



# Early Childhood Education and Care: Fit for the Future

Productivity Commission Submission

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# About CELA

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## About Community Early Learning Australia

Community Early Learning Australia™ (CELA) is the voice for Australia's early education and care sector. As a peak body, our vision is for all of Australia's children to have access to quality early education, regardless of economic circumstance or where they live.

CELA supports over 1,800 members employing more than 27,000 educators and teachers nationally. Our members include community-managed not-for-profit, government, and privately owned small providers, delivering preschool, long day care, outside school hours care, and family day care services.

Our Mission is to:

- ▶ Deliver effective and expert support for our members, enabling them to deliver quality early education and care for all Australia's children.
- ▶ Influence policy makers and government by amplifying the voices of community based and small providers.
- ▶ Promote the value and importance of community-based early education.

# Executive Summary

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## It's time for a new vision for Early Childhood Education and Care

Recent years have exposed the fault lines in Australia's Early Childhood Education and Care (ECEC) system for all to see. Confusion and chaos during the COVID pandemic, childcare deserts, workforce shortages and spiralling costs reveal a sector no longer fit for purpose. Now is the time for a bold reimagining of the Early Childhood system, one that is not tied to outdated structures and objectives with limited scope.

CELA welcomes this Inquiry and the renewed commitment of the Australian Government to focus on value and opportunity for the Early Childhood Education and Care sector. We commend the Government on its recognition of the ECEC sector as 'an essential part of Australia's education system' and its ambition to deliver 'universal, affordable ECEC – in the great tradition of universal Medicare and universal superannuation.'<sup>1</sup>

The current sector is hamstrung in its ability to meet this objective due to persistent confusion and inconsistency of policy objective. The primary funding model of the Child Care Subsidy (CCS) was designed as a welfare payment to families to support workforce participation. As a demand driven funding model, focused on lowering parents' out of pocket costs, contributing to improved education and development outcomes for children were not part of the primary policy design. Developments in recent decades have shown the significant value of investing in quality education and care from birth to age five for improved child outcomes and reduced poverty and social inequality. Outdated distinctions between 'care' and 'education', and the ages at which these happen, are limiting the impact of Federal and State government investment. This confusion of purpose is contributing to a system that is expensive, difficult to navigate and failing to meet its full potential for social and economic impact.

To meet the objective of a universal, affordable ECEC sector we must reset the policy objectives and put children and their needs at the heart of the system. Recognising that, by first meeting the needs of children, the benefits to families and the economy will flow.

Currently we recognise this benefit for some children, but not all. School aged children are entitled to 30 hours per week of high-quality public education. In the year before school, children are entitled to 15 hours of preschool or kindergarten. States including New South Wales and Victoria are already expanding this to 30 hours free entitlement for all children. Yet, under the current funding models, children under these ages are not entitled to universal access to quality early learning and care. Instead, their access is dictated by their parents work and financial status. Recognising that 90% of a child's development occurs in the first five years, a system that excludes our youngest learners will never see the full benefits of investment.

An Early Childhood Education and Care system that is fit for the future is one that works towards a vision of:

- ▶ Guaranteed universal access to quality early childhood education and care from birth to school age in the setting that suits them of up to 30 hours / 3 days a week. This includes retention of the Child Care Subsidy (CCS) for additional hours beyond the minimum guarantee, to support families to work the hours they choose.
- ▶ A strong, stable, and continuously improving, professionally paid and respected early childhood workforce.

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<sup>1</sup> Productivity Commission, March 2023: Early Childhood Education and Care – Call for Submissions.  
<https://www.pc.gov.au/inquiries/current/childhood/call-for-submissions>

- ▶ Universal high-quality programming and practices, regardless of location or service type, which are continuously improving.
- ▶ A stable and balanced sector which supports quality, access and choice.

With these foundations in place, Australia will see the full benefits of:

- ▶ A quality early learning system
- ▶ Improved health and developmental outcomes for children
- ▶ Reduced social inequity, as well as increased workforce participation and women's economic equality.

# Summary of Recommendations

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## **Universal access – towards 30 hours free early childhood education and care from birth to school**

1. That Australia's ECEC policy is reset with children's access to high quality education and care as the primary objective.
2. That ECEC funding should work towards delivering a universal entitlement to 30 hours per week of free early childhood education and care from birth to school age across all service types, provided through block funding.
3. That a future universal entitlement includes up to full time (50) hours per week of free ECEC for vulnerable children and families.
4. That State and Federal Governments coordinate the delivery of universal access arrangements to limit funding complexity and to support families to access the Early Childhood Education and Care that suits their needs.
5. That the existing Child Care Subsidy (CCS) scheme, with appropriate fee controls, continues to support workforce participation of families for hours beyond 30 hours, from birth to 12 years of age.
6. That the Activity Test is abolished for all hours of ECEC.

