



**Te Tāhuhu o  
te Mātauranga**  
Ministry of Education

# Consultation on the Pay Parity Funding Review

Review of the funding system for pay parity in  
licensed education and care and home-based  
early childhood services

April 2023

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# How to have your say

If you want to provide feedback on the proposals in this document, you can complete a survey at <https://conversation.education.govt.nz/conversations/early-learning-pay-parity-funding-review>.

You can also send a more detailed written submission to either:

[ECE.PayParity@education.govt.nz](mailto:ECE.PayParity@education.govt.nz)

or

ECE Pay Parity  
Ministry of Education | Te Tāhuhu o te Mātauranga  
PO Box 1666  
Wellington 6140

The Ministry of Education (the Ministry) requires feedback by 11.59pm on 23 May 2023.

If you have any questions about making a submission or you would like more information, please email:

[ECE.PayParity@education.govt.nz](mailto:ECE.PayParity@education.govt.nz)

## Process

The information provided in submissions will be used to inform policy development and advice to the Minister of Education.

Your submissions will become public information. This means that a member of the public may ask for a copy of your submission under the Official Information Act 1982. Any submission summary we create as a result of this consultation may also mention your submission. Please tell us in your submission if you do not want your name included.

Please set out clearly in the cover letter or email accompanying your written submission if you have any objection to the release of any information in the submission. It would be helpful if you outline which parts you think should be withheld and the reasons for withholding the information. The Ministry will take this into account and will consult with submitters when responding to requests under the Official Information Act and if a summary of submissions is published.

# Introduction

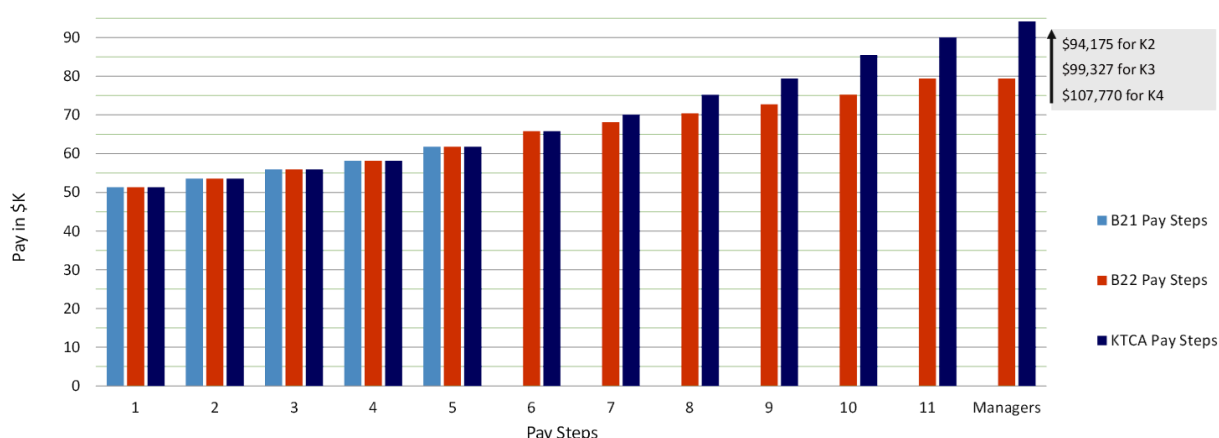
## Purpose of the consultation

This consultation paper sets out a proposal for a different way of allocating funding for part of the early learning sector to enable pay parity to be offered to all certificated teachers. This proposal will be of particular interest to teachers, those involved in the ownership and running of education and care services (including hospital-based services and casual education and care services) and home-based services, early childhood education (ECE) sector groups and parents and whānau involved in early learning, or those who are likely to be involved in the future.

## The Government's commitment to teacher pay parity

The Government provided \$151 million for teacher pay in Budget 2020. It then committed in its 2020 Election Manifesto<sup>1</sup> to move towards pay parity for teachers<sup>2</sup> working in education and care services with their counterparts in kindergartens.

Budget 2021 and Budget 2022 also provided additional funding for pay parity. They introduced higher funding rates that education and care services could opt in to by attesting to paying certificated teachers at least at specified pay steps. The pay steps are based on the pay steps in the Kindergarten Teachers, Head Teachers and Senior Teachers' Collective Agreement (KTCA). The graph below illustrates the pay steps associated with the two opt in funding rates, as well as the KTCA pay steps.



## Why review funding for pay parity in education and care services?

Under the current system, funding is provided to all early learning services through a set of standard funding rates for each hour of child attendance (within defined daily and weekly hour limits). This approach has traditionally been referred to as 'bulk funding' and was first introduced in 1990. Bulk funding gives all services of a particular classification the same hourly funding rate, as well as flexibility for service providers to determine how their funding is to be spent. Ministry data shows a relatively flat salary progression (if any) for teachers working in education and care services, where experienced teachers are generally not paid significantly more than beginning teachers.

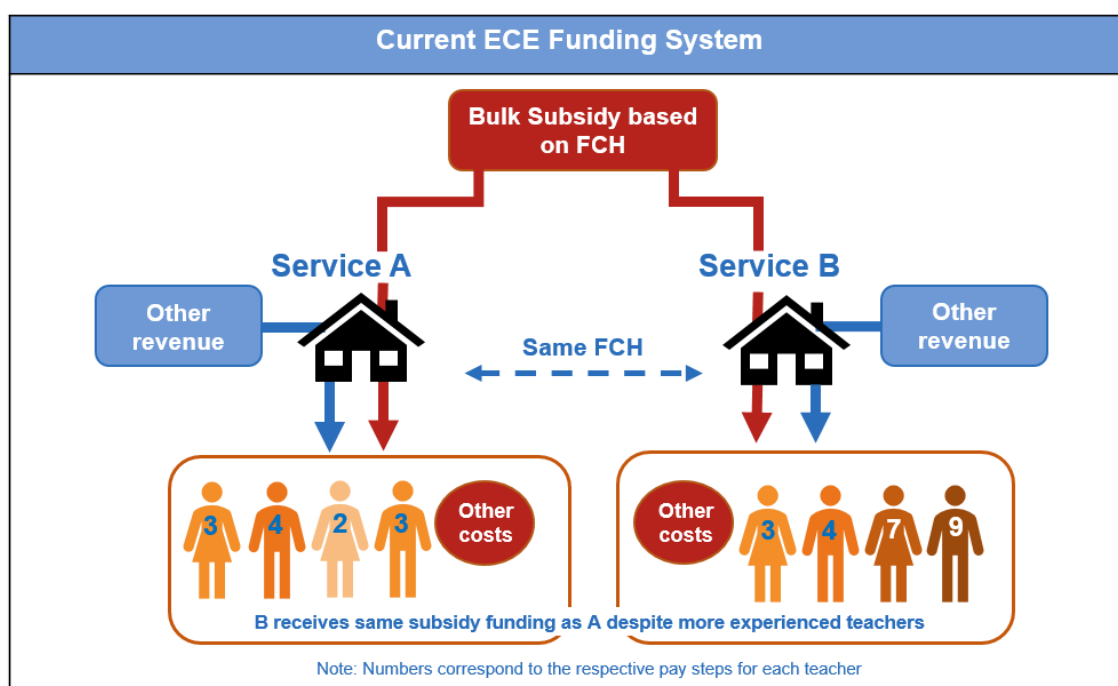
<sup>1</sup> [https://www.labour.org.nz/news-labour\\_2020\\_manifesto](https://www.labour.org.nz/news-labour_2020_manifesto).

<sup>2</sup> Unless otherwise specified, reference to teacher in this document means a *certificated* teacher. A certificated teacher is as defined in the "Certificated Teachers" section in Chapter 3-B-1 of the ECE Funding Handbook: <https://www.education.govt.nz/early-childhood/funding-and-data/funding-handbooks/ece-funding-handbook/the-ece-funding-subsidy/teacher-led-services/3-b-1-the-link-between-teacher-certification-and-funding/>.

In 2005, the funding system was changed to better recognise cost drivers of service provision. This saw the creation of distinct teacher-led, centre-based funding rates that recognise the higher adult:child ratios required in long day services. Funding bands that increase in increments as the proportion of certificated teachers increases were also introduced. This revised approach flexes to a service's increased salary costs for higher proportions of certificated teachers but does not adjust for these teachers' experience and qualification levels.

Under pay parity, teachers' experience levels become the major salary cost driver for services (and qualifications to a much lesser degree). Early learning subsidies are largely based on funded child hour (FCH) volumes. Two services with the same FCH profile (child age, number of hours, funding band) receive the same funding. However, these two services may have different pay parity costs due to a different mix of teacher experience levels, even for the same number of full-time teacher equivalent<sup>3</sup> (FTTE) positions.

This funding and salary cost mismatch is at the heart of concerns we have heard from the education and care sector about parity funding rate inadequacy since the introduction of the minimum teacher salary scale for pay parity in 2022.<sup>4</sup>



Applying the same funding rates across services creates inequity between services. Services that employ a high proportion of teachers on lower pay steps are in a better position than those that do not. The likelihood that funding does not work for every service is why pay parity funding rates are made available through an opt in approach. This possibility is compounded when services employ extra teachers in excess of the minimum regulated ratios and hence have an even higher pay cost. With these issues in mind, in late 2021 the previous Minister of Education agreed to review the funding model for education and care services. The Review's purpose is to:

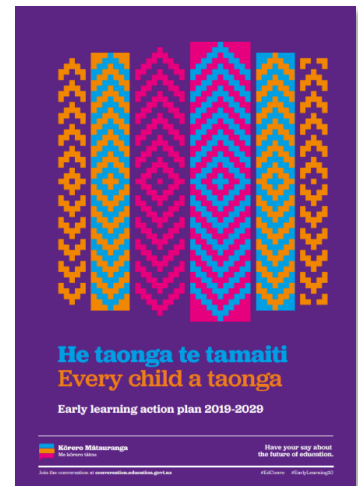
*Identify and implement a preferred approach to better align funding for education and care services to their certificated teacher salary costs.*

<sup>3</sup> For the purposes of pay parity for education and care services and home-based services, 1.0 FTTE equates to 40 hours of employment per week, regardless of whether those hours are contact or non-contact hours.

