



Education Report: Further advice on addressing Playcentre Aotearoa's sustainability concerns

To:	Hon Chris Hipkins, Minister of Education Hon Tracey Martin, Associate Minister of Education		
Date:	29/05/2020	Priority:	High
Security Level:	Budget Sensitive	METIS No:	1229775
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Messaging seen by Communications team:	No	Round robin:	Yes

Purpose of report

This paper is for you to:

- **note** additional information on how playcentres are regulated and funded, and how this compares to teacher-led centre-based services
- **agree** to the parameters for addressing Playcentre Aotearoa's additional funding requests

Summary

1. Under the Regulations, playcentre falls within the definition of 'early childhood education and care centre' and must meet all regulatory requirements pertaining to centres. However, as playcentre is an 'excluded service' it is exempt from the requirement that 50% of staff must be qualified teachers.
2. Playcentres must meet additional 'supervision' requirements in the early childhood education (ECE) Funding Handbook. These include a maximum adult:child ratio of 1:5 and a requirement for multiple adults to be present with specified combinations of qualifications. Playcentre Aotearoa has historically had involvement in developing these additional requirements and they are also part of Playcentre Aotearoa's constitution.
3. Playcentres starting receiving their own distinct funding rates when the current funding system came into effect in 2005. A key part of the new funding system was a commitment to increase funding to meet teacher registration requirements established for teacher-led ECE services. Salary increases due to the Kindergarten Teachers' Collective Agreement (KTCA) meant that Government increased funding rates for kindergartens and education and care services.
4. Playcentres were not classified as teacher-led, so the rates from the old system became the new rates for playcentres. These rates were adjusted yearly for inflation for 12 of the past 16 years. Budget 2006 also allocated playcentres a further \$4 million over four

years to enable playcentres to employ paid staff in order to reduce volunteer workload on parents.

5. In June last year, you directed the Ministry to begin developing a Budget 2020 initiative for playcentres. Playcentre Aotearoa indicated that the organisation was facing sustainability issues, driven primarily by the costs associated with hiring paid persons responsible in the absence of appropriately qualified volunteer parents. [REDACTED]

6. [REDACTED] \$3.073 million, which results in a 6% increase to funding rates from July 2020. After Budget 2020 announcements, Playcentre Aotearoa expressed publicly that this amount is insufficient to ensure the sustainability of playcentres. Playcentre Aotearoa has requested a one-off payment of \$3.775 million and \$13.01-\$14.87 million annually in ongoing costs.

7. We recommend that the Ministry work with Playcentre Aotearoa to better understand the one-off costs. Funding to address some of these one-off costs could potentially come out of the existing Targeted Assistance for Participation Fund. However, this Fund is capped at \$100,000 per service and grants must be targeted at increasing participation of Māori, Pacific or lower socio-economic families.

8. [REDACTED]

9. The annual funding increase that Playcentre Aotearoa has requested would approximately double their funding rates, [REDACTED] This would likely mean some playcentre rates would be higher than the new 100% qualified rates for kindergartens.

10. [REDACTED]

11. [REDACTED]

Recommended Actions

The Ministry of Education recommends you:

- a. **agree** that the Ministry work with Playcentre Aotearoa to better understand their one-off costs

Minister of Education ☒ **Agree** ☐ **Disagree**

Associate Minister of Education **Agree / Disagree**

b.

[Redacted]

c.

[Redacted]

d.

[Redacted]

Proactive Release Recommendation

- e. **agree** that this Education Report is not proactively released at this time because the information it contains is Budget sensitive

