



Proactive Release

The following documents have been proactively released by the Department of the Prime Minister and Cabinet (DPMC), and the Child Wellbeing and Poverty Reduction Group (CWPRG) on behalf of Hon Jan Tinetti, Minister for Child Poverty Reduction:

Proactive Release: Supporting child wellbeing by improving childcare affordability and enhancing social and emotional learning

The following documents have been included in this release:

- **Title of paper:** Supporting child wellbeing by improving childcare affordability and enhancing social and emotional learning (SWC-22-SUB-0185)
- **Title of minute:** Supporting child wellbeing by improving childcare affordability and enhancing social and emotional learning (SWC-22-MIN-0185)
- **Title of minute:** Supporting child wellbeing by enhancing social and emotional learning (CAB-22-MIN-0473)

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant section of the Act that would apply has been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to redaction codes:

- S9(2)(a) protect the privacy of natural persons, including that of deceased natural persons;
- S9(2)(f)(iv) maintain the constitutional convention protecting the confidentiality of advice tendered by Ministers and officials.

Office of the Prime Minister

Office of the Minister for Social Development and Employment

Office of the Associate Minister of Education

Cabinet Social Wellbeing Committee

Supporting child wellbeing by improving childcare affordability and enhancing social and emotional learning

- 1 This paper seeks agreement to fund two proposals:
 - the Prime Minister and Minister for Social Development and Employment are seeking Cabinet approval to increase the income thresholds for the Childcare Subsidy and the Out of School Care and Recreation (OSCAR) Subsidy to account for wage growth since September 2010 (at an estimated cost of \$7.788m in 2022/23 and \$189.391m in total from 2023/24 to 2026/27 and then outyears at a cost of \$48.563m per year)
 - the Prime Minister and the Associate Minister of Education are seeking Cabinet approval to commit \$19.7m over four years from the Prime Minister's Emerging Priorities Fund to fund an expansion of the ENGAGE programme, which is focused on the social and emotional learning of children in their early years.

Relation to government priorities

- 2 One of the Government's priorities is laying the foundations for the future. A critical part of that is reducing child poverty and improving child wellbeing. The Government is committed to addressing this through the Child and Youth Wellbeing Strategy (the Strategy), which sets out a shared understanding of what children and young people need and want in order to flourish, and what is needed to support them.
- 3 The changes proposed in this paper contribute to the welfare overhaul work programme, which seeks to ensure people have an adequate income and standard of living, are treated with and can live in dignity, and are able to participate meaningfully in their communities. The welfare overhaul also plays an important role in supporting our economic recovery through a focus on employment, upskilling and training and contributes significantly to our commitment to reducing child poverty.
- 4 The changes in this paper also contribute to the Early Learning Action Plan 2019-2029 objectives and to the Government's wider work to strengthen curriculum, progress and achievement, including the Government's Literacy and Communication and Maths Strategy.
- 5 Improving child wellbeing is an area of cooperation under the Cooperation Agreement between The New Zealand Labour Party and The Green Party Of Aotearoa NZ (agreed on 31 October 2020).

Executive Summary

- 6 The Budget 2023 Strategy has identified child wellbeing – reducing child poverty and improving child wellbeing as one of five priorities [CAB-22-MIN-0368 refers]. Investing in child wellbeing – by ensuring more families are able to afford childcare, and ensuring the quality of early learning and care continues to be enhanced – helps lay the foundations for the future.
- 7 We are seeking Cabinet agreement to two, inter-linked proposals that aim to further lift child wellbeing outcomes by enabling more low- and middle-income families to get additional assistance with childcare costs, and funding a program to support social and emotional learning of children in their early years.
- 8 The proposed package will support child wellbeing and reduce child hardship by helping to ensure early childhood education and after school care is more affordable for low and middle income families. This will help reduce some of the cost-of-living pressures faced by families at a critical time, thereby reducing the number of children experiencing material hardship. It will also support greater parental workforce participation and training.
- 9 This package of initiatives is underpinned by strong evidence showing that participation in high quality early childhood education is likely to deliver cognitive and socio-emotional benefits to children, particularly for children from lower socio-economic backgrounds. This in turn can help support child and youth wellbeing outcomes across the life course.
- 10 Under the first proposal, the Prime Minister and Minister for Social Development and Employment are seeking Cabinet approval to increase (at an estimated cost of \$7.788m in 2022/23 and \$189.391m in total from 2023/24 to 2026/27 and then outyears at a cost of \$48.563m per year) the income thresholds for the Childcare Subsidy and the Out of School Care and Recreation (OSCAR) Subsidy to account for wage growth since 2010 when income thresholds were frozen by a previous National Government, as a pre-commitment against Budget 2023.
- 11 Under the second proposal, the Prime Minister and the Associate Minister of Education are seeking Cabinet approval to commit \$19.7m over four years from the Prime Minister’s Emerging Priorities Fund, to fund an expansion of the ENGAGE programme, which is focused on the social and emotional learning (SEL) of children in their early years.

Background

- 12 The vision of Child and Youth Wellbeing Strategy is that “New Zealand is the best place in the world for children and young people.” The Strategy is underpinned by ambitious ten-year child poverty reduction targets that aim to more than halve child poverty rates within ten years.
- 13 Since we came into government, we have been working to improve outcomes for families with children. We have had an ambitious programme of work to reduce child poverty, which has included a \$5.5 billion Families Package, the indexation of main benefits to wages, successive benefit increases, and increases to Working for Families

(WFF) payments. All of these initiatives have provided significant and immediate improvements to the living standards of low-income families in New Zealand.

- 14 We have also had a strong focus on supporting employment and the labour market participation of families with children by extending paid parental leave to 26 weeks, lifting the minimum wage, and supporting people into study and training. We have reinstated the Training Incentive Allowance so that sole parents on benefits, and disabled people can gain higher qualifications that lead to better jobs and incomes, and better outcomes for their families and whānau.
- 15 We are committed to making significant changes to childcare and early learning. As part of this, we are reviewing Childcare Assistance, with the aim of increasing participation in early childhood education, improving settings from a child wellbeing perspective, and supporting the labour force participation of low-and middle-income families by helping with childcare costs.
- 16 The proposals in this paper aim to make early progress towards supporting low-income families with children with childcare costs, supporting families in hardship, and supporting the wellbeing of children in their early years. By taking early action now, we can respond to the increasing financial pressure and hardship that many families are experiencing due to costs of living increasing, and support working families. The proposals also support social and emotional learning for children in their early years, to support wider and long-term wellbeing outcomes for children.
- 17 Further changes to better support parents into employment and training by improving access and support for childcare are being considered as part of Budget 2023, in addition to WFF reform and other initiatives that will focus on the cost of living and supporting low to middle-income families.

