A</b>	35.4734	74.1164	77.7059	78.2418	265.538
<b>Option B</b>	32.3475	67.6113	71.0425	71.5325	242.534
<b>Option C</b>	28.5417	59.713	62.9871	63.4215	214.663



## Education Report: Draft Cabinet paper: Raising early learning pay parity funding rates for education and care services

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	25 November 2022	<b>Priority:</b>	High
<b>Security Level:</b>	Budget sensitive	<b>METIS No:</b>	1300871
<b>Drafter:</b>	Graham Bussell	<b>DDI:</b>	463 2835
<b>Key Contact:</b>	Siobhan Murray	<b>DDI:</b>	9(2)(a) [REDACTED]
<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose of Report

The paper confirms your agreement to a change to extended pay parity funding rates for education and care services, which you signalled at the Agency meeting on 21 November 2022. It also appends a draft Cabinet paper to inform the Cabinet Social Wellbeing Committee of the rate change at its meeting on 7 December 2022.

### Recommended Actions

The Ministry of Education recommends you:

- note** that 34% of education and care services have attested they will opt into extended pay parity (EPP) funding rates beginning from 1 January 2023;
- note** that the current opt in rate will lead to a projected underspend of \$127.4 million over four years;
- agree**, under section 548 of the Education and Training Act, to increase EPP rates by 3.6% from 1 January 2023 in order to improve opt in to EPP rates;
- note** that the change to rates will be fiscally neutral based on modelling of the change but carries fiscal risk if opt in is higher than projected;
- note** the attached Cabinet paper will need to be lodged with the Cabinet Office by 1 December for consideration by the Social Wellbeing Committee on 7 December 2022;
- note** that the Cabinet paper asks Cabinet to approve a report back in February 2023 to joint Ministers on EPP rate uptake and management of projected cost;

**Agree / Disagree**

- g. **agree** that the Ministry of Education release this briefing in full once any announcement of the change to rates is publicly announced, subject to the provisions of the Official Information Act 1982.

☒ Agree / ☐ Disagree.



Siobhan Murray  
**Senior Policy Manager**  
**Te Pou Kaupapahere**

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Hon Chris Hipkins  
**Minister of Education**

25/11/22

## Background

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1. Earlier this month, we advised you of the proportions of education and care services that had opted into the two pay parity funding rates, including the new extended pay parity (EPP) funding rate due to take effect from 1 January 2023. We then provided you with a paper on three funding options to increase the EPP opt in rate above its existing level of 34% [METIS 1299708 refers].
2. The funding options we provided would increase EPP rates by between 2.5% and 3.6%. These were projected to increase the opt-in proportions to between 35% and 40% of education and care services. The projections are dependent on limited sector data and assumptions about how a service would choose between the funding rates.
3. All the options re-invest different amounts of unspent funding from the Budget 2022 allocation of \$265.6 million. The highest rate option makes use of all the projected four-year underspend of \$127.4 million. The underspend arises as a result of the funding rates being conservatively set so as to limit the risk of overspend against the allocation, should there be an unexpectedly high opt in.

## Preferred change to extended pay parity funding rates

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4. You indicated at the Agency meeting on 21 November that your preference was to choose the option that makes a change to the EPP rates of 3.6%. This maximises use of the projected underspend based on the Ministry's data.

## Confirmation of the change under powers in the Education and Training Act 2020

5. As you are aware, setting of funding arrangements for licensed early childhood services is a power held by the Minister of Education under section 548 of the Education and Training Act 2020. This includes setting amounts of grants (the subsidy rates paid to providers) and the conditions required for funding.
6. Once funding is appropriated, as it has been in this case, it is legally the Minister of Education who must exercise the statutory power, rather than Cabinet, around these funding decisions. Accordingly, this report confirms your decision as an exercise of this power.

### ***Informing Cabinet***

7. Although you are empowered to make the decision to increase rates, we advise that providing Cabinet with a paper informing it of your intended change is appropriate. Given the nature of the change, this is consistent with Cabinet Manual advice on ministerial decision making under statutory powers.<sup>1</sup> We therefore include a draft Cabinet paper to this effect with this report. We understand this is to be lodged by 1 December for the Cabinet Social Wellbeing Committee meeting on 7 December.

### ***Implementation***

8. The revised EPP rates will take effect from 1 January 2023. This is the same date the original EPP rates were intended to come into effect. Once the change in rates is announced, the Ministry will alter the schedule of rates in the ECE Funding Handbook.

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<sup>1</sup> Cabinet Manual ss 5.34 – 5.37.

9. Services that have already opted in to the EPP rates will have their funding adjusted automatically and paid on 1 February 2023. Non-opted in services may choose to opt in after the announcement for the current four-month funding period. If this is done before 31 December 2022, these services will be paid the additional funding on 1 February 2023. Later notification of opt in will be processed in time for the 1 March 2023 funding payment as long as it is submitted by early February.

## Financial Implications

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10. Based on our modelling set out in our earlier report, the change in rates should be fiscally neutral. This allows you to exercise your statutory power and alter the rates because the cost should be within appropriated funding.
11. We briefly discussed with you at the Agency meeting the risk of overspend against appropriation due to higher than expected opt in and how this could be managed. The draft Cabinet paper outlines the approaches we could use, if this risk did eventuate. These are:
- Managing additional costs in 2022/23 through the March Baseline Update (MBU) – either through retention of underspend in the Early Learning Appropriation or potentially treating increase in cost as a forecast change. We expect to confirm the underspend next month, although the full cost of the new rates in the current year would not be known until February next year.
  - The alternative to using the baseline update process is to include the cost as part of Budget 2023. This would be a late change to the package confirmation once the final opt in rates are known in February.
  - For pressures beyond this current financial year, it is likely you would need to rely on Budget 2024 funding. This could be treated as a first call on Budget 2024 or as a pre-commitment. We note that it is likely to be more obvious where opt in rates lie in later years. 9(2)(f)(iv)
12. We have shared the draft Cabinet paper with the Treasury but have not yet been able to confirm their view on the options to respond to fiscal pressures. As such, the draft paper's fiscal implications section is subject to change. This includes the proposal we have included in that section for the Ministry to report back to you and the Minister of Finance in February next year. This update would focus on where opt in rates have shifted to and confirm which of the mechanisms mentioned above are likely to be needed, if at all.

## Next Steps

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13. Once the paper is considered by Cabinet on 14 December, we will inform the sector with a special Early Learning Bulletin and communication to ECAC at its regular meeting on 16 December.