PRESCHOOL FUNDING MODEL ONE YEAR ON
Foreword

Our children are our most important resource and early education is one of the most critical investments we can make.

Three years ago, we embarked on a reform journey in NSW to introduce a needs-based funding model for Early Childhood Education to improve access to preschools. At this time many children were missing out on an early childhood education.

The review by Professor Brennan identified the need to target funding to four and five year old children and increase funding for children from Aboriginal and low-income families to ensure that cost is not a barrier to participation for these children.

We listened to what Professor Deborah Brennan told us.

The Preschool Funding Model introduced at the beginning of last year is the biggest change to the community preschool sector in 25 years and has provided impressive results.

Since its introduction there has been a two per cent increase in enrolments of children in the year before school and a five per cent increase in enrolments of children from low-income and Aboriginal families.

In rural and remote services, there has been a two per cent increase in enrolments of children in the year before school and a three per cent increase in enrolments of low income and Aboriginal children.

I congratulate those preschools that have worked hard to reach out to their communities to increase enrolments.

I am pleased to release the Preschool Funding Model One Year On report, which highlights the positive impact of the new funding model.

Leslie Williams, MP
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1. The Preschool Funding Model is already starting to achieve its goals

The NSW Government introduced the Preschool Funding Model (PFM) in 2014 as a key plank in a series of reforms designed to achieve universal access to quality early childhood education. The reforms were designed in particular to better target children in the year before school and 3 year olds from low income and Aboriginal backgrounds.

Early childhood education makes a significant difference in improving overall educational, social and economic outcomes for children, particularly for those from disadvantaged backgrounds. These improvements persist over time, and are not tied only to the years that a child attends a preschool program.

Census data from the NSW community preschool sector shows that the PFM is already starting to achieve its goals. This Report provides a short summary of the PFM and how it works. It then outlines the achievements of the first year of the new funding model, including the demonstrated improvements in universal access to early childhood education in NSW, and how the community preschool sector and services are implementing the model.

Improving access to quality early childhood education in NSW

Since 2011, the NSW Government has been working towards universal access to quality early childhood education. The reform process has included the Brennan Review, which led to the introduction of the PFM. The PFM is supported by an improved Sector Development Program, the Operational Support Program, ‘opt-in’ three year fixed term contracts for eligible mobile preschools, and a Cluster Management Program. These initiatives provide the sector with unprecedented levels of additional support — helping services to shift to the new funding model. In line with this reform process, a new preschool disability program and a Transition to School Statement have been implemented.
2. Targeting funding to ensure universal access

The Brennan Review

In August 2011 the Minister for Education appointed respected early childhood expert Professor Deborah Brennan to review the NSW Government Funding for Early Childhood Education. The Review’s purpose was to make recommendations to develop an evidence-based funding system that would increase access and participation for all children to early childhood education and care services. This new system needed to be transparent, equitable, financially viable and sustainable in order to meet the needs of the sector and achieve the Government’s policy goals.

The Review found that government funding for early childhood education was complex, inefficient and poorly targeted. Not enough children in the year before school, particularly children from disadvantaged backgrounds, were accessing preschool. As Professor Brennan said:

> One of the most striking differences between the funding models adopted in the different Australian states is the extent to which they align funding with clear policy objectives such as promoting at least one year’s access [to preschool] by every child … [U]nder the [previous] NSW funding model, up to 50 per cent of children may be accessing two years of State subsidised preschool, while others miss out entirely.

Professor Brennan recommended reforming the funding system to better allocate funding according to children’s needs. The PFM was developed in response to these recommendations, to ensure that NSW children have universal access to early childhood education in the year before formal schooling begins.
Targeting support: how does the new PFM work?

From 2014, $150 million has been made available annually to community preschools across the state, an increase of 20% on previous funding levels. Under the PFM, 95% of community preschools have seen an increase in their base funding rate, with the highest increases directed to children from Aboriginal and low income backgrounds.

