Early Childhood Council

Memo

Pay Parity and Centre Closures

To: Release External

From: Simon Laube, Chief Executive Officer

Drafter: Lonnie Parker, Life Member of ECC

Title: Pay Parity and Centre Closures

Date: 19 November 2025

Executive Summary

The early childhood sector faces increased costs that are threatening the sustainability of centres.

- The total number of services reduced from **4,627** in March 2022 **to 4,400** in July 2025.
- **443 early childhood services closed** between March 2022 and July 2025.
- More than **50 percent** of closures **were Education & Care (E&C) services** (224 closures)
- The **highest impact** has been **in Auckland**, with **44% of E&C closures**[1]

The introduction of the Pay Parity scheme in 2022 and its extension the following year, appears to have inadvertently compounded the situation. Aimed at improving teacher pay, a goal the sector supports, it was implemented with layers of funding rates that increased complexity and added administrative and financial-planning burdens on centres.

Pay parity scheme costs for providers are not connected to Ministry of Education set funding rates for centres. In practice, the scheme incentivises centres to employ less experienced and qualified certificated teachers. Centres that choose to keep employing experienced teachers are worse off financially.

Individual providers costs for teacher salaries can be significantly higher than the amount of funding provided through the pay parity scheme's funding rates, and the scheme's salary progression requirements worsen this gap every year.

The impact of the scheme has fallen on smaller centres in particular, being less able to absorb the additional costs. Since the introduction of Pay Parity **84% of E&C closures** have been **small centres (under 50 licensed places)**.

[1] the Auckland region is 39% of the E&C sector (Education Counts, Number of ECE services)

High rate of closures

- **Average monthly closures are at increased levels**:
    - Pre-2022: 5 services/month (2 E&C).
    - 2023: 20 services/month (9 E&C)
    - 2024: 8 services/month (5 E&C).

Financial Pressure

- A single downgrade from FPP to No Steps can cost a centre **~$120,000 per funding period**.

Why It Matters

- Pay Parity aimed to improve teacher pay but **placed significant strain on smaller providers**.
- Rapid policy changes and complex funding rules made planning difficult.
- Without sustainable funding, sector stability remains at risk.

The largest total numbers of non-participating children are located in Auckland: there are nearly 668 children in Auckland who the Ministry reported as having no prior participation in March 2025 (total non-participating children was 1,905).

ECC expects that duration of attendance in ECE is also a likely negative pressure in the sector with families reducing their childcare where it is a discretionary expense. Where people reduce their ECE usage but do not eliminate ECE usage altogether, the participation statistics ignore this.

Sector Analysis March 2022 vs July 2025

In March 2022 there were a total of 4,627 services in the Early Childhood Education (ECE) sector, of which 2,742 (59%) were in the Education and Care (E&C) subsector.

Mar22 Directory	# Services	% of Sector
Casual-Education and Care	7	0%
Education and Care Service	2,742	59%
Free Kindergarten	664	14%
Homebased Network	369	8%
Hospital Based	20	0%
Playcentre	392	8%
Te Kōhanga Reo	433	9%
Grand Total	**4,627**	**100%**

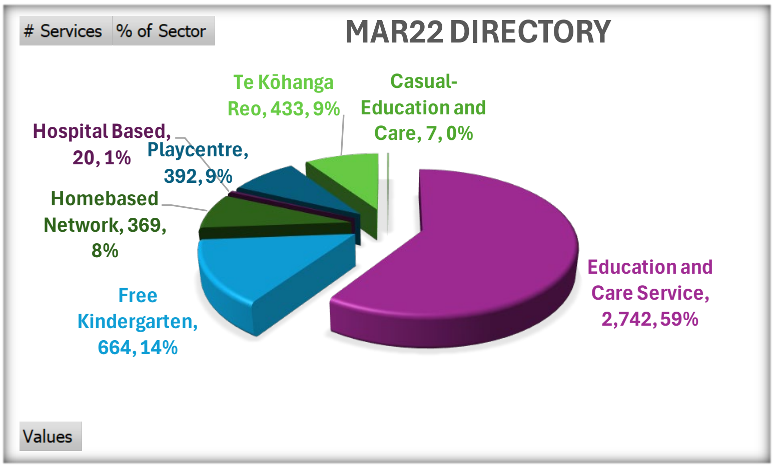

Figure 1 - Sector Analysis March 2022

Service Type	# Services	% of Sector
Casual-Education and Care	3	0%
Education & Care	2,668	61%
Free Kindergarten	674	15%
Homebased Network	240	5%
Hospital Based	20	0%
Playcentre	382	9%
Te Kōhanga Reo	413	9%
Grand Total	**4,400**	**100%**

