

Cabinet Paper material

Proactive release

Minister & portfolio	Hon Erica Stanford, Minister of Education
Name of package	Reversing the 20 Hours Early Childhood Education Initiative
Date considered	18 December 2023
Date of release	27 February 2024

These documents have been proactively released:

Cabinet Paper: Reversing the Budget 2023 20 Hours ECE initiative

Date considered: 18 December 2023

Author: Office of the Minister of Education

Cabinet 100-Day Plan Minute: 100-23-MIN-0006

Date considered: 18 December 2023

Author: Committee Secretary

Cabinet Minute: CAB-23-MIN-0491

Date considered: 18 December 2023

Author: Secretary of the Cabinet

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>

Budget sensitive

Office of the Minister of Education

Cabinet 100-Day Plan Committee

Reversing the Budget 2023 20 Hours ECE initiative

Proposal

- 1 This paper seeks agreement to reverse the extension of 20 hours ECE to two-year-olds, due to be implemented from 1 March 2024.

Relation to government priorities

- 2 This relates to the National Party's tax plan commitment to end the extension of 20 Hours ECE to two-year-olds, to be replaced by the FamilyBoost tax credit.

Background

- 3 The 20 Hours ECE scheme was introduced in 2007 as a subsidy that services could opt in to. Services must not charge parents fees for the hours of 20 Hours ECE. The scheme provides a higher rate of subsidy for three- to five-year-olds. It is limited to six hours per day and 20 hours per week per child.
- 4 Budget 2023 provided \$1.242 billion in operating funding over four years to [CAB-23-MIN-0139 refers, initiative 15239] to:
 - 4.1 extend 20 Hours ECE to two-year-olds from 1 March 2024. This includes savings from the Ministry of Social Development's Childcare Assistance, which cannot be claimed for the hours of 20 Hours ECE;
 - 4.2 increase the 20 Hours ECE funding rates by 4.6% from 1 March 2024. This applies to funding for 3–5-year-olds as well as for 2-year-olds. The 4.6% increase partially addresses the decline in the value of the funding rates since 2007. It was also intended to support services to implement the additional funding conditions.
- 5 To encourage transparency, the previous Government decided to introduce additional funding conditions for services opting in to 20 Hours ECE from 1 March 2024. The conditions required services to:
 - 5.1 set fees by the hour only for two- to five-year-old children;
 - 5.2 publicly promulgate hourly fees; and
 - 5.3 provide the Ministry with fee schedule data.
- 6 The previous Government also announced a funding condition to allow home-based educators to charge a top up fee for the hours of 20 Hours ECE, from 1 March 2024 [SWC-23-MIN-0115 refers]. This addresses a problem with how the existing 20 Hours ECE scheme has operated in home-based services for many years. It will allow home-based educators to maintain their income for the hours of 20 Hours ECE.

Analysis

- 7 I seek Cabinet's agreement to reverse the extension of 20 Hours ECE to two-year-olds. This will save a total of \$1.181 billion over five years. Reversing this initiative is critical to funding the National Party's Back Pocket Boost tax plan commitments.
- 8 A quick decision is required to stop the extension to two-year-olds being incorporated into the student management system (SMS) software that ECE providers use. Early communication will also support parents and ECE providers to plan accordingly.
- 9 There are two key impacts of removing the extension of 20 Hours ECE to two-year-olds:
 - 9.1 Parents of two-year olds, or children about to turn two, may be anticipating this extension. Removing the extension may mean families change their intended uptake of ECE for their two-year-olds. It may also affect parents' labour market participation.
 - 9.2 ECE service providers may have begun budgeting based on the extension to two-year-olds. Removing this increase could result in some services increasing the fees charged to parents. The funding reduction may have a greater effect on services in low socio-economic communities, as they are less able to increase fees to parents.
- 10 I consider the first of these risks will be mitigated by the FamilyBoost policy and other tax relief for the squeezed middle from the National Party Back Pocket Boost. These policies will provide more disposable income to the majority of families, not just those with two-year-olds.
- 11 The second of these risks can be suitably mitigated through quick and clear communication to ECE providers.