Proposal 1: Reducing hardship for families with children by increasing income thresholds for the Childcare and OSCAR Subsidies

- 18 Under this proposal, we (the Prime Minister and Minister for Social Development and Employment) are seeking Cabinet approval to increase the income thresholds for the Childcare Subsidy (CCS) and the Out of School Care and Recreation (OSCAR) Subsidy by adjusting for wage growth since September 2010. Both subsidies aim to reduce the costs of childcare for low- to middle-income families to support parents into work, education and training. Due to the previous National Government cutting and freezing income thresholds in 2010, fewer low-income and most middle-income working families have been eligible for these subsidies.
- 19 CCS is available for families with children under 5 years to attend approved preschool childcare. The OSCAR Subsidy is available for families with children aged 5 and up to 14 years (or up to 18 years if they receive Child Disability Allowance) to attend before- and after-school care, and school holiday programmes. Both subsidies are paid directly to providers.
- 20 Our Government is committed to supporting families into employment and ensuring childcare costs are not a barrier to this. We took a first step towards addressing issues with Childcare Assistance in Budget 2021, by indexing payments to average wage growth from April 2022 onwards. Increasing the income thresholds is one of the next

steps of the Review of Childcare Assistance (the Review) that is currently underway as part of the Government's welfare overhaul work programme.

- 21 A previous National Government introduced a new lower income threshold for Childcare Assistance in 2016, which provided a higher rate of subsidy to families on the lowest incomes. As with the other income thresholds, this was not indexed and over time eligibility for this higher rate of support has eroded. We are proposing to index this income threshold to wage growth from its introduction.
- 22 This proposal will increase income thresholds for both the Childcare Subsidy and the OSCAR Subsidy. Maintaining the same income thresholds for both of these subsidies ensures that parents retain support as their children move from ECE to school. Fees for OSCAR services are similar to those charged by ECE centres. This means that the costs of childcare for families of school-aged children can be almost as high as for younger children, particularly for parents in full-time work. It is not possible to amend the thresholds to have different levels of eligibility without amending primary legislation.
- 23 Through the Review, the Government is focused on improving the childcare assistance delivered by the Ministry of Social Development (MSD) to support the labour force participation of low-and middle-income families that have childcare costs and reduce financial barriers for parents entering work or further training. This work was brought forward from the long-term welfare overhaul work programme to be considered alongside the Review of WFF tax credits, as both reviews include a focus on improving support for working parents. The WFF Review includes a strand of advice focused on assisting with the costs of children in the early years.
- 24 Other work underway in the Review includes simplifying access to Childcare Assistance through s9(2)(f)(iv) [REDACTED] expanding Flexible Childcare Assistance and increasing the Oranga Tamariki Early Learning Payment.
- 25 We consider that it is necessary to make further changes now to help low and middle-income parents access childcare, particularly in the current environment of high living costs. Therefore, we seek a Budget 2023 pre-commitment for this proposal.
- 26 Decisions on further investment will be made by Income Support Ministers later this year, and the Minister for Social Development and Employment will continue work to develop a package of changes to support parents into work and training and submit further Budget 2023 proposals, if invited.

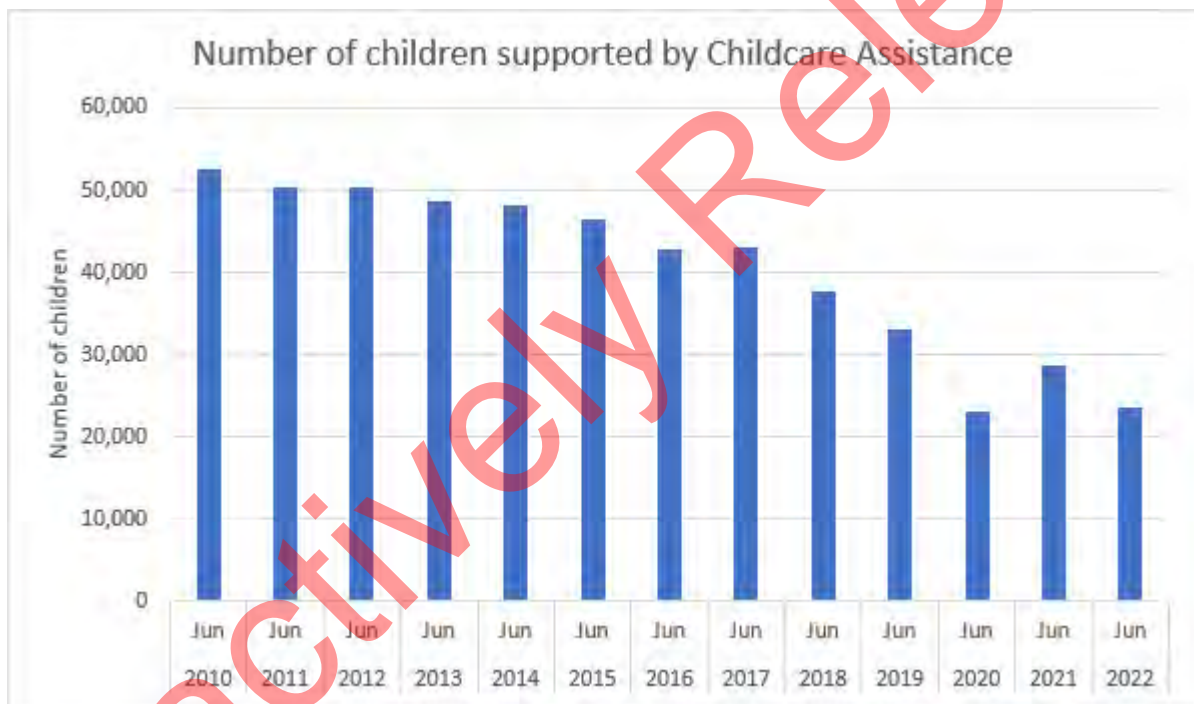
Eligibility for the Childcare Subsidy and OSCAR Subsidy is decreasing

- 27 As noted above, the freezing of the current income thresholds by the previous National Government mean that some low-income and most middle-income working families are not eligible for the subsidies and eligibility has continued to reduce over time.
- 28 Receipt of the Childcare Subsidy has fallen fastest amongst non-beneficiaries, from 20,000 to 10,000 over the last five years. The number of Sole Parent Support

beneficiaries in receipt of the Childcare Subsidy has also fallen from about 10,000 to 7,000.

