



Productivity Commission Review of Childcare and Early Childhood Learning

New South Wales Government Submission

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Contents

Introduction	1
Reform objectives and recommendations.....	3
New South Wales context.....	5
The NSW Early Childhood Education and Care Sector.....	7
Overview of funding arrangements in NSW	8
Access and affordability	12
Supply needs to better align with demand.....	12
Cost should not be a barrier to access.....	13
A range of early childhood education and care options must be available to meet the needs of working parents	13
Options need to be developed to meet the demands of the modern workforce	14
<i>Supporting childcare access in the workplace</i>	15
<i>Demand for Outside School Hours Care places</i>	15
<i>The use of nannies to support workforce participation</i>	15
The existing Commonwealth subsidy system could be simplified.....	16
The contributions different service types make to both workforce participation and education outcomes should be recognised within Commonwealth and State funding arrangements	16
The right data needs to be collected	18
Families need good information to make decisions	19
High Quality.....	22
Families and communities benefit from quality early childhood education and care	22
The National Quality Framework is key to achieving the benefits of early childhood education	23
Governments should act on opportunities to refine and simplify the National Quality Framework	26
<i>Red-tape reduction</i>	26
<i>Opportunities to streamline processes</i>	26
<i>Context appropriate regulation</i>	27
Quality ECEC is dependent on a quality workforce	28
Ensuring sustainable and transparent funding	30
NSW has embedded universal access into its policies and funding for early childhood education .	30
Further work is needed to achieve and maintain universal access	31
<i>Action is needed to reach disadvantaged families</i>	31
National Partnership funding needs to be put a sustainable footing.....	32
<i>A new National Agreement would embed reform and fund ongoing service delivery</i>	33
<i>Sustaining Commonwealth/State funding streams is critical to achieving and maintaining universal access</i>	34
Increased investment will be needed in the future.....	35
Any new funding arrangements should not act as a barrier to service flexibility	35
References	37

Introduction

Early Childhood Education and Care will underpin the productivity gains Australia needs to meet its demographic and global challenges

Achieving continued economic success depends on increasing both workforce participation and workforce productivity. The participation of young children in early childhood education and care has the ability to support both of these objectives.

Early childhood education provides the community with a significant return on investment. In the context of the United States, this return has been estimated to be at the rate of between \$6 to \$16 dollars for every dollar invested, over the life of the individual.

The benefits of education and care are cumulative. Children who arrive at school with positive dispositions for learning are better equipped to succeed and attain the higher order cognitive skills that are increasingly the pathway to success, individually and in terms of Australia's shift to a service-based and high skill economy. At the same time, parents and carers are able to participate fully in the workforce, contributing to the economy and fulfilling personal aspirations and potential.

Children who are entering an early childhood education and care setting in 2014 will graduate from school in 2033. If Australia is to successfully navigate its demographic and economic challenges, these children will need to be supported and encouraged to achieve their full potential. The vast majority of these children must be equipped with the knowledge and abilities required of the high-skilled jobs which make up an increasing segment of the Australian economy.

The quality and accessibility of early childhood education and care will have a significant impact on Australia into the future. It is essential that the momentum of recent reforms and investment be maintained, and that new reforms are undertaken if Australia is to be ready for the challenges to be faced by current and future generations.

These reforms will need to align funding and regulatory policy and be built on the twin pillars of improved outcomes for all children through their participation in early childhood education, and improved workforce participation by their parents and carers.

A broad and cohesive framework for early childhood education and care is based on the knowledge that:

- Childcare is needed to lift workforce participation by parents and hence productivity
- Early childhood education provides children with social development and dispositions for learning, which in turn supports longer term productivity gains.

The benefits of participation in high-quality early childhood education and care are both immediate and long-term. The benefits early childhood education and care offers to individuals, families, and society are achieved when improved workforce participation and supporting the development of children are conceived of as two complementary objectives which, together, provide long-term gains for children, parents and carers and society as a whole, impossible if only one or the other is prioritised.

This is because a singular focus on the 'care' element ignores the outcomes for children, who benefit from early childhood education as well as care. This benefit for children is what produces the longer term economic benefits.

If 'childcare' for the purpose of supporting workforce participation is considered outside the context of a broader social policy framework of early childhood education and care, then the Commonwealth, State and parents would continue to make a significant investment for the purpose of enabling workforce participation, but the significant longer term gains would be lost.

It is also important to understand that intergenerational benefits flow when children who have improved educational outcomes, bestow advantages on their children, creating much longer returns on present-day investments to society and families.

Reform objectives and recommendations

Access and affordability

Commonwealth funding for early childhood education and care should promote access and affordability regardless of geographic location or economic circumstance.

NSW recommends the Productivity Commission investigate the following:

1. How to better ensure supply aligns with demand, including:
 - How funding arrangements currently shape service supply and what alternative measures governments could take to encourage providers to establish services in undersupplied areas.
 - Options to meet the emerging demands of the modern workforce such as outside school hours care.
2. How the Commonwealth funding system could be simplified to better support parent choice including:
 - Simplifying the existing Child Care Benefit (CCB) and Child Care Rebate (CCR) system, including consideration of combining them or better aligning their eligibility requirements.
 - The extent to which economic imperatives for families are generated by the way Commonwealth and State governments fund and support different service types and how they can be reshaped in the best interests of children and parents.
3. How better data and information can be used to promote access and affordability, including:
 - The extent to which data held by the various levels of government (local, State and Territory and Commonwealth) can be made available, including Childcare Management System data.
 - Further improvements to the National Early Childhood Education and Care Collection.

High quality services

Early childhood education and care must be of universally high quality that meets the needs of children and families.

NSW recommends:

4. Universal access to high quality early childhood education for children in the year before school continue to be supported.
5. The National Quality Framework and its requirements continue to be supported including the nationally agreed timelines for implementation.
6. Opportunities to refine and simplify the operation of the National Quality Framework, without undermining the Framework's objectives or requirements, be explored.
7. The difference between early childhood education in prior to school settings and forms of childcare for school aged children should be recognised in regulatory and funding settings.
8. That the focus on developing and maintaining a high quality, appropriately qualified early childhood education and care workforce is maintained (including the TAFE Fee Waivers for Child Care Qualifications NP) and there be consideration of options to support ongoing development.

Sustainable, transparent Commonwealth/State funding

The certainty and stability of Commonwealth/State funding is essential in achieving overarching policy objectives.

NSW recommends:

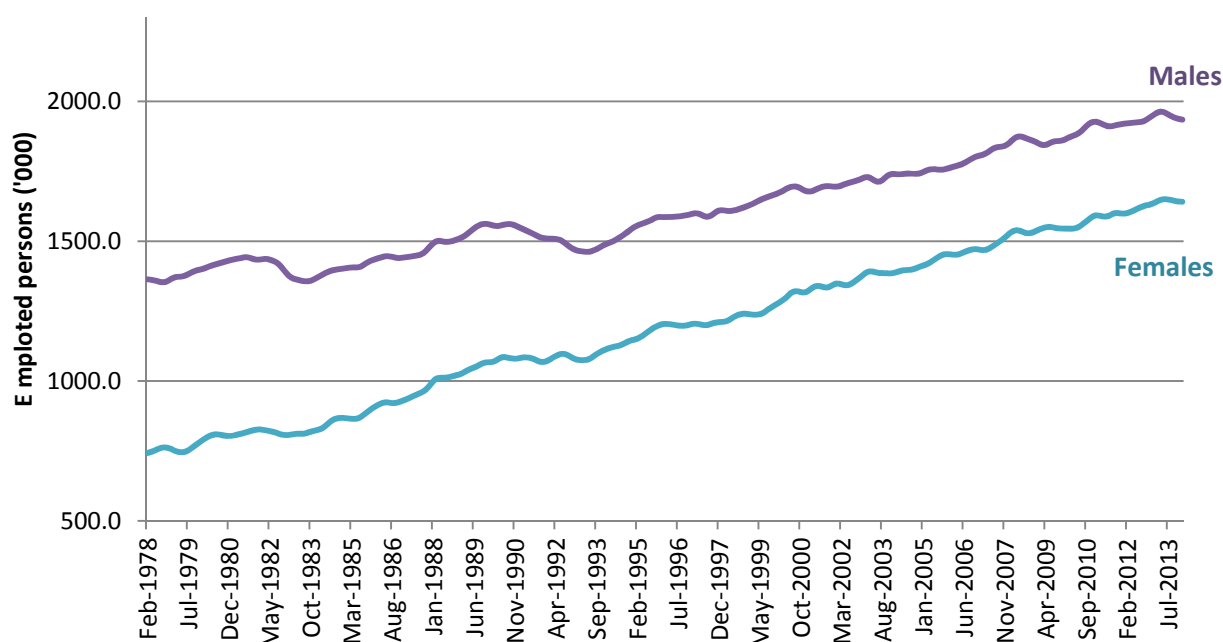
9. The National Partnership on Universal Access to Early Childhood Education should be become a National Agreement to provide funding sustainability.
10. Ongoing Commonwealth funding should be provided to support States and Territories to ensure they are able to fully meet the regulation and other requirements of the National Quality Agenda.