## **Investing in a professional ECEC workforce**

7. That the Federal Government participates in and provides funding support for nationally coordinated Multiple Employer Agreements across the early childhood sector. This will deliver wages and conditions in line with comparable work in the education and care sectors.
8. That Government funding for wages and conditions is provided to services demonstrating compliance with the improved minimum standards, and transition to replicate New Zealand and Victorian models of higher block subsidy rates for services which pay the improved minimum pay and conditions.
9. That all recommendations of the Children's Education and Care National Workforce Strategy be implemented.
10. That the proposed national Early Childhood Teacher Registration Scheme be extended to include early childhood educators.
11. That services are supported to provide accredited, coordinated professional development for all early childhood educators and teachers linked to quality areas.
12. That appropriate measures for immigration of suitably qualified educators and teachers are explored that will support the local ECEC sector and workforce.
13. That State and Federal Governments coordinate policies to support ECEC educator and teacher training, quality and retention.

### **Ensuring high quality early educating and care**

14. That funding to State Governments to deliver assessment and rating programs is sufficient to meet the original goals as set out by the National Quality Standard (NQS).
15. That ACECQA is maintained and funded to deliver a nationally consistent quality program for ECEC services.
16. That current enforcement options for non-improving/ non-compliant services are reviewed for their effectiveness in ensuring minimum service quality and child safety. The review should consider establishing an 'administration option' for services which need urgent intervention to ensure the safety of children, or services which do not demonstrate improvement.

### **A balanced sector for quality, access, and choice**

17. That Local, State and Federal governments coordinate to monitor ECEC service provision and ensure services are delivered in line with demand and community needs.
18. That models to provide capital funding to support the establishment of new community led services are investigated, especially in areas of community demand.
19. That programs are developed in conjunction with State and Local governments to provide governance, business and management support to communities to establish and maintain community led services.

# Building a future-fit ECEC system

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## Putting children at the heart of the system

Australia's early learning system is currently a mishmash of different policies delivered through outdated and inefficient funding structures.

The CCS is the primary funding model for early childhood education and care, yet it is not fit for purpose - to ensure all children are able to access the high quality early childhood education and care they need.

The split between the federally funded CCS (funding focused on workforce participation) and Preschool Reform Agreement funding (funding focused on access to early education) is not family-centred, causing significant confusion for families and inefficiency in service provision.

This funding structure is also based on outdated concepts that ECEC before preschool age is primarily 'care' focused, and preschool and beyond is 'education' focused. It is a funding structure that is arbitrarily divided by age, rather than purpose, shoehorned around state and federal constitutional responsibilities. As a result, this creates artificial barriers to access and limitations on the social and economic benefits of early childhood education and care.

Reimagining the ECEC system as one that recognises that learning starts from birth, and with children's needs at its heart, has the potential to untangle this funding web. By meeting children's needs first, the needs of the family are also met and can be supported more efficiently. By recognising the value of early education and care to children as the first objective of funding for all ages, and increased workforce participation as a dual benefit, we can more clearly target government investment and maximise the social and economic benefits.

## Universal access: towards 30, 30, 30

Australia's current public school system was built on a recognition of every child's right to a high-quality education. Every child, from the age of five, has this right. We now know how critical the first five years of learning and development are for setting up the foundations for future health, wellbeing, and success. We also know that children who are developmentally disadvantaged at the start of school are likely to remain behind throughout the rest of their education. Yet our current early childhood education and care system does not reflect this understanding. It remains focused primarily on parents' work participation and unconnected to children's lifetime learning pathways. The result is a system that frequently excludes children who need support the most, with rising costs and is unnecessarily difficult for families to navigate.

Transitioning to a goal of universal 30 hours a week of free early learning and care establishes a foundation for a ECEC system that more effectively meets the dual objectives of supporting the learning and development of children and supporting the choices of families to work the hours they want.

Towards "30, 30, 30" positions early childhood education and care as a continuum of the existing education system. It recognises that learning starts at birth and that children have a right to be supported in their learning at all stages. It is a vision which sees all children provided an entitlement of up to 30 hours of age appropriate, high quality, play based early education and care from birth; 30 hours quality preschool/ kindergarten program in the two years before school; and 30 hours universal public school.

These hours would be funded by block funding paid directly to services based on a mixture of operational, equity and per capita components, similar to existing preschool and school funding arrangements. This initial entitlement would be delivered in a coordinated way between the Federal and State/ Territory Governments and paid directly to providers across all service types.



In addition to these initial 30 hours, families who need additional hours of ECEC to work the hours that they want can continue to receive the CCS or a simplified alternative subsidy. This reflects current family experiences with primary school and outside of school care. However, if this was applied in a long day care setting, for example, then families could claim a subsidy for the fourth and fifth day, or for hours beyond daily programming.

Families will be able to access the hours of ECEC that suit them, across any service type, as part of a new, easy to navigate, more affordable system. It will remove the barriers of cost, choice and accessibility. Additional free hours can be provided to support the needs of vulnerable children and families and ensure greater access as needed.

Thirty hours free universal ECEC would represent a significant reduction in families' out of pocket costs, and is also a more equitable system than a proposed universal fee subsidy. The balanced mix of supply and demand subsidies allows for a reasonable means tested component without impacting base access for children. As a proportion of income, 30 hours free ECEC supports families on the lowest incomes the most.

