Productivity Commission Inquiry into Early Childhood Education and Care

Goodstart Submission

May 2023

We're for children, not profit.

Table of Contents

OVERVIEW **4**

Our vision and theory of change 4

RECOMMENDATIONS **5**

Staging of reforms for a universal ECEC system 11

Reform priorities and indicative funding 13

Key abbreviations dictionary 14

Section 1: Australia's ECEC system and Goodstart's role **4**

ECEC is vital to our nation's short and long term economic and social prosperity 4

Australia recognises the power of ECEC but invests below comparable nations 5

International approaches to ECEC reform – what can we learn? 6

Growing recognition of the importance of access to ECEC for birth to three age group 7

Goodstart's role in ECEC in Australia 9

Section 2: Towards a Universal ECEC system – what does that mean? **12**

A universal ECEC system is the policy goal 12

But what does universal mean? 12

Case study: Universal Medicare 13

Case Study: Universal Access to Preschool 14

Defining universal quality affordable ECEC 15

Removing barriers to access, including cost 15

Additional support for inclusion – progressive universalism 16

Making access to quality ECEC universal 16

Flat rate subsidy rates and 'free' access 17

Investment to address inequities in access should be prioritised to deliver immediate benefits 18

Section 3: A new universal child entitlement **23**

The solution: a new universal entitlement 23

Section 4: The role of government in ensuring access, quality and inclusion **26**

Governments have a strong role to play in the ECEC market 26

Earned autonomy model for providers – an integrity measure 27

Regulating for quality 29

Case Study: Goodstart's quality improvement journey 31

Section 5: Workforce **33**

A skilled and stable workforce is the most important determinant of quality ECEC 33

Workforce challenges are a major risk to quality ECEC in Australia 34

Wages are the most important issue for the ECEC workforce 36

Addressing wages must be a top reform priority 37

Professional development and programming time is also important 39

Employee experience, wellbeing and leadership 41
Pipeline of new teachers and educators into the sector 42
Migration is an important source of ECEC workers 43
Section 6: Inclusion 45
Some children are excluded from ECEC because services cannot meet their needs 45
Inclusion supports are also required for services supporting children experiencing, or at risk of, socio educational disadvantage 49
Supporting inclusion through Reconciliation 52
Case study: An effective approach to service level investment to address vulnerability - Victorian School Readiness Funding 52
Case study: Gonski needs-based funding, Schooling Resource Standard 53
Community-level inclusion supports are also required 54
Engaging families and children who are missing out on ECEC 55
Case study: Community Child Care Fund (CCCF) 57
Case study: Early Years Education Program 57
Section 7: Preschool 59
Addressing the issue of fragmented care 61
Extending the offer for three year old preschool 63
A renewed national commitment to universal access to preschool 64
Section 8: A new funding system that delivers quality, access and inclusion 66
Strengths and limitations of the current funding system 66
Insights from international funding models 67
Crucial considerations in the Australian context 69
Options to create a pathway to a universal ECEC system 71
Other important considerations for financing 73
Consideration of a 90% flat rate CCS 77
Section 9: ECEC market growth and not-for-profit provision 80
The role of NFP services in a balanced market 80
Trends in growth of the ECEC market 83
The pro-active approach to ECEC market management in New Zealand 86
The Canadian approach to ECEC market expansion 87
A potential ECEC market management approach in Australia 88
Appendix A: The benefits of ECEC for Australia 91
Appendix B: Recent ECEC reforms in other countries 96
Appendix C: Case study: Goodstart's use of Early Years Toolbox to assess child outcomes 103

OVERVIEW

We commend the Government for undertaking comprehensive inquiries into the early childhood education and care (ECEC) sector, particularly by the Australian Competition and Consumer Commission (ACCC) and the Productivity Commission. Considered alongside the Early Years Strategy, National Vision for ECEC, National Preschool Reform Agreement, the National Disability Insurance Scheme Review and increased investment in the Child Care Subsidy from July this year – the future is bright for Australia's children and their families.

As Australia's largest provider of early childhood education and care services, our submission speaks specifically to the Centre Based Day Care (CBDC) component of ECEC, noting the power and potential it has to form the universal backbone of the early years development system in Australia. It identifies actions the Australian Government can take to make a difference for children and families in the short-term, while ultimately building the bridge to a world-class early childhood system for all of Australia's children.

Our vision and theory of change

Our vision is for a truly universal ECEC system that delivers the following impact and outcomes.

IMPACT	**All children and families have access to at least three days per week of high quality, affordable and inclusive early learning… and more days if they need it**			
LONG TERM OUTCOMES	**Child-centred policy design focused on child development outcomes**	**Human and economic development by supporting workforce participation (parents now, children future)**		***ECEC workforce is critical to achieving all objectives***
INTERMEDIATE OUTCOME	**Nationally consistent preschool for two years before school**			
OUTPUTS	**CHILD CENTRED / UNIVERSAL**	**QUALITY**	**INCLUSIVE**	
	Universal entitlement = every child can access at least 3 days/week	Workforce crucial to quality address wages and pipeline	Child level support to fully cover the cost of inclusion for children with identified needs	
	Universal funding = Cost is not a barrier to access	Quality linked to funding and service approvals	Service level support to support inclusion	
	Universal access = more quality places, address other barriers	More timely & robust assessment and regulation of quality	Community level support in those communities facing disadvantage	
INPUTS	**Government as a system steward using levers for financing, regulation, planning, data transparency and workforce sustainability planning**			

RECOMMENDATIONS

Goodstart Early Learning (Goodstart) has the following key recommendations for the Productivity Commission:

Adopt a truly universal child-centred approach:

1. **Reforms to Australia's ECEC system should be more explicitly focused on child development and learning objectives, while also supporting parents to participate in the workforce, to maximise long term social and economic benefits.**
2. **A universal ECEC system should offer every child and their family access to affordable, quality ECEC.**
    a. Investments towards delivering universal ECEC should prioritise providing a universal child entitlement, investment in pay and conditions for the workforce to deliver the entitlement, and enhanced inclusion support.
3. **All children should have an entitlement to subsidised access to three days per week of ECEC from six weeks to school age. Additional days should be available for families who need more to support workforce or other participation, or for children likely to experience vulnerability or disadvantage:**
    a. To ensure both child development and workforce participation objectives are met, and to minimise complexity, these daily sessions should be offered for a minimum of 10 and up to 12 hours per day to support families who need flexibility around long days and start and finish times.
    b. The eligibility test and process to access the two additional days should be as simple as possible, with reference to an earned autonomy approach for providers. We recommend a one-off notification to Services Australia based on parental workforce participation and an annual notification by low-risk providers or pre-approved for children likely to experience vulnerability.
    c. Children likely to experience vulnerability and eligible for additional hours should include children with the following characteristics aligned with the best evidence and supporting a targeted approach:
        i. Children at risk of abuse or neglect
        ii. Children from low-income families, including children from families where welfare payments are their primary income
        iii. Aboriginal or Torres Strait Islander children
        iv. Children with a disability or diagnosed condition
        v. Children who are humanitarian entrants or from refugee families.
    d. The child-based entitlement could be assigned to each child's Services Australia Customer Reference Number (CRN) and enshrined in legislation.
4. **The activity test should be abolished.**
    a. Families who require more than three days of ECEC for work or study would need to demonstrate all parents have had work, training or study-related commitments at some time during a week or have an exemption. No minimum number of hours of activity would be required.

A stronger, stewarded universal quality ECEC system with:

5. A stronger role for the Australian Government in stewarding ECEC finance, regulation, planning, data transparency and workforce sustainability to deliver on high quality, affordable and inclusive ECEC for all children and families.

Specifically, we recommend stronger policy and financial levers linked to quality and inclusion outcomes, including:

a. Management and funding consequences for services that do not meet quality measures.

b. ECEC market supply policy and regulation that ensure that the future shape of the ECEC market supports national priorities around access, quality and inclusion.

c. More regular and nationally consistent National Quality Standard (NQS) Assessment and Ratings processes with outcomes reported to families.

d. Inclusion expectations of service providers to be more explicit and to be made clear at a centre level via an integrated Quality and Inclusion Improvement Plan, which would be required to allow access to inclusion funding.

Ensure universal ECEC is high quality ECEC by:

6. Support, maintain and strengthen the National Quality Framework (NQF).

a. A new National Partnership-style agreement on quality ECEC to increase accountability to:

  i. ensure services are assessed and rated against the NQS at least once every three years (and annually if they do not meet the NQS)

  ii. work more directly with services to raise quality, especially in areas where quality is likely to be lower (i.e. low SEIFA and remote areas)

  iii. provide families with up-to-date and reliable information about service quality

  iv. deliver quarterly, transparent reporting about the reliability and consistency of assessments across and within jurisdictions

  v. implement stronger consequences for services rated as Working Towards for two or more cycles in a row

  vi. create strong incentives for achieving Excellence and sharing excellent practice.

b. Where a service fails to meet the NQS twice in a row, require the service to submit to direct supervision or administration to bring the service up to the standard, or face removal of access to subsidies.

c. Improve national consistency of pre-assessment engagement timeframes and the assessment and ratings process by embedding process in national policy and/or legislation.

d. Transparent and regular reporting to demonstrate that assessment and ratings are consistent between jurisdictions, and address instances where it is not, with the Australian Children's Education and Care Quality Authority (ACECQA) mandated to play a moderating role.

e. More effectively promote service quality ratings to families (e.g., every family to be informed of the outcome of an assessment and rating at their centre).

7. **Direct investment to support the workforce, recognising the intrinsic role of the workforce in delivering quality ECEC:**

   a. As a priority reform, the Australian Government should act as funder to increase wages and conditions for early childhood educators and teachers working in ECEC so they are broadly comparable with wages and conditions in the school sector and ensure this parity is maintained over time. The mechanism for funding wage increases must ensure that funding provided for wages is spent on wages.

   b. Funding reforms should ensure educators and teachers have access to sufficient non-contact time and resources to undertake high quality programming and professional development to continually build quality and capability.

   c. Support educator wellbeing by ensuring employers are providing adequate support to educators and implementing best practice flexible working arrangements.

   d. Develop effective leadership programs and supports for sector leaders to improve their professional growth as leaders and in turn for their in-centre teams.

   e. Invest in the pipeline of new teachers and educators by:

      i. incentivising more trainees by keeping TAFE courses free, maintaining the 10% wage subsidy for new traineeships, and funding paid study leave and mentoring support for trainees

      ii. incentivising more students to enrol in early childhood teaching courses by offering scholarships that cover the full cost of HECS fees and cover lost wages for attending up to 90 days of practicum

      iii. supporting educators to upgrade to Bachelor qualifications by:

         - providing flexible scholarships that cover the full cost of HECS fees, study leave and to cover lost wages for attending up to 90 days of practicum
         - developing tailored intensive courses to support educators to upgrade that fully recognise their current teaching skills, integrated as much as possible with their current work and offer mentoring and support through their study

      iv. moving to nationally consistent teacher registration requirements for early childhood teachers with all jurisdictions recognising ACECQA-accredited qualifications for registration.

   f. Develop an Industry Migration Plan and other measures to recognise early childhood teachers and educators as priority occupations in the migration program, and to ensure Australia is an attractive destination for qualified teachers and educators from other countries.

      In the short term, to provide certainty for the thousands of educators working the ECEC sector on temporary visas:

      i. remove the 48 hours work per fortnight cap on student visas (500) for ECEC as a 'critical sector' for at least five years.

      ii. Streamline recognition of overseas teaching qualifications for early childhood teachers through ACECQA without requiring a second approval through the Australian Institute for Teaching and School Leadership (AITSL).

      iii. Include the ECEC sector (421111) in the occupation list for 403 Temporary Work (International Relations) Visas - Pacific Australia Labour Mobility stream.

iv. Provide a pathway for all childcare workers to achieve permanent residency, in regional and metropolitan areas.

Ensure universal ECEC is truly inclusive and connected to individual communities.

8. **The reformed ECEC system should utilise three layers of investment to support inclusion outcomes at a child, service and community level.**

   a. **Child-level inclusion investment** to fund additional educators to support individual children with specific additional needs and remove cost disincentives to their inclusion. Child-level inclusion funding should build on the current Inclusion Support Program (ISP) and be:
      i. child-centred, with reduced administrative barriers and improved continuity of access and support
      ii. supportive of individual children with specific identified needs, including children with disability, developmental delay, trauma-related behaviours or other inclusion support needs
      iii. demand driven, not capped
      iv. matched to the child's needs, including support for all the hours they attend early learning
      v. matched to the actual costs of delivery, indexed annually by the Wage Price Index
      vi. able to build specific capabilities within a service to ensure a child's inclusion needs are met.

   b. **Service-level inclusion investment** delivered through a new financing instrument to meet the needs of children with identified vulnerabilities attending a specific service. Service-level inclusion investment would:
      i. be allocated at the service level, on an annual basis, based on the number of children experiencing vulnerability enrolled at a service
      ii. support local inclusion capability uplift, outreach and other service level solutions
      iii. recognise that, within some markets, some service providers are serving greater proportions of children likely to be vulnerable than others, and children with multiple vulnerability risk factors need additional investment to support their participation and outcomes. (Subject to financing instrument – but suggest Victorian Government School Readiness Funding-style payments and loadings).

   c. **Community-level inclusion investment** to meet the needs of communities facing disadvantage, to support place-based initiatives reflecting the particular needs of a community, conduct outreach and engage with the community to connect with families not currently accessing ECEC. Community level investment should:
      i. be grant-based, aligned to nationally identified priorities and on a scale much larger than the Community Child Care Fund (CCCF) to significantly increase participation of children most likely to benefit from access to ECEC
      ii. support service provision in 'thin markets' where demand is insufficient to support a commercially viable service, with ongoing capital and recurrent funding to ensure that children in these areas are not missing out on access to ECEC.

Leverage state investment to expand universal access to quality preschool

9. **A new national commitment to two years of preschool for all children, regardless of location or setting.**

a. Builds on the strength of the existing State and Commonwealth Universal Access National Partnership to establish a new National Commitment ensuring access to two years of preschool for all children that:
   i. equalises the experience for children across state/territory systems where most are moving towards a two year preschool model
   ii. focuses on achieving better child development outcomes, simplicity for families and equity for children at a local level
   iii. leverages existing participation in CBDC environments by providing higher level of subsidies for teacher-delivered programs in the two years before school and ensures the Australian Government's commitment that 'funding follows the child' is delivered to the service the child is actually attending
   iv. increases the minimum preschool dose to three days, in line with the minimum entitlement for all children from birth to five, with up to five days for children who need more
   v. establishes improved data transparency and accountability, including for children experiencing vulnerability and children attending multiple settings
   vi. moves to a more streamlined approach over time, capitalising on existing investments in larger states with a pathway for smaller jurisdictions to provide equitable access for all children in Australia
   vii. includes a holistic focus on outcomes assessment.

b. Simplify understanding of quality, access and affordability for families making decisions about preschool enrolments by improving transparency and accessibility of preschool subsidy information, i.e., on the Starting Blocks website.

c. Improve the quality of preschool delivery by investing in the teachers and the delivery of programs and learning frameworks.

d. Investigate and address the high incidence of children experiencing fragmented ECEC and peer groups by attending multiple preschool settings. Ensure those children and their families are able to make decisions based on the best interests of the child without cost barriers.

A funding system that better supports the delivery of a universal, affordable, quality ECEC system

10. A new or reformed financing and funding model tied to quality, inclusion and building a skilled ECEC workforce. We specifically recommend the following key considerations:

a. That the Commission consider financing approaches that make progress towards a universal, affordable quality ECEC system, which encompasses the most positive elements of demand and supply side funding. The new or reformed model should be developed in close consultation with the sector to test for unintended and intended consequences.

b. That the financing approach and model moves away from attempting to meet all need with a single financing instrument and recognises the need for a multi-layered financing model to meet broader public policy objectives of supporting child development and workforce participation by ensuring:
   i. inclusion funding is supporting the child, service and the community (see Section 6)
   ii. quality by more closely tying funding and regulatory instruments to the inputs that are most important to deliver quality, particularly improved pay and conditions for the workforce

iii. funding prioritises support for a stable, professional ECEC workforce paid wages broadly comparable with the schools sector

iv. ECEC market management and funding supports the growth of services that are high quality, in communities that need them, and delivering on national priorities on access, and inclusion

v. robust tools are in place to ensure local markets are effective, that fee transparency is improved with real time fee disclosure, and that excessive fees are addressed.

11. Stronger governance and funding programs to ensure investment in ECEC market growth is directed to high quality provision and to areas where it is needed.

a. Implement a ECEC market strategy and planning approach where new service approvals need to demonstrate either a need for the service and/or that it meets nationally set priorities for quality, inclusion and access.

b. Require that providers cannot add a new service to their network until at least 90% of their existing services meet the NQS, and that new approved providers must demonstrate their Persons with Management and Control have ECEC expertise and experience in delivering quality ECEC services to ensure services owned by new providers become high quality.

c. Establish a fund to directly invest in new, quality not-for-profit and public services in accordance with a statement of national priorities to ensure more families have the option of being able to choose higher quality and inclusive ECEC, including (but not limited) to the provision of integrated services. Priorities should include:

   i. communities that currently have little or no access to high quality not-for-profit (NFP) or publicly owned services
   ii. innovative centres in thin markets that meet the broader needs of the community
   iii. supporting and expanding community-controlled First Nations ECEC services
   iv. place-based services that are responsive to local community needs, particularly in communities of deep disadvantage
   v. new integrated services on all new school sites, with NFP ECEC delivery partners
   vi. services well equipped for learning support for children with additional needs.

d. Establish a capital fund to cover costs of major repairs and upgrades for NFP services and high-quality private providers based on national priorities.

Other recommendations

In preparing its report, we encourage the Productivity Commission to analyse administrative data from Services Australia to:

- Identify the number and profile of children and family characteristics of those not accessing ECEC. Specifically, this analysis should include:
  - Children who are likely to be experiencing vulnerability and disadvantage but are <u>not</u> currently participating in ECEC.
  - Children from families in receipt of Parenting Payment Partnered or Parenting Payment Single, but not also accessing Child Care Subsidy – considering those in receipt of the maximum rate and those in receipt of a part payment separately.

- Children from families in receipt of Family Tax Benefit Part A but not accessing Child Care Subsidy – considering those in receipt of the maximum rate and those in receipt of a part payment separately.
    - Parents who received a Government-funded Paid Parental Leave payment who were not accessing CCS within 12 months of their last Paid Parental Leave payment.
    - Parents who are in receipt of a Carer Payment who are not also accessing CCS.
    - Children who have been in receipt of ISP funding, their attendance patterns and turnover within CCS approved services.
    - Higher concentrations of children experiencing vulnerability or disadvantage accessing ECEC in certain communities.
    - Representation of children supported by Additional Child Care Subsidy (ACCS) or ISP funding in low SEIFA areas or regional, rural and remote locations.
- Identify the profile of services accessing ISP funding, including geographic location and ownership type.

We also encourage the Productivity Commission to:

- Consider the role of NFP services within a local market, particularly in relation to influencing higher quality, placing downward pressure on fees and ensuring the inclusion of all children.
- Specifically consider the role of NFP services in supporting access, particularly where costs of delivery may be higher, such as providing more nursery places or having a greater presence in low-SEIFA locations or 'thin markets'.
- Continue to engage with the ECEC sector to understand the complexity and variation as well as test hypotheses and proposals.

Staging of reforms for a universal ECEC system

While we have some strong foundations in Australia, building a universal affordable quality ECEC system will require commitment. The ten-year, staged approach to the implementation of the NQF and the multi-year approach to providing universal access to preschool – which was supported by a ten-year workforce strategy – shows that system-wide reform can be done.

The reform priorities listed below are ranked, however, there are more urgent and less urgent priorities within each area.

First, address the workforce crisis and pay educators what they are worth…

Building a quality ECEC system requires solutions to the workforce crisis. There is no quality ECEC – no benefits for children or for working families – without qualified, motivated educators. We know that our people are our most important asset and while Goodstart pays above award we cannot afford to increase pay without increasing fees for families, which would be unaffordable for many. The ECEC workforce is underpaid, undervalued, under stress and understaffed.[1] Government investments in wages comparable to the rest of the education sector are urgently required.

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[1]Thorpe K., Panthi N., Houen S., Horwood M, Staton S., (2023) Support to stay and thrive: mapping challenges faced by Australia's early years educators to the national workforce strategy 2022–2031 *The Australian Educational Researcher* https://doi.org/10.1007/s13384-022-00607-3; Women's Economic Equality Taskforce (2023) Advice for May 2023 Budget https://www.pmc.gov.au/office-women/womens-economic-equality/womens-economic-equality-taskforce/letter-minister-women

For a full description of the issues, evidence and solutions associated with the workforce see Section 5.

Second, abolish the activity test and establish a child-based entitlement…

Abolishing the activity test is an urgent priority. All children should have a basic entitlement of three days, with more days if needed depending on work/study requirements or for children who are vulnerable. The child-based entitlement should be set at three days and could be implemented relatively quickly under the current system by changing the result for the bottom steps of the activity test to CCS72.

