

WHAT HAPPENS IN EARLY CHILDHOOD MATTERS FOR A LIFETIME



MEASURING AND IMPROVING STATE SECTOR PRODUCTIVITY - ISSUES PAPER FOR CONSULTATION

INTRODUCTION

New Zealand Kindergartens Te Pūtahi Kura Puhou o Aotearoa (NZK) welcomes the opportunity to comment on the Measuring and Improving State Sector Productivity issues paper (July 2017).

ABOUT US

NZK is the umbrella organisation representing 25 regional kindergarten associations and 448 kindergartens and early childhood education (ECE) services (15% of ECE services). Kindergartens in the NZK network provide ECE services for more than 21,000 enrolled children as well as support for their families and whānau. Kindergartens are 'teacher-led' services employing 100% qualified and registered teachers. NZK and our member associations are community-based, not-for-profit incorporated societies.

OUR APPROACH TO THIS SUBMISSION

Although new spending and specific programmes are examined in detail as part of Government's annual budget process, the same level of scrutiny is not always given to "core" spending, which is often a larger volume of funding, but can simply be rolled over each year in the budget - *Issues paper p2*

We agree it is timely to look at the government's core spending. We welcome the opportunity to focus on 'inputs and outputs' which in the ECE sector means government funding (input) and 96.7% of children prior to starting school attending ECE, particularly in priority communities (output). On this measure the ECE sector has performed well given the 4.5% increase in the participation rate of Māori children and the 6.9% for Pasifika children over the past five years while government funding per child hour remained static.¹ This is on top of a significant funding cut to the sector in 2011, the impact of which on kindergarten being a 14% reduction in overall funding.

¹ Overall funding to the sector has increased to meet increased participation. The hourly rate paid per child per hour in kindergarten is lower than it was in July 2008.



We contend that although government funding has resulted in increased participation the optimum outcomes for children have yet to be realised across the ECE sector. We believe the investment needs to be increased to enhance the quality of ECE and conditions put in place for the receipt of public funding to ensure it is directed to teaching and learning.

We present comment on key aspects of the paper rather than respond to specific questions. Our comments relate to:

- current funding to ECE
- efficient and effective stewardship
- challenges in measuring productivity

THE BEST 'BANG' FOR THE GOVERNMENT'S 'BUCK'

Technical efficiency requires the government to get the best value possible for each dollar it spends on core funding. The government currently spends \$1.8b on ECE funding per year. In the 2014/15 year it spent \$1.2b on ECE entitlement funding and equity funding. The government is investing in the almost 200,000 children enrolled in an ECE service (one in five children across the education system). However, the nature of the sector means not all government funding supports teaching and learning to optimise the benefits/outcomes of ECE. A significant portion goes to ECE business owners and investors in the for-profit sector.

ECE is seen as an investment opportunity with good return. This means the service provider's first duty is to shareholders not to children and families which is the government and public's primary interest.

To illustrate this point, of the \$1.2b in 2014/15 year 73% or almost \$900m of this funding went to for-profit education and care services and home-based services which make up 46% of all ECE services. These service providers are motivated at least in part by making a profit for their owners and shareholders.² ECE services are promoted as a great investment:

'A worthwhile profitable enterprise ... Childcare centres can make good money, very good money.'³

'I'd urge anyone looking for a solid commercial investment at a relatively affordable price to consider an early childhood education centre. The risks are low and the benefits can be tremendous.'⁴

'The sector is viewed as more stable than other asset classes given the strength of the generally long-term leases, strong government funding and New Zealand's relatively high childcare participation rate.'⁵

If an investor received a 10% return⁶ that is \$90m of public funds diverted from children's learning. It is untenable for the government to continue to allow public funds to be diverted for personal gain.

² Figures provided by ECE Analysis, Ministry of Education.

³ Link Corporate. *Childcare centres. A worthwhile profitable enterprise*. Linkbusiness.co.nz

⁴ NZ Herald. *Childcare centres a growth investment*. 5 July 2017, B10

⁵ Property Managers. *PMG offer invests in the next generation of Kiwis*. Press release. 10 July 2017

⁶ The Balance. Business ownership, including stocks. <https://www.thebalance.com/good-rate-roi-357326>



There is a stark example provided in a recent media release from BusinessDesk about *Evolve Education*, which owns 126 ECE services in New Zealand.

Last week, the Auckland-based company said it expects net profit of between \$14 million and \$15 million in the year ending March 31, 2018, down from \$15.9 million a year earlier. Evolve forecasts first half profit of \$7 million, down 14 percent from a year earlier, due to lower occupancy rates than a year earlier, and excluding the impact of more public holidays falling on revenue generating days and early trading losses from its development programme. Chair Alistair Ryan said last week that the result was disappointing "and it is fair to say we have been slow to react, but also fair to say that we are now in full response mode and are confident we can turn this around in the second half."⁷

Although *Evolve Education* shareholders had expectations of even greater profits, for the community-based ECE sector a profit of \$14 to \$15 million extracted from 126 services seems extraordinary. That equates to almost \$120,000 per centre. We question the ability of *Evolve Education* to make a profit solely on parent fees when the government proportion of ECE funding for 3-5 year-olds is 86% on average.⁸ It is clearly relying on significant funding from government to boost its profits at the expense of children's education.

There are currently no restrictions on the use of government funding. Section 311(5)(b) of the Education Act 1989 states the grant (ECE funding subsidy) 'may be paid to be used for any purpose the service provider considers appropriate, or for only such purposes as the Minister specifies in writing when the grant is paid or earlier'.