New South Wales context

Approximately 7.5 million people live in New South Wales, representing over 30% of the entire Australian population, the largest share of any State or Territory. The size and diversity of the State's population means that a range of early childhood education and care options are required to meet the needs of families.

Over the last 35 years the workforce has expanded significantly in size. There are currently 3,576,000 people participating in the NSW workforce, of which 46% are female. Growth in the NSW workforce has been driven by both population growth generally, and by increased workforce participation by women:

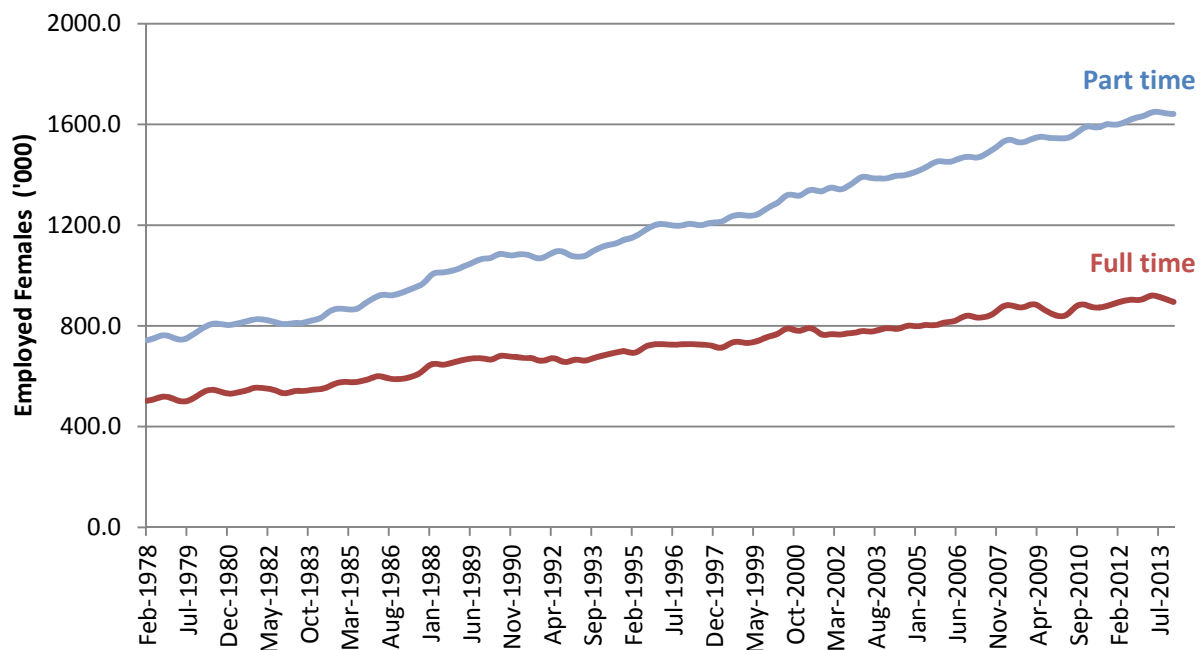
Figure 1: Number of men and women employed in NSW



Source: Australian Bureau of Statistics 6202.0- *Labour Force*, February 2014

The participation in the workforce by females is now 56.7%, up from 41.7% in 1978, and up from 50% in 1990. Despite this increase in the proportion of women in New South Wales participating in the workforce in some form, significant growth has been in part time rather than full time employment. In the 10 years since 2004, there have been an additional 100,000 females working full-time, and 200,000 working part time:

Figure 2: Number of women employed part and full time in NSW



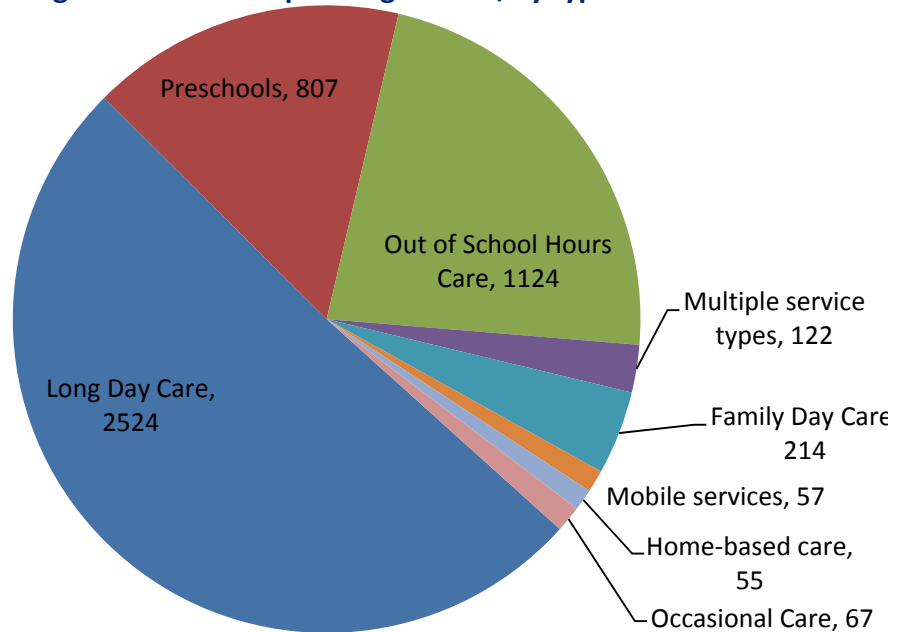
Source: Australian Bureau of Statistics 6202.0- *Labour Force*, February 2014

Parents and carers are best-placed to determine the level of workforce engagement appropriate for their family. However, it is important that the early childhood education and care sector supports rather than limits those choices.

The NSW Early Childhood Education and Care Sector

NSW has a mixed model of early childhood education and care provision which supports parental choice. The sector includes a wide range of different service types which aim to meet the individual needs of families and children with long day care being accessed by the majority of families with children in early childhood education and care.

Figure 3: Services operating in NSW, by type



Source: Internal Department of Education and Communities data, December 2013.

Approximately 5,000 services, including Long Day Care (51% of approved services), Out of School Hours Care (23%), Preschools (16%) and Family Day Care services (4%) across the State provide quality early childhood education and care to families:

Overview of funding arrangements in NSW

Funding for early childhood education and care in NSW can be complex and is funded from a mix of State and Commonwealth investment. The historical division of responsibilities between the State and Commonwealth for the delivery of early childhood education and care also has implications for the operation of the sector.

Traditionally the Commonwealth has responsibility for workforce participation and supports parents to return to work primarily through the Child Care Benefit and Child Care Rebate, available for Australian Government approved care, and which excludes most stand-alone preschools.

The State has responsibility for education, including early childhood education, and provides funding subsidies primarily to community-based preschools to support access to early childhood education in the year prior to school. The Department of Education and Communities also operates 100 preschools on public school sites. The State also regulates early childhood education and care sector in accordance with the National Quality Framework (NQF).

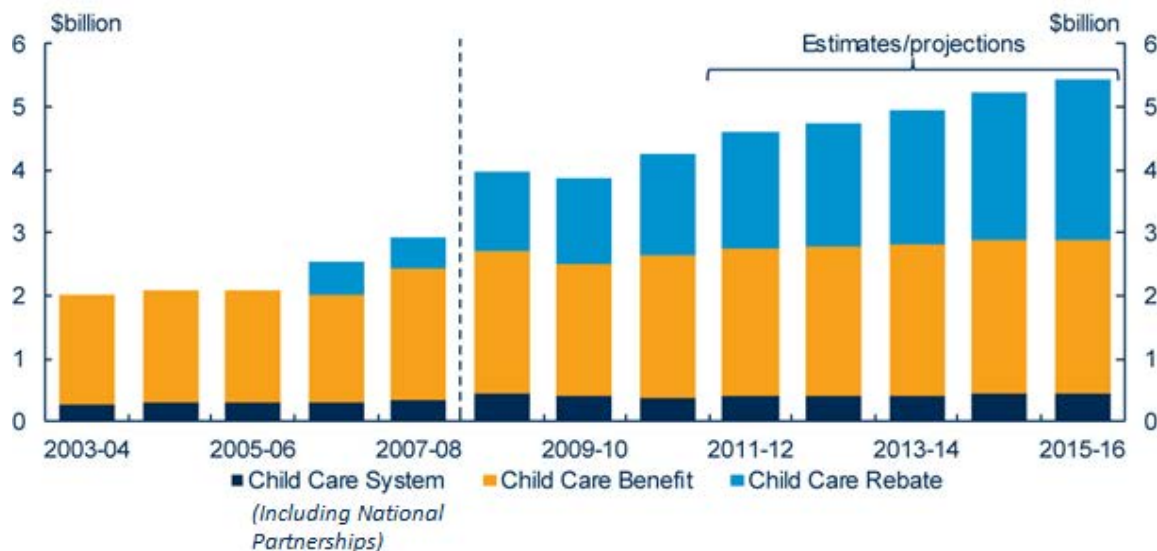
The *National Partnership Agreement on Universal Access to Early Childhood Education* and the *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care* provide Commonwealth funding to the State to deliver its responsibilities for education and regulation.