<b>Table 1 - Proportion of out-of-pocket costs 90% subsidy v 30 hours free<sup>2</sup> 4 Days / 40 hours</b>			
<b>Base rate 2022/25</b>	<b>1 July 2023 out of pocket costs</b>	<b>90% Universal Subsidy</b>	<b>30 Hours Free</b>
	<b>% of income</b>	<b>% of income</b>	<b>% of income</b>
80,000	3.31%	3.31%	0.83%
90,000	3.53%	2.94%	0.88%
100,000	3.71%	2.65%	0.93%
110,000	3.85%	2.41%	0.96%
120,000	3.97%	2.21%	0.99%
150,000	4.24%	1.77%	1.06%
180,000	4.42%	1.47%	1.10%
200,000	4.50%	1.32%	1.13%
220,000	4.58%	1.20%	1.14%
250,000	4.66%	1.06%	1.17%
280,000	4.73%	0.95%	1.18%
300,000	4.77%	0.88%	1.19%
320,000	4.80%	0.83%	1.20%
350,000	4.85%	0.76%	1.21%
380,000	4.88%	0.70%	1.22%

<sup>2</sup> Based on current CCS fee cap \$12.74 per hour and CCS subsidy rates as at 1 July 2023 for one child.

400,000	4.90%	0.66%	1.23%
450,000	4.95%	0.59%	1.24%
480,000	4.97%	0.55%	1.24%
500,000	4.98%	0.53%	1.25%
530,000	5.00%	0.39%	1.25%

Aligning a universal access entitlement for ECEC with the existing hours entitlement for public schooling can be achieved, as an alternative to providing a universal 90% subsidy, and could be transitioned sustainably. The NSW and Victorian free four year old preschool programs provide transition models which can be explored.

For example, implementation of ‘free’ hours could be incremental over time, and/or across local government areas. Implementation across service types could include conditions on applying the funding, such as in Victoria where “Free Kinder” has been available across settings including long day care<sup>3</sup>. For that program, long day care services which provide an approved kinder program are provided with block funding. Parents receive a direct discount on their fees for those kinder hours. In addition, the total cost of the package may also be adjusted to mirror similar cost projections to a 90% universal subsidy model by adjusting maximum CCS subsidies for additional hours over time.

Transitions to this model will allow for greater targeting of federal government funding through appropriate funding agreements with services. The CCS currently offers governments limited control over how funds are utilised as it is a payment to parents not to services. Therefore, eligibility conditions are linked to the parents and not how the service utilises the funds. While services must currently comply with some limited licensing requirements to receive CCS from families, direct block funding allows for greater direction of the conditions of funding between the government and providers.

International examples show the importance of fee restraint policies in a transition to a mixed funding model. Appropriate controls and oversight of fee increases are required to ensure that fees for additional hours beyond any guaranteed ‘free’ entitlement are not excessive. Ensuring that the block funding component meets real and genuine costs, and is regularly and independently reviewed, is essential to ensure savings for families are fully passed on. Examples of fee restraints include conditions for “Free Kinder” set out in the Victorian Kindergarten funding guide<sup>4</sup>, the Irish model of temporary “free freezes”<sup>5</sup> or the capping of parental charges as per Quebec’s \$10 per day policy<sup>6</sup>.

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<sup>3</sup> 2023 Victorian Kindergarten funding guide Jan 2023 <https://www.vic.gov.au/kindergarten-funding-guide>

<sup>4</sup> Ibid

<sup>5</sup> Partnership for the Public Good: A New Funding Model for Early Learning and Care and School-Age Childcare, 2021: <https://first5fundingmodel.gov.ie/wp-content/uploads/2021/12/Funding-Model-FINAL-REPORT-2.pdf> pg: 19

<sup>6</sup> Childcare and early education systems, June 2022: [www.fawcettsociety.org.uk](http://www.fawcettsociety.org.uk) pg: 40

## Recommendations:

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5. That the existing Child Care Subsidy (CCS) scheme, with appropriate fee controls, continues to support workforce participation of families for hours beyond 30 hours, from birth to 12 years of age.
6. That the Activity Test is abolished for all hours of ECEC.

## Investing in a professional ECEC workforce

Delivering universal early childhood education and care is dependent on having a high-quality professional workforce to back it up. However, Australia is currently experiencing an ECEC workforce crisis. Job vacancies for educators are at record highs,<sup>7</sup> and low pay and high workload is driving educators to leave the sector<sup>8</sup>.

It is estimated that an additional 16,000 new early childhood educators will be needed to address current shortages and meet increased demand as a result of the Government’s “Cheaper Child Care” policy, set to come into effect on 1 July 2023<sup>9</sup>.

Low wages, high workload and poor conditions are the main drivers of this workforce shortage. However, despite this urgent and high demand for qualified workers, ECEC workers remain Award reliant and are paid well below the national average<sup>10</sup>. There is clear market failure regarding the market rates for ECEC workers which require intervention to resolve. Wages in the sector are held back by significant structural issues, including historical gender undervaluation, limited access to enterprise bargaining and funding arrangements.

