New South Wales Auditor-General’s Report
Performance Audit

Early childhood education

Department of Education
The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the Public Finance and Audit Act 1983.

Our major responsibility is to conduct financial or ‘attest’ audits of State public sector agencies’ financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies’ accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency’s operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General’s Reports to Parliament – Financial Audits.

audit.nsw.gov.au

© Copyright reserved by the Audit Office of New South Wales. All rights reserved. No part of this publication may be reproduced without prior consent of the Audit Office of New South Wales.

The Audit Office does not accept responsibility for loss or damage suffered by any person acting on or refraining from action as a result of any of this material.
## Contents

### Executive summary
- 2

### Conclusion
- 2

### Recommendations
- 5

### Introduction
- 6
  1. Setting the scene
- 6
  1.1 Early childhood education
- 6
  1.2 National agreements
- 7
  1.3 Early childhood education service types
- 9
  1.4 Universal access – performance
- 11
  1.5 National Quality Framework – performance
- 12
  1.6 About the audit
- 13

### Key findings
- 15
  2. Targeting of early childhood education funding
- 15
  2.1 Proposed funding strategy
- 16
  2.2 Current funding arrangements
- 18
  2.3 Impediments to effective targeting
- 23
  2.4 Improvements required
- 27
  3. Regulating efficiently
- 28
  3.1 Level of efficiency
- 29
  3.2 National requirements
- 29
  3.3 Improving efficiency of the national system
- 31
  3.4 Improvements within the constraints of the national system
- 32

### Appendices
- 36
  Appendix 1: Response from the Department of Education
- 36
  Appendix 2: Location of the key early childhood education services in New South Wales
- 39
  Appendix 3: Method for calculating performance benchmarks
- 41
  Appendix 4: About the audit
- 42

### Performance auditing
- 44
The NSW Government wants all children to have access to quality early childhood education in their year before school.

Access to early childhood education has been increasing in New South Wales. In 2015, 99 per cent of children in the year before school were enrolled in an education program compared to 82 per cent in 2013. The number of disadvantaged children enrolled in early childhood education also increased from 18,125 in 2013 to 24,214 in 2015.

The government has adopted a benchmark of 95 per cent of children in the year before school being enrolled in quality early childhood education programs for at least 600 hours. Only 77 per cent of children in the year before school were enrolled for at least 600 hours in 2015. New South Wales lags behind other States and Territories on this benchmark. Fees for families in New South Wales are higher, and the NSW Government’s contribution per child lower, than in most other States and Territories.

Early childhood education is delivered through three main service types: government preschools, community preschools and long day care centres. In 2015, 62 per cent of early childhood education enrolments in New South Wales were in long day care services.

Historically, State and Territory governments have been responsible for early childhood education policy and funding, with the Australian Government funding childcare to promote increased workforce participation. Essentially, States and Territories funded preschools and the Australian Government funded long day care and other forms of childcare.

Increasingly, the demarcation between early childhood education and childcare has become blurred, as services integrate education and care. The Council of Australian Governments (COAG) agreed to a nationally consistent policy framework for early childhood education and care services. Since 2008, the Australian Government has provided some funding to the States and Territories to support the provision and regulation of early childhood education through National Partnership Agreements. This is in addition to the funding it provides for childcare through subsidies and rebates to families and providers.

The NSW Government determines how to use this money and subsidises a range of service types. The amount of money the NSW Government receives depends on performance against National Partnership Agreement benchmarks. The Department of Education (the Department) administers early childhood education in New South Wales. This includes subsidising service providers (from both New South Wales and Australian Government sources) and regulating them under the National Quality Framework.

This audit assessed how well the Department targets early childhood education funding towards achieving the NSW Government’s universal access objective and performance benchmarks, and whether the Department regulates the operation of early childhood education efficiently.

Conclusion

Targeting of early childhood education funding in New South Wales is not fully effective, although it has improved in recent years. Better targeting would increase the number of children enrolled in 600 hours of quality early childhood education in the year before school, and reduce cost as a barrier to participation by disadvantaged children, particularly in long day care.

Regulation of early childhood education is efficient in terms of elapsed time to complete key regulatory activities. However, the Department does not collect the data needed to assess whether regulatory activities are performed at an efficient cost.

The Department has implemented a number of improvements to funding models and regulatory processes since 2013, and is working on further improvements.
Targeting of funding is not fully effective, but has improved since 2012

A Ministerial review (Review) in 2012 concluded that early childhood education funding needed to be increased and better targeted to achieve the government's universal access objective. It recommended changes to the way subsidies were allocated to community preschools and the introduction of funding for early childhood education programs in long day care. The government supported the thrust of the Review’s recommendations, and committed to reforming community preschool funding as part of a longer term strategy.

The Department commenced the phased introduction of a new community preschool funding model in 2014. This was based on the principles outlined in the Review, and included transition support for services. As a result, community preschool subsidies are now better targeted and access has increased for children in the year before school and for disadvantaged children. The new model will be implemented fully in 2017, further improving targeting.

In 2015, the Department provided $300 for each child enrolled in an education program in long day care services. It plans to increase this to $675 in 2016 for disadvantaged children. However, the Review recommended a more targeted approach with base subsidies ranging between zero and 30 per cent of what the same child would attract in a community preschool, based on level of disadvantage. The most disadvantaged would receive $1,580 under this approach. The aim was to keep out of pocket fees relatively commensurate across service types and reduce cost as a barrier to participation of disadvantaged children.

There has been no change to the funding approach for government preschools since the Review. Government preschools are relatively expensive and not always located where needed. The Review identified the need to analyse the cost of government preschools with a view to focusing them on meeting needs in the most disadvantaged communities.

Subsidies are not yet tied to the government’s benchmark of 95 per cent of children in the year before school to be enrolled in quality early childhood programs for at least 600 hours. This benchmark arose from the 2013 National Partnership Agreement on Universal Access to Early Childhood Education, which was signed after the Review reported.

Several impediments to more effective targeting

The Department has faced several impediments to targeting funding in the way the Review recommended. Total funding has not been sufficient to implement the Review’s recommendations fully. Australian Government funding through National Partnership Agreements has been short-term, often received late, and difficult to predict in advance. The proportion of Australian Government funding reliant on New South Wales achieving benchmarks has increased, and the benchmarks have become more demanding. The level, short-term nature, and uncertainty surrounding funding made it difficult for the Department to commit to the fundamental reforms recommended by the Review. Poor data quality has also hampered the Department’s ability to make evidence-based funding decisions.

New funding approaches needed for preschools and education in long day care

Implementing the Review’s recommendations for long day care would require funding levels and certainty which have not yet occurred and are not currently committed or expected. The Review’s recommendations were also not designed to meet performance benchmarks for enrolment in 600 hours of quality early childhood education.

There is no documented plan showing how and when New South Wales will achieve all its performance benchmarks. There is also no evidence that the current funding split between service types is the best way to make use of available funds. Increasing participation in education programs in long day care would have a significant impact on achieving performance benchmarks. Long day care has the majority of enrolments, the most number of services delivering education programs, and a broad geographical spread. It also offers flexibility which can be important to working families.
The Department has recognised the need for revised funding approaches for both community preschools and long day care. Subsidies can be linked more directly to enrolment for 600 hours. A clear rationale for the funding split between service types needs to be developed based on achievement of performance benchmarks at least cost.

**National arrangements constrain efficient regulation, but some reform success**

National arrangements governing regulation of early childhood education and care are complex, resource intensive and constrain efficient regulation. The Department has been working successfully at a national level to improve efficiency. Some changes proposed by the Department were implemented in 2014, including reduced timeframes for assessment and rating and a simplified report template. Further changes promoted by the Department are likely in 2017, following the current review of the National Quality Framework.

**Processes good within the constraints of the national arrangements**

Within the constraints of the national arrangements, the Department has been reviewing its regulatory processes and implementing improvements to enhance efficiency. An independent assessment in 2015 found its approval process workflows were efficient and well managed.

As part of its continuous improvement efforts, the Department is implementing technology solutions to facilitate stronger data analytics and inform better targeting of regulatory efforts. It is also reviewing regional staffing arrangements to increase flexibility.

New South Wales does not provide incentives to encourage service provider compliance. Better compliance would reduce the frequency of assessment and rating and save money and time.

**Elapsed time indicates efficiency, but cannot say whether operating at efficient cost**

Elapsed time for completing approvals and assessment and ratings has fallen (improved) coinciding with implementation of process improvements. The Department now meets statutory timeframes for these key regulatory activities. In 2012 and 2013, it did not meet these timeframes and performance lagged behind other jurisdictions. By 2014, the Department had the shortest elapsed time for assessment and ratings of all jurisdictions.

The Department does not, however, collect data on the costs of its various regulatory activities. Therefore, it is not able to prove it is providing regulatory services at an efficient cost.
Recommendations

**The Department of Education should, by 30 June 2017:**

1. develop a new strategy which better targets funding to the achievement of the government’s universal access objective. The strategy should:
   - build on the work of the 2012 Ministerial review
   - include a rationale for the funding split between service delivery models
   - target funding to children in the year before school enrolled for at least 600 hours per year and disadvantaged children in the two years before school, unless there are exceptional circumstances
   - promote improved data quality to underpin evidence-based decision-making.

2. further improve efficiency of regulation by:
   - continuing work at the national level to reduce the complexity and resource-intensiveness of the National Quality Framework
   - using staff more flexibly to meet needs across the State
   - better targeting and utilising resources when its new technology is rolled out
   - providing incentives for early childhood education and care service providers to encourage early compliance with the National Quality Framework.

3. cost its services so that it can effectively monitor and demonstrate it is regulating efficiently.

