MINISTRY OF EDUCATION
TE TĀHUHU O TE MĀTAURANGA

Education Report: Budget pay parity initiative implications

To:	Hon Chris Hipkins, Minister of Education		
Date:	8 March 2021	**Priority:**	High
Security Level:	Budget Sensitive	**METIS No:**	1250399
Drafter:	Graham Bussell	**DDI:**	9(2)(a) [redacted]
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Messaging seen by Communications team:	No	**Round Robin:**	No

Purpose of Report

The purpose of this paper is to provide you with further information regarding the implications of the Budget initiative *Moving towards pay parity in early learning*, and to seek your decision about whether to proceed with changes to the early learning funding system in order to robustly implement teacher pay parity.

Summary

1 The Ministry has lodged a Budget initiative for $170 million to move certificated education and care service teachers towards pay parity with kindergarten teachers. The initiative provides for an extra set of 'premium' funding rates. Services can opt into these if they agree to pay teachers against certain pay steps in the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement.

2 The way early learning subsidies are calculated does not match new or existing subsidy funding with the particular salary costs incurred by each service. Services receive the same hourly subsidy rate regardless of their actual salary expense. Any increase in rates is an average across all services, meaning there will be both winners and losers at an individual service level.

3 This means it is very likely many services will not opt into the premium rates because this would leave them out of pocket, while some services will opt in and receive more funding than needed. Importantly, it means that fewer teachers will receive a pay increase than is intended by the initiative - a two tier system would develop.

4 9(2)(h) [redacted]

5 This suggests that the initiative is, at best, a short-term option. In the long-term, there would need to be significant system change to clearly enable pay parity. Should you agree to this, we propose providing advice on a work programme to alter regulatory and funding

settings accordingly. We note that reconfiguring the system would have major implications and require considerable development work. These implications include greater administrative complexity and revisiting key elements of early learning funding.

Recommended Actions

The Ministry of Education recommends you:

a. **note** that the proposed Budget 2021 initiative *Moving towards pay parity in early learning* provides a suitable short-term solution to enabling pay parity between education and care service and kindergarten teachers;

b. **agree** to receive advice prior to Budget 21 announcements on:
- the final details of the Budget 21 initiative
- the content of a work programme aimed at altering both the funding and regulatory settings to achieve pay parity;

Agree / Disagree

c. **agree** that this Education Report is not proactively released at this time because of Budget sensitivity.

Release / Not release

John Brooker
Group Manager
Education System Policy

08/03/2021

Hon Chris Hipkins
Minister of Education

20/3/2021
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Background

Government support for pay parity for education and care teachers

1. The Government committed new funding of $151.124 million over four years from Budget 2020 to increase education and care funding rates. This was the Government's first step towards enabling pay parity between certificated teachers in education and care services and their equivalents in kindergartens.

2. The increase in funding rates focused on closing the gap between kindergarten and education and care service funding rates. The gap began in 2011 when the previous Government stopped mirroring increases to kindergarten subsidy rates in education and care service rates. The increases paid for the cost of variations to the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA).

3. The Labour Party's 2020 Election Manifesto also outlined a commitment to move towards pay parity between certificated teachers working in the two service types. You have publicly stated that $600 million in new funding is available for this Manifesto commitment.

The Budget 2021 pay parity initiative

4. On 2 February 2021, the Ministry submitted a Budget initiative template to the Treasury: *Moving towards pay parity in early learning*. This seeks to move the pay of certificated education and care teachers towards that of kindergarten teachers by:

   - **Minimum salary increase for all services**. All education and care service funding rates will increase to enable the minimum attestation rate to increase. Accessing rates above the bottom funding band is conditional on services increasing the minimum salary paid to certificated teachers. This would apply from 1 July 2021.
   - **Opt-in rates enabling the first six steps of the KTCA.** An extra set of higher, premium rates would be available for education and care services to opt into, if they agree to pay certificated teachers with requisite experience six of the eleven pay steps in the KTCA. This would be available from 1 January 2022.
   - **Funding set aside for kōhanga reo** in a contingency**.** This would enable discussions with the Trust on an appropriate approach for kōhanga reo.

Considerations relating to the Budget initiative

Calculation of total funding required for education and care services

5. The initiative states the cost of moving all teacher FTEs eligible for higher pay steps at $169.979 million over the four-year Budget period.[1]

6. The cost is an estimate due to uncertainties in the underlying data. These include only having a week of certificated FTE teacher data so needing to assume this reflects an average week over the whole year. The costing also relies on a limited sample of teacher salaries. Furthermore, the years of teachers' experience is only available in bands, rather than discrete years.

[1] The initiative estimates costs using data from the 2020 ECE Census and a 2020 ECE Remuneration Survey.

7. While the underlying data adds uncertainty to the likely cost, the patterns of pay and its distribution appear broadly consistent with our anecdotal understanding of teacher pay.