Minister of Education ☒ **Agree** / **Disagree**

Associate Minister of Education **Agree / Disagree**


John Brooker
Group Manager
Education System Policy

29/05/2020


Hon Chris Hipkins
Minister of Education

Hon Tracey Martin
Associate Minister of Education

31/ 5/2020

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Background

1. Minister Hipkins has requested a report to joint Ministers covering:
 - playcentre regulations and how they compare with teacher-led services
 - a detailed breakdown of playcentre funding, how it compares with teacher-led services, and what the formula is based on
 - a list of what Playcentre Aotearoa are requesting.
2. Following a meeting with Playcentre Aotearoa, Minister Martin requested further information on enabling a one-off COVID-19 response payment to Playcentre Aotearoa. [REDACTED] Playcentre Aotearoa sent an updated list of funding requests to Minister Martin following this, which included requests for ongoing funding.
3. Playcentre is a parent-led early learning service that has been in operation since 1941. Playcentre Aotearoa is the service provider¹ of the 420 playcentres currently licenced. In June 2019, Playcentre Aotearoa was formally ratified as the single body representing all playcentres. Previously playcentres were part of 32 associations, each of which was a service provider.
4. The Early Learning Action Plan 2019-2029 contains an action for the Ministry to 'co-design an appropriate funding model with Playcentre Aotearoa'.

s 9(2)(f)(iv) OIA

Regulatory requirements

5. Playcentres must meet requirements set out in:
 - the Education (Early Childhood Services) Regulations 2008 (the Regulations) and associated licensing criteria
 - The ECE Funding Handbook (the Funding Handbook).

Regulatory requirements and licensing criteria

6. Under the Regulations, playcentre falls within the definition of 'early childhood education and care centre' and must meet all regulatory requirements pertaining to centres. However, as playcentre is an 'excluded service' under regulation 44, it is exempt from the requirement that 50% of staff must be qualified teachers. Kōhanga reo and home-based services are also classified as 'excluded services'.
7. The Regulations define a teacher-led service as a service that is not an 'excluded service'. This means every other service is classified as 'teacher-led' for the purposes of the Regulations, and 50% of staff at those services must be qualified teachers.
8. Licensing criteria are used to assess how services meet the minimum standards required by the Regulations. Playcentres must meet the licensing criteria for centre-based services. These include standards relating to:
 - curriculum

¹ The service provider is the body that operates centres, and is legally responsible for meeting regulatory requirements.

- premises and facilities
 - health and safety
 - governance, management and administration.
9. Home-based services and hospital-based services have their own set of licensing criteria as they are distinct service types. At their request, kōhanga reo have their own set of licensing criteria. However, these broadly reflect the centre-based licensing criteria.

ECE Funding Handbook

10. Playcentres must meet additional 'supervision' requirements in the ECE Funding Handbook. The 2004 review of the regulatory framework, which led to the introduction of the current Regulations, discusses the intention behind this. As parent-led services would be exempt from teacher registration targets, alternative standards associated with quality would be required as part of 'licensing agreements'.
11. These 'licensing agreement' requirements are now set out in the Funding Handbook. The Funding Handbook also contains similar additional requirements for kōhanga reo. Some of the 'supervision requirements' for playcentres are outlined below:
- each playcentre must be organised, equipped, and managed on a cooperative basis
 - a maximum adult:child ratio of 1:5, with children under the age of two and a half needing to be accompanied by a parent
 - multiple adults present with specified combinations of qualifications (these are outlined in detail in Annex One)
 - no more than 30 children in attendance.
12. Playcentre Aotearoa has historically had involvement in developing these additional requirements and they are also part of Playcentre Aotearoa's constitution. When the organisation redeveloped their education programme, they informed the Ministry as to how they wanted to see this reflected in Funding Handbook requirements.
13. As part of the Review of the Early Learning Regulatory System, you have agreed to consider a generic definition for parent-led services [METIS 1221884 refers]. This work will include considering how parent-led services should be regulated. This will include reviewing the Funding Handbook requirements and whether they are fit for purpose for a generic parent-led service type.

Funding for playcentres

14. Early learning funding rates are not based on a formula. Rather, rates have been adjusted over the years using various inflation indexes and costs associated with the Kindergarten Teachers' Collective Agreement (KTCA). While the funding system was originally designed to be based on cost drivers, there has been no work undertaken since to confirm that rates match underlying costs faced by a service type (or a specified proportion of them). Furthermore, the funding system was designed to be based on average costs, rather than the actual costs of a specific service.
15. Playcentres started receiving their own distinct funding rates when the current funding system came into effect in 2005. Before then, there were three rates for all licensed

services – Rate 1, Rate 2 and Rate 3. Rate 1 was termed the 'basic rate'. Rate 2 was for services meeting higher staff qualification criteria and adult-to-child ratios. Rate 3 was for kindergartens.

