

In Confidence

Office of the Minister for Education

Chair, Cabinet Business Committee

Review of Home-based Early Childhood Education: Proposals for change

Proposal

- 1 I seek Cabinet's agreement to:
 - 1.1 changes to home-based ECE arising out of the Review of Home-based ECE (the Review)
 - 1.2 criteria to draw down the Budget 2018 cost adjustment for home-based ECE held in a contingency aimed at incentivising quality.

Executive Summary

- 2 In August 2018, Cabinet agreed to the release of a discussion document for public consultation that outlined proposals for change to support higher quality home-based early childhood education (ECE) [SWC-18-MIN-0102 refers]. The Ministry of Education (the Ministry) consulted on the proposals from 21 August to 30 September. There was general support for the majority of the proposed changes - including the introduction of qualifications, new transparency of funding requirements and a number of proposals aimed at strengthening key roles in the sector.
- 3 Based on consultation feedback and available data, I propose making a number of changes to policy settings for home-based ECE. I believe we could better support service providers and educators to lift the quality of ECE they provide to our young children. Proposed changes are consistent with the direction of the draft Early Learning Strategic Plan, which focuses on raising quality and ensuring equity, while maintaining parent choice.
- 4 I seek agreement to move towards a qualified home-based ECE workforce, with all educators eventually being required to hold, or be actively working toward, a Level 4 ECE qualification or Te Ara Tuarua (the level 5 kōhanga reo qualification) or higher.
- 5 I would like to incentivise the shift required through gradually lifting funding criteria for both the standard and quality rates over time. This includes applying the Budget 2018 1.6% cost adjustment held in a contingency, and future cost adjustments, to the quality rate only. I will work with the sector to determine an appropriate time to regulate a mandatory qualification requirement. This change represents a substantial shift and it is important to minimise disruption to parents and whānau.
- 6 I am also seeking agreement to further work on the funding system. This includes considering differential funding for disadvantage and whether service providers should be required to pass on some of the subsidy funding to educators, either across the sector or only in low socio-economic communities. The work will also consider smoothing the under 2s and the 2 and overs funding rates over time. I also recommend that new requirements for transparency of funding to parents, whānau, educators and government be developed for the whole sector and considered as part of finalising the Early Learning Strategic Plan in 2019.

- 7 I propose a suite of changes to strengthen key roles within home-based ECE to allow for improved oversight of the sector:
- 7.1 introducing new requirements for service providers, including health and safety training and professional development for educators
 - 7.2 strengthening the oversight role of the teacher-qualified coordinator
 - 7.3 strengthening the Education Review Office's role
 - 7.4 further work on licensing to improve Ministry oversight - including potentially changing the licence size, introducing a limit on the geographic radius in which a home-based network can operate and a ratio of educators to coordinators.
- 8 I am not recommending progressing a number of proposals. These are including an educator's school-aged children in the maximum number of children present, requiring service providers to engage educators as employees, and increasing the frequency of coordinator visits.
- 9 In the long-term, I expect the changes to be cost-neutral with some costs incurred during the transition phase. s 9(2)(f)(iv)
- The changes proposed put higher requirements and greater scrutiny on the home-based sector which is likely to cause some provider exit. Provider exit may impact families and mean they shift their children into centre-based ECE. The Ministry will be monitoring these shifts during the transition period.

Background

What is home-based ECE

- 10 Home-based early childhood education (ECE) is one of six ECE service types for children aged 0-5. Home-based ECE offers a number of benefits, including low adult to child ratios and small group sizes. Its point of difference is that early learning is delivered in private homes, rather than in centres.
- 11 Home-based ECE is delivered by educators who are not required to hold an ECE qualification. The absence of a mandatory qualification is a factor influencing the diversity of the educator workforce, which can include nannies, au pairs and family members such as grandparents. The ability for unqualified educators to be funded has meant home-based ECE is available in a diverse range of languages, as new migrants with little or no English can provide education and care for children within their communities.
- 12 A registered and certificated ECE teacher, called a coordinator, must oversee the educators and children in a home-based ECE service. As educators deliver education without another adult present, the coordinator plays an essential role in providing professional leadership and support to them.
- 13 Home-based ECE service providers are the overarching businesses who engage the educators and coordinators. They are responsible to government for ensuring that education and care provided is meeting minimum regulatory standards. These standards relate to the curriculum, health and safety, premises and facilities, as well as governance, management and administration.

- 14 A service provider can apply for and hold multiple licences. In 2017, there were 476 licences across approximately 176 home-based service providers. Each licence is limited to a network of up to 80 child places, meaning services can be responsible for more than 80 children over the course of the week. Each licence has between one and two coordinators. Each educator can provide education and care to up to four children aged 0-5.
- 15 There is no limit on the number of educators within a licence. The majority of home-based licences (69%) have between 6 and 25 educators. The largest licence has 132 educators.
- 16 Home-based ECE accounts for 10% of all early learning enrolments. Māori children accounted for 17% of enrolments (around 3,000 children) - lower than the average of 23% across all licensed ECE services and kōhanga reo in 2017. Pacific children accounted for 14% of enrolments, compared with an average of 8% across all licensed ECE services in 2017. There were 7,512 educators and 736 coordinators delivering services.

Home-based ECE has grown rapidly, and government now invests over \$150 million per annum

- 17 Between 2007 and 2017, the number of children attending home-based ECE increased by 66% - from just over 11,000 in 2007 to 18,440 children in 2017. The funded hours of attendance and the level of government investment have both more than doubled over that same period. In 2017, approximately \$156 million in public funding was spent on home-based ECE.
- 18 The Ministry of Education provides subsidy funding to licensed home-based services, to subsidise the cost to parents and whānau and enable participation. The hourly funding rates are detailed in the table below. Services on the standard funding rates must meet the requirements of the Education (Early Childhood Services) Regulations 2008 (the Regulations). Services on the quality rates must engage educators with a Level 3 ECE qualification or some credits of a Level 4 ECE qualification, and have a coordinator who is on duty for specified hours.