- 29 The number of people receiving the OSCAR Subsidy has also fallen from when recipient numbers peaked in 2014 with an average of 11,640 per month, to an average of 6,610 per month in 2021.
- 30 The average income of a couple with two children would have qualified them for the highest subsidy rate between 2007-2010, but due to the cut and freeze of thresholds, they would not qualify for any subsidy in 2022. A couple with two children working 60 hours on a low wage would have qualified for the highest subsidy rate over most of the same time period, however, this is no longer the case in recent years as a result of the decision to freeze income thresholds. The number of children supported by Childcare Assistance since the freeze and cut in 2010 has more than halved, from 52,576 in June 2010 to 23,481 in June 2022.

Figure 1: Number of children receiving Childcare Assistance as at end of June between 2010 – 2022



Cost and affordability are major factors in accessing childcare support

- 31 Recent research¹ indicates Māori and Pacific families are two or three times more likely to experience issues accessing childcare than Pākehā families. Cost was cited as a major factor, particularly for Pacific parents. In general, more disadvantaged families, particularly those with low incomes, have more persistent issues with access to childcare.
- 32 MSD updated OECD analysis,² using data from 2021, to see how New Zealand ranks compared to other OECD countries. These results show that New Zealand’s childcare

¹ <https://www.growingup.co.nz/growing-reports>

² OECD Data, available at <https://data.oecd.org/benwage/net-childcare-costs.htm>

costs as a percentage of the average wage have increased considerably since 2018 and New Zealand ranks as one of the most unaffordable countries for childcare in the OECD. This is particularly true for middle-income families. The costs of childcare as a percentage of average wage are shown in the graph below.

Figure 2: Childcare costs as a percentage of average wage (2021 or latest year available)



- 33 There is currently limited information available about the fees that ECE services charge to parents. The Stats NZ Childcare Survey was last conducted in 2017, and this showed the average childcare costs of \$5.05 per hour (net of childcare subsidies).
- 34 Since 20 hours ECE was introduced in 2007, ECE inflation has outpaced general inflation, which means costs are likely to have risen since the 2017 survey. Fees data from a sample of ECE providers around the country³ shows a wide variability in the per hour cost of childcare.

Increasing income thresholds will increase access to childcare and reduce financial barriers to work

- 35 The changes proposed to increase income thresholds in order to make up for the previous National Government freezing thresholds will expand eligibility for these subsidies and improve the affordability of childcare for many low and middle-income families by enabling them to access the subsidies or moving them to a higher rate of subsidy.
- 36 It is estimated that this proposal will mean that the parents of approximately 7,400 additional children will be eligible for the Childcare Subsidy and 2,900 additional children will be eligible for the OSCAR Subsidy in 2023/24,⁴ an overall increase of 36%. This will have an estimated fiscal cost of \$44.646m in 2023/24.

³ Sample data gathered by MSD based on ECE providers which publish fees information online. Does not include fees charged by Kohanga Reo and Pasifika ECE providers.
⁴ Number of additional children are calculated on average over a month.

- 37 Under the proposed changes, coverage of parents would increase substantially. The rates of coverage for sole parents and couples, based on the number of children in their families, are shown in Appendix 1. In summary:
- 37.1 For sole parents the new income thresholds would provide near universal coverage – with 93% to 98% of sole parent families eligible for some subsidy depending on the number of children in their family (compared to at least 85% of sole parent families currently). This would mean that a sole parent with two children who is earning between \$59,020 and \$107,536 per annum would be eligible for up to \$301 per week per child. Those earning between \$116,117 and \$124,644 per annum would be eligible for up to \$94 per week per child.⁵
- 37.2 For couples, coverage of the new thresholds means that between 35% and 55% of couple families are eligible for some subsidy depending on the number of children in their family (compared to between 20% and 40% currently).
- 38 Appendix 1 also shows the income thresholds under the status quo and the proposed thresholds on 1 April 2023, based on current forecasts. This shows that families with one child earning up to \$109,096 per annum will be entitled to some level of subsidy under the increased thresholds, compared to \$79,248 under the status quo.⁶
- 39 Overall, the proposed income thresholds generally extend eligibility for childcare subsidies above that for WFF tax credits. While the abatement of WFF tax credits and childcare subsidies will still overlap, the new thresholds will reduce this overlap for some families which will improve their gains from working.
- 40 Increasing eligibility for the subsidies has the potential to remove financial barriers to work, particularly for sole parents and secondary earners in couples on low- to middle-incomes. Access to suitable and affordable childcare is a key factor in parents being able to enter or remain in employment, education, or training. Research suggests that subsidies that reduce the private cost of childcare increases the childcare attendance of young children which have positive impacts on mothers' labour force participation and work hours⁷. Participating in high quality early childhood education can help mitigate the impacts of socio-economic disadvantage and support wider wellbeing outcomes for disadvantaged children.
- 41 Additionally, recent analysis from the Social Wellbeing Agency has highlighted that there has been an increase in youth offending, particularly for children aged 10 to 13 years old. Children between the ages of 5-13 can access OSCAR services, which provide a range of structured and unstructured after school and school holiday programmes. Evidence shows that community-based activities for children and young people can enhance their resilience and improve behaviour, reducing their likelihood of offending over the long term⁸.
- 42 The Minister for Social Development and Employment will report back to Cabinet to seek agreement to the necessary legislative changes to give effect to the decision

⁵ Assuming forecast subsidy rates as at 1 April 2023 (\$6.03 per hour for Level 1, \$1.88 per hour for Level 4) and assuming 50 hours per week of childcare and fees at or above the rate of subsidy.

⁶ The forecast income threshold under the status quo for 1 April 2023, based on BEFU22.

⁷ Morrissey, Taryn (2017) *Childcare and parent labour force participation: a review of the research literature*. Review of Economics of the Household (201) vol 15: No. 1

⁸ Allcock, A., (2018). Evidence summary: Community-based activities and young people's wellbeing.

outlined in paragraph 35 and recommendation 5 alongside the Annual General Adjustment in early 2023. This will include confirming the exact income thresholds as they will be based on wage data received in early 2023.