If further staging was desirable, all families at or below the low-income threshold should be prioritised to recognise the stronger benefits in terms of child development and removal of workforce participation barriers for their parents or carers.

Third, increase inclusion funding and participation by the most vulnerable…

The subsidy rate, number of hours and eligibility for the Inclusion Support Program needs to be improved (see Section 6 – Inclusion).

The next stage of reform should also establish service and community level funding. This will help prioritise access to universal ECEC for the children most likely to benefit but currently least likely to attend – children experiencing disadvantage or vulnerability. Inclusion funding built on a child-based entitlement will significantly improve access to ECEC for these children, who are disproportionately represented in the children currently not attending ECEC.

For a full description of the issues, evidence and solutions associated with inclusion see Section 6.

Fourth, expand places in quality services and hold low quality providers to account…

A universal ECEC system will need more places in more centres. A universal quality ECEC system must have these places provided by quality providers and strengthen the approach to the regulation of quality.

This should include a more deliberate approach to providing incentives for high quality provision in communities where service coverage is low or non-existent. Communities where commercial services are non-viable or where there are high levels of disadvantage should also be prioritised, as should the expansion of access to community-run First Nations services.

For a full description of the issues, evidence and solutions associated with the regulation of quality see Section 4.

Fifth, further improve affordability for families with a 90% flat CCS rate and/or a higher rate of CCS for low-income families…

The 2023 CCS reforms will substantially improve childcare affordability, with around 1 in 3 families' out-of-pocket costs reduced to 10% of fee and most other families' out-of-pocket costs reduced by up to 40%.

The Government's primary goals of ensuring ECEC delivers better outcomes for children and improving access to ECEC will be best served by investing in workforce, quality, access, and a universal entitlement to access affordable ECEC for all children for three days per week. This is likely to deliver a better return on investment – both in terms of child development and workforce participation – than a flat rate 90% subsidy.

While we acknowledge that free or near-free provision of ECEC would be consistent with the universal provision of free primary and secondary education, we recognise this may be a longer-term aspiration to allow investment in workforce, quality, access and universal access for at least three days to ECEC for all children. See discussion under Section 8 - Funding.

Reform priorities and indicative funding

Reform priority	Indicative Cost p.a.	Rationale
Workforce wages and expansion	$1-2b	A stable professional workforce is crucial to deliver universal high-quality early learning
Abolish the activity test and establish a child entitlement	$0.5-1.5b	A child-based entitlement would ensure all children have universal access to ECEC regardless of family activity
Reform inclusion funding	$0.5-1b	Children experiencing vulnerability should receive the support they need to participate in ECEC
Expand access to high quality provision	$0.5-1b	Expanding universal access should be in high quality services and address areas of shortage
Move to a flat rate 90% CCS	$3-4b	A universal co-payment would be simpler and more affordable for all families, but could be done in stages

IF YOU WOULD LIKE TO DISCUSS ANY PART OF THIS SUBMISSION PLEASE CONTACT:

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Key abbreviations dictionary

ACCS	Additional Child Care Subsidy
ACECQA	Australian Children's Education and Care Authority
AEDC	Australian Early Development Census
AITSL	Australian Institute for Teaching and School Leadership
CBDC	Centre-based day care
CCCF	Community Child Care Fund
CCS	Child Care Subsidy
CRN	Customer Reference Number
ECEC	Early childhood education and care
ECERS-E	Early Childhood Environment Rating Scale – Extension
ELF	(Goodstart's) Early Learning Fund
EMTR	Effective Marginal Tax Rate
OSHC	Outside school hours care
ISP	Inclusion Support Program
NFP	Not-for-profit
NQF	National Quality Framework
NQS	National Quality Standard
QIP	Quality Improvement Plan
RAP	Reconciliation Action Plan
SIP	Strategic Inclusion Plan
SRS	Schooling Resource Standard
SSTEW	Sustained Shared Thinking and Emotional Wellbeing

Section 1: Australia's ECEC system and Goodstart's role

In this section, we provide a snapshot of ECEC in Australia, highlight some relevant lessons from international approaches to ECEC and explain Goodstart's role in the system to inform how the Commission might consider the future of ECEC in Australia in responding to the Terms of Reference for the Inquiry.

ECEC is vital to our nation's short and long term economic and social prosperity

The economic benefits of ECEC investment are well recognised by countries around the world and within Australia. The OECD has noted that investments in high quality ECEC pay dividends in terms of children's long-term learning and development, make children's learning outcomes more equitable, reduce poverty, and improve social mobility from generation to generation.[2]

Australian research shows that investment in ECEC generates a 2:1 return on investment to Government, from both child development and workforce participation benefits[3]. Failing to invest in early childhood also carries avoidable large longer-term costs, including youth unemployment, health expenditure, out of home care and legal system outlays .[4] We draw your attention to the submissions made by Professor Karen Thorpe, Professor Iram Siraj and Professor Sandie Wong, which comprehensively canvass the evidence in relation to the benefits of ECEC for child development.

In summary, the evidence demonstrates:

1. **Benefits from improved educational and social outcomes for children** from quality early learning (which are particularly strong for children facing disadvantage in the early years):
    - Benefits for children through stronger academic performance through school and a greater likelihood of school completion and undertaking further education, which are key predictors of lifetime earnings
    - Benefits for governments through avoided costs of remedial education, health, social support and welfare, and justice costs and increased taxation
    - Clearly identified benefits in the two years before school, with important benefits for younger children in emotional regulation and language and communication particularly for children experiencing vulnerability; evidence also shows that poor quality provision can have a negative impact.[5]
2. **Benefits from increased workforce participation** of mothers and other primary carers, in terms of benefits to:
    - The broader economy, (e.g., in terms of increased GDP)
    - Women and other primary carers through increased earnings, both immediately from increased hours of work, and longer-term from reductions in the 'lifetime wages gap', increased retirement income savings and career progression, and improved health and wellbeing outcomes.

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[2] OECD (2017) Starting Strong: Key OECD Indicators on Early Childhood education and Care, Paris, p. 11-12
3 PWC (2019) A Smart Investment for a Smarter Australia: Economic analysis of universal early childhood education in the year before school in Australia, The Front Project
4 William Teager, Stacey Fox and Neil Stafford, How Australia can invest early and return more: A new look at the $15b cost and opportunity. Early Intervention Foundation, The Front Project, Australia, 2019.
[5] Howes et al (2008), Measures of Classroom Quality in Prekindergarten and Children's Development of Academic, Language, and Social Skills, accessed here; Britto, PR., Yoshikawa, H. and Boller, K. (2011), Quality of Early Childhood Development Programs in Global Contexts: Rationale for Investment, Conceptual Framework and Implications for Equity and commentaries, accessed here.

In Australia, except for the year before school, investments in ECEC to date have prioritised reducing Effective Marginal Tax Rates (EMTRs) and supporting workforce participation. Goodstart agrees there is scope for further increases in parental (and especially mothers) working hours and participation by ensuring families have appropriate financial incentives to return to work and to work more days. But, in the longer-term, the benefits of investing to achieve better outcomes for children, and especially better outcomes for the children that are currently missing out, could provide a greater economic benefit for Australia.[6]

Economists recognise that while investing to support workforce participation is important and will continue to be so, it is even more important to invest to support the longer-term formation of human capital through child development by improving access to high quality ECEC.[7]

These objectives are not mutually exclusive. To have a positive impact on child development, ECEC must be high quality[8]. Parents are also looking for quality in ECEC in order to confidently participate in work.[9]

In terms of regulating quality in Australia, the NQF, comprising the NQS, the Early Years Learning Framework and the Assessment and Ratings process is highly valued by the sector and is recognised as world class.

The NQF has ensured nationally consistent minimum standards in core structural quality elements of ECEC across the nation which has helped to eliminate distortions across states and territories particularly in relation to qualification and ratio requirements.

To deliver quality ECEC, a professional, capable ECEC workforce is crucial. The contribution that ECEC teachers and educators make to children's development is essential[10], and at least as valuable as that of teachers and educators in the school education system. Many, such as economist James Heckman, argue that it is even more important.[11] Valuing the role of ECEC educators means paying them rates broadly comparable to that in schools.

Australia recognises the power of ECEC but invests below comparable nations

Australia's public expenditure on ECEC is below the OECD average, and less than half that of leading OECD countries (see Graph 1). Families also spend a higher proportion of income on ECEC costs than in most OECD countries. Australian government spending on ECEC has been rising sharply in recent years, impacted by CCS reforms in 2018, 2022 and 2023, and significant new state investments in preschool and increased usage of ECEC.

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[6] PWC (2014) Putting a Value on early childhood education and care in Australia

[7] Carneiro, Pedro Manuel and Heckman, James J., Human Capital Policy (July 2003). IZA Discussion Paper No. 821, Available at SSRN: https://ssrn.com/abstract=434544 or http://dx.doi.org/10.2139/ssrn.434544

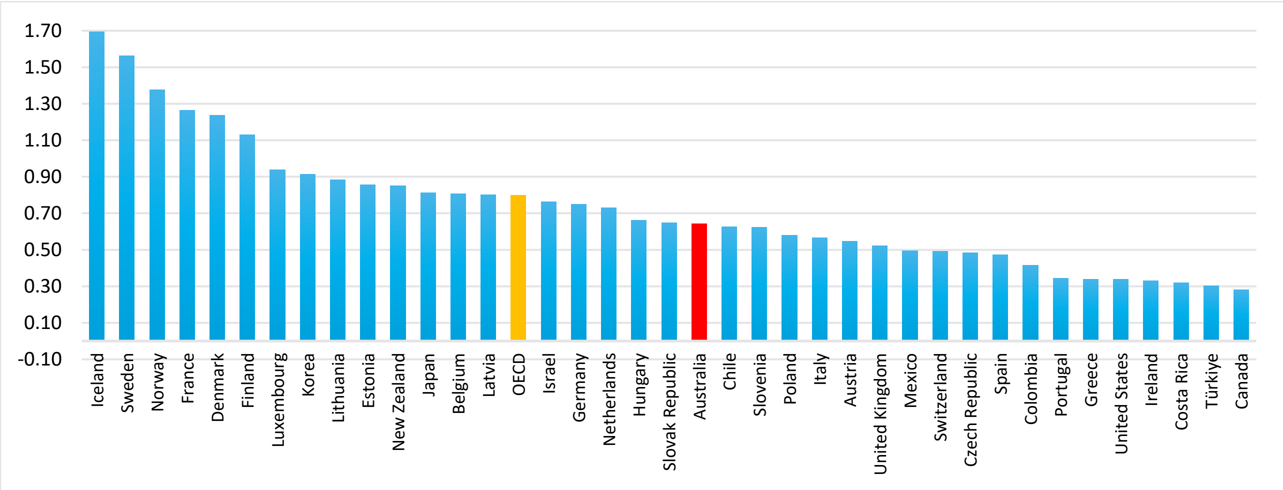
[8] Sylva, K., E. Melhuish, P. Sammons, I. Siraj-Blatchford, and B. Taggart. (2004) *The Effective Provision of Pre-School Education(EPPE) Project: Final Report.* London, England: University of London

[9] Hinton, A, Degotardi S, Fenech M (2017) Parental Knowledge and Use of the National Quality Framework in their Childcare Decision Making: Informed Believers, Informed Dismissers and Indifferent Disregarders, Australasian Journal of Early Childhood, 42:4, DOI: 10.23965/AJEC.42.4.08; ACECQA (2022) NQF National Performance Report

[10] OECD (2018), *Engaging Young Children: Lessons from Research about Quality in Early Childhood Education and Care*, Starting Strong, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264085145-en

[11] https://heckmanequation.org/resource/the-heckman-curve/

GRAPH 1: Public spending on ECEC as a % of GDP 2019[12]



Australia's enrolment rates for children aged birth to two are slightly above the OECD average and slightly below for three to five year-old children, but Australian children spend less hours in ECEC than in many OECD countries.[13] Australia's maternal employment rate has increased significantly over the past 15 years but is still slightly below the OECD average. The majority of Australian mothers work part-time, while the majority in most OECD countries work full time.[14]

In summary the current investment in ECEC made by governments in Australia is warranted to support child development and workforce participation objectives. However, there is a strong case for further investment to fully realise the potential of ECEC to ensure the children who would stand to benefit most can attend, and to ensure they are accessing high quality services.

A more detailed summary of the evidence on the economic benefits of investment in ECEC is in Appendix A. A number of economic experts have modelled the expected economic benefit associated with various ECEC funding reform scenarios in Australia and found very significant expected benefits to GDP. The modelled funding reforms are also summarised in Appendix A.

International approaches to ECEC reform – what can we learn?

There is, as the OECD has noted, a consensus among OECD countries about the growing need for ECEC, although provision, funding and entitlements differ widely.[15]

A recent comparative study of six different national ECEC systems, built mostly on private provision, identified some key lessons for quality, affordability and workforce from reforms:[16]

- Valuing the workforce produces better outcomes for children
- Higher parent fees do not necessarily mean better quality
- Making ECEC more affordable does increase women's labour market participation
- Public investment in ECEC makes a big difference
- Child outcomes are better in high quality NFP services, and stronger quality policy oversight (particularly over staffing) is required for private provision

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[12] OECD 2020 PF3_1 Public Spending on ECEC https://www.oecd.org/els/family/database.htm
[13] OECD (2020) PF3.2: Enrolment in childcare and preschool https://www.oecd.org/els/family/database.htm
[14] See Appendix B citing OECD Family database PF3_2 Enrolment Childcare Preschool 2020
[15] OECD (2017) Starting Strong 2017: Key Indicators on Early Childhood Education & Care, Paris p. 59-65
[16] Ville L et al (2022) Childcare and early education systems: A comparative literature review of liberal welfare states. Fawcett Society, London p. 82-4 https://www.fawcettsociety.org.uk/childcare-and-early-education-systems

- Quality mitigates against detrimental outcomes for children
- Many counties have invested in integrating child and family services at one site
- Countries are innovating and reforming.

Goodstart has also identified some overarching themes from international approaches to reform that provide lessons for the Australian context that are considered in this submission, namely:

- **Legislation** – a number of OECD countries have enshrined an entitlement to ECEC in legislation, which is sometimes, but not always, offered 'free' (see section 3 - Child Entitlement).[17] In addition to legal entitlements, some countries such as Norway and Germany explicitly outline the fundamental, overarching objectives of ECEC in national legislation.

- **Funding** – funding models vary considerably, however in general, more universal ECEC systems use provider-based payments as the primary payment mechanism, while more marketized ECEC systems rely on payment to parents. Mixed funding models that include some provider funding (e.g., for hours covered by a 'free' hours entitlement) and subsidies to assist parents with additional hours are common. There have been challenges where governments have inadequately funded 'free' hours (see Section 8 - Funding).

- **Quality** – rapid expansion of access can negatively impact overall system quality (Quebec[18]); investments in workforce particularly pay and qualifications are linked to improved quality and access (e.g., New Zealand, Canada, Ireland).

A summary of recent reforms to ECEC in comparative countries in in Appendix B.

Growing recognition of the importance of access to ECEC for birth to three age group

While most OECD countries including Australia provide universal access and/or a legal entitlement to ECEC for the three to five age group, legal entitlements to ECEC are less common for younger children. There has been a growing awareness that increasing access to quality ECEC is equally important for babies up to three years, as children grow and learn at a faster rate during their first three years than at any other time in their lives.[19] As the influential Allen Report in the UK concluded: *"During the first three years of life there are sensitive windows of time when specific learning takes place and the brain hones particular skills or functions. Certain elements of human capability including vision, language and emotional development, occur in maturity 'spurts' during these sensitive times."*[20]

The well-known Abecedarian study, which was based on offering a quality ECEC program to disadvantaged children from birth to five years, showed a whole of life return on investment in excess of 7:1.[21] Quality is crucial, including working with parents, taking a highly developmental, child-centred and whole child

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[17] OECD (2017 p. 42, 63; UNICEF (2021) p. 15

[18] Pierre Fortin 2018 "Quebec's Childcare Program at 20" Insights issue 42 Spring https://inroadsjournal.ca/issues/issue-42-winter-spring-2018/

[19] OECD (2020), *Quality Early Childhood Education and Care for Children Under Age 3: Results from the Starting Strong Survey 2018*, TALIS, OECD Publishing, Paris, *https://doi.org/10.1787/99f8bc95-en*. P 18

[20] Allen G., Duncan-Smith I, (2008) "Early Intervention: Good Parents, Great Kids, Better Citizens" Centre for Social Justice, London, p.60 https://www.centreforsocialjustice.org.uk/wp-content/uploads/2008/09/EarlyInterventionFirstEdition.pdf

[21] Garcia, Jorge L., Heckman, James J., Leaf, Duncan E., and Prados, Maria J. 2016 "The Life-Cycle Benefits of an Influential Early Childhood Program." National Bureau of Economic Research Working Paper 22993 http://www.nber.org/papers/w22993.pdf.; OECD (2020) ibid

approach to learning and care, linking to child health and supporting child transitions.[22] Later, researchers found that cognitive, language, and preacademic skills prior to school entry were highest among children who experienced high-quality care in both the infant–toddler and preschool periods, somewhat lower among children who experienced high-quality child care during only one of these periods, and lowest among children who experienced low-quality care during both periods.[23]

Children's emotional regulation – alongside the highly visible skills in mobility (physical development), thinking (cognition) and communication – undergoes significant development during the first three years. The connections of the neurons in the brain and their interactivity are firmly rooted in the executive functioning skills that start developing at a young age. These skills are therefore necessary for social emotional development as children grow up, supporting the development of problem-solving skills and self-selection during the preschool years and into the primary school years.[24] The early years are so critically important to the child's later social development that pathways to violence are often laid down by the age of two or three.[25] These studies reinforce the importance of access to safe learning environments and stable relationships with qualified educators for children under three who have unstable or volatile home environments.

Communication and language development are also recognised as crucial in the first three years.[26] While most children learn to express themselves in the first two or three years of life without too much effort, many do not. The language skills of children with language delays may continue to lag and can affect early reading skills, classroom performance and the ability to make friends. Environmental factors account for most of the variance in early language, with the amount of language directed at children and parenting styles a key indicator of language and vocabulary.[27] A Victorian study found that language delay is three times more prevalent in children from the most disadvantaged quintile of children.[28] The amount of language directed at children in an ECEC setting is a positive predictor of children's language development, although accounts for only a small amount of the variance.[29] Early communication skills have implications for the child's social and educational development across the early years and beyond.[30]

In response to this evidence, and based on the advice of our Thought Leaders Expert Advisory Group,[31] Goodstart has developed the *All Children Communicate!* Program. It encourages all centres to build a

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[22] James Heckman (2014) https://heckmanequation.org/resource/research-presentation-for-birth-to-three-advocates/

[23] Weilin Li et al (2012), Timing of High-Quality Child Care and Cognitive, Language, and Preacademic Development, Developmental Psychology DOI: 10.1037/a0030613

[24] Skonkoff J., et al (2011) "Children's Emotional Development is built into the architecture of their brains" Center on the Developing Child Working Paper no 2, Harvard University

[25] Hosking G, 2001, 'Nursery Crimes', Relational Justice Bulletin 9; Shaw DS, Owens EB, Giovennelli J & Winslow EB, 2001, 'Infant and toddler pathways leading to early externalizing disorders', Journal of the American Academy of Child & Adolescent Psychiatry 40 36-43

[26] Law J, Lee W, Roulstone S, Wren Y, Zeng B, Lindsay G. "What works": Interventions for children and young people with speech, language and communication needs. London: Department of Education 2012

[27] Hart B, Risley TR. Meaningful differences in the everyday experience of young American children. Baltimore: Paul Brookes; 1995

[28] Early Language in Victoria Study, Murdoch Children's Research Institute http://www.mcri.edu.au/research/projects/elvs-study

[29] Rowe DC, Jacobson KC, Van Den Oord EJCG. Genetic and environmental influences on vocabulary IQ: Parental education level as moderator. Child Development. 1999;70(5):1151-62

[30] Miser TM, Hupp JM. The Influence of Socioeconomic Status, Home Environment, and Childcare on Child Language Abilities. Current Psychology. 2012 //;31(2):144-59.

[31] Goodstart's Thought Leaders Advisory Group comprises leading national and international academics and sector leaders and is designed to fully engage the organisation with the best early learning research and thinking around the world.

'language rich' learning environment, monitoring children's acquisition of early language and next learning steps, particularly in birth to three rooms. We have also developed a recognised birth to three learning framework to focus on this crucial age group – recognising the evidence that high quality programs for children under three can make a positive difference in children's outcomes; and that parents look for high quality ECEC when returning to work. At the moment, most children attending ECEC from birth up to three are from working families and attend multiple days, whereas the children who would benefit the most do not have access to enough subsidised hours to settle into a service. Our practice evidence at Goodstart is that attending ECEC one day a week is challenging for all children as it is hard to establish a routine and form relationships, which is especially the case with young children.