16. A key part of the new funding system was a commitment to increase funding to meet the cost of quality improvements due to the Strategic Plan - *Pathways to the Future: Ngā Huarahi Arataki*. The major costs behind the improvements came from the teacher registration requirements established for teacher-led ECE services. Due to this, 'teacher-led centre-based' services became recognised as a distinct service type, with a number of funding bands based on an increasing proportion of qualified teachers in the service.
17. In 2004, a unified pay scale clause was inserted into the KTCA which meant teachers working at kindergartens would receive the same pay and conditions as primary teachers. Government increased funding rates to support kindergarten associations to pay the increased salaries. As kindergartens were not recognised as a distinct service type, funding rates for all teacher-led centre-based services were increased in the new funding system to take into account this cost.
18. As playcentres did not have to meet teacher registration requirements, their funding rates became Rate 1 and Rate 2 from the old funding system. Rate 2 became the quality rate, and Rate 1 became the standard rate. These rates were increased by a 2.8% inflation adjustment and become effective from 1 July 2005.
19. Budget 2006 allocated playcentres a further \$4 million over four years to enable playcentres to employ paid staff in order to reduce volunteer workload on parents. This resulted in an approximate 9% increase to funding rates from 1 July 2006.
20. Since 1 July 2005, an inflation adjustment was applied yearly to the non-teacher salary component of rates for all services between 2006-2011 and 2013-2014. It is unclear what proportion of the rates were deemed the non-teacher salary component, but the component included basic and operating costs, property and non-teaching salaries.
21. Teacher-led centre-based services also received yearly increases to the teacher salary component across 2005-2010 due to the flow on impact of the KTCA. From June 2011 onwards, teacher salary adjustments were only made to kindergarten funding rates. All services received a general cost adjustment in 2018-2020.

Some information has been withheld under Section 9(2)(f)(iv) of the Act

Budget 2020 bid

22. In June last year, Minister Hipkins directed the Ministry to begin developing a Budget 2020 initiative for playcentres. We met with Playcentre Aotearoa in July. Playcentre Aotearoa told us that the organisation is financially unsustainable and project that they will have a deficit of \$8.1 million by 2021. They contend that 24% of playcentres are at risk of closing, the majority of which are in rural areas [METIS 1207116 refers]. At the meeting, Playcentre Aotearoa requested:
 - an increase to funding rates to reduce reliance on volunteers
 - a grant towards a 10 year property review
 - a minimum funding model for rural centres.
23. To address Playcentre Aotearoa's requests, joint Ministers agreed that the Budget 2020 initiative should consider increasing funding rates and a grant towards a 10 year property review.

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26. [REDACTED] 3.073 million, which resulted in a 6% increase to funding rates from July 2020. After Budget 2020 announcements, Playcentre Aotearoa expressed publicly that this amount is insufficient to ensure the sustainability of playcentres.

Requests for additional funding following Budget 2020 announcements

27. Minister Martin met with Playcentre Aotearoa on Tuesday, 26 April. Following this meeting, Playcentre Aotearoa requested further funding:
- Immediate funding requests totalling **\$3.775 million**:
 - \$510,000 to fund 70 heat pumps and additional power, to meet the new COVID-19 minimum requirement of 18°C (16°C is the regulatory minimum)
 - \$2.77 million to bring rural properties back to basic operating condition
 - \$495,000 for playground soft fill.
 - Ongoing funding requests totalling **\$13.01-\$14.87 million** annually:
 - \$3.74 million annually for property maintenance, overheads and utility deficits
 - \$4.97 - \$6.83 million annually to employ staff
 - \$4.3 million annually to reflect inflation over 2006-2018.

Immediate costs

28. We recommend that the Ministry work with Playcentre Aotearoa to better understand these costs, as we are unclear as to their validity. Most playcentres are on full licences, which means that a heater is already installed to heat the service to 16°C and their playgrounds already meet safety standards.