Proposal 2: Expand the ENGAGE social and emotional learning programme

- 43 Under the second proposal, we (the Prime Minister and the Associate Minister of Education) are seeking Cabinet approval to commit \$19.7m over four years from the Emerging Priorities Fund, to fund an expansion of the ENGAGE programme.

Supporting children in their social and emotional learning is a critical role for parents, whānau, communities and wider society

- 44 Social and emotional learning (SEL) and, in particular, early self-regulation are well established predictors of health and success in adulthood.⁹ A study conducted by the Dunedin Multidisciplinary Health and Development Research Unit in 2011 showed that even small improvements in self-control for children and adolescents could yield important reductions in the costs of healthcare, welfare dependency, and crime, to Government. The study shows that children who scored lower on measures of self-control were more likely to report the following outcomes in adulthood: physical health problems, substance dependence, difficulty with financial planning and money management, raising a child in a single-parent household and a criminal conviction record.

- 45 There is a range of SEL programmes available in New Zealand, which have been funded by the Ministry of Education (MoE) until 1 June 2023¹⁰. There are variations in duration, tailoring for children with higher needs, such as neurodiversity, and the level of qualification required for participating staff. It is an important principle that early learning services (ELS) have choice in the programmes they deliver, and the options presented below take account of ELS' uptake of other SEL programmes.

ENGAGE has been designed specifically for children in New Zealand and has shown good progress to date

- 46 ENGAGE is a SEL initiative primarily delivered to three and four year olds in New Zealand. It is a structured, play-based intervention that aims to improve the ability of young children to self-regulate by using common childhood games. The ENGAGE games focus on improving four key areas: self-regulation, hyperactivity, aggression, attention problems and executive function (working memory, self-control, flexible thinking) difficulties.
- 47 ENGAGE was initially developed by Associate Professor Dione Healey (University of Otago) and is currently delivered in three regions – Auckland, Otago/Southland and Bay of Plenty and is funded up to June 2023. Methodist Mission South ('the provider') holds the exclusive license from the University of Otago to deliver ENGAGE.

⁹ E.g. Moffitt, T. E., Arseneault, L., Belsky, D., Dickson, N., Hancox, R. J., Harrington, H., ... & Caspi, A. (2011). A gradient of childhood self-control predicts health, wealth, and public safety. *Proceedings of the national Academy of Sciences*, 108(7), 2693-2698. <https://doi.org/10.1073/pnas.1010076108>

¹⁰ Total number of existing and anticipated ELS offering at least one SEL initiative by 1 June 2023 is 843.

- 48 In the first year of the pilot¹¹, the provider delivered ENGAGE training in 156 ELS – that is, in 4% of eligible ELS¹² – which exceeded its target of 150 ELS despite the challenges posed by COVID-19. The provider is also on track to deliver the current year’s target of 150 new ELS by 1 June 2023.
- 49 An impact evaluation will be completed by October 2024. ENGAGE is also part of a nationwide study on the impact of supporting enriched oral literacy and self-regulation in ELS. Research trials with a range of whānau and early learning participants showed that the initiative demonstrated statistically significant improvements in children’s self-regulation skills, including reduced hyperactivity, aggression and peer problems, and improved attention, effortful control and emotional regulation – with gains maintained for extended periods post-intervention¹³.
- 50 As well as supporting long-term wellbeing outcomes for young children, the proposal to expand ENGAGE also contributes to:
- 50.1 the Government’s Social Cohesion work programme, which was initiated as part of the Government’s initial response to the Royal Commission of Inquiry into the Terrorist Attack on Christchurch Masjidain on 15 March 2019 – MoE is responsible for implementing recommendation 36¹⁴;
 - 50.2 Te Aorerekura investment in primary prevention by teaching young children emotional self-regulation skills which contribute to positive relationships in both the long and short term (Action 25 of Te Aorerekura); and
 - 50.3 the Government’s wider work to strengthen curriculum, progress and achievement, including the Government’s Literacy and Communication and Maths Strategy. Developing children’s social and emotional skills at a young age supports the formation of learning and cognitive skills and builds awareness of self and others that help children to live and learn.
- 51 MoE estimates that it would cost \$31m over four years to expand ENGAGE to a point where it would be available to all remaining eligible ELS by June 2027. This would be based on \$5.5m in 2023/24, and increasing each year up to \$9.7m in 2026/27. However, officials advise that aiming for 100% coverage of eligible ELS is not realistic and, in some cases, not appropriate. As outlined in paragraph 45, there are other SEL initiatives available. Furthermore, even if funding were available to provide ENGAGE training in all eligible sites, it is unlikely that all ELS will choose to receive the training, since it isn’t a mandatory requirement for ELS licensing.

¹¹ The SEL Pilot includes ENGAGE, Alert and Incredible Beginnings.

¹² Total number of eligible ELS is 3,721 (taken from FIRST database, as at 4 October 2022). The figure includes Education and Care settings, Kindergarten and Kōhanga Reo; the figure excludes ineligible settings which are play centres, home based ELS, hospital-based ELS, and ELS whose licensing is under review. ELS that will already be providing ENGAGE, Alert or Incredible Beginnings by June 2023 are also not included (n=843).

¹³ <https://gazette.education.govt.nz/articles/combining-language-and-self-regulation-for-lifelong-outcomes/>

¹⁴ Recommendation 36: ‘Invest in opportunities for young New Zealanders to learn about their role, rights and responsibilities and on the value of ethnic and religious diversity, inclusivity, conflict resolution, civic literacy and self-regulation.’

Participation by Ministry-nominated services has varied significantly during the pilot scheme, ranging from 80% in Otago/Southland to 30% for Bay of Plenty/Wairariki.¹⁵

- 52 Given that ENGAGE has been developed specifically for New Zealand children, and that a recent process evaluation shows very positive signs of progress, we are confident that an expansion of ENGAGE would be welcomed by the sector. The process evaluation confirmed that there are well-developed existing implementation pathway and programme management structures. It also found that the programme was generally viewed to be culturally responsive and able to be adapted for different cultural contexts. Adaptations for Pacific ELS was an existing strength of the Auckland delivery. Some kaiako/teachers, facilitators and Ministry staff identified opportunities for further cultural adaptations, such as an increased bicultural lens within the ENGAGE games cards. The provider has additional development work underway to strengthen the bicultural aspects of the programme.
- 53 Based on the experience of the ENGAGE pilot, and officials' discussions with the provider's capacity to scale up the programme, we have considered two scaling options for the future funding of the ENGAGE programme. They both seek to train ELS practitioners to deliver ENGAGE to between 72% and 74% percent of eligible ELS over four years. The costings have been calculated on a per-ELS basis and include one year of maintenance costs. These are summarised in the table below.
- 54 While there is some risk to option 1 due to a faster expansion in the first year, we believe it is manageable, particularly because an early announcement of funding would allow the provider to prepare for the expansion in year 1. We also note that option 1 responds well to the fiscal constraints of the Emerging Priorities Fund.