It is clear from media reports that investment companies see ECE as a growth sector, notably in areas where there is pressure on housing costs which 'necessitate dual income families.'⁹ This will continue to be the imperative rather than realising the benefits of children participating in high quality ECE. It is likely these services will be in areas where parents can afford to pay rather than in communities with fewer resources. The government's focus to lift achievement and success in the system for priority learners could be undermined and the outcomes will fail to be met.

The research shows the critical structural inputs to ensure high quality ECE are child:adult ratios, qualifications of staff and group size. To maximise the benefits of public investment in ECE there must be conditions for the receipt of public funds. For teacher-led services, improved ratios, 100% qualified and registered teachers, smaller group sizes and ongoing support and development for teachers and quality service delivery are key.

This can be achieved through changes to s311 of the Act and elsewhere in the ECE regulatory framework. The government as purchaser of ECE hours can determine the conditions it believes appropriate for the receipt and use of that funding. Competition is such in the sector, that providers would either accept those conditions or not.

Where these elements are in play, the quality of the service is likely to be higher and the benefits for children greater in the short and long term.

⁷ BusinessDesk. *Evolve CEO Alan Wham quits after profit warning*. Media article. 25 August 2017

⁸ Ministry of Education. *How does New Zealand's education system compare? OECD's education at a glance 2016*. Wellington.

⁹ NZ Herald. *Childcare centres a growth investment*. 5 July 2017, B10



The OECD states:

High quality ECEC settings can have profoundly positive impacts during the most sensitive early phase of children's development and learning. Access to high quality ECEC settings can play a part in reducing social inequities. High quality, accessible ECEC settings can enhance women's opportunities for employment, improve gender equity and reduce social risk and family poverty.¹⁰

EFFICIENT AND EFFECTIVE STEWARDSHIP

The efficiency of the education system is heavily influenced by the agencies that regulate and fund education services. Service providers need to operate within an effective and responsive education operating environment to be as efficient as possible themselves. Our experience suggests this is not always the case.

For example, the Ministry of Education is responsible for implementing a range of government policies including Communities of Learning | Kāhui Ako, requirements of the Vulnerable Children Act 2014 and the update of learning support for children with additional learning needs. The ministry's focus externally is on the developmental years 0 - 18 and designing a coherent education pathway for all learners. However, our experience at a national level is that officials often work in silos and may not be able to articulate how their projects intersect with or have implications for other ministry teams' work. At a local level we often experience conflicting advice from ministry advisors. In our context, regional associations cross agency boundaries and they are often caught with conflicting advice or requirements from the same agency but operating in different regions. We may also need to find solutions or fixes to issues created by poor design and/or implementation of ministry policy. This is not effective stewardship.

We think it timely to test the competence of our system, policy and practice to ensure agencies effectively support and lead the education system as a whole.

MEASURING PRODUCTIVITY IN THE ECE SECTOR

The issues paper focuses mainly on schooling within the education system. The ECE sector is significantly more complex than the compulsory sector with almost double the number of services, a diverse range of services catering for diverse age ranges, services that are parent or teacher-led, and a mix of for-profit and not-for-profit services.

Children's learning does not progress evenly across a cohort or individually. Their rate of development rates varies greatly for example, some children may be socially competent at four years old yet their cognitive skills may still be in very early development. The way in which learning occurs means periods of learning are punctuated by plateaus. This is complicated by differences in learning prior to attending ECE - not every child starts at the same place. Some children may be enrolled in ECE as a six-month old and others, just before they start school. Children spend differing amounts of time attending ECE depending on their whānau circumstances and the quality of those ECE services may vary. These factors make comparisons of children's learning progressions challenging.

¹⁰ OECD. *Early learning and development: common undertakings*. Network on Early Childhood Education and Care. 2015, p5



The variety of ECE services types creates a complex environment in which to measure productivity. In New Zealand there are community-based kindergartens, not-for-profit and for-profit education and care services and home-based services, playcentre, and ngā kohanga reo. Education and care services and kindergartens receive more funding than either home-based services or whānau and parent led services namely because they are teacher-led services. Regulatory requirements also vary among the service types, affecting inputs such as ratios and the number of qualified teachers.

The level of contribution from whānau and communities varies significantly according to service, location and family circumstance. Most education and care services charge parents fees, some kindergartens charge a small fee ¹¹ but most ask for contributions or donations. Community-based services also often receive significant in-kind contributions through donated time on committee or governance boards for example, and services.

Measuring co-payments is complicated for ECE given the variations in the financial and in-kind contributions made depending on service type. Measuring productivity in the ECE sector requires a nuanced approach when considering co-payment and the role of in-kind contributions from whānau and communities needs to be acknowledged. If the complexities are ignored or minimised measurement becomes meaningless.

CONCLUSION

We contend that although government funding (input) has resulted in increased participation (output) the optimum outcomes for children have yet to be realised across the ECE sector. We recommend the investment needs to be increased to enhance the quality of ECE across the sector and conditions put in place for the receipt of public funding to ensure it is directed to teaching and learning. We further think it timely to test the competence of our system, policy and practice to ensure agencies effectively support and lead the education system as a whole.

We would welcome the opportunity to meet with the commission to present our submission.

Ngā mihi

A handwritten signature in blue ink, appearing to read 'Clare Wells', written in a cursive style.

Clare Wells
Chief Executive

¹¹ For children who attend beyond 20 hours each week if three years or older, or under three year olds, or where children's hours have been attested elsewhere.