GRAPH 2: All children aged birth to five require high quality pedagogy to make progress in their learning and development

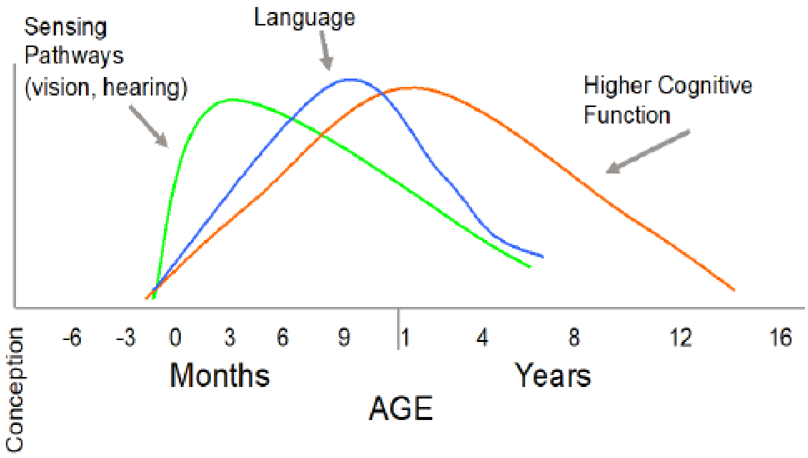


Figure 1.1 Human synapse formation from conception to age 16 years (National Research Council and Institute of Medicine, 2000)

Goodstart's role in ECEC in Australia

Goodstart plays a unique role in the ECEC sector as Australia's largest NFP provider, with 661 centres located across every state and territory, supporting more than 63,600 children from 53,700 families. We have centres across the socio-economic spectrum, with about a quarter of our services in low SEIFA communities and one-third in regional areas.

We employ more than 15,000 people across the country, with a highly feminised workforce. Our workforce includes qualified educators (Certificate III and Diploma), bachelor qualified teachers and inclusion professionals, including speech pathologists, occupational therapists and child and family practitioners.

Our purpose is to ensure all Australia's children have the learning, development and wellbeing outcomes they need for school and life. All children should be supported to participate in quality early learning and care, regardless of where they live in Australia, their family circumstances, their inclusion support needs, or their

Goodstart at a Glance

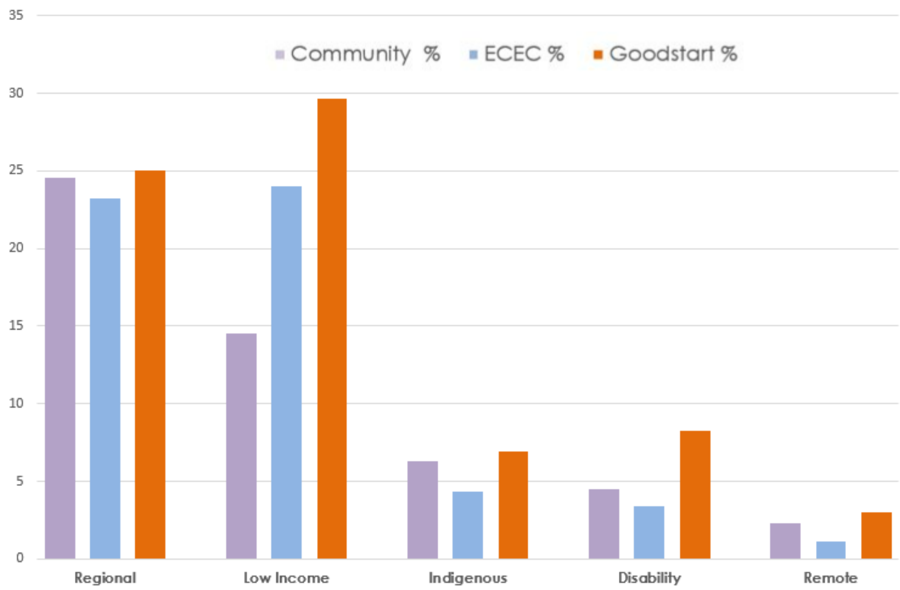
- 98% Meeting or Exceeding NQS
- Above award wages and conditions
- Above sector representation for First Nations Children
- 6,000 hours of allied health
- 3 Excellent rated centres
- 8% of ECEC market
- Flexible sessions to reduce costs for families
- $336 million a year social dividend

early learning setting. We work in partnership with the sector, governments and the community to improve outcomes for all children – not just the children who attend a Goodstart service.

Since our inception 13 years ago, we have made strategic investments to ensure we are meeting or exceeding the NQS and using evidence-based approaches to improve children's learning outcomes. Our investment in evidence-based quality improvement tools, such as ECERS-E and SSTEW[32], help ensure our practice is focused on the areas known to make the biggest positive difference to children's progress and that we are realising the benefits of ECEC[33]. Our assessments of children's outcomes using the Early Years Toolbox developed by the University of Wollongong show Goodstart children make more progress in expressive vocabulary and numeracy assessments than the norms (see detail in Appendix C).

We have also focused on ensuring children experiencing vulnerability or disadvantage have the opportunity to benefit from ECEC. For example, we funded early intervention by providing around 6,000 hours of allied health support last year, we supported over 5,500 young children at serious risk of abuse or neglect who are some of the most vulnerable members of our community, and, aligned with the Government's *Closing the Gap* targets, we support 6,860 Aboriginal and Torres Strait Islander children (2.6 per cent more than the sector average). These investments have delivered results, with Goodstart outperforming sector averages in terms of the inclusion of key cohorts of children.

GRAPH 3: Goodstart has higher representation of children likely to be vulnerable than the rest of the ECEC sector and community



Data from Report on Government Services. Variations exist in available source years.

We also know that access to high quality ECEC is fundamental to help parents of young children participate in work, study or training. ECEC, and particularly long day care (which provides flexible, all-day sessions 52 weeks of the year) is an essential service that directly contributes to our economic productivity as a nation. Without access to high quality ECEC, large proportions of parents would simply not be able to participate in work producing negative impacts for them, their children and the economy.

[32] Early Childhood Environment Rating Scale – Extension; and Sustained Shared Thinking and Emotional Wellbeing.

[33] Appendix A - ECERS-E and SSTEW - Study of Early Education and Development (SEED): Developing alternative quality scales for Early Childhood Education and Care (ECEC) using exploratory analysis (publishing.service.gov.uk)

We also deeply understand the challenges facing parents as they raise young children and consider leaving their children in ECEC. Each year, we support the parents and carers of around 57,300 children as they navigate their return to work, increase their workdays or hours, have second or subsequent children or advance their careers through study, training or volunteering.

We also provide support to families experiencing challenges or hardship including joblessness, mental illness, homelessness and relationship breakdown. Last year, we invested in up to 6,000 hours of allied health support within our centres and ensured 825 children from low income families facing hardship have opportunities to regularly participate in early learning and receive support they need at the centre. These investments deliver a dual dividend because they also provide crucial opportunities for parents to attend to their commitments, including looking for work without a baby, toddler or preschooler in tow.

Helping working families: a case study

John is a young dad who has a daughter with a disability. Between multiple appointments and commuting times, he started to be pressured by his employer, which created a lot of fear about his job security. When Goodstart could offer these appointments in-centre, John shared the enormous relief he felt, removing work pressures, and improving his sense of job security while knowing his daughter was getting the support she needed.

We also leverage our size and unique dataset to support research, advocacy and evidence-informed policy for the ECEC sector as a whole. A very modest investment in research and advocacy (less than 1% of total revenue) allows us to support governments in policy development and to build the Australian evidence base through Australian Research Council approved and funded research about what works best for children, and to better understand the ECEC workforce.

Last year, we made targeted social purpose investments of $47 million in activities like inclusion for children with additional needs, operating in rural and regional and low SEIFA areas, Reconciliation and evidence-based professional development:

- This investment delivered a 'social dividend' valued at $336 million. Our social dividend is calculated using a social return on investment methodology and represents the unique social and economic value delivered for children, families, governments and the broader community. This includes the returns generated from improved outcomes for children but also from supporting parents to participate in work, including those who may not have otherwise been able to participate.
- By comparison, in a typical commercial operation, the $47 million would likely have been paid as profits to shareholders or business owners.

Our unique purpose and subsequent investment decisions deliver positive outcomes for children and economies of scale in areas aligned with the Australian Government's stated objectives for ECEC including quality, inclusion, Reconciliation and pay and conditions for educators. We could have even more impact if the policy settings in Australia were flipped to focus firstly on outcomes for children as well as supporting workforce participation for parents, instead of the inverse as is the case today.

Recommendation:

Reforms to Australia's ECEC system should be more explicitly focused on child development and learning objectives, while also supporting parents to participate in the workforce, to maximise long term social and economic benefits.

Section 2: Towards a Universal ECEC system – what does that mean?

In this section, we explore what 'universal' means in the Australian public policy context, consider other examples of universal systems, and identify issues and evidence associated with barriers to universal systems.

A universal ECEC system is the policy goal

In his Budget Reply speech in October 2020, the Prime Minister (then-Leader of the Opposition) said, "*If I am Prime Minister, I will make quality, affordable childcare universal".*[34] This commitment is also included in the Productivity Commission's Terms of Reference for this Inquiry: '*The Government is committed to identifying solutions that will chart the course for universal, affordable ECEC – in the great tradition of universal Medicare and universal superannuation.'*

A key task for this Inquiry is determining what a universal system of quality, affordable ECEC could look like and the pathway for getting there.

But what does universal mean?

There are a number of potential features of a 'universal' social support system:

- *Universal eligibility* to an entitlement to ensure *universal access* – all Australians are eligible regardless of income or other personal / family characteristics; and/or
- *Universal benefit rates or levels* – everyone who is eligible for the program receives the same rates of assistance.

In comparison targeted social support programs may involve:

- Conditions on eligibility – usually an income test – that exclude some people; and/or
- Differential rates of benefit and/or different thresholds to access benefits based on income.

An overview of some of Australia's social support systems are in the table below:

- Medicare, superannuation and the National Disability Insurance Scheme (NDIS) which the Government has referenced in framing universal ECEC; and
- Paid Parental Leave and Family Payments which are other (targeted) components of government assistance to families are included for reference.

In Australian social support systems typically universal programs involve broad eligibility for all Australians *and* targeting to ensure equity, affordability, and inclusion. Even our 'most universal' programs have some targeting of support either directly within the program, or through linked supporting programs.

[34] https://anthonyalbanese.com.au/media-centre/anthony-albanese-speech-budget-in-reply-parliament-house-canberra-thursday-8-october-2020

TABLE A: Features of select Australian social support systems

System	Who is eligible?	What is the entitlement to?	Funding mechanism	Means testing?	Provides a free service?
Medicare – universal health insurance	All Australians (+ some Permanent Residents)	Entitlement to subsidy for some health care services (hospital, medical & diagnostics) Linked access to PBS (see below)	Subsidy (paid via rebate to patient) Payments to states and territories for hospitals	MBS rebates no – flat subsidy amounts for all recipients Extended Medicare Safety Net yes – different thresholds for concessional / Family Tax Benefit A Bulk billing incentives targeted to concessional patients	Some services only Public hospitals – yes Private hospitals – no Medical – mixed Diagnostics – mixed
Pharmaceutical Benefits Scheme (PBS)	All Medicare card holders	Entitlement to subsidy for listed pharmaceuticals	Subsidy – paid to pharmacy	Yes – concessional and non-concessional levels of subsidy	No – fixed co-payment
Superannuation Guarantee (SG)	All Australian & temporary residents	SG – entitlement to % of earnings paid by employer. Range of other taxation incentives and offsets.	Multiple – SG employer payment; tax concessions; government co-contributions & tax offset.	SG – no Some other mechanisms – yes	n/a
NDIS	Range of eligibility criteria (e.g. age, citizenship, permanent impairment)	An assessed of individuals' needs for reasonable and necessary supports	Individualised funding packages	No	Yes for approved services within package limit
Paid parental leave	Eligibility subject to residence, work & income tests	Government funded 'pay'	Paid via employers in most cases	Yes for eligibility, but flat payment for those eligible	n/a
Family Tax Benefit payments	Eligibility subject to residence & income tests	Financial support payments	Welfare payment direct to family	Yes, levels of assistance taper according to income	n/a

Case study: Universal Medicare

In the case of Medicare, eligibility for the entitlement is universal (within residence criteria), and rebate rates are the same for all beneficiaries. However, some linked programs and benefits are means-tested to provide higher assistance to people on lower incomes where cost is a barrier to access, for example:

- Access to a Commonwealth health care cards (concession cards) is linked to an income test and provides holders with higher benefits and/or lower co-payments for a range of medical and diagnostic services, and pharmaceuticals.
- The Extended Medicare Safety Net has different thresholds for participants with concession cards and lower income families.
- The Pharmaceutical Benefits Scheme (PBS) which is open to all Medicare card holders provides higher subsidy rates for concession card holders.
- Bulk billing incentives are provided to GPs for concession card holders and children.

Further, there is a very wide variance in how much total benefit Australians receive from Medicare. Some of this is expected under an insurance model – people with chronic illness are heavy users and healthier people access less. But there is also strong evidence that there is high variation in benefits by location and for some disadvantaged groups, including Aboriginal and Torres Strait Islander people, where there are additional barriers to access.

Case Study: Universal Access to Preschool

In ECEC, a successful example of delivering a policy commitment to universality was the series of successive National Partnership Agreements that laid out a "…universal access commitment that by 2013 every child will have access to a preschool program in the 12 months prior to full time schooling". The first agreement (2010-13) defined universal access as:[35]

> *"Whereby every child, 12 months prior to full time schooling, has access to a preschool program delivered: by a four year university qualified early childhood teacher (subject to clause 17 below); in accordance with a national early years learning framework; for 15 hours a week, 40 weeks a year; across a diversity of settings; in a form that meets the needs of parents; and at a cost that does not present a barrier to participation."*

The agreement then laid out the actions required of the Commonwealth and States and Territories to achieve the universal access commitment:

- removing barriers to participation in a preschool program, including ensuring cost is not a barrier (especially for Indigenous and disadvantaged children, including remote Indigenous children) and provision is in a form that is convenient for all families, including the needs of working families
- streamlining regulatory and quality systems to support the provision of early childhood education and care
- a national early years workforce strategy and subsequent action plans
- developing specific strategies for delivering universal access in Indigenous communities.

The partnership investment has been a remarkable public policy success story that demonstrates that two levels of government – with agreed objectives and performance benchmarks, leveraged funding and a coordinated effort – can achieve universal outcomes to the benefit of all children. Participation rates in preschool have risen sharply, and Year 3 NAPLAN test scores improved significantly in the first decade of the reform, particularly in Queensland.[36]

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[35] National Partnership Agreement on Early Childhood Education 2010-13

[36] See also UANP Review 2020 by Nous for the COAG Education Council and Review of the NPAUAECE 2014 by Deloitte Access Economics. See also Chor, E., Eckhoff Anderson, M., Kalil, A., (2016) The Impact of universal prekindergarten on family behavior and child outcomes Economics of Education Review 55 (2016) 168-181; Thorpe K., Potia A., Beatton T., Rankin P., Staton S., (2020) Educational Outcomes of Queensland's Investment in Early Childhood Education and Care 2007-2020 University of Queensland Institute for Social Science Research.

Defining universal quality affordable ECEC

As articulated in the preschool reforms, a universal system is fundamentally about access. Universal access means every child in Australia should have access to high quality, affordable early learning, regardless of their family's circumstance or where they live.

Universal means that spaces are available everywhere that a child or a family needs one, and that those places are all assured to provide the quality of ECEC necessary to make a difference to child outcomes.

Universal means that the barriers to access are removed. Every child should have an entitlement to access regardless of the family's work activities (see Section 3 – Child Entitlement).

Universal eligibility to subsidies supports the objective of universal access by addressing cost barriers. Adequate subsidies and payments should be available for all children. To achieve this, current CCS (and ISP) eligibility should be expanded to include children who are not currently able to access subsidies or inclusion support, such as children on certain visas (e.g., humanitarian entrants or children of international students) or children under the care and protection of the state (children living in residential care).

Universal does not mean uniform delivery – it requires targeted investments and approaches to support access and participation for all children, with additional support for children facing vulnerability or disadvantage. Specifically, it includes removal of barriers to access for *all children*, including costs and additional support for inclusion so *all children* can participate and benefit.

Removing barriers to access, including cost

Moving towards a universal system is fundamentally about removing the barriers to access, whether they be cost, places, bureaucratic rules and processes, transport, disadvantage or cultural, and enhanced support for inclusion.

This would involve addressing barriers to access including[37]:

- **Cost**: universal eligibility to adequate payments and/or subsidies to ensure ECEC is affordable as cost is cited in research as the single most important barrier to access. Financial assistance to support access to a minimum entitlement of ECEC should be offered to all children, regardless of their parents' workforce participation activity. Some families will need more assistance to overcome cost barriers.
- **Location**: ensuring the supply and viability of high-quality services in all communities through funding and planning approaches, including consideration of provision to children in very remote locations (see Section 6 - Inclusion).
  - The evidence is clear that only high quality early learning makes a difference to child outcomes, so a universal entitlement needs to ensure that all children have access to services that are high quality.[38]
- **Transport:** children and families also need to be able to get to a service to access it.

[37] For discussion of barriers to access see Beatson R., Molloy C., Felhberg Z., Perini N, Harrop C., Goldfeld S., (2022) Early Childhood Education Participation: A Mixed Methods Study of Parent and Provider Perceived Barriers and Facilitators Journal of Child and Family Studies (2022) 31:2929-2946 https://doi.org/10.1007/s10826-022-02274-5; Grace, R., Bowes, J., & Elcombe, E. (2014). Child participation and family engagement with early childhood education and care services in disadvantaged Australian communities. International Journal of Early Childhood, 46, 271–298. https://doi.org/10. 1007/s13158-014-0112-y.; Fenech M & Skattebol (2020) Supporting the inclusion of low-income families in early childhood education: an exploration of approaches through a social justice lens, International Journal of Inclusive education 25:9 DOI: 10.1080/13603116.2019.1597929

- **Parental concerns and perceptions (cultural, trust and/or lack of awareness of benefits of ECEC):** a better trained and supported workforce should be able to better relate to families facing vulnerability with trust issues or cultural issues with placing children in care.

Additional support for inclusion – progressive universalism

'Progressive universalism' in ECEC means prioritising investment in those most at risk of poorer outcomes, where social returns are often the highest. Progressive universalism requires investment to address educational exclusion. The approach recognises that public funding is not endless, and targeting may be required, but that by offering additional support in a universal setting, no child is stigmatised.[39]

The greatest benefits from ECEC come from including and supporting children experiencing disadvantage or vulnerability. As the Early Childhood Minister said when announcing this Inquiry:

> "We *have the capacity through early childhood education and care to change the trajectory of a child's life. No child born into any form of disadvantage, no matter who they are, no matter where they live, no matter what background they come from. Every single child has the capacity to grow and develop if we focus, if we get it right in those first five years.*[40]"

Enhanced support for inclusion – including children with additional needs, children experiencing socio-economic disadvantage, Aboriginal and Torres Strait Islander children and children from Culturally and Linguistically Diverse Backgrounds – is required to support universal access.

In addition to inclusion subsidies to support additional workers, this may require place-based initiatives, outreach activity, integrated service delivery for some areas, close collaboration with community organisations and addressing the system itself as an impediment to access (i.e. Services Australia).

Further information on funding for inclusion support is in Section 6.

Making access to quality ECEC universal

The evidence shows that only high-quality early learning makes a difference to child outcomes[41]. A universal ECEC system should provide access to high quality ECEC. Improving quality of provision while expanding places and improving affordability are crucial and were key components of the implementation of universal access to preschool discussed above. Canada learned the same lesson from the Quebec child care experience[42], and forms a crucial commitment in the rollout of its National Child Care plan.[43]

True universality will require a stronger stewardship role for governments at all levels, through the finance, regulatory and planning levers available to them and less tolerance for services that do not meet the NQS (see Section 4 – Role of government).

High quality early learning also requires a stable, professional workforce to deliver it. Delivering universal access to affordable, high quality ECEC needs to be underpinned by a long term workforce strategy and a

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[39] International Commission on Financing Global Education Opportunity (2017) The Learning Generation: Investing in education for a change world p. 87-90 https://report.educationcommission.org/downloads/
[40] Anne Aly statement 9/2/2023 https://www.pm.gov.au/media/press-conference-mocca-childcare-centre-canberra
[41] See Appendix A; Sylva, K., Melhuish, E., Sammons, P., Siraj-Blatchford, I. & Taggart, B. (2004). The Effective Provision of Pre-school Education (EPPE) Project: Findings from pre-school to end of key stage 1.
[42] Pierre Fortin 2018 "Quebec's Childcare Program at 20" Insights issue 42 Spring https://inroadsjournal.ca/issues/issue-42-winter-spring-2018/
[43] Canadian Government Budget 2021 Chapter 3 https://www.budget.canada.ca/2021/report-rapport/p2-en.html#chap3

wages and conditions for educators and teachers that are broadly comparable with the schools sector[44] (see Section 5 - Workforce).

Flat rate subsidy rates and 'free' access

A flat rate 90% subsidy rate or access to free ECEC for all families may be desirable in the long term but other investments will deliver a better return on investment, if investments require prioritisation.