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<sup>7</sup> <https://theconversation.com/high-childcare-fees-low-pay-for-staff-and-a-lack-of-places-pose-a-huge-policy-challenge-183617>

<sup>8</sup> United Workers Union. 2021, [Exhausted, undervalued and leaving: the crisis in early education | VOCEDplus, the international tertiary education and research database](#)

<sup>9</sup> <https://www.theguardian.com/australia-news/2022/oct/31/australia-needs-16000-new-educators-to-fill-shortfall-in-child-care-sector-inquiry-told>

<sup>10</sup> The Economic Benefits of High Quality Early Childhood Education, Grundoff, M, The Australia Institute, March [https://australiainstitute.org.au/wp-content/uploads/2022/04/Economic\\_Aspects\\_of\\_ECEC\\_in\\_Australia\\_FINAL.pdf](https://australiainstitute.org.au/wp-content/uploads/2022/04/Economic_Aspects_of_ECEC_in_Australia_FINAL.pdf) pg:24 and <https://snapshots.acecqa.gov.au/workforcedata/wfglance.html>

ECEC educators and teachers are paid below average wages and less than workers in comparative industries such as primary education, disability care and aged care. There are over 7000 employers in the ECEC system and over 80% of the employers in the sector operate just one service. ECEC educators have been locked out of enterprise bargaining and attempts to vary the Awards have proven to be lengthy, costly and largely unsuccessful.

An urgent solution to low wages and poor conditions is needed to ensure no child or family misses out on the ECEC they need due to workforce shortages. The recent *Secure Jobs, Better Pay* legislation was passed, making specific provisions to improve access to enterprise bargaining for low paid female dominated industries such as the early childhood sector<sup>11</sup>. Enterprise bargaining provides an efficient, flexible and long-term sustainable model for improving wages and conditions in the sector. This legislation provides a new opportunity for the sector to address low wages and poor conditions by bringing employers, unions, and the government together to set a new agreed standard in wages and conditions.

The crisis in pay requires a significant and urgent increase with stakeholders from the sector calling for between a 10% -25% wage increase for ECEC workers<sup>12</sup>. Such an increase is necessary to raise wages to market competitive rates and can only be achieved with the commitment of additional government funding, which is separate to the CCS.

The reliance of the ECEC sector on CCS funding has acted as a direct suppression to wages. As a demand side subsidy, any increased costs resulting from improved wages are passed onto parents as increased fees. While the CCS does absorb a proportion of these increases (up to the fee cap), this impact on affordability directly acts as a disincentive to workers and services to increase wages<sup>13</sup>. The CCS also cannot be targeted. Any improvement to subsidy rates or fee caps to encourage the payment of higher wages will apply to services, whether or not they pay improved rates. While out of pocket costs for families has increased by almost 85% since 2010, Award wages for educators have increased at half this rate<sup>14</sup>. During this time, government funding for the sector has increased by billions. As staffing is one of the biggest contributors to program quality and also service delivery costs, it is clearly it is in the interests of government to ensure further investment flows directly to the workforce as intended.

There are multiple examples of direct, conditional wage subsidies for how government funding can be directed to ensure it is fully utilised to improve wages and conditions. For example, the Victorian Government provides a higher rate of per capita funding to kindergartens that are a signatory to the Victorian Early Childhood Teacher and Educator Agreement, a multiple employer agreement which covers most stand-alone kindergartens in the state<sup>15</sup>. Similarly, in New Zealand, services receive a higher rate of supplementary funding

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<sup>11</sup> Minister Burke, Second reading speech, 27 October 2022:

<https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansard%2F26228%2F0017%22>

<sup>12</sup> <https://www.theguardian.com/australia-news/2022/oct/31/australia-needs-16000-new-educators-to-fill-shortfall-in-child-care-sector-inquiry-told> and <https://www.abc.net.au/news/2023-02-22/early-childhood-educators-crisis-wages-rise/101997336>

<sup>13</sup> Low-paid 'women's work': why early childhood educators are walking out, 2018

<https://issr.uq.edu.au/article/2018/04/low-paid-%E2%80%98women%E2%80%99s-work%E2%80%99-why-early-childhood-educators-are-walking-out>, University of Queensland

<sup>14</sup> Author's data from ABS Child care costs index and Fair Work Commission Children's Services Award 2010.

<sup>15</sup> <https://www.education.gov.au/child-care-package/preschool/preschool-reform-funding-agreement>

relative to educator and teacher bargained wage outcomes<sup>16</sup>. A transition to a 30 hour universal access model provided through block funding would provide the basis for a similar subsidy program to operate across the Australian ECEC system. Alternatively, an additional payment paid directly to services on proof of compliance with bargained / agreed minimum wages and conditions standards could apply.

In addition to urgent funding to improve wages and conditions, a national plan to deliver consistent, high quality and coordinated professional development across all qualifications and settings is needed. Currently there is no consistent entitlement to paid time for staff to access professional development, nor is there coordinated development programs delivered by approved and registered providers. Access to professional development is a key driver of quality improvement but is also valued by educators and teachers as a key attraction and retention measure. Support for professional development through mandating minimum entitlements to paid time for all staff, and the development of coordinated PD programs as part of a national teacher and educator registration scheme, will deliver these benefits most efficiently.

