



# Submission to the Productivity Commission Inquiry into Early Childhood Education and Care

**Centre for Policy Development**

June 2023

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## About CPD

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Cite this paper as: Centre for Policy Development (2023) *Submission to the Productivity Commission Inquiry into Early Childhood Education and Care*.

## Summary

CPD welcomes the opportunity to make a submission to the Productivity Commission's Inquiry into Early Childhood Education and Care (ECEC).

The momentum and support for investment in the early years, and specifically in the creation of a universal early childhood education and care system, continues to grow. The Prime Minister's commitment to universal ECEC provides a strong starting point for the Productivity Commission to examine what a universal system can look like in Australia. Consistent with the government's objectives, a high-quality universal system is both desirable and possible.

In late 2021, CPD published the *Starting Better* guarantee. Based on extensive research, consultation and evidence, the guarantee outlines an entitlement for all children and families to a set of high-quality, affordable and connected services in the early years on which they can rely, with additional targeted support for those who need it most. It is based on evidence that a strong, well-connected ECD system will lift educational outcomes, tackle entrenched disadvantage, improve gender equality, boost productivity, and grow our national economic competitiveness. The core elements of the guarantee are:

- more paid parental leave (up to 52 weeks per family), shared between partners;

- universal access to maternal and child health (MCH) care, consistent across all states and territories, with additional support for families who need it;
- universal access to 30 hours or three days of low or no cost quality education and care before children start school, including two years of preschool education;
- extra support for families to navigate the system; and
- more effective transitions from early learning to primary school.

All components of the early childhood guarantee are critical to supporting thriving children, and each component of the well-connected system supports the other. Universal high-quality ECEC is central to delivering the guarantee and should provide a backbone of an integrated early childhood development system. ECEC services are often valued and trusted places in their communities, and children and families spend significant time in these services and build trusting relationships with ECEC educators. This puts ECEC services in a strong position to connect children and families with other services and supports, to identify potential vulnerabilities and reduce the stress and confusion for families in navigating the fragmented ECD system.

The body of this submission is broken into four parts. In part 1, we briefly outline the benefits of a well-functioning universal ECEC system. In part 2, we consider the performance and design of the current ECEC system, outlining where improvements can be made. In Part 3, we set out eight principles that could inform the design and development of the future ECEC system in Australia. In Part 4, we consider how a new system should be phased in, and also draw the Commission's attention to some areas that would benefit from further investigation and consideration to inform system design.

Universal ECEC will achieve a range of benefits in both the short and long term. It will improve outcomes for all children, with strong evidence of the benefits of high-quality ECEC on children's development and long-term outcomes. A universal system will be particularly beneficial for children and families experiencing vulnerability and disadvantage, as it normalises attendance, and allows for the ECD system to identify and support children with additional needs. This provides long-term benefits and savings to governments. In addition, a universal ECEC system will better support parents' choices and workforce participation, also delivering benefits to governments and society more broadly. CPD's *Starting Better* report modelled \$2.9b - \$3.2b in additional annual tax revenue and \$6.2b to \$6.9 billion in annual GDP increase from parents working more hours thanks to universal, free or low-cost ECEC.

The ECEC system in Australia has some strengths - the National Quality Framework provides a strong foundation for quality and quality improvement, cooperative work between governments on universal access to preschool has shown strong results, and there are many high-quality services providing education and care to children. However, overall, the current ECEC system is not fit for purpose and is in need of reform. Our submission identifies eight critical system issues that must be addressed to move Australia to a universal system. These issues are interconnected and persistent, and result in the system not achieving the outcomes that we need it to. They include: a lack of an agreed, legislated national purpose; quality that is not high enough and or fairly distributed; a workforce in crisis; services not accessible for all children and families; a lack of funding or other design elements to improve equity and inclusion; confusing and disjointed governance; and a lack of timely and comprehensive data.

In Part 2 we consider the challenges and issues with the current system, and we summarise those issues against the characteristics of a universal ECEC system in Appendix 1.

It is important that the Commission is aware of these issues when undertaking their analysis as reform must be comprehensive. Increasing demand for ECEC by lowering the out-of-pocket price to families without taking other steps will exacerbate current challenges with access and supply and put pressure on the ECEC workforce, while doing nothing to improve equity or address service quality, nor the confusing and overlapping programs and roles of Commonwealth and state governments. Changes to the Child Care Subsidy (CCS) alone, although welcome, will fall short of delivering a universal platform in the tradition of schooling and Medicare and will not lead to the full benefit of this major economic and social reform.

A universal ECEC system provides an entitlement for children to access a service or support that they need. A well-designed and well-functioning universal system should provide services to all children, delivered with an intensity and a scale that is proportionate to their level of need and using a delivery model that works for their circumstances.

Successfully implementing a high-quality universal system will require a shift, moving away from focussing on who is eligible for public support and how much they should receive, and towards viewing ECEC as a central component of Australia's social contract (alongside schooling and healthcare). It will also require a shift for governments, moving from their current roles and approaches, to being stewards of the system.

A universal ECEC system provides a range of benefits both in the short and long term to children, families, and the broader Australian community. ECEC is an essential social good that delivers early learning, workforce participation and short- and long-term productivity gains. When all children, regardless of background or circumstance, are attending ECEC, they all benefit significantly.

To build this universal system and achieve these benefits, our submission recommends a holistic system reform approach to ECEC governance, funding and delivery and ongoing investment in system health.

The Commonwealth government's approach to ECEC has been primarily to treat its provision as a service that can be provided by the market, with a role for government in supporting affordability and regulating standards. But this approach is not working: the market is not adequately providing access nor driving quality, and affordability remains a challenge for many families. As a result, the system fails to centre children, and does not adequately support parents' workforce participation or children's outcomes.

In order to achieve the dual goals of the ECEC system: supporting children's development and supporting families to balance work and family life, governments need to take greater responsibility for the system and the outcomes it achieves, i.e. be system stewards.

Stewardship is carried out at all system levels, involving both Commonwealth and state and territory governments, ensuring joint responsibility for the health and performance of the system. Importantly, stewardship doesn't mean governments need to do everything in a system,

but they do need to more actively and coherently use their levers so the system better delivers on its objectives and prevents adverse or perverse outcomes.

To support this stewardship approach, we offer 8 design principles to guide the development of a universal ECEC system:

- 1. A clear and agreed national purpose and system outcomes, built first and foremost around the interests of the child.**

A clear national purpose for the system, agreed by all governments, supports coherence in system design and operation, and means policy and other responses are coordinated, not conflicting. The needs and interests of children should be central and inform the design of the rest of the system. A national purpose should be accompanied by agreed system outcomes and established through national legislation, with all governments and system actors working together to achieve these. The dual goals of ECEC need to be pursued by all governments as inseparable elements of the single mission to provide what children need to thrive.

- 2. All actors in the system, especially governments, have clear roles and responsibilities.**

Agreeing the different roles and responsibilities between levels of government is a vital early step to developing a new ECEC system. Developing a new national collaborative approach is an opportunity to reduce confusion and complexity, align objectives, and then cascade consistent objectives through the system. More effort also needs to be made to coordinate and integrate delivery of service systems at the local and regional levels, whatever the funding sources, to support services and the overall service system to be more responsive to local need.

This approach should be supported by a new national early childhood agreement and legislation, encompassing the existing preschool agreement and extending across ECEC to drive further integration across the system. A joint Commonwealth and state body should consider and agree on system design, future roles and responsibilities for governments and ongoing governance arrangements, which could include a governance body established by legislation.

- 3. System actors (including governments and providers) are accountable for the significant public investment made, and the interests of the child and family drive how this funding is used.**

Significant government investment is made into ECEC, with this anticipated to increase through either an increase in the CCS or through other funding changes. System actors must be accountable for the high level of public spending, be transparent on system utilisation and performance and ensure that the investment delivers the best value for the community.

For this to be effective, and for the system to function well, data is critical. Data is needed for system design, implementation, to drive quality and improvement, and to help families and providers in their decision making. Better and more timely information is required regarding supply and demand, cost drivers and provider performance, children's outcomes and the workforce.

**4. There are high-quality services and continuous improvement, with a particular focus on sustaining and supporting the workforce.**

A high-quality service is vital to ensuring that children receive the full benefit from attending ECEC and that parents feel confident in leaving their children at a service. The system must not only ensure that every child receives ECEC that meets minimum safety and quality standards, but it must actively work to promote and improve quality over time.

There are already a large number of services in the system that should be encouraged and supported to improve. When expanding the system, preference should be given to providers with a record of high-quality service provision (or new providers who can deliver a high-quality service). This could also, for example, inform eligibility criteria where the government supports new services in underserved or disadvantaged communities.

Direct and indirect interventions from governments to improve quality are justified and necessary, at the levels of the system (adequate resourcing and incentives), service (capability building) and individual (professional training and development).

Workforce is the critical enabler for the operation or reform of the system and is the most effective within-service factor for child development. However, the system is currently in crisis, with existing workforce shortages and a need for more staff to meet future needs and ensure the long-term sustainability of the system. We need to build from small-scale and piecemeal action on workforce planning and sustainability, to take a whole of career approach, working with employers and unions not only to deliver improved wages and conditions, but to develop a joined-up system of support across the career pathway, from attracting people into training to supporting upskilling and leadership development. Higher and fair wages should be factored into the reformed funding system in the long-term and in the short term, an interim wage boost could be part of the CCS system.

Improvements could also be made to measurement of quality.

**5. ECEC is accessible to all children and families. This means places are available at a place and time to support their needs and preferences, that price is not a barrier to attendance, and the system can be easily navigated.**

To realise the dual goals of the system, every child must have an entitlement to access an ECEC service as soon as families need it until they start school. In *Starting Better*, CPD proposes an entitlement of at least three days free or low-cost high-quality early education and care, as soon required, with additional days available at minimal cost for those who need it. This includes a high-quality preschool program in the two years before school. In addition to a common or minimum entitlement, consideration should be given to a differential entitlement for children experiencing vulnerability or disadvantage. This entitlement should be enshrined in legislation.

The complex interaction between ECEC quality, attendance, dosage and degree of vulnerability makes it difficult to determine the 'optimum' amount of ECEC for a child. As *Starting Better* outlines, the early childhood development system needs to be considered holistically to achieve the outcomes we want for children. Government should not attempt to identify a single, 'optimal'



amount of ECEC for every child (also known as 'dose') and build the entire ECEC system around that. Rather, the system should provide a broad entitlement to children and provide families the opportunity to use what best meets their needs and preferences. A three-day guarantee, with extra days at minimal cost for those that need it, is based on a balance between stability and continuity for children and parents and cost-effectiveness for governments, using a combination of evidence for vulnerable children and ECEC usage patterns for working parents.

A child's entitlement to ECEC should not be conditional on their parents' workforce participation, so the activity test should be abolished.

The entitlement needs to be supported by an early childhood education and care system capable of fulfilling the entitlement for all children and families. To ensure all children and families that want and need to can access their entitlement, there needs to be an operating service (with workforce) reasonably proximate to families, with available capacity. And the system needs to be simple to navigate, with price not being a barrier to accessing ECEC.

To meet the system's objectives, the funding model requires review and reform: to support reasonable cost of quality provision; to deliver simplicity and affordability for families; and to support service viability in thin markets. In addition, consideration should be given to capital funding in underserved markets, provision planning and improvement to the enrolment process.

#### **6. The system's design and settings actively seek to improve equity, including in access, affordability and quality, so disadvantage is alleviated and not compounded.**

ECEC must be available to everyone, but where children have higher needs, they should receive more support. This 'progressive universalism', whereby services are available to everyone, but delivered with an intensity and scale proportionate to the level of need, combines the benefits of a universal system with the benefits of targeted systems.<sup>1</sup>

System improvements for greater equity could include prioritised access, additional entitlement and improved staff arrangements for children experiencing vulnerability and disadvantage; enhanced connections to complementary health and wellbeing services and supports; and needs-based funding. Also, continued and improved investments in place-centred and integrated delivery are important to tailoring a universal service to the needs of communities and families.

#### **7. ECEC is inclusive and welcoming of all children.**

ECEC services must be available to, and welcoming of, all members of the community, and provide culturally appropriate support. This is important to encourage full participation by all children in the ECEC system and the costs of including these children should be supported by additional funding. Failing to do so risks creating a system that exacerbates rather than closes gaps in early childhood outcomes. It also undermines the ability of the system to support workforce participation if some parents do not feel confident or comfortable entrusting their children to the system's care. This includes First Nations communities, culturally and

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<sup>1</sup> Leseman and Slot (2020) [Universal versus targeted approaches to prevent early education gaps - The Netherlands as case in point](#), *Zeitschrift für Erziehungswissenschaft*, vol. 23, pp. 485-507.



linguistically diverse communities, children with a disability or developmental delay, and children experiencing vulnerability or disadvantage.

#### **8. ECEC is a universal platform that also serves as an entry point to additional services and supports where needed.**

A universal ECEC service that children regularly attend is an ideal backbone to connect children and families with other services and supports, reducing parents and carers' work, confusion and stress of navigating a complex and fragmented system. Families tend to have high trust in ECEC educators because of their ongoing relationship with them.<sup>2</sup> This puts ECEC services in an important position to be a 'soft entry point' to connect children and families to other supports. Parents perceive additional support as part of a service they already trust.

Many ECEC services already perform this backbone role, although are not recognised or supported to do so.<sup>3</sup>

Universal does not mean uniform, however, and people- and place-centred approaches will be critical to the design and delivery of early childhood supports that are delivered in a way that works on the ground for the diverse communities across Australia.

A phased implementation is required, as reform is a long-term effort, and the system needs to be built for the long term. Funding needs to be at a level that enables service provision to be sustainable over the medium and long term, with the workforce appropriately remunerated, and operators able to meet their reasonable costs and have some left over to invest in the future of the service.

Change needs to be planned carefully, considering complex issues like supply, affordability and workforce. The Commonwealth cannot pull one lever (such as the subsidy rate) without considering flow on impacts across the system that need to be considered, planned for, and addressed. Governments will need to pull multiple levers concurrently, work with a range of actors including states, territories, local governments and non-government organisations, and carefully sequence reforms.

While designing and implementing this system will be complex, Australia is not starting from scratch – we have a solid base from which to build a universal ECEC system that delivers better for children, families, governments, and communities.

Initial priorities should include:

- Having a legislated, nationally agreed purpose for the system, to inform policy design and implementation at all levels.
- Agreement should be reached on a set of roles and responsibilities for all actors in the new system. This could be progressed through a joint Commonwealth and state and territory body, under the auspices of First Ministers.

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<sup>2</sup> Supported by CPD (2022) Private interviews with early childhood educators and service providers.

<sup>3</sup> Government preschools were found to offer one to four additional services per year and long day care providers offering an average of 8.3 additional activities per year. See Deloitte Access Economics (2023) [Mapping long day care and non-government preschool in South Australia](#). Commissioned report for the Royal Commission into Early Childhood Education and Care, South Australia, p.4.

- Early and significant investment in the workforce, including to address pay and conditions and attract new entrants to the profession.
- Enshrining a child's entitlement to ECEC in legislation, recognising that it will take time to build the system to fully deliver it. As an initial change to improve access, the activity test should be abolished. Supply gaps should be filled to support improved access.

A phased approach recognises that the system is unable to accommodate full implementation in a short period. In phasing, priority could be given to children and communities experiencing vulnerability and disadvantage, and areas that are more 'reform ready' and able to deliver. In addition to having as much benefit delivered as soon as possible to as many as possible, a gradual rollout also allows for piloting and learning from early adopters.

As part of this phased approach, in the medium-term actions should include:

- Governments should progressively take on their new roles and responsibilities, with required new governance arrangements put in place. The expiry of the current Preschool Reform Agreement at the end of 2025 provides an opportune time to consider how preschool can be better integrated in a national system, and more broadly deal with Commonwealth and state and territory roles and responsibilities in the ECEC system.
- Investment in the workforce and quality should continue and be expanded, including through improved quality measures.
- Access should be progressively expanded, with priority given to an entitlement to 3- and 4-year-old preschool.
- Changes to the funding model should also be introduced to support access, quality and equity, as well as additional interventions outside the funding model to promote these objectives.

Over the longer term, a new entitlement and funding model would be fully rolled out and available to all children and families across Australia. The system will require ongoing monitoring and continuous improvement to ensure all children, families and communities continue to thrive under a universal system.

Our submission also offers some additional areas that the Commission may wish to pursue to better inform system design.

The inquiry will mark a defining moment in ECEC system reform. It is an opportunity to put forward the design of a coherent national system and a road map for how we get there.