The Government has asked the Commission to specifically consider a universal 90% childcare subsidy rate, and other advocates have proposed an entitlement to at least some level of free childcare (like the offer in some comparable jurisdictions including NZ and the UK). Goodstart makes some comments on these options – including potential risks in the Australian context – in Section 8 – Funding and Appendix B.

Notwithstanding these issues, free or almost free ECEC for all (provided it is appropriately funded for quality, inclusion and sector and workforce sustainability) is a desirable long-term goal and Goodstart fully supports recognising ECEC as a fundamental part of the Australian education system. Universal access to public schools is free for all families regardless of income and, in principle, access to early childhood education should be treated in a similar way.

However, Goodstart notes that moving to a 90% flat rate subsidy for all children would cost around $3 billion a year, with much of that benefit accruing to higher-income earners.[45]

Grattan Institute modelling of a 95% flat rate found a that family with two children and combined income of $360,000 would be able to claim more than $50,000 a year in childcare subsidies if both children were in childcare five days a week. Our understanding of the evidence is that this investment would probably not drive significant improvements in child outcomes or parental workforce participation compared with other potential priorities for investment.

The Australian Government has, rightly, prioritised improved affordability for low-income families. Cost is clearly the primary barrier to access, and lower-income families are more likely to consider increased workforce participation with lower net childcare fees.

Universally high rates of subsidy are unlikely to be required to support affordability for all families, as childcare costs as a percentage of household income are much higher for low-income families than for high-income families.[46] Further, while some low-income families need the full cost of ECEC to be covered to overcome cost as a barrier, for other families more targeted assistance is enough to support access. Retaining some income testing – at least initially while other higher priority investments are funded – is unlikely to adversely impact access, or materially impact workforce decisions of parents and is consistent with other family payments. On the whole, long-term reforms should continue to reduce EMTRs, especially for women, but investments to support more immediate challenges in relation to improved wages for the workforce, and access and inclusion for vulnerable children should be the first priority.

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[44] Pascoe S & Brennan D "Lifting our Game" p. 62; [44] Tayler, C. (2016). The E4Kids Study: *Assessing the effectiveness of Australian early childhood education and care programs. Overview of findings at 2016.* Final report to the Partner Organisations of the Effective Early Educational Experiences (E4Kids Study); OECD (2018), *Engaging Young Children: Lessons from Research about Quality in Early Childhood Education and Care*, Starting Strong, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264085145-en.

[45] KPMG (2020) "The child care subsidy: Options for increasing support for caregivers who want to work"

[46] Productivity Commission Report on Government Services 2023 table 3A.23

The Commission may also consider a 'universal subsidy' as a flat percentage of family income. Finland, for example, caps families out of pocket costs as a flat percentage of family income and this approach has also been considered in the US.[47][48]

Investment to address inequities in access should be prioritised to deliver immediate benefits

The CCS was developed primarily to support women's workforce participation as was made clear when the bill that established it in 2015 was named the 'Jobs for Families' package. As discussed earlier, the Federal Government has successfully promoted women's workforce participation, and the participation rate has grown from well below the OECD average in 2000 to well above in 2023. However, the job is not done as we fall well short of matching the impressive full time maternal employment rates in Europe.

However, progress in improving child development and reducing vulnerability has been disappointing, probably because the children who stand to benefit the most from ECEC are the least likely to attend and, when they do attend, they are more likely to access poorer quality early learning than their more advantaged peers. It should be unacceptable that one in five Australian children start school developmentally behind when we know high quality ECEC can help address these vulnerabilities. Evidence also shows that children who start behind tend to stay behind as they progress through their school education. Research shows a strong predictive relationship between developmental vulnerability in entering school and poor outcomes later on in NAPLAN.[49] Evidence also shows that early intervention is far more cost effective than trying to close gaps later on.[50]

A child's access to early learning should not be like a game of Snakes and Ladders, going up or down depending on their family's circumstances.

The simplicity of school-based education is that every child living in Australia has access to five days of education, regardless of where they live, their family income, their parent's or carer's hours of work and/or their visa status. There are significant benefits to this, including the reduced stigma associated with universally-delivered services and ensuring a child's consistent access to education, even when a family's circumstances change.

This simple consistent entitlement is not afforded to children in early learning. Instead, a child's entitlement to subsidised hours of ECEC is based primarily on what their parents are doing, including:

- Whether one or both their parents are working or studying or training

The impacts of stigma and paperwork

During COVID and the 'Free ECEC' period, Goodstart found children at risk of abuse and neglect in receipt of ACCS Child Wellbeing – for whom up to 5 days of ECEC was already free – actually increased their average enrolment from 3.33 days week to 3.60 days per week.[1]

This increased attendance by families who already had access to free ECEC may be attributed to reduced stigma of being identified as being 'at risk' because ECEC was free for everyone; and the reduced administrative paperwork, i.e. not having to deal with Centrelink.

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[47] https://okm.fi/en/client-fees-ecec

[48] https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/

[49] Brinkman S., Gregory T, Harris J, Hart B, Blackmore S, Janus M (2013) Associations Between the Early Development Instrument at Age 5, and Reading and Numeracy Skills at Ages 8, 10 and 12: a Prospective Linked Data Study, Child Ind Res (2013) 6:295-708 DOI 10.1007/s12187-013-9189-3

[50] The Front Project (2019), How Australia can invest in children and return more – A new look at the $15bn cost of late action.

- How many hours of approved activity each parent is doing, with subsidised hours based on the least 'active' parent
- How many minutes their parents spend travelling to and from their workplace to ECEC
- If one parent is looking for work - hours are capped
- If one parent is volunteering - hours are capped
- If income goes over the safety net income threshold in single income households - subsidised hours cease
- Whether their parent or carer has a disability or their status as a carer (i.e. Carer Allowance);
- Whether parents acknowledge their children are identified as being at risk of abuse or neglect – or have been for an extended period.

When circumstances change for a parent or carer, so too does the child's entitlement to early learning. The stepped model of the activity test, and the 'cliff' income test applied to the Child Care Safety Net, effectively mean reduced hours of work can result in reduced access to subsidised hours, which impacts affordability and often results in children having their days reduced or even being withdrawn from early learning. This can be quite disruptive for a child, noting the importance of strong, secure, reciprocal and communicative relationships between children, their peer group and their educator, especially in the first five years.

Our administrative data also shows retention benefits for children who have access to at least three days of subsidy per week. Statistical analysis of 175,000 children highlighted powerful statistically significant findings that support a minimum three day entitlement:

- Children in low-income families who have an entitlement of at least three days of early learning (CCS72) tend to participate and stay in early learning at a rate comparable to their peers in higher-income families, whereas children in low-income families with an entitlement of less than three days (CCS24 and CCS36) are 29% more likely to exit than children who do not have an identified vulnerability[51].
- Children who have an identified vulnerability and children who do not have similar and higher exit rates (around 30% more likely to exit than other children) when their booking pattern is for two days or less. This suggests all children who have booking patterns of two days or less per week are more likely to exit than children who attend more often.
- Children attending three days are only 16% more likely to exit than children attending four or five days.[52] This suggests a significant improvement in continuity of learning for children attending three, four or five days compared to children attending two days.
- Children with an identified vulnerability who have a booking pattern for three days or more are just 16% more likely to exit compared to their more advantaged peers.[53] This suggests a significant improvement in continuity of learning for children attending for three, four or five days compared to children attending two days.

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[51] Goodstart internal analysis (2022): 175,000 children, 666 centres, Comparisons between with a vulnerability risk factor (low income CCS85%, First Nations, at risk of abuse or neglect, diagnosed disability, condition or additional need) and non-vulnerable children in Goodstart services was achieved using a randomly sampled subset from the total children to suppress outliers.

[52] A child who is experiencing vulnerability and attends 3 and 4/5 days, has an exit rate of 26% and 22.5% respectively. A child who is not experiencing vulnerability and attends 3 and 4/5 days, has an exit rate of 21% and 20% respectively.

[53] A child who is experiencing vulnerability and attends 4 days, has an exit rate of 22%. A child who is not experiencing vulnerability and attends 4 days, has an exit rate of 19%. [22 / 19 = 1.16 -> 16% more likely to drop out.]

This further supports our practice knowledge and the analysis by policy think tanks and others in recommending a minimum entitlement of three days per week. [54] A minimum three-day entitlement provides enhanced opportunities for consecutive days and peer-to-peer learning for children, while also supporting workforce participation, job search, study and training. A three-day entitlement, with more days available for those who need it, is also more in line with the original Effective Pre-School, Primary and Secondary Education (EPPSE) study – providing more opportunities for learning each week rather than just two days.

Indeed, instead of incentivising families to increase work activity, there is strong evidence that the activity test and the associated complexity has become an impediment to vulnerable parents entering the workforce.[55] The Australian Institute of Family Studies Independent Evaluation of the CCS found that for families with a CCS 100 entitlement most never used their full entitlement, using on average less than 60% of their entitlement. By contrast, over a third of hours charged to families on CCS24 exceeded their entitlement, as were 30% of hours charged to CCS36 hour families.[56] This supports Goodstart's experience where families on the bottom rungs of the activity test are more likely to have irregular work patterns, insecure work, or other complexities, such as caring for relatives, which mean they still need ECEC but pay a much higher out-of-pocket cost because they don't meet, or cannot navigate, the Services Australia notification process for the overly complex activity test.[57]

The original intent of the CCS24 entitlement was to support 'two x six-hour' days as a 'safety net' for low-income families. However, the flat hourly rate cap for all sessions, regardless of length, was not sufficient to make six hour sessions viable. As a result, just 23% of operators offered them and only 2.3% of sessions booked were six hour sessions.[58] Goodstart did offer 'two x six-hour' sessions, available in the middle of the day. To allow the sessions to be priced at a cost lower than the previous Child Care Benefit rate for families with at least one parent not in work, these sessions were cross-subsidised by ~$3 million in the first year. However, the shorter sessions have not been a success for a range of reasons, including:

- Families found the offer inconvenient and hard to navigate around other commitments, such as picking up and dropping off older children, especially when using public transport.
- Educators found it challenging to plan and program for high quality, intentional early learning experiences and to support peer-to-peer learning when most children were attending for longer days. We also had reports of children not wanting to 'always leave early' while other children got to 'stay with their friends'.
- At a provider level, shorter sessions had to be heavily subsidised as costs for the 'unsold' hours each day could not be recovered.
- Demand for six-hour sessions has declined further each year, particularly since COVID, and the impact of the hourly fee cap has meant out-of-pocket costs for families increased despite ongoing cross subsidisation by Goodstart.

The number of low-income families with low work hours or no work taking up the CCS24 entitlement has collapsed. Around 100,000 families accessed the 24 hour per week 'safety net' entitlement of the old Child Care Benefit prior to 2018 and the Education Department forecast that around 5.3% of families (or 54,000 families) would be entitled to CCS24. However, the actual number of families accessing CCS 24 in 2018-19

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[54] Centre for Policy Development (2021) [Starting Better: A Guarantee for Young Children and Families](#).
[55] Impact Economics (2023) Child Care Subsidy Activity Test: Incentive of Barrier to Labour Force Participation
[56] AIFS (2021) Child Care Package Final Report p. 210
[57] Impact Economics (2023), [Child care subsidy activity test: incentive or barrier to labour force participation?](#)
[58] AIFS (2021) p. 164

was just 31,440, which fell to less than 10,000 families by June 2022.[59] This decline has been offset, to a degree, by a rise in families claiming ACCS Child Wellbeing, which rose from 21,100 in June 2018 to 27,810 in June 2022.[60]

At Goodstart, the numbers of CCS24-eligible children has fallen from 2,782 in July 2019 to just 780 in July 2022, a 72% drop. We also see negative participation outcomes for CCS36 children, along with CCS24 children, are 29% more likely to drop out of early learning than other children.

We urge the Commission to investigate this issue by examining administrative data held by Services Australia, so we can understand what happened to the 100,000 children in very low income, jobless families who used to attend ECEC each year. Our hypothesis is that these children are attending ECEC at significantly lower rates since the CCS changes were introduced and potentially also not accessing preschool – further compounding their vulnerability and disadvantage.

To address this problem, Goodstart developed the Early Learning Fund (ELF), funded though philanthropic investment and donations, including workplace giving by Goodstart staff, to address cost barriers particularly affecting children from low-income families and those facing other forms of hardship. ELF support, offered by both Goodstart and Uniting Care NSW and auspiced by the Benevolent Society, provides families with access to at least two consecutive days of ECEC for around $7 a day. Priority cohorts include children from CCS24 families who are not eligible for other subsidies, such as the ACCS. The program also includes support for families in setting learning goals for children and meetings between families and educators.

A recent evaluation of ELF found the following positive findings:

- ELF children also had higher attendance rates and better retention than their peers in the comparison group[61]
- Almost all ELF children (94%) were enrolled and attending early learning regularly, for at least two days per week
- The most common enrolment pattern was two days per week (43%) followed by three days (25%), with 89% attending regularly (i.e., matching their booking patterns).
- There was a statistically significant difference between the two groups in relation to the average weekly days of enrolment and physical attendance – on average ELF children attended 2.7 out of 3.1 booked days, whereas non-ELF children attended 1.9 out of 2.1 booked days
- ELF enabled better retention of children in early learning with only 7% of the students in the ELF group leaving early learning early compared to 52% in the comparison group.

These findings demonstrate that removing cost as a barrier and providing a welcoming early learning environment supports engagement and participation of children experiencing vulnerability. A system-wide solution is needed to improve access and affordability for children from all low-income families.

Hear from parents about what access to more affordable early learning has meant to them

Oliver's story*:* His mum emigrated from Macedonia ten years ago

Jazz's story: Traumatic circumstances led to Jazz being put into full-time care with her Dad

Alex's story: Born at just 27 weeks, Alex has some learning issues so early learning was critical

Ivan's story: Ivan had some hearing issues, which made early learning challenging.

[59] Response to Senate Education Estimates Committee Question on Notice SQ22-000398
[60] Dept of Education quarterly childcare statistics
[61] The comparison group were children in low family income category ($0-$72,466 combined gross family income) having 85% CCS entitlement in 2020 and 2021.

The activity test also appears to have compounded disadvantage in communities already doing it tough

The halving of the low-income entitlement from 24 hours a week of CCB to 24 hours a fortnight of CCS disproportionately affected services in low SEIFA, disadvantaged communities and in regional and remote communities. The AIFS evaluation showed that CCS 24 families made up 4.7% of families in the least disadvantaged SEIFA decile of centres, compared to less than 1% of families in the three most advantaged SEIFA deciles of centres, and 1.7% of families in capital city services, but 3.2% of services in outer regional and remote services.[62] Many of these communities offer few opportunities for parents with young children to enter the labour market. Reduced access to subsidy, and subsequent reduced demand from families in these communities also had a negative impact on the financial viability of services. Across our Goodstart network, centres in low-SEIFA areas (SEIFA 1-3) had lower occupancy than centres in middle and high SEIFA areas in the three years following the introduction of the CCS. This can, in part, be attributed to the halving of subsidised hours for low-income families who are not working or studying. However, the impacts to our occupancy were mitigated to some extent by the initial uptake of our 'two x six-hour' session offer, which prioritised ensuring low-income families did not drop out of early learning as a result of the reforms.

Experts have also found that the activity test does more harm than good

The Social Inclusion Advisory Panel and the Women's Economic Opportunities Taskforce have both called for the abolition of the activity test, as has the national voice for Aboriginal and Torres Strait Islander children, SNAICC. [63] Abolishing the activity test would mean families would no longer have to report their activity to Services Australia fortnightly. This would significantly reduce administrative burden for thousands of families and administrative compliance costs for Services Australia, improving efficiency and delivering savings to government.[64] A relatively simple change to the current system to provide a minimum three-day entitlement for all children could produce immediate benefits for children and families. This could be achieved by amending the *Family Assistance Act 1999*, Schedule 2, clause 12, to increase the recognised activity result to 72 hours per fortnight for all children and families with activity levels of up to 48 hours per fortnight (i.e. replace the 0, 24, 36 and 48 hour steps of the current activity test, so 72 hours per fortnight is the base entitlement and retaining the 100 hour per fortnight entitlement for families with more than 48 hours activity per fortnight).

Recommendation:

A universal ECEC system should offer every child and their family access to affordable, quality ECEC.

- Investments towards delivering universal ECEC should prioritise providing a universal child entitlement, investment in pay and conditions for the workforce to deliver the entitlement, and enhanced inclusion support.

Recommendation:

The activity test should be abolished.

Families who require more than three days of ECEC for work or study would need to demonstrate all parents have had work, training or study-related commitments at some time during a week or have an exemption. No minimum number of hours of activity would be required.

[62] AIFS (2021) p. 209

[63] Interim Economic Inclusion Advisory Committee, 2023-24 Report to the Australian Government; Women's Economic Equality Taskforce, Letter to the Minister for Women, 24 March 2023; SNAICC Media Release: Childcare test costing families and the economy, 6 March 2023.

[64] Impact Economics and Policy (2022), Child Care Subsidy Activity Test: Undermining Child Development and Parental Participation.

Section 3: A new universal child entitlement

In this section, we describe the key features of a new 'child first' universal entitlement.

The solution: a new universal entitlement

A universal ECEC entitlement should be directed to the child, giving every Australian child the opportunity of the best possible start to learning and life. Just as the universal promise of Medicare is that every Australian will have access to the health care they need to thrive, universal access to health and education should be seen as embracing children's right to 'live a full life' and to 'survive and develop healthily'.[65]

A universal ECEC system should put the child first, noting that this approach can still ensure workforce participation benefits and incentives are delivered for parents with the added benefit of reduced administrative burden and administration costs.

All children should be able to access a minimum of three days ECEC a week

All children should have a universal entitlement to subsidised hours, sufficient to provide access to at least three days per week of subsidised early learning. To provide families with flexibility to meet their work, study, training or job search commitments and ensure cost is not a barrier, this should provide at least 30 hours per week. In the context of the current system, this would be the equivalent of every family having an activity test result of CCS72 per fortnight. At Goodstart, children were enrolled for 3.24 days per week, on average, in April 2023. Our experience (consistent with the AIFS evaluation findings) is that families enrol their children for the days they need, not the number of days for which they are subsidised.

We recommend three days aligned with the Starting Better Guarantee and in line with the Goodstart evidence canvassed in Section 2[66].

No child should have less than three days access to early learning, regardless of their family's work, study, or income, and this base level universal entitlement would not be reduced. However, some children should be able to access more days – up to five days per week:

- Working families, or those undertaking study or training should have access to up to two additional days – this would support families where both parents work full time.
- Children who are at serious risk of abuse, neglect, vulnerability or disadvantage should also have access to up to five days and, subject to the views from First Nations people, this offer should also be extended to children who are Aboriginal or Torres Strait Islander.

The universal entitlement to ECEC should start from when a child is six weeks old to when they start school – aligned to the current age eligibility for childcare subsidies. In reality, improved access to Paid Parental Leave and family preferences mean very few families access formal ECEC from six weeks but the offer should be there to support family choices and circumstances. The universal entitlement would build on current entitlements to preschool in the year(s) before school and complement efforts to improve access and participation in preschool programs for working families.

The entitlement should be enshrined in legislation but not compulsory

Universal legal entitlements to access ECEC are common features in most industrialised countries. The OECD categorises universal legal entitlement to ECEC as *"a statutory duty for ECEC providers to secure (publicly subsidised) ECEC provision of all children living in a catchment area whose parents, regardless of their employment, social-economic or family status, require an ECEC place."*[67]

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[65] United Nations Convention on the Rights of the Child article 3

[66] Centre for Policy Development (2021) Starting Better: A Guarantee for Young Children and Families.

[67] OECD (2017) p. 64

A legal entitlement to ECEC (i.e., the offer of a place) does not necessarily mean free. For example, Norway and Slovenia offer a free entitlement but only on an 'as needed' basis, which is similar to offering free access for targeted cohorts. Many countries offer a free unconditional entitlement of at least 20 hours a week for children aged three to five years, with a higher entitlement (24 hours) from a younger age (2.5 years) in France and Austria.[68] The legal entitlement to ECEC starts at age one (i.e., after paid parental leave) in Norway, Sweden, Denmark and Germany. Finland also offers a legal entitlement from the end of the paid parental leave period (i.e., 9 months) set at 20 hours a week (depending on the child and family's circumstances) with fees set depending on family income. Belgium, Chile, France, Japan, Luxembourg, the Netherlands, Slovenia and the United Kingdom provide free access, but only on an income-tested basis for all children under the age of three.[69] High-income families are twice as likely as low-income families to use ECEC for children under three.[70]

A universal entitlement is an offer from government to the child and their family. Unlike school, it would not be compulsory. This approach could be underpinned by legislative reforms to Family Assistance law, which would enshrine a universal entitlement to subsidised days of early learning for all children no matter where they live. This entitlement would drive a systems approach similar to other universal systems (schools, Medicare etc), which ensures all system design and investment supports all children to access high quality and affordable early childhood education and care, including for children living in regional and remote areas.

