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# **Review of Funding Systems**

# **Background paper for Advisory Group**

**Child based funding in Early Childhood Education**

10 June 2016

Child based funding in Early Childhood Education

Introduction

The funding model we are exploring through the Review of Funding Systems (the Review) comprises a standard per-child funding amount together with additional funding for children and young people who are at risk of educational under-achievement.

The purpose of this paper is to examine moving the ECE Subsidy from being child place based to be child based, the same basis as the 20 Hours ECE subsidy.

In this paper we outline the current funding arrangements, set out specific objectives in relation to per-child funding for ECE and explore the implications of the proposed change.

Current funding arrangements in Early Childhood Education

The Ministry of Education (the Ministry) provides a number of subsidies to ECE services to reduce costs for families. The two largest funding streams in the ECE system are the subsidies that provide 30 subsidised hours per week for all children aged 0-5 years (the ECE Subsidy) and 20 subsidised hours per week for children aged 3-5 years (20 Hours ECE). So that all children aged five or under are able to access a total of 30 subsidised hours per week, children receiving 20 Hours ECE are eligible for a top up of 10 additional hours at the ECE Subsidy rate.

Currently, all funding paid for the ECE Subsidy is paid on the basis of a child place which can be shared by more than one child. It was designed in the late 1980s largely with funding certainty for providers in mind. While consumption of the ECE Subsidy at any one service is limited to 30 hours per week per child place (maximum of six hours in any one day), there is no restriction on the number of subsidised hours a child may receive if they attend more than one service or attend a service which holds more than one licence.

In contrast, 20 Hours ECE is paid on a per child basis and was designed largely to support increased child participation. Funding is attached to each eligible child’s enrolment, rather than to a licensed child place.

Problem definition

The overall objective of the Review is:

* to direct funding to the size of the education challenge ECE services, schools and Communities of Learning face rather than the size of their rolls and the cost of their inputs, and
* to shift the focus to growing the learning and achievement of all children and young people, and particularly those most at risk.

In relation to these two objectives:

* at present it is difficult to identify what is spent on each child. This is inconsistent with the increased focus of Government as it moves towards more individualised and tailored funding approaches across all areas.
* the ECE funding system has limited mechanisms to target ECE funding towards specific groups, for example those who benefit most from ECE participation, or mechanisms that would allow the Government to exercise greater discretion of funding should this be required. This has been an area of increasing interest for the Government as it moves towards funding mechanisms that can focus investment to where there are the greatest benefits and needs.

In addition, having both child place based and child based funding creates complexity for both the Ministry and early learning services (along with a range of other complexities).

The lack of clarity around the Government’s commitment to fund up to 30 hours of early learning per child per week creates other issues:

* Child place based funding was designed to support funding certainty for providers to a greater extent than is now required. While funding certainty is still recognised as important, changes in ECE sector over the last ten years, including the increase in participation levels, means that the level of funding certainty previously sought is no longer as important.
* The funding system is not transparent for either the Government or parents.
* Creating additional unnecessary expenditure, and incentives for a small number of services to potentially operate in ways designed to gain maximum financial advantage from funding rules.

Overview of proposed direction for change

A direction for change being explored is moving the ECE Subsidy from being child place based to being child based. This would mean changing the funding rules for the ECE Subsidy to allow the funding for this subsidy to be provided for up to a maximum of 30 hours per child per week. The main objectives of the proposed change are:

* to better position the funding system for ECE to be able to invest in children instead of institutions, as well as better support children most at risk of educational under-achievement
* to reduce system complexity, and
* to clarify the Government’s intent to provide 30 subsidised hours of early learning per child per week across all types of education and care (with 20 Hours ECE continuing to be funded at a higher rate for children aged 3-5).

The proposal to make the ECE Subsidy child based aligns with the principles of the broader Review. It would position the funding system to be more efficient, equitable, transparent, certain and accountable.

*Questions for discussion*

*What are your overall reactions and reflections on the proposal? Are there other options that we should consider?*

*How would you expect providers and parents more generally to react to this proposed change?*

Previous consultation

Moving to fully child based funding was discussed with the Sector Advisory Group on ECE Funding (SAGECEF) in 2012/13 when it was first raised as an option. The majority of SAGECEF were supportive of the change because it was seen as fairer to link the amount of weekly subsidy to the child.