# Part 1: A universal approach to ECEC will realise governments' ambitions

The Productivity Commission has been asked to identify 'solutions that will chart the course for universal, affordable ECEC – in the great tradition of universal Medicare and universal superannuation'.<sup>4</sup> The development of a universal ECEC system is a critical part of a bigger, broader reform process towards a well-connected Early Childhood Development system that supports every young child and family in Australia to thrive.

Through extensive research, consultation and work with partners and the Council on Early Childhood Development, CPD developed the *Starting Better* guarantee: an entitlement for all children and families to a set of high-quality, affordable and connected services in the early years, with additional targeted support for those who need it most.<sup>5</sup> It is based on evidence that a strong, well-connected ECD system will lift educational outcomes, tackle entrenched disadvantage, improve gender equality, boost productivity, and increase our national economic competitiveness.

The guarantee entitles all children and families to a set of high-quality and accessible services on which they can rely, spanning early childhood education and care, health, paid parental leave, and other supports for parents and families from prenatal to school age. The core elements of the guarantee are:

- more paid parental leave (up to 52 weeks per family), shared between partners;
- universal access to maternal and child health (MCH) care, consistent across all states and territories, with additional support for families who need it;
- universal access to three days of free or low-cost high-quality early childhood education and care (ECEC) before children start school, including two years of preschool education;
- extra support for families to navigate the system; and
- more effective transitions from early learning to primary school.

All components of the early childhood guarantee are critical to supporting thriving children and a well-connected ECD system ensures each component of the system supports the other.

Universal high-quality ECEC is central to delivering the guarantee and should provide a backbone of an integrated early childhood development system.<sup>6</sup>

A holistic approach to early years policy reform addresses all of these areas of the system in a coherent and coordinated way. For example, providing families with one year of paid parental leave would support the sustainability of the ECEC system. Approximately 37,500 children under the age of one currently attend formal care, and children under two make up the greatest proportion of children on ECEC waiting lists.<sup>7</sup> A more generous PPL system would facilitate more

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<sup>4</sup> Productivity Commission (2023) *Terms of Reference, Early Childhood Education and Care*.

<sup>5</sup> Centre for Policy Development (2021) *Starting Better: A guarantee for young children and families*.

<sup>6</sup> Productivity Commission (2023) *Terms of Reference, Early Childhood Education and Care*.

<sup>7</sup> Australian Bureau of Statistics (2017) *Childhood Education and Care*; Australian Community Children's Services (2020) *Not-for-profit education and care: high quality, accessible and resilient. Findings of the 2019 Trends in Community Children's Services Survey*.

ECEC attendance for children over 12 months of age by making it easier for younger children to be with a parent. Similarly, high-quality MCH services support the quality of care parents can provide their children during paid parental leave and beyond.

Limitations and inconsistencies in one part of the system, such as paid parental leave or MCH checks, put pressure on other parts of the system. This compounds inequalities and leaves many families and children without the supports they need in the critical early years. As such, reforms to the early childhood development system need to be approached holistically.

We encourage the Productivity Commission to keep this holistic framework in mind when making recommendations for a universal ECEC system.

Universal ECEC will achieve a range of benefits in both the short and long term.

Australia has several major universal service systems that are long-standing pillars of our social compact, notably universal healthcare and universal schooling. While universal systems can look different in different countries or sectors, core to them is the characteristic that everyone who wants or needs a service is able to access it, and price is not a barrier to this access.

A universal system does not necessarily mean uniformity, or that everyone accesses or experiences a service in the same way. A well-designed and well-functioning universal system should provide people with the services they want or need, and this will be different for different people. For example, our health system ensures that everyone who turns up to the emergency department of a hospital is seen by a health professional, but only provides overnight care for people who need it.

Literature on universal ECEC broadly defines it as programs that are not means tested to determine access, and are 'available to all children in a geographical area with only age as an eligibility criteria.'<sup>8</sup> The core of a universal system is this entitlement, not that it is necessarily free or provided by the government. It is also important to note that in this definition that ECEC is more than just a service to support parental workforce participation. ECEC is a service for children.

There is increasing recognition that quality ECEC is important for all children to thrive, for parents and carers to balance work and raising a family, and for the functioning, growth and wellbeing of society (including for those without children).<sup>9</sup> It is in everyone's interest for children to be educated, safely cared for, and for any vulnerabilities to be identified and addressed early, and doing so has major social and economic benefits, both in the short and long term.

## 1. Universal ECEC would improve outcomes for all children

When all children, regardless of background or circumstance, are attending ECEC, they all benefit significantly. Australian Early Development Census (AEDC) data highlights that preschool attendance is associated with lower odds of developmental vulnerability across all

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<sup>8</sup> Elango et al. (2015) *Early Childhood Education*, NBER Working Paper series.

<sup>9</sup> See, for example, Bartik (2014) *From Preschool to Prosperity: The Economic Payoff to Early Childhood Education*, Upjohn Institute for Employment Research ; Pascoe and Brennan (2017) *Lifting Our Game*.

socioeconomic quintiles.<sup>10</sup> High-quality ECEC provides enriching experiences that cannot easily be provided at home, even with a supportive home learning environment. These benefits include cooperating with peers in a group environment, adapting to new routines and developing relationships with educators.<sup>11</sup> These skills are critical for school readiness, and children thriving throughout their lives. Internationally, analysis of the impact of preschool attendance on academic performance at age 15 in Sweden and the UK indicates that children from all socioeconomic backgrounds benefit from universalising ECEC, with inequalities minimised when children in the lower seven socioeconomic deciles are attending preschool.<sup>12</sup> Attending ECEC for a longer duration has also been associated with better language and cognitive outcomes.<sup>13</sup> The Progress in International Reading Literacy Study, for example, highlighted that children who had attended preschool for three years or longer performed better than children who attended for one to three years, who in turn performed better than children who had attended for less than one year.<sup>14</sup>

## 2. Universal ECEC would improve attendance for all children

Universal ECEC would improve attendance for children across socioeconomic groups by creating a simple and reliable system that families understand and feel confident to rely upon.<sup>15</sup> Targeted approaches necessarily require significant administrative processes to determine eligibility, increasing complexity for families and increasing the likelihood of disengagement from the system.

Universal ECEC would also shape community norms to foster widespread participation. It sends a clear message to parents and the community about its importance in a child's learning and development. Australia's National Partnership Agreement on Universal Access to 600 hours of preschool in the year before school is a clear example of a universal policy having a positive impact on attendance. The number of children enrolled in a preschool program for 600 hours in the year before school increased from 12 percent in 2008, to 96 percent in 2018.<sup>16</sup> The introduction of universal 4-year-old preschool in Australia has fundamentally shifted community norms and beliefs around the role and importance of early education and normalised preschool attendance in the year before school.<sup>17</sup> With new, more diverse cohorts of children attending

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<sup>10</sup> Goldfeld et al. (2016) *The role of preschool in promoting children's healthy development: Evidence from an Australian population cohort*, *Early Childhood Research Quarterly*, vol. 35, pp. 40-48.

<sup>11</sup> Fox and Geddes (2016) *Preschool – Two Years are Better than One*, Mitchell Institute.

<sup>12</sup> The Programme for International Student Assessment (PISA) is a standardised assessment of education attainment conducted by the OECD. Measures the academic performance of students aged 15 in a range of OECD and non-OECD countries. Mostafa and Green (2012) *Measuring the Impact of Universal Pre-School Education and Care on Literacy Performance Scores*, LLAKES Research Paper 36.

<sup>13</sup> See van Belle (2016) *Early Childhood Education and Care (ECEC) and its long-term effects on educational and labour market outcomes*, RAND Corporation, European Union.

<sup>14</sup> Mullis et al. (2012) *PIRLS 2011 International Results in Reading*, TIMSS & PIRLS International Study Center, Boston College; van Belle (2016) *Early Childhood Education and Care (ECEC) and its long-term effects on educational and labour market outcomes*, RAND Corporation, European Union; See van Belle (2016) *Early Childhood Education and Care (ECEC) and its long-term effects on educational and labour market outcomes*, RAND Corporation, European Union.

<sup>15</sup> An independent review into the Child Care Subsidy (CCS) found that approximately half of parents disagreed or strongly disagreed with the statement 'It is easy to understand Government information about child care assistance', and about half of all parents report being worried they would end up owing money at the end of the financial year because they weren't sure they reported their Activity Test details correctly. See Australian Institute of Family Studies (2021) *Child Care Package Evaluation: Final Report* p. 46 fig. 20.

<sup>16</sup> Australian Government Department of Education (2022) *Preschool Reform Funding Agreement*.

<sup>17</sup> Department of Education, Skills and Employment (2021) *UNAP Review: Final Review Report*, p. 5; Fox and Geddes (2016) *Preschool – Two Years are Better than One*, Mitchell Institute, p. 64.

ECEC, the inclusiveness of ECEC services will likely improve, which will in turn foster greater participation.

### 3. Universal ECEC is particularly beneficial for children and families experiencing vulnerability and disadvantage

As the Mitchell Institute outlines, the limitation of many social policy interventions in Australia is that ‘they are often only accessible to a tiny fraction of the children who need them, and therefore cannot shift outcomes at a population level’.<sup>18</sup>

Vulnerability, while more concentrated in disadvantaged areas, can impact children in all communities. As seen in Figure 1, the rate of developmental vulnerability is higher in lower socioeconomic areas, but there are still many developmentally vulnerable children in the highest quintile. In fact, there are more developmentally vulnerable children in the top three quintiles than in the bottom two quintiles.<sup>19</sup> International evidence from Canada also indicates that two-thirds of vulnerable children come from middle- to high-income families.<sup>20</sup>

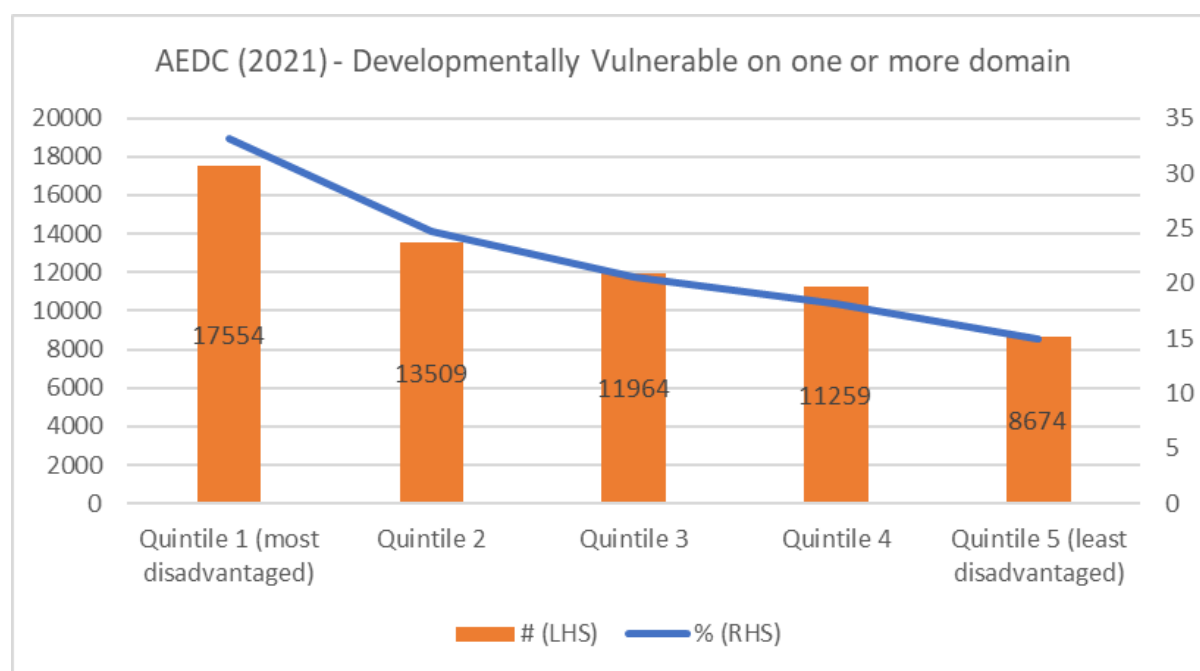


Figure 1  
Source: Constructed with AEDC data. See Australian Early Development Census (2022) [National Report](#), Table 28

Children from all socioeconomic backgrounds experience disability, trauma, health challenges, and developmental delays. There are many factors that influence negative home environments, such as mental health and intimate partner violence, which cut across socioeconomic backgrounds.<sup>21</sup>

<sup>18</sup> O’Connell et al. (2016) *Quality Early Education for All*, Mitchell Institute, p. 44.  
<sup>19</sup> Australian Early Development Census (2022) *National Report*, Table 28.  
<sup>20</sup> Fortin (2017) *What have been the effects of Quebec’s Universal Childcare System on Women’s Economic Security?*  
<sup>21</sup> See, for example, APH (2015) *Domestic violence in Australia: a quick guide to the issues*.



High-quality ECEC and early interventions support children experiencing vulnerability, and universal access allows for population-wide attendance, which means that potential vulnerabilities are more likely to be identified and addressed.<sup>22</sup> ECEC services are often valued and trusted places in their communities, and children and families spend significant time in these services. Families build trusted relationships with ECEC educators, who are skilled and familiar with the signs to look out for and can connect children and families with additional supports. This puts ECEC services in a strong position to connect children and families with other services and supports, to identify potential vulnerabilities and reduce the stress and confusion for families in navigating the fragmented ECD system.

Evidence also indicates that attending universal ECEC is more beneficial for children experiencing disadvantage than attending targeted programs. Evidence suggests that children experiencing disadvantage obtain greater benefits from preschool if they are in a mixed cohort with children from diverse backgrounds.<sup>23</sup> The benefits of universal ECEC on children experiencing disadvantage have led academics to conclude that subsidising ECEC for all children is a worthwhile investment, even if the gains are greatest for children and families experiencing disadvantage.<sup>24</sup>

Universal systems also reduce stigma associated with targeted approaches.<sup>25</sup> Evidence highlights the role that stigma plays in reducing uptake in targeted health systems, and in accessing subsidised ECEC in Canada.<sup>26</sup> In Australia, stigma can be a particular problem when it comes to accessing the Additional Child Care Subsidy (ACCS). The ACCS not only has a high threshold for eligibility, parents are also reluctant to admit that their child is at risk because of judgement and a fear that it could lead to their child being removed by child protection.<sup>27</sup> Universal systems do not completely remove stigma, but they reduce it by making the service a normal part of the everyday life of all families.

It is important to note that it is not an either/or choice between a universal service system and targeted and tailored services. These two approaches must work together, with universal services providing a platform upon which targeted and tailored services and supports can be 'stacked', or a backbone to which they can be connected. The diagram below, Stacking Interventions, shows how this can be conceptualised in an early childhood development system.

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<sup>22</sup> See, for example, Bartlett, Smith, & Bringewatt (2017) *Helping young children who have experienced trauma: Policies and strategies for early care and education*. Bethesda. *Child Trends*; The Royal Australasian College of Physicians (2013) *Early Intervention for Children with Developmental Disabilities*.

<sup>23</sup> Bartik (2014) *From Preschool to Prosperity: The Economic Payoff to Early Childhood Education*. Upjohn Institute for Employment Research; Fox and Geddes (2016) *Preschool – Two Years are Better than One*. Mitchell Institute.

<sup>24</sup> Fox and Geddes (2016) *Preschool – Two Years are Better than One*. Mitchell Institute.

<sup>25</sup> The Productivity Commission's 2015 inquiry report acknowledges the benefits of universal programs for preventing the negative consequences of stigma attached to targeted programs. See Productivity Commission (2015) *Childcare and Early Childhood Learning, vol 1*, p. 167.

<sup>26</sup> For example, see Mead et al. (2022) *Policies for Social and Health Equity: The Case for Equity Sensitive Universalism*. *International Journal of Health Policy and Management*, vol.11, issue 12, pp. 3151-3154; McIsaac et al. (2023) *The Perceived Value of a Universal Early Learning Program: A Parent Perspective*. *Journal of Child and Family Studies*, vol. 32, pp. 977-988.

<sup>27</sup> Australian Institute of Family Studies (2021) *Child Care Package Evaluation: Final Report* p. 233, supported by CPD (2022) Private interviews with early childhood educators and service providers.



