Submission to the Productivity Commission inquiry into the early childhood education and care (ECEC) sector in Australia.

May 2023

SDN Children's Services
www.sdn.org.au

Recommendations

Recommendation one: that the design of the early childhood education and care system align with the final agreed framework of the national Early Years Strategy that takes a rights based approach to children's wellbeing.

Recommendation two: that a universal early childhood education and care system be designed as critical social infrastructure that offers options for families and communities to raise their children to experience wellbeing now and in their future.

Recommendation three: that a National Quality Framework be supported and that current standards that are directly correlated with quality, such as teacher requirements and ratios, be retained.

Recommendation four: that investment be made to enable providers with a track record of high quality ECEC provision to operate viably in disadvantaged areas.

Recommendation five: collect data on supply based on child's age, days of the week and quality ratings as well as location.

Recommendation six: not-for-profit/ government partnerships to improve supply where there are thin or failed markets by giving access to capital and a direct-to-provider funding model to sustain services in these areas.

Recommendations seven, eight and nine: levers to influence affordability for families

Costs to families	Remove the activity test that negatively impacts the most disadvantaged children and families
Costs to government	Increase the hourly CCS rate and make variable to address higher property costs in large cities and the difference in delivery costs for 0-3 year olds. Direct funding to Providers with high numbers of children and families with additional support needs combined with profit margin under 10%
Costs to Providers	Profit transparency. Profit margin control in return for direct funding to provide wrap around supports for providers with high numbers of children and families with additional support needs

Recommendation ten: remove distinctions between standalone preschool and preschool in long-day care and any related funding differences.

Recommendation eleven: clearly link early childhood education and care reforms with the National Early Years Strategy (under development).

Recommendation twelve: invest in supporting tertiary institutions to improve and expand their teaching of early childhood education in specialised courses, as opposed to birth to 12 years.

Recommendation thirteen: fund wage increases for all early childhood education and care staff.

Recommendation fourteen: amend the taxation legislation to expand public benevolent institution criteria to include all not-for-profit early childhood education and care provision, thus enabling salary packaging benefits.

1. Introduction

SDN Children's Services (SDN) is a not-for-profit organisation that has been delivering early childhood education and child care, quality therapies for children and young people, and family support services since 1905.

Economic opportunities for women were the foundation of SDN. SDN was formed by a group of women from Sydney's affluent inner-Suburbs who recognised the need among working mothers, who found themselves the sole breadwinners for their family, for safe and reliable childcare. They also recognised the need to prevent older girls from having to drop out of school to care for their younger siblings; and the need for learning and development opportunities for the children.

SDN developed the first childcare centre (nursery) in NSW and was the first to integrate childcare and early childhood education in the state.

Our contemporary purpose is to promote and enhance children's wellbeing, learning and development in inclusive environments; recognising that children's wellbeing is dependent on the wellbeing of the family, and capacity to provide for and raise their children in safe and supportive ways.

SDN provides services in greater Sydney, regional NSW and the ACT. We operate 26 early childhood education and care (ECEC) services – 23 long day care centres and three stand-alone preschools including our autism-specific preschool SDN Beranga located at Rooty Hill.

We are also a registered NDIS provider offering therapies for children and young people across Sydney, and we deliver NSW and Federal government funded family support programs including Family Preservation and supported playgroups.

We operate an integrated model of service delivery using our Pathways Approach that brings together our expertise in mainstream and specialised service delivery. In all, around 5,000 children, families and other service providers benefit from SDN's work each year.

More information about SDN is available at: **www.sdn.org.au**

2. Children's wellbeing as the objective

The Australian Human Rights Commission believes that the best way to ensure respect for and commitment to the healthy development of all children in Australia is through a rights-based approach. These rights include the right to live a full life, to be safe and healthy, to have a good enough standard of living, to an education, to participate, to have their cultural identity respected and their voices heard; and the right to relax and play.

These concepts can be captured under the umbrella term 'wellbeing'.

For example, SDN has adopted and adapted the evidence-based framework for children's wellbeing developed by the Australian Research Alliance for Children and Youth (ARACY)[1] that puts children at the centre of the core objective of our work, including our early childhood education and care.