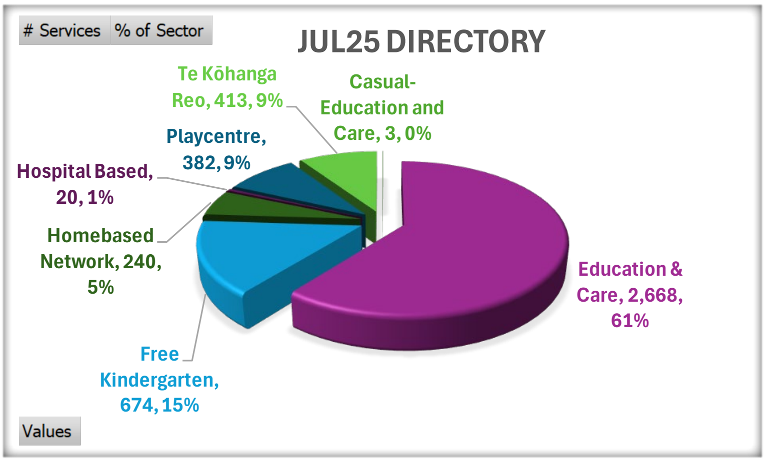

Figure 2 - Sector Analysis July 2025

While ***Figures 1 & 2*** above suggest there were 227 service closures (4,627 – 4,400 = 227), there were services that opened and closed between these two points in time. By comparing the Ministry of Education (MoE) ECE Directory, available at Education Counts, at regular intervals, a total of 443 services closed during this time, of which 224 were from the E&C sector which is 50% of total closures.

# Services Service Type	Last Open Jul-22	Mar-23	Jun-23	Oct-23	Feb-24	May-24	Sep-24	Jan-25	May-25	Jul-25	Grand Total
Casual-Education & Care		1	1	1							3
Education & Care Service	65	37	17	24	9	17	26	15	12	2	224
Free Kindergarten	2	2	3		1	3	2		4		17
Homebased Network	85	21	9	11	6	10	11	1	5		159
Playcentre	6	1	1	2			1	1		1	13
Te Kōhanga Reo	10	2	4	3		1	3	3		1	27
Grand Total	**168**	**64**	**35**	**41**	**16**	**31**	**43**	**20**	**21**	**4**	**443**

Table 1 - Closures by Service Type Timeline

In table 1 (above), it shows the date when a centre last appeared in the ECE Directory – i.e. the 2 E&C centres (Seven Oaks Preschool Christchurch and Fatugatiti Preschool Auckland) were open in July 2025 but not in the 28 August 2025 directory.

Of the 4,400 services operating in July 2025, 4,198 were also operating in March 2022: therefore there were 202 services in July 2025 that were not operating in March 2022.

Status Jul25 (Multiple Items)

Service Type	# Services
Casual-Education and Care	4
Education and Care Service	2,523
Free Kindergarten	648
Homebased Network	216
Hospital Based	20
Playcentre	380
Te Kōhanga Reo	407
Grand Total	**4,198**

Status Mar22 New

Service Type	# Services
Education & Care	160
Free Kindergarten	8
Homebased Network	24
Playcentre	2
Te Kōhanga Reo	8
Grand Total	**202**

Table 2 March 2022 vs July 2025

The 202 “new” services are not the same size or service type as the 443 services that have closed over this period:

# Services / Service Type	Centre Size 00 - 20	21 - 30	31 - 40	41 - 50	51 - 80	81 - 99	100+	Grand Total
Casual-Education & Care	1	1	1					3
Education & Care Service	56	59	41	33	27	6	2	224
Free Kindergarten	7	3	6	1				17
Homebased Network	31	3	1	28	96			159
Playcentre	3	10						13
Te Kōhanga Reo	8	15	2	1	1			27
Grand Total	**106**	**91**	**51**	**63**	**124**	**6**	**2**	**443**