### Recommendations:

- 7. That the Federal Government participates in and provides funding support for nationally coordinated Multiple Employer Agreements across the early childhood sector. This will deliver wages and conditions in line with comparable work in the education and care sectors.**
- 8. That Government funding for wages and conditions is provided to services demonstrating compliance with the improved minimum standards, and transition to replicate New Zealand and Victorian models of higher block subsidy rates for services which pay the improved minimum pay and conditions.**
- 9. That all recommendations of the Children’s Education and Care National Workforce Strategy be implemented.**
- 10. That the proposed national Early Childhood Teacher Registration Scheme be extended to include early childhood educators.**
- 11. That services are supported to provide accredited, coordinated professional development for all early childhood educators and teachers linked to quality areas.**
- 12. That appropriate measures for immigration of suitably qualified educators and teachers are explored that will support the local ECEC sector and workforce.**
- 13. That State and Federal Governments coordinate policies to support ECEC educator and teacher training, quality and retention.**

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<sup>16</sup> New Zealand “free early childhood education” <https://childcarepolicy.net/new-zealands-funding-system-for-early-childhood-education-and-care-services/> FEBRUARY 12, 2023 BY GORDON CLEVELAND

## Ensuring high quality early educating and care

The overall quality of Australian ECEC services has improved since the implementation of the National Quality Standard (NQS).

This is a significant achievement which has resulted in improved outcomes for children across the country. However, there are still a significant number of services which are struggling to achieve minimum standards, and workforce shortages are leading to increased numbers of staffing waivers.<sup>17</sup> The most recent ACECQA data shows that 1737 services across Australia are not meeting the National Quality Standards, including seven services rated as 'Significant Improvement Required.'<sup>18</sup>

Universal access to early childhood education and care must mean universal access to high quality services. We cannot accept a system where a family has a one in ten chance of their children attending a service that is not meeting minimum standards.

To ensure quality across all providers, it is necessary to address two issues within the existing assessment and rating program. Firstly, across the country, it has been shown that state regulatory authorities have not met the assessment schedule originally set out when the NQS was established in 2018. The original goal was that all services were assessed at least every three years. However, hundreds of services across Australia hold ratings that are older than this, with some as long as seven years between ratings<sup>19</sup>. The average educator length of service in a centre is 3.6 years' service<sup>20</sup> in the long day care setting, meaning an entire generation of management and staff could have changed over such a long period. While services who are not meeting standards are regularly assessed, there are large proportions of the sector who are being missed, and are not necessarily improving. The NQS is a guide for parents to help them select high quality services, and long time periods between assessments undermine confidence in the system.

Secondly, where there are services which are assessed as not meeting minimum standards and there is not improvement even after significant intervention, the regulatory system has limited means to enforce compliance. Beyond continued monitoring, the only other enforcement mechanism available for a service which does not improve is the cancellation of provider approval under the Education and Care Services National Law. This is an incredibly high bar to meet and there must be direct evidence that continued provision of unacceptable risk to the safety, health or wellbeing of the children being educated at a service<sup>21</sup>. Given the effect of this is that the service usually shuts down, it is families who bear the impact of the intervention. This is particularly difficult in areas where a poor-quality service may be the only service available in the area.

In the case of non-improvement, a program can be established where the service enters 'administration'. This may allow the service to remain open for families, while management issues are addressed. An approved 'administrator' provider may be brought in to support the improvement measures to be undertaken and /or to

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<sup>17</sup> Q4 2022 W9: Proportion of long day care services with a staffing waiver by jurisdiction and quarter  
<https://snapshots.acecqa.gov.au/Snapshot/waivers.html>

<sup>18</sup> <https://snapshots.acecqa.gov.au/Snapshot/qualityratingprogress.html>

<sup>19</sup> <https://www.theage.com.au/national/victoria/ratings-system-monitoring-childcare-quality-falling-short-20220421-p5aezx.html>

<sup>20</sup> 2021 Early Childhood Education and Care National Workforce Census, August 2022, pg: vii  
<https://www.education.gov.au/child-care-package/resources/2021-early-childhood-education-and-care-national-workforce-census-report>

<sup>21</sup> Education and Care Services National Law Act 2010, C 31(b)  
<https://content.legislation.vic.gov.au/sites/default/files/2022-12/10-69aa017-authorised.pdf>

seek new management of the service. In this way, the impact of noncompliance rests with the service provider and not with families who may rely on the service to remain operational.

### Recommendations:

14. **That funding to State Governments to deliver assessment and rating programs is sufficient to meet the original goals as set out by the NQS.**
15. **That ACECQA is maintained and funded to deliver a nationally consistent quality program for ECEC services.**
16. **That current enforcement options for non-improving/ non-compliant services are reviewed for their effectiveness in ensuring minimum service quality and child safety. The review should consider establishing 'administration option' for services which need urgent intervention to ensure the safety of children or services which do not demonstrate improvement.**

### A balanced sector for quality, access, and choice

The ECEC sector has grown remarkably in the previous two decades. The introduction of federal child care assistance and the Child Care Benefit subsidies saw a rapid expansion of services across Australia<sup>22</sup>. While increased provision has supported greater access to early childhood services, this growth is not balanced and is not without significant cost to the Australian Government. The unrestrained growth and subsequent collapse of ABC learning in 2008 led the Federal Government to pay over \$100 million to prevent over 1000 services across the country from closing<sup>23</sup>.