This increased funding is targeted to 4 and 5 year old children in their year before school, and children from low income families and Aboriginal children aged 3 and over.

The new model is more equitable and needs based and includes:

- **Higher base funding rates**: these range between $1,805 and $5,270 per child per annum for 4 and 5 year olds, and have increased by at least 44% and by as much as 75% on previous funding levels. The new base rates use the Socio-Economic Index for Areas (SEIFA) developed by the Australian Bureau of Statistics, which measures relative disadvantage. SEIFA is weighted to families with preschool-age children to ensure close alignment with families’ socio-economic circumstances, so that more funding goes to those families who need it most.

- **Additional equity funding**: children from low income families and Aboriginal children aged 3 and over are eligible for the maximum base funding rate of $5,270 irrespective of where they live.

- **Service loadings for remote and outer regional services**: preschools in remote and very remote areas receive an additional loading of $1,250 per child per annum on top of the base rate, while those in outer regional areas receive an additional loading of $850 per child per annum on top of the base rate.

- **Loadings for English language needs**: services with enrolled children who have additional English language needs receive a loading of $400 per subsidised child on top of the base rate, regardless of service location.

### The Preschool Funding Model

| Base rate per child in year before school: $1,805–$5,270 depending on geographic location (SEIFA band) |
| Location loading per child: $1,250 (remote and very remote) or $850 (outer regional) |
| Loading per child with English language needs: $400 regardless of SEIFA band |

All children from low income or Aboriginal backgrounds aged 3 and over receive maximum base rate

Base rates increase up to 75% above previous funding levels
3. The PFM 12 months on: increased funding and more 4 and 5 year old enrolments

Already in its first year the PFM is beginning to achieve its goals — as shown below, more children in the PFM target groups are now enrolled in community preschools.¹

The PFM 12 months on: enrolment increases

**Overall**

- **2%** Increase in preschool (4 and 5 year old) enrolments
- **5%** Increase in low income and Aboriginal enrolments

**Rural and remote**

- **2%** Increase in preschool (4 and 5 year old) enrolments in rural and remote areas
- **3%** Increase in low income and Aboriginal enrolments in rural and remote areas

Since the introduction of the PFM, 95% of preschools have received an increase in their funding rate for children in the year before school. As a result of increasing their enrolments of children either in the year before school or from a low income or Aboriginal background, 67% of preschools have received an increase in overall funding.

As the figures show, the new funding model is working. The NSW Government remains committed to working with the sector to build on this success and work towards the shared goal of universal access to high quality early childhood education.

¹ ECECD Annual Community Preschool Census, August 2014.
How is the sector working to improve universal access?

The past year has been a time of change, but many services have embraced the opportunities and objectives of the reforms, such as increasing the participation of Aboriginal children and children from low income families in early childhood education.

The funding increase the preschool has received under the PFM has allowed it to lower fees for all attendees, with the rates dropping most dramatically for children from Aboriginal or low income families. Fees have also decreased more for four year olds. When the different fees for 3 and 4 year olds were first introduced in 2014 the preschool explained the reasons for the change to existing families, but since then the difference has not been an issue – ‘People just accept it, we haven’t had any questions about it.’ (Coleambally)

The PFM is designed to ensure that children in the year before school, Aboriginal children and children from low income families have access to preschool. In order to align their enrolments with these groups, preschools have been working hard on reaching out to their communities to increase awareness of their services and of the funding support that is available.