The Department's response to the audit report is in Appendix 1.
Introduction

1 Setting the scene

1.1 Early childhood education

Universal access to early childhood education is a key government goal

An objective of the NSW Government is for all children to have access to quality early childhood education, in their year before school, delivered by a qualified early childhood teacher in a setting that meets the requirements of the National Quality Framework.

Early childhood education consists of activities and/or experiences that are intended to effect developmental changes in children prior to their entry into primary school.

Research shows that quality education early in life leads to better health, education and employment outcomes later in life, especially for children from disadvantaged backgrounds.

Early childhood education is a State responsibility

The NSW Government is responsible for early childhood education. It sets the policy framework and provides funding for early childhood education programs. It also regulates early childhood services.

The Australian Government is responsible for childcare. It plays a key role in setting national policy and provides funding for approved childcare services.

The Australian Government does not have specific responsibility for the provision of education, including early childhood education. Since 2008, however, it has provided significant funding under the National Partnership Agreements.

Inconsistencies in early childhood education and care policies between State and Territory governments resulted in the Council of Australian Governments (COAG) stepping into the policy arena, with the aim of creating a nationally consistent policy framework for early childhood education and care services.

Increasingly, the demarcation between early childhood education and childcare services is becoming blurred, as services integrate education and childcare. The Australian Department of Education and Training advised the Productivity Commission in 2014 that:

- The Commonwealth works collaboratively with States and Territories to develop national policies. Historically, childcare has been the responsibility of the Commonwealth while early childhood education has been the responsibility of States and Territories.

- Increasingly, however, these boundaries are becoming less defined as services – responding to consumer demand and government policy – are integrating education and care. In these cases, policies are commonly developed through COAG or the ministerial Standing Council on School Education and Early Childhood.
1.2 National agreements

National Partnership Agreements on Early Childhood Education

Prior to 2008, State and Territory governments adopted different approaches to early childhood education. In 2008, COAG endorsed a comprehensive set of national early childhood education goals, outcomes, progress measures and future policy directions. States and Territories committed to ensuring that all Australian children in the year before full time school would have access to a quality early childhood education program by 2013. This commitment was enshrined in a National Partnership Agreement on Early Childhood Education.

There are four performance indicators for assessing performance against the achievement of universal access to early childhood education:

- teacher qualifications – the proportion of early childhood education programs delivered by a degree qualified teacher who meets the National Quality Framework requirements
- access to quality programs – the proportion of children enrolled in the year before school in quality early education programs (this includes achievement of the benchmark for all children, vulnerable and disadvantaged children and Indigenous children)
- program availability – the proportion of children in the year before school enrolled in quality early education programs for 600 hours per year (this includes achievement of the benchmark for all children, vulnerable and disadvantaged children and Indigenous children)
- attendance – the proportion of enrolled children who attended, in the year before school, quality early education programs for 600 hours per year.

Since 2014, Australian Government funding has been tied to achieving benchmarks against indicators (see Exhibit 1). Through the national agreements, the Australian Government has allocated more than $2.0 billion to States and Territories to raise participation levels and increase the number of hours of exposure to programs.

Since 2008, the National Partnership Agreement on Early Childhood Education has been renewed three times. The renewals in 2013 and 2015 each made Australian Government funding conditions tougher. These changes were challenging for some States and Territories, including New South Wales, given that participation in early childhood education programs is not compulsory. Also, the length of these agreements has fallen and some performance-based payments have been delayed, creating funding uncertainty. The recently signed fourth agreement, however, is for two and a half years, one year longer than the 2015 agreement. This should reduce uncertainty to some degree although funding still depends on performance against benchmarks.
### Exhibit 1: National Partnership Agreements on Early Childhood Education

<table>
<thead>
<tr>
<th>National Partnership Agreement</th>
<th>Timeframe</th>
<th>Duration</th>
<th>Key elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>1 January 2009 – 30 June 2013</td>
<td>4.5 years</td>
<td>The first agreement required early childhood education programs to be delivered:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• in the 12 months prior to full time school</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• by a four-year university qualified early childhood teacher</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• for 15 hours a week, 40 weeks a year</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• in the form that meets needs of parents</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• at a cost that does not present barrier to participation</td>
</tr>
<tr>
<td>2013</td>
<td>30 June 2013 – 30 June 2015</td>
<td>2 years</td>
<td>The second agreement:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• set national benchmarks that determine the achievement of the outcome: teacher qualification, access to quality programs, program availability and attendance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• introduced 40 per cent performance base funding*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• changed the definition of program availability from children having access to an early childhood education program for 600 hours to children being enrolled for 600 hours</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• introduced flexibility by changing the timeframe for delivering the program to 600 hours per year</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• linked teacher qualification to the National Quality Framework requirements.</td>
</tr>
<tr>
<td>2015</td>
<td>1 January 2015 – 30 June 2015</td>
<td>1.5 years</td>
<td>The third agreement:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• increased performance based funding* to 70 per cent and conditioned it on meeting benchmarks</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• introduced requirements to fund all types of early childhood education services, including long day care.</td>
</tr>
<tr>
<td>2016</td>
<td>1 January 2016 – 30 June 2018</td>
<td>2.5 years</td>
<td>The fourth agreement:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• maintains the level of performance based funding at 70 per cent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• apportions performance funding equally to the access to quality programs benchmark and program availability benchmark.</td>
</tr>
</tbody>
</table>

* Attendance benchmark was not used to determine performance payment.

Source: National Partnership Agreement on Early Childhood Education and National Partnership Agreements on Universal Access to Early Childhood Education.
National Quality Framework

The National Quality Framework (the Framework) is designed to provide better education and developmental outcomes for young children. It supports the national commitment to universal access to early childhood education. The implementation of the Framework is underpinned by a National Partnership Agreement on the National Quality Agenda for Early Childhood Education.

The Framework includes a national:

- legislative framework that creates a uniform approach to the regulation and quality assessment of education and childcare services in Australia
- quality standard for early childhood education and care services
- quality assessment and rating process.

It also sets early childhood teacher qualification and staff to children ratios.

The Framework applies to long day care, family day care, preschool, and outside school hours care services.

A regulatory authority in each State and Territory is primarily responsible for implementing the Framework. In New South Wales, this role lies with the Department of Education (the Department). Under the Framework, the Department is responsible for the following key regulatory activities:

- approval for an operator to provide early childhood education and care services
- assessing and rating services against the national quality standard
- monitoring and enforcing compliance with the national law and national regulations (for example, unannounced visits, responding to complaints, and targeting specific issues such as staffing arrangements).

The Australian Children’s Education and Care Quality Authority, a national body, is responsible for overseeing the Framework and supporting the consistent and effective implementation of the system across all States and Territories.

Under the agreement, the Australian Government has provided over $61.0 million to States and Territories to help implement the Framework. The Framework commenced on 1 January 2012, and is being implemented progressively.

The Framework is currently under review. As part of the review, national public consultations were conducted in 2014. Comments received during these consultations indicate that implementation of the Framework has resulted in the following benefits:

- ongoing service practice improvement
- nationally consistent regulations and quality standards
- a focus on outcomes for children
- improving educator to child ratios
- increasing professionalism and quality of educators
- building relationships with families.

1.3 Early childhood education service types

In Australia, early childhood education programs are delivered in a range of settings. There are three main service types:

- government preschool
- community preschool
- long day care centre.
The proportion of early childhood education enrolments in each service type varies across States and Territories. The majority of enrolments are in government preschools in South Australia, Western Australia, Tasmania, the Northern Territory, and the Australian Capital Territory. The majority of early childhood education enrolments in Queensland and New South Wales are in long day care services. Victoria has a more even split between community preschool and long day care.

Exhibit 2: Enrolments by service type by jurisdiction, 2015

![Graph showing enrolment by service type by jurisdiction, 2015](image)


Long day care makes up the highest proportion of providers in New South Wales and Queensland, whereas preschools make up the highest proportion of providers in Tasmania, Western Australia, and the Northern Territory. The split between long day care and preschools is relatively even in Victoria and South Australia.

Exhibit 3: Service types by jurisdiction, 2015

![Graph showing service types by jurisdiction, 2015](image)


Locations of preschools and long day care centres in New South Wales are shown in Appendix 2.
1.4 Universal access – performance

New South Wales’ performance against key benchmarks in the National Partnership Agreement on Universal Access to Early Childhood Education has been improving, but generally remains below that of other States and Territories.

Exhibit 4: Performance against the National Partnership on Universal Access to Early Childhood Education benchmarks, 2013

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Access</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All children</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Vulnerable and disadvantaged children</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Indigenous children</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td><strong>Program availability</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All children</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Vulnerable and disadvantaged children</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Indigenous children</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

* Note: These figures have been reported 100 per cent. Due to the population estimates being lower than the actual population count and some double counting of enrolments, the raw figures were greater than 100 per cent.

Method for calculating benchmarks is shown in Appendix 3.


Exhibit 5: Performance against the National Partnership on Universal Access to Early Childhood Education benchmarks for all children, 2015

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Access</strong></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Program availability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attendance</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

Access – percentage of all children in the cohort enrolled in an early childhood education program.

Program availability – percentage of children enrolled in an early childhood education program that are enrolled for 600 hours per year.

Attendance – percentage of children who are enrolled for 600 hours per year that attended for 600 hours per year.

* These figures have been reported 100 per cent. Due to the population estimates being lower than the actual population count and some double counting of enrolments, the raw figures were greater than 100 per cent.

Source: The NSW Audit Office calculations based on ABS data, 2016.