The introduction of fee subsidies and the removal of operational subsidies to the community sector has led to a disproportionate growth in private for-profit provision of ECEC. Almost all growth in ECEC services has been in the for-profit sector. The for-profit sector has grown by over 30% since 2015, while the community not-for-profit sector has declined by 8%. Over the past decade there has been a shift in the proportion of the market operated by large providers, from 31% to 35% since 2016<sup>24</sup>. The for-profit sector now represents 68% of the long day care sector, 48% of the Outside School Hours Care sector and 51% of the overall ECEC providers<sup>25</sup>.

This growth at the expense of the community run not-for profit sector comes at a cost for families, children and the government. Families are experiencing less choice of service when seeking care for their children. Children on average are less likely to be enrolled in a high-quality service, and governments receive less return on investment because of subsidies funding profit as well as programming<sup>26</sup>.

Research shows that the not-for-profit community run services consistently receive higher quality ratings than the for-profit sector. This does not indicate that all for profit services are not high quality and that all not-for-

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<sup>22</sup> Brennan, D and Oloban, M, Child Care in Australia A market failure and spectacular public policy disaster; <https://policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2009/04/Child%20Care%20in%20Australia.pdf> pg 120

<sup>23</sup> Ibid

<sup>24</sup> <https://www.acecqa.gov.au/nqf/snapshots> 2013-2022

<sup>25</sup> <https://snapshots.acecqa.gov.au/Snapshot/stateofthesector.html>

<sup>26</sup> The Economic Benefits of High Quality Early Childhood Education, Grundoff, M, The Australia Institute, March 2022 [https://australiainstitute.org.au/wp-content/uploads/2022/04/Economic\\_Aspects\\_of\\_ECEC\\_in\\_Australia\\_FINAL.pdf](https://australiainstitute.org.au/wp-content/uploads/2022/04/Economic_Aspects_of_ECEC_in_Australia_FINAL.pdf) pg: 30

profit services are, but that management type is a significant indicator of quality<sup>27</sup>. Latest ACECQA data shows that 38% of not-for profit services are rated as exceeding the NQS compared to 19% of for-profit services. The largest proportion of excellent rated services are also from the not-for-profit sector<sup>28</sup>. At the other end of the spectrum, for-profit services also represent over three quarters of enforcement actions taken since 2015.

A recent report by the Australia Institute shows that the benefits of increased government investment in ECEC are increased, including higher quality outcomes, when directed to not- for profit services. This is because the need to maintain a margin for financial return in for profit services diverts resources away from direct service provision. It also distorts incentives for ECEC providers, encouraging them to reduce costs and quality to maximise financial returns for the owners. When estimating the improved returns in increased government investment the report found:

*“If all the new funding was directed only to government and NFP providers, then the employment and GDP gains resulting from the expansion in ECEC funding would be higher than if allocated according to the current 50-50 split between FP and NFP and government providers. If all the new funding was directed to NFP and government services, it would create an additional 66,802 FTE positions. This is 8,444 (or almost 15 per cent) more than if the additional funding was allocated according to the current split of FP, NFP and government providers.” Pg 37<sup>29</sup>*

A balance in the early childhood education and care sector is necessary to ensure choice, improved quality and return on government investment. An overreliance on for-profit services to meet growth in demand has failed to ensure access for all families. For-profit services are incentivised to set up where there is existing high demand and high incomes to maximise their own returns. This has resulted in the emergence of ‘childcare deserts’ in areas where quality ECEC services would most benefit communities<sup>30</sup>. In contrast, in markets where there is the ability to charge high fees there is oversupply and low occupancy.

A balanced market needs to ensure that community not-for-profit services remain viable and can expand into communities where there is a need. There should be a genuine choice for communities who need access to ECEC services about how that service is provided to them. Prior to 2000 the Federal Government recognised the importance of the community sector by providing additional operational funding. To grow this part of the sector new programs should be developed, which will provide capital to establish new community run services. Community services are also reliant on volunteer boards for the set up and operations. These boards can be supported to provide this service through management and governance support systems. Without this investment in the community not for profit sector, access to services in areas of most need will continue to be limited and returns for government investment in the sector will be reduced.

Investing in community not for profit services will also ensure a balanced market between large and small providers. While the consolidation of the ECEC sector does provide some advantages, the experience with ABC Learning shows the impact on children and families where this fails. A balance of small and large providers

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<sup>27</sup> <https://childcarecanada.org/sites/default/files/OP31-A-bad-bargain-for-us-all.pdf> pg: 12

<sup>28</sup> <https://snapshots.acecqa.gov.au/Snapshot/overallratings.html>

<sup>29</sup> The Economic Benefits of High Quality Early Childhood Education, Grundoff, M, The Australia Institute, March 2022 [https://australiainstitute.org.au/wp-content/uploads/2022/04/Economic\\_Aspects\\_of\\_ECEC\\_in\\_Australia\\_FINAL.pdf](https://australiainstitute.org.au/wp-content/uploads/2022/04/Economic_Aspects_of_ECEC_in_Australia_FINAL.pdf) pg: 37

<sup>30</sup> <https://www.vu.edu.au/mitchell-institute/early-learning/childcare-deserts-oases-how-accessible-is-childcare-in-australia>



minimises the risk of service failure across communities and excessive market consolidation must be avoided, particularly in the for-profit sector.