Current funding rates for home-based ECE services (GST inclusive)

Rates from 1 July 2014			
\$ per funded child hour	Under 2	2 and over	20 Hours ECE
Standard rate	\$7.28	\$3.94	\$8.76
Quality rate	\$8.31	\$4.45	\$9.27

- 19 The quality rate was intended to encourage home-based services to increase the number of qualified educators, but the proportion of children attending services on the quality rate has declined over the last ten years. In 2007, half of all funded hours in home-based were in quality rate services. In 2017, this was just 22%. The proportion of home-based services meeting the quality rate requirements is now 23%.

The home-based workforce is largely unqualified, widely dispersed, and oversight is limited

- 20 The majority of educators (70%) have no ECE qualification. A small proportion (7%) are registered teachers, while 22% have a Level 3 ECE qualification or credits towards a Level 4 ECE qualification. Unlike in ECE centres, educators are alone with children in private homes most of the time.

- 21 The number of children that individual educators can be responsible for over the course of a week can vary widely. Ministry data indicates that around 40% of educators provide education and care to just one child over the course of the week. At the other end, around 12% have between 5 and 13 children over the course of a week.
- 22 The Ministry and the Education Review Office (ERO) have limited oversight of the quality of curriculum delivered by home-based educators and the health and safety of children. When a service is first licensed, the Ministry checks whether service providers meet minimum standards, which includes an inspection of two homes within the licence. Once a service provider is licensed, there are no further checks by the Ministry to ensure coordinators, educators and homes continue to meet regulatory requirements unless there is a complaint. The large number of homes in home-based networks and the churn in homes and educators means the Ministry is heavily reliant on service providers to ensure children are safe and educators are delivering an enriching curriculum.
- 23 ERO reviews home-based ECE services once every three years on average. ERO's reviews focus on how well-placed a service provider is to promote positive learning outcomes for children. ERO does not have right of entry to an educator's home, and therefore cannot verify curriculum implementation in person. Instead, ERO relies on internal evaluation and discussions with coordinators and service providers to complete their reviews.

Consultation on the Review of Home-based ECE

- 24 In August 2018, Cabinet agreed to the release of the Review of Home-based ECE discussion document for public consultation [SWC-18-MIN-0102 refers]. Consultation closed in September.
- 25 Through consultation, I heard about the unique place home-based ECE holds in the wider early learning sector. Above all, educators and parents talked about the family-feel home-based ECE provides. Children are able to build close relationships with their educator, learn in their home language and thrive within a small group. Parents praised the flexibility that educators offered to them, particularly those that worked outside of the traditional nine to five schedule.
- 26 However, concerns were also raised about inconsistent quality across the sector, due in part to inadequate government oversight. Service providers, educators, whānau and parents commented that government funding is not always being directed towards providing educators with the thorough and stable support needed. This has compromised the quality of home-based ECE, as educators do not always have the tools and knowledge required to give children, particularly those with learning support needs, the best possible start to life.

Changes to home-based ECE to lift quality

- 27 The draft Early Learning Strategic Plan recognises that for all children to benefit, the early learning system must provide high quality experiences across the range of provision types. While home-based ECE can offer a valuable early learning environment, I believe we could better support service providers and educators to lift the quality of ECE they provide to our young children. High quality early learning provision is a right of every child, and their parents and whānau.

- 28 After carefully considering consultation responses, and hearing from a range of service providers and educators, I am now ready to recommend changes to home-based ECE. These changes are consistent with the direction of the draft Early Learning Strategic Plan, which focuses on raising quality and ensuring equity, while maintaining parent choice. The changes I am seeking agreement to here will become part of the final Early Learning Strategic Plan.
- 29 We can drive high quality provision through professionalisation of the home-based ECE sector. Qualifications will give educators the tools and knowledge needed to deliver higher quality education and care. Parents and whānau will be guaranteed that no matter which educator they choose for their child, the home-based ECE their child receives will be high quality.
- 30 Greater expectations on service providers, including new reporting requirements on the use of government subsidies, will help ensure that service providers work alongside educators by providing them with crucial support and opportunities for development. Key roles within home-based ECE could be strengthened to allow for improved oversight of the sector. Finally, I recommend further work be undertaken to ensure funding is targeted towards the children who need it most, across the entire time they spend in home-based ECE, up until they start school.
- 31 I would like to incentivise the shift required through gradually lifting funding criteria for both the quality and standard rates. I believe it is important to work with the sector to determine the appropriate time to regulate a mandatory qualification requirement. This is because I realise that this change represents a substantial shift and it is important to minimise disruption to parents and whānau.
- 32 The appendix outlines the status quo and future state for different types of educators and service providers. These are based on real educators, visiting teachers, parents and service providers that the Ministry engaged with as part of the consultation.

Incentivising educators to gain a Level 4 ECE qualification

- 33 In the discussion document, I proposed requiring all home-based educators to hold a Level 4 ECE qualification or higher. Evidence suggests that an ECE qualification is likely to promote an educator's ability to provide children with stimulating, warm and supportive interactions. These interactions are important for young children, as they are shown to lead to better educational outcomes. Positive early learning experiences improve educational achievement in the short and long term, when children move on to primary school and secondary school.
- 34 Evidence suggests that gaining a Level 4 ECE qualification also benefits educators. Graduates with qualifications at Level 4 and above tend to have better employment outcomes when compared with lower level qualifications. They also are likely to have better physical and emotional well-being.
- 35 The majority of respondents responded favourably to this proposal during consultation. They considered qualifications would improve the quality of education and care and reduce variability in the sector.
- 36 I am now seeking agreement to move towards a qualified home-based ECE workforce, with all educators eventually being required to hold, or being actively working toward, a Level 4 ECE qualification or higher. I also propose recognising Te Ara Tuarua, the Level 5 kōhanga

reo qualification, as equivalent to the Level 4 ECE qualification for home-based educators for funding purposes. Recognising Te Ara Tuarua in home-based ECE is an important step towards providing more opportunities for the transmission of Te Reo Māori across the wider early learning sector.