New South Wales performance against benchmarks in 2015 for vulnerable and disadvantaged children and Indigenous children is not available. Between 2013 and 2015, the number of vulnerable and disadvantaged children and the number of Indigenous children enrolled in early childhood education programs have increased by 31 per cent and 47 per cent respectively. Given that the population of disadvantaged children and the population of Indigenous children are unlikely to have increased to that extent, it is plausible that New South Wales performance against the benchmarks has also increased.

Performance against the teacher qualifications benchmark cannot be assessed because valid data for this benchmark is not available.
The latest available comparative data (2013) also shows that:

- the NSW Government contributed the second lowest amount per child of all States and Territories to early childhood education, with only Queensland spending less
- fees charged to parents and carers for early childhood education in New South Wales were the highest of all States and Territories.

In 2014, New South Wales’ median fee per hour for early childhood education program after subsidies was $3.60, the highest in Australia. New South Wales had the lowest proportion of children accessing early childhood education programs without a fee, and the highest proportion of children accessing programs with hourly fees of $5 or more. Also, the majority (48 per cent) of children who accessed early childhood education programs for free were enrolled in government preschools, and the majority (60 per cent) of children who accessed early childhood education programs with an hourly fee of $5 or more were enrolled in community preschools.

Exhibit 6: Distribution of hourly fees for children enrolled in early childhood education programs in 2014

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT*</th>
<th>ACT</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>No fee</td>
<td>3</td>
<td>22</td>
<td>23</td>
<td>71</td>
<td>67</td>
<td>71</td>
<td>80</td>
<td>59</td>
<td>28</td>
</tr>
<tr>
<td>$1 - $4 per hour</td>
<td>66</td>
<td>55</td>
<td>71</td>
<td>20</td>
<td>27</td>
<td>24</td>
<td>17</td>
<td>18</td>
<td>54</td>
</tr>
<tr>
<td>$5 or more per hour</td>
<td>31</td>
<td>23</td>
<td>6</td>
<td>9</td>
<td>6</td>
<td>5</td>
<td>0</td>
<td>23</td>
<td>18</td>
</tr>
</tbody>
</table>

* fees for 3% of enrolled children in NT were unknown.

1.5 National Quality Framework – performance

Under the National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care, States and Territories committed to assess and rate all ‘in scope’ early childhood education services by mid-2015. No State or Territory has done this. New South Wales’ progress towards this objective was slightly below the Australian average. New South Wales, however, has about one-third of all early childhood education services in Australia, and the number of services in New South Wales has increased by 37 per cent since commencement of the National Quality Framework.

Further, the proportion of services that meet or exceed quality standards has increased from 42 per cent to 60 per cent since the Framework was introduced.

In December 2015, New South Wales had 5,233 approved services, of these:

- 3,803 (73 per cent) services had been assessed and rated
- 2,284 (60 per cent) of these services met or exceeded the national quality standard, with ten rated as excellent.

The remaining 1,430 services have not been assessed and rated.
Since 2013, New South Wales has experienced a steep increase in the number of applications for approval to run family day care services, from 144 in June 2013 to 408 in April 2016. The Department has advised that a substantial number of applicants are not engaging genuinely with the regulatory requirements and that the increase is being driven primarily by Australian Government financial incentives.

Exhibit 7: Number of approved services in New South Wales by type

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preschools</td>
<td>800</td>
<td>839</td>
<td>790</td>
<td>2,439</td>
</tr>
<tr>
<td>Long Day Care</td>
<td>2,609</td>
<td>2,649</td>
<td>2,777</td>
<td>7,035</td>
</tr>
<tr>
<td>Family Day Care</td>
<td>152</td>
<td>246</td>
<td>324</td>
<td>722</td>
</tr>
<tr>
<td>Outside School Hours Care</td>
<td>520</td>
<td>1,176</td>
<td>1,213</td>
<td>2,909</td>
</tr>
<tr>
<td>Missing</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,091</td>
<td>4,910</td>
<td>5,104</td>
<td>14,005</td>
</tr>
</tbody>
</table>

Source: Australian Children’s Education and Care Quality Authority, November 2015.

Exhibit 8: Number of services rated against quality standards in New South Wales

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preschools</td>
<td>104</td>
<td>335</td>
<td>142</td>
<td>581</td>
</tr>
<tr>
<td>Long Day Care</td>
<td>767</td>
<td>914</td>
<td>481</td>
<td>2,162</td>
</tr>
<tr>
<td>Family Day Care</td>
<td>58</td>
<td>22</td>
<td>19</td>
<td>99</td>
</tr>
<tr>
<td>Outside School Hours Care</td>
<td>10</td>
<td>160</td>
<td>329</td>
<td>499</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>939</td>
<td>1,431</td>
<td>971</td>
<td>3,341</td>
</tr>
</tbody>
</table>

Source: Australian Children’s Education and Care Quality Authority, November 2015.

In Australia, New South Wales has the highest number of early childhood education and care services, followed by Victoria and Queensland.

Exhibit 9: Comparison of performance against the National Quality Framework

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of approved services</td>
<td>5,233</td>
<td>4,027</td>
<td>2,815</td>
<td>1,160</td>
<td>1,133</td>
<td>225</td>
<td>225</td>
<td>348</td>
<td>15,166</td>
</tr>
<tr>
<td>Proportion of services with quality rating (%)</td>
<td>73</td>
<td>85</td>
<td>82</td>
<td>46</td>
<td>47</td>
<td>93</td>
<td>77</td>
<td>87</td>
<td>74</td>
</tr>
<tr>
<td>Proportion of services meeting or exceeding standards (%)</td>
<td>60</td>
<td>80</td>
<td>74</td>
<td>68</td>
<td>61</td>
<td>65</td>
<td>21</td>
<td>52</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Australian Children’s Education and Care Quality Authority, February 2016.

The Department advised that New South Wales took a more risk-based approach to targeting services for the first rounds of visits than other States and Territories. The difference between New South Wales and the national average is narrowing over time as more services are exposed to the continuous quality improvement process across Australia.

1.6 About the audit

This audit assessed how well the Department targets early childhood education funding towards achieving the government’s universal access objective and performance benchmarks, and whether the Department regulates the operation of early childhood education efficiently.
In assessing the targeting of funding, the audit focused on:

- children in the year before full-time school
- vulnerable, disadvantaged and Indigenous children in the two years before full-time school
- funding provided to government preschools, community preschools and long day care centres
- the period since the commencement of the National Partnership Agreement on Early Childhood Education.

In assessing the efficiency of regulation, the audit focused on services covered by the National Quality Framework and on the period since its inception.

Further information on the audit is in Appendix 4.

For simplicity, the remainder of the report uses the term disadvantaged children to refer to vulnerable, disadvantaged and indigenous children. This includes children from low-income families, with disabilities, or from culturally and linguistically diverse backgrounds.
Key findings

2. Targeting of early childhood education funding

Targeting of early childhood education funding in New South Wales is not fully effective, but has improved in recent years. The Department recognises the need for revised funding approaches for both community preschools and long day care. Better targeting would increase the number of children enrolled in 600 hours of quality early childhood education in the year before school, and reduce cost as a barrier to participation by disadvantaged children, particularly in long day care.

A Ministerial review (Review) in 2012 recommended changes to the way subsidies were allocated to community preschools and the introduction of funding for early childhood education in long day care. The government supported the thrust of these recommendations, and committed to reforming community preschool funding as part of a longer term strategy.

The Department commenced the phased introduction of a new community preschool funding model in 2014. Community preschool subsidies are now better targeted and access has increased for children in the year before school and for disadvantaged children.

In 2015, the Department provided $300 for each child enrolled in an education program in long day care services. The Review recommended a more targeted approach with base subsidies ranging between zero and 30 per cent of what the same child would attract in a community preschool. The most disadvantaged would receive $1,580 under this approach.

Government preschools are relatively expensive and not always located where needed. Subsidies are not yet tied to the government’s benchmark for 95 per cent of children in the year before school to be enrolled in quality early childhood programs for at least 600 hours.

The Department has faced several impediments to targeting funding in the way the Review recommended. Total funding has not been sufficient to implement the Review’s recommendations fully. Australian Government funding through National Partnership Agreements has been short-term, often received late, and difficult to predict. The proportion of Australian Government funding reliant on New South Wales achieving benchmarks has increased, and the benchmarks have become more demanding. Poor data quality has also hampered the Department’s ability to make evidence-based funding decisions.

There is no plan showing how and when New South Wales will achieve all its performance benchmarks. There is also no evidence that the current funding split between service types is the best way to make use of available funds. Increasing participation in education programs in long day care would have a significant impact on achieving performance benchmarks.

Recommendations

The Department should develop a new strategy which better targets funding to the achievement of the government’s universal access objective. The strategy should:

- build on the work of the 2012 Ministerial review
- include a rationale for the funding split between service delivery models
- target funding to children in the year before school enrolled for at least 600 hours per year and disadvantaged children in the two years before school, unless there are exceptional circumstances
- promote improved data quality to underpin evidence-based decision-making.
2.1 Proposed funding strategy

NSW Government supported funding reforms proposed by expert review

The Minister for Education commissioned Professor Deborah Brennan to undertake a major independent review of early childhood education funding. The Review reported in 2012. Its recommendations included better targeting of resources and the introduction of funding for early childhood education in long day care based on level of disadvantage. The Review also identified the need to examine government preschool funding arrangements. The government supported the thrust of the Review’s recommendations, and committed to reforming community preschool funding as part of a longer term strategy.

The terms of reference for the Review were to provide recommendations to:

- support all children in New South Wales having universal access to a quality early childhood education program in the 12 months prior to formal schooling by 2013
- develop an evidence-based funding system to increase access and participation for all children to universal early childhood education and childcare services, in keeping with State and national policy
- achieve funding arrangements that are transparent, equitable, financially viable and sustainable, deliver value for money, and are efficient and effective in meeting the NSW Government’s objectives.