The entitlement should be linked to the child and not their family, for example by applying a three-day entitlement to every child's CRN generated by Services Australia. This would ensure continuity of access to ECEC for each child and importantly resolve the current issues of CCS links to parents causing disruption when a child's custody or living arrangements change. This issue disproportionately impacts children in, or known to, the child protection system, children who have experienced family violence, children with separated or divorced parents and Aboriginal and Torres Strait Islander children.

The entitlement, and any additional days required, should be affordable for families. In Section 8 - Funding, we discuss approaches to affordability that address the dual issues of cost as a barrier to children's participation in ECEC and their parent's workforce participation.

Children at risk of abuse or neglect are the most vulnerable children in our communities. Under the current CCS Safety Net, children at risk receive a higher level of subsidy through ACCS – Child Wellbeing. This subsidy provides children at risk, including children in foster care, with up to 100 hours per fortnight at a maximum subsidy rate of up to 120% of the hourly rate cap. In effect, this means most children at risk can access early learning for no cost. ACCS Child Wellbeing is a success story for the current system, supporting over 28,000 children at risk to access low-to-no cost early learning in 2022.[71]

However, there are significant administrative barriers to accessing this support, which make it difficult for families already experiencing vulnerability. They also create administrative burden for social services, child protection agencies, ECEC providers and Services Australia.

For example, even when evidence is provided to demonstrate that a child is at risk, support is only provided for a 13 week period (or 12 months for children on long-term child protection orders, i.e. until they are 18/21 years old). After this 13-week period, families must obtain updated evidence and the administrative cycle starts again. This process causes uncertainty for children and families and can result in debts being

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[68] OECD (2017 p. 42, 63; UNICEF (2021) p. 15
[69] OECD (2017) p. 62-4
[70] UNICEF (2021) Where do Rich Countries stand on childcare? https://www.unicef-irc.org/publications/pdf/where-do-rich-countries-stand-on-childcare.pdf p. 16
[71] Department of Education, June quarter 2022 data tables.

incurred if the subsidy is not approved or when there are gaps in submitting evidence. When a child's living arrangements change – e.g., their foster care placement breaks down or they are returned to their parents or kin – a new application must be submitted with new supporting documentation.

While a child protection intervention or removal mitigates any immediate risk to a child's safety and wellbeing, children subject to child protection interventions do not move 'in and out of risk'. Yet, the current ACCS Child Wellbeing supposes they do. When a child is placed in foster care , they face lower risk factors for imminent child maltreatment, but they face higher risk factors for long term emotional and psychological impacts of trauma resulting from the removal. [72] Even when a child is returned from foster care to their parents, their risk does not cease, as there remain complex interrelationships between family and social risk factors, such as socio-economic disadvantage, parental unemployment, substance abuse, family conflict and mental health. [73]

The benefits of high quality ECEC, particularly for vulnerable children, are well-documented (see Appendix A). For children in out-of-home care, ECEC can also provide stability and secure attachments even as their living arrangements change. It is critical that access to higher level of hours and subsidy for children at risk of abuse or neglect be simple and provide continuity of access by providing longer periods of evidence-based support. Ideally, any child subject to a child protection intervention by a state child protection agency should automatically be entitled to the five days per week of free ECEC until they commence school.

Recommendations:

All children should have an entitlement to subsidised access to three days per week of ECEC from six weeks to school age. Additional days should be available for families who need more to support workforce or other participation or for children likely to experience vulnerability or disadvantage:

a. To ensure both child development and workforce participation objectives are met, and to minimise complexity, these daily sessions should be offered for a minimum of 10 and up to 12 hours per day to support families who need flexibility around long days and start and finish times.
b. The eligibility test and process to access the two additional days should be as simple as possible, with reference to an earned autonomy approach for providers. We recommend a one-off notification to Services Australia based on parental workforce participation and an annual notification by low-risk providers or pre-approved for children likely to experience vulnerability.
c. Children likely to experience vulnerability and eligible for additional hours should include children with the following characteristics aligned with the best evidence and supporting a targeted approach:
    i. Children at risk of abuse or neglect
    ii. Children from low-income families, including children from families where welfare payments are their primary income
    iii. Aboriginal or Torres Strait Islander children
    iv. Children with a disability or diagnosed condition
    v. Children who are humanitarian entrants or from refugee families.
d. The child-based entitlement could be assigned to each child's Services Australia Customer Reference Number (CRN) and enshrined in legislation.

[72] Trivedi, Shanta (2019), *The Harm of Child Removal*, 43 New York University Review of Law & Social Change 523.
[73] AIFS (2017), Risk and protective factors for child abuse and neglect.

Section 4: The role of government in ensuring access, quality and inclusion

In this section, we identify strengths and limitations of the current role played by government and identify solutions to ensure the system – and the historic levels of investment – are delivering good returns for government and the community.

Governments have a strong role to play in the ECEC market

A universal ECEC system needs proactive regulators to ensure that it continues to deliver on its objectives of quality, access, inclusion and affordability. Regulators need to have a strong focus on children's safety, development, learning and wellbeing, with greater integration of children's services highly beneficial to disadvantaged children and their families.[74]

In Australia, regulation of ECEC is mostly delivered through the education portfolios (Western Australia splits it between two agencies) but with roles split between the Commonwealth (the primary funder) and the States and Territories (the primary regulator) and with both the Commonwealth and States making investments in preschool.

The abolition of the previous National Partnership Agreement for the National Quality Framework in 2018 by the Morrison Government removed the Australian Government's key lever to influence and work with state-based regulators. As a result, regulators are underfunded, and basic regulatory tasks (such as assessment and rating) have fallen behind the originally intended three-year cycle.

From 2024, the Australian Government's ECEC investment will increase to $14 billion per annum. As the dominant financial contributor or revenue stream in the ECEC sector, the Australian Government should set a clear vision for ECEC and ask for and expect certain objectives be met by the sector that it funds. Objectives should include quality, inclusion, accessibility, affordability, collaboration and innovation.[75]

In considering the role of governments, Goodstart supports recent proposals for governments to take a 'system stewardship' role. In practical terms governments must play a stronger role in facilitating the transparent monitoring of the ECEC market and outcomes for children, families, the workforce and services and take stronger corrective action if and when undesirable outcomes or trends are emerging.

Underpinned by greater transparency and reporting, a system stewardship approach helps all stakeholders improve and hold each other to account – but particularly for government holding the key financing and regulatory levers.

We noted that National Cabinet has asked Education Ministers to develop a national long-term vision to drive future reform on ECEC and a key component is that:[76]

"Governments take a holistic approach as stewards of the ECEC system in partnership with the sector, shaping a system that is nationally coherent and connected and responsive to community needs and outcomes for families, providers, and the workforce. Governments are stewards of the system:

- *The ECEC system is joined up and easy to navigate, providing connections between ECEC and broader early childhood development systems and programs.*

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[74] OECD (2017) p 64

[75] Leseman, P (2021), Governing a privatized-marketized 'hybrid' ECEC system: risks and opportunities of a social market approach to educational governance.

[76] Draft national vision for early childhood education care 17/3/2023 https://www.education.gov.au/child-care-package/resources/draft-national-vision-early-childhood-education-and-care

- *Governments use funding, regulatory, and policy levers within the market environment in combination with service delivery to shape a system that is sustainable, flexible, aligned to need, and driven by outcomes for beneficiaries*
- *Governments take shared responsibility for the system and collaborate together and with the sector to realise shared goals. There is holistic governance and clear roles and responsibilities for the ECEC sector."*

Goodstart welcomes the ambition of this statement and sees great potential in this hands-on approach. A system stewardship approach would allow the Australian Government to intervene through regulation and financing approaches in issues experienced recently including:

- When it became clear that very low offers by services and very poor take up of 'two x six-hour' sessions by families suggested that the 'Safety-Net' wasn't working as intended
- The emerging trend in low SEIFA communities enduring poorer quality rated services
- Increasing rates of waivers indicating that shortages of Early Childhood Teachers and educators was reaching crisis point in parts of the nation, limiting supply for families.

A system stewardship approach should bring a stronger focus on transparency of information, and building the evidence ecosystem. A stronger evidence base and access to information by educators and centre leaders, providers and policy makers will help drive continuous improvement and better efficiency in the system.

National Cabinet has a role to play in the development of new policy, regulatory and funding levers along with the development of a new set of National Partnership Agreements. The new Agreements must be explicit about stewardship responsibilities, accountability and funding sources.

Earned autonomy model for providers – an integrity measure

Increased government investment brings an increased level of risk, which can lead to onerous approaches to compliance and monitoring. One solution is to implement an 'earned autonomy' model for providers based on quality measures, governance and assurance.[77] Earned autonomy could be a key component of the proposed system stewardship framework.

An earned autonomy model should reflect regulatory best practice and be based on the following principles[78][79]:

- **Proportionality:** the level of regulation or expectation on providers is proportionate to the level of risk
- **Transparency:** government should be open and transparent about its simple and accessible expectations of providers
- **Consistency:** expectations of providers and associated monitoring and oversight are delivered in a consistent and unbiased way
- **Risk-based approach:** risk identification and management underpin flexible and timely access to funding and regulatory provisions

[77] The Department of Social Services is currently considering an earned autonomy model for Disability Employment Services: https://engage.dss.gov.au/wp-content/uploads/2022/12/Discussion-paper-Draft-DES-Quality-Framework.pdf

[78] ACCC Regulator Best Practice Principles, https://www.accc.gov.au/about-us/accc-role-and-structure/governance-and-accountability/regulator-performance-guide; UK Parliament Five Principles of Good Regulation, https://publications.parliament.uk/pa/ld200304/ldselect/ldconst/68/6810.html; Queensland Government – Regulating for Quality, https://earlychildhood.qld.gov.au/aboutUs/Documents/regulating-quality-policy.PDF

[79] Victoria's Education Department applies 'earned autonomy' in its regulation and assessment of ECEC services see https://www.education.vic.gov.au/Documents/childhood/providers/regulation/QAR_Regulatory_Framework_Aug2021.pdf

- **Collaboration and engagement:** government and providers co-design the approach, which is underpinned by reciprocal engagement and communication
- **Data-driven:** data is collected, retained and analysed in a way that helps identify, manage and communicate risk.

From a quality perspective, a provider's autonomy level should be based on measures like the NQS quality rating of their service/s, for example, 95 per cent of all the provider's services must be Meeting or Exceeding the NQS to be awarded a low-risk/high-autonomy level. Other quality markers could include: proportion of waivers (in comparison to rest of sector in that state/territory); complaints history; and/or investment in evidence-based professional development, inclusion capability and above award wages for teachers and educators.

To provide a mechanism for supporting inclusive practice as well as demonstrating quality in an earned autonomy model the current Quality Improvement Plan (QIP) services should be revised to incorporate critical elements of the Strategic Inclusion Plan (SIP), which providers have to develop to apply for ISP funding.

From a governance perspective, quality measures may include: publicly available annual reports and policies; compliance with Family Assistance Law (including transparency and reporting requirements); governance capability either through audit data or self-audit (checklist).

From an assurance perspective, measures may include: data maturity self-audits; the number of serious incident reports (against sector-agreed benchmark or comparison); site visits; risk and assurance audits.

Initially, earned autonomy could be by application but could evolve using automated data collection. Providers would then be allocated a low, medium or high autonomy level (based on low, medium or high risk level). Medium or high autonomy would prescribe access to certain funding or regulatory provisions, such as an ability to initiate periods of higher funding for children at risk of abuse or neglect (e.g. current ACCS Child Wellbeing Certificate) or periods of inclusion support funding, while awaiting funding approval (e.g. provider-initiated ISP Immediate/Time Limited Funding).

Recommendations:

A stronger role for the Australian Government in stewarding ECEC finance, regulation, planning, data transparency and workforce sustainability to deliver on high quality, affordable and inclusive ECEC for all children and families. This should also include a specific focus on building an evidence ecosystem accessible to all stakeholders in the system.

Specifically, we recommend stronger policy and financial levers linked to quality and inclusion outcomes, including:

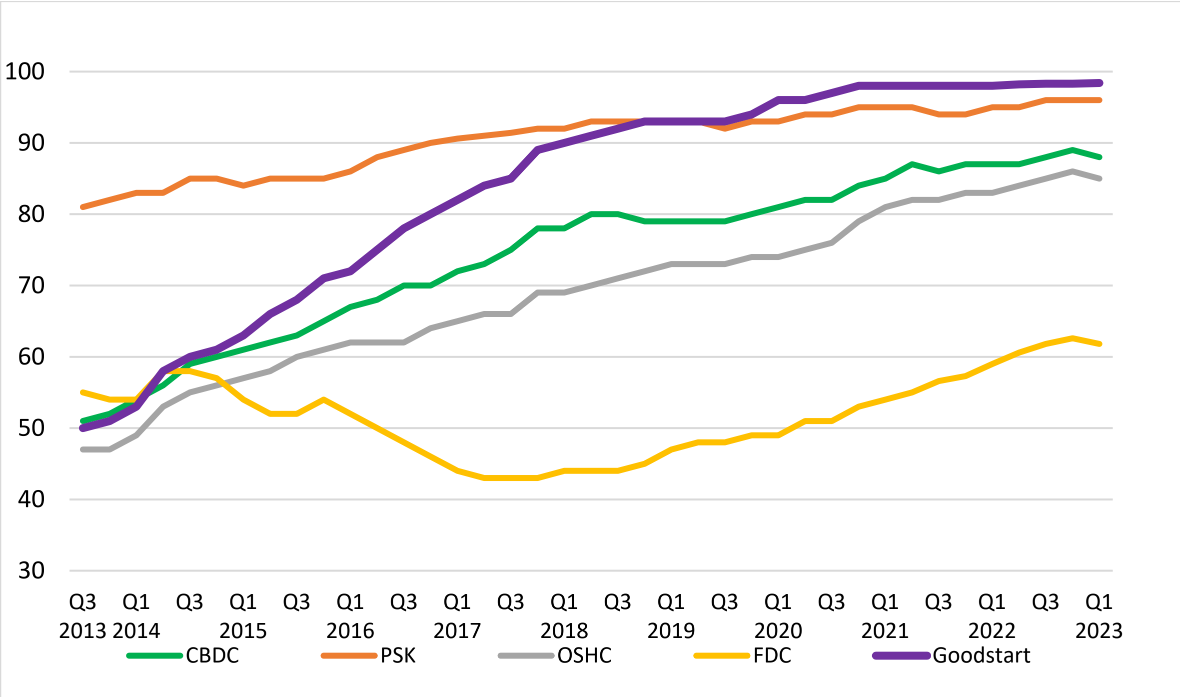
a. Management and funding consequences for services that do not meet quality measures.
b. ECEC market supply policy and regulation that ensures the future shape of the ECEC market supports national priorities around access, quality and inclusion.
c. More regular and nationally consistent NQS Assessment and Ratings processes with outcomes reported to families.
d. Inclusion expectations of service providers to be more explicit and to be made clear at a centre level via an integrated Quality and Inclusion Improvement Plan, which would be required to allow access to inclusion funding.

Regulating for quality

The introduction of the NQS in 2010 was a remarkable achievement that has driven significant improvement in both structural and process quality across the ECEC sector. For CBDC, the proportion of services Meeting or Exceeding the NQS has risen from 51% in 2013 to 88% by 2023. Outside school hours care (OSHC) services have shown a similar performance. Family Day Care services have been improving since 2018 after a period of regulatory scrutiny and enforcement.

In the same period Goodstart has transformed from a low quality provider with just 50% of services meeting the NQS in 2013 to over 98% by 2023. In 2013, around 20% of Goodstart educators were unqualified and just 200 teachers were employed across the network. In 2023, all educators (other than trainees) are qualified and we employ close to 1500 teachers (although retaining teachers and educators is challenging in a difficult labour market). Research shows that NFP services operated by large providers, and those with workforce and ownership stability are more likely to improve their quality ratings.[80]

GRAPH 4: Services meeting/exceeding the National Quality Standard



While Australia can rightly celebrate the success of the NQS since 2010, weaknesses are apparent. After a decade of quality regulation, 12% of CBDC do not meet the NQS. In April 2023, there were 872 services nationally that were assessed as Working Towards, of which 337 were had previously been rated as Working Towards and 14 rated as Significant Improvement Required. Of these centres, 75% had not been reassessed within 12 months, and 35% had not been reassessed in three years.[81] Further, 57 services had assessments more than eight years old, all of them in South Australia or Queensland.

[80] Harrison, L et al (2022) Structures and systems influencing quality improvement in Australian early childhood education and care centres, Australian Educational Researcher https://doi.org/10.1007/s13384-022-00602-8

[81] Analysis of the ACECQA National Register 12/4/2023

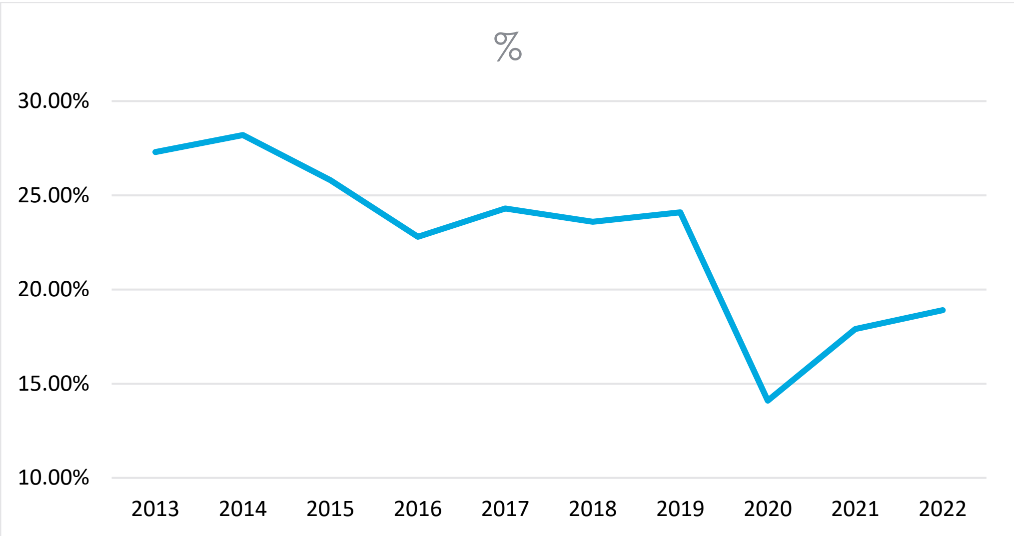
TABLE B: Time since last assessment CBDC, April 2023

Time since last assessment	All CBDC services	Assessed as Working Towards	Assessed twice as Working Towards
<1 year	1565	237	87
1-2 years	1063	146	68
2-3 years	1049	127	74
3-4 years	1656	205	73
4-5 years	1563	122	31
>5 years	1143	33	18

Source: ACECQA National Register 12/4/2023

For ratings to be more meaningful to families, more useful for services, and to inform the stewardship of the system, they must be conducted on a regular cycle. All services should be assessed at least once every three years, and Working Towards services should be assessed at least every twelve months. Assessment rates have fallen sharply during and since COVID (see Graph 5). Regulators need more investment and resources to ensure that assessments occur more frequently, and to ensure the process and outcomes are consistent across and within jurisdictions.

GRAPH 5: Percentage of all ECEC services receiving an NQS Assessment 2014-2022



Source: ACECQA NQS Snapshot

An assessment of Working Towards should bring closer scrutiny and a high level of activity by the centre to use the period between reviews to consider and update their Quality Improvement Plan, reflect on their practice, and work on the elements where change is required to Meet the NQS. State regulators should be proactive in supporting services to improve their practice, similar to New South Wales which has proactive programs in place with work with providers to improve practice. This should be a standard practice for all jurisdictions.

Where a service is twice assessed as Working Towards, serious consideration should be given by the regulator about the future of that service's approval to operate. The regulator should have the power to place the service under 'close supervision' for twelve months and direct the service to make necessary changes to meet the NQS. The objective should be to get the service up to standard, not to shut the service down. However, if the service fails to meet the NQS for a third time, the regulator should consider more serious action, for example, the provider should lose their license for that service or in cases where the service is crucial in meeting local demand, this could include more active management of the service. After three assessments, Working Towards should not be acceptable.

To evolve quality ratings into a fully formed stewardship system, ratings must be consistent. As a provider operating in every state and territory, we find inconsistency in assessment and ratings standards, processes and assessors both between jurisdictions and within jurisdictions. In 2022, the South Australian regulator assessed 48% of CBDC services in that state as Working Towards and none as Exceeding, a result inconsistent with other states. Regulators should work together more closely to ensure that assessment and ratings are consistent, both within and between jurisdictions, with ACECQA playing a formal moderating role.

TABLE C: NQS assessment & rating results by jurisdiction 2022

Jurisdiction	Exceeding	Meeting	Working Towards	% WT	% of centres assessed
ACT	5	8	8	38.1%	12%
NSW	60	353	89	17.7%	15%
NT	3	9	7	36.8%	21%
QLD	19	171	27	12.4%	12%
SA	0	24	22	47.8%	10%
TAS	3	6	3	25.0%	9%
WA	1	50	10	16.4%	8%
VIC	89	239	27	7.6%	19%
AUST	**180**	**860**	**193**	**15.7%**	**14%**

Sources: ACECQA NQS Snapshot

Improved transparency for families could be quickly improved by ensuring that when a service is assessed, providers are required to advise all families of the rating.