Although the State Government is the sector regulator for all services in NSW, its ability to implement policy reform is largely confined to the preschool setting, which makes up approximately 16% of services in the State (and enrolls a larger proportion of 4 and 5 year olds).

Through the Child Care Benefit and Child Care Rebate, the Commonwealth has the greatest capacity to influence the uptake of Long Day Care, Family Day Care and Out of School Hours Care services, which make up approximately 78% of services in New South Wales. Both the Commonwealth and States and Territories have a role in supporting the ECEC sector and in driving sector reform.

The following figure gives an indication of the relative contributions of the three Commonwealth funding streams.

Figure 4: Commonwealth spending on the child care system and child care fee assistance, 2012/2013



Source: Australian Government, Budget Overview 2012-13

The following diagrams provide a high level overview of the funding for early childhood education and care available in NSW.

- The first outlines ECEC payments specifically designed to relieve the cost burden of childcare for parents and guardians.
- The second provides an overview of funding streams designed to support the operational delivery of childcare.
- The third chart illustrates the funding mechanisms associated with the delivery of preschools across NSW.

Commonwealth funding streams have been shaded green and NSW Government funding streams have been shaded blue. Where possible, an indication of the quantum of funding per applicant is given. It should be noted that the diagrams encompass only the major government funding streams.

Figure 5: Commonwealth support provided to families in New South Wales

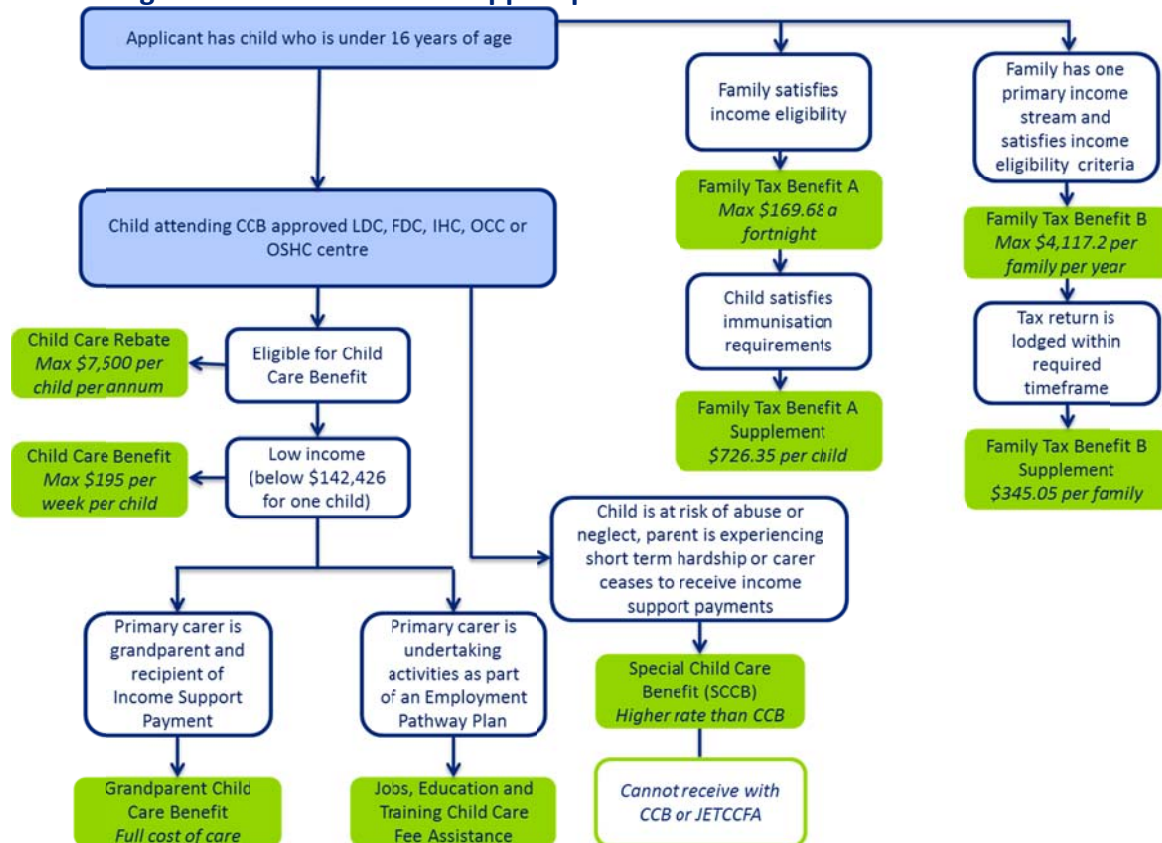


Figure 6: Funding mechanisms for Child Care Benefit approved services operating in NSW

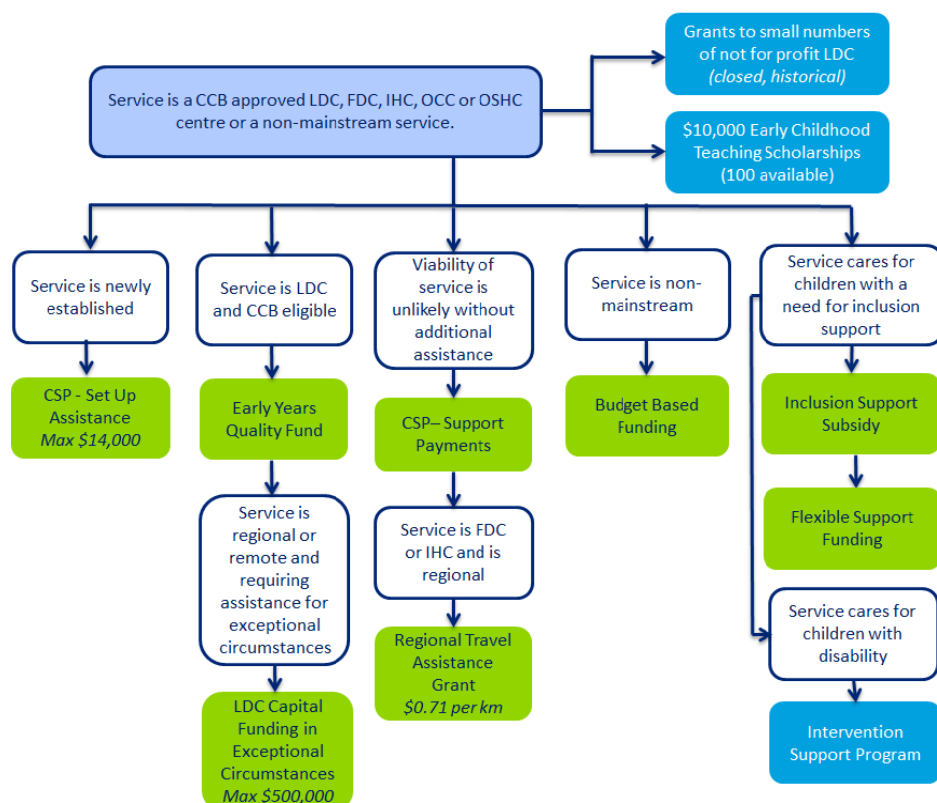
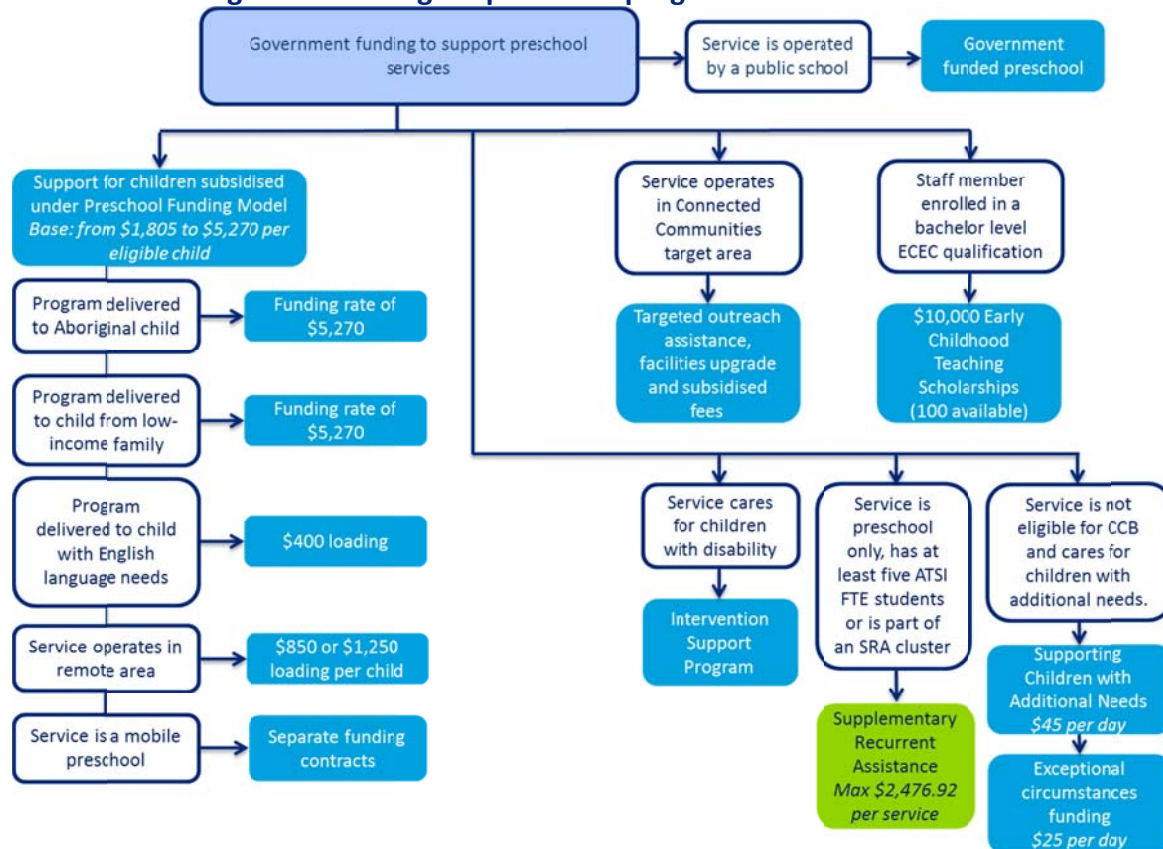