Table 1: ENGAGE scaling options

	Scaling option 1	Scaling option 2
Description	ENGAGE in 72% of eligible settings by June 2027, initial scale-up and consistent roll-out	ENGAGE in 74% of eligible settings by June 2027, graduated rollout
Feasibility for provider to deliver	While option 1 stretches the provider's delivery in the first year, scaling up to this level of provision is still possible	Option 2 is the more feasible for the provider to deliver
Likelihood of demand from sector	It is likely that the demand from the sector will meet the training offer from the provider	It is likely that the demand from the sector will meet the training offer from the provider
Year 1 impact	Option 1 provides for a greater year one impact	Option 2 will lead to the smaller year 1 impact on the sector
Cost (\$5m per year)	Better utilises, and remains entirely within, the fiscal constraints of the Emerging Priorities Fund	Exceeds the funding available during years 3 and 4, and does not utilise all available funding in years 1 and 2

¹⁵ This figure was taken before the end of the delivery period and is likely to be higher now than when the evaluation was conducted.

- 55 MoE contracts the service on a per-ELS basis, which includes maintenance costs. The funding purchases ENGAGE training, which is delivered by Methodist Mission Southern. With this funding, the provider funds the recruitment and training of facilitators, administrative costs, resources for centres, two workshops, follow up sessions, travel, and participation in evaluation. The number of ELS practitioners to be trained will be determined by the number of ELS offering the service and the number of staff in each of these services.
- 56 We seek Cabinet’s decision on which of these scaling options should be progressed through the Emerging Priorities Fund.
- 57 We also note that the other existing SEL initiatives have proven popular and were delivered effectively, according to their process evaluations. Combined, the two initiatives are expected to benefit an estimated 6,350 children by June 2023. MoE officials are currently preparing a Budget 2023 bid seeking funding to continue the roll-out of these two initiatives for a further four years, which will complement the ENGAGE programme by offering the sector more SEL options that may be more suited to their specific needs, and by spreading the supply of SEL training across more providers.

Implementation

Proposal 1: Reducing hardship for families with children by increasing income thresholds for the Childcare and OSCAR Subsidies

- 58 This change will take effect from 3 April 2023¹⁶ and will require legislative change which is discussed in the Legislative Implications section of this paper. Current recipients of Childcare Assistance will be contacted to explain the changes. MSD will inform ECE and OSCAR providers of the change and seek their assistance in communicating the change to parents at their centres. Changes to the thresholds would also be announced via the MoE’s Early Learning Bulletin to ECE providers.

Proposal 2: Expand the ENGAGE social and emotional learning programme

- 59 The provider has been successfully delivering the ENGAGE programme since before the MoE contracted their services in 2019. Since then, the provider has successfully met, and in some cases exceeded, the targets set by the Ministry.
- 60 An impact evaluation will be completed by October 2024. Officials will engage early with the evaluation team to ensure that early findings can be used to inform improvements to the roll out. The existing monitoring arrangements will continue, with the MoE working closely with the provider and reviewing quarterly delivery plans and monthly progress reports on delivery and expenditure.

¹⁶ Changes to Childcare Assistance must start on a Monday.

Financial implications

Proposal 1: Reducing hardship for families with children by increasing income thresholds for the Childcare and OSCAR Subsidies

61 Funding is sought for **Proposal 1 (increasing income thresholds for Childcare and OSCAR Subsidies)** as follows:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Benefits or Related Expenses:					
Childcare Assistance	6.487	39.405	42.235	43.224	43.224
Multi-category Expenses and Capital Expenditure					
Improved Employment and Social Outcomes Support					
Departmental Output Expense:					
Administering Income Support (funded by revenue Crown)	1.301	5.241	5.366	5.357	5.339
Total Operating	7.788	44.646	47.601	48.581	48.563

62 Funding of \$7.788m is sought in 2022/23 because it is proposed that the thresholds be changed from 3 April 2023. Funding is also required in order to make the necessary operational changes and to communicate with clients prior to 1 April 2023.

63 As these costings have been provided in extremely tight timeframes and will need to be refined, agreement is sought to delegate responsibility to the Minister of Finance and Minister of Social Development and Employment to approve further costs up to \$3 million. This would provide for any unanticipated operational costs associated with implementing the proposal.

64 Childcare Assistance is an area of the welfare system that has been underinvested in for more than a decade, since income thresholds were frozen in September 2010. Our Government took a first step towards addressing this in Budget 2021, by committing to index Childcare Assistance to average wage growth.

65 Work on further improvements to Childcare Assistance is continuing under the Review and the Minister for Social Development and Employment will continue to

explore further opportunities to support parents into work and training by improving accessibility and affordability of childcare.

Proposal 2: Expand the ENGAGE social and emotional learning programme

66 Funding is sought for **Proposal 2 (expansion of the ENGAGE programme)** with two options around scaling and timing as follows:

	\$m – increase/(decrease)					Total
	2022/23	2023/24	2024/25	2025/26	2026/27	
Scaling option 1: ENGAGE in 72% of eligible settings by June 2027, initial scale-up and consistent roll-out	-	4.896	4.933	4.933	4.933	19.695
Scaling option 2: ENGAGE in 74% of eligible settings by June 2027, graduated roll-out	-	3.287	4.290	5.363	7.508	20.448

67 We intend to meet the costs through the Prime Minister’s Emerging Priorities Fund. The Treasury has confirmed there are sufficient resources available to fund either option.

Legislative Implications

68 For Proposal 1, changes to the income thresholds for the Childcare and OSCAR subsidies will be given effect through regulations (by Order in Council by the Governor General), pursuant to section 424(2)(c) of the Social Security Act 2018, to amend Schedule 2 of the Social Security Regulations 2018. There are no legislative implications for proposal 2 (expansion of the ENGAGE programme).