<sup>4</sup> <https://www.education.govt.nz/early-childhood/funding-and-data/funding-handbooks/ece-funding-handbook/the-ece-funding-subsidy/teacher-led-services/3-b-2-education-and-care-services/>

The proposal outlined in this consultation document would completely replace the existing approach to implementing pay parity that started in 2022. It would re-allocate existing levels of funding ('baseline' funding) for education and care services<sup>5</sup>. It does this in a way that reflects differences in total teacher salary costs between individual services at pay parity pay rates. It also considers management positions, and the impact of transitioning to a new system.

The potential need to review the funding system was signalled in the Government's ten-year action plan for early learning *He taonga te tamaiti – Every child a taonga: Early learning action plan 2019-2029* (ELAP), released in December 2019. Action 3.4 set out the need for development of a mechanism to improve the levels and consistency of teachers' salaries and conditions across the early learning sector. Action 3.4 also referenced the need for likely changes to the early learning funding system to enable proper implementation.



### How does the Review apply to home-based services?

The previous Minister also agreed that the Review should include consideration of a new funding approach for home-based coordinators (visiting teachers in home-based services). These positions are required to be held by certificated teachers. Home-based coordinators currently have no minimum salary requirement (beyond the legally required minimum wage).

The aim of including home-based services is to limit the pay disparity between coordinators and base-teacher positions in education and care services. If considerable disparity exists, then home-based services are less well placed to recruit certificated teachers to become coordinators.

### How does the Review consider te reo Māori in early learning?

'Te reo Māori in early learning' refers to kaiako who teach at, and mokopuna who attend, kōhanga reo or Māori immersion and bilingual education and care services.

#### Kōhanga reo

The Crown has recently confirmed an approach with Te Kōhanga Reo National Trust (the Trust) to improve kaimahi pay as part of improving the movement's financial sustainability and protection of the taonga. The development of this approach has largely been led by the Trust and is separate to the Review and the proposal outlined in this consultation document for education and care and home-based services.

#### Māori immersion and bilingual education and care services

Māori immersion and bilingual education and care services not affiliated with the Trust fall under pay parity funding for education and care services and the pay parity funding review. The Ministry meets regularly with Ngā Puna Reo o Aotearoa and will engage directly with them during this consultation.

### What about Pacific immersion and bilingual education and care services?

Pacific immersion and bilingual education and care services are included in this Review. The Ministry will engage directly with Pacific services during this consultation to consider Review impacts.

### What's involved in the Review process?

Fully delivering pay parity is a high priority for teachers. Changing the funding system for education and care and home-based services involves a process of advice, consultation, design, and implementation. The

<sup>5</sup> Unless otherwise specified, further reference to "education and care service" in this document includes hospital-based services and casual education and care services.

wider the scope of the Review, the longer this process takes and the longer the wait for teachers before full pay parity will be achieved.

The previous Minister of Education therefore agreed to a scope of work that focuses the review on changes to better deliver pay parity:

- a) Identification of possible changes to the ECE funding system that could better match funding to education and care services' certificated teacher salary costs, and the impacts of those changes.
- b) Estimation of the cost of moving all certificated teachers onto appropriate KTCA pay scales based on teachers' eligibility against the salary requirements set out in the KTCA.
- c) Gathering of data on relevant teacher characteristics (pay, experience, qualifications) and service financials, including parent fee data, to support the Review.
- d) Consideration of the level of funding that ought to be separated out of existing main ECE subsidies, as needed, and allocated to payment of certificated teacher salaries.
- e) Consideration and mitigation approaches for sustainability consequences that may arise from funding subsidy changes to help deliver pay parity.

As mentioned earlier in this document, the scope of work also includes pay parity for:

- f) Management staff in education and care services.
- g) Certificated teachers in home-based services who work as visiting teachers (home-based coordinators).

The Ministry established a Review team of policy, data and operational experts to work through the areas set out in the scope. The proposal presented later in this consultation document follows on from this work.

The Review team has consulted with an advisory group of ECE sector experts (Expert Advisory Group or EAG). Members of the EAG include experienced education and care service and home-based provider managers, operators, and teachers.

The EAG has helped inform the Review team about key issues, to critique Ministry ideas and to provide suggestions of its own. However, the proposal and options within this document are the Ministry's and we have not sought endorsement of these from the EAG.

## Underlying funding system settings guiding the proposal

The Review's scope does not seek to undertake a first principles review of early learning funding. This means that the proposal set out in this document is framed within existing, often longstanding, settings, which already underpin the existing funding system. While we are not revisiting these, you may have comments to make on them.

It is important to state what these settings are. Many of them are firmly woven into the fabric of the ECE funding system and are not necessarily so well-known anymore. The need to observe these settings limits the nature of possible re-allocation approaches:

### 1. The cost of early learning is shared between public and private sources of revenue

This includes the cost of certificated teacher salaries and recognises that both parents and the state benefit from children attending ECE. Parents benefit from being able to participate more in the labour market while children, particularly those from lower socio-economic backgrounds, benefit from the social and educational development opportunities offered by early learning. The explicit principle of cost sharing dates back to early learning reforms made by the government in the late 1980s.<sup>6</sup>

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<sup>6</sup> *Report of the Before Five: Bulk Grants, Discretionary Grants and Loans Working Group*. 1989. Bulk Grants, Discretionary Grants and Loans Working Group. Wellington. Page 30 when considering payments for teacher costs.

While the principle is clear, the exact split of public and private contribution within the part-funded ECE Subsidy has always been undefined. The proposed approach relies on precisely clarifying that split. At a child hour level, the public and private contribution is broadly captured in the description below.

Unfunded Child Hours	Part-funded Child Hours	Fully-funded Child Hours
<i>Funded by:</i> Private revenue	<i>Funded by:</i> Private revenue and ECE Subsidy	<i>Funded by:</i> 20 Hours ECE Subsidy

## 2. Funding remains linked to teachers used in regulated ratios

The Education (Early Childhood Services) Regulations 2008 set out the required levels of adults to children in early learning service types. Current teacher-led, centre-based funding rates provide increased funding broadly in proportion to these required levels of certificated teachers. In this consultation proposal, the re-allocation of funding also closely references the regulated ratio. This is done for similar reasons to the current system, which are that it:

- allows funding to support regulated standards
- limits ratio inequities between services, though services may still choose to fund better ratios from private revenue.

## 3. The 20 Hours ECE policy is continued

Services currently receive higher funding rates to provide lower cost ECE provision for 3-to-5-year-olds (the 20 Hours ECE Subsidy). This is a core government policy and is retained in the Review. This is important for consistency since other parts of the early learning sector will continue to be able to opt into receiving the 20 Hours ECE subsidy.

## 4. Child attendance hours are the base unit of generating funding

Service funding for both teacher salary costs and other costs moves in line with changes in child attendance hours. This is a long-standing part of funding allocation in early learning.

The proposal outlined does not look to deviate far from this, for example, by providing for separate fixed and variable funding components. Moving to a system driven off more than just child hours would substantially expand and complicate the Review's focus, particularly when other parts of the sector will still use child hours as the volume driver of funding.

## 5. Week and daily hour limit on funding entitlement

The cap on subsidy funding of 30 hours per week and 6 hours per day was also initiated in the 1990s after the *Before Five* reforms. This is also retained in the proposed approach. The application of different hourly funding caps for one part of the sector compared to others would need a very strong justification. This is outside the scope of the Review.

## 6. Funding increases as increasing proportions of certificated teachers are used to meet regulated adult-to-child ratio requirements

Teacher-led centre-based funding rates split into broad percentage bands, except for the 100% funding band, which is only paid when that percentage of certificated teachers is achieved over a funding period. The 100% funding band was restored in Budget 2020. Any re-allocation of funding needs to adhere to the principle that funding changes in line with the proportion of teachers being used.



## **7. The current four-monthly funding period cycle is continued**

The funding period currently cycles through every four months at set dates each year. The proposed approach retains this setting. Any changes would complicate the overall funding system as other parts of the sector would still adhere to the current four-monthly cycle.

Other principles or expectations guiding the proposal are laid out below. These build on the underlying settings of the existing funding system:

## **8. The new funding mechanism would apply to all services in scope**

A new funding mechanism would apply to all education and care and home-based services. We do not envisage a dual funding system that, for example, retains the existing funding approach while still giving services the ability to opt into a new mechanism. A funding mechanism that better aligns to pay parity requirements would be the only one available for education and care and home-based services.

## **9. Re-allocation of funding applies to existing main subsidy funding (ECE Subsidy and 20 Hours Subsidy) as well any additional funding appropriated to support pay parity**

In the first instance, any new funding mechanism would re-allocate the funding currently applied to education and care and home-based services (ie. 'baseline' funding). It would also allocate any additional funding still needed to meet the remaining teacher pay gap<sup>7</sup> as and when this is obtained in future Budgets.

The Review is not intended to be a vehicle for re-assessing overall levels of funding for the sub-sectors in scope. Despite this, it is important we understand the impact of funding re-allocation on services in their current configurations (as is discussed later) and whether additional funding is needed because of these impacts.

## **10. Pay parity applies to all the hours a teacher works, not just government funded hours**

As with the existing minimum salary attestation funding condition and the requirement for the pay parity funding rates, pay parity salary rates apply to all teacher hours, not just government funded hours.