The Review found that:

- approximately one in seven of the State's children was missing out on early childhood education
- 30 per cent of community preschool funding did not focus on the target group of four to five-year-old children
- many four and five-year-old children were not receiving early childhood education from a qualified early childhood teacher, even though they were attending an early childhood service
- funding programs were poorly targeted and not directed at New South Wales strategic priorities for early childhood.

The Review recommended a number of directions and principles to underpin a new funding system for early childhood education in order to achieve the goal of affordable, universal access in New South Wales.

The Review’s most significant recommendations to change the funding system included:

- concentrating government funding on children in the year prior to school (four and five year olds)
- developing a needs based model that ties funding more closely to child disadvantage, and provides funding across service types (including long day care)
- tidying up other elements of the early childhood education funding system to ensure more alignment with the State Plan and National Partnership objectives.

The Review recommended a funding model based on a per-child subsidy linked as closely as possible to the actual income of each family. The Review considered that the scaled model was:

- strongly geared towards affordability for low income families, with higher base rates as family income decreases
- likely to enhance efficiency and effectiveness, as in such a funding model is more closely calibrated to a household’s capacity to pay or location
- consistent with the current direction in school funding to target educational need at the individual level.
The effect of the approach recommended by the Review is illustrated in Exhibit 10.

**Exhibit 10: Impact of the Review model on base funding**

- The subsidy would be significantly higher for a child from a disadvantaged family and would vary depending on whether the child attends a community preschool or long day care centre.
- All children attending community preschools would attract some base subsidy, with the full cost met for the most disadvantaged children and a smaller subsidy payable to children from high income families.
- The base subsidy for children attending long day care would range from zero up to about 30 per cent of what the same child would attract in a community preschool, so that long day care fees were low enough to not be a barrier to access.

The difference in subsidy levels reflects the fact that children attending long day care benefit from Australian Government childcare payments, whereas those attending community (and government) preschools do not.

The Review recognised that increased investment in long day care, targeted to disadvantaged children, was needed if significant progress towards the government’s universal access objective was to be achieved efficiently. Long day care is critical to meeting the objective for a number of reasons including:

- 62 per cent of children in the year before school are enrolled in long day care, but only half of these children are enrolled for 600 hours of quality early childhood education.
- Long day care services comprise 77 per cent of all services providing early childhood education programs in New South Wales.
- Long day care centres are available in areas where there are no preschools.
- Long day care centre operating hours are generally longer than community and government preschool opening hours, and can be more accessible to working parents.
- Long day care fees are a barrier to access for disadvantaged children.
The NSW Government supported the Review’s recommendations and directions to underpin a new funding system for early childhood education. The government decided the Department should give priority to community preschool funding reform as part of a long term strategy.

### 2.2 Current funding arrangements

**New community preschool funding model implemented with better targeting**

The NSW Government’s response to the Review included a commitment to develop a new resource allocation model to fund community preschools. The Department consulted with the early childhood education sector and finalised a new model at the end of 2013.

The new community preschool funding model took effect from January 2014.

The funding model is more equitable and needs-based than the previous model. It is designed to better support the objective of ensuring that all children have access to early childhood education in their year before school. It is broadly consistent with the recommendations of the Review.

Compared to the previous funding model, the new model has the following components:

- higher base funding rates, depending on the preschool’s level of disadvantage
- additional equity funding, with children from low-income families and Indigenous children aged three and over eligible irrespective of where they live
- service loadings for remote and outer regional services
- additional loadings for children with English language needs.

**Exhibit 11: Community Preschool Funding Model**

Source: Preschool funding model one year on, NSW Department of Education, 2015.

New community preschool funding model has brought some marginal improvements.

After one year of operation, enrolments increased among the priority groups. Overall, there has been a:

- 2 per cent increase in enrolments of four and five year olds
- 5 per cent increase in low income and Indigenous enrolments.

In rural and remote areas, there has been a:

- 2 per cent increase in enrolments of four and five year olds
- 3 per cent increase in low income and Indigenous enrolments.
The NSW Government’s early childhood education objectives focus on four and five year olds and disadvantaged three year olds. Australian Government funding under the National Partnership on Universal Access to Early Childhood Education is based on enrolments among four and five year olds. Therefore, it is important to target funding towards four and five year olds and disadvantaged three year olds, and minimise funding of other children.

Since the introduction of the new funding model, the number of three-year-old children from a non-disadvantaged background in community preschools has fallen while the number of disadvantaged three-year-old children has increased. Between 2013 and 2015, the total number of three-year-old children enrolled in community preschools fell by 15 per cent, but the number of enrolled disadvantaged three-year-old children increased by 11 per cent.

**Exhibit 12: Number of three year old children enrolled in community preschools**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disadvantaged three-year-old children</td>
<td>3,244</td>
<td>3,445</td>
<td>3,595</td>
<td>11%</td>
</tr>
<tr>
<td>Non-disadvantaged three-year-old children</td>
<td>10,217</td>
<td>8,569</td>
<td>7,874</td>
<td>-23%</td>
</tr>
<tr>
<td>Total</td>
<td>13,461</td>
<td>12,014</td>
<td>11,469</td>
<td>-15%</td>
</tr>
</tbody>
</table>

*Source: NSW Department of Education, 2015.*

**Adjustment support provided to community preschools**

The Department is implementing several initiatives to help community preschools successfully move to the new funding model.

The Department is providing transition funding while community preschools work on increasing their target group enrolments. In 2014 and 2015, funding levels were maintained fully in all community preschools. In 2016, this will be phased to 50 per cent transition funding, with transition funding stopping altogether in 2017. The number of preschools requiring transition funding fell by 17 per cent during the first 12 months of the new funding model.

Transition funding slows the pace of improvement. In 2014, 47 per cent of community preschool enrolments were not in the year before school. These do not count towards achievement of National Partnership Agreements objectives upon which Australian Government funding is based.

The Department provides a number of support programs to help preschools adjust to the new model.

The Operational Support Program helps community preschools adjust to the new funding model by developing the business skills necessary to operate an efficient and effective service, and ensure sustainability of the service over the longer term.

The Cluster Management Program is a two year trial established in late 2014, and will be completed by the end of 2016. The trial aims to test the potential for cluster management to reduce the pressures on volunteer management committees, as well as improve the governance, service delivery and professional development of community preschools managed by volunteers.

The Sector Development Program helps services:

- improve their leadership and management
- build their capability to function as social enterprises, with mobile preschools and regional community preschools receiving particular support
- improve their method and practice of teaching, especially the design and delivery of education programs
- tailor early childhood education to the needs of Indigenous children and hard to reach families.
New initiatives should lead to incremental improvements in community preschools

In November 2015, the NSW Government announced additional funding for community preschools:

- $13.0 million over four years to increase base funding rates by 2.5 per cent, an escalation of 2.5 per cent in line with NSW Treasury escalation rates (that is, essentially to maintain funding to preschools in real terms)
- $11.0 million for bonus payments of up to 15 per cent of a community preschool service's base rate, to reward centres that enrol more four and five-year-olds for 15 hours per week
- $4.0 million over two years to extend the Operational Support Program for preschools until June 2018
- $12.0 million over four years from 2016 for a 'Preschools for Sustainable Communities' program, to help maintain viability for community preschools in rural and remote areas.

The initiatives are likely to increase the number of four and five-year-old children enrolled in quality preschool programs in the year before full-time school, especially from low-income and Indigenous families. The Department recognises that the improvements resulting from these initiatives will, however, be incremental.

Funding to long day care has increased, but not as the Review recommended

Affordability for disadvantaged children in long day care remains an issue. Funding of early childhood education in long day care has increased, but not yet to the extent recommended by the Review or directed to disadvantaged children in the year before school. Further increases and better targeting are planned for 2016–17.

As mentioned above, the NSW Government decided the Department should give priority to community preschool funding reform as part of a long-term strategy. Reforms to the funding of early childhood education in long day care services were to be implemented subject to the availability of funding, including continued Australian Government contributions.

The Review recommended subsidies for children enrolled in long day care, ranging from zero to 30 per cent of what the same child would receive in a community preschool. This level of contribution recognises that children attending long day care benefit from Australian Government subsidies, but those attending community or government preschools do not. The Review said:

This would significantly increase both the actual and reported level of participation in early childhood education and go much of the way to closing the participation gap.

As part of its long-term strategy, the Department implemented in 2015 a new $20.0 million fund for long day care services which offer quality early childhood education programs. Grants under the Long Day Care National Partnership Grants program (the Grants program) were made on the condition that long day care service providers submit quality and detailed data on access, participation and programs. Access to such data in long day care has been a significant obstacle for the Department to measuring performance and obtaining appropriate levels of national partnership funding. Service providers received $300 per child participating in early childhood education programs in the year before school irrespective of disadvantage.
The Long Day Care National Partnership Grants program has been extended to 2016 with a change in funding arrangements. Payments will start at $300 per child, rising to $675 for a disadvantaged child enrolled for 600 hours. This represents an improvement over the untargeted 2015 grants. The maximum per-child subsidy of $675 remains below the maximum per-child subsidy recommended by the Review. The Review recommended that the most disadvantaged children enrolled in long day care receive 30 per cent of the equivalent of the community preschool base rate. This would equate to $1,580 per annum based on the maximum subsidy base rate for a community preschool of $5,270 (refer Exhibit 11). On the other hand, children in long day care who are not disadvantaged would receive no subsidy under the Review’s recommendations.