- 37 I would like to incentivise the shift toward a qualified workforce through lifting funding criteria for both the quality and standard funding rates over time. I intend amending the quality rate criteria first so that all educators in a service will be required to have completed, or be actively working towards, a Level 4 ECE certificate or Te Ara Tuarua. This will incentivise service providers to start supporting their educators to study early on. I will report back to Cabinet in February 2020 with further information on the financial and forecasting implications before making this change.
- 38 Over time, I will be looking to increase the requirements of the standard rate as well. This could include requiring a proportion of educators within standard networks to hold, or be working toward, the requisite qualification. When the home-based ECE sector is ready, I propose that the standard rate be removed, resulting in a single quality funding rate. This will recognise the greater professionalism of the home-based educator workforce, and higher quality expectations of the sector.
- 39 I would like to recognise service providers who have already put considerable effort into training their educators. I seek Cabinet's approval to set criteria for contingency drawdown to enable the Budget 2018 cost adjustment to be applied to services on the quality funding rate only. Moving forward, cost adjustments will be directed towards services on the quality rate only.
- 40 I propose that the move to a minimum Level 4 ECE qualification should be applied across the entire home-based ECE sector. This will mean that au pairs will not be able to access government funding when the qualification requirement is eventually regulated if they do not hold an ECE qualification. While I believe au pairs provide valuable support to parents, exempting this group undermines the intent of the policy to raise quality in home-based ECE. As there is no definition of au pair in the current regulatory framework, there is a potential for unintended rapid growth in the unqualified au pair market. This could lead to significant variability in quality across home-based ECE services.

Transitioning to a fully qualified workforce

- 41 Some educators expressed concerns related to the cost and time needed to undertake a qualification. Some educators with English as a second language were also concerned about being able to complete the qualification.
- 42 s 9(2)(f)(iv)
- 43 During the transition period, the Tertiary Education Commission will also work with tertiary education providers to encourage flexible delivery options that allow educators to balance home and work commitments.

- 44 I also realise that a substantial group of educators, approximately 15%, already hold a Level 3 ECE qualification. These educators have put a lot of effort into upskilling, and some have many years of experience putting into practise skills they have gained through this qualification. Because of this, I propose that this group of educators are grand-parented, through recognising their qualification as equivalent to a Level 4 ECE qualification for funding purposes in the new system. Further work will be undertaken to determine a grand-parenting framework for the new system.

Further work to explore better targeting funding to support quality for all children in home-based ECE

- 45 The consultation brought to light the following issues with the funding system for home-based ECE:
- 45.1 substantial differences in operating models and educator incomes between low socio-economic and medium to high socio-economic communities, with children in low socio-economic communities provided with fewer resources and cared for by educators receiving minimal remuneration
 - 45.2 the large drop in funding rates when children turn two, affecting the continuity of service able to be provided for children as well as educators' income in low socio-economic communities. Some service providers recommended a single funding rate for all age groups (excluding the 20 Hours ECE funding rate)
 - 45.3 the lack of awareness from parents, whānau and educators about the level of government funding provided to service providers, affecting their ability to advocate for different levels of fees and payments respectively.
- 46 To address the first two issues, I propose that the Ministry undertake further work with the sector in 2019 to look at a revised funding system for home-based ECE. This work would consider differential funding for disadvantage and whether service providers should be required to pass on some of the subsidy funding to educators, either across the sector or only in low socio-economic communities. It would also consider smoothing the under 2s and the 2 and overs funding rates over time.
- 47 My intention is that any revised funding system is fiscally neutral. I consider the current level of investment in home-based ECE to be sufficient to support the quality changes that are proposed in this paper, but the funding may not be targeted in the right ways to improve consistency across the sector.
- 48 The further work on funding rates for home-based ECE will be undertaken at the same time as considering wider changes to early learning funding that are proposed in the draft Early Learning Strategic Plan. This will maintain consistency between funding regimes for different service types and avoid unintended consequences, such as incentives to enrol children of certain ages in particular service types to maximise funding. It means the purpose and use of funding to improve equity can be considered across the whole early learning sector. It also means Cabinet can consider any recommended changes to funding as a whole.
- 49 To address the third issue, I propose new requirements be developed to strengthen transparency of funding to parents, whānau and educators. This includes requiring service providers to publish information on government subsidies and inform parents of the level of government subsidy their children is attracting. I consider such requirements would benefit

parents and whānau using any early learning service, so these requirements will be considered for the whole early learning sector as part of finalising the Early Learning Strategic Plan.

- 50 Finally, I propose new requirements for transparency of funding to government be developed for the whole sector and considered as part of finalising the Early Learning Strategic Plan in 2019. The discussion document proposed that home-based services be required to report annually on income and expenditure by licence and in specified categories, such as payments to educators. Although the government is the main funder of early learning, we lack information on cost drivers and how funding is being spent. This is particularly the case for privately-owned providers, which have lower financial reporting requirements than community-based providers. This limits our ability to understand the efficacy of funding and for the Ministry to identify at risk services.

Further strengthening key roles within home-based ECE

- 51 The discussion document also proposed a suite of changes to strengthen key roles within home-based ECE to allow for improved oversight of the sector. During consultation, respondents generally responded favourably to these proposals. I would therefore like to seek agreement to:

- 51.1 introducing new requirements for service providers, including health and safety training and professional development for educators
- 51.2 strengthening the oversight role of the teacher-qualified coordinator;
- 51.3 strengthening ERO's role
- 51.4 further work on licensing to improve Ministry of Education oversight.

Introducing new requirements for service providers, including health and safety training and professional development for educators

- 52 I propose amending the definition of service provider, in Section 309 of the Education Act 1989, from 'arranges' education and care to 'provides' education and care. This better aligns with the Government's expectations that service providers are responsible for the delivery of education and care.
- 53 I also propose requiring service providers to provide health and safety training for coordinators and educators, as well as ongoing professional development. Health and safety training will help educators and coordinators to understand and apply the health and safety regulations and associated criteria. Participation in professional development should help educators to provide higher quality ECE. Most service providers already provide health and safety training and professional development, so these changes are aimed at solidifying government's expectations of service providers.
- 54 In some circumstances service providers may only be obtaining Police vetts for adults who will be present in the home when education and care is taking place, due to a lack of clarity in existing provisions. I propose amending the Education Act 1989 to clarify that police vetting is required for all adults who live and/or may be present in the home.