Decisions on the new funding conditions

- 12 The Education and Training Act 2020 provides me, as the Minister of Education, with the power to set funding conditions.¹
- 13 I have decided to reverse the funding conditions announced as part of Budget 2023 for the following reasons:
 - 13.1 **requiring services to charge parent fees by the hour.** This creates administrative burden for services;
 - 13.2 **requiring services to publish their existing fee schedules.** This information is considered commercially sensitive by some services. All services already provide this information to the parents of enrolled children;
 - 13.3 **requiring services to provide fee schedule information to the Ministry.** Requirements for fee information is likely to be considered as part of the development of the FamilyBoost policy.

¹ Section 548(5) of the Education and Training Act 2020 provides the Minister of Education statutory authority to determine any conditions of the grants paid to licensed early childhood services out of money appropriated by Parliament.

- 14 I have decided to retain the funding condition that enables a new allowable payment for home-based educators, to support home-based services to continue to offer 20 Hours ECE to families without trading off the income of educators [SWC-23-MIN-0115 refers]. The implementation timing of this funding condition will likely be in May or early June 2024. This will be confirmed in early 2024.

Implementation

- 15 Decisions on 20 Hours ECE will be formally communicated as part of the mini Budget. Once decisions have been communicated publicly, the Ministry of Education will update the ECE Funding Handbook.

Cost-of-living Implications

- 16 Reversing the extension of 20 Hours ECE to two-year-olds means that families with two-year-old children attending ECE are unlikely to see a decrease in ECE fees from 1 March 2024. However, I anticipate that the FamilyBoost tax credit should help to mitigate this.

Financial Implications

- 17 The decisions in this paper will result in total savings of \$1.181 billion of non-departmental savings over five years. This is made up of \$1.240 billion over five years in savings from Vote Education and \$58.730 million over five years in costs from Vote Social Development.
- 18 The Ministry of Education received \$10 million in departmental funding over four years as part of the Budget 2023 initiative. 9(2)(f)(iv) [REDACTED].

Legislative Implications

- 19 This paper has no legislative implications.

Impact Analysis

Regulatory Impact Statement

- 20 This paper does not contain regulatory changes.

Climate Implications of Policy Assessment

- 21 This paper does not have climate implications.

Population Implications

- 22 Reversing the extension of 20 Hours ECE to two-year-olds means that families with two-year-olds are unlikely to receive a reduction in ECE fees from 1 March 2024. This may affect ECE participation of two-year-olds, parents' labour force participation and household income. This is likely to have differential impacts on Māori and Pacific families, who are more likely to be low-income and therefore more sensitive to changes in ECE costs. It is also likely to have a differential impact on women, who are more likely to be primary caregivers.
- 23 These effects should be mitigated by the FamilyBoost tax credit.

Human Rights

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

Use of external Resources

25 No external resources have been used in the development of this paper.

Consultation

26 The Ministry of Social Development and the Treasury have been consulted. The Department of the Prime Minister and Cabinet has been informed.

Communications

27 Ahead of Cabinet decisions, I have asked the Ministry of Education to indicate to key stakeholders the Government's intention to remove the extension of 20 Hours ECE to two-year-olds. This will avoid unnecessary work implementing these changes within the student management systems (SMSs) that ECE services use to manage children's enrolment and attendance.

28 The reversal of the extension to two-year-olds and the removal of the funding conditions will be formally communicated as part of the mini Budget.

Proactive Release

29 I intend to proactively release this paper, subject to the Official Information Act 1982.

Recommendations

The Minister for Education recommends that Cabinet:

- 1 **note** that Budget 2023 extends 20 Hours ECE two-year-olds and increases the 20 Hours ECE funding rates by 4.6% from 1 March 2024 [CAB-23-MIN-0139 refers, initiative 15239];
- 2 **note** the National Party made an election manifesto commitment, as part of the Back Pocket Boost, to reverse the extension of 20 Hours to two-year-olds as it will be replaced by the FamilyBoost tax rebate;
- 3 **agree** to reverse the Budget 2023 extension of 20 Hours ECE to two-year-olds, due to be implemented from 1 March 2024;
- 4 **agree** to retain the 4.6% increase in 20 Hours ECE funding rates for three to five year-olds from 1 March 2024;
- 5 **note** that the following 20 Hours ECE funding conditions that were announced as part of Budget 2023 will be removed:
 - 5.1 services that opt in to 20 Hours ECE must charge fees by the hour for 2–5-year-old children, with the hours of 20 Hours ECE marked as \$0 per hour;
 - 5.2 services that opt in to 20 Hours ECE must publish their fee schedules;