The Grant program is not available to services that received funding under a legacy program. This program provides $15.0 million per year to 10,700 children in 405 long day care services on an historical basis and is not linked to the provision of early childhood education. This funding is therefore not well targeted. The Department plans to require that, in future, services have a qualified early childhood teacher deliver their preschool programs. This is an improvement, but is inferior to targeting money to support disadvantaged children enrolled for 600 hours per year in long day care.

**Government preschools remain expensive and not located where most needed**

The Review recommended further analysis of the cost of government preschools with a view to focusing them on meeting needs in the most disadvantaged communities. NSW Treasury conducted a review of government preschools in consultation with the Department in 2015. The results and recommendations are Cabinet-in-confidence. There has been no action as yet on this issue.

Government preschools in New South Wales receive the highest level of funding per child. In 2014–15 they received on average more than twice that of community preschools and 18 times that of long day care.

It is therefore imperative that these preschools be used sparingly and only in exceptional circumstances where the market is failing.

**Exhibit 13: Average funding allocation per child in New South Wales by service type 2014–15**

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Total funding allocation</th>
<th>Number of enrolments</th>
<th>Average allocation per child</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government preschools</td>
<td>$30 million*</td>
<td>4,356</td>
<td>$6,887</td>
</tr>
<tr>
<td>Community preschools</td>
<td>$160 million</td>
<td>49,280**</td>
<td>$3,247</td>
</tr>
<tr>
<td>Long Day Care</td>
<td>$15 million</td>
<td>39,823***</td>
<td>$377</td>
</tr>
</tbody>
</table>

* NSW Department of Education estimate.
** includes 3 year old children.
*** the number does not include all enrolled children in long day care.

Source: NSW Department of Education and ABS.

Staff wages in government preschools are higher than in community preschools and long day care. About 80 per cent of the total cost of government preschools is labour.

The Department operates 100 government preschools. Of these, 11 are designed specifically for Indigenous children, and an additional 13 are located in schools with a high number of Indigenous children enrolled. The Department advised that children with high needs are given priority.
However, some government preschools are located where the market should be able to provide early childhood education services and where socio-economic status is not particularly low. This presents an opportunity to redirect funding for government preschools to disadvantaged areas where the market is not providing early childhood education services, or to long day care or community preschools. Exhibit 14 shows the location of government preschools in Sydney and the socio-economic index of suburbs.

**Exhibit 14: Government preschools in Sydney**

Note: Suburbs with the highest socio-economic disadvantage have the lowest SEIFA index score and are illustrated with the darkest shading of red.


**The Department has not yet linked funding to key performance benchmark**

There is an opportunity for the Department to more closely target early childhood education funding to enrolments for 600 hours per year in the year before school.

Currently, New South Wales does not make this a funding requirement. Victoria and Queensland only allocate funding to services for children enrolled for a minimum of 600 hours.

**Exhibit 15: Victoria and Queensland tie funding to enrolment for 600 hours**

<table>
<thead>
<tr>
<th>Victoria</th>
<th>Early childhood education services in Victoria can only apply for per-child funding provided that the child is enrolled for at least 600 hours per year. Children who are enrolled for less than 600 hours are not funded. The Victorian Government implemented the 600 hours requirement in stages. From 1 July 2010, services were required to enrol children for 400 hours to early childhood education programs, which was raised to 430 hours in 2011 and 600 hours from January 2013. In the 2015 funding guidelines, there are no exemptions to the 600 hour requirement. Services are encouraged to implement a 600 hour program that is accessible and affordable for families, and delivered flexibly across days and weeks of the year. Early childhood education services are paid a base-rate for each eligible child enrolled. They can enrol a child for more than 600 hours but will receive no extra funding as a result.</th>
</tr>
</thead>
</table>
Queensland

Early childhood education services in Queensland are only eligible for per-child funding if the child is enrolled for at least 600 hours a year. They can enrol children for over 600 hours per year. However, there is no incentive to do so as their funding will not increase as a result.

Most preschools operate on a 30 hour fortnight, with children attending alternate days each week. Long day care services generally run two 7.5 hour days of an early childhood education program for children in the year before school.


The Department expects all National Partnership Agreements on early childhood education for the foreseeable future to tie, at least in part, Australian Government funding to achieving the 600 hours enrolment target. Therefore, all other things being equal, the better New South Wales performs on this indicator the higher the amount it will receive from the Australian Government for early childhood education.

2.3 Impediments to effective targeting

Insufficient funding to implement the Review’s funding approach fully

Funding to early childhood education service providers has been and remains below the level the Review estimated was required to implement its recommendations fully.

The review’s economic modelling suggested that with investment in the vicinity of $260.5 million per annum (2011–12) and full implementation of the funding model, the following could be expected:

- more than 87,000 four and five-year-old children (representing between 95 per cent and 100 per cent of the cohort) could participate in an early childhood education program for an average of 600 hours per annum
- State funded community preschools would continue to provide about half of all early childhood education places with more of these available to four and five year olds
- government preschools would continue to make up about five per cent of early childhood education places
- long day care providers would be funded to offer 600 hours of early childhood education to four and five year olds at fees comparable to those in preschools.

Exhibit 16: Funding allocation to early childhood education service providers

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
</tr>
<tr>
<td>Community preschools</td>
<td>159</td>
<td>157</td>
<td>143</td>
<td>160</td>
</tr>
<tr>
<td>Long day care</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Government preschools</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>204</strong></td>
<td><strong>202</strong></td>
<td><strong>188</strong></td>
<td><strong>205</strong></td>
</tr>
</tbody>
</table>

Source: NSW Department of Education.
Taking into account inflation, the annual allocation to service providers has been on average $76.0 million or 28 per cent below the level the Review suggested was needed to support the universal access to early childhood education in New South Wales.

**Exhibit 17: Actual funding vs the Review adjusted estimate for payments to services**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total allocation to early childhood education services ($ million)</td>
<td>202</td>
<td>188</td>
<td>205</td>
</tr>
<tr>
<td>The Review's adjusted estimate for early childhood education and care service providers ($ million)</td>
<td>267</td>
<td>274</td>
<td>281</td>
</tr>
<tr>
<td>Difference in allocation ($ million)</td>
<td>-65</td>
<td>-86</td>
<td>-76</td>
</tr>
<tr>
<td>Difference (%)</td>
<td>-24</td>
<td>-31</td>
<td>-27</td>
</tr>
</tbody>
</table>

Note: Escalation rate of 2.5% per annum.

**Australian Government funding has become more uncertain over time**

A possible reason for lower spending than recommended by the Review has been funding uncertainty. The high relative level of Australian Government contribution to early childhood education, the increasing proportion of this funding ‘at risk’, and the diminishing length of National Partnership Agreements have together led to increased funding uncertainty.

In recent years, the Australian Government funding contribution to early childhood education in New South Wales fluctuated significantly.

**Exhibit 18: The Australian Government funding allocation to New South Wales**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation under National Partnership Agreements on Early Childhood Education</td>
<td>82</td>
<td>143</td>
<td>0</td>
<td>178</td>
</tr>
<tr>
<td>Allocation under National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care</td>
<td>6</td>
<td>10</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>88</td>
<td>153</td>
<td>4</td>
<td>191</td>
</tr>
</tbody>
</table>

Source: NSW Department of Education.

The Department decided to spend approximately $50.0 million a year of the Australian Government receipts, with the remainder held by the NSW Treasury for release in future budget allocations to the Department. The Department advised that $227 million of the Australian Government receipts for the period up to 2014–15 have been allocated across the budget forward estimates.

This mitigates the risk arising from the variability and uncertainty in Australian Government funding. The $227 million held by Treasury will assist the Department to maintain existing funding commitments to community preschools for around four years.

Data provided by the Department indicates that the amount of Australian Government funding spent has fluctuated between $41.2 million and $63.7 million, with an average of $52.0 million. In conjunction with NSW Government funding, this has been sufficient for the phased implementation of the new community preschool funding model.

**New South Wales has spent less on early childhood education than budgeted**

Since 2011–12, annual expenditure on early childhood education in New South Wales has been below budget. Over the four years up to 2014–15, New South Wales spent $350 million less than budgeted for early childhood education.
Budget and revised expenditure data in Exhibit 19 include the Australian Government funding under the National Partnership Agreements.

**Exhibit 19: New South Wales budget vs expenditure**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
</tr>
<tr>
<td>Budget</td>
<td>278.7</td>
<td>377.1</td>
<td>301.4</td>
<td>361.1</td>
<td>1,318.3</td>
</tr>
<tr>
<td>Revised expenditure</td>
<td>238.4</td>
<td>229.8</td>
<td>236.8</td>
<td>262.9</td>
<td>967.9</td>
</tr>
<tr>
<td>Difference</td>
<td>-40.3</td>
<td>-147.3</td>
<td>-64.6</td>
<td>-98.2</td>
<td>-350.4</td>
</tr>
</tbody>
</table>

Source: Budget papers and NSW Department of Education.

‘Revised expenditure’ is reported annually in State Budget Papers and is the Department’s assessment of the forecast expenditure for the financial year. The forecast expenditure is assessed as at the end of April each financial year and is influenced by a number of factors that occur following the publication of the State Budget. These factors include adjustments in Australian Government funding arising from the Mid-Year Economic and Fiscal Outlook, along with adjustments in NSW Government funding following the mid-year review process. This explains the variation between the $227 million held by NSW Treasury and the difference noted in Exhibit 19.

