

The Increasing Gap between ECE costs and funding

Summary

Budget 2025's 0.5% cost adjustment falls significantly short of covering government-mandated wage increases under Pay Parity, let alone the increased cost of doing business, placing Early Childhood Education (ECE) services under severe financial strain.

The funding gap is already resulting in significant funding shortfalls, in turn increasing parent fees, sector instability, significant closures, and reduced child participation. These impacts disproportionately impact working families and vulnerable communities.

We urge the Government to urgently address this mismatch and avoid the serious unintended consequences of Budget 2025 to prevent the closure of centres, increased costs for parents, and ultimately ensure that every New Zealand child can access quality early childhood education.

We are asking the Government to consider one or more of the following measures, until the Funding Review is complete, and the fundamental costs and funding mechanisms can be thoroughly interrogated:

- Consider utilising the underspend in Family Boost to increase the ECE grant rates to avoid significant fee increase
- Increase the ECE cost adjustment to enable balance between parent and government contribution towards ECE costs
- Consider other levers within the funding system that balances the cost between all stakeholders

Analysis Overview

Analysis of **503 private and community-based ECE services** has been completed based on wage increase and modest operating expense data compared to 0.5% funding increase¹. This analysis reveals:

- Total funding shortfall of \$104 million when extrapolated across the sector. Average per centre **shortfall of ~\$41,000** (range \$15,000-\$167,000)
- A realistic 3% parent fee increase would **only cover 21% of the shortfall**, on average.
- Parents in low-fee centres face the greatest difficulty, where the government subsidy makes up a larger proportion of the service's revenue.
- One multi-site provider expects **a quarter of its services to close** and is evaluating sustained viability. Another provider would have **10 services at risk of closure**, impacting approx. 628 children and their families.
- **Loss of workforce participation**, especially for women, as ECE becomes unaffordable for families
- **Teacher attrition**, as services close or reduce operating hours

¹ See appendix for tables

- Many of the services tagged for closures are in the most vulnerable or rural towns and suburbs. ECE centres in this analysis identified for possible closure are located in:
 - Northland
 - South and East Auckland
 - Waikato
 - Taranaki
 - Hawkes Bay
 - Bay of Plenty
 - Manawatū
 - Tasman
 - Canterbury
 - North Otago

The Role of Government in ECE

Funding ECE has long been seen as a partnership between the government and parents. Previous National Governments made substantial investments in participation programmes and incentives to meet their target of 98% of children attending ECE.

Budget 2025 effectively shifts the cost of government-mandated wage increases entirely onto families.

The Core Problem

The average increase in the salaries of certificated teachers moving up a Step under Pay Parity obligations will be in the range 5.4% to 6.0% in 2025.

Meanwhile, Budget 2025 delivers just a **0.5% cost adjustment**. **Other operational costs increase by 3-4%**, including leases and utilities. Due to regulatory and quality learning requirements, there are limited alternative levers to absorb cost.

"We're being asked to implement wage increases mandated by government policy, with no matching funding. The gap is now too large to absorb without passing costs directly to parents that we know they can't afford. For services where parents pay low fees in rural and vulnerable communities, we'll have no option but to close them."

— ECE Provider

Insight into System Failure

Most ECE services are single-site family-owned operators unable to absorb the financial strain. Based on a 15% closure rate, **400 services may shut within the next year**. If Budget 2026 continues on this path, this number will grow.

Large providers are receiving **unprecedented approaches to buy family-owned services** as they face financial hardship, even before the impacts of Budget 2025 materialise.

Most of those centres at risk of closure have strong occupancy rates, so closure cannot be attributed to poor enrolment. Low-fee services are most vulnerable to closure and will impact the most vulnerable families.