## Stacking interventions

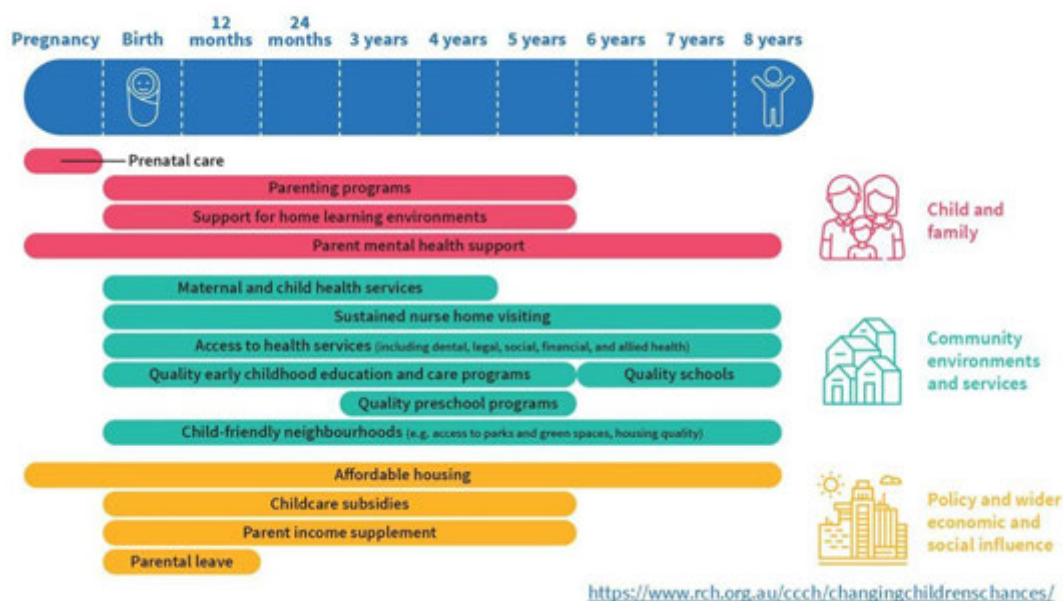


Figure 2

Source: Goldfeld (2022) *Radical Pragmatism: can we achieve equity in child health and development in a generation?*. *Changing Children's Chances*. The Royal Children's Hospital Melbourne.

## 4. A universal ECEC system benefits families

A simple, affordable, reliable universal ECEC system would mean parents and carers can better plan their household budgets and routines, and their participation in the workforce. In the 16 years following the introduction of Quebec's universal program, maternal labour force participation rose at more than three times the rate (13 percentage points) of maternal labour force participation in the rest of Canada (4 percentage points).<sup>28</sup> Evidence also suggests that implementing full-day kindergarten alone was not enough to increase workforce participation, it was the fee simplicity and predictability that provided mothers with confidence to re-enter the labour market.<sup>29</sup>

Other international examples further support these workforce participation benefits. The introduction of Washington D.C.'s two years of universal preschool saw the maternal labour force participation rate increase by about 12 percentage points, with 10 percentage points attributable to preschool expansion.<sup>30</sup> The benefits of universal systems on workforce participation are further supported by high workforce participation in European countries with universal ECEC systems, such as Sweden and Norway.

<sup>28</sup> Fortin (2017) *What have been the effects of Quebec's Universal Childcare System on Women's Economic Security?*

<sup>29</sup> Haeck, Lefebvre and Merrigan (2015) *Canadian evidence on ten years of universal preschool policies: The good and the bad*. *Labour Economics*, vol. 36, pp. 137-157.

<sup>30</sup> Malik (2018) *The Effects of Universal Preschool in Washington, D.C.*

## 5. A universal system will deliver major returns for governments and society

Universal ECEC is fundamental to improving the wellbeing and quality of life of children and families and can deliver major long-term social and economic benefits for Australian society. Improved early learning and better care means children grow up healthier and happier and lead more productive and fulfilling lives, particularly those from families experiencing disadvantage. When children thrive, the community benefits from greater productivity and workforce participation, while governments avoid the costs of crisis services, now and in the future.

The economic benefits of workforce participation under a universal ECEC system are significant. In Quebec, the additional tax benefits from so many mothers joining the workforce paid for the additional cost of the universal program (compared to the cost of the targeted program). In fact, research suggests it generated a surplus.<sup>31</sup> CPD's *Starting Better* report modelled \$2.9b to \$3.2b in additional annual tax revenue and \$6.2b to \$6.9 billion in annual GDP increase from parents working more hours thanks to universal, free or low-cost ECEC.<sup>32</sup>

ECEC plays a major preventative function over the course of a child's life. *Starting Better* outlined critical long-term social and economic benefits of intervening early through preventative policies like high-quality universal ECEC, including higher post-school qualifications, improved health, higher career earnings, and lower likelihood of interacting with the justice system.

Recent Australian analysis found that early intervention can save up to \$15.2 billion annually that Australian governments currently spend on late intervention, such as child protection, youth unemployment and youth crime.<sup>33</sup> *Starting Better* modelled that the long-term economic benefits of ECEC and other ECD supports were up to \$18.8 billion in annual tax revenue and savings benefits, and an annual boost to GDP of up to \$10 billion.

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<sup>31</sup> Fortin (2017) *What have been the effects of Quebec's Universal Childcare System on Women's Economic Security?*

<sup>32</sup> These estimates were within the range of GDP increase per year estimated by The Parenthood, KPMG and Grattan Institute for similar policies. See The Parenthood (2021) *Making Australia the best place in the world to be a parent*; KPMG (2020) *The Child Care Subsidy: Options for increasing support for caregivers*; Wood et al. (2020) *Cheaper Childcare*, Grattan Institute.

<sup>33</sup> Teager et al. (2019) *How Australia can invest in children and return more: A new look at the \$15b cost of late action*, Early Intervention Foundation, The Front Project and CoLab at the Telethon Kids Institute.

## Part 2: The ECEC system is currently not fit for purpose

Governments have made a number of reforms to the ECEC system over many years, and there are important foundations in place. However, the current system is fragmented, expensive, confusing for families to navigate and failing to deliver the desired outcomes. It is more of a collection of services than an 'ECEC system' since the parts rarely connect well.

In this Part of our submission, we outline the key challenges and issues in the current system that the Commission should have regard to when undertaking its analysis and considering what a new system should look like. While presented as discrete, it is important to acknowledge that many of these issues are interrelated, often with common causes or the result of multiple aspects of the system interacting.

### 1. There is no agreed national purpose and the system is not delivering the outcomes we want it to

In Australia, there is a general understanding that the policy objectives of ECEC are to support both children's development outcomes and workforce participation.<sup>34</sup> However, states and territories focus their actions on education and the Commonwealth focuses their efforts on parental workforce participation. As such, a national purpose of ECEC that all governments have agreed to is lacking, creating policies that conflict or undermine one or both of these objectives.

Coupled with this, the system is not achieving the outcomes that we want for children or families, which in turn limits broader productivity and societal outcomes.

#### *Children's outcomes*

Too many children start school developmentally vulnerable. As the graph below shows, since 2009 there has been some progress in children's development, however a significant proportion of children are still developmentally vulnerable when they arrive at school - more than one in five on at least one domain. For children who do not participate in ECEC it is two in five.<sup>35</sup>

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<sup>34</sup> These objectives are broadly reflected in a number of documents including the Preschool Reform Agreement, the 2014 Productivity Commission inquiry into child care and early learning, and recently, [the Draft National vision for early childhood education and care](#).

<sup>35</sup> Exact figures are 21.7% of all children, and 39.8% of children who do not receive early childhood education and care. Productivity Commission (2021) [Report on government services 2021 — Part B, section 3](#).

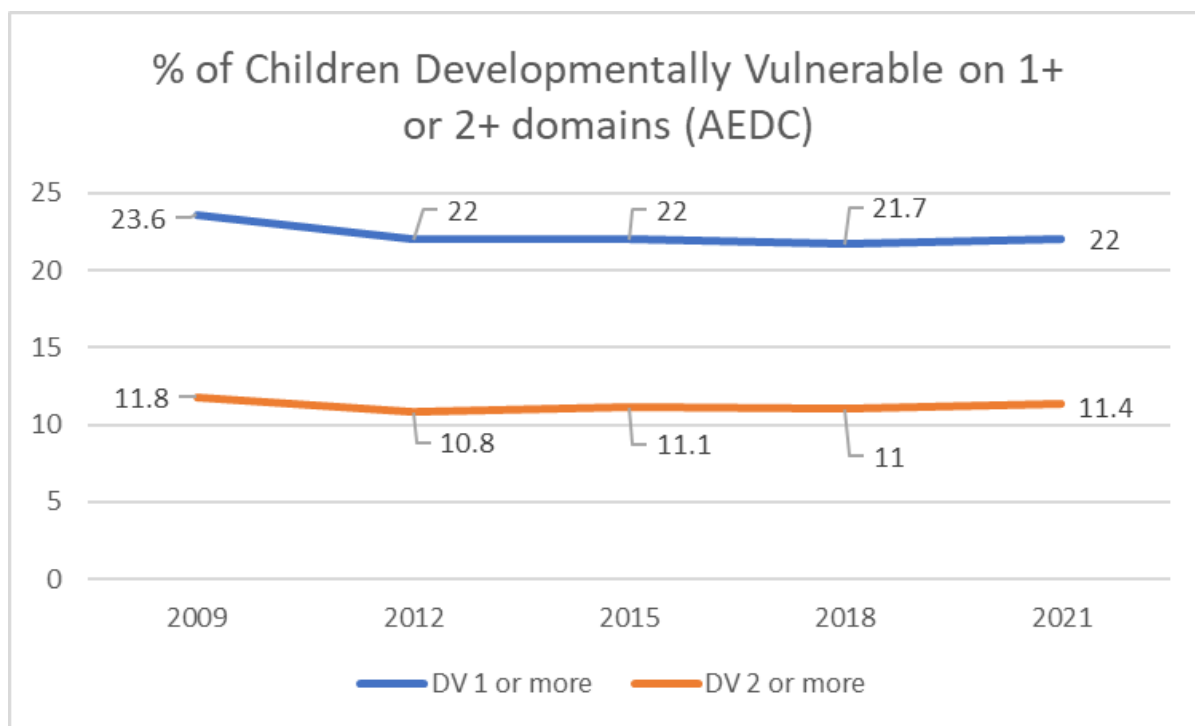


Figure 3  
Source: AEDC

The 2021 AEDC results show variation across the population, with large gaps in the rate of developmental vulnerability on at least one (DV1) or two (DV2) domains between Aboriginal and Torres Strait Islander and other children, high and low socioeconomic areas, and between cities and regional or remote communities (as shown in the table below).

However, it is still notable that even among the most-advantaged group (high Socio-Economic Indexes for Areas (SEIFA)), more than one in seven children was developmentally vulnerable on at least one domain.<sup>36</sup>

Demographic	DV1 or more	DV2 or more <sup>37</sup>
Aboriginal and Torres Strait Islander	42.3	26.5
Remote or very remote	34.4	20.7
Lowest quintile SEIFA	33.2	19.1
Male	28.2	15.6
Language background other than English	25.3	13.1

<sup>36</sup> Australian Early Development Census (2022) *Public table by SEIFA 2009 - 2021*, Table 6.

<sup>37</sup> These figures overlap with column 1 (DV1). 2 or more DV includes 1 DV.

Inner or Outer Regional	24.4	13.1
<b>Overall population</b>	22	11.4
English only at home	20.8	10.7
Major Cities	20.8	10.5
Female	15.6	7.1
Highest quintile SEIFA	14.9	6.7

Table 1

Source: AEDC (2022) [National Report 2021](#).

It is important to acknowledge that child outcomes, especially in early childhood, are driven by a variety of factors, including the child’s home and family environment. However, children who do not participate in early childhood education have significantly higher odds of being developmentally vulnerable compared to those who do, even when accounting for other variables.<sup>38</sup>

An agreed national purpose of ECEC, centred on children’s development, and relevant outcomes that are then reflected in outcomes measures, will support monitoring of children’s progress, and the performance of the system. This will support better policy making and a higher quality ECEC system overall.

### *Family outcomes*

#### *Workforce participation*

There is strong evidence of the untapped potential to increase workforce participation, especially among women. More women could be working, and working more, if the ECEC system better supported their choices. Accessibility of places, cost and system complexity, as well as related interactions with the tax system (through high effective marginal tax rates) and paid parental leave entitlements, are acting as barriers. Work by the Grattan Institute, the Front Project, the Mitchell Institute, Equity Economics for the Parenthood, PwC for the Front Project, KPMG and NSW Treasury highlights the barriers of Australia’s ECEC system to workforce participation and the benefits that could be gained from making ECEC more affordable and accessible.<sup>39</sup> CPD also modelled the potential benefits from reform as part of broader costs and

<sup>38</sup> Sincovich et al. (2020) *The relationship between early childhood education and care and children’s development* (AEDC Research Snapshot). Note: higher odds of developmental vulnerability apply to four out of five AEDC domains: Physical Health and Wellbeing, Social Competence, Language and Cognitive Skills, and Communication Skills and General Knowledge.

<sup>39</sup> Wood et al. (2020) *Cheaper Childcare*, Grattan Institute; The Front Project. (2021.) *Work and play: Understanding how Australian families experience early childhood education and care*. Hurley (2022.) *Deserts and Oasis: How accessible is childcare in Australia?* Mitchell Institute; The Parenthood (2021) *Making Australia the best place in the world to be a parent*; Equity Economics (2021) *Back of the Pack – How Australia’s Parenting Policies are Failing Women and Our Economy*; The Front Project (2019) *A Smart Investment for a Smarter Australia: Economic analysis of universal early childhood education in the year before school*; KPMG

benefits estimates in *Starting Better*.<sup>40</sup> Beyond the economic benefits, workforce participation can also support parent, family and child wellbeing.<sup>41</sup>

### *Supporting families who are outside of the workforce*

Access to the CCS, and therefore ECEC, is significantly restricted by the activity test, that generally sets a family's entitlement to a subsidy according to how much work (or related activity such as study) both parents are undertaking. It has been estimated that the activity test is contributing to at least 126,000 children missing out on ECEC.<sup>42</sup> This means that families miss out on the full range of benefits of participating in ECEC, which, beyond the educational and developmental benefits described above, also include a protective space for children who may be exposed to safety risks at home, as well as the space, information and connections that parents need to support their own health and wellbeing.

## **2. Quality is not high enough, and high-quality services are not fairly distributed. The workforce, essential to high-quality delivery, is in crisis.**

Quality is essential to delivering an effective ECEC system, and it is particularly important for children experiencing vulnerability or disadvantage to receive a high-quality service to fully benefit from participation in ECEC.

Australia has a well-regarded regulatory framework for quality, with services assessed and rated against the National Quality Standard (NQS) by state-based regulators. This forms a strong foundation for quality measurement and improvement. As seen in the graph below, average quality has improved since the introduction of the NQF in 2012, with a notable reduction in the proportion rated 'Working Towards' over the early years of the NQF.

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(2018) *The cost of coming back: Achieving a better deal for working mothers*; Tan et al. (2022) *Women's economic opportunities in the NSW labour market and the impact of early childhood education and care*, NSW Treasury.

<sup>40</sup> Centre for Policy Development (2021) *Starting Better*. See in particular Appendix 2.

<sup>41</sup> See, for example, Strazdins et al. (2011) *Parent and Child Wellbeing and the Influence of Work and Family Arrangements: A Three Cohort Study*, Department of Families, Housing, Community Services and Indigenous Affairs, Australian Government.

<sup>42</sup> Impact Economics and Policy (2022) *Child Care Subsidy Activity Test: Undermining Child Development And Parental Participation*. Since this report was prepared, the Commonwealth has modified the activity test for First Nations children and families so they can access at least 36 hours of subsidised care per fortnight (from July 2023). See Australian Department of Education (2022) *Changes to the activity test for families with First Nations children attending child care*.

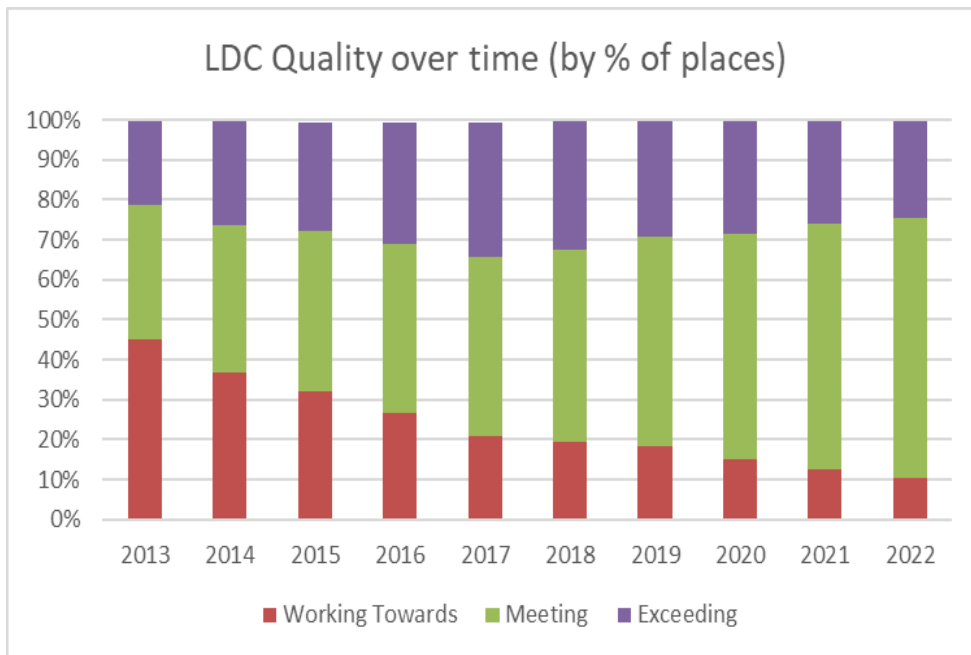


Figure 4  
Source: CPD analysis of ACECQA national register Q4 2013 to 2022. Excludes services not rated, and a small number of services rated Excellent or Significant Improvement Required.