Figure 7: Funding for preschool programs in New South Wales



Access and affordability

Commonwealth funding for early childhood education and care should promote access and affordability, regardless of geographic location or economic circumstance.

Accessible and affordable early education and care has an impact on immediate workforce participation and productivity. The availability of appropriate options for children at a cost that is not a barrier to workforce participation are key concerns of the Productivity Commission's Terms of Reference.

Supply needs to better align with demand.

Ensuring supply aligns with demand is important to achieving universal access to early childhood education programs in the year prior to school and developing strategies to support workforce participation by better meeting the needs of families.

Anecdotal evidence suggests that some locations face childcare shortages, and this affects the ability of parents and carers to participate in the workforce in their preferred way. This evidence is often based on the experiences of parents in areas of localised shortage (the inner west of Sydney for example) and is often focused on the length of waiting lists for places.

At the same time as some communities are experiencing shortages, the Department of Education and Communities has identified that in other areas there is an oversupply of places.

Issues of supply and demand also impact on affordability. A shortage of places can lead to higher fees as operators are able to charge a premium. At the same time, if a service opens in an area and creates or heightens a situation of oversupply, this can also drive higher costs as operators attempt to balance the relatively fixed costs of offering ECEC across a smaller share of the local population.

It should also be noted that as the demand for childcare in a geographic area is limited by the number of children, increased supply beyond what is required to service the market does not necessarily lead to increased demand or reduced costs.

Strategies to address problems of over or undersupply could consider how government funds directed toward workforce participation and early childhood education better encourage access and affordability so that costs to families and Government are reduced and community need is better met.

Cost should not be a barrier to access

To support workforce participation and productivity, ECEC must be both high quality and affordable. As raised in the Productivity Commission's discussion paper, ECEC consumes a significant portion of disposable income. The cost of ECEC in business centres such as the Sydney CBD or Parramatta can be high, with out of pocket fees in many centres well over one hundred dollars per day for infants. While services in suburban areas may be less expensive, these services can be less convenient for commuting parents, especially if the services do not operate for extended hours.

If there is limited or no availability of places in local services, then there is no choice for families. Similarly, if the cost of ECEC outweighs the additional income that can be achieved by returning to work or increasing the hours worked, then workforce participation is highly disincentivised.

All levels of government contribute to subsidising the cost of ECEC and/or reducing out of pocket expenses for families.

The NSW Government currently seeks to improve affordability of preschool programs in NSW by funding Community Preschools and operating Department- run preschools. Other programs operated by the NSW Government provide assistance for children with special needs, fund specific early childhood projects, and support early childhood sector development. The new Preschool Funding Model both increases the overall level of funding for NSW community preschools and targets additional subsidies to disadvantaged families.

A range of early childhood education and care options must be available to meet the needs of working parents

The supply and cost issues outlined above must be addressed if there is to be choice in the system.

A parent's decision to return to work after having a child includes both financial and broader considerations. It is important that families are able to have choices in factors like the location, the philosophy and the hours of operation of the service to which they entrust their child in order to feel secure in returning to the workforce.

The diversity of services within each of these setting types offers further choice for families in identifying a service which will be aligned to their needs. Currently, the ECEC sector in NSW has diversity around a range of factors, such as:

- developmental and educational philosophies (including Montessori and Steiner services)
- religious affiliations
- whether the service operates on a for-profit or not-for profit basis

The diversity of options available to parents and carers provides the opportunity to identify a setting, or mix of settings, to best meet the needs of their family, particularly in the case of those parents and carers working full-time. The available evidence (which relates to maternal working hours of more than 35 hours per week) shows that, for the 25% of 3-5 year olds who attended preschools in 2011, only 7.6% of those attended preschool exclusively.¹ For the remaining 17.2%, a mix of preschool and other child care arrangements were used.

To maximise choice for families, the diversity of settings and services within the ECEC sector must be supported and retained.

Options need to be developed to meet the demands of the modern workforce

The current flexibility in the sector available to parents and carers should be developed and expanded to better meet new and emerging demands in the early childhood education and care market.

¹Baxter, 2013.

Supporting childcare access in the workplace

There is a growing demand from businesses to better facilitate and support access to early childhood education and care for their employees. Further exploration of barriers to or sufficient incentives for businesses to assist employees could include:

- The establishment of on-site ECEC centres.
- Purchasing a number of places at a local service to be shared amongst employees.
- Salary packaging arrangements.

It is also noted that current fringe-benefits tax exemptions for businesses who wish to provide ECEC (whether on-site or off) for their employees are unnecessarily complex, and this may hinder the establishment of arrangements that would better support parents and carers to participate in the workforce.

Demand for Outside School Hours Care places

There is increasing demand for outside school hours care (OSHC) places to support working parents, and a strong desire by parents to meet this need within schools. When space is available, NSW public schools currently prioritise outside school care providers in their community use of school facilities policy. However, even when schools have a service on site that is available to families, the service capacity is limited by available space and there are often insufficient places to meet demand.

The Commonwealth provides fee relief through the Child Care Benefit and Child Care Rebate to families using OSHC services. It also provides one-off Set-Up Assistance funding towards the set-up costs for new not-for-profit and for-profit organisations. OSHC Sustainability Assistance funding may be provided to small services in remote areas.

The Commonwealth is best placed to increase supply using these mechanisms. States and Territories have a role in assisting the Commonwealth through their function as sector regulators and their responsibility for the continued later education and development of children through the schooling sector. Expanding and facilitating stronger partnerships between schools and off-site OSHC facilities could also be pursued.

The use of nannies to support workforce participation

The employment of nannies to support workforce participation has become an option for a families where factors such as a lack of appropriate childcare places, non-standard or extended working hours, significant restrictions in accessing standard forms of care or other factors makes the employment of a nanny an option. This type of care can combine childcare and other household assistance and minimal research has been done on the scope of the service model to assess the extent to which children receive an early learning

experience or are being cared for by qualified early childhood worker equivalent to the standards of the NQF.

There is an opportunity for the Productivity Commission to consider ways in which forms of care such as this could be considered for funding as part of a national system of education and care if they met the same education and quality standards as other providers. In the absence of this, but where the service is enabling workforce participation, consideration could be given to the extent to which such services to households could more appropriately be treated as a work related expense or similar through the taxation system.

The existing Commonwealth subsidy system could be simplified

The Commonwealth's subsidy system of the Child Care Benefit (CCB) and Child Care Rebate (CCR) is confusing for families to navigate and is not transparent. These subsidies are available for the same range of services (CCB approved services), and parents and carers are required to apply for the CCB in order to receive the CCR (even if they are ineligible for the CCB). Given the two subsidies are administered by the same Commonwealth agency (the Department of Human Services), the application process for these subsidies requires an unnecessary duplication of effort for both the applicant and Government.

Beyond this unnecessary duplication of effort, there are a multitude of payment levels depending on a range of factors. This is not transparent, and means it is hard for families to determine the level of support they are entitled to.

Simplifying, and potentially combining, the existing subsidy system would support parental choice.

The contributions different service types make to both workforce participation and education outcomes should be recognised within Commonwealth and State funding arrangements

There is a need to ensure that the economic imperatives for families which are generated by the way Commonwealth and State governments fund and support different service types does not undermine parental choice of the most appropriate early childhood education and care option for their child.