The roles and responsibilities of the Commonwealth and the States and Territories in stewardship for quality needs to be clarified and better co-ordinated, so that policymakers at all levels can have confidence in the quality ratings system. The National Partnership Agreements, which expired in 2018 were the mechanism for this co-ordination. A new National Partnership Agreement setting out responsibilities for both levels of government for stewardship of the national universal ECEC system would be a sensible next step. The comprehensive agreements between the Canadian national government and the provinces provide examples of how an ambitious reform agenda can be progressed.[82]

Case Study: Goodstart's quality improvement journey

Goodstart's quality improvement journey over the last decade has taken the organisation from barely 50% of assessed centres meeting the NQS to over 98% today (refer Graph 4 above). Across our network, 163 centres (25%) are now assessed as Exceeding the NQS (43 on all seven quality areas). We also have three Goodstart centres and one Big Fat Smile service that have achieved an Excellent rating, awarded by ACECQA.

This is a result of a deliberate strategy encompassing investments in workforce development, quality assurance and accountability. It starts with an ambitious target in our Board-approved, medium-term Strategic Direction that all Goodstart centres should Meet the NQS and two-thirds should Exceed the NQS. Executive, State and Centre managers each hold responsibilities to contribute to meeting these objectives.

[82] https://www.canada.ca/en/early-learning-child-care-agreement/agreements-provinces-territories.html

Central to each centre's performance is its QIP. A high quality QIP is a critical part of improving a service's ability to demonstrate they are operating at an Exceeding level. At a management level, each State Manager is held responsible for the QIPs for the centre in their region. The QIP is a living document, which outlines the centre's philosophy and how they are embedding it in day to day practice. Each centre is encouraged to regularly self-assess their QIP against the seven quality areas of the NQS and identify areas for continuous improvement. Where a QIP is identified as inadequate, intensive one-on-one support is provided to the centre.

The Centre Leadership Team, comprising the Director, Assistant Director, Early Childhood Teacher and Educational Leader, each play a part in continuous practice improvement. Over the last three years, the role of the Educational Leader has been elevated with a specific position description, additional non-contact time to spend observing practice across their centre, and dedicated training to deepen their capacity to effect practice improvements.

Goodstart's specialist 'Teaching and Learning' and 'Quality' teams provide coaching support and assurance for the QIP and continuous practice improvement. Centre teams are then encouraged to draw down on the resources on the Learning Hub to deepen their understanding of issues where improvement is needed. Goodstart encourages critical reflection by the centre team as a whole, and funds monthly staff meetings for this to occur. In 2022, Goodstart invested $19 million in professional development and a further $7.6 million on Quality and Teaching and Learning programs to support quality improvement. Our Learning Hub provides extensive resources for centres on quality improvement, pedagogy and practice and inclusion.

Goodstart works to a quality improvement framework grounded in the evidence gained from assessments using the Quality Rating Scales for centres to support educators to reflect critically on areas for practice improvement.

Recommendation:

Support, maintain and strengthen the NQF:

a. A new National Partnership-style agreement on quality ECEC to increase accountability to:
    (i) ensure services are assessed and rated against the NQS at least once every three years (and annually if they do not Meet the NQS),
    (ii) work more directly with services to raise quality, especially in areas where quality is likely to be lower (i.e. low SEIFA and remote areas)
    (iii) provide families with up-to-date and reliable information about service quality
    (iv) deliver quarterly transparent reporting about the reliability and consistency of assessments across and within jurisdictions,
    (v) implement stronger consequences for services rated as Working Towards for two or more cycles in a row
    (vi) create strong incentives for achieving Excellence and sharing excellent practice.
b. Where a service fails to meet the NQS twice in a row, require the service to submit to direct supervision or administration to bring the service up to the standard, or face removal of access to subsidies;
c. Improve national consistency of pre-assessment engagement timeframes and assessment and ratings process by embedding process in national policy and/or legislation;
d. Transparent and regular reporting to demonstrate that assessment and ratings are consistent between jurisdictions, and address instances where it is not, with ACECQA mandated to play a moderating role; and
e. More effectively promote service quality ratings to families (e.g., every family to be informed of the outcome of an assessment and rating at their centre).

Section 5: Workforce

In this section, we explore the causes of the current workforce crisis, canvas immediate solutions and longer-term approaches to ensure a pipeline of qualified, committed educators and Early Childhood Teachers are available to provide quality ECEC.

A skilled and stable workforce is the most important determinant of quality ECEC

The quality of early childhood education is vital to its effectiveness, and the single most important factor in delivering quality is a skilled and stable workforce.[83] Central to quality and the impact on child development is 'process quality', that is, the emotional, organisational and structural environment, particularly around relationships with children. Australian studies like the E4Kids study have shown that the quality of the adult-child interactions is the most significant driver of child development.[84] A metanalysis conducted by the OECD found a consistent positive association between the quality of staff-child interactions and children's literacy and numeracy learning in early childhood education and care centres where staff provide higher quality or more exposure to developmental and educational activities.[85]

Research shows that the most influential factors affecting quality, across age groups and service settings, are the education, qualifications and training of the workforce. The Effective Provision of Pre-school Education (EPPE) study in the UK found that higher educator qualifications are associated with better child outcomes[86], although it is not necessary for all staff to have attained high levels of education. Highly qualified staff can have a positive influence on colleagues who work with them but who do not have the same level of qualifications.[87] Australian research shows that children who attended preschool by qualified educators achieved 15-30 points higher on Year 3 NAPLAN tests than those who did not, but there was little difference in outcomes between Diploma and Bachelor qualified educators.[88]

To be effective, early childhood educators need to understand child development, to help design and deliver individualised, play-based learning experiences and to engage with parents and the community[89]. The OECD noted that an important way to improve the pedagogical practices used in ECEC programs is to enhance the educator's competence to communicate and interact with children in a shared and sustainable manner.[90] Access to and participation in professional development is related to higher quality skills regardless of pre-service qualifications.[91] An Australian study found that access to quality ongoing professional development can significantly improve child outcomes.[92]

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[83] Pascoe S & Brennan D "Lifting our Game" p. 62

[84] Tayler, C. (2016). The E4Kids Study: *Assessing the effectiveness of Australian early childhood education and care programs. Overview of findings at 2016.* Final report to the Partner Organisations of the Effective Early Educational Experiences (E4Kids Study).

[85] OECD (2018), *Engaging Young Children: Lessons from Research about Quality in Early Childhood Education and Care*, Starting Strong, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264085145-en.

[86] Sylva, K., Melhuish, E., Sammons, P., Siraj-Blatchford, I., & Taggart, B. (2004). *The Effective Provision of Pre-school Education (EPPE) Project: Final Report. A longitudinal study funded by the DfES 1997- 2004.* Nottingham, UK: The Institute of Education.

[87] Sammons, P. (2010), *The EPPE Research Design: an educational effectiveness focus*, Routledge, London/New York.

[88] Warren, D., & Haisken-DeNew, J. P. (2013). *Early bird catches the worm: The causal impact of pre-school participation and teacher qualifications on year 3 national NAPLAN cognitive tests.* Melbourne Institute Working Paper Series Working Paper No. 34/13. Melbourne, Victoria: Institute of Applied Economic and Social Research, University of Melbourne.

[89] Pascoe & Brennan p. 63

[90]Schleicher 2019 p. 27

[91] Burchinal, M ., Cryer, D., &Clifford, R. (2002). *Caregiver Training and Classroom Quality in Child Care Centers.* Applied Developmental Science, Vol. 6, No. 1, 2–11

[92] Siraj, I., Kingston, D., Neilsen-Hewett, C., Howard, S., Melhuish, E., De Rosnay, M., Duursma, E., & Luu, B. (2017). *Fostering Effective Early Learning Study: A review of the current international evidence considering quality in early childhood education and care programmes – in delivery, pedagogy and child outcomes.* A study funded by the NSW Department of Education. Wollongong, NSW: Early Start Research Institute, University of Wollongong.

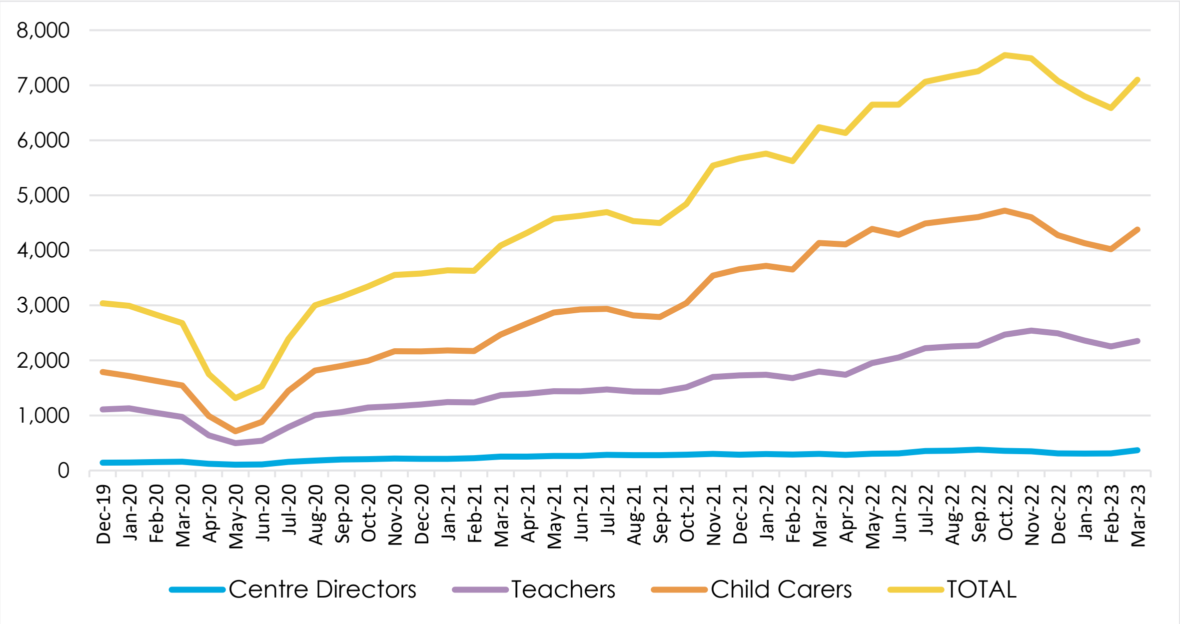
Structural quality in the workforce is also important. The NQF has led to substantial changes in the composition, skills and expectations of the ECEC workforce. Between 2010 and 2021, the ECEC workforce (excluding preschools and vacation care) grew from 99,643 to 191,940, or by 93%.

In 2010, 26% of the CBDC workforce was unqualified, but this had fallen to 7.1% by 2021. In 2010, 9.4% of paid contact staff held a Bachelor degree and 67.1% had a Diploma or Certificate II. By 2021, this had risen to 12.4% holding a Bachelor degree and 79.7% a Diploma or Certificate III.[93] Investing in ongoing workforce growth, capability and wellbeing is crucial to ensuring children have access to the stable, nurturing relationships with their educators that will achieve the best outcomes in their development.

Workforce challenges are a major risk to quality ECEC in Australia

The Australian early childhood education workforce is in crisis. Vacancies for educators and teachers are at twice pre-pandemic levels. New monthly vacancies as collected by the Jobs and Skills Australia survey of online advertisements shows that new monthly vacancies have doubled since the pandemic to over 7000 in March 2023 (see Graph 6). We estimate the sector is carrying is around 17,000 – 20,000 vacancies.[94]

GRAPH 6: New monthly vacancies in the ECEC workforce



Source: Jobs & Skills Australia – Monthly Internet Vacancies Series

A restrained pipeline of new educators entering the sector, combined with a record number of educators exiting the sector and intensified competition from the better paid, but understaffed schooling sector, is driving the vacancy rates. Post-pandemic surveys find educators are exhausted, that they feel their professionalism under-recognised and many are feeling overworked as centres struggle with staff shortages.[95] Our own exit surveys show that burnout, poor pay and lack of professional recognition are the top three reasons cited for leaving. The same surveys show that only a third of educators are moving to another job in the ECEC sector, with the vast majority intending to exit the sector completely.

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[93] Early Childhood Education & Care National Workforce Census 2016 & 2021

[94] The monthly vacancy index only counts advertisements online, which may cover multiple vacancies, and does not pick up employers who recruit directly rather than online. Vacancies typically take two months or more to fill, so the total vacancy number is at least twice the index number.

[95] https://www.thefrontproject.org.au/teachers-and-educators-survey; https://www.hesta.com.au/ECECreport21

Of concern from a quality perspective has been the rise in CBDC services requiring a waiver from the staffing requirements of the NQF to continue to operate. Services with waivers rose from 8.6% at the end of 2019 to 16.4% at the end of 2022. ACECQA reports that the vast majority of staffing waivers are for the early childhood teacher requirement[96], reflecting the extreme shortage of early childhood teachers across Australia[97]. As a result, last year thousands of children across Australia were receiving early learning programs below the structural quality standard set by the NQF. Many of these would be preschool programs, impacting on crucial learning development before the start school.

TABLE D: Percentage of long day care centres with a staffing waiver, by quarter

	Q4 2022	Q2 2022	Q4 2021	Q2 2021	Q4 2020	Q2 2020	Q4 2019
Long day care	16.4%	14.6%	13.6%	11.7%	11.1%	11.1%	8.6%
Preschools	2.1%	2.8%	2.4%	2.4%	2.1%	2.8%	2.2%
OSHC	1.9%	2.1%	1.2%	1.1%	0.9%	0.9%	0.7%
Family Day Care	0.4%	0.4%	0.8%	0.4%	0.8%	3.4%	0.4%

Source: ACECQA NQF Snapshot

Experience differs by state – Victoria had just 3.1% of centres with a staffing waiver in 2022 – compared to 23% in QLD, 24% in WA and 18% in NSW – reflecting the heavy investment that the Victorian Government has made to build the ECEC workforce since 2019. That investment is yet to be matched by other states and territories.

Centres are struggling to attract and retain sufficient qualified educators to meet regulatory standards, with staffing waivers doubling over the last three years. Throughout 2022, Goodstart had between 65 and 120 centres forced to cap enrolments due to staffing shortages. Other providers have also capped enrolments due to staffing shortages. This in turn affects other workplaces and the economy more broadly – every unfilled educator role impacts up to 15 families each week, leaving their child on a waiting list as the centre searches for staff.

The sector workforce crisis presents a particular challenge for the successful implementation of the Government's CCS reforms in July this year. Treasury estimates the substantial reduction in out-of-pocket costs will facilitate 185,000 additional days of work as most families using child care have at least one parent (usually the mother) who works part time and could work more. The Grattan Institute estimates the policy would result in an 8% increase in hours worked by second-income earners with young children, or around 220,000 extra days worked per week.[98]

To accommodate 185,000 additional days of work, the childcare sector will need to accommodate 1.9 million additional hours of care, requiring 42,000 additional days of educator time, the equivalent of 9,000 *additional* full-time educators will be needed. Proposed reforms to further increase subsidies – including the proposal for a flat 90% CCS rate – will further escalate workforce demands.

In September 2021, Education Ministers agreed to a National Children's Education and Care Workforce Strategy.[99] While the Strategy identified the challenges the ECEC workforce faces, the agreed actions, timelines and funded commitments to date, while welcome, do not reflect the depth of the crisis . An

[96] ACECQA NQF Annual Performance Report 2022 p. 43

[97] In March 2023, Jobs & Skills Australia reported 2,354 new vacancies for early childhood teachers, 404 for primary school teachers and 837 for secondary school teachers.

[98] https://grattan.edu.au/news/explainer-everything-you-need-to-know-about-the-major-parties-new-childcare-policies/

[99] https://www.acecqa.gov.au/national-workforce-strategy

urgent update and more investment is needed. In particular, an updated Strategy must address the core problem for the sector – low wages.

Wages are the most important issue for the ECEC workforce

Low pay is the top reason for leaving cited by Goodstart educators in exit surveys. Only around 35% advise that they are staying in the ECEC sector, most don't. Wages in the sector are so low that many qualified educators live in poverty and are dependent on family or social services to support their basic living needs.[100]

The award starting rate for a Certificate III educator is currently $24.36 an hour, just $3 an hour higher than the minimum wage. A higher proportion of ECEC workers are reliant on award rates than other workers – 62.9% in CBDC rising to 78.6% in the OSHC sector, although teachers and directors are less award reliant than lower paid educators.[101] By contrast, just 23% of the Australian workforce as a whole is paid award rates, with 35% paid under an enterprise agreement and 38% on individual arrangements.[102] As well as being a heavily award reliant sector, ECEC has also been identified as the most female dominated award sector by the Fair Work Commission, with 96% of employees female.[103]

TABLE E: CBDC Wages of paid contact staff compared to the award 2021

Wage compared to award rate	Director	Teacher	Group Leader	Educators
Award rate	40.4%	49.2%	58.4%	69.0%
0-10% above	29.1%	33.6%	32.4%	25.6%
10-25% above	19.4%	11.0%	6.7%	4.5%
>25% above	11.0	6.2%	2.5%	0.9%
Don't know	*11.3%*	*11.0%*	*8.0%*	*9.0%*

Source: Dept of Education National Workforce Census 2021 in response to Senate Estimates Question on Notice SQ23-000197

Early childhood teachers are paid 14 to 33% less than teachers in schools despite holding the same qualifications. Teachers in the school system enjoy 12 weeks leave and non-term time each year, while teachers in ECEC typically have four weeks leave. Not surprisingly, most teaching graduates prefer to work in the school system, and many who start in ECEC later move to the school system.[104]

Certificate III educators are paid less than teacher's aides in government schools, even though the latter role typically does not have a mandatory qualification requirement or the same level of responsibility (see Table E). An experienced teachers aide can earn up to $69,000-72,000, while the maximum rate for a Certificate III educator is $52,284 (or 24.5% to 28% less).

[100]McDonald, P., Thorpe, K., & Irvine, S. (2018) Low pay but still we stay: Retention in early childhood education and care, Journal of Industrial Relations 60(5), 647-668; Thorpe, K., Jansen, E., Sullivan, V., Irvine, S., McDonald P., (2020) Identifying predictors of retention and professional wellbeing of the early childhood education workforce in a time of change, Journal of Educational Change (2020) 21:623:647
[101] National ECEC Workforce Census 2021 p. 13, with 'don't know' responses excluded.
[102] Australian Government submission to the Fair Work Commission Annual Wage Review 2022-23 p. 25
[103] Fair Work Commission statement on Occupational Segregation and gender undervaluation 4/11/2022 p. 6
[104] ACECQA 2022 ibid p. 43

TABLE F: Educator and teacher wages in long day care centres and public schools, Jan 2023

Classification	Award rate (p.a.)	NSW Educ. Dept rate[3]	VIC Educ. Dept rate[4]	QLD Educ. Dept rate[5]
Educator Cert III first year[1]	$49,095	$64,500	$54,156	$54,761
Educator Cert III max. rate[1]	$52,384	$72,362	$69,355	$71,172
Teacher graduate[2]	$66,395	$76,478	$76,483	$78,490
Teacher proficient[2]	$72,572	$92,240	$81,386[6]	$86,234[6]
Teacher max. rate[2]	$79,005	$114,065	$113,457	$108,971

[1] Children's Services Award 1/7/2022, NSW Education Paraprofessional (Cert III qualified), Victorian Education Support Officer Level 1 Range 2; [2]Educational Services (Teachers) Award as determined from 1/1/2022 following 2021 work vale case; [3]1/1/2023 NSW Crown Employees (Teachers in Schools and Related Employees) Salaries and Conditions Award; [4]1/1/2023 Victorian Government Schools Agreement 2022; [5]Teacher rates 1/7/2022, teacher aide rates 1/9/2022. [6] Third pay point assuming 2 years of service to reach proficient.

Overall, NFP providers tend to pay their staff better and have a stronger commitment to enterprise bargaining. Analysis for the South Australian Royal Commission, drawn from the National ECEC Workforce Census in 2021, found that 76% of educators at NFP services were paid above award, compared to 26% at private providers, and that educators were likely to stay longer in NFP services.[105] Of the 209 enterprise agreements lodged with the Fair Work Commission in the five years to May 1 2023 in the Children's Services industry, all but two were for NFP services.[106]

Goodstart's third Enterprise Agreement took effect on July 1 2021. The agreement pegs educators' wage rates to increases in award rates, moving from 2.7% above award to 5% above award by July 2023. Goodstart also provided a substantial increase to teachers' wages, setting the wage rate for a four year trained teacher at the then rate for NSW government teachers ($72,275) with eight increments up to $102,156. Pegged to award rate increases, Goodstart teachers received larger wage increases than any state government except Queensland in 2022 and 2023. Teacher attrition rates initially fell in 2021 but rose in 2022-23 as Goodstart was unable to afford to match the rest of the Queensland Government's employment package for teachers or offer comparable professional recognition, support or career paths.