## **Data collection for the Review**

The Ministry has undertaken two major data collections, and a third collection from a sample of services. The first two collections were from the education and care service and home-based service sub-sectors, through a staffing survey in October 2021 and a financial survey in March 2022. The third collection was a follow up staffing survey in October 2022 to a sample of education and care services. These have been voluntary for services to respond to. The surveys gathered data on relevant teacher characteristics (pay, experience, and qualifications) and service finances, including income from non-government sources.

Service data analysis has helped us understand possible impacts and costs of the proposal for re-allocating funding outlined later in this consultation document. The financial data we collected has statistical limitations, so only provides an indicative understanding of impacts.

The reasons for these limitations include a relatively low response rate (35% of education and care services in the second collection), uneven representation, potential self-selection bias, and uncertainty around data robustness. Assessment of the proposal's impacts on services' finances can relate only to the services there is data for. This means the conclusions may not necessarily accurately apply to services that did not respond.

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<sup>7</sup> The teacher pay gap is the cost of moving all teachers from their existing pay to the appropriate KTCA pay steps for experience and qualifications.

Good data is important in this work and pay parity funding generally. For example, the new funding of \$266 million over four years announced in Budget 2022 was reliant on the accuracy of the October 2021 staffing survey results.

## **Your feedback on the proposal**

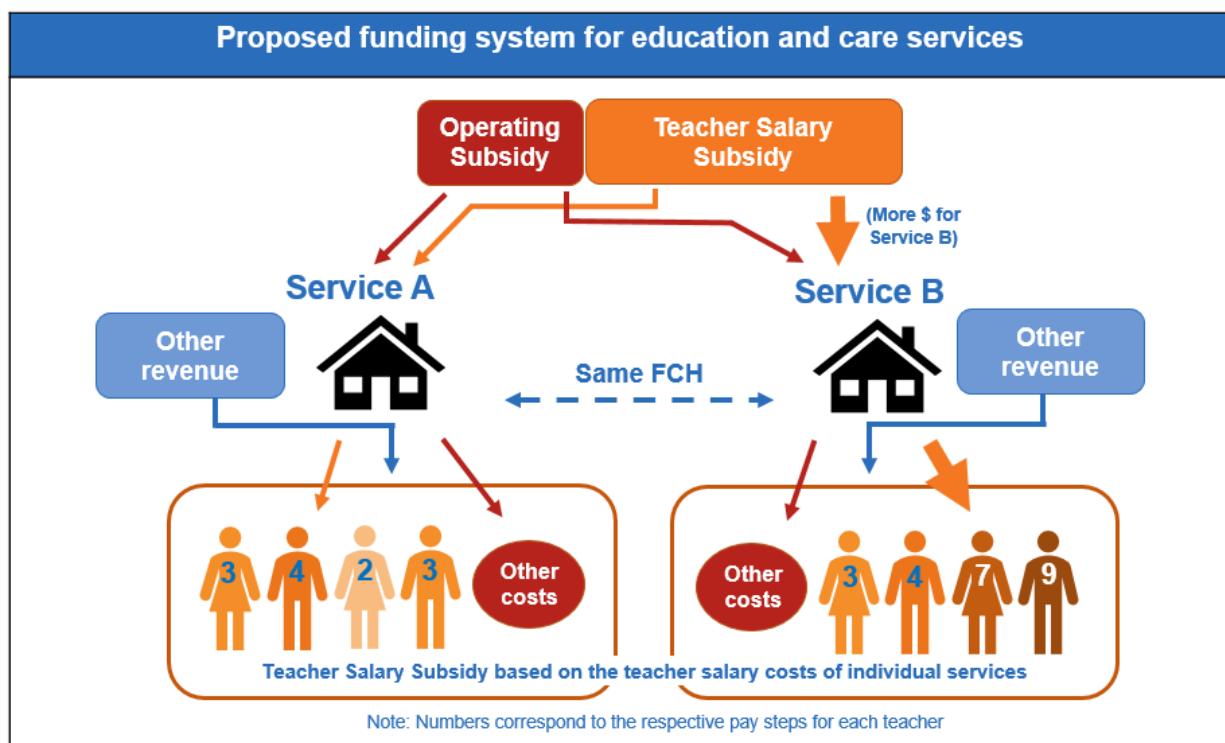
In the next section of this consultation document, we outline a summary of the proposal for a pay parity funding approach for education and care services (including hospital-based services and casual education and care services). We then ask questions on various elements that underpin decisions within the proposal. Each element has a discussion segment followed by questions for you to provide your views on. We then present the same for two potential approaches for home-based services.

# Proposal – Education and care services

We propose replacing the existing two main early learning subsidies for education and care services (the ECE Funding Subsidy and 20 Hours ECE subsidy) with two new subsidies. Current funding provided for the main subsidies would be redistributed to the new subsidies. This includes any remaining funding needed for bridging the pay gap that may be received from future Budgets.

## Redistributing baseline funding to the two new subsidies

The first of the two new subsidies could be called the Teacher Salary Subsidy (TSS). It would be the government-funded contribution to teacher salary costs. The second, we have called the Operating Subsidy (OS). This would be the government-funded contribution to a service's other costs.



## Teacher Salary Subsidy

- The TSS would contribute funding to a defined 'entitlement' of certificated teacher full time equivalents (FTEs) calculated for each individual service.
- This entitlement results from a staff:child ratio assumption linked to the regulated adult-child ratio.
- The TSS amount would change depending on the average teacher pay mix and FTE entitlement in a service. However, the same proportional approach to funding certificated teacher salary would be applied to each service, regardless of the average pay of a service's teachers or the size of the FTE entitlement.
- As well as the entitlement of teacher FTEs, an entitlement of management funding would be included in the TSS for each service.

## Operating Subsidy (OS)

- The OS would be paid at the same amount per child hour across all services in the education and care sector, as two different rates. These two rates depend on whether the OS is paying for fully-

funded or part-funded child hours. Having this separation enables the ongoing delivery of 20 Hours ECE.

This new proposed subsidy split is similar at a high level to how school funding is arranged with its *staffing entitlement* and *operating grant*. It would provide more transparent and proportionate levels of certificated teacher funding between services that better align with each service's teacher salary costs. At the same time, it takes into account the underlying funding system settings and assumptions laid out earlier in this document.<sup>8</sup> This includes a contribution approach by government to teacher pay, rather than full funding.

### How does the TSS affect the OS?

The OS depends on the baseline funding remaining after the total estimated TSS cost for education and care services is initially calculated. This would occur as soon as possible prior to the new funding system being implemented.

The decisions made for the new funding system, after considering your feedback for the four 'Element' sections below, will ***directly determine how baseline funding is split between the TSS and OS.***

It is critical to understand that ***any shift in funding between the TSS and OS may impact each education and care service differently:***

- A setting that supports more TSS and less OS ensures a higher proportion of teacher salary costs is directly met by government (public) funding.
- A setting that supports less TSS and more OS provides more flexibility for services in how they use their funding, including potentially retaining some existing teachers who may be over a service's entitlement.

While these two outcomes are generally true, each setting in the 'Element' sections below may still apply differently to different services.

The next section outlines various elements for consultation within the proposed approach.

- |                  |   |
|------------------|---|
| <b>Element 1</b> | Calculating the teacher FTTE entitlement for Teacher Salary Subsidy |
| <b>Element 2</b> | Calculating the management funding for the Teacher Salary Subsidy   |
| <b>Element 3</b> | Determining the funding provided through the Teacher Salary Subsidy |
| <b>Element 4</b> | Calculating the Operating Subsidy                                   |

<sup>8</sup> See [Underlying funding system settings guiding the proposal](#) on page 6.

## Element 1: Calculating teacher FTTE entitlement for the Teacher Salary Subsidy

### Discussion

The first step in determining the TSS for each service would be to confirm its teacher FTTE entitlement. We propose this entitlement would be calculated for each service based on:

1. **Forecast FCH:** This is the predicted number of fully-funded child hours and part-funded child hours for under 2-year-olds and 2-year-olds and over in each funding period (these are four months in length). This forecast of attendance hours already exists as it is used to calculate funding paid in advance to education and care services as well as other early learning service types.<sup>9</sup>
2. **Entitlement ratio:** This is the number of FTTEs (ie. the entitlement) the forecast FCH generates for that service over the funding period, based on a defined teacher-to-child ratio for the two child age groups. The entitlement would set an upper limit for the teacher FTTE funded by the TSS.

### 'Funding bands' would be replaced by a percentage of teachers

An actual percentage of the entitlement would be paid if not enough teachers are employed to meet 100% of the entitlement. This more precise proportion would replace the funding bands that currently describe education and care services' levels of certificated teachers (ie, 100%, 80-99%, 50-79%, 25-49% and 0-24% certificated teachers).<sup>10</sup>


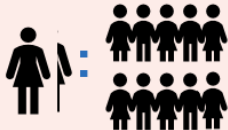
This means, for example, that under the new system, if a service has 93% certificated teachers, they would be funded for 93% of their entitlement (rather than being allocated to an 80-99% funding band).

Recalculation would be carried out after the funding period was complete to enable a wash-up or reconciliation of any over or under-predicted teacher FTTEs or changes to teacher pay steps.<sup>11</sup>

### Approach to ratios

The ratios required for the different ages of children in that service and forecast FCHs would be included in the calculation of the FTTE entitlement. Different services often use different levels of teacher FTTE for ratio to each other. Practically speaking, it requires more adults than the actual regulated adult-to-child ratio to operate legally. At a minimum, this is because of statutory leave and break entitlements. The funding settings discussed earlier outlines that regulated ratios would remain a basis for funding. However, existing funding bands not only assume ratios as part of calculating rates but also based the ratios on staffing needing to be legally 'at ratio'. With this in mind, we propose two options:

Option A: A 'statutory minimum' approach to ratios as the starting option for calculating FTTE entitlement. This incorporates statutory leave and breaks for each FTTE<sup>12</sup>, and works out to be a ratio of 1.232 adults to either 5 or 10 children<sup>13</sup>, depending on the child age grouping of under 2-year-olds and 2-year-olds and over.