As outlined earlier, traditionally early childhood education and care funding systems are split in that the Commonwealth has supported workforce participation (mainly via CCB and CCR), whilst the State supports education (preschools).

To be eligible for CCB or CCR, long day care centres must operate for at least 8 continuous hours per day and for at least 48 weeks each year. This excludes preschools, which generally operate for 6 hours per day over the 40 weeks per year schools are in session.

Many long day care centres now deliver a preschool program with a qualified teacher for children in the year before school, in accordance with the National Early Learning Years Framework and the National Partnerships. Under the National Quality Framework the majority of early childhood education and care providers (whether long day care or preschool) must employ or have access to an early childhood teacher.

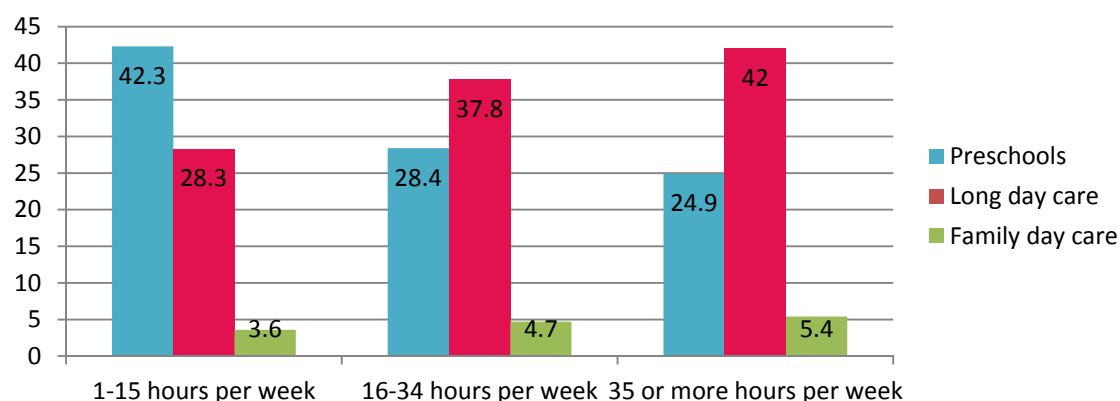
Despite the different operating hours of each service type, many parents working longer weeks use these services, either alone or as part of a mix of services to meet their family needs. Nationally, of those 3-5 year old children whose mothers work more than 35 hours a week, 25% attend a preschool and 42% attend long day care, including those who attend both.

While both preschools and long day care centres have a place in supporting workforce participation and education, parents need to navigate different funding systems, that target subsidies for different purposes and where support, in particular for children with additional needs or disabilities, is complex and inconsistent across the service types.

As part of the NSW funding system, a small number of long day care centres receive funding under a closed historical grants program. As part of a Review of NSW Government Funding for Early Childhood Education the Government committed that State funding to long day care sector would be directed towards supporting early childhood education priorities. As a first step towards longer term reform, current funding arrangements were retained but an additional requirement was added to ensure that services were required to have an early childhood teacher.

While both Commonwealth and State funding arrangements are critical to supporting the dual objectives of workforce participation and child social and educational development, the Productivity Commission could explore how they could be better directed or aligned to recognise the contributions of different service types. Governments should aim to create a more level playing field that supports parental choice regarding the child's best interest rather than being predicated on the availability of funding subsidies. For example anecdotally parents often want to choose a preschool setting but are deterred by not gaining access to CCB and CCR. Any adjustments to funding arrangements should also not create any perverse supply and demand outcomes.

Figure 8: Percentage of 3-5 year old children using Preschool, Long Day Care and Family Day Care in 2011, by maternal weekly work hours



Source: Baxter, 2013.

The right data needs to be collected

There is currently no single source of up to date information on service usage data and vacancy rates for all ages and in all settings. This is partly because the Commonwealth and New South Wales collect data on different services and centrally collecting information such as real-time vacancies is complex and burdensome for service providers.

The most comprehensive sources of information covering, for example, utilisation rates and fee levels, are the Preschool Census in New South Wales and the Child Care Management System (CCMS) at a Commonwealth level. The Preschools Census is restricted to Community Preschools which receive funding primarily from the NSW Government, while CCMS collects data only on services registered for CCB and CCR (largely Long Day Care and Family Day Care). Because these data collections are undertaken independent of each other, there may be areas of overlap between the two, or sections of the ECEC sector which are entirely missed, such as some preschool services operated by Independent schools.

The Australian Bureau of Statistics attempts to combine these separate data collections annually in its National Early Childhood Education and Care Collection, reporting on the participation of preschool age (4 and 5 year old children) only. The National Collection has been under development since 2010, and 2012 (released in 2013) was the first year that the Collection was no longer identified as being 'experimental' due to data quality and coverage issues.

Despite this, New South Wales has consistently found that the National Collection undercounts the number of children who access an early childhood education in long day care settings in New South Wales. Variations across jurisdictions in the date children are

eligible to enter school are also not reflected when collecting data on children enrolled in early childhood education in the 'year prior to school.'

In order to accurately understand levels of access and participation, the Australian Bureau of Statistics should continue to develop its National Early Childhood Education and Care Collection in consultation with States and Territories, including possibly expanding it to collect information on all ages of children, rather than only those children enrolled in a preschool.

There is also considerable scope for better coordination and cooperation between the various levels of government to improve the coherence of data collections. As a starting point, the Commonwealth could share with States and Territories its real-time administrative data in the human services domain, promoting joint planning and policy development. This is particularly relevant for the Commonwealth's Child Care Management System but could be extended to data from other areas such as Centrelink and Medicare.

Families need good information to make decisions

As discussed above, NSW promotes diversity in its ECEC sector as a way to promote parental choice. The Government also recognises that, in order for parents to make the most of this diversity, they must have access to good information to assist them in understanding the options available and in choosing between them.

For parents and carers, the choices available can be overwhelming and confusing. In addition, the type and level of financial support is exceedingly complex. Most parents will have questions including:

- What are the benefits of ECEC for my family and my child?
- What are the differences between setting types and services?
- How do I know that a service is operating at a high standard?
- What services will provide appropriate (including culturally appropriate) care for my child?
- Where are appropriate services located?
- Can I afford the costs of ECEC, and what government support is available to me?
- Why do some preschool programs attract a government subsidy, while others do not?
- Will I be able to attain a place for my child at our preferred service?

There is currently no single source of information available to assist parents in answering these questions. The divisions in responsibility for ECEC between State and Commonwealth governments, and between government agencies, mean that families may need to navigate multiple sources of information to answer just one of the questions above.

Evidence from behavioural science underlines the importance of simplifying access to early childhood education and highlighting its benefits to parents. Recent research² indicates that this is especially important for disadvantaged groups.

Behavioural research conducted in NSW suggests that relatively small changes to the way information is framed can have big impacts on the way people respond to that information. This evidence suggests that information is more useful to parents if it is timely and localised. Clear and easily comparable information about services, ideally including parental feedback, would help support families to engage with ECEC services.

One of the many benefits of the NQF is its ability to help parents make informed choices about the quality of the ECEC options available to them through the assessment and ratings process services undertake against the National Quality Standard. The assessment and ratings process provides a rating for each service against each of the seven quality areas, as well as an overall rating. Beyond the rating a service is provided, the National Quality Standard provides parents and carers with a useful framework to discuss quality and service delivery with service providers.

NSW recommends the Productivity Commission investigate the following:

1. How to better ensure supply aligns with demand, including:
 - How funding arrangements currently shape service supply and what alternative measures governments could take to encourage providers to establish services in undersupplied areas.
 - Options to meet the emerging demands of the modern workforce such as outside school hours care.
2. How the Commonwealth funding system could be simplified to better support parent choice including:
 - Simplifying the existing Child Care Benefit (CCB) and Child Care Rebate (CCR) system,

²Mullainathan and Shafir, 2013, pp 167-183

including consideration of combining them or better aligning their eligibility requirements.

- The extent to which economic imperatives for families are generated by the way Commonwealth and State governments fund and support different service types and how they can be reshaped in the best interests of children and parents.

3. How better data and information can be used to promote access and affordability, including:

- The extent to which data held by the various levels of government (local, State and Territory and Commonwealth) can be made available, including Childcare Management System data.
- Further improvements to the National Early Childhood Education and Care Collection.

High Quality

Early childhood education and care options must be of universally high quality to provide long term productivity benefits to governments

Families and communities benefit from quality early childhood education and care

There is strong evidence demonstrating the benefits to individuals and society provided by high quality early childhood education. These benefits extend beyond early childhood, through schooling and well into adulthood (see Box 1).

All Australian jurisdictions have agreed to work towards the goal for all children to have access to a quality early childhood education program, delivered by an early childhood teacher, in the year before school. In NSW the importance of this goal is reflected in key policy documents such as *NSW 2021*. Under this plan, the Government commits to providing all children with access to a quality early childhood education program in the 12 months before formal schooling.