However, quality improvement has slowed, and most gains have been in services achieving a 'Meeting' standard - the proportion of places rated 'Exceeding' has not significantly improved. Quality also remains generally lower in low socioeconomic areas and is a particular challenge among for-profit services.

Quality is generally higher in high socioeconomic (SES) areas and lower in low SES areas, as shown below. This suggests children who are most likely to need high-quality ECEC are the least likely to be able to access it.

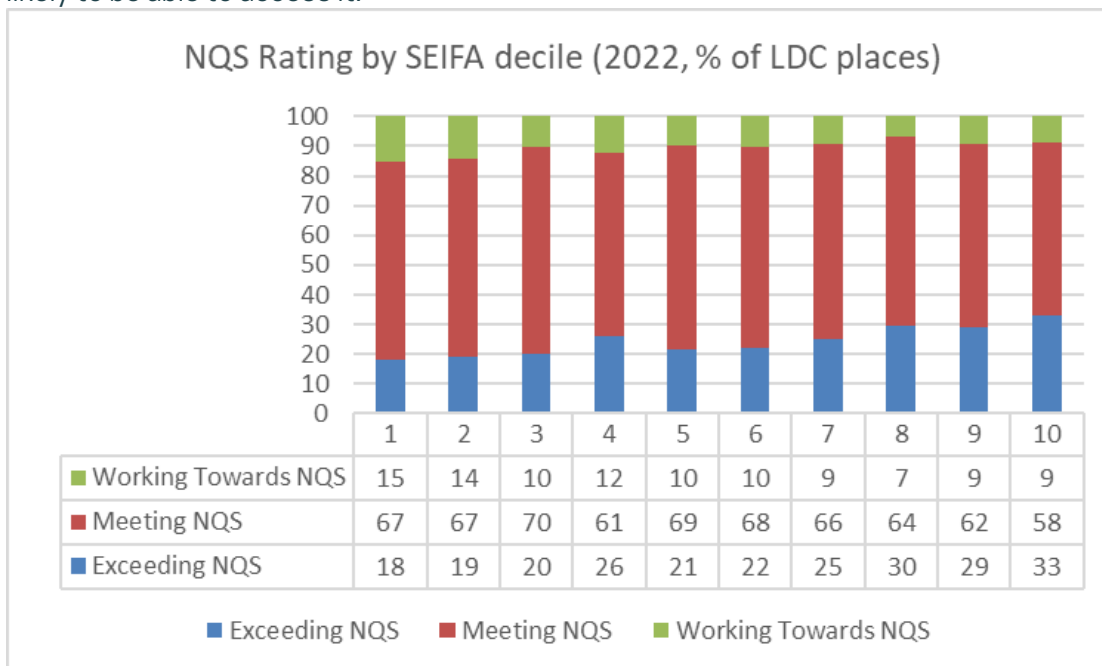


Figure 5  
Source: CPD analysis of ACECQA national register Q4 2022. Includes Long Day Care services only. Excludes services without a SEIFA decile or NQS rating, and the small number of services rated Excellent or Significant Improvement Required. Totals may not add due to rounding.



Of particular concern is evidence suggesting that the quality levels in the system may be insufficient to shift children’s outcomes. The Classroom Assessment Scoring System (CLASS) is a measure used around the world to assess the quality of adult-child interactions in ECEC.<sup>43</sup> E4Kids, an Australian study that comprehensively considered the impact of ECEC on children’s learning and development, found that ECEC services consistently obtained lower CLASS scores than the relative NQS ratings.<sup>44</sup> They reported that ‘even programs rated as meeting or exceeding the NQS may provide very low levels of Instructional Support, well below the threshold levels needed to shift children’s outcomes.’<sup>45</sup>

Quality ECEC also is not universally available, and children experiencing disadvantage and vulnerability, and those in regional and remote settings (and ‘thin markets’), are especially at risk of missing out on quality early learning. At the same time, most of the growth in the sector has been from for-profit long day care (LDC) centres, that are overall less likely to meet or exceed the NQS standards - 11% of for-profit places are in the ‘working towards’ category compared to 6% for not-for-profit places, while 35% of not-for-profit places are rated Exceeding, compared to 17% of for-profit places (see figure 6). There is limited planning or coordination as to where these new services will be built or which communities they will serve, or recognition that governments will need to prioritise high-quality services.

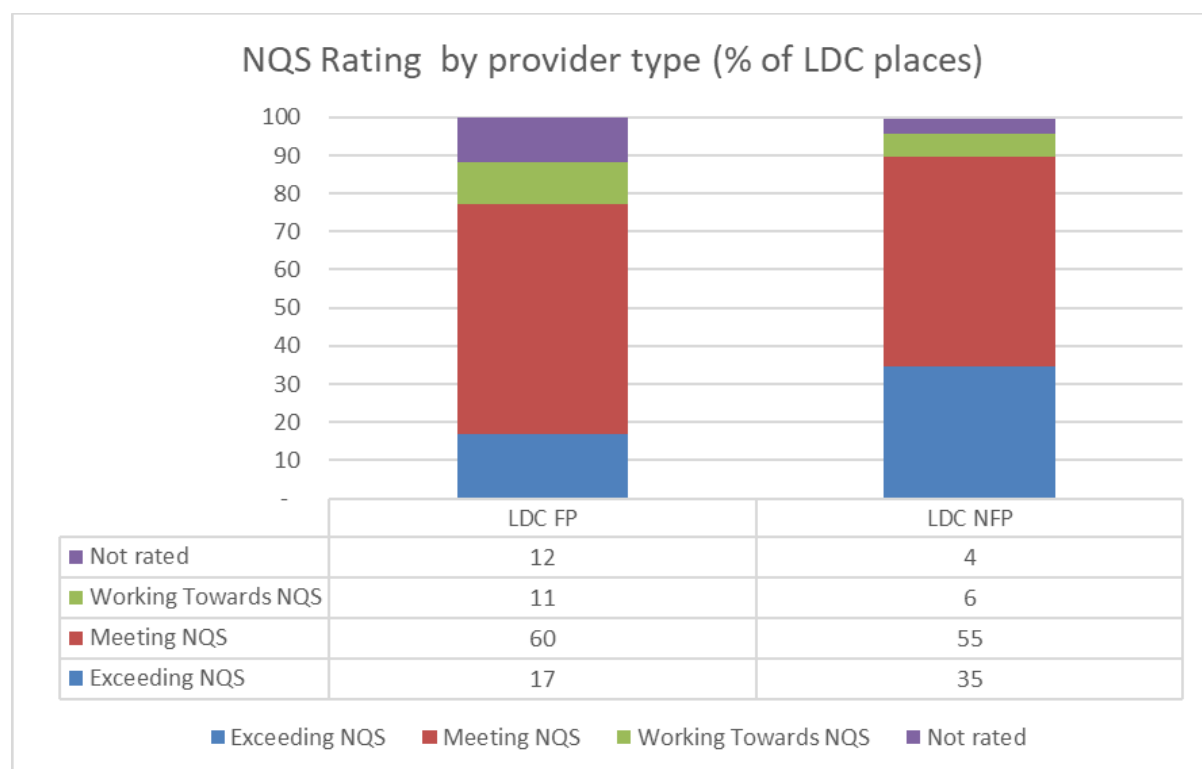


Figure 6  
Source: CPD analysis of ACECQA NQS data (Q4 2022). Excludes the small number of services rated Excellent or Significant Improvement Required. Not-for-profit includes government-operated services.

<sup>43</sup> Areas that CLASS assesses include Emotional Support, Room Organisation, and Instructional Support.

<sup>44</sup> Tayler (2016) *The E4Kids Study: Assessing the effectiveness of Australian early childhood education and care programs*, p.11.

<sup>45</sup>Ibid.

In the current system, there are a number of challenges to improving quality, including a lack of scale at a service and provider level, necessary operating conditions (including staff ratios) making it difficult for staff to have time 'away from the floor' for professional development, and a lack of incentives. There are limited demand-side drivers or incentives for services to invest in quality or quality improvement - ACECQA's research shows only 55% of families are aware of the national quality rating system.<sup>46</sup> There are also limited supply side incentives - funding is not conditional on meeting the NQS or differentiated on the basis of quality. Current and comprehensive data is also important to quality improvement, and as explored later in this section, there are gaps in the availability of critical data about the ECEC system.

*The workforce is essential to a high-quality system, but is in crisis*

The ECEC workforce is the cornerstone of a quality service. Comprehensive Australian research has highlighted the importance of the quality of adult-child interactions to child development outcomes.<sup>47</sup> A comprehensive literature review concluded that '[t]he most significant factor affecting quality appears to be caregiver education, qualifications and training', and E4Kids confirmed 'the association of higher-level educator/teacher qualifications with better process quality, and subsequently improved child cognitive outcomes.'<sup>48</sup>

However, a range of issues such as low pay, lack of career progression and limited professional development mean that the ECEC workforce is characterised by high turnover, with a large proportion of staff consistently reporting that they don't intend to stay in the sector.<sup>49</sup>

As a result, there are widespread, deep and increasing challenges with workforce supply, which is already acting as a limit on service operations. System wide, more than one in seven long day care centres have sought an exemption from National Quality Standards because they can't find sufficient qualified staff to meet the regulatory requirements, a rate that has increased steadily and concerningly over time (see figure 7). And this problem is set to worsen, with retention a key challenge – in one survey, almost three in four early childhood staff said they intended to leave the profession within the next three years because of excessive workloads, low pay, and feeling undervalued.<sup>50</sup>

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<sup>46</sup> ACECQA (2022) *NQF Annual Performance report 2021*.

<sup>47</sup> Pascoe and Brennan (2017) *Lifting our Game*.

<sup>48</sup> Huntsman (2008) *Determinants of quality in childcare: A review of the research evidence (NSW Department of Community Services)*, p. iii, Tayler (2016) *The E4Kids Study: Assessing the effectiveness of Australian early childhood education and care programs*, p. 9.

<sup>49</sup> There is extensive literature and discussion of the ECEC workforce challenges. For an overview, see Jackson (2021) *Early childhood educators are leaving in droves. Here are 3 ways to keep them, and attract more*, *The Conversation*; ACECQA (2019) *Progressing a national approach to the children's education and care workforce*; ACECQA (2021) *National Children's Education and Care Workforce Strategy* and Pascoe and Brennan (2017) *Lifting Our Game*.

<sup>50</sup> United Workers Union (2021) *Exhausted, Undervalued and Leaving: The crisis in Early Education*.

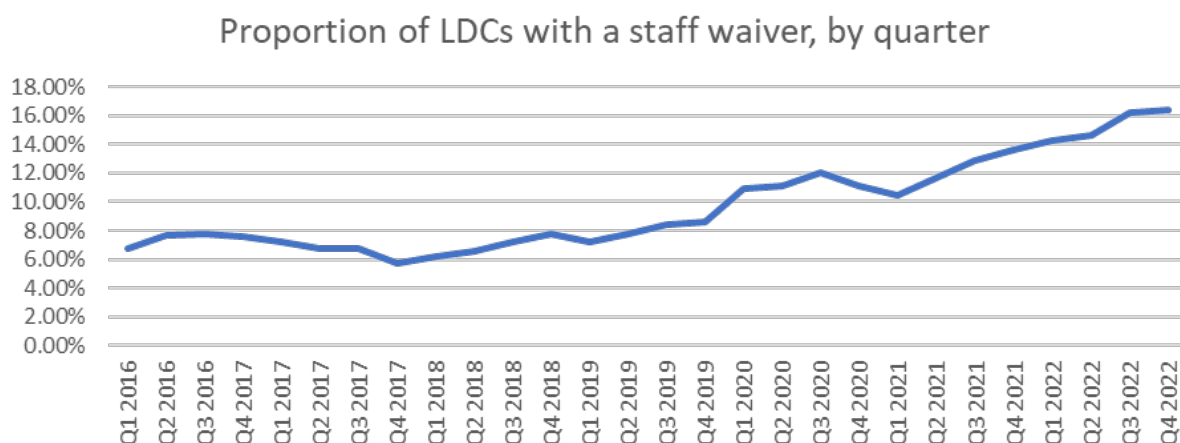


Figure 7

Source: ACECQA (2023) NQF Snapshot Q4 2022. Waivers, W7: Proportion of services with a staffing waiver by jurisdiction and service sub-type.

### 3. ECEC is not accessible for all children and families

#### *Finding a place is a challenge for many families*

While there is no system-wide data available on actual or unmet demand, feedback from families and services, academic modelling, and the literature tell a consistent story across Australia - supply is not meeting demand.<sup>51</sup>

Separate to the issue of affordability, finding a suitable ECEC place can be a barrier for many families, with particular challenges for younger children, first children (because subsequent siblings are often given priority), inner-city areas and some regional areas. This is coupled with the challenge of finding a place on the particular days that parents and carers want or need for work-related reasons.<sup>52</sup>

Mitchell Institute modelling on the number of ECEC places and population of children aged 4 or under in neighbourhoods across Australia found that 35% of Australians live in neighbourhoods it classified as ‘childcare deserts’ (i.e. less than one place for three children), and that these childcare deserts are more likely to be found in regional or remote areas, and less likely to be found in high socioeconomic areas.<sup>53</sup> Their work also found workforce participation by female parents with a child under 5 years of age is higher in areas with more ECEC supply.

#### *Affordability is a barrier to access*

While the primary purpose of the CCS is to make ECEC affordable, it remains expensive for many families. CPI data shows that the cost to families after the subsidy continues to rise steadily.

<sup>51</sup> See, for example, Wood et al. (2020) *Cheaper Childcare*, Grattan Institute, pp. 32-37; Clun (2023) *The pay does suck: Why it's so hard to get a childcare spot*, Sydney Morning Herald.

<sup>52</sup> See Wood et al. (2020) *Cheaper Childcare*, Grattan Institute, pp. 32-38.

<sup>53</sup> See Hurley (2022) *Deserts and Oasis: How accessible is childcare in Australia?*, Mitchell Institute. Note that the report modelled the accessibility of centre-based day care, excluding preschools/kindergartens and family day care.

The graph below shows that as the Commonwealth Government's spending on ECEC has increased over the last decade, so have child care prices. This shows that despite government investment to address affordability, it hasn't resulted in sustained, lower prices for families due to increasing costs, the design of the subsidy and providers being able to set prices (often set in relation to a parent's ability to pay, rather than the cost of provision).