Initiative costing assumes full opt-in

8. The initiative costing assumes every education and care service opts into the premium funding rates, even though this is very unlikely. We have assumed this because we do not know what proportion of services will opt-in.

9. Understating the opt-in proportion risks insufficient funding being appropriated to pay services. But overestimating would result in some of the funding for teacher pay being unspent. The ECE forecast reconciliation would result in this underspend being lost from the early learning appropriation – the funding is automatically returned to the centre as part the forecast process.

10. The Ministry is exploring options with the Treasury to ensure the funding appropriated through each budget is kept for early learning. We will advise you of a proposed approach.

Legal uncertainty

11. 9(2)(h) [redacted] a change to the wording of the power to set funding conditions in section 548 of the Act may be sensible, perhaps as part of Budget legislation.

12. 9(2)(h) [redacted]

The ECE funding mechanism is unsuitable for delivering pay parity

13. The initiative is the Ministry's best attempt to move education and care teachers towards pay parity within the current funding system's parameters. However, the approach does not provide a viable long-term approach to achieving pay parity. This is because, despite requiring payment of six KTCA steps, there is no guarantee all eligible services will opt in. This means not all teachers with qualifying experience levels will receive pay increases.

14. The reason services will not consistently opt in is because the 'bulk grant' mechanism used for ECE subsidies does not adjust to the different salary costs incurred by each service. ECE subsidies were created on the basis of average sub-sector costs. This means some services would receive more than enough funding for salary, while some will not receive enough. The latter group of services will generally not opt into premium rates and a two tier system of pay rates begins to develop.

15. 9(2)(f)(iv) [redacted]

16. While the funding approach is not well suited to achieving pay parity, the Ministry has used this method for some time to meet kindergarten teacher expenses arising from the KTCA. This largely works because:

- the collective agreement requires a salary scale, effectively ensuring funding is passed on to teachers
- kindergarten teachers are employed by associations rather than individual services. Kindergarten associations tend to have enough teachers at different salary levels to average out the salary cost in line with funding received. In contrast, there are many small education and care services that have too few teachers to do this
- the kindergarten associations share their salary and FTE data with the Ministry as part of bargaining, enabling a better estimation of increases to funding rates
- kindergartens are generally only open for six hours a day and have limited offerings for children under 3. This minimises their reliance on funding from parents and other sources – Ministry subsidies likely make up a bigger proportion of kindergarten revenue than for other services.

The ECE funding mechanism has other limitations

17. The current funding mechanism is also limited because it does not lend itself to ensuring new money is spent *only* on teacher salaries. The ECE subsidy was intended to cover a range of expense types rather than fund specific proportions of particular expenses for each hour of subsidy.

18. Any dollar of the grant essentially 'floats' and does not attach to a particular expense, especially indefinitely. In short, it means that a requirement that all new funding be spent only on salaries could not be audited. The alternative of setting specific expense requirements (ie, pay steps) is much easier to hold services to account for.

Reconfiguring the early learning funding system

19. It is apparent that modification or replacement of the early learning funding mechanism is needed if the Government is to robustly deliver pay parity.

20. We advise that work to deliver a fit-for-purpose system would likely have major impacts. The budget initiative assumes work would be substantial by including funding for developing an alternative approach (amounting to $10.616 million over four years). Much of this cost arises from the data collection required to estimate the fiscal and distributional implications associated with new approaches.

21. There is no significant benefit likely to accrue with undertaking data collection to support the short-term approach in the Budget initiative due to the limitations of the funding mechanism. However, evaluation, design and implementation of future funding approaches will benefit from a more comprehensive stocktake of financial and staffing data. We envisage that this data would need to be required from services under legislation, as our experience is that some providers are sensitive about voluntarily revealing all details of their operations.

Main implications

22. Reworking the funding system would enable pay parity. It would also have the following implications.

- 9(2)(f)(iv) [redacted]
- [redacted]
- [redacted]
- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]

[redacted]

Direction on next steps

24. Should you agree that reconfiguring the funding system appears appropriate, we propose providing you with advice on a work programme that outlines a process to reconfigure the funding and regulatory system. We would provide this prior to Budget announcements in May.

Pay equity

25. As you may be aware, there are several claims for pay equity in the early learning sector that have been lodged under the Equal Pay Act 1972. Pay parity does not avoid the need to address pay equity claims. A new funding mechanism would, however, help support implementation of pay equity agreements because agreements are also likely to demand a closer match between government funding and specific employer salary costs.

Kōhanga reo implications

26. The initiative sets aside $11.898 million in contingency to potentially increase kōhanga reo rates. The contingency recognises that equity between kōhanga reo and mainstream education and care service rates may be appropriate in light of WAI 2336 findings. We will need to discuss with Te Kōhanga Reo National Trust what equity will look like. The initiative costing reflects maintenance of the ratio of the rates to each other.

27. 9(2)(f)(iv) [redacted]

Proactive Release

28. We recommend that this Education Report is not released at this time due to its Budget sensitivity. We expect it would be considered for proactive release once the Budget decisions and announcements are made.