Box 1: Evidence shows the benefits of early childhood education and care

Universal access

Research shows that early childhood education benefits the development and wellbeing of all children. Recent research indicates universal provision can be beneficial, with Hall et al. (2013) revealing that high-quality programs have protective qualities for cognitive development, and the ongoing work of Heckman has demonstrated economic benefits to society from investing in early childhood education and development (recently Heckman and Raut, 2013; also Heckman et al 2010).

The benefits of quality early childhood education are especially clear in enhancing the cognitive development of educationally disadvantaged children (Sylva et al. 2004).

Quality

It is well documented that the provision of ECEC is not enough in itself; it is the quality of provision that really counts (Hall et al. 2013; Sylva et al 2004). There is a strong relationship between the quality of early childhood education and improved outcomes, both in cognitive and social domains (Sylva et al. 2004; Clarke-Stewart and Gruber, 1984), particularly for children from disadvantaged backgrounds.

Staff qualifications

Staff qualifications have been recognised as a key determinant of the quality of ECEC. Sylva (2004) identified that the qualification level of the centre manager is particularly important to the quality of the preschool environment. Smith (1995) found that services with greater numbers of highly trained staff (three years or more of study) develop programs that are better planned, resourced and managed.

More specifically, studies have shown that staff with higher qualifications foster a greater number of positive interactions with children (Honig and Hirallal, 1998; Clawson, 1997; Howes and Smith, 1995; Smith 1995). Highly qualified staff also facilitate better cognitive development. Warren and Haisken-DeNew (2013) found that, among children who attended a preschool program, average National Assessment Program – Literacy and Numeracy (NAPLAN) scores were highest for those whose preschool teachers had a diploma or degree-level qualification in early childhood education and care, as opposed to a certificate-level qualification alone.

Teacher-child ratios

Group size and teacher-child ratios also significantly influence the quality of ECEC (Cryer et al. 1999; Blau, 1996; Fink, 1995). Clawson (1997) and Palmerus (1996) found that groups with fewer children and lower teacher-child ratios fostered more frequent adult-child interactions. In an earlier study, Ruopp et al. (1979) observed children cared for in smaller groups were more verbal, displayed higher levels of engagement and performed better on tests of language and learning.

The National Quality Framework is key to achieving the benefits of early childhood education

The National Quality Agenda is a significant national reform that recognise that the benefits of ECEC are most likely to be achieved through services offering high-quality education and care, led by appropriately qualified teachers. The agenda should continue to be supported.

The NQF was developed as part of a commitment between the Commonwealth and all State and Territory governments to improve outcomes for children and families through ECEC. Through the NQF, national consistency in the standard of care and education provided to children in most ECEC settings has been achieved. These standards relate to aspects of the operation of services, including their physical environment, the qualifications of those providing care and education and the quality of education provided, including implementation of the Early Years Learning Framework. Setting types which are within the

scope of the NQF include Long Day Care, Family Day Care, Community Preschools and OSHC.³

The NQF ensures that in-scope services must meet prescribed standards across a range of areas, including ratios, the qualifications of employees, the appropriateness of educational programs and the safety of the physical environment. It raises the bar for quality, and promotes continuous improvement throughout the sector. Through the NQF parents and carers can be assured that the standard of education and care provided is transparently assessed, regardless of whether their child attends a Preschool, a Long Day Care, a Family Day Care, or other type of in-scope service.

In particular, NSW supports the child to educator ratios, qualification and access to early childhood teacher requirements as currently legislated. These ratios ensure that all children in ECEC will have access to appropriate levels of individual attention and care from the staff responsible for their education, welfare and development.

Prior to the implementation of NQF, NSW met or exceeded half of the educator to child requirements applying to services and continues to exceed the national requirement in the 36 months-preschool age group.

Given the significance of the NQF reforms to the business operations of service providers, NSW has undertaken a number of initiatives to inform the sector and build its capacity to meet the new quality requirements. These initiatives include:

- Providing a high quality information and inquiries service to the sector through a 1800 number and a central email service
- Publishing fortnightly newsletters
- Engaging with peak bodies
- Providing individual assistance on regulatory requirements
- Producing and distributing guidance materials responding to particular areas of need for the sector in NSW, including policies and procedures.

³ Out of scope services include mobile services, occasional care and home-based care, which are covered by State regulations.

The current timeframes for implementation of the NQF should continue to be supported

The National Quality Framework set an intentionally high benchmark for quality and excellence and as it continues to be implemented across all States and Territories the evidence shows the sector is rising to meet these standards.

In New South Wales, the most significant achievement so far has been to bring more than 1,100 out of school hours care services into the ambit of a regulatory framework for the first time. The NQF has met with widespread acceptance across the sector and is beginning to deliver tangible benefits in terms of quality improvement, highlighting the strong commitment of services towards achieving better outcomes for children.

Significant inroads are also being made in assessing and quality-rating all early childhood education and care services. Of the large jurisdictions, NSW is leading nationally in terms of the number and proportion visited for assessment and rating against the National Quality Standard, with 2045 services visited as at January, 2014.

NSW services have been achieving high ratings in the areas of staffing arrangements, relationships with children and partnerships with families and communities. This indicates that services are observing educator-to-child ratios and qualification requirements for staff, providing quality support to children and are building strong relationships with families and the community.

The benefits and potential of the NQF are increasingly being acknowledged by all stakeholders and improvements in quality, accountability and transparency are being realised as services embody the standards and embed them in their daily practice.

While adjustments to the NQF in light of sector feedback to date are being considered as part of a separate review process, all governments need to flag continuing strong support for the NQF if the current momentum towards achievement of the targets is to be maintained.

Governments should act on opportunities to refine and simplify the National Quality Framework

In implementing the NQF, opportunities to adjust or simplify processes have emerged. These adjustments are part of the nature of a large-scale reform, and have been identified through collaboration between the sector, the Australian Children's Education and Care Quality Authority (which is responsible for the implementation of the NQF), and State and Territory governments and regulatory authorities.

Where the objectives and requirements of the Framework would not be undermined by the proposed adjustments, changes which will cut red-tape for services should be pursued.

Red-tape reduction

Red-tape reduction is an ongoing process. One current example is the simplification of the process for attaining supervisor certificates. In order to comply with the NQF, services are required to have at least one individual at any given time responsible for the day to day management of the service. This includes responsibility for ensuring the requirements of the Framework are met, such as the quality of education being delivered and compliance with educator to child ratios.

In order to take this management role, an individual was previously required to be issued with a supervisor certificate. The application process to receive this certificate was burdensome for applicants and services, and due to the large number of certificates required (at least one for every service), there were significant delays in the processing of applications. After changes are made to the legislation, this burdensome process will be replaced with one whereby the decision to make an employee the supervisor of a service will be made at a service level.

Opportunities to streamline processes

A further opportunity to improve the implementation of the NQF would be streamlining the ratings and assessment process. Currently, services are assessed on 58 separate elements, all of which have an equal weighting in the final assessment of a service. A lower rating for any one of these 58 elements drives down the overall rating for the service.

This equal treatment of all elements distorts the emphasis of the assessment process as well as its outcomes, and the weighting of some elements over others would allow the assessment process to be simplified. The process should be focused primarily on the key areas of child health and safety, and the quality of educational programs and practices. By

defining a clear hierarchy of elements and standards, the strength of the NQF would be maintained while allowing for the assessment and ratings process to be streamlined.

Context appropriate regulation

Although services caring for children under and over school age operate under the same national law and regulations, those which apply to Out of School Hours Care (OSHC) currently allow greater jurisdictional flexibility in determining appropriate staff: child ratios and minimum qualification levels.

OSHC is a critical component of supporting parents in labour force participation, ensuring that children have a safe and stimulating environment before and after school. In New South Wales there are currently no minimum qualification requirements or staff: child ratios in operation (although children must be adequately supervised at all times).

Although this level of flexibility is currently available, the funding and regulation of OSHC has increasingly moved into the policy framework that applies to early childhood education and care, even though it provides services to school aged children (typically aged 5 to 12). This positioning needs to be reconsidered in order to ensure the OSHC sector effectively meets family needs and addresses actual and perceived barriers to supply.

This is especially the case as children in these services do not need to participate in an educational program at the service, as they typically spend six and a half hours in an education program as part of their attendance at school. As the children using these services are for the majority of the day participating in an education program there would be no decrease in long term productivity benefits by reorienting the regulatory direction. A sharper focus on only the necessary parts of regulation would also allow providers and regulators to concentrate efforts on the most important areas, such as child protection and safety.

The application of regulatory settings that are necessary in prior to school early childhood education and care to produce long term benefits may, therefore, not always be appropriate in OSHC services. There is the potential for over regulation that may act as a disincentive to services opening or expanding (including through cost pressures) that could have negative impacts on supply.

Quality ECEC is dependent on a quality workforce

Evidence demonstrates that higher qualifications amongst staff produce better outcomes for children

The ECEC workforce should continue to be supported in its ongoing development and professionalisation until a sufficiently qualified workforce is available to meet the requirements of the NQF, the demands of the sector, and provide a strong foundation for the educational development of Australian children.