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.s 9(2)(f)(iv)

s 9(2)(f)(iv)

- 56 During consultation, some educators raised concerns about the risk younger teenagers in the home may pose to ECE-aged children. This is because the Ministry does not safety check or police vet young teenagers (aged 14-16). I propose the Ministry does further work on exploring using Oranga Tamariki data to conduct background checks on young teenagers including looking at the privacy implications of sharing this information.

Strengthening the oversight role of the teacher-qualified coordinator

- 57 The current Regulations allow coordinators to act across licences or work with educators for a short period of time. I am concerned this does not provide the consistency to build relationships between educators, coordinators, and the children they oversee.
- 58 I propose changing the Regulations surrounding the coordinator role to better align with what we know about high quality education and care. This includes better articulating the role of the coordinator to include an explicit emphasis and guidance on providing training to educators and requiring the same coordinator to provide supervision and support to the same educator. I also propose requiring coordinators to have some experience working with adults and whānau to ensure they are well placed to undertake the mentoring aspect inherent in their role. I also propose introducing a requirement that coordinators must be fully registered teachers, as opposed to a mix of provisionally and fully registered teachers. Lastly, I propose changing the title of coordinator to visiting teacher to better reflect the role.

Strengthening the Education Review Office's role

- 59 The Ministry of Education relies on the licence application process and ERO reports to monitor curriculum implementation. ERO does not have a right of entry to private homes, so they are unable to verify curriculum implementation and health and safety monitoring in person. I propose changing the Education Act 1989 to provide ERO with the power to enter homes where home-based ECE is taking place. This will enable ERO to have greater oversight of curriculum implementation and health and safety.

60 s 9(2)(f)(iv)

61 s 9(2)(f)(iv)

Further work on amending licensing requirements

62 I want to ensure the licensing requirements support quality and ensure the Ministry is able to effectively carry out its monitoring and oversight function. I propose the Ministry conduct further work to explore a number of changes to licensing, including:

62.1 a limit on the geographic radius in which a home-based network can operate. I believe this may support quality and provide coordinators with more time to provide professional oversight and support to educators by reducing travel time. This change would also provide the Ministry with a greater ability to monitor and oversee home-based networks;

62.2 changing the licence size, including looking at the number of child places and exploring a cap on educators within a licence; and

62.3 investigating introducing a ratio of educators to coordinators.

Proposals not recommended to be progressed

63 Following consultation, I have decided not to recommend progressing a number of proposals:

63.1 including an educator's school-aged children in the maximum number of children present

63.2 requiring service providers to engage educators as employees

63.3 increasing the frequency of coordinator visits.

64 I recommend not progressing the proposal to include an educator's school-aged children in the maximum number of children present in the home. Many educators and service providers did not support this proposal. They believed this change would be overly restrictive for educators, particularly those with large families. The benefits of interactions between children were also frequently raised.

65 I also recommend not progressing the proposal to require service providers to engage educators as employees. Most educators valued the flexibility and choice of being able to work as independent contractors. They mentioned they appreciated the ability to choose how many hours they worked, how many children they provided home-based ECE to and which families they worked with. Many educators also preferred the favourable tax arrangements afforded to them as contractors.

66 I also recommend not progressing the proposal to increase the frequency of coordinator visits. Most educators preferred no change to the frequency of visits, as they felt the coordinator provided sufficient contact under the current system. Many educators noted that the regulations prescribed one visit per month, per child. As many educators provide home-based ECE to part-time children, this meant coordinators need to visit their homes more frequently than monthly to observe every child.

Combined impact of changes on families

67 The changes I am seeking agreement to create higher quality requirements and greater transparency for the home-based ECE sector. In my view, these changes will provide better

assurance of the quality of ECE and ensure children receive a better educational experience.

- 68 However, the higher requirements and greater scrutiny will likely result in some service providers exiting the market. The providers who exit are most likely to be those where educators are au pairs or family members, or the service specialises in short-term care arrangements. These arrangements are likely to continue once changes to home-based ECE are fully implemented, but may cost parents more. The Ministry does not have data on these different types of educators, but estimates that there are around 650 families using au pairs, accounting for less than 5% of enrolments in home-based ECE.
- 69 Oranga Tamariki caregivers who are also providing home-based ECE to children in their care through an ECE service provider are unlikely to meet the new qualification requirements. Oranga Tamariki will ensure that these children are engaged in quality ECE where this is in their best interests, and that caregivers are supported regarding child development and learning.
- 70 The proposed changes may result in a small decrease in overall ECE participation rates. However, many of the children who leave home-based ECE will continue in the same care arrangements informally. The Ministry will monitor the impact of raising quality requirements on participation.
- 71 Provider exit may create more demand for centre-based ECE, particularly for children aged three and four. The Ministry will be monitoring these shifts during the transition period and, if necessary, will provide support to create new child places using existing funding sources such as Targeted Assistance for Participation.
- 72 As home-based ECE can operate outside of standard centre hours, a more limited home-based market may impact on labour market participation, particularly for women. A smaller market may also result in an increase in costs for parents using home-based ECE. Information gathered through consultation indicates parental fees for educators with children from multiple families range from \$0 to \$10 per child per hour. Fees for nannies working with one family range from minimum wage to \$30 per hour. I have asked the Ministry to develop a new data collection method to improve information on fees charged to parents and monitor ECE affordability. This information will enable intervention when needed.
- 73 One of the strengths of home-based ECE is that parents can choose educators who share their values and culture. During the consultation period, the Ministry engaged with a number of educators with little or no English from the Tongan, Samoan, Chinese and Somali communities. Educators from the Korean community provided input via the online survey. These educators are unlikely to be able to enrol in and complete the Level 4 ECE qualification in English. The proposed changes are intended to improve educators' knowledge and skills, they are not intended to marginalise migrant communities. **s 9(2)(f)**
(iv)
- 74 During consultation, educators identified the cost of study as a barrier to enrolling in the qualification, this was particularly so for educators in low socio-economic communities. Coordinators emphasised the additional hours required from them to support educators who are studying. **s 9(2)(f)(iv)**

Consultation

- 75 The Treasury, State Services Commission, Ministry of Social Development, Ministry of Health, Ministry of Business, Innovation and Employment, Oranga Tamariki—Ministry for Children, Ministry for Women, Inland Revenue, Te Puni Kōkiri, Ministry for Pacific Peoples, New Zealand Qualifications Authority, the Tertiary Education Commission, and the Education Review Office have been consulted on this paper.
- 76 The Department of Prime Minister and Cabinet has been informed.