**Exhibit 20: Actual spending on early childhood education in New South Wales by source of funding**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
<td></td>
</tr>
<tr>
<td>NSW Government</td>
<td>190.5</td>
<td>174.2</td>
<td>195.6</td>
<td>199.2</td>
<td>759.5</td>
</tr>
<tr>
<td>Australian Government</td>
<td>47.9</td>
<td>55.6</td>
<td>41.2</td>
<td>63.7</td>
<td>208.4</td>
</tr>
<tr>
<td>Total</td>
<td>238.4</td>
<td>229.8</td>
<td>236.8</td>
<td>262.9</td>
<td>967.9</td>
</tr>
</tbody>
</table>

Note: Total funding to early childhood education includes funding to community and government preschools and long day care, funding to other programs and cost of administration and regulation.

Source: Budget papers and NSW Department of Education.

As discussed earlier, up until 2013, the Australian Government’s financial contribution under the National Partnership Agreement on Early Childhood Education was not based on New South Wales’ performance in meeting benchmarks. In 2014, 40 per cent of available funding became subject to performance against benchmarks in the National Partnership Agreement. In 2015, 70 per cent of available funding became subject to performance against benchmarks in the National Partnership Agreement.

The Department’s data indicates that between 2013–14 and 2014–15, New South Wales received $68.0 million less than on offer under the National Partnership Agreement because it did not meet all agreed benchmarks.

**Exhibit 21: Annual National Partnership Agreement funding to New South Wales**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
<td></td>
</tr>
<tr>
<td>Funding on offer</td>
<td>82</td>
<td>143</td>
<td>131</td>
<td>115</td>
<td>471</td>
</tr>
<tr>
<td>Funding received</td>
<td>82</td>
<td>143</td>
<td>0</td>
<td>178</td>
<td>403</td>
</tr>
</tbody>
</table>

Source: NSW Department of Education.
Delays in receiving Australian Government funding have also created uncertainty. These delays have occurred because performance-based funding is only provided after performance is known, and there have routinely been lengthy negotiations between the Australian Government and the Department over actual performance levels. As discussed below, true levels of access and participation are clouded by poor data quality.

**Data quality has been an impediment to performance assessment and effective targeting of funds**

The Department needs to improve data quality so that it can measure performance against benchmarks accurately and more effectively target funding.

Data on early childhood education and childcare in Australia have historically been fragmented, underdeveloped and lacked national comparability. Key issues affecting data quality and comparability include lack of consistency in concepts, methods and definitions, scope and coverage, and reporting periods.

The quality of early childhood education data has improved since the introduction of a national collection. The national collection data is sourced from State and Territory education departments and the Australian Government. Data from the Australian Government is used as a supplementary source for long day care in most States and Territories.

The quality of data held by the Department on access and participation in long day care is a problem.

Reporting to the Australian Government on the provision of early childhood education is not mandatory for long day care. Underreporting by long day care has impacted heavily on New South Wales because long day care comprises 77 per cent of early childhood education services. One implication has been regular disagreements between the Australian and NSW Governments over New South Wales' performance against National Partnership Agreements benchmarks.

States and Territories cannot access data from the collection at unit record level due to provisions relating to the privacy and confidentiality of information obtained by the Australian Bureau of Statistics, the repository of the data. This arrangement significantly hinders the Department's ability to develop strategies to effectively target funding.

In the last quarter of 2015, the Department collected basic information from long day care services to enable payment to these services under the Grant program. It also undertook a ‘one off’ survey to gather a range of data on long day care in New South Wales. The Department received responses from almost 90 per cent of the 2,734 services surveyed. This provides New South Wales with a much richer source of data on capacity, cost, preschool programs and teacher quality to better understand the sector. The data from a one-off survey will, however, become less valuable for policy and planning purposes over time. The Department needs to consider how it will maintain its knowledge about capacity, cost, preschool programs and teacher quality in long day care.

The data the Department holds on access and participation in community and government preschools is also not sufficiently detailed for optimal targeting of resources and development of policy and strategies. The Department has taken steps to improve the quality of early childhood education data held on preschools. In late 2014, the Department commenced a project to reform the collection of community preschool data. The Department is planning to enhance the collection of census data at a child level, including information on program/sessional hours. The system is also expected to enable better and faster data analysis. The collection will be carried out twice a year. The first collection under the new design occurred in March 2016.

The Department also has limited data on children in the year before school who do not participate in early childhood education, and the reasons for their non-participation.
The ultimate aim for the Department should be to target resourcing based on the needs and circumstances of each individual child. Also, the Department should target its early childhood education funding to best address market distortions and failures. That is, funding should be directed to where the market (private and not-for-profit) is not providing sufficient early childhood education in a manner that meets the needs of children, parents and communities at a price that is not a barrier to participation.

This will require the Department to obtain much better knowledge of:

- the early childhood education market
- the current performance of individual providers against early childhood education objectives
- the number and characteristics of children
- the needs of children, parents and communities
- the ability and willingness of parents and guardians to pay.

The Department is planning to spend $5.5 million over the next three years to further improve data collection from services.

This needs to be supplemented by work to improve its knowledge of demand, supply and barriers to participation.

### 2.4 Improvements required

**The Department has recognised the need for substantial funding reform**

New South Wales remains considerably short of the target for 95 per cent of children in the year before school to be enrolled in quality early childhood education programs for at least 600 hours. While the exact percentage is clouded by the data quality problems, in 2015 it was estimated at 77 per cent.

While the Department has identified some strategies to improve access, these are subject to funding availability. There is no documented plan which indicates:

- how and when the government’s benchmark of 95 per cent of children enrolled in 600 hours of quality early childhood education in the year before school will be achieved
- if and when the Review’s funding approach for long day care will be implemented fully
- whether the government preschool model is to be reformed and if so, by when.

The Department’s internal documents show it has recognised that substantial reform of the funding approach to community preschools and long day care is needed to improve targeting and significantly increase the number of children in the year before school enrolled in quality early childhood education programs for at least 600 hours. The Department advised that it has started to work on new funding models for both community preschools and long day care.

The new approach to funding needs to include a clear rationale for the funding split between service types (government preschools, community preschools, and long day care centres) and a clear pathway to the 95 per cent benchmark.
3. Regulating efficiently

Regulation of early childhood education is efficient in terms of elapsed time to complete key regulatory activities. However, the Department does not collect the data needed to assess whether regulatory activities are performed at an efficient cost. The Department has implemented a number of improvements to regulatory processes since 2013, and is working on further improvements.

National arrangements governing regulation of early childhood education and care are complex, resource intensive and constrain efficient regulation. The Department has been working successfully at a national level to improve efficiency. Some changes proposed by the Department were implemented in 2014, including reduced timeframes for assessment and rating and a simplified report template. Further changes promoted by the Department are likely in 2017, following the current review of the National Quality Framework.

Within the constraints of the national arrangements, the Department has been reviewing its regulatory processes and implementing improvements to enhance efficiency. An independent assessment in 2015 found its approval process workflows were efficient and well managed.

As part of its continuous improvement efforts, the Department is implementing technology solutions to facilitate stronger data analytics and inform better targeting of regulatory efforts. It is also reviewing regional staffing arrangements to increase flexibility.

New South Wales does not provide incentives to encourage service provider compliance. Better compliance would reduce the frequency of assessment and rating and save money and time.

Elapsed time for completing approvals and assessment and ratings has fallen (improved) coinciding with implementation of process improvements. The Department now meets statutory timeframes for these key regulatory activities. In 2012 and 2013 it did not meet these timeframes and performance lagged behind other jurisdictions. By 2014, the Department had the shortest elapsed time for assessment and ratings of all jurisdictions.

The Department does not, however, collect data on the costs of its various regulatory activities. Therefore, it is not able to prove it is providing regulatory services at an efficient cost.

Recommendations

To further improve efficiency of regulation, the Department should:

- continue working at the national level to reduce the complexity and resource-intensiveness of the National Quality Framework
- use staff more flexibly to meet needs across the State
- when the new technology is rolled out, use data collected to better target and utilise resources, such as centralised scheduling
- provide incentives for early childhood education and care service providers to encourage early compliance with the National Quality Framework.

To effectively monitor and demonstrate it is regulating efficiently, the Department should cost its activities.
3.1 Level of efficiency

Elapsed time is at an efficient level

The Department now meets all statutory timeframes for approvals and assessment and ratings.

In 2012 and 2013, the Department did not meet statutory requirements for the completion of approvals and assessment and ratings and was lagging behind other jurisdictions.

Between 2012 and 2015, the Department reduced the average time to:

- complete assessment and rating reports from 91 days to 37 days (over 59 per cent reduction)
- process all types of applications from 21.5 days to 16.5 days (over 23 per cent reduction).

In 2014, New South Wales’ average elapsed time for assessment and rating was better than all other jurisdictions.

Exhibit 22: Average elapsed time to finalise assessment and rating in 2014

<table>
<thead>
<tr>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>NT</th>
<th>ACT</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>37</td>
<td>51</td>
<td>57</td>
<td>66</td>
<td>48</td>
<td>54</td>
<td>62</td>
<td>56</td>
<td>54</td>
</tr>
</tbody>
</table>


Efficiency of regulatory costs cannot be assessed

An important indicator of efficiency is the cost per activity undertaken. However, the Department does not measure the cost of its various regulatory activities.

As a result, it does not have the information it needs to assess whether:

- the cost per regulatory activity is falling
- there are variations between regions
- it compares well to other jurisdictions.

The Department advised that costing of activities is difficult because multiple activities are performed during site visits. It also advised that the cost of activities varies depending on:

- the complexity of each case
- the travel time required to undertake activities
- the type of service regulated.

These are not insurmountable impediments to monitoring the cost of activities to the level of reliability useful for tracking and assessing overall trends and making high level comparisons.

Better costing of regulatory activities would also allow evidence-based analysis of what factors are impacting on costs and identify cost reduction opportunities.

