



Education Report: Options for a funding rate adjustment for certificated playgroups

To:	Hon Tracey Martin, Associate Minister of Education Hon Chris Hipkins, Minister of Education		
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

The purpose of this paper is for you to:

- **agree** to raise the operational funding rate for certificated playgroups to \$1.83 per funded child hour.

Summary

- 1 Certificated playgroups provide early learning for children in short sessions, with a high adult to child ratio. Compared to licensed early learning services, certificated playgroups have fewer regulatory requirements.
- 2 Playgroups may be customised to the needs of the community, for example through providing early learning in different languages or through following particular philosophies. Playgroups also provide a valuable way for parents and caregivers to connect, especially those who may be isolated in the community.
- 3 The Ministry provides operational funding to playgroups via a flat rate of \$1.51 per hour per child. This rate has been in place since 1 July 2014 and has not been included in recent cost adjustments for early learning services. Playgroups may also receive other funding, such as special grants or supported playgroup funding, in addition to local fundraising efforts.
- 4 At present, there is an underspend in the playgroup funding allocation, and this has been growing annually, because playgroup funded child hours have been decreasing.
- 5 This paper presents two options to increase the funding rate. Option one increases the rate to \$1.66 per hour per child, to account for inflation and cost adjustments that have occurred since the rate was last adjusted. Option two increases the rate to \$1.83, a level that keeps playgroup funding within the existing allocation, with a smaller underspend as a buffer.

- 6 Increasing the funding rate would allow playgroups to use the additional funds to pay for better quality resources and may contribute to improved sustainability for individual playgroups.
- 7 The Ministry recommends that the operational funding rate for certificated playgroups be raised to \$1.83 per hour per child, as per option two.

Recommended Actions

The Ministry of Education recommends you:

- a. **agree** to raise the operational funding rate for certificated playgroups from \$1.51 per funded child hour to \$1.83 per funded child hour

Minister of Education **Agree / Disagree**

Associate Minister of Education **Agree / Disagree**

- b. **agree** that this Education Report is proactively released after decisions have been announced

Minister of Education **Release / Not release**

Associate Minister of Education **Release / Not release**



Damian Edwards
**Associate Deputy Secretary
Education System Policy**

11/05/2020



Hon Chris Hipkins
Minister of Education

2 / 6 / 2020

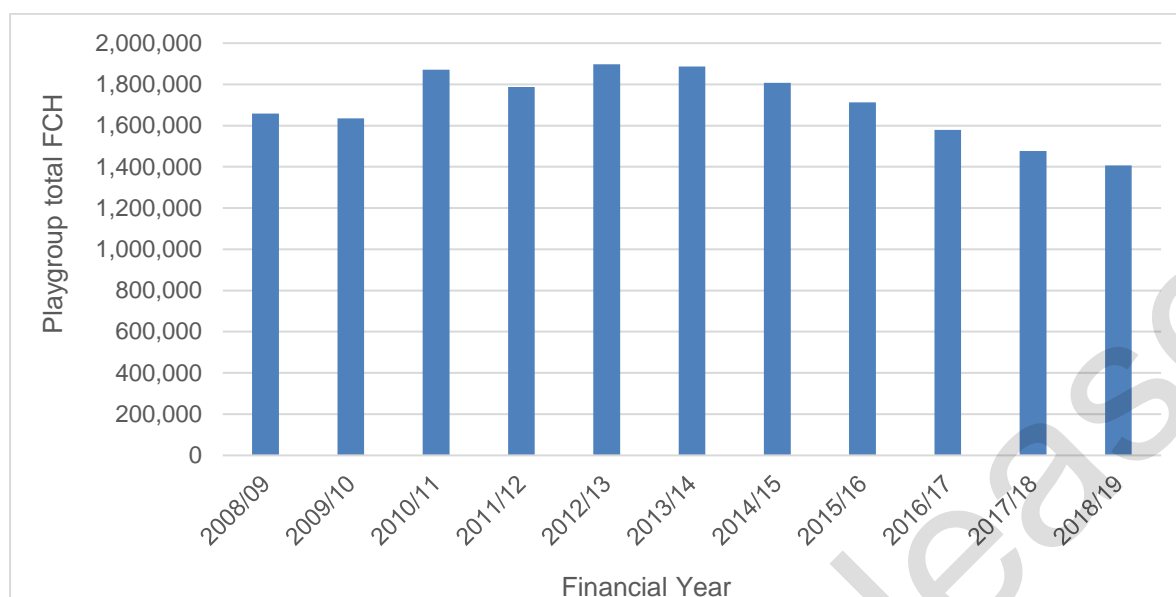
Hon Tracey Martin
**Associate Minister of
Education**

