



## Education Report: Aligning the premium for the 100% certificated teacher rates

<b>To:</b>	Hon Grant Robertson, Minister of Finance Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	23 July 2020	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>Metis No:</b>	1235460
<b>Drafter:</b>	Siobhan Murray	<b>DDI:</b>	s 9(2)(a)
<b>Key contact:</b>	John Brooker	<b>DDI:</b>	
<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	Yes

### Purpose of report

This paper seeks your agreement to align the premium paid to education and care services and kindergartens for the 100% certificated funding rates.

### Recommended Actions

The Ministry of Education recommends you:

- note** that, in Budget 2020, Cabinet approved the reinstatement of 100% certificated teacher funding rates from 1 January 2021, based on the dollar difference between the 100% rates and next lowest rate band when the 100% rates were last offered [CAB-20-MIN-0219.09, Initiative No 12651 refers];
- note** that, as a result of interactions between separate Budget 2020 initiatives, the 100% certificated teacher funding premium (difference between 100% and 80%+ rates) is lower for education and care services than for kindergartens;
- note** that the cost of lifting the education and care service premium to match the kindergarten premium is \$35.990 million over four years, based on the 2020 Pre-Election Economic and Fiscal Update ECE demand forecast;
- note** that, in undertaking the above costing, two Budget costing errors were identified showing the original initiative costs to be overstated by \$37.061 million over four years, which the Ministry considers should offset the cost of aligning the differences between funding rates for the education and care services and kindergartens;
- note** that the funding required for matching the differential for the 100% rates over the forecast period can be met from the recosted budget initiative;

- f. **note** that while this change is fiscally positive over the forecast period the outyear amount is \$4.179 million higher, which will be reflected in future forecast changes and count against budget allowances;
- g. **agree** to increase the 100% rates for education and care services to create the same dollar gap to their 80%+ rates as reflected in the equivalent kindergarten rates;

Hon Robertson

**Agree** / Disagree

Hon Hipkins

**Agree** / Disagree

- h. **approve** the following changes to appropriations to provide for the decision in recommendation (d) above, with a reduction of fiscal impact on the operating balance over the forecast period;

	\$m – increase/(decrease)				
<b>Vote Education Minister of Education</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24 &amp; Outyears</b>	<b>Total</b>
Non-Departmental Output Expense: Early Learning	(4.531)	(2.015)	1.296	4.179	(1.071)

Hon Robertson

**Agree** / Disagree

Hon Hipkins

**Agree** / Disagree

- i. **agree** the proposed change to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates;

Hon Robertson

**Agree** / Disagree

Hon Hipkins

**Agree** / Disagree

## Proactive Release Recommendation

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- j. **agree** that this report is proactively released with information withheld in line with the Official Information Act 1982.

Hon Robertson

**Agree** Disagree

Hon Hipkins

**Agree** / Disagree



John Brooker  
**Group Manager**  
**Education System Policy**

23/07/2020

APPROVED / NOT APPROVED



Hon Grant Robertson  
**Minister of Finance**

07/09/2020



Hon Chris Hipkins  
**Minister of Education**

29/ 8 /2020

## Background

- Budget 2020 reintroduced 100% certificated teacher rates from 1 January 2021 [CAB-20-MIN-0219.09, Initiative No 12651 refers]. The initiative was costed on the basis of reinstating the historical dollars and cents difference that existed in 2010 between the 80-99% and the 100% rates. The costing was based on confirmed funding rates for:
  - education and care services from 1 January 2020
  - for kindergartens from 1 July 2020 and 1 July 2021 respectively. Kindergarten rates increase in July of 2020 and 2021 to reflect salary increases required by the KTCA.
- Budget 2020 also included initiative 12145 Improving Teacher Pay in Education and Care Services [METIS 1225457 refers]. This increased education and care services' funding rates by 2.3% from 1 July 2020. This initiative and the 100% certificated teachers initiative were costed separately. The increase in education and care services' 80%+ funding rates from 1 July 2020 reduced the 100% premium for education and care services compared to kindergartens, as illustrated in the table below.