### **Recommendations:**

- 17. That Local, State and Federal governments coordinate to monitor ECEC service provision and ensure services are delivered in line with demand and community needs.**
- 18. That models to provide capital funding to support the establishment of new community led services are investigated, especially in areas of community demand.**
- 19. That programs are developed in conjunction with State and Local governments to provide governance, business and management support to communities to establish and maintain community led services.**

# Response to Inquiry considerations

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## Ensuring affordability and access

Transitioning towards a universal entitlement of 30 hours free early childhood education and care from birth to school-age will significantly improve affordability for parents and access for children. It is also a more equitable funding scheme compared to a universal 90% subsidy and will more fairly reduce the percentage of out-of-pocket costs across families. The entitlement for up to 30 hours is not compulsory and allows families to access the hours of ECEC that suits their needs. By creating a universal entitlement, the Activity Test is also eliminated, allowing over 120,000 children who are currently locked out of ECEC to access minimum hours.

Access for vulnerable children and families is improved by the implementation of a block funding component. The current CCS can act as a disincentive for services to accept children with additional needs especially when access to supplementary funding is difficult. Block funding models can more readily incorporate equity components based on a child's demographics, disability and location. Ensuring a universal entitlement also supports vulnerable families and children to access ECEC, as it removes perceived stigma associated with supported access schemes.

A balance between block funding and parent subsidies allows for services to maintain viability as well as meeting the expectations of parents. Transition arrangements, including pilot schemes, voluntary participation and appropriate fee transparency measures can balance services' operational viability with improved value for money for families and government.

**Table 2 - 30 hours free ECEC family savings per week<sup>31</sup>**

Base rate 2022/25	Ave 32 hours/ week		40 hours/ 4 days		50 hours/ full time	
	savings per week	% out of pocket	savings per week	% out of pocket	savings per week	% out of pocket
80,000	\$38.22	0.17%	\$38.22	0.83%	\$38.22	1.66%
90,000	\$45.86	0.18%	\$45.86	0.88%	\$45.86	1.77%
100,000	\$53.51	0.19%	\$53.51	0.93%	\$53.51	1.85%
110,000	\$61.15	0.19%	\$61.15	0.96%	\$61.15	1.93%
120,000	\$68.80	0.20%	\$68.80	0.99%	\$68.80	1.99%
150,000	\$91.73	0.21%	\$91.73	1.06%	\$91.73	2.12%
180,000	\$114.66	0.22%	\$114.66	1.10%	\$114.66	2.21%
200,000	\$129.95	0.23%	\$129.95	1.13%	\$129.95	2.25%
220,000	\$145.24	0.23%	\$145.24	1.14%	\$145.24	2.29%

<sup>31</sup> Authors calculations – based on 1 July 2023 CCS subsidy rates and the current CCS hourly fee cap and average 32 hours per week current utilisation.

250,000	\$168.17	0.23%	\$168.17	1.17%	\$168.17	2.33%
280,000	\$191.10	0.24%	\$191.10	1.18%	\$191.10	2.37%
300,000	\$206.39	0.24%	\$206.39	1.19%	\$206.39	2.38%
320,000	\$221.68	0.24%	\$221.68	1.20%	\$221.68	2.40%
350,000	\$244.61	0.24%	\$244.61	1.21%	\$244.61	2.42%
380,000	\$267.54	0.24%	\$267.54	1.22%	\$267.54	2.44%
400,000	\$282.83	0.25%	\$282.83	1.23%	\$282.83	2.45%
450,000	\$321.05	0.25%	\$321.05	1.24%	\$321.05	2.47%
480,000	\$343.98	0.25%	\$343.98	1.24%	\$343.98	2.48%
500,000	\$359.27	0.25%	\$359.27	1.25%	\$359.27	2.49%
530,000	\$382.20	0.25%	\$382.20	1.25%	\$382.20	2.50%

**Table 3 - Proportion of out-of-pocket costs 90% subsidy v 30 hours free**

4 Days / 40 hours	90% universal subsidy	30 hours free
Base rate 2022/25	% of income	% out of pocket
80,000	2.60%	0.83%
90,000	2.31%	0.88%
100,000	2.08%	0.93%
110,000	1.89%	0.96%
120,000	1.73%	0.99%
150,000	1.39%	1.06%
180,000	1.16%	1.10%
200,000	1.04%	1.13%
220,000	0.95%	1.14%
250,000	0.83%	1.17%
280,000	0.74%	1.18%
300,000	0.69%	1.19%
320,000	0.65%	1.20%
350,000	0.59%	1.21%
380,000	0.55%	1.22%
400,000	0.52%	1.23%
450,000	0.46%	1.24%
480,000	0.43%	1.24%
500,000	0.42%	1.25%
530,000	0.39%	1.25%

## **Strengthening developmental and educational outcomes for Australian children, including preparation for school**

A universal entitlement to access high quality, age appropriate, play based early childhood education and care in the years before school puts this objective at the heart of government policy. It removes the current barriers of access, of both cost and workforce participation, for hundreds of thousands of children. A transition to a block funded model will allow for greater targeting of government resources towards quality and equity outcomes for children compared to the current system. It recognises the early childhood education and care system as a key part of the overall education system and of a child's lifelong learning journey. It will reduce system complexity and support parent choice, smoothing the transition to school.