Option A: Stat daily breaks & leave inclusive	
Under 2s	2s and over
1.232 :5	1.232 :10
	

<sup>9</sup> Note the TSS entitlement would vary according to the number of FCHs in a service (maximum of 30 hours per week, 6 hours per day) and would not respond to the number of unfunded child hours (those outside of the initial 30 hours per week, 6 hours per day).

<sup>10</sup> This, however, would not change the existing regulation for 50% of the required staff at a teacher-led early childhood service to hold a recognised qualification.

<sup>11</sup> The operating subsidy would also provide flexibility for some of its funding to be allocated to teacher costs.

<sup>12</sup> This is based on current legislated breaks of 50 minutes per 8 hour day, 4 weeks' annual leave and 10 days' sick leave.

<sup>13</sup> This essentially equates to ratios of 1:4.058 for under 2-year-olds and 1:8.117 for 2-year-olds and over (when there are two adults or more). While ratios are generally expressed as "one adult to X children", for the purposes of comparing the two ratio options in this consultation, we use "X adults to 5 or 10 children" in this instance.

Option B: An alternative option of setting the ratio higher at more than 1.232 adults for the same number of children. This would further increase the teacher FTTE entitlement in the TSS compared to Option A and would reflect other discretionary service choices. These choices could include the non-contact hours each teacher is allotted or whether more teachers than needed by the regulated ratio should be rostered 'on the floor' at any one time.

### Is a higher ratio better?

Raising ratios explicitly in the funding system in this way (either by increasing to 1.232 adults, or a yet to be determined higher ratio), while not regulated, considers statutory leave, breaks, and other discretionary choices. However, because of the funding settings outlined earlier, application of a higher ratio **would not** lead to an increase in baseline funding. It would shift the distribution of funding so more is in the TSS and less is in the OS. While this links more funding directly to teacher salary costs, it also reduces the flexibility gained from having higher OS funding rates.

### Anticipated impacts

Using the March 2022 financial survey data, we looked at the impact of these two options on services' financial viability. Besides altering the initial TSS/OS split of funding, we found using a more generous ratio (Option B) could lead to a small decrease in overall financial viability.<sup>14</sup> This appears to be because a number of services with high extra teacher FTTE captured a disproportionately large share of the available TSS. At the same time, the larger TSS means less OS is available for other costs. The impact of this is that more services overall experienced a less favourable match between their non-TSS revenue and other costs.

### Questions for you

#### a) What approach should the ratio for generating teacher FTTE entitlement take?

**The default Ministry choice is:**

#### **Option A. Statutory daily breaks and leave inclusive (1.232 adults)**

*This provides recognition of the minimum practical ratio when taking into account legislated breaks, annual leave, and sick leave, while avoiding moving too far from regulated ratio.*

Please indicate your preference for each of these approaches:

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
A. Stat daily breaks & leave inclusive (1.232 adults)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B. Above base requirements (more than 1.232 adults)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<sup>14</sup> This means the proportion of services being worse off, rather than every service being worse off.

**Further comments**

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## Element 2: Calculating management funding for the Teacher Salary Subsidy

### Discussion

As part of the roll-out of extended parity funding rates for 2023, management positions were defined in the ECE Funding Handbook.<sup>15</sup> The definition of management aligned with the management positions in the KTCA:

- K2 - employed to be in charge of a service, and who is not a K3 or K4 employee
- K3 - employed to carry out professional support, guidance, and administrative roles, and responsible for the management of K2 employees
- K4 - employed to be responsible for the management of K3 employees.

Management positions in education and care services can differ from those in kindergartens. Education and care services generally all have a centre manager (broadly, a K2 position). Education and care services tend to have more children per service and a wider age range than kindergartens and, as a result, have a wider range of leadership positions within a service. Many education and care services are not part of organisations large enough for K3 and K4 positions.

This Review proposes two options for funding management and calculating the related funding. The first is based on KTCA definitions and adheres to the principle of pay parity. The second seeks to recognise the different management structures in education and care services.

#### **Option A: K2, K3, K4 option**

*This most closely matches the existing positions in the KTCA*

Education and care services would pay their certificated teachers in management positions at the designated K2, K3, and K4 pay rates in the KTCA. The base rationale for pay parity is that teachers doing the same work as other teachers should be paid the same. By matching education and care management positions to KTCA management positions, a strong link is established.

Under this option, the TSS would include a management funding component that (as with the teacher component) calculates an FTTE entitlement based on a ratio of management FTTE to children. An education and care K2 would typically be a centre manager position, while K3 and K4 would be managers of centre managers, and managers of K3 positions, respectively.

Only multi-service providers<sup>16</sup> would be eligible to management entitlement for K3 and K4 positions, under the management definitions in the ECE Funding Handbook.

#### **Option B: K2 and management funding option**

*This more flexibly funds the various leadership positions that exist in education and care services*

In contrast to Option A, Option B would have an entitlement of one full-time K2 (typically centre manager) position, regardless of the service's size. The service would be required to pay this K2 position at an *enhanced* K2 pay rate. The enhanced rate is intended to recognise that such managers often run larger centres compared to kindergartens and with less overhead support.

In this option, services would also attest to paying additional management funding to other certificated teachers in management positions not linked to the KTCA. These positions may include pedagogical leadership positions (eg curriculum leader, room leader, 2IC roles), or positions similar to K3 or K4 in the KTCA.

The TSS funding would include a management component that consists of a contribution to the enhanced K2 pay rate, and a contribution to management funding.

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<sup>15</sup> Under the "Management Position" section in Chapter 3-B-2: <https://www.education.govt.nz/early-childhood/funding-and-data/funding-handbooks/ece-funding-handbook/the-ece-funding-subsidy/teacher-led-services/3-b-2-education-and-care-services/>.

<sup>16</sup> Multi-service providers would be considered as service providers whose licenses are linked under a single consolidated early childhood association (ECA) pay unit for funding purposes.



The contribution to management funding would be an amount per FCH that flexed based on the FCH volume in each funding period. The management funding recognises the additional cost of larger services while not limiting such additional funding to only education and care services that employ K3 and K4 staff.

The management funding would differ from management units in the school sector. The funding would not be in fixed salary top ups, rather, it would be funding that could be applied as an employer saw fit to certificated teachers undertaking management roles.

#### *Comparison between options*

Option A has the advantage of setting up an approach to funding education and care management that very closely matches existing positions in the KTCA. This provides a strong basis for pay parity both in the present and in the future. However, the various K scale kindergarten management positions are not exact equivalents to those in education and care services, although there is definite overlap. This option also does not consider the sub-centre manager pedagogical leadership-type positions that are covered by Option B.

The main advantage of Option B is that it would be more adaptable to the range of leadership and management roles in the education and care sector. Individual services would have the flexibility to assign management funding to a variety of relevant roles. The disadvantage, however, is that it moves further away from the KTCA, and is not as transparent about what specific roles the management funding would fund or how much each role should receive.

#### **Setting management ratios – applies to Option A**

For Option A, the funding calculation would set a management FTTE entitlement for each funding period using the predicted level of FCHs converted into *funded child places*.<sup>17</sup> Funded child places would have ratios applied to produce the FTTE entitlement for each management level in the case of Option A (K2, K3, K4 levels).

We propose that the management positions in Options A would fund in proportion to funded child places. The ratios would set a benchmark for this proportional allocation so, for example, a service with fewer than 50 funded child places would have a fraction of one K2 FTTE counted for their entitlement.

As there is no regulated ratio relating to management FTTE, we propose that the entitlement of management FTTEs for 'K' roles be based on the following ratios to govern funding calculations. These ratios would be for funding purposes only and would have no regulatory status.

Management pay step <sup>18</sup>	Ratio
"K2"	1:50 (management FTTE to funded child places)
"K3"	1:300 (management FTTE to funded child places)
"K4"	1:6 (K4 to K3 ratio)

The above ratios are based on an informal understanding of current service practice, rather than actual data. As we understand it, there is variation between different providers. Because of this, your views on whether these ratios appear suitable is important.

#### *Anticipated impacts*

The different ratios of management to child places in the management entitlement calculation in the TSS provide similar effects to changes in the choice of base teacher ratio. A higher ratio means more baseline

<sup>17</sup> A funded child place is not defined in current funding arrangements. For modelling purposes, 50 funded child places have been defined as 75,000 funded child hours per year (30hrs x 50 places x 50 weeks). 50 weeks allows for two weeks of closure for which services cannot claim funding).

<sup>18</sup> As defined under "Management Position" in Chapter 3-B-2 of the ECE Funding Handbook (<https://www.education.govt.nz/early-childhood/funding-and-data/funding-handbooks/ece-funding-handbook/>).

funding goes to the TSS, and less overall funding to the OS, and therefore less funding flexibility for services.

However, in the case of the K2 step in Option A, setting a higher ratio for the TSS entitlement (eg 1:40) meant more of the services that responded to the financial survey would be better off. This is because most of these services employed a full K2 FTTE when their K2 management ratio was above 1:30.

### Questions for you

#### b) How should management be funded and its funding calculated?

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
A. K2, K3, K4 option	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B. K2 and management funding option	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#### c) What should the management ratios for generating management FTTE entitlement be in Option A?

The Ministry's starting proposal is:

Management pay step <sup>19</sup>	Ratio
"K2"	1:50 (management FTTE to funded child places)
"K3"	1:300 (management FTTE to funded child places)
"K4"	1:6 (K4 to K3 ratio)

Please indicate your view on each of these ratios:

	Agree	Neither agree nor disagree	Disagree	If disagree, indicate your preferred ratio below:
K2 ratio 1:50	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
K3 ratio 1:300	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
K4 ratio 1:6 (K4:K3)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

### Further comments

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<sup>19</sup> As defined under "Management Position" in Chapter 3-B-2 of the ECE Funding Handbook (<https://www.education.govt.nz/early-childhood/funding-and-data/funding-handbooks/ece-funding-handbook/>).