Status Jul25	New

# Services / Service Type	Centre Size 00 - 20	21 - 30	31 - 40	41 - 50	51 - 80	81 - 99	100+	Grand Total
Casual-Education and Care								
Education & Care	12	17	33	16	42	17	23	160
Free Kindergarten		2	4	2				8
Homebased Network	4	3	2	8	6		1	24
Playcentre	1	1						2
Te Kōhanga Reo	1	5	1	1				8
Grand Total	**18**	**28**	**40**	**27**	**48**	**17**	**24**	**202**

Table 3 Service Type by Size

It is clear the hardest hit subsector is the E&C sector – as they constitute half of the closures. A more detailed look at the 224 E&C services shows Auckland (44% of E&C closures) and centres below 50 licensed places (84% of E&C closures) were the hardest hit. Auckland has approximately 38% of E&C services in NZ so its rate of closure is above average. It is also a region broadly experiencing population growth (migration and births).

# Services / Region	Centre Size 00 - 20	21 - 30	31 - 40	41 - 50	51 - 80	81 - 99	100+	Grand Total
01. Northland	1	4	2	3				10
02. Auckland	29	22	19	15	9	3	2	99
03. Waikato	7	4	1	2	2	1		17
04. BOP/Waiariki	4	4	2	2	2			14
05. Hawke's Bay/Tairawhiti	1	2	4		2	1		10
06. Taranaki/Whanganui/Manawatu	2	5	2	4	2	1		16
07. Wellington	7	9	4	4	1			25
08. Nelson/Marlb/West Coast	2	1	2	2	1			8
09. Canterbury/Chathams	2	6	4	1	5			18
10. Otago/Southland	1	2	1		3			7
Grand Total	**56**	**59**	**41**	**33**	**27**	**6**	**2**	**224**

Table 4 - E&C Closures by Region and Centre Size

Using the MoE static data on centre closures as at 30 June each year (available at Education Counts), the 21-year average monthly closures was five services a month of which two were from the E&C subsector. It is abundantly clear Pay Parity is negatively affecting the E&C sector, compounded by COVID and total sector underfunding that has fundamentally changed the sector (not for the better!). This is reflected in the average monthly closures for 2024 being eight for the total sector of which five are now E&C services.

Regional Council											
Sum of Number of Services											
Row Labels	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Casual Education & Care		2			1		1			3	1
Education & Care	19	27	17	23	30	39	40	61	70	106	55
Home-based	11	13	29	47	44	42	41	48	71	104	32
Hospital-based		1				1					
Kindergarten	2				2	6	2	3	2	7	5
Playcentre	8	7	7	5	6	5	1	5	7	6	1
Te Kōhanga Reo	2	4		9	4	7	3	4	9	11	7
Grand Total	**42**	**54**	**53**	**84**	**87**	**100**	**88**	**121**	**159**	**237**	**101**
								2000-2021	2022	2023	2024
							E&C avge/mth	2	6	9	5
							Sector avge/mth	5	13	20	8

Table 5 – 2014-2024 Closures as at 30 June

Impact of Pay Parity

The Labour government introduced the Pay Parity funding scheme (PP) effective from 1 January 2022.

When PP was introduced, centres were asked to indicate in the November 2021 funding claim process (RS7) whether they would be opting in to PP. At this point, the salary scale was limited to Steps 1-5. This was at a time when centres were still dealing with the COVID-19 Wage Subsidy Scheme and Resurgence Support Payment and the on-going impact on their balance sheets from the severe lockdowns, particularly in Auckland. Centres were still trying to return occupancy to pre-covid levels, again particularly in Auckland. The PP steps were expanded to include Step 6 effective from 1 January 2023 when Extended Pay Parity was implemented (see below)

The initial introduction of PP was effective from 1 January 2022 i.e. one month of the March 2022 funding drop. In this funding period, 2,761 attestations were made with 2,180 (79%) centres opting for PP and 579 (21%) centres remaining on Base funding. There were two centres on No Steps – Best Start Meadowbank (now attesting Full Pay Parity) and Glenfield Early Learning (closed between Jul22 and Mar23). See below for further discussion on the cost of “No Step” funding.

Again when Extended Pay Parity (EPP) was introduced in November 2022 funding drop, centres were asked to indicate what they might attest to in the next funding period to receive the Jan23 and Feb23 advanced funding at the higher rate. Again, this was indicative only and the first attestation of what they actually opted for is shown in the Mar23 funding drop.