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Background

- 1 Minister Martin has expressed an interest in playgroup funding, specifically funding for the four “Safari playgroups” in Auckland that provide early learning for the children of refugee families. This Education Report presents options for increasing funding for all playgroups. Playgroups are not included in any Budget 2020 initiatives, including the cost adjustment for early learning services.
- 2 The Education Act 1989 (the Act) defines a playgroup as a group that meets on a regular basis to facilitate children's play, and in respect of which –
 - a. no child attends for more than 4 hours on any day;
 - b. more than half the children attending on any occasion have a parent or caregiver present in the same play area at the same time; and,
 - c. the total number of children attending on any occasion is not greater than 4 times the number of parents and caregivers present in the same play area at the same time.
- 3 Playgroups include ngā puna kōhungahunga, cultural playgroups (including Pacific Island playgroups) and community language playgroups.
- 4 Playgroups are certificated rather than licensed. To be certificated, playgroups must meet the minimum standards set out in the Education (Playgroups) Regulations 2008.
- 5 Playgroups are easier to set up than licensed services as there are fewer regulatory requirements. They provide an informal early learning setting that can be customised to the needs of the community. Aside from providing a setting for children's play, socialisation and learning, playgroups also provide an informal support network for parents and caregivers. These networks can be particularly significant for first-time parents, parents for whom English is a second language and parents who lack community connections.
- 6 Some playgroups are set up to cater for specific community groups. For example, certain playgroups provide early learning in a language other than English. Some are run by organisations such as Plunket. Other playgroups may follow a specific philosophical approach, such as Montessori playgroups. In Auckland, Belong Aotearoa run four Safari playgroups for refugee families.
- 7 As well as providing early learning for children, these playgroups offer support for parents, through teaching new skills, providing support networks and information about their new home.
- 8 The number of playgroup funded child hours (FCHs) has decreased in recent years, as shown in figure one overleaf. There are 766 playgroups currently eligible for Ministry operational funding.

Figure 1: Change in playgroup total funded child hours (FCHs) over time



Current playgroup funding arrangements

Operational funding

- 9 Only certificated playgroups are eligible for Ministry of Education funding. Funding is provided at a flat rate of \$1.51 per hour per child, regardless of age. Playgroups are not eligible for 20 Hours ECE funding. Playgroup funding can be claimed for a maximum of 25 children between birth and five years of age for each playgroup session. Funding is provided in two payments, one covering 1 January to 30 June and one covering 1 July to 31 December.
- 10 The playgroup funding rate has not changed since it was last increased in Budget 2014, where it rose from \$1.47 to \$1.51. Recent cost adjustments have only applied to licensed early learning services and have therefore excluded the playgroup funding.
- 11 In the 2017/18 financial year, the average amount of yearly FCH funding per playgroup was just over \$3000.
- 12 The playgroup allocation within the ECE appropriation has been underspent in the last decade. This underspend has increased in recent years, as a result of declining participation. In the last financial year the underspend reached just over \$1 million. Table 1 shows the size of the underspend as a percentage of the total playgroup allocation.

Table 1: Playgroup underspend as a percentage of the total playgroup allocation

Year	2014/15	2015/16	2016/17	2017/18	2018/19
Total allocation	3,742,000	3,742,000	3,742,000	3,742,000	3,742,000
Operational funding	2,730,177	2,585,471	2,384,288	2,228,826	2,124,895
Special grants	631,094	645,069	655,231	610,008	614,512
Underspend	380,730	511,460	702,482	903,166	1,002,593
Underspend % of total allocation	10%	14%	19%	24%	27%

Note that these values are GST exclusive. However, playgroups are paid the GST portion of the rate from the GST exclusive appropriation. Many playgroups do not generate sufficient income to be GST registered.

Other sources of funding

Special Grants

- 13 Playgroups can also apply for a Special Grant of up to \$5000 per financial year for costs that cannot be met by operational funding. This funding can be used for four priority areas namely setup costs, addressing health and safety issues, increasing participation in quality early learning in priority communities, and addressing extraordinary circumstances (like damage to equipment by an extreme weather event). Applications for general expenses are also considered.
- 14 In the 2017/18 financial year, 159 playgroups received a Special Grant. The average value of the Special Grant was \$3837. Special Grants are included as part of the playgroup allocation detailed in Table 1.

Supported Playgroups

- 15 The Supported Playgroups initiative was introduced as part of the ECE Participation Programme in Budget 2010. This scheme provided certificated playgroups in areas with low participation with regular support from a kaimanaaki/playgroup facilitator. These playgroups have additional requirements for curriculum delivery, parent engagement and transition to school. Regional offices lead this programme by nominating Supported Playgroups.
- 16 There are 30 supported playgroups operating at present. Around \$593,000 is spent on supported playgroups per year.

Other arrangements

- 17 Playgroups can also generate income through other means such as parental donations, community fundraising efforts and grants.