Impact Analysis

Regulatory Impact Statement

69 An impact assessment is required for proposal 1 but not for proposal 2. A Regulatory Impact Statement has been completed for Proposal 1 and is attached in Appendix 2.

70 A Review Panel of MSD Principal Analysts have reviewed the Regulatory Impact Statement prepared by MSD to support Proposal 1. The Review Panel consider that the information and analysis summarised in the Regulatory Impact Statement does not meet the Quality Assurance criteria. However, the Panel recognises the limitations on the analysis available, including timeframes, initial decisions on a preferred option, and the challenges of modelling detailed outcomes, and that these limitations are clearly identified in the RIS. The Panel recognises that the analysis in the paper is as good as could be expected in the circumstances.

Climate Implications of Policy Assessment

- 71 For proposal 1, the Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.
- 72 Proposal 2 has no climate implications.

Population Implications

- 73 The overall population implications for the package are discussed below, with different implications of the two separate proposals stated where applicable.

The package of initiatives can help deliver positive cognitive and socio-emotional outcomes, especially for socio-economically disadvantaged children and Māori and Pacific children

- 74 Participation in high quality early childhood education is likely to deliver cognitive and socio-emotional benefits to **children**, particularly for children from lower socio-economic backgrounds. This in turn can help support child and youth wellbeing outcomes across the life course, including school readiness, peer relationships, academic achievement as well as improve longer term outcomes like school completion, employment, earnings, and health and social outcomes.
- 75 The process evaluation for ENGAGE has shown that the existing pilot is associated with significantly improved social and emotional outcomes for **children** and exceeded expectations for effectiveness. It is expected the programme will support children's ability to self-regulate and have flow on benefits for supporting positive interactions between parents and children and reducing strain on the wider family system.
- 76 The package is likely to be particularly beneficial for **Māori and Pacific Peoples**, as a disproportionate number of sole parents are Māori, and a disproportionate number of low-income workers identify as Māori and Pacific Peoples. As at December 2020, 34 percent of Childcare Assistance recipients identified as Māori and 8 percent identified as Pacific Peoples.
- 77 The process evaluation for ENGAGE was generally viewed to be culturally responsive and able to be adapted for different cultural contexts. The provider has additional development work underway to strengthen the bicultural aspects of the programme.

Reducing childcare costs can have positive impacts on child material hardship rates, especially for Māori, Pacific and Disabled Children, but the size of these impacts are uncertain

- 78 Reductions in costs from changes to Childcare Assistance could directly help to reduce the number of **children** experiencing material hardship. It is not possible to directly model these impacts. As a broad indication, the changes to the threshold are most likely benefit households with children whose incomes are between fifty per cent of the median and the median – and we know that a little under half of children in material hardship live in households within this income band.

- 79 Increasing the affordability of early childhood education and care could also help reduce the disproportionate rates of material hardship experienced by **Māori, Pacific and disabled children**.

Improving affordability of care helps support parental workforce participation, especially for women and disabled parents

- 80 The package will help improve childcare affordability, which will support increased parental workforce participation and employment income, which could deliver indirect positive impacts on income poverty and material hardship over the longer term. Childcare is essential infrastructure that supports working parents, and in particular mothers given that **women** are far more likely to take up caring roles.
- 81 Increasing the thresholds for the Childcare Subsidy and OSCAR Subsidy is likely to be particularly beneficial for women, who form the highest proportions of sole parents and of secondary earners. Approximately 16 percent of all parents who are working or wanting to work have difficulties accessing childcare and one of the main reasons for experiencing difficulties is cost. Among those experiencing difficulties accessing childcare, **women** were more likely to turn down paid work (27 percent) and stop searching for paid work (22 percent) than fathers (14 percent and 12 percent respectively). Sole parents (80 per cent of whom are women) are also more likely to have difficulties accessing childcare (27 per cent) than those in two-parent families (14 percent).¹⁷
- 82 **Disabled people** are also less likely to be in employment, so improving childcare affordability for disabled parents is likely to help support their workforce participation.

Human Rights

- 83 The proposals appear to be consistent with the rights and freedoms affirmed in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. One of the concluding observations (recommendations) from New Zealand’s examination at the United Nations Committee on the Rights of Persons with Disabilities was to “expedite implementation of the recommendations of the report from the Welfare Expert Advisory Group to address the inequity and complexity within the social security system for persons with disabilities” (CRPD/C/NZL/CO/2-3). This package will contribute towards a response to this recommendation.

Consultation

- 84 The following agencies were consulted in the development of both proposals in this paper: the Ministries of Health, Justice, Youth Development, Pacific Peoples, Women, Housing and Urban Development and Ethnic Communities; as well as Oranga Tamariki, New Zealand Police, the Social Wellbeing Agency, Te Puni Kōkiri, Te Puna Aonui, Te Arawhiti, the Department of Internal Affairs, the Accident Compensation Corporation, Whaikaha – Ministry of Disabled People (including

¹⁷ Stats NZ, Childcare in New Zealand Survey, 2017. “Childcare a challenge for 1 in 6 working parents | Stats NZ

Office for Disability Issues), Statistics New Zealand, Department of Corrections, Inland Revenue and the Treasury.

Communications

- 85 We intend to announce these initiatives at the Labour Party Conference on 5 and 6 November 2022.

Proactive Release

- 86 This paper will be proactively released within 30 business days of decision being confirmed by Cabinet, in accordance with Cabinet Office Circular CO (18)4, with any appropriate redactions.