Preliminary results from the 2013 ECEC Workforce Census show the proportion of paid contact staff qualified with a Certificate III or above in NSW has increased in all settings since the 2010 census:

Table 1: Proportion of ECEC staff in NSW with Certificate III or above, 2010 and 2013

Staff qualified with Certificate III or above	2010	2013	Change
Long Day Care staff	72.3%	85.1%	12.8%
Preschool staff	69.2%	88.2%	19.0%
Family Day Care staff	51.9%	81.8%	29.9%

This growth demonstrates that good progress has been made so far, that the sector workforce is able and willing to undertake further training and that the sector remains committed to quality and improved outcomes for children.

Since 2009, students undertaking identified Diploma and Advanced Diploma qualifications relevant to the sector have had their fees waived through the TAFE Fee Waivers for Child Care Qualifications NP. Between 2008 and 2011 there was a 45% increase in enrolments in these courses nationally. The number of hours provided by TAFE in eligible courses increased by 24.1% between 2008 and 2011 in New South Wales.

The National Partnership is due to cease in December 2014, but should continue until a sufficient qualified workforce is available to meet the growing sector needs. The NSW Government's Early Childhood Teaching Scholarships program is aimed at increasing the number of early childhood teachers working in rural, regional and remote areas of New South Wales.

The scholarships support educators already employed in the early childhood education and care sector undertake an approved early childhood teaching qualification. The scholarships address identified areas of teacher shortage and provide an important professional development opportunity for successful applicants.

Scholars receive between \$7,500 and \$10,000 over the course of their degree to support their further study. Scholars have the flexibility to spend these funds on any costs that they incur in their study including textbooks, travel costs, technology or course fees.

In 2013 the Minister for Education released *Great Teaching Inspired Learning: A Blueprint for Action*, which included the recommendation that early childhood teachers be considered for inclusion within the scope of the *Teacher Accreditation Act 2004* (formerly the *Institute of Teachers Act 2004*). This would provide early childhood teachers with a pathway for recognition of their skills and expertise, equivalent to classroom teachers in the primary and secondary sector. It is planned that this will be implemented in NSW by 2017.

NSW recommends:

4. Universal access to high quality early childhood education for children in the year before school continue to be supported.
5. The National Quality Framework and its requirements continue to be supported including the nationally agreed timelines for implementation.
6. Opportunities to refine and simplify the operation of the National Quality Framework, without undermining the Framework's objectives or requirements, be explored.
7. The difference between early childhood education in prior to school settings and forms of childcare for school aged children should be recognised in regulatory and funding settings.
8. That the focus on developing and maintaining a high quality, appropriately qualified early childhood education and care workforce be maintained (including the TAFE Fee Waivers for Child Care Qualifications NP) and there be consideration of options to support ongoing development.

Ensuring sustainable and transparent funding

Commonwealth/State funding for early childhood education and care must be put on a transparent and sustainable footing.

NSW has embedded universal access into its policies and funding for early childhood education

In *NSW 2021* the NSW commits to providing all children with access to a quality early childhood education program in the 12 months before formal schooling. In October 2013, the NSW Government rolled out a NSW Preschool Funding Model (Box 2) which provides State and National Partnership funding to community preschools to increase access to early childhood education in the year before school, particularly for disadvantaged children.

Box 2: The NSW Preschool Funding Model

Community preschools make up 16% of ECEC services in New South Wales, and the largest proportion of spending on early childhood education by the New South Wales government is directed to supporting these services.

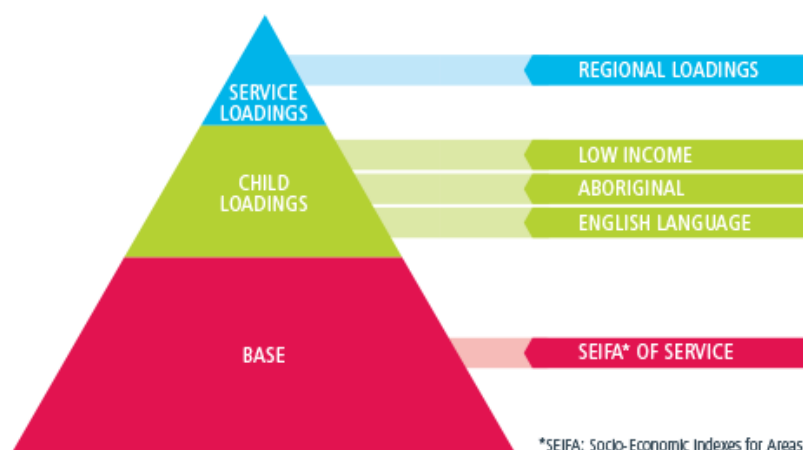
In 2011 the NSW Government commissioned Professor Deborah Brennan to undertake a Review of Funding for Early Childhood Education to ensure NSW Government spending was appropriately targeted to need. This Review recommended changes to the way early childhood education funding was being spent so that all children in New South Wales could have access to an early childhood education program.

Targeting funding to where it is needed most:

The Brennan Review found that:

- Approximately one in seven of the state's children was missing out on an early childhood education;
- 30% of NSW Government preschool funding did not focus on the target group of children in their year before school.

THE NSW COMMUNITY PRESCHOOL FUNDING MODEL



As a consequence of this Review, from January 2014, funding for community preschools is targeted to four and five year old children to drive an increase in the participation of children in their year before school. The new funding model will also provide a substantial increase in funding for three year old children from disadvantaged backgrounds and Aboriginal children.

Supporting services to meet the needs of their communities:

The NSW Preschool Funding Model targets funding through a base (with rates determined by the socio-economic advantage or disadvantage of the service) with loadings (to better support Aboriginal children, those from low-income households, and children with English-language needs). Services in remote locations will also be provided with additional funding in recognition of their additional operating costs.

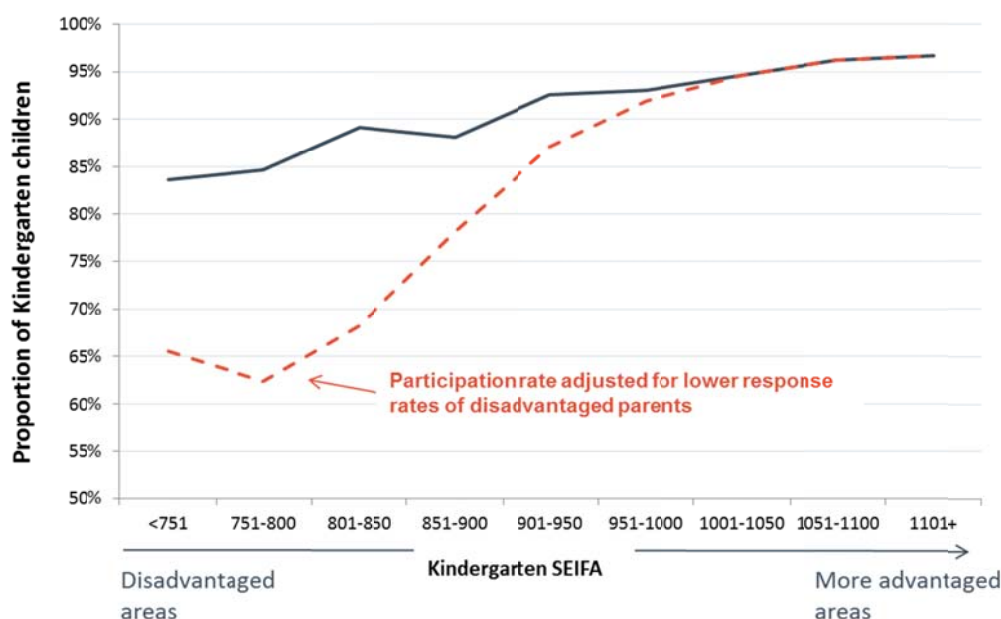
Under the new Preschool Funding Model, 95 per cent of preschools will see an increase in their base funding rate, with the minimum base rate per child rising 44% to \$1,805 and the maximum base rate per child rising 75% to \$5,270. Funding for disadvantaged 3, 4 and 5 year olds (Aboriginal children and children from low-income families) will increase by at least 60 per cent.

Further work is needed to achieve and maintain universal access

Action is needed to reach disadvantaged families

To achieve universal access, more needs to be done to support and encourage participation by children from disadvantaged backgrounds. Evidence from Kindergarten enrolment forms in the government sector indicates that the most disadvantaged children have the lowest participation rates in early childhood education and care:

Figure 9: Participation of Kindergarten children in ECEC in their year prior to school



Source: NSW Department of Education and Communities, Kindergarten data, 2012.

The data in Figure 4 shows that children who live in more disadvantaged areas are much less likely than their peers to access early childhood education and care services. As discussed in Box 2, the NSW Preschool Funding Model aims to help address these inequities. The Preschool Funding Model supports the goal of universal access to early childhood education

for all children in the year prior to school, with additional subsidies and an additional year of access available to disadvantaged and Indigenous children.

