

Review of Home-based ECE: Setting the scene

What is home-based ECE?

- Home-based ECE is a licensed ECE service. Home-based services receive Ministry of Education subsidies.
- Education and care is delivered by an educator in a home setting rather than a centre, to up to four children aged 0 to 5. Home-based educators are not required to hold qualifications.
- Home-based ECE became regulated in 1992 when the sector was small and community-based. Many of the regulatory settings have remained unchanged since this time.
- Children are able to access up to 30 hours of subsidised ECE a week, with a six hour daily funding cap.
- The educator workforce is diverse, and includes nannies, au pairs and home-based educators working in their own homes. Educators can be grandparents or other relatives.
- Educators are supported by coordinators who are ECE qualified and certificated teachers. Coordinators provide professional leadership support to educators and oversee the children's education and care.
- Home-based educators can also provide out of school care. MSD funds the OSCAR subsidy and out of school care for children from low income families. Home-based OSCAR providers must also be licensed home-based ECE services.

There are two funding rates for home-based ECE:

Standard Rate

- Services must meet the requirements set out in the Education (Early Childhood Services) Regulations 2008.
- There are no ECE qualification requirements for educators.

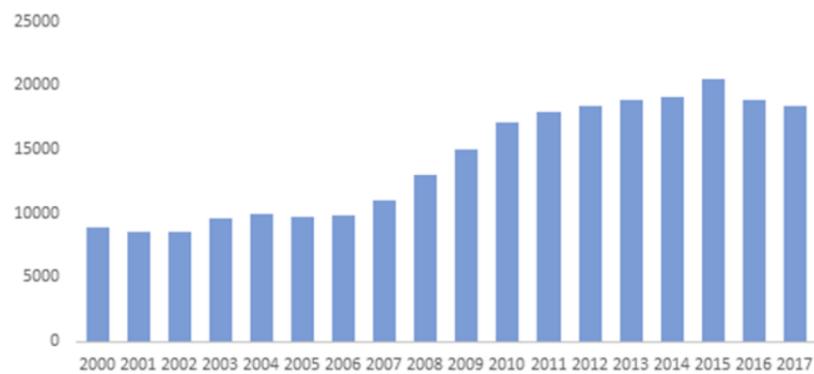
Quality Rate

- Services must meet additional requirements:
- qualification requirements for educators
 - coordinator must be locally based and on duty for specified times. Coordinators also cannot work for more than one licence at a time.

Home-based ECE in the context of the wider early learning sector

Over the past decade home-based ECE has been the fastest growing service type

HOME-BASED ECE ENROLMENTS/ATTENDANCES 2000 - 2017

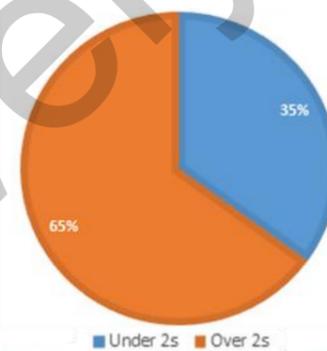


- Home-based ECE represents approximately 9% of enrolments
- The number of enrolments in home-based ECE grew from 8,937 in 2000 to 18,440 in 2017 (a 106% increase)
- Home-based ECE receives 7% of Ministry of Education subsidies (approximately \$119 million per annum).

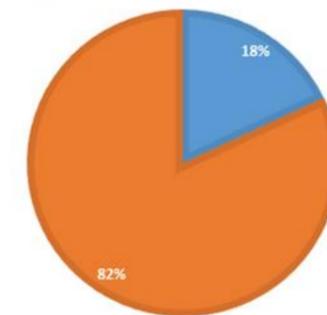
Home-based services have a higher proportion of children under two years old

In 2017, children under two accounted for 35% of home-based enrolments, compared to 18% in all other service types.

HOME-BASED ECE

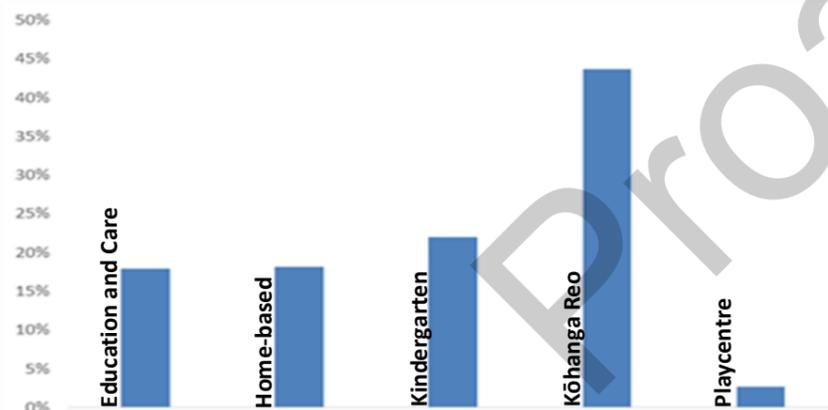


ALL ECE SERVICE TYPES



Home-based services have similar proportions of at risk children as education and care services and kindergartens