### Element 3: Determining the funding provided through the Teacher Salary Subsidy

#### Discussion

After Elements 1 and 2 (entitlement setting) are calculated for a given service, we propose that the government's contribution for each funding period to the TSS would be based on the following steps.

- Step 1. **Producing a weighted average pay (based on KTCA pay rates) for the teacher FTTE** in the service over the four-month funding period.
- Step 2. **Matching** the entitlement FTTE to the actual FTTE employed in the service.
- Step 3. **Adjusting the number of FTTEs** to be funded (ie. teacher entitlement from Element 1), due to part-funded child hours. Only part of the overall cost of ECE is funded by government, and we propose that this be accounted for through a 'proportioning' factor applied to the FTTE entitlement. An alternative is to change the government contribution in order to maintain a consistent private contribution.
- Step 4. **Multiplying** the (adjusted) teacher entitlement of FTTE by the average teacher pay calculated in the above steps, to produce the teacher component of the TSS funding.
- Step 5. **(a) K2, K3, K4 option for management funding:**  
Calculating the funded child places and thus the management FTTE entitlement according to the defined ratios from Element 2. Then, scaling down the management FTTE entitlement because of part-funded child hours.<sup>20</sup> Lastly, multiplying the (scaled down) management FTTE entitlement by the applicable management pay rate. This step would account for decisions made in Element 2.  
**OR**  
**(b) K2 and management funding option for management funding:**  
Allocating 1 K2 FTTE and multiplying this by an enhanced K2 pay rate. Next, adding in management funding that multiplies FCHs by a flat rate, then scaled down for the government contribution to part-funded child hours (this contribution is explained later).

The funding would be 'washed up' at the end of the funding period. A wash up accounts for differences in the TSS resulting from *actual* child hour attendance and pay step of teachers employed over a period compared to the TSS funding advanced to a service based on predicted child hours and weighted average teacher pay. For the management funding approach, wash up would also include returning unspent management funding over the period. We envisage the TSS being partially paid as an advance, as subsidies are now, based on predicted levels of hours, teacher pay steps, and attested management roles.

The detailed washup requirements, submission process, requirements for teacher FTTE data, and related operational considerations will be confirmed at a later stage of the Review. This will be after the main policy elements covered in this consultation document are confirmed.

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<sup>20</sup> As with the teacher component, this would also reflect the mix of part-funded and fully-funded child hours in a service. This means an entitlement of management FTTE would almost never be 100% funded by government.

### **How should the weighted average pay used in a service's TSS calculation be determined?**

Step 1 above determines a weighted average pay (based on the KTCA pay rates) for each service. The pay could be arrived at by at least one of two methods:

- i. Averaging the pay of all certificated teachers employed in the service over the four-month period. This would be weighted based on the FTTE each teacher is employed for.<sup>21</sup>
- ii. Allowing each service to select which of its teacher FTTEs are funded in the TSS entitlement. The service would have discretion as to how much of each FTTE is included within the entitlement.

#### *Anticipated impacts*

The two approaches would alter the Ministry's starting calculation for how much of the total baseline funding is put into the TSS compared to the OS.

For option ii. above, we consider that services may put their most expensive mix of teacher FTTE forward for TSS funding. Based on this assumption, the overall TSS would be larger than in option i. This means a lower OS rate would result for option ii.

We do not have modelling on the difference in impacts between these two options. However, the general impact of a higher OS rate vs a lower OS rate and the related trade-off with lower and higher TSS funding (as described on page 11) in our financial survey sample indicated a higher proportion of services were better off with the higher OS rate. This appeared to provide more flexibility for services in how they could use their funding, including potentially retaining some existing teachers who may be over a service's entitlement.

### **How is the teacher FTTE matched against the entitlement FTTE?**

There is more than one method that could be used to determine how the service's actual FTTE is counted against entitlement FTTE. This aspect is similar to determining which services are placed into existing funding bands to reflect proportions of teacher used to meet regulated ratios. We propose two options.

- i. Use the total teacher FTTE employed across the funding period required for regulated ratio across all funded and unfunded child hours. This would count for up to a maximum of 100% of TSS entitlement.
- ii. Use the existing 'staff hour count' rules to match teachers to children. This would also count up to 100% of TSS entitlement. This method is more involved than Option i. as it requires counting certificated teachers more often within the funding period.<sup>22</sup> This method is how we currently determine placement of services in funding bands using the 'staff hour count'.

#### *Anticipated impacts*

Option i. requires slightly less teacher FTTE in practice to claim the maximum FTTE entitlement ('100%' funding in the proposed approach) under the TSS, because the four-month period smooths out hourly variations where an extra teacher FTTE is required.

Option ii. requires slightly more FTTE to provide for the required ratio on which FTTE entitlement is based. This is because the count is sensitive to hourly changes in children. These shorter periods can briefly require services to use a better than regulated teacher-to-child ratio. However, it also means that slightly more of a service's teacher FTTE can count towards the TSS entitlement (or conversely a service would need to employ slightly more FTTE) if this approach is used. Services with higher existing FTTEs claim a bigger share of the overall TSS. We found more of the services we had data for were financially worse off when modelled using this option.

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<sup>21</sup> For example, working 2 full days per week would be 0.4 FTTE.

<sup>22</sup> Services often use the staff hour count to ensure compliance with the regulated ratio requirement, not just for funding purposes.

## Adjusting the actual funded FTTE to account for part-funded hours

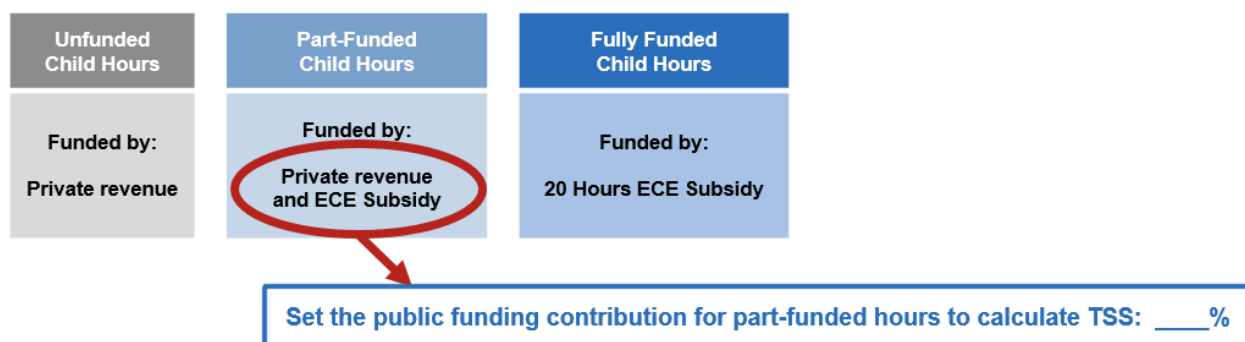
Step 3 in the TSS funding process adjusts the FTTE entitlement to reflect that some of the hours in that entitlement are only part-funded by public revenue (currently part-funded by the ECE Funding Subsidy), with the remainder privately funded through parent fees. We suggest there are two ways to do this.

### **Option A: A set government proportion towards part-funded hour TSS cost**

The assumed default option within the overall proposal would involve the government paying a set proportion (percentage) of the cost of part-funded hours in each service, regardless of the actual teacher cost in that service. This is the practical expression of the principle of shared funding of ECE between public and private sources. The advantages of this approach are that it is transparent and consistent in how government funding applies across services for these hours.

The proportion would be set through a deliberate decision. This provides scope to consider where the proportion ought to be set at the beginning of a new funding approach for achieving pay parity.

Setting a larger public contribution shifts more of the total baseline funding into the TSS, rather than the OS and vice versa. This is because we calculate the total TSS required for all services and then calculate the OS rates from what remains. The proportion chosen does not increase or decrease the total baseline funding.



### *Anticipated impacts*

Our modelling of the financial survey data looked at service impacts when the proportion was set anywhere between 70% (government funds 70% of part-funded child hours for the TSS) through to 90%. As the government contribution increased from 70% to 80%, more services became viable or had improved viability. We consider this is because a higher government contribution reduces the level of other costs for many services. It covers more of the teacher FTTE cost from the TSS that would otherwise need to be met from a combination of OS and private revenue.<sup>23</sup>

However, once the proportion increased beyond 80% we found more services became worse off. The additional funding allocated to the TSS away from the OS means a lower OS rate. For the services in the sample, this provided less flexibility for them to use the OS to cover their non-TSS related costs.

A key issue with this approach is that using a fixed proportion results in differing amounts of private funding to top up the part-funded portion of the TSS not met by government. These differing amounts result from differences in the average cost of teachers across different services, even if they have the same entitlement FTTE.

This may be an incentive to employ less experienced teachers, as this would decrease the absolute amount of private funding needed to make up the balance left due to the part-funded TSS. Option A assumes the private contribution to part-funded hours will result in a greater amount of funding needed as average teacher cost rises, just as it results in a greater amount of funding needed from the government.

<sup>23</sup> The analysis assumed that private revenue levels in the surveyed services did not change.

### **Option B: Maintaining a consistent absolute private contribution regardless of average teacher cost**

Option B would involve fixing the absolute private contribution regardless of the average pay level in a service. This means that, for example, if the cost of teacher pay in a service was \$10 per hour, the government could contribute \$8 with the service contributing \$2. If that service's average teacher pay subsequently increased so it cost \$20 per hour even though its entitlement FTTE remained the same, the government would fund \$18 and the service would continue to contribute \$2 to the cost.