National Partnership funding needs to be put a sustainable footing

This financial year, NSW will receive up to \$139.9 million from the Commonwealth to support the policy objectives of:

- Access to early childhood education for all children in their year prior to school (universal access).
- The continued implementation of the NQF.

These key reforms have been underway since 2009, and over \$500 million from current and former National Partnerships are associated with these reforms:

Table 2: Funding under early childhood National Partnerships

	08-09	09-10	10-11	11-12	12-13	13-14	14-15	Total
National Quality Agenda	-	-	2.9	5.9	9.6	8.5	<i>nfp</i> ⁴	26.9
Early Childhood Education (expired)	10.2	21.3	26.9	82.3	137.9	-	-	278.6
Universal Access to ECE								
‘Reward’ (~40%)	-	-	-	-	-	52.6	30.4	83.0
Facilitation (~60%)	-	-	-	-	4.8	78.8	45.6	129.2
Total	10.2	21.3	29.8	88.2	152.3	139.9	76.0	517.7

States and Territories will require ongoing funding in order to achieve and maintain universal access and to implement the NQF. However, these National Partnerships offer funding security only until June 2014 for the National Quality Agenda NP and December 2014 for the Universal Access to Early Childhood Education NP.

⁴ *nfp*=no funding published. Allowance has been made in the Contingency Reserve for the continued funding of this NP, but State and Territory allocations are subject to negotiation.

In addition, a significant proportion (~40%) of funding under the Universal Access to Early Childhood Education NP is tied to meeting performance benchmarks, and therefore cannot be factored into spending decisions to support the sector until there is certainty benchmarks will be met.

The short lifetimes of these National Partnerships creates an unreasonable level of uncertainty for the sector and prohibits long-term planning and investment by businesses or the NSW Government. This results in poorer services for families, and puts at risk the longevity of important reforms such as the NSW Preschool Funding Model.

Despite this uncertainty, the NSW Government has supported the ECEC sector to implement important reforms:

- Providing better-targeted support for services through the Preschool Funding Model (more in Box 2, above);
- Supporting the professionalisation of the ECEC workforce by providing 100 ECT scholarships to those already working in the sector;
- Recognising that there are areas in rural and regional NSW where children are missing out on preschool because of a lack of facilities, and where the market cannot respond effectively to demand because of local economic conditions.

The Government will make \$5 million available for capital works to support creation of new places in rural and regional areas.

- Facilitating communication between early childhood educators, school and families through a Transition to School Statement, currently being trialled.

A new National Agreement would embed reform and fund ongoing service delivery

The Universal Access and National Quality Agenda NPs have resulted in significant changes to both:

- The early childhood education and care sector – through raising the quality of early childhood education service delivery and the number of children accessing early childhood education
- The role of State government – as a regulator under the NQF and in terms of the funding framework it implements for community preschools.

The ongoing cost of these reforms makes both areas well suited to a long-term funding arrangement.

The best approach to create this funding certainty is to transition the policy objectives of the existing Early Childhood Education NP into National Agreement and associated Specific Purpose Payment.

The policy objective of the Early Childhood Education NP is that all children will, in their year prior to school, have access to an early childhood education delivered by a degree-qualified early childhood education teacher. This objective is designed to be long-term, and needs ongoing investment by the Commonwealth if it is to be achieved and maintained.

Funding associated with the National Quality Agenda NP is to support States in the costs of implementing the NQF must be also continued. While most elements of the NQF are now in place, full implementation will not be complete until 2020. Beyond this date, the costs of maintaining the regulatory framework need to continue to be shared by Commonwealth, States and Territories. Funding certainly and continuation needs to be confirmed so States and Territories are able to fully meet the requirements of the National Quality Agenda.

Sustaining Commonwealth/State funding streams is critical to achieving and maintaining universal access

In the final year of the now-expired Early Childhood Education NP (2012/13), States and Territories were given a funding contribution which reflected the costs of delivering universal access to early childhood education on an ongoing basis.

This amount, in addition to the NQA funding for the year and the additional 'start-up' funding provided under the Universal Access to Early Childhood Education NP, was based on 2008/09 estimates of the minimum amount needed to fund universal access and the national quality agenda objectives.

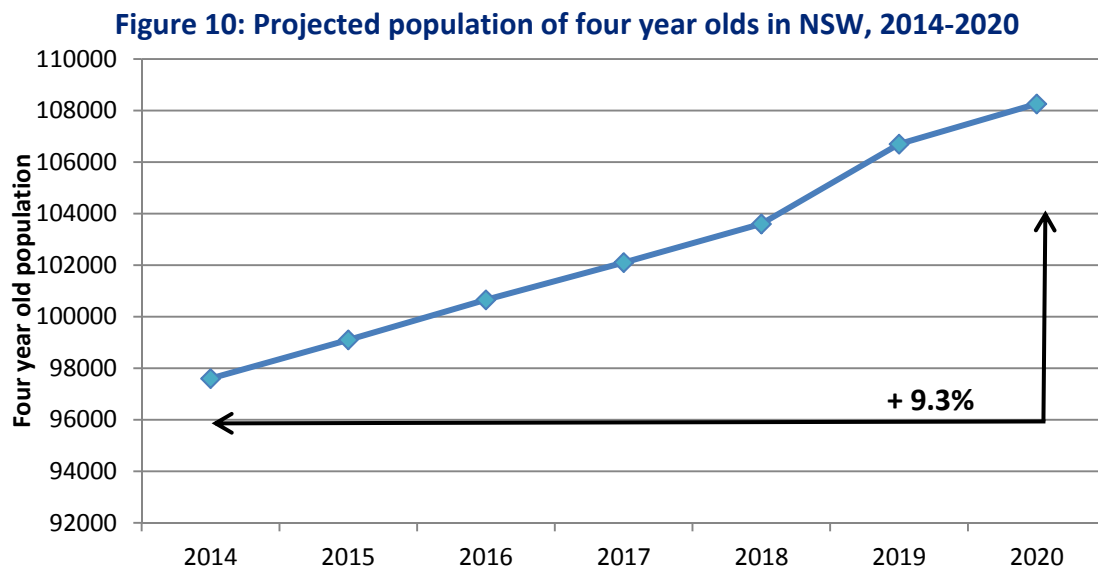
In 2012/13 this total investment was \$152.3 million. When this is scaled to factor in the growth in the NSW population of four year olds, the minimum Commonwealth investment in the universal access and national quality agenda policy objectives for 2014 in NSW should be approximately \$156.7 million.

While there would be benefits to establishing more detailed estimates of the investment required, the existing level of investment by the Commonwealth should be regarded as a minimum benchmark.

Increased investment will be needed in the future

If the ECEC sector is to effectively meet market demand, ongoing investment must factor in anticipated population growth and the rising costs of service provision.

The number of NSW children eligible to enter a subsidised ECE will increase between 2014 and 2020. The population of four year olds (as a proxy for children in their year prior to school) is expected to grow by approximately 9.3% over the next 6 years.



Source: NSW Department of Education and Communities, unpublished data (2013)

In addition to increases in the population of children who will require access to ECEC, growth in workforce participation would increase demand for formal ECEC.

Any new funding arrangements should not act as a barrier to service flexibility

Government policy and funding arrangements should promote a more flexible and responsive early childhood education and care sector to better support workforce participation by parents.

An example of arrangements under the Universal Access to Early Childhood Education NP that act as a barrier to service flexibility is the requirement that early childhood education programs targeted to the year before school must provide at least 600 hours per year. Under the former Early Childhood Education NP, this requirement was specified as the provision of a minimum of 15 hours per week, 40 hours per year. Under the current Universal Access to Early Childhood Education NP this requirement has been changed to 600 hours per year, providing a little more flexibility to services.

Although the NSW Government has supported this change, implementation of a 600 hour model still requires significant operational changes and associated costs for services as most community preschools in NSW operate to a standard 6 hour day as a result of continued demand from parents. In NSW, the parents of approximately a third of children choose to enrol their child in a program operating for less than 600 hours per year (eg 12 hours or two standard days).

Given there is no strong evidence base that a program operating for 600 hours a year delivers superior outcomes than one operating for 12 hours per week, this requirement of the universal access policy objective should be revisited.

An outcome-focused approach to program intensity would better ensure that children have access to an early childhood education program which reflects their unique learning and developmental needs. For disadvantaged children, it may require more than 15 hours per week of access for one year to achieve the developmental benchmarks. Under the Preschool Funding Model (Box 2), disadvantaged three year old children have access to a subsidised preschool program for an additional year.

It would be useful for the Productivity Commission to examine the extent to which current funding arrangements create unintended distortions in the market for ECEC services, and how these could be removed.

NSW recommends:

9. The National Partnership on Universal Access to Early Childhood Education should be become a National Agreement to provide funding sustainability.
10. Ongoing Commonwealth funding should be provided to support States and Territories ensure they are able to fully meet the regulation and other requirements of the National Quality Agenda.

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