² One regulatory requirement is that all services must have a person responsible, who holds a designated recognised qualification. For playcentres, this is course 3 (20 credits at Level 4), or a relevant Level 4 (or higher) ECE qualification.

s 9(2)(f)(iv) OIA

29. Should you wish to support remediation of playcentre properties, we recommend setting aside funding for this purpose and contracting a third party to undertake a condition assessment. [REDACTED]

s 9(2)(b)(ii) OIA

30. This approach would align with the approach that Government has taken with Te Kōhanga Reo National Trust. In 2019, the Ministry commissioned WSP Opus to undertake a condition assessment of 28 kōhanga reo properties at a cost of [REDACTED]. This informed the property components of subsequent budget bids. The property funding for kōhanga reo is being provided via funding agreements with the Ministry that clearly outline what the funding will be used for.
31. Kōhanga reo are unique in the early learning system due to their Treaty of Waitangi claim and subsequent findings of the Waitangi Tribunal. In general, the current funding system bulk funds all services for their operating costs. Funding is typically not provided for discrete costs such as property for a whole class of services. While kōhanga reo has been allocated a discrete pool of funding for property purposes, this is part of the process of resolving their Treaty claim.

Funding sources to address immediate costs

32. Funding to address some of these costs could potentially come out of the Targeted Assistance for Participation Fund (TAP). TAP is an existing property improvement fund to increase participation. In limited circumstances it can be used to retain provision, for example in rural or isolated communities. All grants have to fit the criteria of targeted at Māori, Pacific and lower socio-economic families. The third stream of TAP may be able to be used to potentially cover costs faced by rural playcentres meeting those criteria. There is a limit of \$100,000 per service.

33. s 9(2)(f)(iv) [REDACTED]

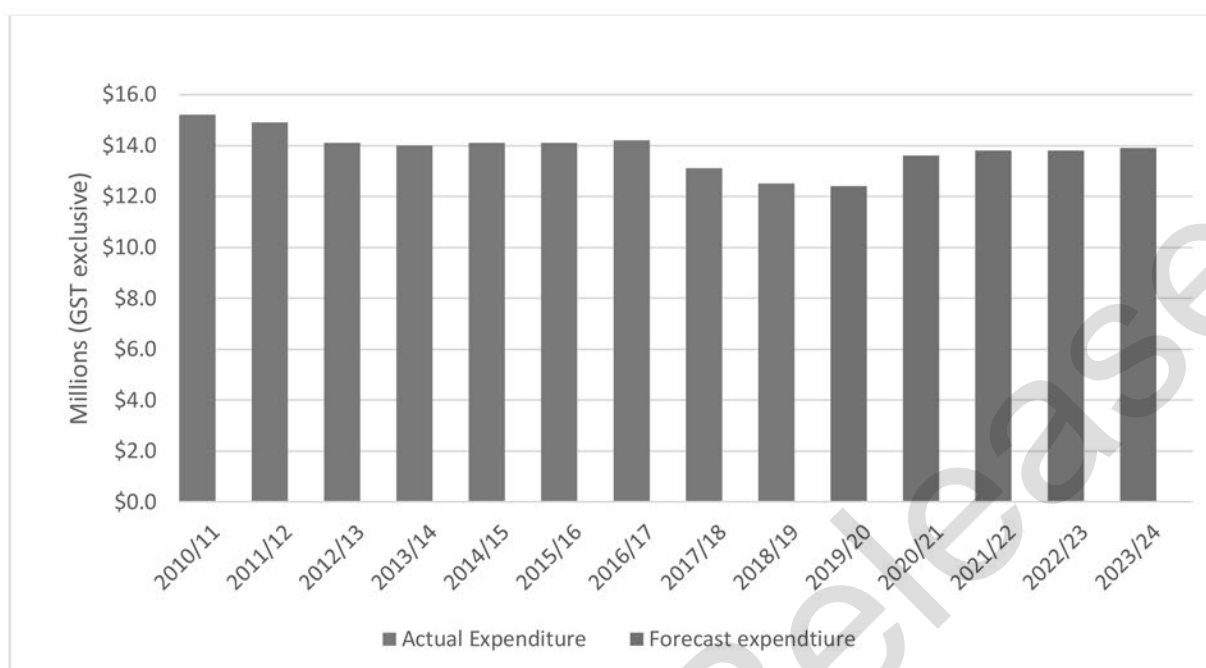
34. s 9(2)(f)(iv) [REDACTED]