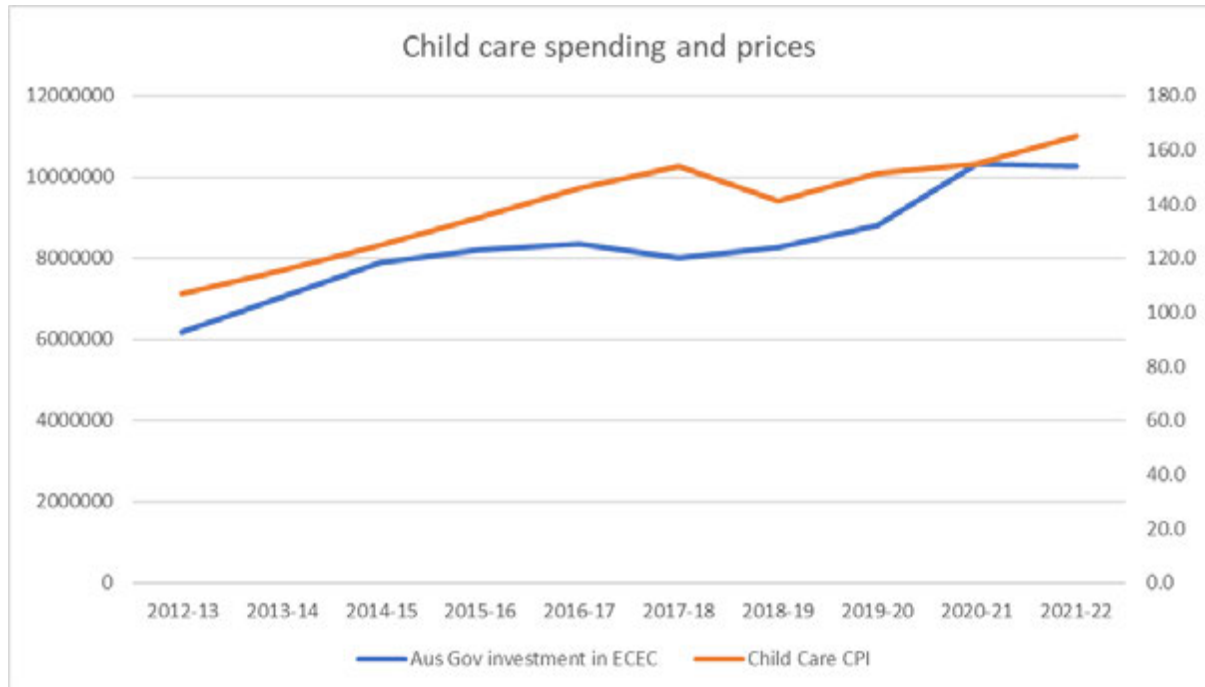


Figure 8  
Source: Productivity Commission (2023) Report on government services 2023, Table 3A.4. Total government real expenditure on ECEC, 2021-22 dollars; Australian Bureau of Statistics (2023) Consumer Price Index, December Quarter 2022.

This high cost prevents and limits children participating in ECEC. Parent surveys regularly report that the cost of ECEC is a significant reason they do not use it, or do not use it more.<sup>54</sup> Research from the Mitchell Institute found that 83% of parents spend more on ECEC than on utilities or clothing, 70% spend more on ECEC than on transport, and 31% spend more on ECEC than groceries.<sup>55</sup> Efforts to restrain prices through a cap on the amount of fee eligible for the CCS have not succeeded, with the proportion of long day care services charging above the fee cap increasing, from 11% in December 2018 to 21.4% in June 2022.<sup>56</sup>

Changes to the CCS from early July are welcomed and will improve affordability for most families in the short term. However, if systemic and design issues are not addressed challenges will remain and increase over time.

*The current funding design is blunt, and does not send signals to providers or account for variation in costs or need.*

The funding system is built around a standard, per child per day fee, with the subsidy payable up to an hourly rate cap. The level of CCS does not vary according to a child's age, educational need,

<sup>54</sup> See, for example, Wood et al. (2020) *Cheaper Childcare*, Grattan Institute p. 28; The Front Project. (2021) *Work and play: Understanding how Australian families experience early childhood education and care*, p. 25.

<sup>55</sup> Noble and Hurley (2021) *Counting the cost to families: Assessing childcare affordability in Australia*, Mitchell Institute.

<sup>56</sup> Department of Education (2022) *Data on usage, services, fees and subsidies, quarterly report tables*, December 2018, June 2022.

or differing costs of delivery (for example, using higher qualified staff or operating over-ratio to support children with disabilities or complex needs, or to reflect different rent or occupancy costs). It is not explicitly set with consideration of an efficient cost of quality delivery or adjusted to reflect changes in this cost.<sup>57</sup> It is not tied to service quality or quality improvement, and although there is a cap on absences, the cap is high (42 absences a year) so does not meaningfully incentivise attendance.

## 4. The national ECEC system is lacking in elements to improve equity

Elements of the current system that aim to address equity issues are primarily focused on making ECEC more affordable for families. For example, the activity test is waived in some very limited circumstances to allow some access to the subsidy, and the CCS itself is a sliding scale, with a higher rate going to lower income families. The Additional Child Care Subsidy is available for some families to provide additional help meeting the cost of ECEC, and there is an inclusion support program for children with additional needs. However, where this additional support is available, the criteria are narrow, and many report difficulty accessing it.<sup>58</sup>

However, equity is not just an affordability issue - it is also about ensuring that each child has the level of support needed to support their growth and development, and the service has the resourcing required to deliver that support. The funding system provides the affordability support to get children into ECEC but does not provide differential funding to meet the children's different developmental needs.

The current funding system does not provide needs-based funding, unlike other similar systems such as the School Resource Standard used for school funding which recognises that schools require additional resourcing to support some children, and includes loadings for students with disability, Aboriginal and Torres Strait Islander students, socio-educational disadvantage and low-English proficiency.<sup>59</sup> This recognises that the cost of providing a quality service to some children is higher than others, and builds this different cost into the funding system. Many states fund preschool at a higher per-child rate in lower socioeconomic areas, and Victoria and Queensland provide additional funding or resourcing based on educational need, however this is not part of the CCS or Commonwealth funding model.

Equity is also impacted in the current system through service quality and availability (as discussed above).<sup>60</sup> Both are generally better in higher socioeconomic areas and worse in low socioeconomic areas, missing the key opportunity for high-quality ECEC to counteract disadvantage.

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<sup>57</sup>The Hourly Fee Cap governs the maximum subsidy that the government will pay to support the cost of ECEC. It does not limit the fee a service can charge, but rather acts as a 'guide for services and families about what a 'high fee' might be' (Department of Education 2023). The hourly fee cap is not linked to the actual cost of quality delivery. While it is indexed by the Consumer Price Index (CPI), the cost of ECEC has been increasing considerably faster than the CPI for over a decade. The child care subsidy does not apply to the amount charged above the hourly rate cap, and families must cover the full expense directly out of their own pocket.

<sup>58</sup>Australian Institute of Family Studies (2021) *Child Care Package Evaluation: Final Report*.

<sup>59</sup>Department of Education (2023) *Schooling Resource Standard*.

<sup>60</sup>ACECQA (2023) *Quarterly Snapshot*; Q1; Hurley (2022) *Deserts and Oasis: How accessible is childcare in Australia?* Mitchell Institute.

## 5. Services are not sufficiently inclusive

For the ECEC system to be effective, and reach and support all children and families, it needs to be inclusive, offering services where all children and families feel welcomed and comfortable. Currently, young children from non-English speaking backgrounds, low income families, and regional and remote areas, as well as Aboriginal and Torres Strait Islander children, are all underrepresented in CCS-funded services relative to the overall population share.<sup>61</sup> Underrepresentation of groups such as low income families and Aboriginal and Torres Strait Islander children is particularly concerning as the lower rates of ECEC participation risks exacerbating rather than ameliorating existing disadvantage. Families of children with a disability often report 'service refusal' or being made to feel unwelcome, with services suggesting they are not able to accommodate the child and that they would be better off at a different service.<sup>62</sup>

## 6. The system does not provide a universal platform for entry to other services and supports

Many children and families need to access multiple services across the ECD system. The system is complex, confusing and expensive to navigate alone, including waiting lists, multiple referrals and families having to repeat their story several times over. The high number of young children currently accessing the NDIS (11% of boys and 5% of girls aged 5-7) is in part the result of a lack of support across the ECD system for young children experiencing challenges and vulnerabilities, including autism and developmental delay.<sup>63</sup>

As discussed above, ECEC services can provide a much-needed backbone to a well-connected early childhood development service system, if the system is developed with this function in mind. The South Australian Royal Commission into Early Childhood Education and Care Interim report found that many ECEC centres already offer additional services, particularly services that support families in need.<sup>64</sup> One in three long day care services, for example, provide access to a food bank.<sup>65</sup> However, ECEC services are often overstretched and do not have the resources, training, or professional support to offer this support.<sup>66</sup>

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<sup>61</sup> Productivity Commission (2023) *Report on Government Services*, table 3A.1.

<sup>62</sup> See, for example, ACCC (2023) *Families report lengthy waitlists and increasing fees in preliminary survey results*.

<sup>63</sup> National Disability Insurance Agency (2023) *NDIS Quarterly report to disability ministers*. See also McCubbing (2023) *NDIS participants slam 'discriminatory' price gouging in review*, *Australian Financial Review*.

<sup>64</sup> Government preschools were found to offer one to four additional services per year and long day care providers offering an average of 8.3 additional activities per year. See Government of South Australia (2023) *Royal Commission into Early Childhood Education and Care Interim Report*, p.35.

<sup>65</sup> Deloitte Access Economics (2023) *Mapping long day care and non-government preschool in South Australia*. Commissioned report for the Royal Commission into Early Childhood Education and Care, South Australia, p.4.

<sup>66</sup> See, for example, Government of South Australia (2023) *Royal Commission into Early Childhood Education and Care Interim Report* p.35, Early Childhood Education Directorate Sector and Workforce (2017) *Early Childhood Education Workforce issues in Australian and international contexts*.



## 7. The governance of the ECEC system is confusing and disjointed

ECEC is not a coherent system, but a complex set of arrangements for delivery, funding and regulation, and this complexity is reflected in how children and families experience the system. ECEC is delivered through a wide range of services and providers. Responsibilities are split between Commonwealth and state/territory (see table 2), and the ECEC landscape varies between each jurisdiction, with different approaches, levels of investment and preschool entitlements. The split of responsibilities is largely not formalised, and accountabilities can be unclear. This is likely to change further, with states such as Victoria and New South Wales taking on a greater role in long day care, separate to their traditional role in preschool. The system is complex for providers to administer, and for families to understand, navigate and access.

Table 2: Snapshot of Commonwealth and State responsibilities within ECEC

Area	Commonwealth role	Joint Commonwealth/State role	State/Territory role
<b>Policy</b>	ECEC affordability  Setting awards and bargaining arrangements under the Fair Work system	Preschool for children in the year before school  ECEC data collection and reporting  Workforce policy and strategies	Preschool  Services not covered by the NQF  Quality in preschool
<b>Funding</b>	Financial assistance to families for child care  Grant funding for services in underserved and vulnerable communities  Commonwealth supported university places	Preschool for children in the year before school, under the Preschool Reform Agreement  ECEC grants and workforce support  VET	Preschool not covered under the Preschool Reform Agreement (e.g. 3 year olds)  Preschool infrastructure (varies by jurisdiction)
<b>Delivery</b>	CCS to eligible families via providers, to reduce the fee paid by families	Providing information for service providers and educators	Preschool delivery (scale varies by jurisdiction)  Secondary role in planning supply of ECEC (e.g. on new school sites)
<b>Regulation</b>	Eligibility for the CCS  CCS monitoring and compliance	Working with ACECQA, the national quality authority	Approving and regulating ECEC services  EC teacher registration and accreditation



As an example, the split in responsibilities between Commonwealth and state and territory governments for preschool highlights this complexity. Preschool continues to be delivered through different service types, with different entitlements in different states and territories. In many cases, parents and children have to navigate between them, moving between both a long day care and a preschool service each week. This fragmentation and sometimes parallel service systems can also create complexity in addressing workforce issues, with different funding sources and pay and industrial arrangements, while effectively competing for the same workforce operating under the one NQF.

Adding to this governmental complexity, the system is also highly fragmented at a provider level. Despite recent growth in the system, no provider operates more than 9% of places, and 40% of places are single-service providers. Only 60 providers operate more than 10 services, accounting for less than a third of the system.<sup>67</sup> This lack of scale in the system may contribute to other challenges in the system, as small providers find it more difficult to achieve economies of scale (e.g. for back-office functions like payroll), or to build quality improvement or other systems and supports such as workforce development or career path options.

In addition to differences in scale of providers, there is also a difference in operating model, as the system is increasingly made up of for-profit providers. Between 2013 and 2022, the number of long day care places in Australia grew by 56.1%, with 86.9% growth in for-profit places, and only 11.6% growth in not-for-profit places (including governments).<sup>68</sup>

## 8. There is a lack of current and comprehensive data

Data and evidence are vital for both policy making and managing and improving a service system, and ensuring transparency and accountability in the expenditure of significant public funds.

Limited ECEC utilisation data is available to understand current and unmet demand. The workforce is perhaps the single biggest challenge facing the sector today, but the national Workforce Census is conducted irregularly, the results are slow to be available, and the most recent census didn't include preschools. The AEDC is the best existing measure of early childhood outcomes, but only conducted triennially. The NQS provides important quality data, but services are not frequently re-rated, the data lacks granularity in important areas, and parents themselves are not sufficiently aware of NQS ratings. Critical data is not currently being shared between the Commonwealth and state and territory governments, such as attendance, enrolment, fees and subsidies.

**These challenges mean that reform requires more than just increasing the subsidy.**

Given the many complex and interrelated issues outlined above, the ECEC system requires more than increasing the CCS to 90 percent (or another number). This one change will be unable to fix the range of system issues identified or deliver the universal system that Australia needs.

The system, as currently operating, is unlikely to be capable of delivering the ECEC service

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<sup>67</sup> CPD analysis of ACECQA National Register as at Q4 2022.

<sup>68</sup> CPD analysis of ACECQA National Register at Q4 2013 and Q4 2022.

required to meet demand for a universal 90 percent subsidy. Increasing demand for ECEC by lowering the out-of-pocket price to families without taking other steps will exacerbate current challenges, driving up demand, putting upwards pressure on prices and driving more supply into areas with the highest ability to pay. It will increase pressure on workforce supply and do nothing to address service quality or the confusing and overlapping programs and roles of Commonwealth and state and territory governments. Increased investment by the government in the CCS alone will not address underlying issues in access and supply, or lead to improvements in quality or equity.

## Part 3: ECEC governance, funding and delivery must be revisited to create a universal ECEC system

As outlined, the current approach to ECEC governance, funding and delivery is not seeing the results that governments would like. Continuing the current approach and settings while taking steps towards a universal system is likely to exacerbate these problems rather than solve them. If we want the ECEC system to reach its full potential and deliver the desired outcomes, governments' approach to the system needs to change.

The Commonwealth government's approach for over 30 years has been primarily to treat the provision of ECEC as a service that can be provided by the market, with a role for government in supporting affordability and regulating minimum standards. But as outlined above, in many cases ECEC does not function as a traditional or 'textbook' market. The market is therefore not adequately providing access or driving quality, and affordability remains a challenge for many families.

In order to achieve the dual outcomes society wants for the ECEC system - children's developmental outcomes and parental workforce participation - and prevent adverse or perverse outcomes, governments need to take greater responsibility for the system and the outcomes it achieves - to be system stewards.

Human services policy (such as ECEC) is developed and implemented in a complex environment, requiring varied services to a range of people with different needs and preferences. As outlined in The Front Project's 2022 report on system stewardship, taking a systems approach recognises this complexity and that all parts of the system have a role in creating better outcomes.<sup>69</sup> In the ECEC system, this approach offers an opportunity to address the failings of the market-based system.

System stewardship is the responsible management and supervision of a system, exercising care and consideration. It involves a steward, or collection of stewards, taking joint responsibility for the health and performance of the system, and steering all system participants, including service providers, workforce and users, towards high-quality, long-term outcomes.<sup>70</sup> Importantly, stewardship doesn't mean governments need to do everything in a system, but they do need to more actively and coherently use their levers so the system better delivers on its objectives, with a particular focus on areas where the market alone will not deliver optimal outcomes.

In the ECEC system, responsibility for the system and its long-term outcomes needs to be taken by the Commonwealth and state governments. Both need to actively take on this system stewardship role, including to set direction around a common vision, objectives and outcomes.<sup>71</sup>

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<sup>69</sup> The Front Project (2022) *The case for system stewardship in Australia Early Childhood Education and Care System*.

<sup>70</sup> Ibid.

<sup>71</sup> Ibid.

As part of this system stewardship, governments need to provide greater oversight and facilitation in the ECEC market. This means taking a broader role than funding and regulating, to include other more intentional steps such as better informing consumers, monitoring the market for inequities, filling service gaps, and actively setting and adjusting the 'rules of the game' (such as funding rules).<sup>72</sup> Specific ways for governments to act as system stewards of the ECEC system are discussed below.

CPD offers eight design principles to guide the development of a universal ECEC system, stewarded by the government. These principles are all equally important and must all be considered in a redesigned ECEC system.

Appendix one shows a summary of the current state of the system against these principles.

## **1. A clear and agreed national purpose and system outcomes, built first and foremost around the interests of the child**

A clear and agreed national purpose for the system supports coherence in system design and operation, and means policy and other responses are coordinated, not conflicting.

Realising the potential of the early childhood development system requires the dual goals of

- a) supporting children's development
- b) supporting families to balance work and family life

to be pursued by all governments as inseparable elements of the single mission to provide what children need to thrive. Both of these objectives can be achieved, but all governments must be in agreement on them and pulling in the same direction.