---

[1] https://www.aracy.org.au/documents/item/700

SDN Child Wellbeing Wheel
Adapted from the work of the Australian Research Alliance for Children & Youth

Recommendation one: that the design of the early childhood education and care system align with the final agreed framework of the national Early Years Strategy that takes a rights based approach to children's wellbeing.

3. Early childhood education and care as social infrastructure

With children's wellbeing as the core objective, SDN views early childhood education and care as critical *social infrastructure* [2]. This social infrastructure should offer options for families and communities to raise their children to experience wellbeing now and in their future.

As social infrastructure, quality early childhood education and care partners with families and communities to raise children together, including their socialisation[3] and education[4]. The differing family contexts will demand different levels of engagement with the sector. The value that the early childhood education and care sector can offer a child and their family is dependent on what support and resources the family needs so that they can be the best supportive family they can be to raise their children well.

Family needs generally fall into these three categories:
- the family needs for their own wellbeing, as individual family members and as a group as this has the biggest influence on their children's wellbeing,
- the skills the family has, and what they need from a service system to help them to enable their children's learning and development; and
- their capacity to provide for their children's basic needs.

Evidence indicates that children in those families with the least capacity within the family in these three areas benefit most from quality early childhood education and care[5].

---

[2] Social infrastructure is comprised of the facilities, spaces, services and networks that support the quality of life and wellbeing of our communities[2]. Social infrastructure supports people's daily lives and has a significant influence on their standard of living. Australian Infrastructure Audit, 2019.
[3] Ongoing process of learning expected behaviour, values norms and social skills
[4] Imparting of knowledge, skills and judgement
[5] AIHW (2015). Literature review of the impact of early childhood education and care on learning and development working paper.

A social infrastructure approach makes redundant the false, but deeply ingrained and unhelpful, education/ workforce participation dichotomy.

Recommendation two: that a universal early childhood education and care system be designed as critical social infrastructure that offers options for families and communities to raise their children to experience wellbeing now and in their future.

4. Quality for all

Early childhood education and care as critical social infrastructure can only be effective if it can deliver the outcomes that are part of the social contract. If children's wellbeing, as defined earlier, is the core outcome then families and communities must be able to rely on the sector to implement evidence-based inputs that are designed to achieve that outcome.

The Australian National Quality Framework provides the evidence-based framework that, if implemented and regulated consistently, helps to make the sector reliable for children, families and communities.

There is no doubt that delivering high quality costs more than poor quality at the time of delivery. However, poor quality, low cost services for children that do not promote the wellbeing of children are harmful for children costing the community significantly later in the child's life.

In Australia, children living in the most disadvantaged areas are more likely to be offered the lowest quality, low cost services. These services offer a low price but also low value to children, families and communities. The sector needs investment to enable providers with a track record of high quality provision to operate viably in those area.

Recommendation three: that a National Quality Framework be supported and that current standards that are directly correlated with quality, such as teacher requirements and ratios, be retained.

Recommendation four: that investment be made to enable providers with a track record of high quality ECEC provision to operate viably in disadvantaged areas.

5. Accessibility: availability

Quality early childhood education and care as social infrastructure is currently not available for all children to use. There are location, age-specific places and quality gaps. However, the supply data is unreliable and not sufficiently granular. In addition, it is outdated given the increase in hybrid working, changing the choices families are making about required days and the location of the service they want (near to home or near to work).

Data is needed on supply based on child's age, days of the week and quality ratings. Supply of places for preschool aged children is increasing with the growth of state government funded stand-alone preschools, but the supply of places for infants and toddlers is significantly below demand. This is driven by the significantly higher cost of service provision for the younger children. Viable business models that control costs for families typically have more places for older children (1:10 ratios in NSW) and less for younger children (1:4 and 1:5 ratios). This has created a mismatch between the increasing demand

as women want to return to work after having their child, and the total number of places available in the market.

The market driven approach that is dependent on access to capital that can generate a reasonable return on investment has led to thin markets and concentrations in highly populated areas. SDN believes that the not-for-profit part of the sector is well-placed to partner with governments to improve supply where there are thin or failed markets. This will require access to capital and a direct to provider funding model to sustain services in these areas, which are often where the most disadvantaged children live.

Recommendation five: collect data on supply based on child's age, days of the week and quality ratings as well as location.