Options to increase the funding rate

- 18 Many playgroups use operational funding to cover the costs of rent. Fluctuations in child attendance can significantly impact a playgroup's operational funding, leading to financial viability issues. An increase to the funding rate may support playgroups to be more financially sustainable.
- 19 We present two options to increase the funding rate for certificated playgroups that would remain within the current funding allocation. These options are outlined below and have been costed based on the following assumptions:
 - a. The new rate would apply as of 1 July 2020
 - b. Modelling uses the 2020 March Baseline Update as a forecast base and playgroup funded child hours (FCHs) are 0.64% proportion of total forecast FCHs. This is based on 2018/19 data
 - c. Special Grants remain constant at 2018/19 value of \$614,512 (GST inclusive). There is potential for Special Grants to increase following COVID-19, however the buffer available in the first financial years of each option should cover this.
- 20 Note that the subsidy rate for services is inclusive of GST, however many playgroups are not GST registered. This means that these services receive a 15% windfall compared with those that are registered and have to pay GST. This is also the case for those licensed early learning services who are not GST registered. This is an anomaly in the system that has been retained due to the extra costs associated with having two sets of rates depending on the GST registration status of the service.

Option One: Increase the funding rate to \$1.66 per hour per child to account for increasing costs

- 21 This option increases the funding rate to account for increases in running costs for playgroups that have occurred since the funding rate was last adjusted (as of 1 July 2014). Note that playgroups were not eligible for the cost adjustments that were included in Budgets 2018 (a 1.6% increase) and 2019 (a 1.8% increase).
- 22 The rate was calculated using CPI inflation rates and cost adjustment rates (when these were included in Budgets for licensed services). Inflation adjustments were applied for each of the financial years 2015/16, 2016/17 and 2017/18. Cost adjustment rates were applied for the financial years 2018/19, 2019/20 and 2020/21.
- 23 This option would raise the funding rate to \$1.66 per hour per child. The cost of this change is detailed in table two below. Note that the buffer refers to the forecast underspend in the appropriation.

Table 2: Cost of increasing the certificated playgroup funding rate to account for rising costs (from 1 July 2015 to 1 July 2020).

\$ GST Incl.	2020/21	2021/22	2022/23	2023/24	4 year total
Cost (\$)	222,505	228,578	236,872	246,554	934,509
Buffer (\$)	665,101	597,890	506,102	398,959	-

- 24 This option results in a small increase in funding. If a playgroup were to run a session with the maximum number of children (25) attending for the maximum time (four hours), the funding generated for the session would raise from \$151 to \$166, a \$15 overall increase.
- 25 Depending on the frequency, duration and number of children attending sessions, it is possible that playgroups could use the additional revenue to improve the quality of the sessions. This could include purchasing higher quality resources or replacing existing resources. This is likely to have a small effect however, as playgroups can already use the Special Grant to pay for new resources.

Option Two: Increase the funding rate to \$1.83 per hour per child, keeping within the existing allocation

- 26 This option increases the funding rate for certificated playgroups to a new rate of \$1.83 per hour per child. This rate was chosen as it is achievable within the current allocation, allowing for a buffer in case funded child hours increase.
- 27 The cost of this change is detailed in table three below. Note that the buffer refers to the forecast underspend in the appropriation.

Table 3: Cost of increasing the certificated playgroup funding rate to \$1.83 per hour per child

\$ GST Incl.	2020/21	2021/22	2022/23	2023/24	4 year total
Cost (\$)	474,677	487,633	505,328	525,982	1,993,620
Buffer (\$)	412,928	338,835	237,646	119,531	-

- 28 This option results in a moderate increase in funding. If a playgroup were to run a session with the maximum number of children (25) attending for the maximum time (four hours), the funding generated for the session would raise from \$151 to \$183, a \$32 overall increase.

- 29 Such an increase will have a greater impact than option one. Sustainability of playgroups would be enhanced as the rate increase would help cushion the effects of variable child attendance. Playgroups would be better able to purchase high quality resources, or upgrade existing resources, for children attending.
- 30 Playgroups would be better positioned to offer more services to parents, through running information sessions for example. This would enable them to better leverage off their position as a hub for connecting parents with each other and with community services, especially those with English as a second language or first-time parents.
- 31 The Ministry recommends that the funding rate for certificated playgroups be raised to \$1.83 per hour per child, as per option two.

Financial Implications

- 32 Option one is projected to cost \$934,509 (GST Incl.) over four years, whereas option two is projected to cost \$1,993,620 (GST Incl.) over four years. Both options keep playgroup funding within the current allocation, with a buffer in case funded child hours or special grants increase. Therefore, the overall fiscal impact is zero.
- 33 Either option will require a change to the Playgroup Funding Handbook and accompanying communication to the sector.

Proactive Release

- 34 We recommend that this Education Report is released after decisions have been announced.