As part of this, the system should be explicitly built around the interests of children. This should cascade through the system, including having an entitlement that belongs to children (not their parents) and having a funding system that is adequate to meet children's needs.

Internationally, some countries explicitly outline the fundamental, overarching objectives of ECEC in national legislation.

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<sup>72</sup> Carey (2017) [The Vexed Question of Market Stewardship in the Public Sector: Examining Equity and the Social Contract through the Australian National Disability Insurance Scheme](#), *Social Policy & Administration*, vol. 52, issue 1, pp. 411-426.

## International examples of legislating the overarching purpose of ECEC.

### Norway

The Kindergarten Act (Barnehageloven): 'the children's need for care and play, and promote learning and formation as a basis for an all-round development... The children shall be able to develop their creative zest, sense of wonder and need to investigate. They shall learn to take care of themselves, each other and nature... The Kindergarten shall promote democracy and equality and counteract all forms of discrimination.'

### Denmark

The Daycare Services Act (dagtilbudsloven):

- Promote children and young people's wellbeing, development and learning through ECEC services.
- Give the family flexibility and options for different types of offers and subsidies, so that the family can, as far as possible, organise family and working life according to their needs and wishes.
- Prevent negative social inheritance and exclusion.
- Create coherence and continuity between services, with age-appropriate transitions.

### Germany

The Child and Youth Welfare Act (Kinder-und Jugendhilfegesetz section 22 subsection 2 SGB VIII):

- Support children in becoming independent and socially integrated personalities.
- Support and complement education and care in the family.

A national purpose should be accompanied by agreed system outcomes, which system stewards take active responsibility for delivering.

Some suggestions for outcomes that could be included are child outcomes and parental workforce participation levels, barriers and drivers.

## 2. All actors in the system, especially governments, have clear roles and responsibilities

Agreeing the different roles and responsibilities between levels of government is a vital early step to developing a new ECEC system. Developing a new national approach is an opportunity to reduce confusion and complexity, and align objectives and then these cascade consistent objectives through the funding system.

The Commonwealth, states and territories have joint responsibility to steward and deliver a universal, child-focused system. The fragmented nature of our ECEC system for families, combined with the levers that sit across levels of government, makes this collaborative approach essential. More effort also needs to be made to coordinate and integrate delivery of service systems at the local and regional levels, whatever the funding sources, to support services and the overall service system to be more responsive to local need.

This doesn't mean that all levels of government should have the same functions. There are likely distinct and appropriate roles for each. But these roles need to be performed in aid of the common purpose, supporting a single system.

This collaborative stewardship approach could be supported by a new national early childhood agreement, encompassing the existing preschool agreement and extending across ECEC, driving further integration across the system. The degree of integration of Commonwealth and state and territory roles would need to be determined. For example, a new agreement could support a more aligned approach, with Commonwealth continuing responsibility for funding (and therefore affordability) and states and territories taking a greater or formal role in managing the system, including ensuring supply and supporting quality. Workforce would require joint effort, including both university and VET systems. Alternatively, states and territories could take on a larger role in the service delivery of ECEC where the market has failed in terms of access or quality, with agreed national funding arrangements, accountability frameworks, and performance measures. A coherent national approach to preschool (see box) should be considered as part of a future ECEC system.

### Preschool

A good example of the challenges that have arisen in a system where the Commonwealth and states and territories have different roles is the interaction of preschool with the broader ECEC system, with in some cases parallel service systems (long day care and preschool) existing in jurisdictions. While the provision of preschool in long day care has had benefits in providing more flexible options for families, it has also created confusion for families (trying to navigate different services and entitlements) and services (trying to navigate different funding arrangements).

The bifurcation of the system between preschool programs and other ECEC, principally long day care, is a perennial challenge in Australia, and current trends are set to exacerbate, rather than reduce, this confusion and complexity. The Victorian and New South Wales Governments have announced significant reforms that will make their four-year-old preschool programs more like a long day care model, and both are starting to play a role in the long day care system unconnected to preschool. In addition, the expansion of access to three-year-old preschool across many jurisdictions (including Vic, NSW, Tas, SA and ACT) will involve and/or impact the long day care services.

The distinction between the Commonwealth's responsibility for 'child care' or ECEC, and states and territories' for preschool or 'early learning' is becoming increasingly blurred, and funding and governance arrangements will need to develop to reflect this.

To progress this work, under the auspices of First Ministers, a joint Commonwealth and state body should consider and agree on system design and future roles and responsibilities for governments. As part of the system design work, this body could consider appropriate ongoing governance arrangements that oversee the system and have appropriate accountability in place.

International examples may be useful when considering how multiple levels of government may work together differently. Germany, for example, is a federation where states hold primary



responsibility for ECEC, but where the federal government has in recent years taken a larger role in stewarding the accessibility, quality and affordability of ECEC. The National Law on Quality Development (2018-2022, 5.5 billion euros over 4 years) was a major milestone for national and state governments working together to improve outcomes for children. The law recognised that states have different ECEC systems, populations, strengths and needs. Each state identified the goals most relevant to their needs and entered into bilateral agreements with the federal government to work toward these specific goals. They included educator qualifications, reducing fees, evaluation and data-sharing, and the learning and care environment. In an Australian context, a national set of objectives and outcomes could drive reform efforts, while states and territories could retain flexibility in the path taken to achieve universal ECEC, recognising that different states and territories would be starting the reform journey from different places.

### **3. System actors are accountable for the significant public investment made, and the interests of the child and family drive how this funding is used**

Significant government investment is made in ECEC, with this anticipated to increase through CCS and other funding changes. System actors must be accountable for the high level of public spending and ensure that the investment delivers the best value for the community.

This needs to be balanced against the administrative burden for providers, but with an already high level of investment, there should be transparency for the government and the public of system utilisation and performance. As the PC reported in 2017 in its Report on Introducing Competition and Informed Choice into Human Services, stewardship arrangements require transparency. Information can improve accountability and facilitate performance assessment, benefiting all parties - government, service providers and users.<sup>73</sup>

A healthy functioning system requires information. Data is critical throughout the stewardship cycle, informing service design and targeting, outcomes assessment and improvement.<sup>74</sup> For example, supply and demand at a system and local level will be critical for service planning (considering geographies, age groups, and priority populations). Governments will need better visibility of the cost drivers and performance of services to inform the funding model (see below).

As noted above, some existing data sources, such as the AEDC, assessment of services against the NQS, and the Workforce Census, are valuable but infrequent, and the ECEC Workforce Census does not properly capture the preschool workforce. These issues should be addressed by comprehensive and more frequent collections. Investment in longitudinal data (such as regular new cohorts of the Longitudinal Study of Australian Children) can also be an incredibly rich source of information and insight to inform future reform.

There would also be benefit in having more and better information for parents and providers to play their part in the system - to understand where places are available or there is unmet demand,

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<sup>73</sup> Productivity Commission (2017) *Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services*. Inquiry Report.

<sup>74</sup> The Front Project (2022) *The case for system stewardship in Australia Early Childhood Education and Care System*.

and to understand which services are high or low quality and what services/providers can do to improve. Depending on the funding and price mechanisms chosen by the Commission, providing improved fee information to families (so that information is current, complete, comparable and easy to understand) will also be of benefit. Increasing information and accountability can help support family decision making and help drive quality improvements.

#### **4. There are high-quality services and continuous improvement, with a particular focus on sustaining and supporting the workforce**

A high-quality educational service is vital to ensuring that children receive the full benefit from attending ECEC and that parents feel happy and confident in leaving their children at a service. The system must not only ensure that every child receives ECEC that meets minimum safety and quality standards, but it must actively work to promote and improve quality over time.

Importantly, quality should be thought of as both a ‘stock’ and ‘flow’ challenge. There are already a large number of services in the system that should be encouraged and supported to improve (the ‘stock’), with consequences for services that don’t improve. When expanding the system (the ‘flow’), preference should be given to providers with a record of high-quality service provision (or new providers who can deliver a high-quality service), and providers without a record of quality provision should not be incentivised to expand. This could, for example, inform eligibility criteria where governments support new services in underserved or disadvantaged communities (discussed below).

Direct and indirect interventions from governments to improve system and service quality are justified and necessary. The Commission may wish to consider the following ways to improve quality in the current system:

- System level supports such as robustly enforcing the regulatory system and setting appropriate funding levels to adequately resource quality (including through the workforce).
- Service level supports, such as capability building and educational resources, establishing professional communities of practice, and providing backfill to allow staff to attend professional development activities.
- Individual level supports such as reasonable pay and conditions and professional training and development opportunities, and opportunities for formative assessment to support educators in their work.
- Embedding quality incentives in the funding system.
  - This could include paying a higher rate for services that Exceed the NQS (or meet another measure of high quality), providing an incentive for services to operate at a high standard, and recognising that building and sustaining quality can take additional investment. Care would need to be taken that this doesn’t have

perverse impacts (such as increasing funding to already well-resourced services) and should be designed as part of broader reforms (including introducing needs-based funding, discussed below).

- In addition, governments could cease to fund services that persistently fail to meet the NQS. While this may create (or exacerbate) some supply challenges, the incentive is likely to drive a level of quality improvement (as services would rather improve than close) and low -performing services could be sold or transferred to higher-performing providers.
- Improvements could be made to quality measurement. The NQF is broad, and its public reporting of assessments lack granularity and focus on aspects known to be most important to educational quality and outcomes. Improvements could be made as part of the NQF, or separately. For example, the Preschool Outcomes Measurement work being led by the Commonwealth government should be considered as one opportunity to better understand the contribution of ECEC to children’s developmental progress. Such new or improved measures should be used for system information and improvement, but child outcomes measures should not be tied to funding, given the many factors that impact a child’s development outside of an ECEC service and the potential for perverse incentives.
- Services could be assessed and rated more regularly, and in particular, services considered Working Towards could be re-rated at least every 12 months. The regularity of assessments and ratings have been identified as an area for improvement by the SA Royal Commission and the Grattan Institute, among others.<sup>75</sup>
- Governments could consider providing support to high-quality providers to expand provision. In particular, not-for-profit providers often report difficulty accessing capital needed to build new services and may not have the resources or expertise to explore or establish new markets. Greater government assistance (for example in the form of planning support or contributions to new builds) could help address these gaps while making the most of providers’ ability to deliver high-quality ECEC.<sup>76</sup>

Government support for some of these can help address some of the challenges of scale in the system, for example establishing communities of practice would be particularly beneficial where there may be only one or two teachers in a service, and peer support is less commonly found than in larger organisations.

*A sufficient and high-quality workforce is an essential part of a high-quality system*

Workforce is *the* critical enabler for the operation and reform of the system.

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<sup>75</sup> See Government of South Australia (2023) *Royal Commission into Early Childhood Education and Care Interim Report*, pp. 71-72; Wood et al. (2020) *Cheaper childcare: A practical plan to boost female workforce participation*, Grattan Institute, p. 36.

<sup>76</sup> See the recommendations of the Expert Reference Panel of the Women’s Economic Opportunity Review (2022) *Letter of Recommendations* around increasing the supply of quality ECEC, including through better utilising public infrastructure and prioritising the expansion of public and not-for-profit ECEC services.

Evidence shows that the ECEC workforce is the cornerstone of quality ECEC, with skilled educators the most influential within-service factor on child development. The need to address the structural issues underlying the poor pay and conditions experienced by the ECEC workforce, particularly in LDC, should be a central consideration in this Inquiry.

However, workforce-related costs and supply challenges, including ratio and qualification requirements, should not be seen as a potential way to reduce the cost of ECEC. This would not enable the system to meet demand for ECEC services by families, or support the developmental, and ultimately social and economic, benefits of early learning for young children. It would also undermine parental confidence in the system to provide safe and effective care and education for their children, lessening the system's ability to support workforce participation.

Weakening workforce qualifications or ratios would also be contrary to the evidence on the importance of the workforce, and international comparisons who have comparable or higher requirements. It is also unlikely to address many of the workforce challenges currently being experienced, which are driven by the nature, pay and conditions of the work, rather than there being a large number of people wanting to enter the workforce but being restricted by qualification requirements.

To address current issues, it is critical that we shift away from small-scale and piecemeal action on workforce planning and sustainability, to take a whole of career approach, working with employers and unions not only to deliver improved remuneration, but to develop a joined-up system of support across the career pathway, from attracting people into training to supporting upskilling and leadership development.

Along these lines, governments have developed the National Children's Education and Care Workforce Strategy (2022-2031).<sup>77</sup> It is built around six focus areas: professional recognition (including pay and conditions), attraction and retention (including diversity), leadership and capability; wellbeing; qualifications and pathways (including career progression); data and evidence. These are the right focus areas, and the actions identified are worthwhile, but delivery of the Strategy needs to be urgently prioritised. More ambitious actions also need to be taken to trial and then scale successful workforce development measures and programs.<sup>78</sup>

Action on workforce issues is *urgent*. This is not just to address current shortages and other challenges, but also in order to support a future system, with greater access and higher quality. Expanding the workforce has a long lead time, as staff are attracted and trained into roles in the system. Action is needed now to increase workforce supply.

The Commonwealth's recent announcements of the Draft National Care and Support Economy Strategy, as well as announcements supporting professional development, upskilling, and practicum exchanges are first steps in the right direction, but much more is required.<sup>79</sup>

The Commission should consider:

- Moving the system towards a higher and fairer wage. In the longer term, this should be

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<sup>77</sup> ACECQA (2022) *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce*.

<sup>78</sup> In the Strategy there are 21 actions, of which three are to 'investigate', four are to 'review' and two are to 'develop options'. Examples of other actions are developing resources to highlight available career paths or promoting wellbeing resources. These are unlikely to have impact at the required scale.

<sup>79</sup> Department of the Prime Minister and Cabinet (2023) *Draft National Care and Support Economy Strategy*; Clare and Aly (2023) *Delivering a sustainable early education and care sector* (media release).

factored into the funding system. In addition to funding being adequate to support an appropriate wage, some or all funding could be made conditional on providers offering a level of pay and conditions that is fair and makes the role attractive and aligned with community need. This conditionality provides a level of assurance that services are passing the funding on to the workforce.

- In the short term, while a new funding model is being developed, a short-term wage subsidy could be added to the CCS system to provide an interim wage boost. The subsidy would need to be carefully designed and developed through consultation between government, providers and unions, and would send an important signal to current and prospective members of the workforce.
- Providing direct support to the existing workforce, including support for professional development and upskilling, and investment in the capacity and skills of service leaders.
- Improving the cultural, demographic and skill diversity of the workforce. This could include communications campaigns and incentives targeted at prospective educators and teachers, as well as parents and, given the underrepresentation of men in the workforce, encourage men to work in ECEC.
- Promoting ECEC as a career option, including through communications, scholarships, bursaries and other supports for TAFE and Initial Teacher Education courses.
- Working with providers to improve career paths and options for the workforce, including moving between services and into support, development and mentoring roles.
- Collaborating and sharing information on effective approaches to workforce support and development - many state and territory governments have invested in the workforce in recent years (focussed on the preschool workforce); the lessons from this could inform actions nationwide.

## **5. ECEC is accessible to all children and families. This means places are available at a place and time to support their needs and preferences, that price is not a barrier to attendance, and the system can be easily navigated.**

### *Entitlement to access*

Every child must have an entitlement to access an ECEC service. To realise the dual goals of the system, we recommend an extensive entitlement that supports children to attend ECEC as soon as families need it until children start school. In *Starting Better*, CPD proposes an entitlement of at least three days free or low-cost high-quality early education from as soon as families want it, with additional days available at minimal cost for those who need it. This includes a high-quality preschool program in the two years before school.

This entitlement should be enshrined in legislation. In addition to providing the necessary mechanics and legal framework for fulfilling an entitlement, legislation provides a symbol of the government and nation's commitment and can be a driver for sustained action. A child's

entitlement to ECEC should not be conditional on their parents' workforce participation, so the activity test should be abolished.

Internationally, a nationally legislated entitlement for children to access ECEC is a common feature of universal ECEC systems. The extent of these entitlements varies, with countries like Denmark, Germany, Sweden and Norway legislating extensive entitlements to ECEC that begin from six months (Denmark) or age one (Germany, Sweden, Norway). These legal entitlements interact with the paid parental leave system, beginning by the time the period of paid parental leave ends.<sup>80</sup> Other countries offer a partial legal entitlement that begins at preschool age and specify a number of hours that children are entitled to. New Zealand, for example, offers an entitlement of 20 hours per week from age three, while France offers five days of preschool from age three.