Our preschool has always had a high number of Aboriginal children attending its service, and numbers have increased further under the PFM. The service now gives priority to Indigenous children on its waiting lists, and priority access to their siblings. We think it is important to build relationships with local Aboriginal organisations, so the preschool is well known to the community. (Dubbo West)

The scenarios discussed below give some examples of preschools that have increased their funding under the PFM by increasing their intake of children in the PFM target groups. These examples show that small differences in enrolment profiles can make big changes to the level of funding received.
Example 1: major city preschools

<table>
<thead>
<tr>
<th>Change from 2013 to 2014</th>
<th>Preschool A</th>
<th>Preschool B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children in the year before school (4 and 5 year olds, not low income or Aboriginal)</td>
<td>15 more</td>
<td>9 more</td>
</tr>
<tr>
<td>Children in the year before school (4 and 5 year olds, low income or Aboriginal)</td>
<td>4 more</td>
<td>1 more</td>
</tr>
<tr>
<td>Low income or Aboriginal 3 year olds</td>
<td>2 more</td>
<td>No change</td>
</tr>
<tr>
<td>Total enrolments</td>
<td>No change</td>
<td>1 fewer</td>
</tr>
<tr>
<td>Change in funding</td>
<td>+$71,000</td>
<td>+$28,000</td>
</tr>
</tbody>
</table>

These two preschools are in adjoining suburbs of Sydney and are both in SEIFA Band 14. Neither preschool made significant changes to their overall enrolment numbers from 2013 to 2014. Preschool A enrolled the same number, Preschool B enrolled one fewer. While their overall enrolments remained stable, the changes they made to enrolments of the target groups made significant positive differences to their PFM funding.

Preschool A increased their number of children in all of the PFM target groups. They enrolled 19 more children in the year before school; 4 of these children were low income or Aboriginal, and 15 were not. They also enrolled an extra 2 low income or Aboriginal children who were 3 years old. This resulted in increased funding of $71,000 (a 30% increase).

Preschool B also increased their number of children in the year before school, but not as significantly as Preschool A (10 children in total, 1 of which was low income or Aboriginal). They made no changes to their enrolments of 3 year old children from Aboriginal and low income families. This gave them a funding increase ($28,000 or 11%) which was less substantial than Preschool A’s increase.

Example 2: inner regional preschools

<table>
<thead>
<tr>
<th>Change from 2013 to 2014</th>
<th>Preschool A</th>
<th>Preschool B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children in the year before school (4 and 5 year olds, not low income or Aboriginal)</td>
<td>2 more</td>
<td>No change</td>
</tr>
<tr>
<td>Children in the year before school (4 and 5 year olds, low income or Aboriginal)</td>
<td>10 more</td>
<td>5 more</td>
</tr>
<tr>
<td>Low income or Aboriginal 3 year olds</td>
<td>No change</td>
<td>No change</td>
</tr>
<tr>
<td>Total enrolments</td>
<td>1 fewer</td>
<td>2 more</td>
</tr>
<tr>
<td>Change in funding</td>
<td>+$60,000</td>
<td>+$28,000</td>
</tr>
</tbody>
</table>

Both of these preschools are in inner regional areas and in SEIFA Band 10. As in example 1, neither preschool made significant changes to their overall enrolment numbers from 2013 to 2014. Preschool A enrolled 1 fewer, Preschool B enrolled 2 more.

Preschool A enrolled 12 more children in the year before school; 10 of these children were low income or Aboriginal, and 2 were not. They made no changes to their enrolments of 3 year old children from Aboriginal and low income families. This gave them a funding increase of $60,000 (16%) even though their overall enrolments went down slightly.
Preschool B also increased their number of children in the year before school, but not as significantly as Preschool A (5 children, all low income or Aboriginal). They made no changes to their enrolments of 3 year old children from Aboriginal and low income families. These changes meant their funding increase was less than half than Preschool A’s ($28,000 or 9%) even though they increased their total enrolment.

Example 3: outer regional preschools

<table>
<thead>
<tr>
<th></th>
<th>Preschool A</th>
<th>Preschool B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children in the year</td>
<td>1 more</td>
<td>4 more</td>
</tr>
<tr>
<td>before school (not low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>income or Aboriginal)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 more</td>
<td>1 more</td>
<td></td>
</tr>
<tr>
<td>(low income or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aboriginal)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low income or</td>
<td>No change</td>
<td>1 fewer</td>
</tr>
<tr>
<td>Aboriginal 3 year olds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total enrolments</td>
<td>1 fewer</td>
<td>14 more</td>
</tr>
<tr>
<td>Change in funding</td>
<td>+$15,900</td>
<td>+$17,000</td>
</tr>
</tbody>
</table>

Both of these preschools are in outer regional areas in south-west NSW and in SEIFA Band 12. Between 2013 and 2014, Preschool A’s enrolments decreased by 1 while Preschool B’s increased by 14.