Recommendation six: not-for-profit/ government partnerships to improve supply where there are thin or failed markets by giving access to capital and a direct to provider funding model to sustain services in these areas.

6. Accessibility: affordability

There are three aspects to affordability:
- Cost drivers of the Provider
- Capacity and willingness of the family to pay
- Cost/revenue sharing model between family, Providers, suppliers and governments

6.1 Cost drivers of the Provider
The two largest cost drivers are employee costs and property costs.
SDN suggests that, for long day care, an employee to revenue percentage greater than 70% would make it unviable for the long term unless property costs, including maintenance, are peppercorn or nil.

To maintain a viable employee costs to revenue ratio while paying above award wages and benefits and with reasonable professional development and support for career development and additional resources to include children with complex needs fees need to be above the current hourly Child Care Subsidy cap.

In the current employee market 5-10% above award wages has not retained staff in the city. Additional location-based allowances have been required to offset city commuting time and costs and to encourage employees to trade off family time for pay. These costs have to be passed on to families through fees in order to sustain viability.

SDN operates a portfolio of centres and shares some costs across the portfolio to enable operation of some centres in more disadvantaged areas. Without the portfolio, these centres would not be viable.

Property costs are a barrier to entry into new locations. Commercial rents have risen significantly, local governments are introducing commercial rent where previously peppercorn arrangements were made with not-for-profit providers as part of their support for social services.

Properties owned by old not-for-profits are not fit for purpose and are very expensive to maintain. This requires a charge back of a reasonable occupancy charge in order to maintain properties.

6.2 Capacity and willingness of the family to pay

Affordability is a relative concept that includes both access to financial resources and the value drivers that drive the choices of the family. A universal system must incentivise providers to meet the value expectations of families in regards to quality and inclusion, while also addressing the gap between cost of delivery of quality inclusive services and the financial resources of the family.

6.3 Revenue sharing model between suppliers and provider

Indicative only basic revenue sharing model that reflects generally accepted reasonable profit margin and a reasonable level of quality and compliance support:

Suppliers	% of revenue
Employees	65%
Operating and property costs	15%
Corporate support, quality, compliance, IT, finance legal, People, Risk, reporting	14%
Provider profit	6%

This model may work if the employee costs to revenue ratio is an average across a portfolio. It but does not take account of the costs of wrap around supports for children and families with additional support needs.

There is strong evidence that wrap around supports while children are enrolled in early childhood education and care gives the best opportunity to influence outcomes.

To provide wrap around and inclusive services for children and families with additional support needs, the costs increase. This either means a reduced profit margin for the provider, making the service/s unviable, or higher fees shared across all families. It is for this reason that some not-for-profit services, in particular, are higher than others if they are providing the additional value of wrap around services for cohorts of children and families with support needs.

For example, children with disabilities, developmental delay, awaiting diagnosis or under observation, Aboriginal children, refugee children and children at risk make up 12% of children enrolled in SDN centres. The cost of providing additional support, including the gap between the cost of additional educators and the inclusion subsidy, is shared between the fees of all families.

Two SDN case studies describing wrap around supports are at Appendix 1 and 2.

Indicative only revenue sharing model that reflects a reasonable level of quality and compliance support plus the additional costs for wrap around services for including children with additional support needs and the impact on Provider profit margin if fees are not increased compared to basic model:

Suppliers	% of revenue
Employees	65%
Operating and property costs	15%
Corporate support, quality, compliance, IT, finance legal, People, Risk, reporting	14%
Additional costs for wrap around services for including children with additional support needs	5%
Provider profit	1%*

* A non-viable model

6.4 Cost sharing model between families, government and provider

Cost to families	Gap between government subsidy and session fee, including cost if not eligible for subsidy
Cost to government	% session fee
Cost to Provider	Decreased or zero margin if want to keep fees as close as possible to Child Care Subsidy capped rate and keep paying employees increasing pay and benefits

Recommendations seven, eight and nine: levers to influence affordability for families

Costs to families	Remove the activity test that negatively impacts the most disadvantaged children and families
Costs to government	Increase the hourly CCS rate and make variable to address higher property costs in large cities and the difference in delivery costs for 0-3 year olds. Direct funding to Providers with high numbers of children and families with additional support needs combined with profit margin under 10%
Costs to Providers	Profit transparency Profit margin control in return for direct funding to provide wrap around supports fir providers with high numbers of children and families with additional support needs

7. A fractured system

A long list of terms is frequently used to refer to services that broadly sit within early childhood education and care: preschool, childcare, daycare, early learning, long day care, early childhood education, early education, kindergarten to name a few. These terms reflect the confusing and fractured systems and pathways for children and families.