Addressing wages must be a top reform priority

The Australian Government has recognised that low pay is a major issue for early childhood educators and the sector. As the Prime Minister said in a speech last year:[107]

> *"And the inescapable, uncomfortable reality is that the workforces with the most women are the ones with the least bargaining power – and, as a result, the lowest pay. Aged care. Childcare. Disability care….. If we want to attract – and retain – the people to do this vital work, we need to pay them properly and treat them with respect."*

The recent budget included $11.3 billion to support increased wages in the aged care industry – it is now time to fix wages in ECEC.

[105] Deloitte 2023 "Mapping long day care and nongovernment preschool provision in South Australia" for the Royal Commission into Early Learning p 22
[106] Analysis of enterprise agreements on the Fair Work Commission website
[107] Prime Minister Anthony Albanese speech to CEDA State of the Nation 8/9/2022 https://www.pm.gov.au/media/ceda-state-nation-conference-parliament-house-canberra

In addressing the ECEC workforce crisis, Goodstart believes that the policy solutions should reflect the principles that underpin establishment of a universal ECEC system:

1. ECEC should be recognised as a foundational stage of a child's educational journey and valued as a component of the education system
2. Children should have universal access to high quality ECEC to give them the best start to learning and life
3. Only high quality ECEC makes a difference to child development outcomes
4. High quality ECEC requires a stable, professional and passionate workforce
5. The ECEC workforce should be valued, respected and paid as a key component of the education system, comparable to schools.

Workforce wages are key initiatives for ECEC reform in Canada[108], New Zealand[109] and Ireland[110].

Improving wages should be the priority for government investment. All other reform objectives - access, quality and inclusion - cannot proceed until the sector has a stable, professional workforce.

Raising wages and conditions for teachers and educators to be comparable to school rates is expensive but necessary. To reach comparability wages rates must rise by 10 to 30% and other conditions including access to professional development, non-contact programming time and leave must be improved.

The current funding system through the CCS, based on parental fees set in markets, has failed to deliver fair wages and conditions for the ECEC workforce. A new approach to funding wages and a strengthened workforce policy framework will be needed to ensure that funding for wages flows to workers.

An industrial instrument is required to ensure that employees get the benefit of improved wage rates, but also to ensure all employers are on a level playing field. Initially, that might be through enterprise agreements (single employer or multi-employer as suits the parties). In the future, the award rates should be reviewed as part of a work value/equal pay case by the Fair Work Commission, a major undertaking that will require a huge amount of evidence over several years. During the aged care work value case, the Commission President noted:[111]

> *"During the Aged Care Case, the Unions relied on the evidence of some 89 lay witnesses (72 employee lay witnesses and 17 union officials) and 6 expert witnesses. The Joint Employers relied on the evidence of 9 lay witnesses. The Commission also published a number of Background Documents as well as a Research Reference List of 665 documents consisting of: 202 published research articles and books; 68 Australian working papers and reports; 9 international working papers and reports; 114 Australian Government reports; 2 international government reports; 22 data sources; 189 cases referred to in submissions and witness evidence; and 59 awards, variations and determinations referred to in submissions and witness evidence."*
>
> *"Although the Commission can vary a modern award on its own motion pursuant to s.157, it is apparent from the Aged Care case that cases of this type require significant evidence from those with experience in relevant industries, supported by appropriate experts."*

[108] Canadian Parliament bill C-35 2022 An Act respecting early learning and care in Canada s.7(d)
[109] New Zealand Early Years Action Plan 2019-2029 action 3.4
[110] Ireland Core Funding guidelines https://first5fundingmodel.gov.ie/core-funding/
[111] Fair Work Commission statement on Occupational Segregation and gender undervaluation 4/11/2022 p. 7

Recommendation:

As a priority reform, the Australian Government should act as funder to increase wages and conditions for early childhood educators and teachers working in ECEC, so they are broadly comparable with wages and conditions in the school sector and ensure this parity is maintained over time.

The mechanism for funding wage increases must ensure that funding provided for wages is spent on wages.

Professional development and programming time is also important

Quality ECEC, like all professional services, requires preparation, ongoing training and planning to be effective. A key difference between teaching in schools and teaching in ECEC is that schools provide more time for preparation and programming, more support, more professional development and more resources. For ECEC to be universally high quality, our sector needs to do better. Professional development is a very costly exercise for ECEC because educators need to be released from staffing ratios to attend and be backfilled. Yet good professional development is crucial to quality improvement, improving the professional standing of educators and also improving workforce engagement and retention.[112]

Currently, the award mandates just two hours per week for programming and planning (plus two hours for Educational Leaders) and provides no minimum for professional development. Worse, the funding system does not provide support for staff activities. For example, child free planning days are not covered by CCS funding. This must be addressed.

Goodstart invests heavily in time off the floor. In 2022, we spent $19 million a year to provide professional development for staff (mostly for funded time off the floor), $20 million a year for programming and non-contact time, and $7.6 million on quality improvement programs. We recognise these investments as crucial in our continuous quality improvement journey. Our current EA and policies are in Table G.

TABLE G: Goodstart programming, planning and professional development non-contact time

Category	Entitlement
Educators primarily responsible for programming (i.e. Group Leaders)	Minimum 2 hours per week, 2.5 hours if 10 or more children attending room in a week, plus 30 minutes for every additional 5 children. *Example: A Senior Educator in a 22 place room with 32 children attending over a week would receive 4.5 hours per week for programming.*
Early Childhood Teachers	To receive a minimum of 4 hours per week. Additional time to complete Transition to School statements
Educational Leaders	To receive a minimum of 3 hours per week, scaling up to 8 hours per week for larges centres (i.e., between 40 and 115 children attending per week) *Example: An Educational Leader in a 6-room centre with 100 children attending per week would receive 7 hours, allowing them to spend at least one hour each week in each room plus.* 1 hour per week for 9 weeks for training for new Leaders
Staff meetings	One hour paid overtime for a mandatory staff meeting each month.
Environmental Ratings Scales	4 hours per room per year
Other learning programs	Early Years Toolbox - 1 hour for each assessment cycle All Children Communicate! – 3.5 hours training & 2-3 hours programming
Professional development	4 hours per year for all educators and teachers 16 hours additional (20 in total) for teachers.

[112] Minister Anne Aly 3/5/2023 https://ministers.education.gov.au/aly/press-conference-university-canberra

While Goodstart provides generous non-contact programming and professional development time for educators and teachers compared to the rest of the ECEC sector, it is not as generous as that typically offered in the schools and preschools sector (Table H).

TABLE H: Entitlements for programming, planning and professional development in schools and preschools

Employer	Entitlement
Victorian community kindergartens[113]	Teachers 12.5 hours per week (25 hours contact time) Educators 15 minutes per week for each contact hour, 20 minutes for Activity Group Leaders 3 child free organisational days 2 child free days for professional development 1 hour per week for Educational Leaders 5 days of non-term time to be spent on professional development
Victorian state schools[114]	Teacher (primary) 22.5 hours per week face to face teaching, 7.5 hours non-contact time and 8 hours lunch breaks, meetings and yard duty 1 professional practice day from 2024 (previously 3) Up to 5 student free days for professional development & planning 8 weeks non-term time and 4 weeks annual lave
NSW state schools & preschools[115]	2 child free professional development days 6 child free school development days Primary school teachers have 21.75 hours teaching time, leaving around 1 hour per day non-contact time; Additional 30 minutes per week non-contact time from 2023 rising to 60 minutes in 2024[116] 12 weeks non-term time leave
Queensland community kindergartens[117]	Teachers 7.5 hours per week rostered plus 70 hours per year Directors to receive additional 18-30 hours based on number of groups 3 days for PD taken during recess time 4 days per annum 'pupil free days' for all employees 8 weeks 'recess' leave plus 4 weeks annual leave
Queensland state schools[118]	Teachers (primary) rostered for 25 hours per week including 2.5 hours of non-contact time 3 pupil free days for professional development 8 weeks recess leave plus 4 weeks annual leave

The new funding system should mandate and fund an improved minimum entitlement for programming time and professional development for teachers and educators. This minimum entitlement should have regard for what happens in schools but should be appropriate for early childhood settings.

[113] Victorian Early Childhood Educators & Teachers Award 2020
[114] Victorian Government Schools Agreement 2022
[115] Crown Employees (Teachers in Schools and Related Employees) Salaries ad conditions Award 2020; School Day Fact Sheet https://education.nsw.gov.au/content/dam/main-education/industrial-relations/media/documents/school-day-factsheet/The_School_Day_Fact_Sheet_-_December_2020.pdf
[116] https://www.theeducatoronline.com/k12/news/nsw-teachers-get-extra-time-to-prepare-lessons/281175
[117] C&K Early Childhood Education Enterprise Agreement 2020
[118] Dept of Education State School Teachers Certified Agreement 2022; Teaching in State Education Award – State 2016

The funding system should also provide support for whole of centre professional development days. These are an important feature of team building and professional development in schools and preschools. However, if a centre closes for a child free day, the centre cannot receive CCS for that day. Consideration should be given to allowing services to claim subsidy for a limited number of whole of centre professional development days over a year.

Recommendation:

Funding reforms should ensure educators and teachers have access to sufficient non-contact time and resources to undertake high quality programming and professional development to continually build quality and capability.

Employee experience, wellbeing and leadership

Goodstart recognises that employers also have a responsibility to invest in and support their workforce. It is not all about funding – what employers do with that funding is also important. Centre teams worked throughout the COVID pandemic. Our centres remained open, despite ongoing staff shortages and a heightened level of individual and community level stress ever since (as our exit surveys show).

An Australian study showed that while low wages was the main factor in educators' decisions to leave ECEC, workplace ethos and support, including productive relationships with work colleagues and effective leadership, were critical in decisions to stay.[119] Leadership capability and wellbeing are recognised as key focus areas in the National ECEC Workforce Strategy, but recent research finds sub-optimal wellbeing in the ECEC workforce was 'pervasive':[120]

> *"Pressures of time, a sense of dissatisfaction, and stress were variously named and described. For some, poor wellbeing became physical and mental ill health. The respondents sought supports."*

Any reform plan for the ECEC sector must include a focus on improving employee experience and wellbeing:

- Centre leadership quality and management skills: better PD opportunities, more time to do their job effectively and access to networks and mentors. Programs like the innovative 'From the Ground Up' program should be taken to scale.[121]
- Workplace flexibility: while contact roles in centres can't offer 'work from home' opportunities, the sector must provide greater flexibility on working hours.
- Educator professional standing: can be nurtured and enhanced by following the examples from the school system which has improved the professional standing and capability of their workforce. Providing localised mentoring and networking, buttressed by Government and sector level initiatives will help build recognition of the value of early learning educators.

The National ECEC Workforce Strategy recognises these issues, but currently provides an inadequate agenda of action to progress the vital issues of improving leadership and capability in the sector.[122] A deeper level of discussion is needed between providers and government. As the system steward, government could then develop expectations of employers; ensure that the funding system is adequate;

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[119] Thorpe K. et al (2020)

[120] Thorpe K., Panthi N., Houen S., Horwood M, Staton S., (2023) Support to stay and thrive: mapping challenges faced by Australia's early years educators to the national workforce strategy 2022–2031 *The Australian Educational Researcher* https://doi.org/10.1007/s13384-022-00607-3

[121] https://research.qut.edu.au/childandfamily/projects/from-the-ground-up/

[122] Thorpe K. et al (2023)

and hold employers to account to deliver on those expectations. The development of a sector-wide enterprise bargaining standard also provides the opportunity for government, over time, to improve working conditions and practices across the sector.

Recommendation:

Support educator wellbeing by ensuring employers are providing adequate support to educators and implementing best practice flexible working arrangements.

Develop effective leadership programs and supports for sector leaders to improve their professional growth as leaders and in turn for their teams.

Pipeline of new teachers and educators into the sector

Between 2016 and 2021, the ECEC workforce expanded by around 12% to 192,000 workers; employment in CBDC centres rose by 37,000 (34%) offset partly by a 14,000 (40%) fall in employment in Family Day Care and in-home care. Jobs and Skills Australia projects similar growth in the ECEC workforce (11%) to 2026, with most of those jobs requiring a teaching qualification. IBIS Australia similarly forecasts a 12.2% increase in the ECEC workforce over the next five years.[123] The Jobs and Skills Australia projection is likely to be an underestimation, as it was made before the Australian Government reformed the CCS to stimulate demand for child care and state governments announced their expansion of preschool access. The decline in Family Day Care is also slowing, with services declining by just 7.3% in the last two years.

TABLE I: ECEC Workforce Employment Projections 2021-2026

Occupation	Jobs Nov 2021	Projected jobs Nov 2026	Increase (nos.)	%
Childcare Manager	15,300	18,700	3,400	22.2%
Early Childhood Teacher	49,300	59,900	16,600	21.5%
Child Carer	134,200	142,100	7,900	5.9%
TOTAL	**198,800**	**220,700**	**21,900**	**11%**

Source: Jobs & Skills Australia Employment Projections 2021

The pipeline of new teachers and educators into the sector has not met demand over the last four years and is unlikely to meet demand over the next five years. This has been driven by an increase in demand for new employees (as a result of more places in centres and higher attrition rates among staff), and constrained demand caused by a two-year migration pause and a decline in commencements in VET and university ECEC courses. Completions for Bachelor, Diploma and Certificate III courses in the last three years were noticeably lower than completions in the three years prior. Commencements improved in 2021 and improvement appear to have continued into 2022:

TABLE J: Enrolments and completions of VET and university courses in early childhood

	ECEC Certificate III		ECEC Diploma		ECT Bachelor	
Year	Commence-ments	Completions	Commence-ments	Completions	Commence-ments	Completions
2016	n.a.	15,700	n.a.	15,755	4,578	2,380
2017	33,595	15,605	28,490	14,055	4,226	2,220
2018	32,545	15,720	19,845	13,565	3,556	2,288
2019	38,055	15,695	26,005	12,610	3,541	2,144
2020	32,675	12,260	21,590	9,965	4,288	2,051
2021	37,280	15,330	21,935	13,535	5,540	2,145

[123] IBIS Consulting (2023) Child Care Services in Australia, Industry Report Q8710

Source: NCVER, Total VET Students and Courses, (DataBuilder); DESE Higher Education Statistics Special Courses data; responses to Senate Estimates Questions on Notice

Initiatives to expand the pipeline of additional educators and teachers need to be multi-faceted. Central to this is making the sector a more attractive work opportunity by offering better wages and conditions and improving the recognition and standing of ECEC as a central part of the education system. Only then will the sector be more successful in attracting more Australians to work in early childhood, and properly promote the value of early learning.[124]

Recommendation:

Invest in the pipeline of new teachers and educators by:

i. Incentivising more trainees by keeping TAFE courses free, maintaining the 10% wage subsidy for new traineeships, and funding paid study leave and mentoring support for trainees
ii. Incentivising more students to enrol in early childhood teaching courses by offering scholarships that cover the full cost of HECS fees and cover lost wages for attending up to 90 days of practicum
iii. Supporting educators to upgrade to Bachelor qualifications by:
    - Providing flexible scholarships that cover the full cost of HECS fees, study leave and to cover lost wages for attending up to 90 days of practicum;
    - Developing tailored intensive courses to support educators to upgrade that fully recognise their current teaching skills, integrated as much as possible with their current work and offer mentoring and support through their study.
iv. Moving to nationally consistent teacher registration requirements for early childhood teachers with all jurisdictions recognising ACECQA-accredited qualifications for registration.

Migration is an important source of ECEC workers

Migration is also an important pathway for new entrants to the Australian early childhood workforce. Around 6.7% of Goodstart's workforce are migrants on 11 different visa types, The most common visa types are Student subclass (500), Temporary graduate subclass (485), Temporary Skills Shortage subclass (457/482), Employer Nominated and Employer Supported subclass (186/494) and Bridging Visas. The Australian Government's recently announced reform agenda for migration policy could be a great positive or greatly disruptive for our sector.[125] The issues paper identified three streams for migration through:

- Creating proper, tripartite, regulated pathways for desperately needed workers, recognising the long-term labour shortages in our essential industries like the care sector;
- Building a mainstream temporary skilled pathway to bring in the core skills we need, using an improved approach to determining which skills we really need (including) skilled migrants above an increased temporary skilled migration income threshold (TSMIT), to ensure our migration system is a program for skilled migrants, and wages and conditions of local workers are not undercut; and

[124]A 2016 study found that most educators enjoyed their work and appreciated its value, but one in five was planning to leave the profession, with poor wages and conditions a driving factor. Irvine, S., Thorpe, K., McDonald, P., Lunn, J., & Sumsion, J., (2016, May). *Money, Love and Identity: Initial findings from the National ECEC Workforce Study.* Brisbane, Queensland: QUT.

[125] Department of Home Affairs "A Migration System for a More Prosperous and Secure Australia: Outline of the Government's Migration Strategy" April 2023 https://immi.homeaffairs.gov.au/programs-subsite/files/migration-strategy-outline.pdf

- Developing fast, simple pathways for the specialised, highly skilled workers we need to drive innovation in our economy and to help us build the jobs of the future

Goodstart sees merit in this approach and would encourage the Departments of Home Affairs and Education to engage with the ECEC sector to explore the option of an Industry Migration Plan as envisaged in the 'regulated pathways' stream, in a similar way to the plan recently finalised by the Aged Care Industry.[126] This, we believe needs to be progressed as a matter of urgency.

Recommendation:

Develop an Industry Migration Plan and other measures to recognise early childhood teachers and educators as priority occupations in the migration program and to ensure Australia is an attractive destination for qualified teachers and educators from other countries.

In the short term, to give certainty to the thousands of educators working the ECEC sector on temporary visas, we would urge the Government to immediately:

i. Remove the 48 hours work per fortnight cap on student visas (500) for ECEC as a 'critical sector' for at least five years.
ii. Streamline recognition of overseas teaching qualifications for early childhood teachers through ACECQA without requiring a second approval through AITSL.
iii. Include the ECEC sector (421111) in the occupation list for 403 Temporary Work (International Relations) Visas - Pacific Australia Labour Mobility stream.
iv. Provide a pathway for all childcare workers to achieve permanent residency, in regional and metropolitan areas.

[126] https://immi.homeaffairs.gov.au/what-we-do/skilled-migration-program/recent-changes/new-aged-care-industry-labour-agreement

Section 6: Inclusion

This part of our submission considers the issues and evidence associated with the diverse inclusion support needs of children, families and communities, and the role of Government in supporting inclusion. It then presents Goodstart's position on how these inclusion support needs can be met, with reference to other funding systems in Australia.

Some children are excluded from ECEC because services cannot meet their needs

Children living with disability, developmental delay and other inclusion support needs often face exclusion from mainstream ECEC services because the service cannot meet their needs. These needs can range from requiring an additional educator to ensure children can safely participate, requiring adjustments to the program or physical environment, or requiring specialist support such as peg-feeding or intensive medical management. Making these adjustments increases the costs of delivery – either through higher labour costs or for physical infrastructure – that are not reflected in higher fees for families.

The current ISP funding does not fully cover these costs which creates significant financial disincentives for providers to enrol children with inclusion support needs. For many of these children, it may not be safe or worthwhile to participate in early learning without additional inclusion support and this generates significant anxiety for parents try to juggle work, care and other responsibilities. It can be very demoralising for families trying to find a service that will enrol their child.

This situation means these children miss out on the benefits of high-quality early learning and their families may be forced to make difficult trade-offs about their workforce participation, such as working part-time or turning down promotions or additional days of work because their child would not be adequately supported. The evidence tells us that parents – particularly mothers – caring for children with a disability or other health conditions, including autism and ADHD, have lower workforce participation than other parents.[127] Further, governments face higher long-term costs as a result of late intervention.[128]

The National Disability Insurance Scheme review is very relevant to this inquiry as the ECEC sector can provide a critical support to deliver Tier 2 services for children with additional needs and disability who may not be eligible for the NDIS, as well as providing a trusted referral pathway for children who are likely to be eligible for an NDIS support plan. The current ISP has national coverage and provides the main mechanism to deliver Tier 2 supports in ECEC settings, although significant improvements and additional investment will be required so it can underpin a truly universal ECEC sector. There are opportunities through these two inquiry processes to better connect and re-think how the NDIS and ECEC services can build capability within communities, as well as providing support for individual children and families.

Aligned with our purpose, Goodstart makes significant investments in inclusion

As a NFP social enterprise, Goodstart actively supports all children to participate in our services, irrespective of their abilities, developmental capabilities or life circumstances. This includes those from a First Nations background, from Culturally and Linguistically Diverse backgrounds, children who have a disability and/ or complex needs and other children who have experienced vulnerability or disadvantage

[127] AIFS, Family Matters (2014), Impacts of caring for a child with chronic health problems on parental work status and security: A longitudinal cohort study.
[128] The Front Project (2019), How Australia can invest in children and return more – A new look at the $15bn cost of late action.

and who require additional support to enrol in and attend ECEC. Our annual child census[129] shows that 86% of Goodstart centres (560 centres) have at least 20 children enrolled who have identified risk factors. However, some services have higher proportions than others – with 37% of our network (237 services) supporting more than 40 children with risk factors in their centre and 10% of our network with more than 60 children with risk factors in their centre. Further, more than 28% of Goodstart centres have more than 10 children with multiple risk factors (two or more risk factors) attending their service.