Ensuring that the ECEC sector is balanced through coordinated planning and investing in community run, not for profit services means that services will be best placed to respond to the unique needs of their communities. Community services will be able to deliver programs targeted to what works best, to ensure families are supported and all children have what they need to give them the best start in life and in school.

## **Supporting economic growth and workplace participation**

The average woman with pre-teenage children in Australia works 2.5 days a week<sup>32</sup>. Removing the cost barrier by providing free ECEC for up to 30 hours per week, immediately provides an incentive for women in this age group to increase their average working hours. However, equally important is ensuring the entitlement is available across all service types so families can access the model of ECEC which meets their needs, for extended hours care or out of hours care.

Thirty hours free universal ECEC also means the opportunity costs of increasing to a fourth or fifth day of work are reduced. The full income, from the first 30 hours or three days of work, significantly offset the out-of-pocket costs for the fourth and fifth day. However, as noted, appropriate fee restraint conditions must be in place to enable this outcome.

## **Improving outcomes for children and families experiencing vulnerability and/or disadvantage, First Nations children and families, and children and families experiencing disability**

The current CCS funding system creates disincentives for services to set up in areas of disadvantage and to accept children with high needs. This is because it is not flexible and targeted on a needs basis. This has resulted in a lack of appropriate services in areas of high disadvantage and vulnerable children missing out.

A move to a block funded universal access entitlement, which can be implemented flexibly as hours or days, allows for a greater targeting of government funding based on community need. It also can support services to open in areas of need by providing security of operational income, ensuring a minimum level of service viability.

Support for the sector to move from Award reliant to coordinated enterprise bargaining allows for the development of greater career paths and specialisation within the ECEC workforce. Coordinated workforce

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<sup>32</sup> Childcare and early education systems, June 2022: [www.fawcettsociety.org.uk](http://www.fawcettsociety.org.uk) pg: 36

agreements, backed by appropriate government funding, allow the sector to best identify and remunerate these roles to provide greater specialist support for children.

### Improving the efficiency and effectiveness of government investment in the sector

A new funding system which more clearly balances the needs of the child and support for workforce participation allows for more targeted and efficient government investment which aligns with the values and priorities of the time. Block funding creates a clear pathway for government funding to be targeted to ensure quality, access and workforce development. Parent directed subsidies can be more easily adjusted to reflect economic factors including average incomes, tax policy and welfare arrangements without impacting core operations.

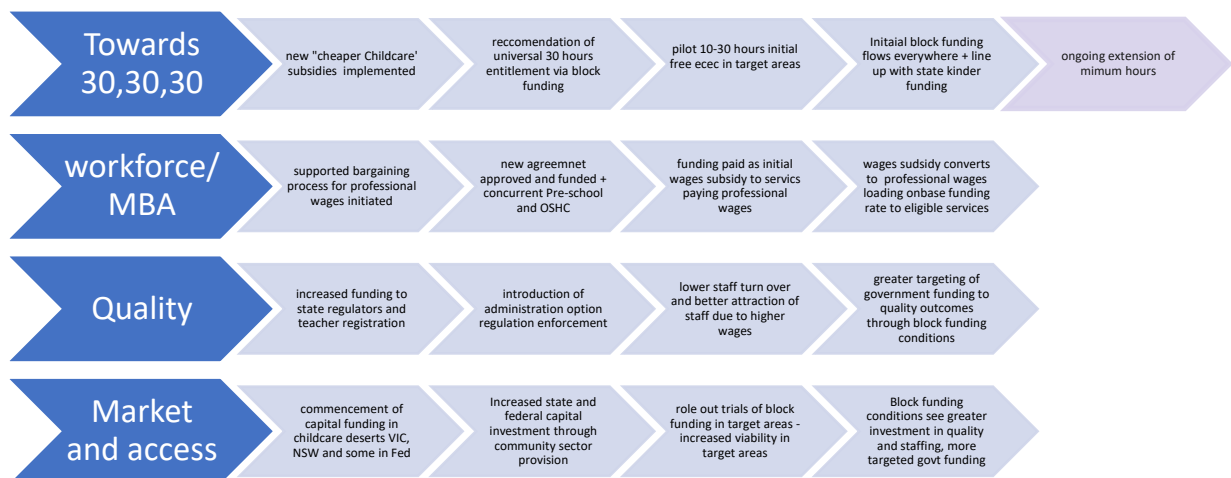
Investing in the workforce through participation in a coordinated sector enterprise bargaining process allows the government to have a direct say in how funds should be allocated to support policy objectives. These objectives, including professional development time, improved career paths and planning arrangements, can be efficiently enforced through workplace agreements.

### Transition to an early childhood education and care sector fit for the future

Putting children, their wellbeing and their success at the centre of early childhood policy by resetting outdated and ineffective funding mechanisms, will create the foundations for a sustainable transition to a ECEC sector fit for the future.

Similar ambitious universal ECEC programs in Ireland, Canada and in the extension of pre-school hours in states including Victoria and NSW show that a staged approach is sustainable and achievable.

By addressing the four pillars of universal access, professional workforce, quality improvement and a balanced sector, the vision for a *'universal, affordable ECEC – in the great tradition of universal Medicare and universal superannuation.'* Is possible.



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