Treasury comment

- 77 The Treasury notes that the Cabinet paper acknowledges that there are supply, participation and fiscal risks from increasing the qualification requirements on home-based educators but does not indicate the size of these risks. While the impacts from increasing the requirements for the quality rate are likely to be minimal, both the direct and indirect impacts of increasing the requirements for the standard rate and, in the longer-term, moving to mandatory level four qualifications, may be more significant. In particular, a possible reduction in the number of home-based providers may lead to an increase in children attending services that receive higher government funding rates.
- 78 Children whose families cannot access other types of services may, conversely, be pushed into informal care arrangements, where the Government's levers to improve quality are limited. The Treasury proposes that the Minister of Education come back to Cabinet with more robust analysis of the order of magnitude of these risks before Cabinet makes decisions on increasing requirements for accessing the standard rate and mandating qualifications.

The Minister of Education replies:

- 79 I consider that the Treasury's proposal to delay making a decision would achieve very little, and have unintended consequences.
- 80 There are unavoidable uncertainties around the flow-on fiscal impacts from changes like this because we cannot know the business decisions that home-based providers will make in response and in particular it is largely conjecture what proportions of families with children in services that close will choose other home-based options, versus other service types, versus informal care or no care at all. Treasury ought to be aware that additional rounds of cost-modelling or data collection will not uncover the answers to those questions.
- 81 On the other hand, there would be very real consequences for the home-based sector in further delay. The sector has engaged constructively with our Review, and knows from the consultation that Government is considering some changes that will have business impacts. I believe we should now be making and announcing decisions that provide some certainty and give these businesses the opportunity to adapt.

Financial Implications

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§ 9(2)(f)(iv)

- 83 I expect the ongoing costs of the proposed changes to be fiscally neutral. Beyond applying the cost adjustment to the quality funding rate, funding rates for home-based ECE will not be increased. Higher requirements and greater scrutiny will likely result in some service providers exiting the market. Provider exit may create more demand for centre-based ECE, particularly for children aged three and four. The Ministry will be monitoring these shifts during the transition period and, if necessary, will provide support to create new child places using existing funding sources such as Targeted Assistance for Participation.

Human Rights

- 84 There are no human rights implications arising from this paper.

Legislative Implications

- 85 Some of the proposals contained in this paper will require changes to the Education Act 1989. This includes changes to the definition of service provider and granting ERO a right to enter homes. I will seek to implement these proposals in the proposed Education and Training Bill 2019.

Regulatory Impact Analysis

- 86 The Regulatory Impact Analysis requirements apply to the proposals in this paper and a Regulatory Impact Assessment (RIA) has been prepared and is attached.
- 87 Some of the proposals contained in this paper will require changes to the Education (Early Childhood Services) Regulations 2008. These changes would occur over the next two years. Changes include introducing qualification requirements, collecting information on coordinators and educators, and changes to better articulate the role of the coordinator.
- 88 Developing the Level 4 ECE qualification in languages other than English or Māori may require changes to NZQA rules, as well as the identification of an appropriate qualification developer, and a clear approach to quality assurance.
- 89 The Ministry of Education's internal quality assurance panel has reviewed the RIA and associated supporting materials, and concluded that the information and analysis summarised in it partially meets the quality assurance criteria.

Gender Implications

- 90 Ninety-eight percent of home-based ECE educators are women. A requirement for qualifications supports the professionalisation of the educator workforce and improves wider employment opportunities for educators. People with qualifications at level 4 and above tend to have higher earnings and better employment outcomes than those with lower level or no qualifications.
- 91 A smaller home-based market might affect women disproportionately if women are unable to access education and care for their children. Home-based ECE can operate outside of standard centre hours, so a decrease may affect shift workers disproportionately. There are likely to be some impacts. The Ministry will be seeking to limit any disruption these proposals might have on children and families currently accessing home-based ECE.

Disability Perspective

- 92 As part of consultation, the Ministry engaged with regional early intervention teams about what is and is not working for children with learning support needs in home-based ECE. They reported that home-based ECE providers tend to refer children later than their counterparts in centre-based ECE. This constrains the ability to address children's needs before they start school.
- 93 The tendency for later referrals is likely due to a combination of educators' lack of knowledge of child development, less experienced teacher-qualified coordinators who also lack knowledge to identify learning support needs, and a lack of knowledge of referral pathways to specialist support. Introducing minimum qualification requirements for educators and strengthening the role of the coordinator should address some of these issues. The Ministry will look at ways to increase knowledge of referral pathways in the home-based ECE sector.