Option B would need to determine what a fixed private contribution amount should be set at. This could involve finding the average midpoint pay for the sector and setting a per hour dollar amount private contribution based on that midpoint. This would still reflect a government contribution proportion (eg, 80%). The absolute contribution from parents would be adjusted if the pay step value (ie, the KTCA's pay steps) changed or average sector teacher pay shifted.

#### *Anticipated impacts*

Option B would remove the disincentive to employ experienced teachers since each service would contribute the same absolute amount per unit (hour). It still maintains the part-funding approach that is necessary to ensure consistency with the 20 Hours ECE policy.

There are some disadvantages to this approach though. In particular, it would re-allocate even more government funding away from services with lower average teacher pay towards those with higher average teacher pay compared to Option A. Also, services that have low or no fees are likely to be comparatively underfunded compared to those who charge higher fees.

Furthermore, the actual calculation of the contribution may not be as transparent and understandable as the approach used in Option A. The likely need to amend the fixed private contribution adds to this option being somewhat less transparent.

### **Questions for you**

#### **d) How should the weighted average pay in a service be determined?**

##### **The Ministry proposes:**

- i. Averaging the pay of all certificated teachers employed in the service over the four-month period. This would be weighted based on the FTTE each teacher is employed for.**

Please indicate your preference for these methods:

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
i. Averaging the pay of all certificated teachers employed in the service over the four-month period	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii. Allowing each service to select which of its teacher FTTEs are funded in the TSS entitlement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**e) How is the teacher FTTE matched against the entitlement FTTE?**

**The default Ministry choice is:**

- i. Use the total teacher FTTE employed across the funding period required for regulated ratio across all funded and unfunded child hours.**

Please indicate your preference for these options:

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
i. Use the total teacher FTTE employed across the funding period required for regulated ratio across all funded and unfunded child hours	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii. Use the existing 'staff hour count' rules to match teachers to children	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**f) How should the government contribution to part-funded hours be provided to services?**

**The default Ministry choice is:**

**Option A: A set government proportion towards part-funded hour TSS cost.**

Please indicate your preference for one of these options:

	Disagree	Agree
A. A set government proportion towards part-funded hour TSS cost	<input type="checkbox"/>	<input type="checkbox"/>
B. Maintaining a consistent absolute private contribution regardless of average teacher cost per service	<input type="checkbox"/>	<input type="checkbox"/>

**g) At what proportion should the government contribute to part-funded hours under Option A?**

**The default Ministry choice is: 80%**

*Modelling of the financial survey data we received showed that as the government contribution increased from 70 to 80%, more services became viable or had improved viability, potentially due to more of the teacher FTTE cost being covered from the TSS rather than from the OS or private revenue. Increasing the proportion beyond 80% led to more services being worse off, potentially because the resulting lower OS rate provided less flexibility for services to cover their non-TSS related costs.*

Please indicate your preferred proportion between 70%-90%: \_\_\_\_\_

**Further comments**

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## Element 4: Calculating the Operating Subsidy

### Discussion

The OS would contribute funding for services' other remaining costs. It would be paid as a rate per hour for all services. In this sense, it is similar to the existing main early learning subsidies. It would be up to services to decide how to use their OS funding.

Total OS funding at sector level is the remainder of funding available after deducting total sector TSS from baseline funding for education and care services (including any new funding for pay parity in future Budgets). The total TSS required would be estimated as close to when a new funding system is implemented as possible. It would be based on the most recent individual service data available and determined by aggregating estimated individual service TSS funding, as described earlier.

### Rate calculation

The OS would be paid as a per hour grant at two rates – a fully-funded (20 Hours ECE) rate and a part-funded (ECE subsidy) rate. The technical calculation of each rate at the outset of the proposed funding mechanism would use the following approach:

#### **Fully-funded rate**

$$\frac{\text{Total operating subsidy}}{((\text{Part-funded hours multiplied by part-funding government contribution}) + \text{fully-funded hours})}$$

#### **Part-funded rate**

$$\frac{\text{Total operating subsidy}}{(\text{Part-funded hours multiplied by part-funding government contribution} + \text{fully-funded hours}) \text{ multiplied by part-funding contribution}}$$

The OS hourly rate would depend on settings for the TSS calculation. Where TSS settings discussed earlier are set in a way that provides for a larger TSS, then resulting OS funding rates are set lower and vice versa.

### *Anticipated impacts*

The TSS would provide the same rate of contribution to teacher salary costs across services, regardless of the weighted average pay and assuming other variables (eg, under 2 versus 2 and over child mix) remain constant. The OS and private revenue would cover other costs. We undertook impact analysis on the financial survey sample to look at services' viability for the non-TSS part of their finances (ie. not the TSS and its corresponding salary costs). For this analysis we assumed services retained their current levels of teaching and management staff as they moved into the proposed system, staff were paid at parity pay rates, the same amount of funded child hours were maintained, and additional funding for pay parity is added into the baseline.

This analysis showed that 17% of sampled services would be worse off (either go into deficit, or have existing deficits increase). It also showed that 64% of services would be better off (either increase in surplus or reduce in deficit). The remaining 19% of services would still be in surplus, but at a lower level than previously.

It appears the primary reason why some services would have difficulty covering their existing costs is because they currently employ certificated staff at markedly higher levels than the TSS FTTE entitlement would fund them for. This places greater pressure on their OS and private revenue to meet the extra cost.

## Removing the 'Under 2' and '2 and over' distinction

The OS as described would not contain an 'under 2' and '2 and over' distinction. The funding difference between the under 2 and 2 and over rates in the current system was put in to reflect differences in the cost of certificated teachers for services due to different regulated ratios for each age band. The TSS reflects these ratio impacts (ie, the different teachers needed for different age bands). This means the OS can be expressed as a fully-funded rate and part-funded rate with no under 2 and 2 and over distinction.

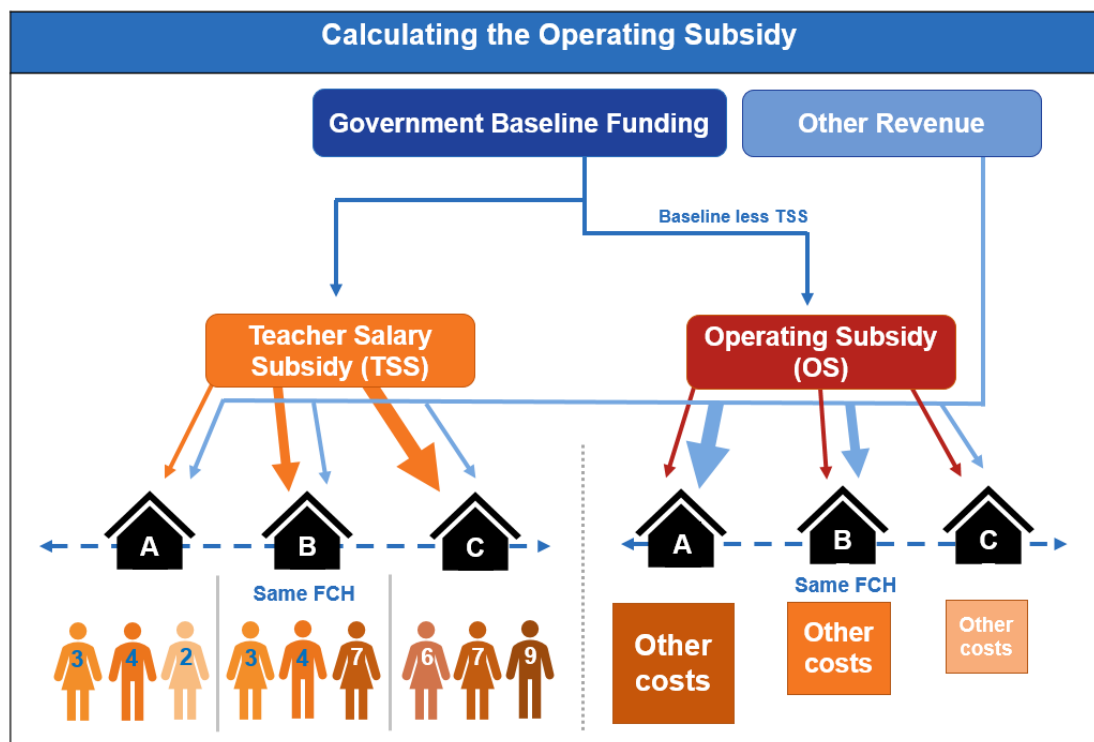
The TSS and OS formulas combine to re-allocate funding at a whole-of-service level and, in practice, a service may receive less, about the same, or more total government funding than it received from the ECE Subsidy and 20 Hours ECE Subsidy in the current system.

### Potential impacts

The funding model proposed is also likely to re-allocate funding significantly between that currently generated by the age-based funding categories. In particular, the formula would shift a proportion of funding from under 2 and 20 Hours ECE categories to the 2 and over category in the new system. We cannot be precise at this point about the size of this shift but it could be in the region of a 10-30% increase in 2 and over funding from the other categories.

We understand there is already 'cross-subsidisation' for non-certificated salary costs for under 2s from 2 and over revenue in many services. This was acknowledged in background work and setting of the 20 Hours ECE rates in 2007. The effect on how much funding is generated out of each age category in the proposed approach appears likely to mean cross-subsidisation would be more necessary than it is even now. For many services, this should be manageable due to having a mix of funding from different age funding categories and the flexibility of the OS component. On the other hand, a small number of services without 2 and over funding or where a majority of their government funding comes from under 2s are likely to find the shift requires significant adjustment.

The alternative is to incorporate an 'under 2' and '2 and over' split into the OS – ie, make an under 2 OS rate that is higher than the 2 and over OS rate to reflect these different costs. This would make the approach more complex but could provide an average recognition of age-driven differences in non-TSS related costs. It is also likely that data collection on age-driven costs would be needed to assist with setting the appropriate split between under 2 and 2 and over OS rates.