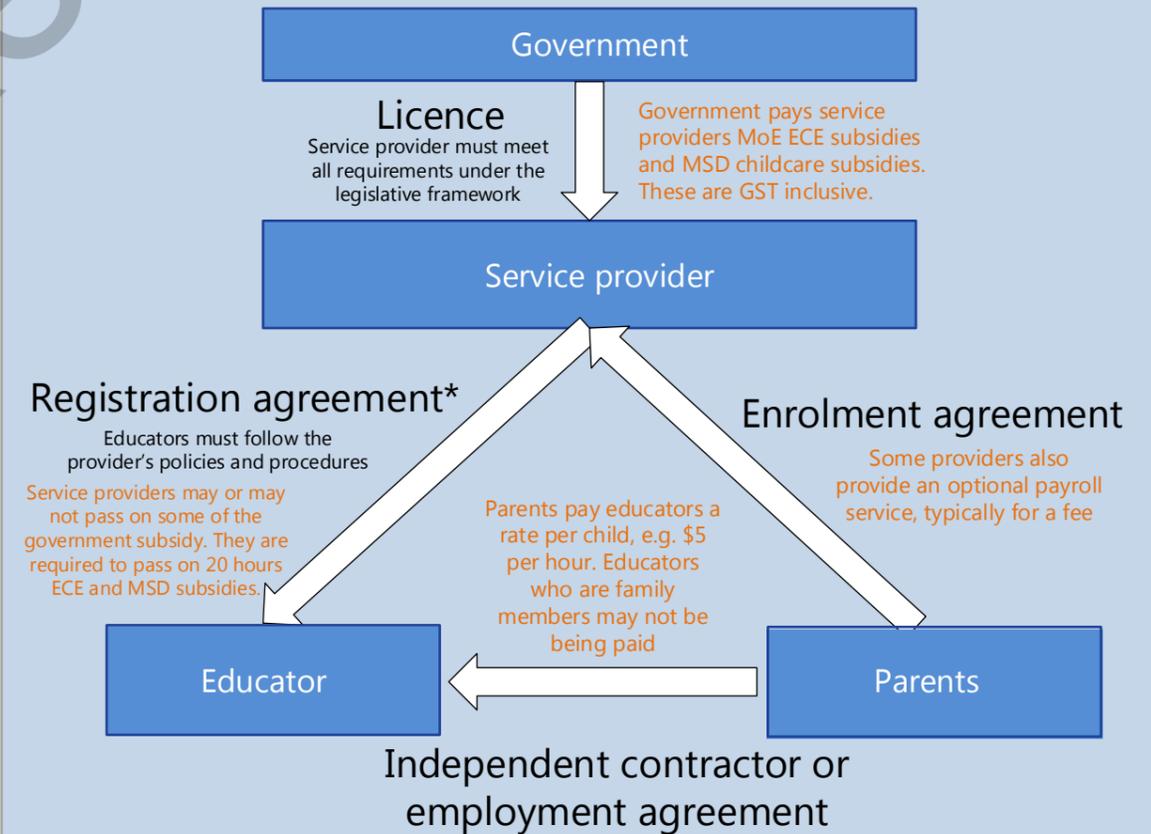
AT-RISK CHILDREN AS A PROPORTION OF CHILDREN BY SERVICE TYPE, 2017*



- Around one in five (18%) of children attending home-based ECE are considered at risk of underachievement. This is similar to education and care centres and kindergartens.

*defined as the 20% of children in early learning who have spent the largest portion of their life as the dependant of a beneficiary.

Relationship between the provider, educators and parents



*Some providers have an independent contractor agreement with the educator so the relationship between educator and parents may differ

Employment relationships

- Most home-based educators are self-employed contractors. They are not entitled to annual leave, sick leave, or the minimum wage.
- Home-based educators can also be employees of the family. This arrangement is mostly used for nannies and au pairs.

Issues in Home-based ECE

There is uncertainty regarding the quality of home-based ECE

No qualification requirements for educators

- As of June 2017, the majority of educators had no ECE qualification (70% of all educators).
- Research in centre-based ECE suggests that teacher qualification requirements are linked to quality interactions and better educational outcomes for children.

The quality rate has not incentivised a more qualified workforce

- The proportion of home-based services on the quality rate has declined over time. In 2005, 37% of home-based services were on the quality rate compared to 26% of home-based services in 2017.
- This contrasts with other service types. The proportion of teacher-led, centre-based services on the 80%+ funding band (the equivalent of the quality band in centre-based services) has increased consistently from 41% in 2005 to 98% in 2017.

Health and safety issues

- Educators and coordinators can lack understanding of the health and safety regulations and criteria, and how it relates to their role.
- Out of school care can be offered alongside home-based ECE. However, ratios do not include the educator's school-aged children, meaning there could potentially be more than six children supervised by an educator at a time.

Home-based services less likely to maintain minimum standards

- As at 3 July 2018, 13% of home based services had interventions in place because they did not meet minimum regulatory standards. This is in comparison with other ECE service types which had approximately 2%.