*Table 1: Comparison of the 80%+ and 100% certificated funding rates, 1 January 2021*

		Funding rates from 1 January 2021		
		Under 2s	2 and over	20 Hours ECE
Kindergartens*	100% band	\$15.19	\$8.91	\$14.51
	80%+ band	\$14.61	\$8.14	\$13.78
	\$ difference	\$0.58	\$0.77	\$0.73
Education & care services*	100% band	\$13.34	\$7.83	\$12.77
	80%+ band	\$13.02	\$7.20	\$12.28
	\$ difference	\$0.32	\$0.63	\$0.49

\* Rates for all day services. Rates are per Funded Child Hour.

## Increasing the 100% rate for education and care services

- We have costed increasing the current 100% funding rates for education and care services so the difference between that and their 80%+ rates is the same as that between the kindergarten rates. This would increase the 100% funding rates for education and care services as per Table 2 below.

*Table 2: Aligning the 100% certificated premium – comparison of proposed funding rates*

		Funding rates from 1 January 2021		
		Under 2s	2 and over	20 Hours ECE
Kindergartens*	100% band	\$15.19	\$8.91	\$14.51
	80%+ band	\$14.61	\$8.14	\$13.78
	\$ difference	\$0.58	\$0.77	\$0.73
Education & care services*	100% band	\$13.60	\$7.97	\$13.01
	80%+ band	\$13.02	\$7.20	\$12.28
	\$ difference	\$0.58	\$0.77	\$0.73

\* Rates for all day services. Rates are per Funded Child Hour.

- The 100% funding rates for education and care services would still be lower than those for kindergartens. In addition, Budget 2020 also included a general 1.6% cost

adjustment, which increases the 80%+ band from 1 January 2021. For this reason, even with the increased rates as per table 2, the difference between the 80%+ and the 100% rates is smaller than what existed in 2010 (for both kindergartens and education and care services).

5. Changing the rates as per table 2 above costs \$35.990 million over four years from 2020/21 to 2023/24. This is based on the ECE demand profile in the 2020 Pre-election Economic and Fiscal Update (PREFU).
6. In the course of undertaking this costing, we found two errors in the original costing. The errors mean that the original initiative was overcosted by \$37.061 million. The errors were:
  - 4.4% was incorrectly added to the kindergarten 100% rates from January 2021. The costing model's formula included a Kindergarten Teachers' Collective Agreement-related increase that was not relevant to this initiative. This overstated the cost of the initiative by 12%, or \$34 million
  - the kindergarten 100% increase was costed on the historic percentage difference rather than the historic dollars and cents difference. This overstated the cost by \$3 million.
7. The additional cost for matching the differential for the 100% rates over the forecast period can be met from the recosted budget initiative. This is shown in row E in the table below. Some rephrasing of the baseline would be required, as illustrated below. There is a cost in outyears compared to the original initiative – of \$4.179 million. This will be reflected in future forecast changes, which count against budget allowances and reduce the amount available for new spending at Budget.

*Table 3: Comparison of original initiative and cost of increasing the 100% education and care rates*

Operating funding (\$m)	2020/21	2021/22	2022/23	2023/24 & Outyears	Total
A. Original costing of 100% initiative*	12.241	64.068	89.645	112.295	<b>278.249</b>
B. Revised costing after fixing errors*	7.541	54.538	78.760	100.349	<b>241.188</b>
C. Savings available	4.700	9.530	10.885	11.946	<b>37.061</b>
D. Cost of increasing 100% rates for ed & care^	0.169	7.515	12.181	16.125	<b>35.990</b>
E. Net (surplus) or deficit by year	(4.531)	(2.015)	1.296	4.179	<b>(1.071)</b>

\* Costed on the ECE baseline from the October Baseline Update (OBU) 2019.

^ Costed on the ECE baseline from 2020 PREFU.

## Process

8. Section 311 of the Education Act 1989 empowers the Minister of Education to set rates for grants for early learning services, so long as the funding has been appropriated by Parliament. The Early Learning baseline is sufficient to accommodate this change.
9. The proposed change is minor and technical because the cost can be met within baselines. As such, it can be approved by joint Ministers rather than Cabinet.