Preschool A’s changes in enrolment were very slight; they had 3 more children in the year before school, 2 of which were low income or Aboriginal. They made no changes to their enrolments of 3 year old children from Aboriginal and low income families. This gave them a funding increase of $15,900 (15%) even though their overall enrolments went down slightly.

Preschool B increased their number of children in the year before school by 5; one of these children was from an Aboriginal or low income family. They decreased their number of children from Aboriginal or low income families by 1. Their funding increased by $17,000 (10%) — not much more than Preschool A, even though their increase in overall enrolments was much larger.

How is the NSW Government working to help the sector improve universal access?

The introduction of the PFM has encouraged services to strengthen their focus on prioritising access for children in the year before school, and children from low income and Aboriginal families, by aligning funding with these target groups. This change in focus has meant that services have made changes to their business models, including adjusting their enrolment, waiting list and fee policies.

To ensure continued universal access to quality early childhood education under the PFM, the preschool sector has recognised the need to operate sustainably. Shifting to a more sustainable model has required adjustments. In recognition of the major changes resulting from the implementation of the PFM, there have been unprecedented levels of additional support provided by the Early Childhood Education and Care Directorate to help the sector adjust and become more sustainable.

The model for preschools has changed over the years. We see ourselves now as a small business. Building our business allows us to provide better support for our kids — to hire teachers with good qualifications, and to ensure continuing quality care. The additional funding we have received through the PFM has allowed us to significantly reduce our fees while keeping up that quality of care. (Dubbo West)
Transition funding

Transition funding was provided while services worked on increasing their target group enrolments. In 2014 and 2015, funding levels were maintained with 100% transition funding. In 2016, this will be phased to 50% transition funding, with the new model being fully implemented in 2017. The August 2014 Census showed a 17% reduction in the number of services requiring transition funding during the first 12 months of the PFM.

The transition process is great because it allows us time to get business advice, review our enrolment strategies and try a few things out to improve our funding position. Preschools need to change their focus and understand they are a business. At the end of the day, we have an obligation to the community to remain viable. (Tumut)

Operational Support Program

The Operational Support Program (Op Support) helps community preschools adjust to the PFM by developing the business skills necessary to operate an efficient and effective service, and ensure sustainability of the service over the longer term. The Op Support does this by providing eligible services with general business advice on:

- marketing
- financial management
- strategic planning

The Op Support also provides sector-specific advice and mentoring support on optimising funding, maximising enrolments and implementing fee structures.

We’ve completed a business plan and risk assessment, and identified our competition and our point of difference. This has allowed the committee to see how much there is to look at when running a preschool and increased the support for our director. Being a community preschool, you can become so focused on your own service; external support provides other insights. We see the Operational Support Program as positive to our change management process. (Warragamba)

It was really beneficial for me to see what areas we could improve, and to have some information to take to the committee to convince them that some changes were needed. Having advice on developing business plans was really helpful — this sort of stuff is just not in our training as educators, so it’s great to get that feedback. (Broken Hill)
**Fixed term contracts for mobile preschools**

From 2016, eligible mobile preschools will be offered ‘opt-in’ three year fixed term contracts to improve service delivery and universal access in rural and remote areas. Mobile preschool services face a number of unique service delivery challenges that impact their ability to successfully deliver universal access under the PFM, including high volatility in enrolments from year to year due to the small populations they serve, and specific costs such as travel and additional staffing across venues. Fixed term contracts will support agreed service delivery targets, and will offer a new operational based loading to recognise the unique costs associated with mobile service delivery.