3.2 National requirements

National arrangements constrain efficient regulation

The National Quality Framework (the Framework) is a system for regulating and assessing the quality of early childhood education and childcare services. It was developed to drive continuous improvement in service quality and improve regulatory efficiency.
Implementation of the Framework has contributed to improved quality in the provision of early childhood education and childcare services. However, the Productivity Commission’s report on Childcare and Early Childhood Learning commented that the regulatory effort under the Framework is complex, resource intensive and impacts on the pace of assessment and rating.

**National Quality Standard**

The National Quality Standard, a key regulatory element of the Framework, is complex and inflexible.

The National Quality Standard sets a benchmark for the quality of early childhood education and childcare services. It consists of seven quality areas. Across these areas there are 18 standards. Each standard contains a number of elements that describe the outcomes that contribute to the standard being achieved. There are 58 elements in total. All standards and elements are allocated equal importance.

The assessment and rating process is resource intensive and inflexible.

Each of the elements in the National Quality Standard must be assessed and rated. The same National Quality Standard is applied to all services, from long day care and preschools to outside school hours care and family day care.

The lower the rating of a service, the more frequent assessment and rating is required. The national guidelines recommend re-assessing services that meet or exceed standards every three years. Services rated ‘Working Towards National Quality Standard’ are to be re-assessed within 12 months. In December 2015, 31 per cent of services in Australia and 40 per cent services in New South Wales were rated ‘Working Towards National Quality Standard’.

A service’s overall quality rating is determined by its lowest rating against the 58 separate elements. Services must be re-assessed against all elements, irrespective of previous ratings for each area and the timeframe since last assessment. So, for example, if a service meets 57 elements, but is rated ‘Working Towards National Quality Standard’ on one element, it is rated overall as ‘Working Towards National Quality Standard’. This means that the Department must reassess the service on all 58 elements and if the Department follows the national guidelines this will happen within 12 months from the initial assessment.

The Productivity Commission has recommended:

- the National Quality Standard be simplified and tailored to suit different service types
- the assessment and rating process be further streamlined
- exploring ways to determine services’ ratings so they are more reflective of overall quality.

**Financial incentives**

Appropriate fee structures can encourage service providers to give priority to achieving the National Quality Standard, and thereby reduce the frequency of assessment and rating.

At present, fees are not administered in a way which rewards early achievement of the Standard and penalises those services which repeatedly do not meet the Standard.

Fees charged to service providers are also low. For example, the annual fee for a family day care provider with six to 20 family day care educators is $275, irrespective of the service’s quality rating.
Regulation funding

New South Wales received $26.9 million between 2010–11 and 2013–14 from the Australian Government to assist with implementing the Framework. However, there has been no Australian or NSW Government commitment to provide long-term funding for early childhood education regulation. This uncertainty has negatively impacted on the permanent appointment of staff. There has been high turnover, regular vacancies and substantial training and retraining efforts.

3.3 Improving efficiency of the national system

The Department has been lobbying for national change, and has had some success

New South Wales has been working with the Australian Government, other States and Territories, and the Australian Children’s Education and Care Quality Authority to reduce the complexity, inflexibility and resource-intensiveness of the National Quality Framework.

In November 2013, the Department responded on behalf of the NSW Government to an operational policy review with proposals to streamline assessment and rating. The New South Wales proposals included issues such as processes, timeframes, communication, methodology and guidance.

In August 2014, the Department provided a submission through COAG to the review of the National Quality Framework. Changes to the Framework resulting from the COAG review are expected in 2017.

In 2014, New South Wales was instrumental in establishing a national cross-agency working group, which is exploring the issues of fraud in the family day care sector from a strategic, national perspective.

The Department regularly communicates and shares its ideas with other jurisdictions both formally and informally. The National Quality Agenda governance structures provide a number of formal avenues for jurisdictions to share information. Australian Children’s Education and Care Quality Authority also provides opportunities for jurisdictions to communicate and share ideas.

While the design of the National Quality Framework remains a barrier to efficient regulation, the Department has been able to attain some incremental improvements at the national level, including reduced timeframes for assessment and rating, and a simplified report template.

The Department shares better practice with other jurisdictions

New South Wales also works with individual jurisdictions to share better practice. In particular, the Department has developed close ties with counterparts in Victoria and Queensland.

Since 2014, the Department has:

- conducted a survey of all jurisdictions on the implementation of the National Quality Framework, analysed responses and provided feedback to participating jurisdictions
- shared its performance monitoring tool with the Queensland Regulatory Authority, which later implemented and adopted versions of this reporting tool to monitor performance
- presented to other jurisdictions on the New South Wales electronic assessment instrument (eSAM) tool, assessment and rating streamlining initiatives, and the Structured Assessment Methodology
- discussed approaches to improve compliance of the family day care services with the Victorian Regulatory Authority.
3.4 Improvements within the constraints of the national system

The Department has implemented several initiatives to improve the efficiency of its processes

Within the constraints of the National Quality Framework, the Department has been reviewing its regulatory processes and implementing improvements designed to enhance efficiency.

In 2013, the Department reviewed its assessment and rating practices to improve overall efficiency and effectiveness. At that time, the Department did not meet statutory requirements for the completion of approvals and assessment and rating and was lagging behind other jurisdictions. Since then, it has implemented a range of improvements. These include:

- streamlining approvals and assessment and rating processes (for example, electronic issuing of certificates, tailored checklists, removing or redesigning inefficient processes, devolving clerical work, simplified tools and guidance material, reducing double handling)
- greater use of technology for data collection and report preparation
- a risk-based approach to approvals and compliance monitoring
- simplified templates and forms
- enhanced staff training and development
- greater collaboration with service providers.

An indicator of its success is that an independent assessment in 2015 found its approval process workflows were efficient and well managed.

Examples of the major initiatives implemented or under way are described below.

Data remediation

The 2013 review identified that New South Wales data on early childhood education and care services maintained in the national database - the National Quality Agenda IT System - was unreliable.

To improve data quality and enable performance monitoring and reporting functions, the Department implemented a data remediation project. As a result, the national database:

- contains reliable information on early childhood education and care services
- is now a single source of information and data for approvals and assessment and rating.

This data relates to service providers and includes:

- service location, size and number of teachers
- approvals and waivers
- assessment and rating results
- compliance issues if any.

It is not data about enrolments, participation and programs. The shortcomings of such data are discussed in section 2.3.
Risk-based approach to regulation of family day care services

The Department now uses a risk-based approach to prioritise its regulatory approval, compliance and enforcement activities. This is designed to ensure its regulatory operations are focused on areas that pose the highest risk to achieving its regulatory objectives.

For example, through compliance activities, the Department identified family day care services as a risk area. In 2015, the Department introduced additional approval requirements for family day care services. This is less resource intensive than identifying and dealing with problems once a family day care provider is approved.

Improving staff capability

In 2014, the Department undertook a learning need analysis across the regulatory branch to determine capabilities gaps and development needs. This resulted in the development of the Learning and Development Strategy, which includes a training plan. Since then, the Department has implemented a comprehensive program to improve staff capabilities and performance.

Service provider engagement and development

The efficiency of the Department’s regulatory functions is impacted by service providers’ level of understanding of National Quality Framework requirements.

The Department has improved its consultation with providers and incorporated their feedback into the changes it has made to the assessment and rating process. The Department has also improved the information and guidance to service providers on the Framework requirements and how to better manage the assessment and rating process.

The early childhood education and care representatives we spoke with said the Department has streamlined the process, improved consistency and substantially reduced the number of appeals. Also, they praised the Department for active and proactive information sharing, and providing much better feedback to service providers on regulation.

Structured Assessment Methodology

The Department continues to seek improvements to its regulatory processes. In 2014, the Department conducted a comparative analysis of jurisdictional assessment and rating practices and processes to identify better practice and adopt it in New South Wales. Consequently, the Department developed a structured assessment methodology to improve consistency and efficiency of assessment in New South Wales. The structured assessment methodology:

- has tools and techniques that are designed to support improved evidence collection
- enables targeted training and development opportunities for assessment officers to improve their skills relevant to the assessment and rating against quality standards
- assists in the management of provider expectations by creating a transparent assessment process.
The Department started to roll out the Structured Assessment Methodology at the end of 2015. This initiative should lead to further improvements in both the efficiency and effectiveness of assessments.

Integrated assessment tools

To streamline the assessment and rating process, the Department refined and integrated the following three tools:

- the service’s quality improvement plan
- the assessing officer’s assessment instrument
- the ratings report.

Exhibit 24: Integrated assessment and rating processes and tools

ACO – Assessment and Compliance Officer.
NQAITS – National Quality Agenda IT System or national database.
ECEC Server – Early Childhood Education and Care Server.
QIP – Quality Improvement Plan.
The quality improvement plan template includes prompts to guide service providers through a process of self-assessment and assists them in developing an effective improvement plan while limiting the content to the necessary information. The template is in an electronic format that can be lodged to the national database where the Department stores all information on services and aligns with the assessment tool.

The Department also developed an electronic assessment instrument to support the Structured Assessment Methodology. It is a forms-based e-instrument (eSAM) designed to capture assessment and rating information and evidence for determining a rating and transferring this to a report. It is designed to improve efficiency through:

- end to end streamlining of assessment and rating stages and processes
- improved integration of evidence collection and report processing
- removal of steps in the previous manual process.

eSAM also provides the opportunity for centralised scheduling of assessment and rating, and improved business intelligence.

There are still areas with untapped potential

There remain some areas where the Department could improve the efficiency of its regulatory processes.

Technology solutions currently being rolled out will facilitate stronger data analytics to inform better targeting of efforts.

Staff utilisation can be improved. Currently, staffing allocations are the same in each region irrespective of the number of service providers and their location. The Department has recognised this as a problem and is currently considering reform options.