Recommendations

In relation to *Proposal 1: Increasing the Childcare Subsidy and the Out of School Care and Recreation Subsidy*, the Prime Minister and Minister for Social Development and Employment recommend that the Cabinet Social Wellbeing Committee:

- 1 **note** that the Government has committed to improve child wellbeing and reducing child poverty through the Child and Youth Wellbeing Strategy;
- 2 **note** that through the Welfare Overhaul, the Government is undertaking a range of work to improve the financial situation of low- and middle-income families, including in relation to Working for Families, childcare and debt;
- 3 **note** the Minister for Social Development and Employment is leading a Review of Childcare Assistance to better support parents into employment and training by improving affordability and accessibility of childcare;
- 4 **note** that income thresholds for Ministry of Social Development Childcare Assistance were frozen in September 2010, which has resulted in falling numbers of families being eligible for assistance;
- 5 **agree** to increase existing income threshold categories for Ministry of Social Development Childcare Assistance to adjust for growth in the net average wage since they were frozen from September 2010
- 6 **agree** that the thresholds will be increased to account for wage growth as follows:
 - 6.1 Thresholds Two, Three, Four: Wage growth from December 2009 quarter to December 2022 quarter;
 - 6.2 Thresholds One: Wage growth from December 2015 quarter to December 2022 quarter;
- 7 **note** that Cabinet agreement to the income thresholds will be sought alongside the Annual General Adjustment in early 2023

~~BUDGET SENSITIVE~~

- 8 **note** that raising the income thresholds will result in parents of approximately 7,400 additional children becoming eligible for the Childcare Subsidy and 2,900 additional children becoming eligible for the OSCAR Subsidy in 2023/24, an overall increase of 36%;
- 9 **agree** that the changes outlined in recommendation 5 will take effect from 3 April 2023;
- 10 **agree** to increase spending to provide for costs associated with Proposal 1 (increase thresholds for Childcare and OSCAR Subsidies) with the following impacts on the operating balance and net debt:

	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/256	2026/27 & Outyears
Operating Balance and Net Debt Impact	7.788	44.646	47.601	48.581	48.563
Operating Balance Impact Only	-	-	-	-	-
Net Debt Impact Only	-	-	-	-	-
No Impact	-	-	-	-	-
Total	7.788	44.646	47.601	48.581	48.563

- 11 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 5 above:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Benefits or Related Expenses:					
Childcare Assistance	6.487	39.405	42.235	43.224	43.224
Multi-category Expenses and Capital Expenditure					
Improved Employment and Social Outcomes Support					
Departmental Output Expense:					
Administering Income Support (funded by revenue Crown)	1.301	5.241	5.366	5.357	5.339
Total Operating	7.788	44.646	47.601	48.581	48.563

- 12 **agree** that the proposed changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 13 **agree** that the operating balance and net debt impact as shown in recommendation 10 for 2022/23 be charged against the between Budget contingency, established as part of Budget 2022;
- 14 **agree** that the operating balance and net debt impact as shown in recommendation 10 above for 2023/24 and outyears be charged as a pre-commitment against the Budget 2023 operating allowance;
- 15 **authorise** the Minister for Social Development and Employment and the Minister of Finance to jointly approve further funding up to \$3 million to be charged as a pre-commitment against the Budget 2023 operating allowance and for any appropriation impacts for 2022/23 to be met from Imprest Supply;
- 16 **note** that the Minister for Social Development and Employment is continuing to develop further proposals to improve access and affordability of childcare in order to support parents into employment and training, and, if invited, intends to submit a further Budget 23 bid for additional improvements to Childcare Assistance;
- 17 **note** the Minister for Social Development and Employment will report back to Cabinet to seek agreement to the necessary legislative changes to give effect to the decision outlined in recommendation 5;

In relation to *Proposal 2: Expanding opportunities for social and emotional learning*, the Prime Minister and Associate Minister of Education (Hon Jan Tinetti) recommend that the Cabinet Social Wellbeing Committee:

- 18 **note** that supporting children in their social and emotional learning in all settings is a critical role for parents, whānau, communities and wider society and that this proposal supports the Government’s Social Cohesion policy and Te Aorerekura investment in primary prevention (action 25);
- 19 **approve** the following changes to appropriations to expand the ENGAGE programme delivered to eligible early learning services for four years from 2023/24, with a corresponding impact on the operating balance and net debt:

EITHER

Vote Education Minister of Education	\$m – increase/(decrease)					Total
	2022/23	2023/24	2024/25	2025/26	2026/27	
Multi-Category Expense and Capital Expenditure: Improved Quality Teaching and Learning MCA <i>Non-departmental Output Expense:</i> Support and Resources for Teachers	-	4.896	4.933	4.933	4.933	19.695

OR

Vote Education Minister of Education	\$m – increase/(decrease)					Total
	2022/23	2023/24	2024/25	2025/26	2026/27	
Multi-Category Expense and Capital Expenditure: Improved Quality Teaching and Learning MCA <i>Non-departmental Output Expense:</i> Support and Resources for Teachers	-	3.287	4.290	5.363	7.508	20.448

- 20 **agree** that the expenses incurred under recommendation 19 above be charged against the Emerging Priorities Fund established as part of Budget 2016; and
- 21 **invite** the Prime Minister and Associate Minister of Education to report back to Cabinet in late 2023 on initial progress.

Authorised for lodgement

Rt Hon Jacinda Ardern
Prime Minister

Hon Carmel Sepuloni
Minister for Social
Development and
Employment

Hon Jan Tinetti
Associate Minister of
Education

Appendix 1– Overview of proposed threshold changes under Proposal 1.

Income thresholds from 1 April 2023 if no changes made

Number of children	Level 1 (highest level of subsidy)	Level 2	Level 3	Level 4 (lowest level of subsidy)
	Annual Income Thresholds			
1 child	Less than \$45,292	\$45,292 to \$67,912	\$67,913 to \$73,580	\$73,581 to \$79,248
2 children	Less than \$52,104	\$52,104 to \$78,104	\$78,105 to \$84,344	\$84,345 to \$90,584
3+ children	Less than \$58,292	\$58,292 to \$87,204	\$87,205 to \$94,536	\$94,537 to \$101,920

Income thresholds under this proposal (from 1 April 2023)

Number of children	Level 1 (highest level of subsidy)	Level 2	Level 3	Level 4 (lowest level of subsidy)
	Annual Income Thresholds			
1 child	Less than \$51,324	\$51,324 to \$93,496	\$93,497 to \$101,296	\$101,297 to \$109,096
2 children	Less than \$59,020	\$59,020 to \$107,536	\$107,537 to \$116,116	\$116,117 to \$124,644
3+ children	Less than \$66,092	\$66,092 to \$119,964	\$119,965 to \$130,104	\$130,105 to \$140,244

Coverage by different family types, comparing the status quo to the proposed new thresholds

Family Type	Childcare Subsidy Level							
	Level 1		Level 2		Level 3		Level 4	
	Status quo	New	Status quo	New	Status quo	New	Status quo	New
Single, 1 child	55%	65%	78%	90%	83%	93%	85%	95%
Single, 2 children	60%	70%	83%	90%	85%	93%	88%	93%
Single, 3+ children	80%	85%	95%	98%	95%	98%	98%	98%
Couple, 1 child	8%	8%	13%	25%	15%	30%	20%	35%
Couple, 2 children	5%	8%	15%	28%	18%	33%	20%	38%
Couple, 3+ children	13%	18%	28%	45%	33%	50%	38%	55%
Overall	20%	24%	33%	46%	36%	50%	40%	54%



Cabinet Social Wellbeing Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Supporting Child Wellbeing by Improving Childcare Affordability and Enhancing Social and Emotional Learning

Portfolio Prime Minister / Social Development and Employment / Associate Education (School Operations)

On 26 October 2022, the Cabinet Social Wellbeing Committee **referred** the submission under SWC-22-SUB-0185 to Cabinet on 31 October 2022, revised as appropriate in light of discussion at the meeting.