**Questions for you**

**h) Should the ‘Under 2’ and ‘2 and over’ distinction be removed from the Operating Subsidy?**

Please indicate your preference for each of these options:

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
i. Remove the ‘Under 2’ and ‘2 and over’ distinction from the OS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii. Keep the ‘Under 2’ and ‘2 and over’ distinction in the OS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**i) Your feedback on implications around the OS and services’ other costs:**

An OS funding rate lower than current funding rates results from a funding system that commits a portion of funding as a contribution to the pay of certificated teachers (the TSS). This provides assurance to services that government funding covers a fixed proportion of their variable certificated teacher salary costs, but it also incentivises services to employ certificated teachers at close to the funded adult-child ratio.

Please provide your feedback on these implications:

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**Further comments**

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## Viability and transition support

The consultation questions in this document mainly seek feedback on various settings within the proposal. Choices for each of these settings tend to have the effect of shifting the split of baseline funding allocated between the TSS and OS. In many cases more of the services we have data for appear worse off when the balance shifts towards more baseline funding going into the TSS. As noted earlier, due to data limitations, we cannot be sure that this would be the overall finding across all education and care services.

By worse off, we mean becoming less viable or unviable. A viable service is a service whose revenue is greater than its cost. While our modelling held conditions constant (such as private revenue, numbers of teachers and other costs), in reality when a service faces its cost increasing past its revenue, it may seek to find ways to reduce cost or increase revenue.

In one scenario – that of changing government contribution proportion to part-funded hours – the sample data indicated that more services would be better off if *more* funding was put into the TSS through a higher government contribution proportion (80% rather than 70%).

### Shifts within the new proposed system

Under a new funding system, it is likely some services would need to adjust their costs to changing funding levels. This is partly due to funding shifting from being based on funded child hours and broad certificated teacher levels, to being more closely linked to both funded child hours and specific teacher pay steps. By being based on teacher pay steps, the TSS re-allocates existing funding that services may now be using to pay for additional, above-ratio, certificated teacher FTTE. Above ratio staffing is financially possible under the current system, but our data suggests the distribution of teacher pay is often kept relatively flat to achieve it.

#### *Anticipated impacts where teachers are employed at entitlement levels*

Further impact analysis on the survey sample was conducted by excluding certificated teacher FTTE employed above the TSS funded ratio. This ‘standardises’ each service’s teacher FTTE to the funded ratio required.<sup>24</sup> This also involved increasing a service’s teacher FTTE if it was not staffed enough to claim the maximum TSS entitlement possible. Analysis showed that for sampled services, if they shifted to the same ratio-based staffing, 3% would be worse off (either go into deficit or have an increased deficit), while 8% would have a reduced surplus.<sup>25</sup> These are significantly lower proportions than if existing teacher FTTE is retained.

### Which services are more likely to be worse off?

Our analysis shows that two service characteristics are linked to decreasing viability under the broad proposal:

- Higher decreases in viability were associated with sampled services with lower equity index (EQI) scores compared to higher EQI services.
- Higher decreases in viability for sampled services with the lowest average private revenue compared to those services with the highest average private revenue.

These are typically the same services within the sampled group of services. There is, therefore, some risk the new approach could continue and highlight funding inequity in the system. The proposed approach may reflect on services currently using subsidy funding to meet the cost of hours not intended to be funded by government (unfunded hours). The proposed approach would limit the scope for a service to do this compared to the current funding model, even with additional pay parity funding included in the baseline funding.

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<sup>24</sup> Standardising is done in this case by assuming each service has 1.232 teachers to either 5 or 10 children depending on age group.

<sup>25</sup> Two reasons appear to be behind the remaining 3% and 8% that still stand to lose financially: these services have low average private revenue, and/or they have high average other costs per hour.

### **Potential transition funding for decreases in viability**

Given the possibility of viability impacts, transition funding or targeted funding approaches may be warranted to smooth the impacts of changing over from the current funding approach to the proposed approach. The extent of this kind of funding would be subject to Budget considerations. It is likely that this funding would need to be carefully targeted at services that would become worse off (either go into deficit, or have existing deficits increase) and that have limited ability to meet new operating conditions.

### **Questions for you**

j) **How would any transition funding or mechanism be best targeted, if this was needed?**

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## **Other considerations**

We note that an apparent alternative to this overall proposal for splitting baseline funding into a TSS and OS is to make use of a centralised payroll system, as is used in schools. A payroll approach would need to reflect the underlying settings we have considered in the proposal in this document. This means still finding a method to allocate a portion of existing baseline funding to teacher salary costs before being paid through a payroll.

A centralised payroll system would require significant extra resourcing and system design (for both the Ministry and service providers) to support its various payroll tasks accurately and effectively, such as applying staff leave and managing fortnightly timesheets. Having one payroll for certificated teachers and another for other service staff would also be inefficient. For these reasons, a payroll approach is not developed further in this consultation.

# Proposal – Home-based services

As indicated earlier, the scope of pay parity and the Review extends to coordinators (visiting teachers) in home-based services. These positions are required to be held by certificated teachers under the Education (Early Childhood Services) Regulations 2008. Educators in home-based services are not required to be certificated and, therefore, are not within scope of the pay parity initiative.

The inclusion of home-based coordinators within the pay parity framework is largely aimed at limiting the loss of coordinators to teacher-led, centre-based services.

We are seeking feedback on:

- What the minimum pay step for coordinators should be and how on call hours should be treated
- Two options for how pay parity funding could be delivered for home-based services
- Whether managers of coordinators should be included.

## **Context: from 1 January 2025, quality rate coordinator requirements no longer apply**

As a result of the Review of Home-based ECE, there will be only one funding rate for home-based ECE services from 1 January 2025. The single funding rate will be equivalent to the current quality rate. The educator and coordinator requirements will be those in the Education (Early Childhood Services) Regulations 2008.

At present, quality rate services have requirements relating to working hours of coordinators. These requirements will no longer apply once standard and quality rates merge from 1 January 2025. This new setting is important for the options presented here on how pay parity is delivered to home-based services. The options would require services to pay coordinators at a fixed pay step, and the government funding for this fixed pay step flexes with Funded Child Hours. This assumes that the size of the network and full-time equivalent coordinators will be directly related from 1 January 2025.

## **At what pay step should coordinators be paid?**

A home-based coordinator has leadership responsibilities beyond those of a certificated teacher – they are responsible for overseeing the education and care provided by educators in home-based networks. The Ministry considers that there should be a single step for home-based coordinators, and that this step should be relatively high on the pay scale. This recognises the leadership role coordinators have.

The KTCA is the benchmark for pay parity, but it does not apply to home-based services, so there are choices on what salary appropriately recognises home-based coordinators. We would like feedback on where the step should be set. Under pay parity, all coordinators would have to be paid at least at the specified pay step, regardless of their qualifications and experience.

Three possible options have been identified for the pay step at which to pay coordinators:

- i. “K2” rate from the KTCA
- ii. A set rate lower than “K2” but higher than Step 11 of the “K1” base-teacher rate from KTCA
- iii. A set rate at Step 11 of the “K1” base-teacher rate from KTCA

The salary for coordinators could be set at **(i.) the K2 pay rate** (the kindergarten Head Teacher rate). This would value home-based coordinators at the same level as kindergarten Head Teachers and those in K2 positions in education and care services.

A second option could be **(ii.) a set rate that is lower than the K2 pay rate but higher than the step 11 base-teacher pay rate**. This would recognise that the responsibilities of coordinators may not be quite as extensive as those expected of K2 or kindergarten Head Teachers.

A final option is to use **(iii.) the base-teacher step 11 pay rate** for coordinators, but still regardless of their qualifications and experience levels.

### **How should on call hours be treated?**

Regulation 44 requires that the coordinator supervise the children and educators at all times that children are attending the service. Depending on the hours a service is open, this may mean that coordinators need to be on call for at least some hours of each week.

The Ministry seeks feedback on the extent to which home-based services require coordinators to be on call and how services remunerate coordinators when they are on call. The feedback received would help determine whether the CSS would need to be amended with a sub-component that allowed for on call costs to be covered as well as standard work hours.

### **Option A: Creating a Coordinator Salary Subsidy (CSS)**

This approach would redistribute some of the existing early learning subsidy funding for home-based services into a new coordinator salary subsidy (CSS). This is similar to the approach proposed for education and care services. The CSS would also include any additional pay parity gap funding for coordinators sourced from future Budgets.

The existing early learning subsidies (the ECE Subsidy and 20 Hours ECE) would remain but be paid at a lower rate to reflect redistribution of funding into the CSS. The ECE Subsidy differential for children under two and two and over would remain. This differs from the proposal for education and care services. It recognises that educators rather than coordinators are working directly with children.

Unlike the TSS (for education and care services), there would be no adjustment of coordinator full-time equivalent (FTE) to account for part-funded hours. The way home-based service funding arrangements have evolved means that the majority of educator costs are now met by private (parental) funding, while existing coordinator funding is paid for almost entirely through the early learning subsidies. The proposed approach works with this structure, rather than trying to rework it more than is necessary. This still maintains consistency with the principle that costs of provision are shared between public and private funding sources.