There is an historical basis to this, with different histories in every state and territory. The root cause of the issue is the different answers given historically to the question: who for and for what purpose? Contested answers to this question in Australia for 130 years have led to confusing and fractured systems that do not serve contemporary children and families well.

Across the country, there is an artificial distinction between long day care services for birth to school age children funded through the federal government and stand alone preschools for 3 to 5 year olds funded through state and territory governments. This distinction is based on an outdated view of long day care and preschools that is driven by funding models and is not in line with the practices that service providers work to.

The curriculum and standards for a preschool program delivered in a long day care setting are the same as for that delivered in a stand alone preschool. Despite this, there are very different funding models and policy landscapes not only between the federal and state jurisdictions, but also between each state jurisdiction. This has distorted the market, embedded inefficiencies, and contributed to the creation of inequity of access and affordability.

Further, funding and policy decisions for early childhood education and care services have been made in isolation from other important social infrastructure, including the NDIS, early childhood intervention supports, health, and child protection. This has placed demands on the early childhood education and care sector and on quality individual services, to act as service navigators and linkers for families that can work but adds cost that is not recognised in price modelling.

The Inclusion Support Program is intended to build capacity of services to include children with additional support needs but does not have sufficient flexibility to address the issues that have arisen with the introduction of the NDIS. The ISP has become overly bureaucratic and dependent on inefficient processes and systems creating to barriers to access.

Recommendation ten: remove distinctions between standalone preschool and preschool in long-day care and any related funding differences.

Recommendation eleven: clearly link early childhood education and care reforms with the National Early Years Strategy (under development)

8. Workforce

Quality early childhood education and care relies on qualified and skilled teachers and educators. However, the sector has been experiencing a growing workforce shortage that has been exacerbated by the COVID-19 pandemic.

The current workforce shortages reflect low wages, a lack of respect for the profession (often represented as just babysitting to allow other, more highly paid women to return to work), better pay and conditions in the school sector, and tertiary courses more focused on school-aged children. In addition, there is a scarcity of a qualified workforce in some regional areas, in remote areas and in cities where cost of accommodation is too high (eg. Sydney and Melbourne).

Any actions to increase accessibility of early childhood services for children and families needs to include a solid plan to increase the number of teachers and educators in line with the expected increase in demand.

Recommendation twelve: Invest in supporting tertiary institutions to improve and expand their teaching of early childhood education in specialised courses, as opposed to birth to 12 years.

Recommendation thirteen: fund wage increases for all early childhood education and care staff.

Recommendation fourteen: amend the taxation legislation to expand public benevolent institution criteria to include all not-for-profit early childhood education and care provision, thus enabling salary packaging benefits.

9. Closing statement

There is considerable evidence to show what is best practice for early childhood education and care, and this is embedded in the National Quality Framework.

Supporting all children to access, participate, and be fully included in early childhood education and care is an investment in the future.

Any approach to universal access must be flexible and responsive to different needs at different times that children need to access and fully participate in early learning. It must take into account that some children and families need more support than others – sometimes it may be short term intensive support, sometimes it may be ongoing – and that provision of these supports cost time and money and require a skilled workforce. Not recognising this will mean that many children will be left behind.

The current Child Care Subsidy is not fit for this purpose, and needs to be overhauled. Funding for early childhood education and care needs to be better integrated with other supports for young children, such as the NDIS, health and child protection.

Capital funds need to be available for services who invest their own money into inclusion support, and to allow services to be delivered in places where the market has failed.

The quality of services is driven by the quality of teachers and educators in those services. Strategies to increase the funnel of tertiary students, support for improved wages and conditions, and investment in ongoing learning and development of staff.

For more information
Contact:

Kay Turner
CEO
SDN Children's Services
P: 1300 831 445
www.sdn.org.au

APPENDIX 1

SDN - Productivity Commission – Case Studies

April 2023

SDN ██████ Children's Education and Care Centre

SDN ██████ is a 60-place long day care centre located in ██████ NSW.