The complex interaction between ECEC quality, attendance, dosage and degree of vulnerability makes it difficult to determine the 'optimum' amount of ECEC for a child. As *Starting Better* outlines, the early childhood development system needs to be considered holistically to achieve the outcomes we want for children. Government should not attempt to identify a single, 'optimal' amount of ECEC for every child (also known as 'dose') and build the entire ECEC system around that. Rather, the system should provide a broad entitlement to children and provide families the opportunity to use what best meets their needs and preferences. A three-day guarantee, with extra days at minimal cost for those that need it, is based on a balance between stability and continuity for children and parents and cost-effectiveness for governments, using a combination of evidence for vulnerable children and ECEC usage patterns for working parents.

In addition to a common or minimum entitlement, consideration should be given to a differential entitlement for children experiencing vulnerability and disadvantage, including an entirely free entitlement to provide vulnerable children with a safe and supportive environment, and to promote participation in a preschool program in the two years before school, noting the strength of evidence of the benefits of these approaches.

In any circumstance, an entitlement is not a requirement to attend. ECEC attendance should remain voluntary.

### *Funding model considerations*

To meet the system's objectives, the funding model requires review and reform. There are a number of ways that this can be achieved as outlined by The Front Project's recent paper on funding approaches.<sup>81</sup>

Developing a new funding model is complex and technical, and aspects will depend on other choices the Commission (and governments) make about a future system and the ongoing work of the ACCC in its ECEC inquiry. For this reason, CPD is not proposing a specific model, but would like to draw the Commission's attention to the following issues and considerations.

- The funding system should deliver funding at an adequate level to support the reasonable cost of high-quality provision, noting different services may have different

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<sup>80</sup> International Leave Network on Policies and Research (2022) *Relationship between leave and ECEC entitlements*.

<sup>81</sup> The Front Project (2022) *Funding Models and Levers for Early Childhood Education and Care*.



cost drivers. It is notable that while the school funding system is built around a strong understanding of the cost of quality delivery (the School Resourcing Standard), there is limited understanding of the actual cost of ECEC delivery. Better understanding the cost of delivery should include better understanding the impact of occupancy costs (e.g. rent), given different arrangements (ranging from peppercorn rents to commercial rents with large real estate trusts) could be a source of significant cost variation. The ACCC's current work should assist with this.

- The funding model should deliver simplicity for families so they understand their entitlement and can plan their lives. It also needs to be simple and easy to understand for providers, many of whom are small and may not be able to manage a complex funding approach.
- The funding model should support flexibility and choice for parents. Families have different needs and preferences, for example for different lengths of ECEC sessions.
- The funding model should include safeguards to prevent prices being raised unreasonably in response to increased subsidies. The current approach to managing price (the hourly fee cap) may need to be reconsidered in a system with a 90% subsidy (or similar level of entitlement or subsidy).
- Consideration could be given to an approach based around a standard 'per day' fee for families rather than a percentage subsidy.
  - A flat fee would be simpler, more reliable and easier for families to understand. Quebec's universal, fixed fee system (originally \$5 per day, now \$8.70 per day) has proven particularly popular with families because it is simple and reliable, providing a guaranteed price. The fixed fee has proven so popular that the Quebec government is now converting market-based services into fixed-fee services (56,000 spaces over 5 years) so that all ECEC services are part of the fixed-fee system.<sup>82</sup>
  - Given the high level of funding and price regulation reform required for a 90% subsidy approach to work successfully, including calibration of funding levels with true costs of provision, a flat fee would not be significantly different to a 90% subsidy in terms of functional design. Challenges associated with variable costs of delivery and variable utilisation by families would need to be considered.
- The funding model currently requires older children in ECEC to cross-subsidise younger children.<sup>83</sup> Careful consideration of this is required in any future model, noting its implications for supply, affordability and demand, particularly as the various preschool reforms are implemented.

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<sup>82</sup>Cleveland (2022) *Accessibility and quality of child care services in Quebec*.

The Quebec implementation did experience some challenges, and CPD is not recommending a wholesale adoption of that system, although there are both strengths and lessons that can be learned. For example, a lack of supply-side funding contributed to variable quality and accessibility in Quebec. Research shows that quality and outcomes are highest amongst 'Centres de la Petite Enfance' (CPEs): Quebec's network of not-for-profit, parent-run ECEC centres. For more on quality and outcomes in Quebec, see, for example, Andrew-Gee (2022) *How does Quebec's universal daycare work, and what can the national \$10-a-day programs learn from it?* and Fortin (2018) *Quebec's Childcare Program at 20*.

<sup>83</sup> Staff ratio requirements mean that the cost of ECEC provision is significantly higher for younger children than for older children, but the hourly fee cap is the same irrespective of a child's age and services generally charge the same daily rate irrespective of the child's age.



- A minimum viability payment or block funding in certain circumstances should be considered where ‘thin markets’ exist to allow a service to viably operate in these circumstances.<sup>84</sup> For example, communities with one service and no other services within a certain radius. The current ‘per child’ funding approach works in most circumstances and provides an important incentive for services to attract and retain children, but it does not support a viable operating model where there are a small number of children (e.g. small regional communities).
- Preschools are currently prevented from accessing the CCS. Allowing preschool services to access the subsidy would mean preschools are able to offer longer hours, subsidised by the CCS and therefore able to offer a service that better supports parents’ workforce participation, unlocks capacity in the sector, and helps reduce complexity for parents trying to navigate different CCS and preschool services and entitlements.

#### *Additional measures to support access*

Outside of the funding system, there are several other issues for the Commission's consideration to support accessibility.

#### *Capital funding in underserved markets*

In addition to considering how the funding model supports ongoing operation in thin markets, governments should consider building or supporting the building of new services in thin markets, recognising that low levels of demand may make it difficult for providers to recover upfront capital costs. These services could be operated by governments, or handed over to quality providers to operate. This is likely to be particularly important for not-for-profit providers, who often have a record of quality service delivery but report challenges in raising capital for expansion. More broadly, the Commission could investigate barriers to expansion of high-quality providers and how funding and other system settings could be changed to better support them. The Commonwealth Government’s recent announcement of grants to establish new centres in areas experiencing limited supply is a positive step, but more is required.<sup>85</sup>

#### *Provision planning*

There should be a greater role for governments in provision planning. Currently, the establishment of new services is almost entirely market-driven, almost entirely undertaken by for-profit providers. As a result, there are many areas of under supply. Aligning supply and demand exactly will always be a challenge given the multitude of factors that go into parental choices, small geographic size of markets, short visibility of population changes, and the operational rigidity imposed by ratios and space requirements. However, this is not a reason not to try. Governments could identify areas with forecasted over- and undersupply, share this information with the sector and specifically direct adequate funding to areas of need. A range of supports and incentives could encourage high-quality ECEC supply in underserved areas, such as government funding to establish services, providing peppercorn rents in public buildings, and funding and regulatory mechanisms to ensure high-quality services are established and sustained in areas of need.

<sup>84</sup> See, for example, Victoria’s [Kindergarten Funding for rural services](#) with 18 or fewer enrolments or NSW’s [Service Safety Net](#)

<sup>85</sup> Clare and Aly (2023) [Delivering a sustainable early education and care sector](#) (media release).

### *Enrolment process improvement*

Another area for potential improvement is the enrolment process, with information about availability and price often difficult to find, and each service often running their own enrolment process. As a result, parents are often confused as to their options and put their name on waitlists at multiple services, giving no clear picture of unmet demand in the system. This also means parents often have to advocate for access to a place, potentially having a disproportionate impact on disadvantaged families who are less able to navigate the enrolment process. In addition, children who governments may wish to prioritise for access to a service, or to a high-quality service, may miss out.<sup>86</sup>

Consideration could be given to offering a centralised enrolment process in local areas (e.g. at a local government level) where parents could express their preferences for services and days of ECEC, and a matching algorithm or process could allocate places. This process could incorporate any priority of access rules. Agreement to priority of access criteria could be made a condition of funding, while participation in a centralised enrolment process could be voluntary or a requirement. Examples of these approaches are seen in New York public schools and Victoria's preschool system.<sup>87</sup> It is acknowledged that there is significant complexity to widespread implementation of such an approach in an ECEC system (including that parents enter the system at different points of the year, and that many services would want to develop relationships with families directly), but an improvement of the current enrolment approach should be considered.

## **6. Promote equity including in access, affordability and quality, so disadvantage is alleviated and not compounded**

ECEC must be available to everyone, but where children have higher needs, they should receive more support. This is known as 'progressive universalism' whereby universal services are available to everyone but delivered with an intensity and scale proportionate to the level of need. This combines the benefits of a universal system with the benefits of targeted systems.<sup>88</sup>

This is an important part of realising the benefits of a universal platform, in that it allows the platform to be used to identify children needing additional support and get that support to them.

System improvements for greater equity could include:

- An entitlement to additional free or low-cost days or hours of ECEC for children experiencing vulnerability or disadvantage.

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<sup>86</sup> See, for example, ACCC (2023) *Families report lengthy waitlists and increasing fees in preliminary survey results*.

<sup>87</sup> New York City Department of Education (2023) *How Students Get Offers to DOE Public Schools*; Tullis (2014) *How Game Theory Helped Improve New York City's High School Application Process*, New York Times; Victorian Department of Education (2023) *Kindergarten Central Registration and Enrolment*.

<sup>88</sup> Leseman and Slot (2020) *Universal versus targeted approaches to prevent early education gaps - The Netherlands as case in point*, *Zeitschrift für Erziehungswissenschaft*, vol. 23, pp. 485-507.

- Access to additional services to support children, such as health services, or speech therapists.
- Prioritising access for children experiencing vulnerability or disadvantage to services where demand exceeds supply, or higher quality services where a mix of services are available.
- Improved staff ratios and better qualified staff in some instances so children experiencing vulnerability or disadvantage get more intensive support.
- Including a needs-based funding aspect into the funding model where additional funding is provided to services based on level and concentration of disadvantage. Services could be restricted in what they can spend this additional funding on, with the government providing a 'menu' of evidence-based interventions and services going through a planning and acquittal process.<sup>89</sup>

### *People- and place-centred approaches*

Integrated, people- and place-centred approaches to service provision are critical to ensuring universal ECEC supports all children and families to thrive, particularly in communities experiencing disadvantage, as they support services tailored to specific, local need and context.

A people-centred approach involves putting the strengths, capabilities and aspirations of individuals who access services at the centre of service provision, while a place-centred approach involves acknowledging and tailoring services to the specific strengths and characteristics of a place, and engaging local people as active participants in development and implementation. Place-centred approaches that support the breaking down of silos can play a critical 'navigator' function within the system to support better connections with early intervention, health, and early learning services.

Taking a people- and place-centred approach to universal ECEC and ECD could involve:

- Leveraging collaborative governance structures to identify local needs and connect the experience of the local community with decision-makers and resource-holders. Local governance arrangements play a key role in designing and delivering successful locally and regionally tailored approaches, building connective tissue between diverse stakeholders, and enabling resources and effort to be coordinated in response to local needs and opportunities.<sup>90</sup> Day-to-day work is driven forward by locally established backbone teams. Examples of place-centred approaches with collaborative governance structures and backbone teams include Logan Together and Hands Up Mallee.<sup>91</sup>
- Allowing some flexibility in how universal ECEC and other early childhood services are designed and delivered to meet the unique needs of communities. This could involve a 'tight, loose, tight' framework, whereby trusted organisations with a record of quality delivery have a clear mandate around scope and desired outcomes (tight), flexibility

<sup>89</sup> This is the approach adopted in Victoria for its School Readiness Funding, which provides additional, needs-based funding to preschool children. See Victorian Department of Education (2023) *School Readiness Funding*.

<sup>90</sup> Centre for Policy Development (2020) *Blueprint: Regional and community job deals*.

<sup>91</sup> *Hands up Mallee* (2023); *Logan Together* (2023).

and freedom in how services are coordinated and delivered (loose) and there is streamlined but rigorous reporting and accountability for outcomes (tight).<sup>92</sup> There could be, for example, flexibility with how needs-based funding can be used, or how ECEC funding is integrated with other funding streams and/or service types.

- Continued and sustained investment and collaboration between governments, sectors and communities to tackle disadvantage, for example through the Investment Dialogue on Australia's Children.

It is important that, as the universal ECEC system is designed and delivered, demonstration and learning about how the universal service system responds, and provides enduring support, to people and place-centred approaches, is prioritised. These approaches will ultimately help create a more effective and responsive service system for all children and families.

## 7. Be inclusive and welcoming of all children

ECEC services must be available to, and welcoming of, all members of the community, and provide culturally appropriate support. This is important to encourage full participation by all children in the ECEC system. Failing to do so risks creating a system that exacerbates rather than closes gaps in early childhood outcomes and undermines the ability of the system to support workforce participation if some parents do not feel confident or comfortable entrusting their children to the system's care. This includes First Nations communities, culturally and linguistically diverse communities, children with a disability or developmental delay, and children experiencing vulnerability or disadvantage.

The funding system needs to appropriately resource services to meet all children's needs and welcome all families into services and also allow services to further invest in building inclusion capability. Further ways to improve inclusiveness include communities' representation in the workforce, service operations and governance, and ensuring staff have appropriate training and support to welcome all children and families. Actions to improve quality, attract and train the workforce and support equity will also support inclusiveness.

In Aboriginal and Torres Strait Islander communities, Aboriginal Community Controlled Organisations can provide high-quality and culturally appropriate ECEC that members of the community feel comfortable engaging with. In some cases, these may require additional government support to establish and operate, and consideration should also be given to integration with other services and funding streams (from various levels of government) to minimise duplication and confusion, so it is easy for families to access services.

## 8. ECEC is a universal backbone that also serves as an entry point to additional services and supports

A universal ECEC service that children regularly attend is an ideal 'backbone' to connect children and families with other services and supports, reducing parents and carers' work, confusion and

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<sup>92</sup> Centre for Policy Development (2020) *Blueprint: Regional and community job deals*.

stress of navigating a complex and fragmented system. Families tend to have high trust in ECEC educators because of their ongoing relationship with them.<sup>93</sup> This puts ECEC services in a strong position to be a ‘soft entry point’ to connect children and families to other supports, in cases where the service itself is not best placed to assist. Parents perceive additional support as part of a service they already trust.

The majority of children and families are likely to spend far greater amounts of time interacting with ECEC services relative to other early childhood services, particularly if a universal entitlement is introduced. Population-wide attendance means that potential vulnerabilities are more likely to be identified. Other services, for example health specialists like speech pathologists and paediatricians, can be brought into an ECEC setting to ensure that children are assessed and reduce the burden on families to navigate a complex system of referrals, waiting lists and travel time.

To support the ECEC system to play its role as a universal backbone, consideration should be given to:

- How the funding system provides resources and time for staff to perform this function, and what other supports (e.g. information or training) need to be provided. Staff often need extra time ‘away from the floor’ to meet with families, arrange referrals, manage other services/professionals, etc, but there is no allowance for this in the current funding model. This could be considered as part of including a needs-based funding aspect into the funding model.
- Ensuring that all children have access to an ECEC service. This means that supply gaps will need to be addressed, for example through capital funding in underserved markets to establish new services, and a minimum viability payment or block funding in certain circumstances where ‘thin markets’ exist, to allow a service to viably operate.
- Ensuring that services are inclusive and welcoming for all families, especially those that are more vulnerable or historically underrepresented in ECEC. This can also include programs to actively reach out to families in a community to encourage them to enrol and attend a service so they benefit from it.
- How the funding and other policy settings support flexibility and people- and place-centred approaches, for example in a “tight, loose, tight” framework discussed earlier.

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<sup>93</sup> Supported by CPD (2022) Private interviews with early childhood educators and service providers.

## Part 4: A phased implementation approach is needed, as reform is a long-term effort

Building and transitioning to a new universal ECEC system will take time, but previous Australian early childhood reforms, such as the National Quality Framework and universal access to preschool, demonstrate that it can be done, and is best achieved through a phased approach.

CPD outlined a detailed implementation pathway for its proposed reforms in *Starting Better* and *Starting Now*. Recognising that some elements may have a different context now, and that the Commission may make different policy or design choices, in this section CPD offers some suggestions regarding how change is undertaken, as well as some more specific advice on how implementation may be phased, drawing on the suggestions raised earlier in this submission.

### *Implementation principles*

It will be important to ensure a phased approach is taken that incorporates learning and improvement as implementation rolls out.

Governments should be ambitious but be willing to learn and adapt when needed. Consistent with a system stewardship approach, policy design and implementation are cyclical and iterative.<sup>94</sup> Change needs to be evidence-based, informed by the best available data, and understanding from all parts of the system.

Change needs to be planned carefully, considering complex issues like supply, affordability and workforce. The Commonwealth government cannot simply pull on one lever (such as the subsidy rate) - there will be flow on impacts across the system that need to be considered, planned for, and addressed. As discussed in this submission, governments will need to pull multiple levers concurrently, work with a range of actors including states, territories, local governments and non-government organisations, and carefully sequence reforms.