**Cluster Management Program**

The Cluster Management Program is a two year trial that was 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 volunteer-managed preschools (including committees, staff and directors).

Four clusters have been established — two metropolitan and two regional. Each cluster has recruited 10 preschools and is working closely with the preschools and their committees.

> We are supporting individual preschools through development of business strategies, governance and management, and establishment of a leadership management plan across the cluster. We also provide opportunities for them to talk to each other and workshop issues to come up with solutions among themselves. These have been taken up enthusiastically and have been a great success.
> (Samaritans Foundation, Newcastle)

**Sector Development Program**

In order to provide more support to the sector, the Sector Development Program was strengthened to provide an open and equitable process to source expertise and a more flexible program that is aligned with government priorities.

The new program will help services build their capability to function as social enterprises, with mobile preschools and regional community preschools receiving particular support. The new program will also help services improve their pedagogy and practice, especially the design and delivery of education programs, and leadership and service management.

The types of training and support have included face to face meetings, webinars and phone support, and tools and templates for budgeting, particularly for working with financial projections over two to three year periods. It has also involved fee-setting tools, and model policies on the timing of enrolment offers, organisation of waiting lists and development of fee structures.

The new Sector Development Program will also help services to tailor early childhood education to the needs of Aboriginal children and hard to reach families.
**Preschool Disability Support Program**

The Preschool Disability Support Program (PDSP) supports the inclusion of children with disability in NSW community preschools. The aim of the PDSP is to improve access to preschool education for children with disability, and support equitable education outcomes for children with disability in community preschool settings. The PDSP replaces the Supporting Children with Additional Needs (SCAN) program and Intervention Support Program (ISP) for community preschools.

The PDSP includes a universal disability loading which is new funding for all preschools based on the total number of PFM enrolments, irrespective of the total number of children with disability enrolled. In 2015, metropolitan preschools will receive $60 per eligible child per annum, and rural or remote preschools will receive $75 per eligible child per annum. This loading is automatic and preschools do not need to apply.

In addition to this universal loading, the PDSP also provides higher funding rates for children with support needs. This funding is based on applications from preschools for individual children for up to 600 hours per year, based on three daily rates, depending upon the level of support the child requires.

The PDSP includes a scholarship program to support educators as they develop expertise in assisting children with additional needs.

**Transition to School Statement**

It is recognised that a range of measures are required to ensure that children receive a quality preschool education and a positive transition to school that equips them for future learning. In late 2014 the Transition to School Statement was rolled out. This voluntary statement provides an opportunity for early educators, parents and primary schools to share information and better prepare for a child’s start to kindergarten. Stronger local partnerships between early education settings and schools have been demonstrated to have a positive impact on a child’s school readiness and later educational attainment.

As the evaluation of the Transition to School Statement has found: 'More than 90 per cent of early childhood directors, school educators and parents affirmed the Statement as a valuable tool for sharing information between families, early childhood services and schools ... Around half these school educators used the Statement for classroom grouping and organization, and one in three for curriculum design and delivery.'
4. Beyond 2016 — working together to build on success

The NSW Government is firmly committed to universal access to early childhood education and will continue to work with the preschool sector to implement these important reforms. The PFM is a central element in supporting the sector in a period of change, but it should not be viewed in isolation. Transition funding through to 2016, continued support through the Op Support and targeted programs under the Sector Development Program have been implemented to help the sector adjust.

For some preschools, local demographics mean that additional support to the funding available under PFM may be required, in order to ensure that children have continued access to early childhood education in their local area. To help these services in these areas, a thin market funding pool will be established.

Similarly, challenges faced by mobile services in attracting and maintaining a sufficient number of children in the target groups under the funding model have been acknowledged throughout the implementation period. The Government remains committed to establishing ‘opt-in’ contracts for mobile preschools in recognition of the unique nature of this service model.

Together these programs help preschools become stronger, more sustainable social enterprises.