Then when Full Pay Parity (FPP) was introduced, again centres indicated in the November 2023 funding drop, what they may likely attest to in the next funding period (March 2024) to receive the higher funding for Nov23-Feb24 advance period. The March 2024 funding drop was the first attestation as to what the services actually opted for – this time covering three of the four wash-up months. At the same time all salaries were increased from 1 December 2023.

The continual modifications to the Pay Parity funding scheme, especially when changes are not aligned with full wash-up periods means attestation patterns are difficult to establish. The most settled period in terms of consistency was from July 2024 to March 2025.

The most recent change to the Pay Parity funding scheme, the two year moratorium, is a sinking lid for established providers with experienced teacher teams who were unable to meet the Full Parity conditions and stay viable. The threat of exclusion for existing providers (which does not apply to new providers) encouraged 192 more services to attest to FPP than the stable 12-month average preceding the July 2025 funding drop of 1,417 services. The next three funding periods are likely to provide a clearer picture as to the sustainability (or otherwise). Had the moratorium not been introduced, we could have expected to see 75 services per funding drop move to FPP, meaning the moratorium brought forward the more costly Government expenditure by 2.5 years.

Funding Option	Mar-22	Jul-22	Nov-22	Mar-23	Jul-23	Nov-23	Mar-24	Jul-24	Nov-24	Mar-25	Jul-25	12mthAvge	Var to Avge
0. No Step	2	11	13	16	17	7	7	15	4	15	1	11	-10
1. Base	579	437	345	269	185	126	106	91	87	74	68	84	-16
2.1 PP (1-6)	2,180	2,331	1,287	994	777	511	383	297	245	232	195	258	-63
2.2 EPP			1,134	1,490	1,791	1,075	1,081	968	943	889	815	933	-118
2.3 FPP						1,008	1,141	1,343	1,415	1,492	1,609	1,417	192
Grand Total	**2,761**	**2,779**	**2,779**	**2,769**	**2,770**	**2,727**	**2,718**	**2,714**	**2,694**	**2,702**	**2,688**	2,703	-15

Change in Option	Mar-22	Jul-22	Nov-22	Mar-23	Jul-23	Nov-23	Mar-24	Jul-24	Nov-24	Mar-25	Jul-25	
0. No Step		9	2	3	1	-10	0	8	-11	11	-14	
1. Base		-142	-92	-76	-84	-59	-20	-15	-4	-13	-6	
2.1 PP (1-6)		151	-1,044	-293	-217	-266	-128	-86	-52	-13	-37	
2.2 EPP			1,134	356	301	-716	6	-113	-25	-54	-74	
2.3 FPP						1,008	133	202	72	77	117	
Grand Total		**18**	**0**	**-10**	**1**	**-43**	**-9**	**-4**	**-20**	**8**	**-14**	-73

Table 6 Attestation Trend

The inability to establish a consistent pattern is reflected in the Change in Option part of ***Table 6*** above. However, we can see that in Jul22, of the 142 services that had opted in to Base the previous funding period, eleven services moved down to "No Steps" and the remaining 131 services, along with 20 new services moved up to PP.

Note there were 73 fewer services attesting in Jul-25 (2,688) compared to when Pay Parity was first introduced in March 2022 (2,761).

Cost of No-Steps

The MoE publishes a spreadsheet listing the services and funding option that has been attested to for each funding drop. If a service provider misses the deadline for the RS7 submission, MoE will record the attestation as "No Steps". When the late RS7 is submitted, or a service re-submits after accidentally choosing the incorrect funding option, the spreadsheet is then updated (and replaced) – usually by the 20th of the funding month. Services can re-submit any late or incorrect claims for the current funding claim (electronically) and the previous two claims (via paper-based claiming). It is not possible to track the services that submit late and/or re-submit as the spreadsheet is overwritten on or around the 1st and 20th of each month. Likewise if a service has a licence suspended, they are not able to submit an RS7 so it is recorded as No-Steps.

Assuming the spreadsheets available on Education Counts have been updated with all late and re-submissions, there have been a total of 108 attestations of No-Steps to date.