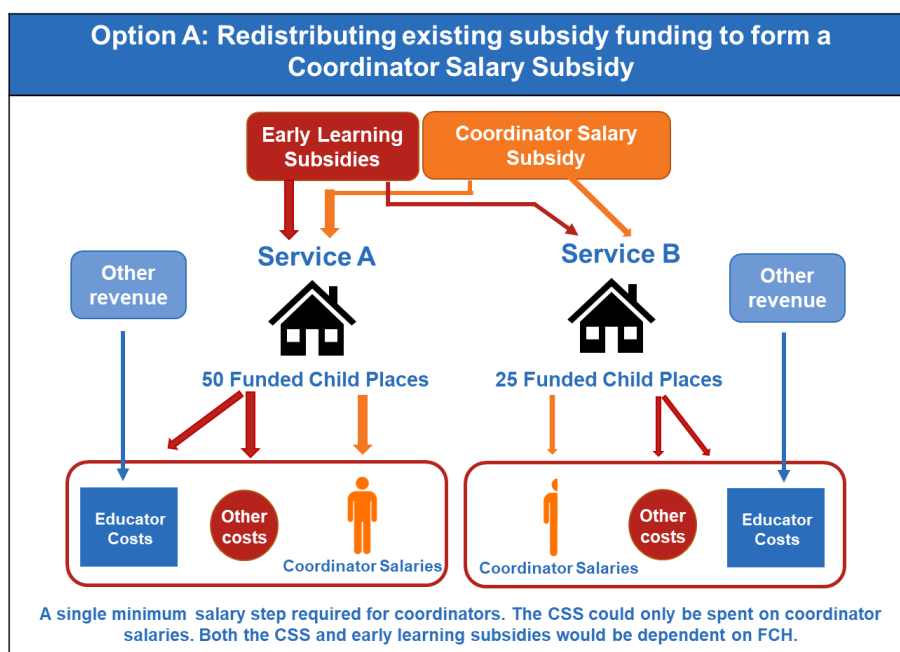
Funding provided through the CSS could only be spent on coordinator salaries, it could not be used for other operating costs.

### **Coordinator FTE entitlement ratio for Option A**

The ratio governing the coordinator FTE entitlement in the CSS would be based on regulated requirements for coordinators. This would guide redistribution of existing subsidy funding. We propose the coordinator FTE entitlement would be set at one FTE for every 50 funded child places. If the 50 child places are only part-filled in a funding period, then only a proportionate part of the FTE would be funded. The actual ratio provided would be adjusted to include legislated holiday and sick leave.

A funded child place is not defined in current funding arrangements. We suggest that 50 funded child places is 75,000 funded child hours per year – ie 30 hours x 50 places x 50 weeks. 50 weeks allows for two weeks of closure for which services cannot claim funding.





### *Anticipated impacts*

The home-based data from the March 2022 financial survey was not robust enough to analyse and generate reliable findings on the impacts of this proposal. This was due to low survey response rates and data issues. The questions and options considered below have therefore not been modelled for any overall impacts to home-based services.

We are therefore reliant on your impressions of how such an approach would play out for your service or services in general.

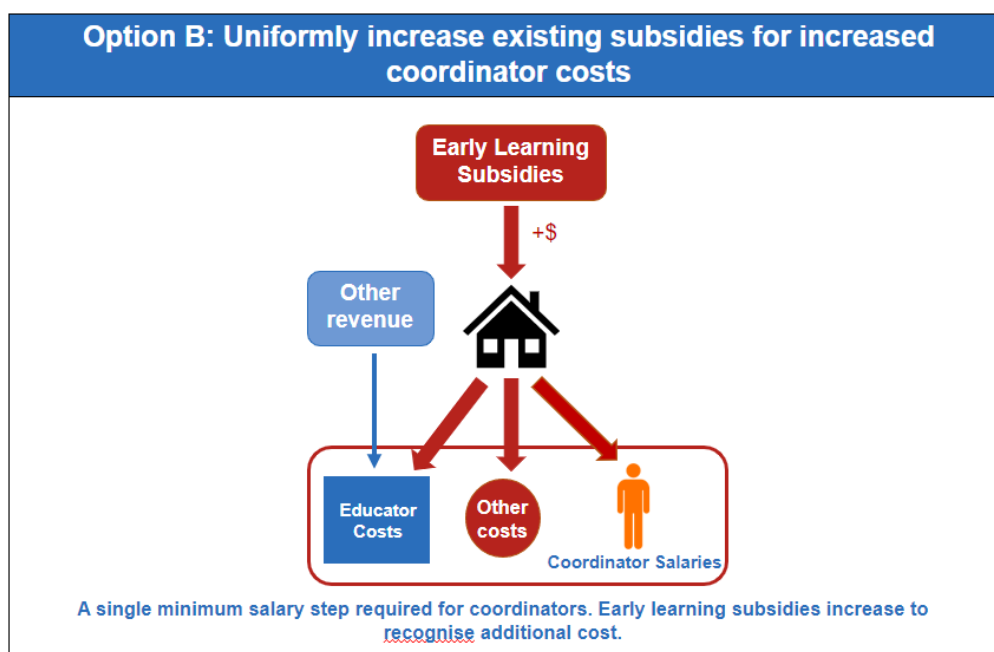
The CSS would go up and down according to how many funded child hours (FCHs) are in a service. Under this model, a service that seeks to employ a full-time coordinator at all times, but then loses educators and children, would need to fund the difference in the coordinator's salary from other sources or reduce the coordinator's working hours.

A service that is only half full (25 funded child places or 37,500 FCH a year) would only be funded for 0.5 of a coordinator's salary through the CSS. If the service employed a coordinator for 0.8 FTE (32 hours a week), it would need to fund the difference of 0.3 FTE from other sources. Depending on where the coordinator salary rate is set, the 0.3 FTE would be between \$28,200 (K2 salary) and \$27,000 (Step 11 salary) per year. An approach that sought to provide a full FTE regardless of lower levels of funded child places would significantly deviate from one of the base principles for the Review set out earlier – that funding should flex with child hours. It would also take more funding away from the existing early learning subsidies.

### **Option B: Increase home-based ECE subsidy rates to account for coordinator salary costs**

An alternative to the creation of a CSS is to uniformly increase existing subsidies for increased coordinator costs. This is similar to how funding rates for education and care services have been increased for parity requirements. The difference is that the coordinator salary requirement would be a single pay step regardless of the coordinator's qualifications and experience. This means that services would not have differences in terms of the salary required to be paid to coordinators.

This approach would be the administratively simplest of the two options. It also maintains the flexibility that services have over their government funding. However, the uniform subsidy increase would not accurately account for differences between existing coordinator pay and the pay required under the new pay step.



### Should coordinator FTE entitlement include managers of coordinators?

Managers of coordinators in home-based services could potentially be included in pay parity. This would be another management step that would not be dependent on qualifications or experience levels.

Our view is that these should not have specific funding allocated from the baseline for them. This is because such positions are at the discretion of the service and are not directly comparable to higher kindergarten management positions.

Including managers of coordinators within pay parity would require the funding system to be structured as per Option A – creating a CSS from baseline and new funding. Parameters for these could be the same as the K2, K3, K4 management option discussed for education and care services:

- Only home-based providers with multiple licences would be eligible
- The level of K3 and K4 entitlement would be set ratios. The ratios proposed in the K2, K3, K4 management option for education and care services are given below:

Management pay	Ratio
“K3”	1:300 (management FTE to funded child places)
“K4”	1:6 (K4 to K3 ratio)

- Services that became eligible for K3 and K4 entitlement would need to use that funding on salaries of managers of coordinators
- The K3 and K4 salaries would be the minimum salaries for managers of coordinators.

<sup>26</sup> As defined under “Management Position” in Chapter 3-B-2 of the ECE Funding Handbook (<https://www.education.govt.nz/early-childhood/funding-and-data/funding-handbooks/ece-funding-handbook/>).

## Questions for you

### a) At what pay step should coordinators be paid?

Please indicate your preference for these rates:

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
i. "K2" rate from the KTCA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii. A set rate lower than "K2" but higher than Step 11 of the "K1" base-teacher rate from KTCA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii. A set rate at Step 11 of the "K1" base-teacher rate from KTCA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### b) How should on call hours be treated?

Please provide your feedback on the extent to which home-based services require coordinators to be on call and how services do, don't or should remunerate coordinators when they are on call:

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### c) Which proposed approach for home-based pay parity do you prefer, and why?

Please indicate your preference for these proposed approaches:

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
Option A. Creating a Coordinator Salary Subsidy (CSS)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Option B. Increase home-based ECE subsidy rates to account for coordinator salary costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**d) What should the ratio for generating coordinator FTE entitlement be in Option A?**

**The Ministry's starting proposal is:** 1:50 (coordinator FTE to funded child places)

Please indicate your view on this ratio:

	Agree	Neither agree nor disagree	Disagree	If disagree, indicate your preferred ratio below:
1:50 (coordinator FTE to funded child places)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

**e) Should coordinator FTE entitlement include managers of coordinators?**

**The default Ministry choice is:**

**No**

*'Manager of coordinators' positions are at the discretion of the service, rather than driven off regulations.*

Please indicate your preference here: ☐ Yes ☐ No

**Further comments**

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# Next steps for the Review

Consultation is open for six weeks and closes on **23 May 2023**.

## **When will the new funding system be implemented?**

While subject to Budget considerations, the Government has made a commitment to moving education and care certificated teachers towards pay parity with their kindergarten counterparts. Any additional pay parity funding that may come from future Budgets (eg Budget 2023) would further close the pay parity gap.

Following the public consultation process, the Ministry will analyse consultation feedback and provide the Minister with advice. The decision on the new funding system will then be put to Cabinet. Following Cabinet's decision, implementation work will commence for both the Ministry and Student Management System (SMS) providers.

Subject to Budget funding, further data collection to inform Budget requirements and funding splits, and other system implementation work, it is possible a new funding mechanism could be in place towards late 2024.

## **More information**

If you need more information about the Pay Parity Funding Review, please see the following website:  
<https://conversation.education.govt.nz/conversations/early-learning-pay-parity-funding-review>.

If you would like to provide further feedback outside of the questions in this consultation document, please email [ECE.PayParity@education.govt.nz](mailto:ECE.PayParity@education.govt.nz).

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kia **rangatira** ai, kia **mana taurite** ai ōna **huanga**

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