Treaty of Waitangi implications

- 94 Māori children made up 17% of enrolments (around 3,000 children) in home-based ECE in 2017. This is lower than the average of 23% across all licensed ECE services and kōhanga reo in 2017. The Ministry engaged with two Māori service providers and educators in Tauranga and Kaitia. Promoting and supporting te reo Māori was integral to these services, and both had high proportions of teacher-qualified educators. Recognition of kōhanga reo qualifications was identified as important.
- 95 Te Kōhanga Reo National Trust (TKRNT) has expressed interest in providing home-based early learning. I propose the Trust's Te Ara Tuarua qualification is treated as equivalent to the Level 4 ECE certificate. This would mean educators with Te Ara Tuarua or with the higher level Tohu Whakapakari can work as home-based educators. This is consistent with our commitment to the revitalisation of te reo Māori.
- 96 TKRNT also submitted that Tohu Whakapakari holders should be able to act as coordinators in home-based ECE. The proposals do not change the requirement for the coordinator to be registered and certificated with the Teaching Council. Some kōhanga reo kaiako are certificated ECE teachers, so it will be possible for some kōhanga reo home-based services to be set up. However, the availability of these kaiako will limit kōhanga home-based services. The Crown is in discussions with TKRNT on resolving their Treaty claim which may address these issues.

Publicity

- 97 I intend to publicly announce these decisions as soon as possible. I intend to proactively release this Cabinet paper and other key documents at the same time. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

Recommendations

- 98 The Minister for Education recommends that the Committee:
1. **note** that Cabinet agreed to release the discussion document on the Review of Home-based early childhood education (ECE) in August 2018 [SWC-18-MIN-0102 refers] and consultation ran from 21 August to 30 September

2. **note** that changes recommended are consistent with the direction of the draft Early Learning Strategic Plan, which focuses on raising quality and ensuring equity while maintaining parent choice
3. **agree** to move towards a qualified home-based ECE workforce, with all educators eventually being required to hold, or be actively working toward, a Level 4 ECE qualification or Te Ara Tuarua (the level 5 kōhanga reo qualification) or higher
4. **agree** that educators who currently hold a Level 3 ECE qualification will be grand-parented so that their Level 3 qualification is recognised as a Level 4 qualification in the new system
5. **note** that the Minister of Education will:
 - 5.1 incentivise the shift toward a qualified workforce through gradually lifting funding criteria for both the standard and quality rates, which includes applying the Budget 2018 cost adjustment, and future cost adjustments, to the quality rate only
 - 5.2 in consultation with the Minister of Finance and other Ministers as appropriate, report back to the Cabinet Social Wellbeing Committee (SWC) in February 2020 on the financial and forecasting implications
6. **agree** to set criteria for the contingency drawdown so that the Budget 2018 1.6% cost adjustment is applied to the quality funding rate only, in 2019
7. **note** that I will work with the sector to determine the appropriate time to regulate a mandatory qualification requirement, to minimise disruption to parents and whānau. At this time, the standard funding rate will be removed, resulting in a single quality funding rate
8. s 9(2)(f)(iv)
[REDACTED]
[REDACTED]
[REDACTED]
9. **agree** to further work on the funding system:
 - 9.1. consider differential funding for disadvantage and whether service providers should be required to pass on some of the subsidy funding to educators, either across the sector or only in low socio-economic communities. This includes considering smoothing the under 2s and the 2 and overs funding rates over time
 - 9.2. new requirements for transparency of funding to parents, whānau, educators and government be developed for the whole sector and considered as part of finalising the Early Learning Strategic Plan in 2019
10. **agree** to amend the definition of service provider in the Education Act 1989 so that it is clear service providers are responsible for the delivery of education and care
11. **agree** to require service providers to provide health and safety training for coordinators and educators, as well as ongoing professional development

12. **agree** to amend the Education Act 1989 to clarify that police vetting is required for all adults who live and/or may be present in the home
13. s 9(2)(f)(iv)
[REDACTED]
[REDACTED]
14. **agree** to change the Education (Early Childhood Services) Regulations 2008 to strengthen the oversight role of the teacher-qualified coordinator
15. **agree** to change the Education Act 1989 to provide the Education Review Office (ERO) with the power to enter homes where home-based ECE is taking place
16. **note** that the Ministry of Education will explore:
 - 16.1. [REDACTED]
[REDACTED], s 9(2)(f)(iv)
[REDACTED]
 - 16.2. using Oranga Tamariki data to conduct background checks on young teenagers (aged 14-16) in an educator's home to identify potential risks
 - 16.3. changes to licensing, including potentially changing the licence size, introducing a limit on the geographic radius in which a home-based network can operate and a ratio of educators to coordinators
17. **note** I will seek Cabinet agreement if there are financial implications arising from this work.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education

Appendix One: Case studies of home-based in practice in different communities and what the changes might mean for these families, educators and service providers

Scenario One - English educator working in Central Wellington

Status quo

She became an educator when her own children were pre-school age, because it enabled her to stay at home with her children longer than she otherwise would have been able to. She enjoyed being an educator so much she continued on after her children started school. She looks after four ECE-aged children who are not her own.

She charges \$10 per hour per child, except for 20 Hours ECE. She can charge these rates because the families she works with are all professionals with high incomes. She has to take a cut in her income for 20 Hours ECE – for these hours, parents pay no fees, and the service provider pays her \$5.50 per child per hour. She chooses her own hours and days, and currently works 27 hours a week. Being a self-employed contractor is really motivating for her – she thinks of herself as her own brand and thinks about strategies to grow her business.

She is an educator with a service provider with multiple licences and good infrastructure. The service provider is supporting her to complete her Level 4 ECE qualification by paying the course fees. The course is online, but she has no problems accessing and completing this because she has good literacy and is proficient with technology. She is in her early 30s.

She has worked with her coordinator for several years, who is a very experienced ECE teacher. She sees the coordinator twice a month in her home, because one of the children she looks after is part-time. Her coordinator oversees the education and care of 67 children and 22 educators. The service provider allocates 1 hour of visiting time per child per month.

The coordinator has to write up notes from each visit that are shared with the educator and the family through an online platform. Because educators are located across Wellington, the coordinator spends a lot of time driving between educators and will often write up notes in the car. The coordinator is always available to educators via telephone. The coordinator also oversees the monthly playgroup that the educator and children attend.

From this educator's perspective, the main problems with the home-based ECE system is the hit she has to take in her income for 20 Hours ECE and the level of administrative paperwork that she has to complete, for example, risk assessments for every outing.

What the changes will mean

Transparency of funding changes mean parents know how much government funding the service provider is collecting for their children, as the service provider must communicate this to parents on a regular basis.