Risks, Equity and Workforce Impacts

Without action, the Budget 2025 settings will likely trigger:

- **Reduced child participation** as parents withdraw due to unaffordable fees
- **Record centre closures**, particularly in low-fee and rural communities
- **Loss of workforce participation**, especially for women
- **Teacher attrition**, as services close or reduce operating hours
- **Disruption from parents**, as services explain the reason for significant fee increases
- **Investment in ECE will decline**, as Kiwi investors consider unsustainable financial conditions and destabilising government policies.

These outcomes will erode decades of investment in early learning, with long-term consequences for education, equity, and economic productivity.

Equity Consequences

Services with no or low fees, often supporting our most at-risk children, rely on government subsidies for **75–90%** of their income. These services have **no viable mechanism** to recover the costs and are entirely reliant on adequate government funding to meet mandated obligations.

This creates a two-tiered system where:

- High-fee services can charge more to cover costs
- Low-fee services or regional services collapse under the pressure

Medium to high-fee services are already heavily discounting to maintain current enrolment levels. Passing on fee increases required to meet the shortfall is unfeasible.

“This is not about profit. It’s about survival - and ensuring children have a place to learn, grow, and thrive. We are sometimes the only service in a small town. Where will those children go, and what will parents do so they can go to work?”

- ECE provider

As an example, one large community-based provider faces a **shortfall of \$350,000** in the next year. This organisation has low-fee and no-fee services, like teen parent units. They are unable to recoup the shortfall through parent fees.

One multi-service provider faces a **\$3.3m shortfall**.

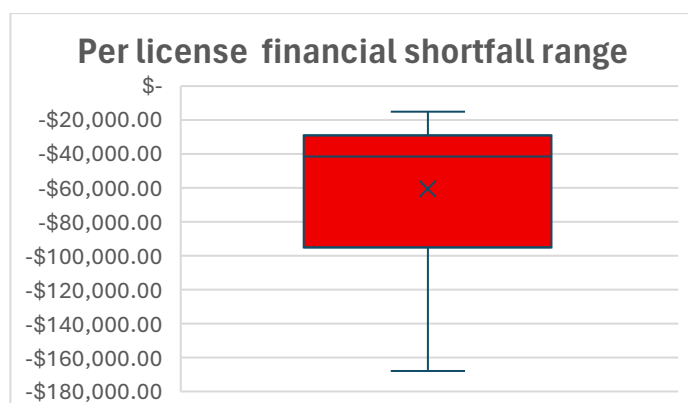
Be it community-based or private provision, many multi-service organisations utilise their scale to support services in vulnerable communities that otherwise could not continue to operate on their own.

Appendix

Analysis of **503 private and community-based ECE services.**

Education & Care services	503
Annual increase in certificated teacher wages	\$ 11,336,421.77
Other wage increases	\$ 3,711,783.34
Kiwisaver increase with additional 0.5%	1,637,514.47
Total wage increases	\$ 16,685,719.58
Operating expenses increase (leases, utilities, food)	\$ 6,967,288.89
<i>MOE funding increase at 0.5%</i>	<i>\$ 2,839,530.38</i>
Shortfall	-\$ 20,813,478.09

Figures exclude homebased services



The full pay parity scale ensures a salary increase of between 3.5% and 7.3%. The average salary increase can reliably be considered around 6%, considering a weighted average, as more teachers in the sector are on higher steps. Kaiako move up a step every year/2080 hours provided they continue to meet their registration standards.

Step	Full Parity Salary Scale (\$)	% increase
Step 1	\$ 57,358.00	
Step 2	\$ 59,544.00	3.8%
Step 3	\$ 61,948.00	4.0%
Step 4	\$ 64,133.00	3.5%
Step 5	\$ 67,794.00	5.7%
Step 6	\$ 71,869.00	6.0%
Step 7	\$ 76,261.00	6.1%
Step 8	\$ 81,566.00	7.0%
Step 9	\$ 85,915.00	5.3%
Step 10	\$ 92,175.00	7.3%
Step 11	\$ 96,820.00	5.0%
Management	\$ 101,120.00	