It will be important that all parts of the system - including providers, the workforce, families and children - are taken along on the journey of change. Successful implementation of change will require the participation and buy-in of all participants, but they also all have important information and insights to inform change and how it is best delivered. Governments need to engage families, providers, the workforce, and sector leaders and experts in design and delivery.

Change does not have to, and cannot, all occur at once. Where the system is unable to accommodate full implementation in a short period, priority could be given to children and communities experiencing vulnerability and disadvantage, and areas that are more 'reform ready' and able to deliver. In addition to having as much benefit delivered as soon as possible to as many as possible, a gradual rollout also allows for piloting and learning from early adopters.

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<sup>94</sup> The Front Project (2022) *The case for system stewardship in Australia Early Childhood Education and Care System*.



### *Immediate priorities*

There are a number of key steps that should be taken by governments as initial steps that address urgent issues in the current system and put Australia on a path to a universal system.

- *Purpose:* Having a legislated, nationally agreed purpose of the system, which can then inform policy design and implementation at all levels. Ongoing work to progress a national vision for ECEC is a possible vehicle for this.
- *Governance, Roles and Responsibilities:* Agreement from Commonwealth, state and territory governments on a universal ECEC system as a national priority and shared responsibility.
  - Agree a set of roles and responsibilities between Commonwealth, states and territories, and other system actors. This should include considering an appropriate split of funding, provision planning, quality improvement and workforce supply, taking into account which level of government is best placed to undertake the role, and which level of government is best placed to benefit from the role.
  - Establish appropriate governance mechanisms to progress this. CPD has previously suggested that, under the auspices of First Ministers, a joint Commonwealth and state body should consider and agree system design and future split of governmental responsibilities. This could be a useful vehicle where governments can constructively engage and progress more detailed work, but it must be entered into with genuine commitment and urgency.
- *Quality and workforce:* There must be early and significant action on the workforce, including the ideas discussed in this submission - addressing pay and conditions and attracting new entrants to the profession. In addition to addressing current needs, any system expansion flowing from an increased entitlement or better availability will need a workforce to support it. Because of the time taken to train new educators and teachers, this must be ramped up immediately. Urgent workforce measures are critically important to make possible the priorities of addressing supply gaps and increasing accessibility noted below. Investments or policy changes to support quality improvement can also start quickly.
- *Access:* A child's entitlement to ECEC should be established in legislation, recognising that it will take time to build the system to fully deliver it, but providing a clear commitment and goal for the system to drive reform. As an initial change, the activity test should be abolished, prioritising increased access for children who need it the most, and there should be increased investment in inclusion. The Commonwealth should also work with States and Territories to align capital investments and provide adequate operational funding to address gaps in the supply of early childhood education and care services. This should include support for additional, high-quality provision in under-served communities.



- *Information Gaps:* Acknowledging that there are processes underway (including by the ACCC and this Inquiry), there will likely still be information gaps that government should seek to fill to inform future system design, including around unmet demand. Work to improve governments' understanding of the system should begin quickly, to inform later work, including provision planning and detailed funding system design.

### *Medium term actions to be phased in*

Over the medium, reforms should be phased in to build out the new system.

- *Governance, roles and responsibilities:* Governments should progressively take on their new roles and responsibilities, with any required new governance arrangements or bodies put in place. The expiry of the current Preschool Reform Agreement at the end of 2025 provides an opportune time to consider how preschool can be better integrated in a national system, and more broadly deal with Commonwealth and State and Territory roles and responsibilities in the ECEC system. Any long-term governance arrangements should be established and embedded, including any statutory bodies.
- *Quality and workforce:* Investment in the workforce, and services and system quality more broadly, should continue and be expanded. The development and implementation of improved measures should support this.
- *Access (including funding system):* As access is progressively expanded, priority could be given to delivering an entitlement to 3- and 4-year-old preschool, aligning with the expiry of the current Preschool Reform Agreement. Changes to the funding system should begin to be introduced, including to support access, quality and equity.
- *Equity and inclusion:* Targeted interventions (through the funding system and outside it) should be delivered to improve equity and inclusiveness in the system.

### *Reform end state*

Over the longer term, a new entitlement and funding model would be fully rolled out and available to all children and families across Australia. Importantly, however, the work of reform will never be complete - the system requires continual monitoring and action, to ensure it continues to meet the needs of families and the community, seeks to continuously improve, and to respond to new or unexpected developments. This is what it means to embrace a system stewardship approach.

Ongoing improvements, including those related to driving quality, career development for educators, performance and outcomes measurement and better integration of early childhood development services and supports will be critical to ensuring that all children, families and communities continue to thrive under a universal system.

## Additional areas that would benefit from consideration by the Commission

In addition to the various considerations discussed in this submission, CPD suggests some additional areas that the Commission may wish to pursue to better inform system design.

As alluded to above, demand, unmet demand and demand price elasticity are not well understood. Further research, analysis and data gathering on parent preferences and decision-making process would be valuable to inform system design and understand the range of demand-side responses to changes in a subsidy or entitlement. In addition to the impact of price, factors that could be considered include availability, location, understanding and perceptions of quality, and inclusiveness.

A more empirical approach to identifying where demand currently exceeds supply (and the characteristics of that demand - for example, days of the week, age of the child, preference for different service type, special needs) would also be beneficial and inform where and how much the system is 'behind' current demand, or any excess capacity that exists.

The Commission could also advance our understanding of supply dynamics. One would be to empirically consider any benefits of provider scale on affordability and service quality, and where and how economies or other benefits of scale can be achieved or fostered in the system.

Relatedly, the Commission could consider barriers to not-for-profit providers expanding provision. Not-for-profit providers on average provide a higher quality service, but in recent years there has been very little expansion of not-for-profit provision, despite significant government investment in ECEC, low interest rates, relatively easy availability of credit, an increasing level of operational and commercial sophistication in the sector, and a significant increase in for-profit provision. Better understanding why this is the case and how it could be overcome could improve quality and capacity in the sector.

To the extent not covered by the ACCC's work, the Commission could undertake work to understand cost drivers and expenditure patterns in the current ECEC system, to inform future funding design and policy development. Improving understanding of occupancy costs (rent, land, construction costs, etc) may be of particular benefit, as sector participants often consider them to be a significant factor in the cost of provision and in variation in that cost, but little broad or empirical data is available to validate or dispute claims.

Another area of expenditure not well understood or quantified that could benefit from closer examination is the additional and/or incidental costs associated with ECEC services operating in a wider ECD ecosystem - connecting children and families to other services, providing professional referrals, etc. Sector research conducted for the SA Royal Commission identified that 'almost all [long day care] services identify needs and offer direct supports or referrals where they can, with an average of 8.3 additional activities reported to be offered either directly or through a third party in 2023.'<sup>95</sup> Better understanding the extent and cost implications of this work would be helpful in designing a better-connected system.

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<sup>95</sup> Government of South Australia (2023) *Royal Commission into Early Childhood Education and Care Interim Report*, p.35.

## Appendix - Comparison of universal system and current Australian system.

Feature	Universal system	Current system
Purpose	<p>A clear and agreed national purpose is critical to developing a system - it is the single point of reference for all participants in the system. The ECEC system should explicitly seek to serve two purposes:</p> <ul style="list-style-type: none"> <li>• support children’s development</li> <li>• support families to balance work and family life</li> </ul>	<p>The current system has many different actors with different objectives, which can sometimes come into conflict. States and territories focus their actions on education and the Commonwealth focuses their efforts on workforce participation. Purposes are not formalised.</p>
Accessibility	<p>Every child has an entitlement to access a free or low-cost ECEC service until they start school. This includes ensuring cost, administration and availability of services and workforce are not barriers to access.</p>	<p>There is no entitlement to ECEC, apart from access to a preschool program in the year before school under the national Preschool Reform Agreement. Access to subsidised ECEC is determined by complex parental income and activity (e.g. work, study) calculations. Access to 3-year-old preschool is slowly improving but varies state by state. There are areas underserved by ECEC services and workforce shortages limiting delivery.<sup>96</sup></p> <p>The system is complicated and difficult to navigate, creating barriers for families to understand and access their entitlements.</p> <p>The CCS is paid up to a fee cap, but the proportion of long day care services charging above the fee cap has been increasing, from 11% in December 2018 to 21.4% in June 2022.<sup>97</sup> ECEC remains expensive for many families despite the CCS, acting as a barrier or disincentive to access.<sup>98</sup></p> <p>The interaction of subsidy eligibility and the tax and transfer system is complex, making it difficult for families to understand and make decisions about their work and other arrangements, particularly for casual and</p>

<sup>96</sup> For example, G8 has reported that enrolments continue to be constrained by reduced capacity due to workforce shortages, see slide 15, G8 Education (2023) *Full Year results investor presentation* (ASX Release). See also Hurley (2022) *Childcare Deserts & Qases: how accessible is childcare in Australia?* Mitchell Institute.

<sup>97</sup> Department of Education (2022) *Data on usage, services, fees and subsidies, quarterly report tables*, December 2018, June 2022.

<sup>98</sup> See, for example, Wood et al. (2020) *Cheaper childcare: A practical plan to boost female workforce participation*, Grattan Institute.

		<p>contracted workers. It can create disincentives to work.</p> <p>ECEC is essentially unaffordable for families that don't have access to the CCS. It was estimated that the activity test is contributing to at least 126,000 children missing out on ECEC.<sup>99</sup></p>
<b>Equity</b>	<p>ECEC is available to everyone, but where children have higher needs, they should receive more support. ECEC would be available to all children and families as a strong baseline, but with an intensity and a scale that is proportionate to the level of need.<sup>100</sup> For example, for children accessing additional services, an entitlement to additional hours, or improved staff ratios. This is also known as 'progressive universalism'.</p>	<p>There are elements of the current system focussed on helping children with access to ECEC (e.g. waiving the activity test in some circumstances), but limited resourcing allocated to supporting additional needs. Where support is available, the criteria are narrow, and many report difficulty accessing the support.<sup>101</sup></p> <p>Service quality and availability is generally better in higher socioeconomic areas and worse in low socioeconomic areas.<sup>102</sup> Some services and staff report being stretched by having to help families navigate the system and connect them with other services and supports.<sup>103</sup></p>
<b>Inclusion</b>	<p>Services are available to, and welcoming of, all members of the community. This is important to encourage full participation by all children in the ECEC system - failing to do so risks creating a system that exacerbates rather than closes gaps in early childhood outcomes.</p>	<p>Young children from non-English speaking backgrounds, low-income families, and regional and remote areas, as well as Aboriginal and Torres Strait Islander children, are all underrepresented in CCS-funded services.<sup>104</sup> Some children with disabilities reportedly experience 'service refusal'.<sup>105</sup></p> <p>The Inclusion Support Program is under review after an earlier review found around 1 in 5 parents of a child with additional needs reported having to change centres because of issues with care, double the rate of those without additional needs, and that a number of</p>

<sup>99</sup> Impact Economics and Policy (2022) *Child Care Subsidy Activity Test: Undermining Child Development And Parental Participation*.

<sup>100</sup> See, for example, Marmot et al. (2010) *Fair Society, Healthy Lives (The Marmot Review)*, p. 15; Fox and Geddes (2016) *Preschool - Two Years are Better than One*, Mitchell Institute.

<sup>101</sup> Australian Institute of Family Studies (2021) *Child Care Package Evaluation: Final Report*.

<sup>102</sup> ACECQA (2023) *NQF Snapshot*; OR7: Overall quality ratings by SEIFA Index of Relative Disadvantage; Hurley (2022) *Deserts and Oasis: How accessible is childcare in Australia?*, Mitchell Institute.

<sup>103</sup> Government of South Australia (2023) *Royal Commission into Early Childhood Education and Care Interim Report*, supported by CPD (2022) Private interviews with early childhood educators and service providers.

<sup>104</sup> Productivity Commission (2023) *Report on Government Services 2023*, table 3A.11. Proportion of children attending Australian Government CCS approved child care services who are from selected equity groups, compared with their representation in the community.

<sup>105</sup> ACCC (2023) *Families report lengthy waitlists and increasing fees in preliminary survey results*.

		<p>aspects of the program require review, as does its broader context and focus.<sup>106</sup></p>
<p><b>Quality</b></p>	<p>High-quality ECEC is vital to ensuring that children receive the full benefit from attending ECEC, and most importantly requires a skilled, well-paid, highly valued workforce.</p>	<p>At the end of 2022, 11 percent of long day care services did not meet the National Quality Standards,<sup>107</sup> and CCS funding is not conditional on meeting the nationally agreed standards. Quality services are not distributed evenly, with lower socioeconomic areas receiving lower quality services on average. Evidence indicates that the levels of quality in the system are not high enough to significantly impact children’s development outcomes.</p> <p>In addition, 16.4 percent of long care services were operating with a staffing waiver, allowing them to continue to operate despite not meeting one or more of the staffing requirements of the National Quality Standard.<sup>108</sup></p> <p>The workforce is a significant challenge, with high turnover, a large proportion of staff consistently reporting they don’t intend to stay in the sector,<sup>109</sup> and significant shortfalls forecast.<sup>110</sup> Low pay and unfavourable conditions contribute to workforce challenges.<sup>111</sup></p>

<sup>106</sup> Bray et al. (2021) *Evaluation of the Inclusion Support Program*, Australian Institute of Family Studies; Department of Education (2023) *Inclusion Support Program review*.

<sup>107</sup> ACECQA (2023), *NQF Snapshot Q4 2022*, p.16.

<sup>108</sup> ACECQA (2023) *NQF Snapshot Q4 2022*, Waivers, W7: Proportion of services with a staffing waiver by jurisdiction and service sub-type.

<sup>109</sup> See, for example, Dent (2021) *73% of early Educators plan to leave the sector within three years*, *Women’s Agenda*; Jackson (2021) *Early childhood educators are leaving in droves. Here are 3 ways to keep them, and attract more*, *The Conversation*.

<sup>110</sup> See, for example, ACECQA (2019) *Progressing a national approach to the children’s education and care workforce*.

<sup>111</sup> See, for example, ACECQA (2021) *Shaping Our Future: A ten-year strategy to ensure a sustainable, high-quality children’s education and care workforce 2022-2031*; Irvine et al. (2016) *One in five early childhood educators plan to leave the profession*, *The Spoke*.

<p><b>Simplicity</b></p>	<p>Simplicity and reliability, both from an administrative and funding perspective, gives families the confidence to use ECEC, regardless of changing circumstances.</p>	<p>The delivery, funding and regulation of ECEC in Australia is complex, and this is reflected in how children and families experience the system. Australia’s subsidy system makes the price of ECEC opaque and variable, with fees constantly subject to change based on families’ circumstances and employment activity.</p>
<p><b>Connections with other services</b></p>	<p>Universal ECEC is a backbone of a well-connected ECD system, in which services connect seamlessly for children and families from birth until school.</p> <p>Universal ECEC would be a ‘soft entry point’ to connect children and families to other supports, as families tend to have high trust in ECEC educators because of their ongoing relationship with them. Parents perceive additional support as part of a service they already trust. Population-wide attendance means that potential vulnerabilities are more likely to be identified.</p>	<p>Many ECEC services already offer additional support to families in the form of additional services and informal support.<sup>112</sup> However, this support is not consistently offered, and ECEC services are often overstretched and are not adequately resourced or supported to have this function.</p> <p>ECEC is not universal, further preventing it from functioning as a backbone that all children can access. Without this support, the ECD system can be very hard for children and families to navigate alone, and understand other services that children and families need.</p>
<p><b>Accountability and transparency</b></p>	<p>System actors must be accountable for the high level of public spending and ensure that the investment delivers the best value for the community. There should be transparency for the government and the public of system utilisation and performance.</p>	<p>A lack of purpose and role clarity limits accountability and there is a lack of transparency around system performance and spending.</p>
<p><b>Government approach</b></p>	<p>Governments are stewards of the early childhood system, playing a direct role in planning, financing, regulation, and workforce development. This may involve using different levers and functions, including information sharing, market monitoring and regularly adjusting settings, seed funding, the direct provision of services, or supporting the growth of the sector.</p>	<p>The National Quality Framework provides a nationally consistent approach to regulation and minimum quality assurance, but there are limited aspects of stewardship. Roles are fragmented, with the Commonwealth historically taking a more ‘hands off’ role, providing a subsidy but otherwise allowing the market to operate reasonably freely. States’ roles vary.</p>

<sup>112</sup> See, for example, Government of South Australia (2023) *Royal Commission into Early Childhood Education and Care Interim Report*, p.35.