Some parents question why their fees are so high given how much money the service provider is collecting from the government. The service provider has a communications booklet that explains how they use government funding and the point of difference their service offers. Ultimately parents decide to stay with the educator because they like her and the environment

she provides for their children. There are no changes in fees to parents or the educator's income.

Scenario Two - Two Tongan educators working in South Auckland for the same service provider

Status quo

The first educator is in her late 50s and Tongan is her native language. She can speak some English, but doesn't need to use it very often because the people she interacts with every day speak Tongan. She looks after three ECE-aged children: her grandchild, her brother's grandchild, and her sister's grandchild. She enjoys spending time with her grandchildren and instilling Christian values – she likes teaching the children bible stories and verses. The children's parents trust her and like that their culture is being passed on. She does not charge the parents for looking after their children.

The second is in her 20s and Tongan is her native language. She can communicate in English, but left school with no qualifications. She looks after three of her nieces and nephews. She likes the close connection with her family, but would like broader opportunities and doesn't want to remain an educator forever. She does not charge her siblings for looking after their children.

The service provider is a standalone service run by a Tongan-speaking, NZ-trained ECE teacher. There are two coordinators in the service – the service provider and another ECE teacher who speaks Samoan and Tongan. The educators are mainly Tongan, with a few Samoan educators. They are all in the same community and in a relatively small geographic radius.

The service does not belong to either of the home-based peak bodies. The service only has a licence for 9am to 3pm, Monday to Friday. The service provider pays educators \$3 per child per hour. This fee does not change with the child's age or when the child is eligible for 20 Hours ECE. The service provider provides groceries to educators on an ad hoc basis. The service provider also provides toys and equipment for the children (such as high chairs), which are sourced from TradeMe.

The service provider puts on a playgroup every Monday in a community hall, but this is limited to 12 children, which means that each educator attends one playgroup a month. The small number of children at the playgroup means the coordinators are able to observe educator practice and provide feedback. The coordinators visit their educators once a month and often take calls at night from educators. The service provider is enthusiastic about a level 4 qualification for educators, as she sees that it would provide a useful base knowledge for her educators and make it easier for her to influence their practice.

What the changes will mean

The signal that level 4 will become a requirement one day means that the service provider encourages her educators to enrol in the level 4. Those with good English and who are eligible for fees-free enrol. This is less than a quarter of the educators in the service, but includes the second educator above. The service provider and the other coordinator support these educators by holding study groups at night where they discuss the course work in Tongan and

help the educators to complete their assignments. Most educators do not have computers and some do not know how to use computers, so completing written assignments is challenging.

The second educator above completes her qualification in two years. Gaining a qualification improves her understanding of child development and improves the activities she does with her nieces and nephews. It also gives her confidence, which means she looks for work outside of her family and starts work in an ECE centre on minimum wage.

When the level 4 qualification is available in Tongan and Samoan, most of the educators in the service enrol in the qualification, including the first educator above. She qualifies for fees-free. The support offered by the service provider means they have a high pass rate. The first educator above is not able to complete the qualification. She continues to look after her young relatives, but no longer receives income for this.

The investment in supporting educators to complete the Level 4 qualification means that over time, the service provider is able to move to the quality rate. The quality of education at this service improves. Parents continue to pay no fees. Educators continue to earn \$3 per hour per child. The higher quality rate means that the service provider is able to buy higher quality equipment for children and to pay herself a higher salary.

Scenario Three – Chinese grandmother working as an educator in Hamilton

Status Quo

She is in her 60s and mandarin is her native language. Her son immigrated to New Zealand from China and he brought her to New Zealand on a family visa. She worked as an accountant in China and has high literacy in her own language, but does not speak any English. She does not qualify for NZ Superannuation, so the money she is paid by the service provider is her only income. Her son does not pay her for looking after his son. The service provider collects \$118.20 per week in government subsidy for this child, a small portion of which is passed on to the educator.

She looks after her grandson, who is two and a half. Both parents work full-time – as new immigrants, they feel they need to prove themselves and work hard for a better life. Their son was in an ECE centre, but they removed him when he was bitten on the face for the third time by another child. Their son is happier and more confident since he has been looked after by his grandmother for the last 6 months. A baby brother or sister is due soon, and he/she will be looked after by grandma too. They have peace of mind knowing that their child is safe while they are at work, which is not how they felt when he was at the ECE centre.

The service provider has a large number of Chinese grandmothers working as educators. It is a standalone service with two coordinators who are NZ European and who do not speak Mandarin. One of the coordinators recently bought the business. They employ a translator to support them to communicate with their educators.

The service has weekly playgroups, special outings every few months (e.g. to the zoo), and they celebrate Chinese cultural events, such as New Year, collectively. This involves driving many of the educators, who do not know how to drive. The educators and their families are

thankful for the funding from the government and the community that the service provider creates.

What the changes will mean

The service provider continues with its current business model of Chinese grandmothers while there is no requirement for minimum qualifications. The service provider looks to recruit qualified educators and to diversify into serving English-speaking communities, so that it can remain open when regulatory changes come into force.

The educator above continues in the current arrangement until regulatory changes are made. Once these are made, she can no longer continue as a home-based educator. She continues to look after her grandchildren but is not paid to do this.

Scenario Four – Somali educator working in Hamilton

Status quo

She is early 30s and Somali refugee. She arrived in New Zealand 8 years ago. She does not speak any English and is unable to read or write in Somali. She has three ECE-aged children and four school-aged children. She is closely connected with the Somali community and knows other Somali educators. She provides home-based ECE to her cousin's 2 year old daughter.

She does not charge her cousin fees. A small proportion of government funding is passed on to her. She receives \$1.50 per hour for her niece and provides home-based ECE for 30 hours a week. Her main form of income is a government benefit. The additional money earned as an educator supplements this income. Her niece has just turned two. When her niece was one she received \$4 per hour. She usually made around \$80 per week. Now that she makes \$45 per week she no longer has to worry about her benefit being affected by her income as an educator. The service provider has provided her with toys and a car seat, and has paid to install a safety gate.