New South Wales does not provide incentives to encourage service provider compliance. Better compliance would reduce the frequency of assessment and rating for the Department and save it money and time.

Victoria offers an example of such an approach. Services in Victoria are eligible for State funding only if they achieve a satisfactory rating against the National Quality Standard. This approach encourages service providers to comply with the National Quality Standard to ensure that they receive State funding.
Appendices

Appendix 1: Response from the Department of Education

Ms Margaret Crawford
Auditor-General of NSW
GPO Box 12
SYDNEY NSW 2001

Dear Ms Crawford

Thank you for providing me with a copy of the report on the Performance Audit of the Early Childhood Education and Care Directorate in your letter dated 22 April 2016.

Please find attached a copy of the Department of Education’s formal response for inclusion in the published report.

The Department welcomes the NSW Auditor General’s report as an opportunity to highlight the success of reforms that have already been implemented in NSW, as well as look to the next steps to overcome the existing challenges and build on the achievements of the past few years.

I am pleased to inform you that the Department accepts all of the report’s recommendations many of which are already underway, to assist in continuing with ongoing reforms and ensuring that high quality early childhood education and care is available to the children and families of New South Wales.

I would like to thank the review team of the Audit Office of New South Wales for their work and also recognise the officers within the Department who provided assistance.

Yours sincerely

Peter Riordan
ACTING SECRETARY
DEPARTMENT OF EDUCATION
/ 5 May 2016
The NSW Department of Education welcomes the NSW Auditor General’s report *Performance Audit - Early Childhood Education*.

The Department is focused on developing a quality and sustainable early childhood education system for children within NSW. Participation in quality early childhood education is proven to be one of the most important investments governments can make to build a more prosperous future for our society.

Through our connections with communities and relationships with the sector, we recognise that our early childhood education system needs to support effective education and parental choice. As the needs of families and communities evolve, so too must our regulation, policy and funding.

The Department welcomes the NSW Auditor General’s report as an opportunity to highlight the success of reforms that have already been implemented in NSW, as well as look to the next steps to build on the achievements of the past few years.

The Department accepts the recommendations in the Performance Audit.

**Targeting of early childhood education funding**

The report confirms that reforms delivered by NSW in recent years have resulted in improved outcomes. The Department will continue to review funding in NSW to ensure that it supports access to a quality preschool program for all children in the year before school as well as for children aged three and above from low-income and Aboriginal backgrounds.

Australian Bureau of Statistics data verify that almost all children in NSW were enrolled in a preschool program in their year before full-time school in 2015 – a significant increase from a baseline of 81.9%. The Community Preschool Census further confirms improvement, particularly through effective targeting of resources, with a seven percent increase in enrolled children in the year before school from Aboriginal and low-income backgrounds in less than two years.

As the report notes, in response to the independent expert Review the NSW Government committed to reforming preschool funding as part of a longer term strategy for early childhood education in NSW. The new Preschool Funding Model is a fairer and more transparent needs-based approach.

Other priorities stemming from the independent expert Review have been implemented, including a new program to support children with disability in community preschools, cluster management, mobile contracts, capital works funding, regional and remote service funding increases, and a substantial injection of resources to support preschool capacity building and operational sustainability.

In 2016 the Department implemented funding strategies to increase the enrolment of children for 600 hours in a preschool program. This includes the Community Preschool 600 Hour incentive program as well as the $40 million investment in long day care services, with 300 hours funding targeted to children with greater need.
A high priority is working collaboratively with the Commonwealth Government to improve the way in which funding is delivered effectively across services. The current split of responsibilities can complicate parental choice, with the Commonwealth funding long day care, family day care and similar services while the State has principal responsibility for supporting education in preschools. It also is critical that national funding for preschools transition from short-term, stop-start national partnerships to a sustainable arrangement.

Data quality

The report notes that the Department has not been able to readily access nationally collected long day care data, which has undermined the capacity to maximise targeting of resources across settings. It also has affected the accuracy of public reporting.

The Department is pleased that, together with the Commonwealth Government and the Australian Bureau of Statistics, improvements in data accessibility will address under-reporting of children enrolled in preschool programs in long day care.

Regulating efficiently and effectively

The report recognises the significant improvement in the Department’s quality assurance system, including innovative use of technology. NSW now meets all national targets and has reduced processing times by 74%. Surveys of services confirm high approval ratings for the new approach.

The Department acknowledges the Report’s conclusions about how its Early Childhood Education and Care Directorate regional offices are configured.

The Department welcomes the finding that NSW led successful adjustments to the National Quality Framework that will reduce red-tape for services and improve regulatory effectiveness. The Report acknowledges the Department’s national leadership on improving the assessment and rating process and we will continue to encourage other jurisdictions to adopt risk based systems.

In 2014 the Department of Premier and Cabinet set benchmarks for the progressive evolution of regulatory agencies towards a risk-based regulatory approach. The Department is implementing this approach both as a key tool in completing Assessment and Rating visits and in compliance monitoring.
Appendix 2: Location of the key early childhood education services in New South Wales

Exhibit 25: Government preschools, community preschools and long day care in New South Wales

<table>
<thead>
<tr>
<th>Government preschools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibit showing the location of government preschools in New South Wales.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Community preschools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibit showing the location of community preschools in New South Wales.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long day care centres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibit showing the location of long day care centres in New South Wales.</td>
</tr>
</tbody>
</table>

Exhibit 26: Government preschools, community preschools and long day care in Sydney

Government preschools

Community preschools

Long day care centres

### Appendix 3: Method for calculating performance benchmarks

<table>
<thead>
<tr>
<th>Benchmarks</th>
<th>Method of calculating performance benchmarks</th>
</tr>
</thead>
</table>
| **Teacher qualification**          | **Numerator:** The number of early childhood education programs with at least one qualified early childhood teacher who usually delivers an early childhood education program to children in the year before full-time school.  
                                      **Denominator:** The total number of early childhood education programs containing children in the year before full-time school.  
                                      **Computation:** Numerator ÷ Denominator x 100% = Benchmark |
| **Access to quality programs**     | **Numerator:** The number of children aged four and five years old as at 1 July of the collection year (for each selected population group), who are enrolled in a quality early childhood education program in the year before full-time school.  
                                      **Denominator:** Estimated number of children aged four years old, as at 30 June of the collection year.  
                                      **Computation:** Numerator ÷ Denominator x 100% = Benchmark |
| **Program availability**           | **Numerator:** The number of children aged four and five years old as at 1 July of the collection year (for each selected population group) enrolled in the year before full-time schooling in a quality early childhood education program(s) for at least 600 hours in the collection year.  
                                      **Denominator:** Number of four and five year old children as at 1 July of the collection year, who are enrolled in an early childhood education program in the year before full-time schooling.  
                                      **Computation:** Numerator ÷ Denominator x 100% = Benchmark |
| **Attendance**                     | **Numerator:** The number of children aged four and five years old as at 1 July of the collection year, (for each selected population group) who are attending a quality early childhood education program operating for at least 600 hours in the collection year, which is delivered by a qualified early childhood teacher.  
                                      **Denominator:** The number of children aged four and five years old as at 1 July of the collection year (for each selected population group), who are enrolled in a quality early childhood education program operating for at least 600 hours in the collection year, which is delivered by a qualified early childhood teacher.  
                                      **Computation:** Numerator ÷ Denominator x 100% = Benchmark |

Appendix 4: About the audit

Audit objective

The audit assessed whether the Department of Education (the Department) effectively targets funding for early childhood education services and efficiently regulates the operation of early childhood education.

Audit criteria

We addressed the audit objective by examining whether:

- the Department effectively targets funding for early childhood education services toward achieving the government’s goals for universal access
- the Department efficiently regulates the operation of early childhood education services under the National Quality Framework.

Audit scope and focus

Assessing funding, the audit focused on:

- children in the year before full-time school
- Indigenous children and disadvantage and vulnerable children in the two years before full-time school
- funding provided to government preschools, community preschools and long day care centres
- period since the commencement of the National Partnership Agreement on Early Childhood Education.

Assessing regulation, the audit focused on services covered by the National Quality Framework.

Audit exclusions

The audit did not:

- assess outcomes of early childhood education in New South Wales
- examine/comment on quality of assessment and rating of individual service providers.

Audit approach

The audit team acquired subject matter expertise through:

- interviews with relevant staff in the Department
- examination of relevant data and documents, including legislation, policies, guidelines, reports, strategies, reviews, business cases and plans
- discussions with representatives of key stakeholders and experts
- research into better practices
- a comparison with approaches in other jurisdictions.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the Public Finance and Audit Act 1983.
Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by NSW Department of Education and their staff who participated in interviews and provided material relevant to the audit as well as other stakeholders who assisted with our enquiries.

Audit team

This audit was conducted by Rod Longford and Bettina Ocias. Support was provided by Andrew Gill. Kathrina Lo provided direction and quality assurance.

Audit cost

Including staff costs, travel and overheads, the estimated cost of the audit is $286,484.
Performance auditing

What are performance audits?
Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General’s mandate to undertake performance audits is set out in the Public Finance and Audit Act 1983.

Why do we conduct performance audits?
Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?
Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit’s scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report’s conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?
Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report’s recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament’s Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?
Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review’s report is tabled in parliament and available on its website.

Who pays for performance audits?
No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports
For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.
Our vision
Making a difference through audit excellence.

Our mission
To help parliament hold government accountable for its use of public resources.

Our values
Purpose – we have an impact, are accountable, and work as a team.
People – we trust and respect others and have a balanced approach to work.
Professionalism – we are recognised for our independence and integrity and the value we deliver.