IN C O N F I D E N C E

- 5.3 services that opt in to 20 Hours ECE must provide the Ministry with fee schedule data;
- 6 **note** that the funding condition enabling home-based educators to charge a top-up payment to parents for the hours of 20 Hours ECE will be retained [SWC-23-MIN-0115 refers];
- 7 **approve** the following changes to appropriations to give effect to cancelling the extension of 20 Hours ECE Subsidy to two-year-olds in recommendation 3 above, with a corresponding impact on the operating balance and net debt;

	\$m – increase/(decrease)				
	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears
Vote Education					
Non-Departmental Output Expense:					
Early Learning	(88.073)	(284.778)	(285.817)	(288.828)	(292.372)
Vote Social Development					
Benefits or Related Expenses:					
Childcare Assistance	4.325	13.179	13.492	13.867	13.867
Total operating	(83.748)	(271.599)	(272.325)	(274.961)	(278.505)

- 8 **agree** that the proposed change to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 9 9(2)(f)(iv)

Authorised for lodgement.

Hon Erica Stanford
Minister of Education



Cabinet 100-Day Plan Committee

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.

Reversing the 20 Hours Early Childhood Education Initiative

Portfolio Education

On 13 December 2023, the Cabinet 100-Day Plan Committee:

- 1 **noted** that the previous Government agreed, as part of Budget 2023, to extend the 20 Hours Early Childhood Education (ECE) policy to two-year olds, and increase the 20 Hours ECE funding rates by 4.6 percent from 1 March 2024 [CAB-23-MIN-0139];
- 2 **noted** that the National Party made an election manifesto commitment, as part of the Back Pocket Boost, to reverse the extension of 20 Hours ECE to two-year olds as it will be replaced by the FamilyBoost tax rebate;
- 3 **agreed** to reverse the Budget 2023 extension of 20 Hours ECE to two-year olds, due to be implemented from 1 March 2024;
- 4 **agreed** to retain the 4.6 percent increase in 20 Hours ECE funding rates for three- to five-year olds from 1 March 2024;
- 5 **noted** that the following 20 Hours ECE funding conditions that were announced as part of Budget 2023 will be removed:
 - 5.1 services that opt-in to 20 Hours ECE must charge fees by the hour for two- to five-year old children, with the hours of 20 Hours ECE marked as \$0 per hour;
 - 5.2 services that opt-in to 20 Hours ECE must publish their fee schedules;
 - 5.3 services that opt-in to 20 Hours ECE must provide the Ministry of Education with fee schedule data;
- 6 **noted** that the funding condition enabling home-based educators to charge a top-up payment to parents for the hours of 20 Hours ECE will be retained;

- 7 **approved** the following changes to appropriations to give effect to cancelling the extension of the 20 Hours ECE subsidy to two-year olds, with a corresponding impact on the operating balance and net debt:

	\$m – increase/(decrease)				
	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears
Vote Education					
Non-Departmental Output Expense:					
Early Learning	(88.073)	(284.778)	(285.817)	(288.828)	(292.372)
Vote Social Development					
Benefits or Related Expenses:					
Childcare Assistance	4.325	13.179	13.492	13.867	13.867
Total operating	(83.748)	(271.599)	(272.325)	(274.961)	(278.505)

- 8 **agreed** that the change to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

9 9(2)(f)(iv)

Jenny Vickers
Committee Secretary

Present:

Rt Hon Christopher Luxon (Chair)
Rt Hon Winston Peters
Hon David Seymour
Hon Chris Bishop
Hon Dr Shane Reti
Hon Shane Jones
Hon Simeon Brown
Hon Erica Stanford
Hon Paul Goldsmith
Hon Judith Collins
Hon Mark Mitchell
Hon Nicole McKee

Officials present from:

Office of the Prime Minister
Department of the Prime Minister and Cabinet



Cabinet

Minute of Decision

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Report of the Cabinet 100-Day Plan Committee: Period Ended 15 December 2023

On 18 December 2023, Cabinet made the following decisions on the work of the Cabinet 100-Day Plan Committee for the period ended 15 December 2023:

Out of scope		
100-23-MIN-0006	Reversing the 20 Hours Early Childhood Education Initiative Portfolio: Education	CONFIRMED
Out of scope		

Out of scope

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Rachel Hayward
Secretary of the Cabinet

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