Ongoing costs

35. Playcentre Aotearoa has also requested \$13.01-\$14.87 million annually. s 9(2)(f)(iv) [REDACTED]

s 9(2)(f)(iv) [REDACTED]

Figure 1: Government expenditure on playcentres 2010/11 – 2023/24 (note: forecast expenditure includes Budget 20 increases to funding rates. OBU 19 forecast)



36. As the graph above indicates, the amount Playcentre Aotearoa is requesting is more than the total funding they received in 2018/2019 (approximately \$12.5 million). With Budget 20 increases to funding rates, total expenditure is forecast to grow to \$13.6 million in 2020/21 and \$13.8 million in 2021/22.
37. The requested annual increase is approximately double their current funding rates. The table below shows playcentres funding rates post Budget 20 increases, and how their funding rates doubled would compare to funding rates for teacher-led centres. Doubling playcentre funding rates would mean some of their funding rates would be the highest in the sector (highlighted in red in the table below).

Table 1: Playcentre funding rates from 1 January 2021

		Under 2	2 and over	20 hours ECE
Playcentre rates from 1 Jan 2021	Standard rates	\$8.61	\$4.33	\$5.52
	Quality rates	\$9.84	\$4.94	\$6.14
Playcentre rates doubled	Doubled standard rates	\$17.22	\$8.66	\$11.04
	Doubled quality rates	\$19.68	\$9.88	\$12.28
Kindergartens - rates from 1 Jan 2021	100% qualified teachers	\$15.19	\$8.91	\$14.51
	80%+ qualified teachers	\$14.61	\$8.14	\$13.78
Education & care services – rates from 1 Jan 2021	100% qualified teachers	\$13.02	\$7.83	\$12.77
	80%+ qualified teachers	\$13.02	\$7.20	\$12.28

Funding to employ staff

38.

39.

Funding for property maintenance, overheads and utility deficits

40.

It is unclear how the organisation has determined the amount sought and how it relates to existing operational funding.

Funding for inflation

41.

As noted, playcentres have received inflation adjustments to their rates for 12 of the past 16 years. While inflation adjustments were not provided to early learning services in 2012, 2015, 2016 and 2017, we do not recommend back paying additional funding for playcentres for those four years. Such an initiative would need to be considered for all early learning services, rather than just playcentres so this would create a significant precedent effect.

Next steps

42. You will need to make decisions on the recommendations in this report by Wednesday June 3.

Annex One – Qualification requirements for playcentre sessions

There are eight different possible combinations that will meet the minimum supervision requirements for group supervision in playcentres. These options are identified in the table below.

Qualifications for supervision purposes	Minimum combinations of qualifications
<i>Either:</i> Option 1	Playcentre Sessions: Course 3 Certificate, and The Playcentre Way: Course 2 Certificate, and Introducing Playcentre: Course 1 Certificate
<i>Or:</i> Option 2	Playcentre Sessions: Course 3 Certificate, and Playcentre Sessions: Course 3 Certificate
<i>Or:</i> Option 3	Playcentre Practice: Course 4 Certificate, and Introducing Playcentre: Course 1 Certificate
<i>Or:</i> Option 4	Playcentre in Context: Course 5 Certificate, and Introducing Playcentre: Course 1 Certificate
<i>Or:</i> Option 5	The Playcentre Education Diploma: Course 6, and Introducing Playcentre: Course 1 Certificate
<i>Or:</i> Option 6	National Playcentre Certificate, and Introducing Playcentre: Course 1 Certificate
<i>Or:</i> Option 7	Playcentre Federation Association Certificate, and Introducing Playcentre: Course 1 Certificate
<i>Or:</i> Option 8	New Zealand Playcentre Federation Inc. Certificate, and Introducing Playcentre: Course 1 Certificate.