The centre was established in 1947 when the NSW Housing Commission asked Sydney Day Nursery and Nursery Schools Association (now SDN Children's Services) to operate a nursery in the ██████ (now ██████) Housing Settlement, where many families experienced poverty and poor living conditions.

Relocated to nearby land leased from the Housing Commission (now Dept. of Communities and Justice Housing), SDN ██████ continues to provide high quality early childhood education and care to a culturally and linguistically diverse community, and includes many children referred by the Dept. of Communities and Justice (DCJ) and other agencies.

Michael* is vision-impaired and was referred to SDN ██████ as a toddler by the Royal Institute of Deaf and Blind Children (now NextSense). Having experienced complex trauma, Michael was the subject of a child protection order and supported by DCJ. He was living with his grandparents who needed support to progress his early development, to keep him safe, and for respite. The only language spoken at home was Mandarin, and there were no Mandarin-speakers working at SDN ██████.

Significant preparations were made for Michael's inclusion, at a time when a range of other children were enrolled with varying needs and vulnerabilities. Throughout his enrolment, the Director, his grandparents, and NextSense and DCJ representatives met to discuss Michael's development and the critical need for early childhood education and care.

NextSense coordinated an environmental assessment by an ophthalmologist who identified adaptations to the centre to minimise accident or injury to Michael.

Orientation visits were arranged (at no cost) so Michael could familiarise himself with the physical space and get to know his educators. The Additional Childcare Subsidy Grandparent was also arranged for fee payment.

Michael's vulnerabilities meant the usual age-based ratios were not sufficient to include him in the service, and Inclusion Support Program funding was obtained to employ an additional educator. Recruiting a Mandarin-speaking educator to communicate with Michael and translate for the family took some time. Staff also committed to learning key words in Mandarin.

Coordinated rosters were developed to ensure familiar educators for Michael to build trust and attachment. Targeted support during meals and transitions was also required, and when trauma was triggered, Michael needed up to three staff members to work with him.

The Director and educators undertook professional development to build their knowledge and capacity. Topics included Mental Health Awareness, Trauma-Informed Practice, Responding to Domestic & Family Violence and Accidental Counselling.

Over time, educators' confidence to support and include Michael grew, as did his relationships with staff and his peers. Michael attended SDN ▮▮▮▮▮▮ for three years, from toddlerhood through to kindergarten.

APPENDIX 2

SDN ████████ Children's Education and Care Centre

SDN ██████ is a purpose-built long day care service located in the grounds of ██████ Public School.

Initially a 'satellite' centre receiving outreach support from SDN Beranga Autism-specific Early Years Demonstration Service (now SDN Beranga Autism-specific Preschool), SDN ██████ is known for its integrated approach to inclusion in its mainstream early childhood education and care program.

The service has strong links with ██████ school staff, use the facilities regularly and collaborate to support transition of children into kindergarten.

Maya* is four years old and was born with hearing and vision impairments. One of Maya's allied health therapists recommended SDN ██████ to her family.

After confirming Maya had a place, orientation visits ensured Maya and her family could become familiar with the physical environment and learn about the program. It also allowed staff to conduct an environmental assessment of the centre.

Upon enrolment, Maya's family and therapists met with staff to develop an individualised learning plan aligned with her NDIS goals. Maintaining a typical classroom environment was important with integrated strategies that focussed on auditory, or touch communications suited to Maya's learning style.

Maya's interests and needs are always considered, and the team looks for innovative ways she can participate. This has empowered Maya to actively engage in her class environment. It also shows Maya's peers that everyone is different, and there are many ways of knowing, learning and being in the world.

Staff meet regularly to gather information, brainstorm, and reflect on their approach to inclusion. They also meet with Maya's family and therapists to discuss her learning goals and progress. This supports on-the-job professional development for the entire team.

Staff have furthered their professional development by accessing Dept. of Education webinars, resources from the NSW/ACT Inclusion Agency and sourcing relevant literature.

SDN ██████ includes several children with diverse needs, including those with autism, hearing and/or vision impairment, global developmental delay, speech delay, sensory processing disorder, chromosomal deletion, and children from culturally and linguistically diverse backgrounds.

Thanks to the extensive support and resources at SDN ██████, Maya and others have made significant progress in their development.