No Steps	Funding Period											
	2022			2023			2024			2025		Grand Total
Centre Size	Mar	Jul	Nov	Mar	Jul	Nov	Mar	Jul	Nov	Mar	Jul	
00 - 20		3	3	2	3	3		5	1	2	1	23
21 - 30	2	1	6	4	6		4	6		3		32
31 - 40		4	1	6	5	1	1	1	1	5		25
41 - 50		2	2	3	1	1	1	3	2	3		18
51 - 80			1		2	2	1			2		8
#N/A		1										1
100+				1								1
Grand Total	**2**	**11**	**13**	**16**	**17**	**7**	**7**	**15**	**4**	**15**	**1**	**108**

Table 7 Services attesting to No-Steps

And if we break this down by region and centre size the same pattern prevails – smaller centres in Auckland have not survived a licence downgrade.

No Steps	Centre Size							
Region	00 - 20	21 - 30	31 - 40	41 - 50	51 - 80	#N/A	100+	Grand Total
01. Northland		8	2	3				13
02. Auckland	11	10	9	6	4	1	1	42
03. Waikato	3	2	2	1				8
04. BOP/Waiariki	2			1				3
05. Hawke's Bay/Tairawhiti	4	2	1	2	1			10
06. Taranaki/Whanganui/Manawatu	2	2		1				5
07. Wellington		4		1	1			6
08. Nelson/Marlb/West Coast			2	2	1			5
09. Canterbury/Chathams		2	5		1			8
10. Otago/Southland	1	2	4	1				8
Grand Total	**23**	**32**	**25**	**18**	**8**	**1**	**1**	**108**

Table 8 No Steps by Region and Centre Size

Of these 108 services, two were new services presumably with licensing delays and are included in the 36 services that re-opened after having at least one No-Step attestation. If we look at the services that reopened after a no-step attestation and exclude these two new services and the "seasonal" services (ski resorts and hospital), and the most recent no-step claims in Jul25 (most likely about to close) we are left with 27 of the 108 services that survived a licence downgrade.

Re-opened Services	Centre Size					
Region	00 - 20	21 - 30	31 - 40	41 - 50	51 - 80	Grand Total
01. Northland		1				1
02. Auckland		4	4	3	1	12
03. Waikato		1				1
04. BOP/Waiariki				1		1
05. Hawke's Bay/Tairawhiti	1	1		1		3
06. Taranaki/Whanganui/Manawatu		1				1
07. Wellington		1		1	1	3
08. Nelson/Marlb/West Coast			2			2
09. Canterbury/Chathams			2			2
10. Otago/Southland	1					1
Grand Total	**2**	**9**	**8**	**6**	**2**	**27**

Table 9 No-Step Survivors

Financial Impact of No-Steps

As we know, the funding of the ECE sector is overly complicated meaning assumptions need to be made in order to quantify the cost of a licence downgrade. If we assume one of the 108 services above is on the 80-99% funding band, has seven children Under 2yo, 13 2yo and 20 on 20 Hrs the cost at No-Steps (0-24% Base Funding) compared to FPP 80-99% funding band is $120k for a single funding period:

Jul25 Funding Drop	U2	2yo	20Hrs	+ 10	**Total**
FPP 80-99%	53,173	54,461	94,997	47,498	250,130
Base 0-24%	29,087	27,167	60,264	13,932	130,451
	-24,086	-27,294	-34,733	-33,566	**-119,679**

Figure 3 Putting the financial penalty of No-Steps into perspective

In this scenario the financial penalty can be impossible to avoid and $120k is nearly 50% of expected funding. For a service on low/no fee operating models this penalty could be enough to prompt service closure, depending on the institution's ability to meet the event from reserves. The liability from teacher salaries at PP levels remains the same regardless of the funding rates applied.

Conclusions

The causes of a centre closure cannot be simplified or attributed to any one cause. This paper describes actual impacts on centres over the period where PP was implemented.

Our findings that centres in Auckland and smaller centres are less financially viable agrees with reports from ECC's members, and individual engagements between ECC and individual providers.

A small centre with only a few teachers with all at the top of the PP salary scale has less ability to opt-in to PP and if they do opt-in they are likely less able to meet the increased salary costs from PP from government funding sources. For larger centres, the distribution of teachers across the salary scale becomes more of a focus and there are teacher retention benefits. It is impossible to meet a variable impact on individual centres through using one nationally-derived set of funding rates (for both large and small providers).

The impact of "no-step" funding penalties is also considered significant and not well understood by providers. If there are providers being assigned "no step" status due to unintentional administrative errors, this sanction is too tough.