The service provider has a large number of Somali educators with one NZ European coordinator overseeing them. The educators have varying English language proficiency, with the educators born in New Zealand being fluent and first generation educators having little to no English. Most speak English as a second language. The service provider hires a translator to accompany the coordinator on visits. Most of the educators are also receiving some form of government assistance. The service providers arrange fortnightly pay groups where she meets with other Somali educators. They often frequently socialise with each other outside of these playgroups.

What the changes will mean

The service provider has other networks with English speaking educators. The educator continues as a home-based educator until regulatory changes are made. She is unable to meet the language requirements to study and has never formally studied before.

When qualification requirements are introduced, the service provider loses the majority of its Somali educators. The educator above continues to care for her niece but no longer attracts

government funding. A small number of the New Zealand born Somali educators complete qualifications and are transferred to other licences made up of mostly New Zealand born educators. These educators continue to look after children in the Somali community and receive the same pass through from providers.

Scenario Five – Pākehā educator working in South Auckland

Status quo

She is early 30s and has four school-aged children. She lives with her husband who works full-time. Her youngest child has just started school. She has four ECE-aged children from 7.30am to 5pm, four days a week. Two of the children are just over 1 year old and the other two are about to turn three. She became a home-based educator when she had her first child. She saw home-based ECE as a way to supplement her income while being a stay-at-home mum.

She enjoyed the work and decided to study part-time towards a Level 4 ECE qualification. She has good literacy skills and found the qualification relatively straight forward. She completed the qualification a year ago and now receives a higher rate, per child per hour. The service provider requires all its educators to have at least two children for 6 hours per day. She sees home-based early childhood education as a long-term career.

She charges parents \$7 per hour and this is her main form of income. The service provider does not pass through any of the subsidy funding. She looks after the ECE-aged children while their parents are at work. She has an impressive collection of books and toys from the time when her own children were small. She purchases additional toys from time to time, and has just bought a new pram. She uses the IRD standard determination to offset the cost of these resources and reduce her taxable income. She also is able to claim for part of her rental costs. She tries to take the children out on trips once a week, their parents are charged for any costs associated with this.

It is important to her that she is home when her children come back from school. Her older children help out with the ECE-aged children and think of them like siblings. She has been looking after the same children for just over 6 months and they have become like part of the family. The children's parents like to know their children are safe and in a loving family home while they're at work. Her coordinator visits the children once a month, and she often sees the coordinator at weekly playgroups organised by the service provider. She is happy to operate independently and feels confident writing learning stories. She has made a number of friends through the weekly playgroups and they often catch up for play dates during the week.

What the changes will mean

She will be unaffected by the introduction of qualification requirements as she has already completed a qualification. She decides to switch to another service provider who is willing to give her a grant for resources and some annual leave days. Service providers are competing for existing educators who meet the qualification requirements. She will continue to charge parents but will also receive some pass through of the government subsidy from providers. Service providers now provide parents with more information on government funding.

Scenario Six – two Pākehā educators working in Tauranga for the same service provider

Status quo

Two educators who work for the same service provider in Tauranga. The first is in her late 40s or early 50s. She is a registered nurse with no ECE qualifications. She became an educator when her own children were ECE-aged, and stayed when her children started school. She has been an educator for 20 years now. She looks after nine different children over the course of the week.

The second is in her late 50s or early 60s and has been an educator for 38 years. She has no ECE qualifications, but has 100 points of a playcentre qualification and has completed two Level 3 ECE papers through the Open Polytechnic. She did the Open Polytechnic papers when she first started and government was going to require eight introduction to ECE papers. She never finished the qualification because the requirement for the 8 papers was removed. She works 7.30am to 6pm and usually has four children with her over the course of the day. She looks after 8 different children over the course of the week. This includes one child on a Saturday whose parents work in the retail sector as well as a number of pick-ups from kindergarten during the week.

Both educators like the flexibility of being able to choose who they work with. They enjoy the relationships with parents and children, which are maintained even after children start school. They consider their experience as educators and all of the professional development they have taken part in over the years is equivalent to a Level 4 qualification.

They set their own fees for parents. They charge parents between \$6 and \$7.50 per child per hour. If they know parents are struggling with money, they drop their prices for that family. They also provide discounts for siblings.

Their service provider collects the fees from parents. The service provider pays the educators the parental fees even if parents are late or default on payments – the service provider has responsibility for chasing up parents for fees. The service provider does not pay educators any of the ECE subsidy for under 2s or 2 and overs. For 20 Hours ECE, the service provider pays the educators \$6 per child per hour.

The service provider is a medium sized provider with multiple licences across Waikato, Bay of Plenty and Wellington. Its services include nannies and family caregivers in addition to educators working in their own homes.

The service provider provides regular professional development and evening workshops for educators. Their visiting teachers visit more than once a month because of the number of children the educators look after (visiting teachers must observe each child in the home once a month). One visit focuses on professional development and next steps, one visit involves going through photos and writing learning stories. The service provider also provides regular playgroups overseen by visiting teachers.

What the changes will mean

Both educators are very reluctant to enrol in the Level 4 qualification. Their service provider is keen to keep them as educators, because they have a proven track record and are committed to the industry. The service provider looks into whether there are processes that could recognise these educators' existing skills and experience to eliminate the need for the qualification. Some tertiary providers offer recognition of prior learning (RPL), but only for up to half of the course. The price of RPL and the remainder of the course is the same as doing the full course.

Although the educators resent the time and cost of undertaking study, the service provider convinces the educators to undertake RPL and the remainder of the course. The service provider pays half of the cost of RPL and the course, the educators must pay for the other half. Their experience means that they already know at least half of the course content. They complete the other half of the qualification, which takes them six to eight months to complete. About half of the course content is information they are already familiar with, the other half is new information. The new information enhances their practice – they are better able to recognise children's development and learning milestones.

While they are studying, they cut back their hours, which means they work with fewer children and families. Once they have completed their study, they go back to the same hours as before. Their income remains the same.