Rachel Clarke
Committee Secretary

Present:

Hon Grant Robertson
Hon Kelvin Davis (Chair)
Hon Poto Williams
Hon Peeni Henare
Hon Hon Jan Tinetti
Hon Kiri Allan
Hon Dr Ayesha Verrall
Hon Priyanca Radhakrishnan

Officials present from:

Office of the Prime Minister
Office of the Chair
Officials Committee for SWC



Cabinet

Minute of Decision

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Supporting Child Wellbeing by Enhancing Social and Emotional Learning

Portfolios Prime Minister / Social Development and Employment / Associate Education (School Operations)

On 31 October 2022, following reference from the Cabinet Social Wellbeing Committee, Cabinet:

Increasing the Childcare Subsidy and the Out of School Care and Recreation Subsidy

- 1 **noted** that the government has committed to improve child wellbeing and reduce child poverty through the Child and Youth Wellbeing Strategy;
- 2 **noted** that through the Welfare Overhaul, the government is undertaking a range of work to improve the financial situation of low- and middle-income families, including in relation to Working for Families, childcare and debt;
- 3 **noted** that the Minister for Social Development and Employment is leading a Review of Childcare Assistance to better support parents into employment and training by improving affordability and accessibility of childcare;
- 4 **noted** that income thresholds for Ministry of Social Development Childcare Assistance were frozen in September 2010, which has resulted in falling numbers of families being eligible for assistance;
- 5 **agreed** to increase existing income threshold categories for Ministry of Social Development Childcare Assistance to adjust for growth in the net average wage since they were frozen in September 2010;
- 6 **agreed** that the thresholds be increased to account for wage growth as follows:
 - 6.1 Thresholds Two, Three, Four: Wage growth from December 2009 quarter to December 2022 quarter;
 - 6.2 Threshold One: Wage growth from December 2015 quarter to December 2022 quarter;
- 7 **noted** that Cabinet agreement to the income thresholds will be sought alongside the Annual General Adjustment in early 2023;

8 **noted** that raising the income thresholds will result in parents of approximately 7,400 additional children becoming eligible for the Childcare Subsidy and 2,900 additional children becoming eligible for the OSCAR Subsidy in 2023/24, an overall increase of 36 percent;

9 **agreed** that the changes outlined in paragraph 5 will take effect from 3 April 2023;

10 **agreed** to increase spending to provide for costs associated with increasing the thresholds for Childcare and OSCAR Subsidies with the following impacts on the operating balance and net debt:

	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/256	2026/27 & Outyears
Operating Balance and Net Debt Impact	7.788	44.646	47.601	48.581	48.563
Operating Balance	-	-	-	-	-
Impact Only	-	-	-	-	-
Net Debt Impact Only	-	-	-	-	-
No Impact	-	-	-	-	-
Total	7.788	44.646	47.601	48.581	48.563

11 **approved** the following changes to appropriations to give effect to the policy decision in paragraph 5 above:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Benefits or Related Expenses: Childcare Assistance	6.487	39.405	42.235	43.224	43.224
Multi-category Expenses and Capital Expenditure					
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Departmental Output					
Expense: Administering Income Support (funded by revenue Crown)	1.301	5.241	5.366	5.357	5.339
Total Operating	7.788	44.646	47.601	48.581	48.563

12 **agreed** that the changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

13 **agreed** that the operating balance and net debt impact as shown in paragraph 10 for 2022/23 be charged against the between Budget contingency established as part of Budget 2022;

14 **agreed** that the operating balance and net debt impact as shown in paragraph 10 above for 2023/24 and outyears be charged as a pre-commitment against the Budget 2023 operating allowance;

15 **authorised** the Minister of Finance and Minister for Social Development and Employment to jointly approve further funding up to \$3 million to be charged as a pre-commitment against the Budget 2023 operating allowance and for any appropriation impacts for 2022/23 to be met from Imprest Supply;

- 16 **noted** that the Minister for Social Development and Employment is continuing to develop further proposals to improve access and affordability of childcare in order to support parents into employment and training, and if invited, intends to submit a further Budget 2023 bid for additional improvements to Childcare Assistance;
- 17 **noted** that the Minister for Social Development and Employment intends to report back to Cabinet to seek agreement to the necessary legislative changes to give effect to the decision in paragraph 5;

Expanding opportunities for social and emotional learning

- 18 **noted** that supporting children in their social and emotional learning in all settings is a critical role for parents, whānau, communities and wider society and that expanding the ENGAGE programme supports the Government’s Social Cohesion policy and Te Aorerekura investment in primary prevention (action 25);
- 19 **approved** the following changes to appropriations to expand the ENGAGE programme delivered to eligible early learning services for four years from 2023/24, with a corresponding impact on the operating balance and net debt:

Vote Education Minister of Education	\$m – increase/(decrease)					Total
	2022/23	2023/24	2024/25	2025/26	2026/27	
Multi-Category Expense and Capital Expenditure: Improved Quality Teaching and Learning MCA <i>Non-departmental Output Expense:</i> Support and Resources for Teachers	-	4.896	4.933	4.933	4.933	19.695

- 20 **agreed** that the expenses incurred under paragraph 19 above be charged against the Emerging Priorities Fund established as part of Budget 2016;
- 21 **noted** that the current provider holds the exclusive license from the University of Otago to deliver ENGAGE to June 2023, and that other providers may be used in the future to deliver further iterations of the programme;
- 22 **invited** the Prime Minister and Associate Minister of Education (School Operations) to report back to Cabinet in late 2023 on initial progress.

Rachel Hayward
Acting Secretary of the Cabinet