It is unclear whether government funding is being directed to education and care

Subsidies are not being used to pay educators

- Government provides ECE subsidies to reduce costs for families and support quality education.
- Initial consultation with home-based peak bodies suggests the ECE subsidy is captured in its entirety by service providers. This means in some instances the educator who works directly with children may not be receiving minimum wage and/or parents may be bearing a disproportionate share of the cost of ECE.
- Services are not permitted to charge fees for 20 hours ECE. However, in some instances services are not passing on enough to cover educator fees, with educators left to seek compensation from parents for 20 Hours ECE.

The amount of government funding providers receive and the way they use it is not transparent

- Services often do not make parents aware of the level of subsidy their child is generating, meaning parents are often unaware of the government contribution. Parents may be bearing more of the cost than in other service types.
- The Ministry has little oversight of what government funding is being used for and whether the use of government funding matches policy intent.
- Transparency of funding is an issue across the wider ECE sector.

Home-based services are more likely to over-claim funding

- Funding audits show that home based services are over three times more likely to over-claim than other ECE service types.

Service providers are able to externalise much of the cost of providing home-based ECE

Educators can receive minimal financial compensation

- Educator wages and working conditions influence the quality of interactions with children.
- The definition of 'gain or reward' in the Education Act 1989 has led to contractual arrangements where educators receive minimum financial compensation and/or vouchers that may not reflect the value of the work undertaken.
- Service providers have told us that many educators do not earn the minimum wage. As they are independent contractors, they are not entitled to annual or sick leave.
- IRD has a standard-cost determination that allows educators working in their home to deduct standard costs (i.e. housing, electricity, heating) before taxable income is assessed. Providers use this as a selling point for educators, as it means educators often only have to pay minimal tax on their earnings.

Providers can distance themselves from GST obligations

- Service providers have previously argued that as they 'arrange' education and care and do not provide it, they are not required to return GST on government subsidies they pass onto the educator.
- The ability for providers to decide what kind of contractual arrangement to enter into with the educator and/or parents mean the provider's obligations regarding GST and income tax on parent fees may differ depending on the arrangement.

Home Based Review: proposed package of changes

Raising quality in home-based ECE

Qualifications

Proposed change

- Require educators to have a level 4 ECE qualification. The level 3 and level 4 certificates are sub-degree level qualifications that prepare graduates to work in early learning settings.
- The level 4 is preferred over the level 3 as it has a stronger practice-based focus and an emphasis on effective communication with children, which will likely lead to improvements in the quality of interactions.
- Introduce a higher quality rate for any children who attend a service where all educators have a level 5 qualification or higher.
- Introduce a separate lower funding rate for au pairs. Au pairs will not be able to meet the qualification requirements as the majority are only in New Zealand temporarily (usually one year or less).

Potential impacts

Benefits

- Likely increase in quality of home-based ECE and improved outcomes for children.
- Better value for money due to increases in ECE quality and improved child outcomes over the longer term.
- Potential to staircase qualification into an ECE teaching career.

Risks

- May result in provider exit and/or workforce supply issues.
- Could impact MSD's provision of OSCAR.
- Likely expectations from service providers of increased funding rates.
- Likely that government funding will be required to support educators to become qualified in the transition period.



Health and Safety

Proposed change

- Include the educator's school age children (up to the age of 13) in the limit on the number of children.
- Require service providers to provide training to coordinators and educators on health and safety requirements.

Potential impacts

Benefits

- Increased health and safety requirements may reduce injuries to children in home-based ECE.
- Clarifies health and safety obligations.
- Coordinators likely to spend less time getting educators up to speed on health and safety during visits. Have more time to discuss the child's learning.

Risks

- Increase costs for providers.
- Including educator's school age children in ratios will decrease the number of ECE-age children for some educators. Home-based ECE may become unviable for some educators.
- Educators with two or more school-age children will no longer be able to provide out of school care.
- Business model for some providers may no longer be viable.



Ensuring government investment is directed towards education and care

Employment conditions for educators

Proposed change

- Require service providers, through legislation, to engage educators as employees and not contractors.
- Change definitions in the Education Act 1989 so that it is clear home-based providers are responsible for the delivery of education and care.



Potential impacts

Benefits

- Potential for lift in quality of ECE, working conditions are a structural quality factor.
- Greater professionalisation of the educator workforce.
- Service providers will have clearer tax and health and safety obligations.

Risks

- Increase costs for providers and government.
- May require educators currently providing home-based ECE to a small number of children (1-2) to increase the number of children in their care to remain viable.
- Business model for some providers may no longer be viable – leading to provider exit.

Transparency of funding

Proposed change

- As a condition of funding, require providers to disclose the level of government subsidy each child generates as part of invoicing.
- Require providers to publish information on government subsidies based on examples of an average child.
- Require providers in their annual financial reports to the Ministry to provide information on expenditure and income in more detail and per licence (eg educator salaries reported separately from total salaries).



Potential impacts

Benefits

- Parents will be aware of government's contribution to their child's ECE.
- A more accurate picture of the cost of ECE provision to Government.
- More information to help government ensure funding is spent according to policy intent.
- More information to help evaluate government investment in ECE.

Risks

- Increased compliance costs for service providers.
- Resistance from sector due to commercial sensitivity around business models.