At a macro level, Goodstart's investments include: professional development to build the capability of our team members, so they can effectively include children and families likely to be vulnerable ($19 million in 2022, 40 per cent of targeted social purpose investment); developing and implementing programs that facilitate enrolment, access and participation by these children and families ($9.6 million in 2022, 20 per cent of targeted social purpose investment); and investing to meet funding 'gaps' where government programs do not fully meet the costs of inclusion ($5.6 million in 2022, 12 per cent of targeted social purpose investment).

We also make specific investments in supporting Reconciliation to improve cultural safety and responsiveness, which have been the foundation for our above-average participation by First Nations children and families ($1.2 million in 2022, 2.5 per cent of targeted social purpose investment).

Around 7 per cent of children in our centres have a disability or developmental delay, which is more than the community average and significantly higher than the proportion of children with disability or developmental delay attending other early childhood education and care settings (see Graph 4). We are often told by families that their children have been refused enrolment at multiple other services before being welcomed at ours.

We have undertaken statistical analysis based on the attendance patterns of over 175,000 children to better understand what factors might help keep children in early learning and what factors contribute to children leaving ECEC for a reason other than starting school. We found that children with a disability or diagnosed condition in our centres have the lowest exit rates of all children at Goodstart – in fact 35% lower. This suggests the investments we make in support for those children and their families have been effective in ensuring these children can access and participate in ECEC, and in supporting their parents to participate regularly in work.

Despite targeted Government programs, such as the Inclusion Support Program, many costs are not covered by government and Goodstart funds the gap.

Under the current CCS Safety Net, the ISP is the only government funding mechanism for additional, above-ratio educators to support inclusion of children with additional needs. However, current funding and policy settings mean the program is not addressing the financial disincentives to enrolling children with higher support needs and ensuring their needs are met.

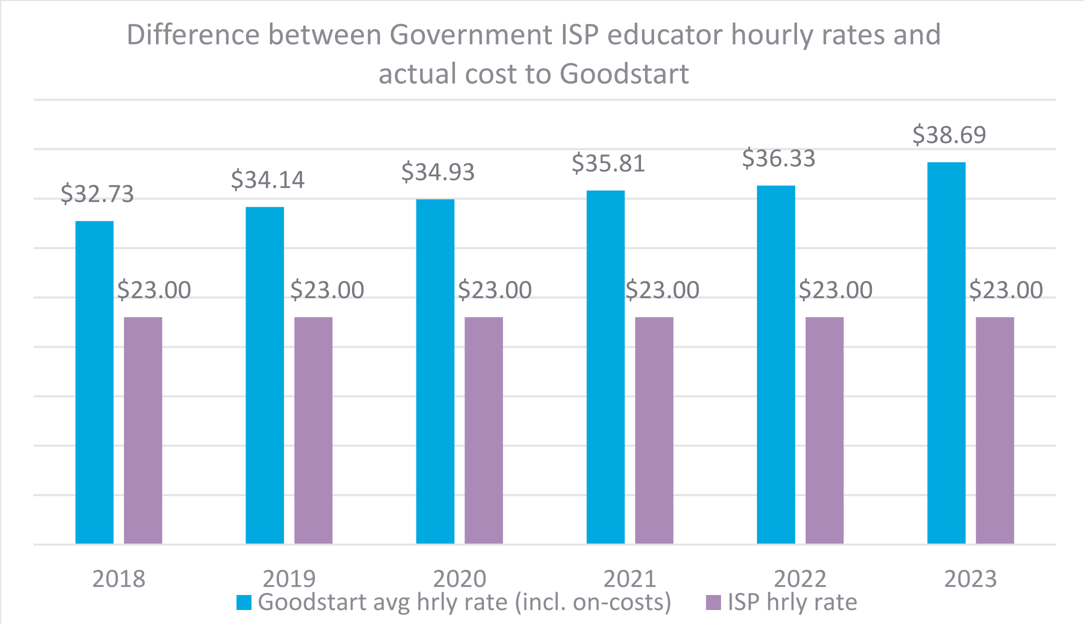
The hourly rate of an additional educator under the ISP does not cover costs as it has not been indexed or increased since 2016. As a result, there is a widening gap between the ISP hourly rate ($23.00/hour) and the actual costs of delivery (Goodstart average in 2022 was $36.33/hour, including on-costs) (see Graph 7).

The current subsidy no longer covers even the lowest possible ECEC qualification level (Cert III, Pay Point 1). At Goodstart, we aim to have the right skills and qualification mix to support both individual children with inclusion needs and other children within the room. Specific skills and experience for additional educators

[129] Goodstart conducts an annual child census, which collects the same information as the 3-yearly workforce census as well as child-level information consistent with the COAG-approved definition of children at risk of exclusion, including children who are at risk, in out-of-home care, in low-socioeconomic families, have additional needs or who are accessing specialist medical or allied health services.

can include the ability to: use alternative communication such as AUSLAN or communication boards; implement trauma-informed practices to reduce a child's stress and the likelihood of highly volatile situations; and/or to understand and make adjustments for a child's sensory needs. These skills require investment to develop and are generally beyond the capabilities of entry level professionals.

GRAPH 7: The hourly cost to Goodstart of ISP educators is increasing year on year



Children are not funded for all hours they attend

There are also caps on the number of hours a child can be supported per week, which is not matched to their enrolment or attendance. Under ISP, an individual child in a service can be supported for up to 25 hours per week and two or more children sharing additional support – which is not always appropriate, depending on the children's needs – can be supported for up to 40 hours per week. At Goodstart, over 1,200 children were supported by ISP funding in 2022 and they attended 35 hours per week, on average. So, in the absence of Goodstart's social purpose investment, children would be participating in early learning without appropriate levels of inclusion support. Of these children:

- 73% attend 26 hours or more per week; and
- 39% attend 40 hours or more per week.

The application process also leaves gaps in funding that have to be met by the provider

There can also be funding gaps between when a child is enrolled (or when their needs are identified) and when their funding is approved and commences. This can also be an issue when a child changes rooms or services as changes to the care environment trigger a funding review and reapproval process. Many of these issues were identified in the 2021 AIFS evaluation of the ISP and recommendations were made to improve access to funding under the program.[130]

Goodstart makes investments to cover these gaps but not all providers prioritise making these investments and some can't afford to do so

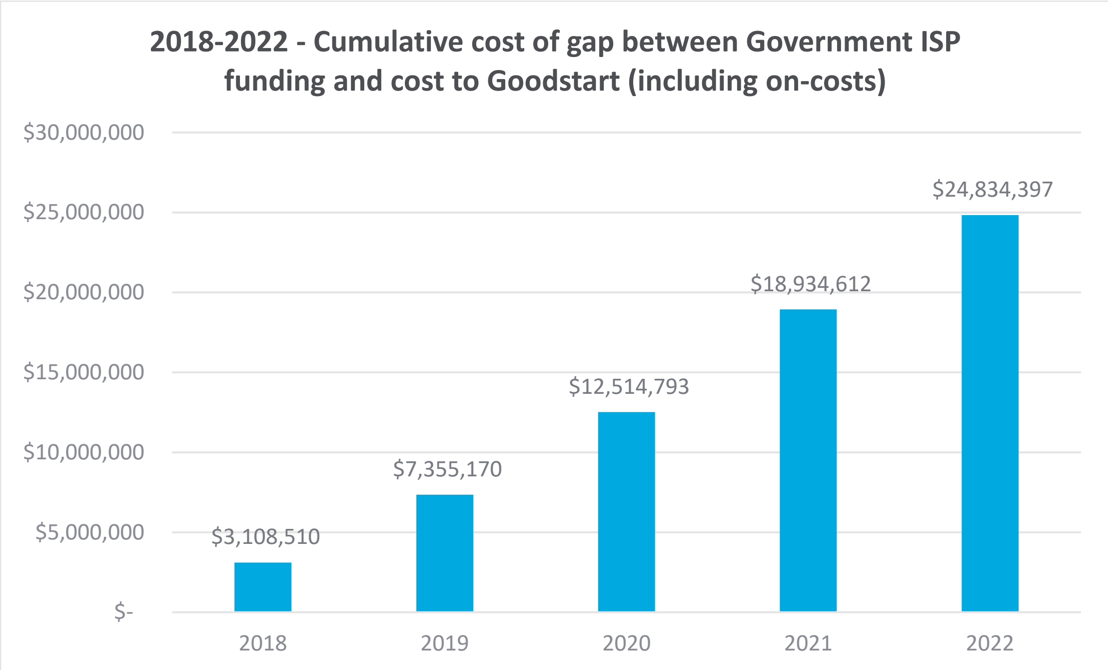
Over the past five years, Goodstart has invested almost $25 million to cover gaps in inclusion funding, including $5.6 million in 2022 alone (see Graph 8). This funded:

[130] AIFS (2021), Evaluation of the Inclusion Support Program.

- the gap between the ISP hourly rate and actual costs for children approved for ISP
- the full cost of an additional educator between enrolment or needs identification and when the ISP funding is approved
- the full cost of an educator for children with additional support needs who are not eligible for ISP, including a small number of refugee children.

We make these investments as part of our deep commitment to high quality and inclusive ECEC for all children. In 2022, Goodstart's investment funded 37 per cent of total ISP-related costs, highlighting the significant inclusion needs that would remain unmet without our social purpose investment. However, this level of growth, year on year, is not sustainable for Goodstart and needs to be addressed in the context of the broader ECEC sector.

GRAPH 8: Goodstart has invested almost $25 million over 5 years to cover the gap between ISP funding and actual inclusion costs



Meeting the needs of individual children could be achieved with a reformed Safety Net and delivered through an ISP-style financing instrument. This could also be designed to more closely complement the system objectives arising from the NDIS review.

Recommendation:

A reformed ECEC system must include child-level inclusion investment to fund additional educators to support individual children with specific additional needs and remove cost disincentives to their inclusion.

Child-level inclusion investment should build on the current ISP and be:

- Child-centred, with reduced administrative barriers and improved continuity of access and support
- Supportive of individual children with specific identified needs, including children with disability, developmental delay, trauma-related behaviours or other inclusion support needs
- Demand driven, not capped
- Matched to the child's needs, including support for all the hours they attend early learning
- Matched to the actual costs of delivery, indexed annually by the Wages Price Index
- Able to build specific capabilities within a service to ensure a child's inclusion needs are met.

Inclusion supports are also required for services supporting children experiencing, or at risk of, socio educational disadvantage

Children experiencing vulnerability or who have additional support needs are represented in every community in Australia.

While children experiencing or at risk of vulnerability or disadvantage are over-represented in low-SEIFA communities, our centres have children experiencing vulnerability in all communities across the socio-economic spectrum. In fact, 14% of Goodstart children with an identified vulnerability indicator are attending centres located in highly advantaged communities (i.e., SEIFA 9 or 10). This is why we invest in inclusion in centres across all SEIFA bands and maintain investment in centres outside of low-SEIFA locations. This fact also supports the universal approach to an ECEC entitlement – so children with vulnerabilities across the social gradient can access high quality to improve their outcomes. ECEC costs associated with supporting these families can include:

- Investment in targeted professional development for educators and teachers to ensure the children's complex needs are met and to provide skills to adjust teaching strategies to ensure children are included and making progress
- Small modifications to the indoor or outdoor learning environment
- Additional out-of-ratio educators to support inclusion for children. This can range from a few extra hours per week to support initial transitions through to very intensive support plans, delivered by above-ratio educators and overseen by a qualified Child and Family Practitioner, which can cost up to $12,600 per child for an intensive 12week program
- Case-management and account management support to help families overcome structural and administrative barriers in the enrolment and Centrelink processes
- Dedicated administrative support for centres helping facilitate referrals to other services such community health, child and family support as well as administrative support to access additional state-based subsidies.

Universal approaches to quality and fee relief are important, across all locations from high disadvantage to high advantage. Nearly half (48%) of the children in our centres in low SEIFA areas (SEIFA 1-3) have an identified vulnerability but so do 29% of children in our high SEIFA areas (SEIFA 8-10). When we look at income alone, 17% of children in our centres located in the most advantaged areas (101 Goodstart centres across SEIFA 8-10 areas) are very low income (i.e. accessing the maximum rate of CCS); with a further 16% from families with a combined family income below $100,000 per annum. In the Goodstart network alone, this represents around 3,670 families likely to be living in or around areas like Mosman, Bondi or Beaumaris who have a low family income combined with high cost of living pressures associated with housing, groceries and transport costs. Fees in these services are also more likely to be above the currently hourly fee cap due to high rental costs and often higher labour costs associated with attracting and retaining staff in these areas – adding extra affordability pressure on these families.

At Goodstart, we have observed a concerning trend regarding participation by vulnerable children. Numbers of vulnerable children were holding steady or growing until, in 2022, we saw a reduction by 4.2 percentage points[131] in the number of unique children with identified vulnerabilities (not just children from low income families). It is unclear why but could be the impacts of COVID, cost of living or other factors. We encourage the PC to check if this trend is repeated across the national data set.

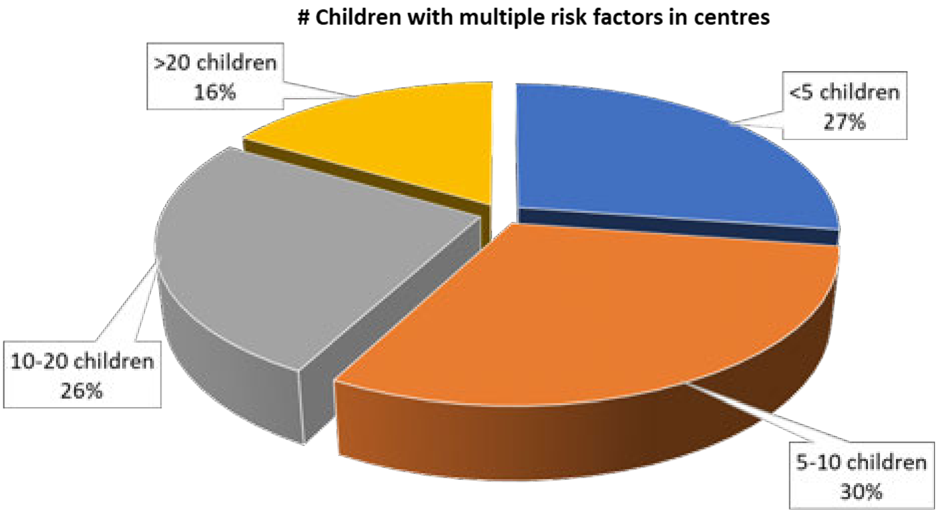
[131] Reduction from 43.8% children with identified vulnerabilities in 2021 to 39.6% in 2022.

Children with multiple risk factors tend to need more support to maintain their access and participation

Our dataset also allows us to identify children who have more than one risk factor; that is, children who have more than one characteristic that indicates they are likely to be vulnerable. For example: the child is part of a low-income family and has an additional need or disability; or is at risk of abuse and neglect and identifies as First Nations. Almost all Goodstart centres have children with multiple risk factors participating in their early learning program (see Graph 9) and 41% of Goodstart centres had 10 or more children with multiple risk factors enrolled.

We make enterprise-level investments to support inclusion, such as employing allied health professionals and providing professional development to support children at risk which are disproportionally directed to centres with higher populations of children likely to be experiencing disadvantage. Over the last five years (2018-2022), Goodstart invested $21.4 million to deliver evidence-based early intervention and therapy to identified children with additional needs. This investment funds a national allied health network, including occupational therapists, speech pathologists and child and family practitioners.

GRAPH 9: All Goodstart centres have children with multiple risk factors enrolled



We invest to ensure children at risk of abuse and neglect access the subsidy to which they are entitled

The Australian Government recognises the value of access to free high quality ECEC as a protective factor for children at risk of abuse and neglect[132] and they are a priority cohort for Goodstart. In 2022, 5,529 of our children (6.6 per cent) accessed ACCS – Child Wellbeing. This is exclusively available to children identified as being at serious risk of abuse and neglect and Goodstart has had significant success in improving access for these children (see Graph 10). Children at risk often display trauma-related behaviours and have complex support needs. While the ACCS covers fee relief for families, it has a complex multi-step application process and does not cover the additional costs to support these children to enrol or participate. Anecdotally, families tell us that these children are often excluded from other services.

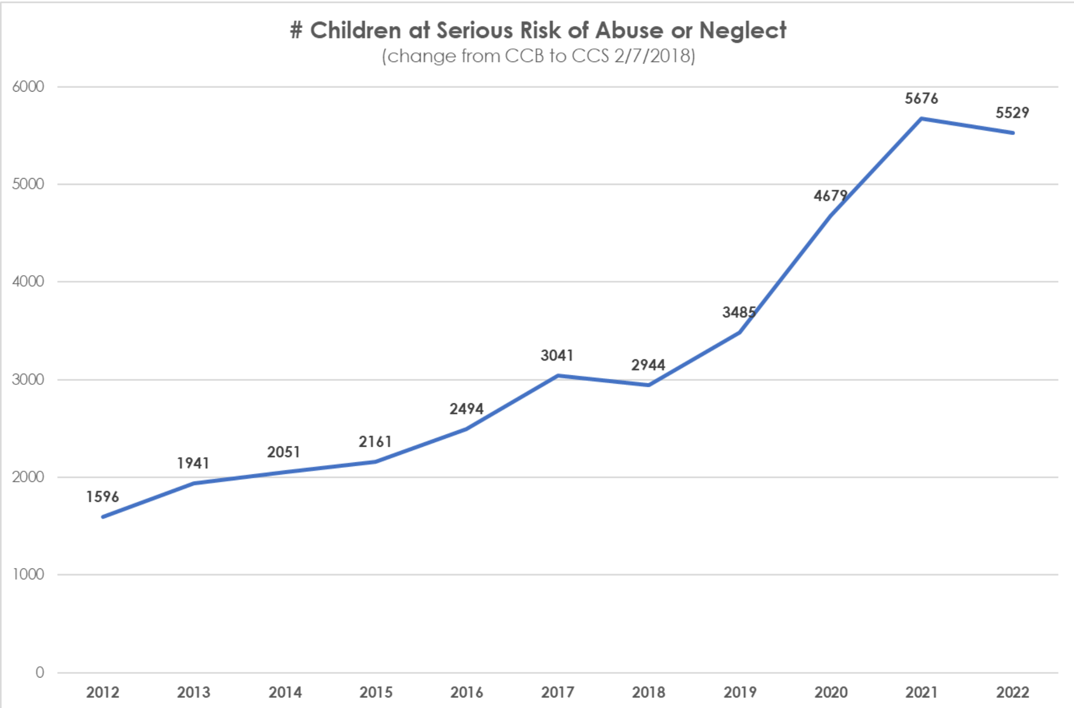
Due to more complex care arrangements and parents and carers experiencing vulnerabilities themselves, children at risk face higher structural and administrative barriers to accessing subsidy. We seek to address these barriers by investing in our case management style approach with a Family and Community Engagement Worker who both facilitates the administrative processes – so vulnerable families can enrol

[132] https://www.education.gov.au/child-care-package/resources/guide-accs-child-wellbeing

their child and access ACCS – and develops a customised orientation plan for each child and family to meet their unique needs ($0.2 million in 2022).

In addition, we invest in a dedicated centralised ACCS Team ($0.4 million in 2022), which facilitates and coordinates the collection of significant administrative referrals and evidence collection required on a rolling 13-week cycle for children and families to access additional subsidies. These investments are above what is required to manage family accounts for those not experiencing vulnerability and were recently recognised by the South Australian Royal Commission in their Interim Report.[133]

GRAPH 10: Children at risk of abuse or neglect in Goodstart centres



Quality ECEC makes a difference, but children living in the communities who most need access to quality services have the least choice

The Australian Early Development Census (AEDC) results show low SEIFA communities are more likely to have higher proportions of children experiencing vulnerability but the evidence shows that families in low-SEIFA communities are less likely to have quality services to choose from, [134] and the changing market composition (which has seen significant growth in for-profit provision) also means low-income families in general are increasingly less likely to have a high quality, NFP provider to choose from. Goodstart's services in the most disadvantaged areas (SEIFA 1-3) have higher ratings at both the Exceeding and Meeting level than the sector average.

One of the challenges in low-SEIFA communities is attracting and holding quality staff, as working with children and families facing disadvantage can be challenging. Our Family Connections professional development program is focused on building capability across a whole centre team to better address the complexities of faced by children and families experiencing vulnerability or inter-generational trauma. Goodstart provides an Inclusive Practices Program to support educators working with children who are at risk, with developmental delay, with communication/language challenges or with autism. These initiatives

[133] SA Royal Commission Interim Report, p27, p 49

[134] ACECQA 2022 NQF Annual Performance Report, p. 32.

are funded directly by Goodstart as part of our targeted social purpose investment ($9.6 million of $47 million in 2022). We would like to do more – but the funding does not meet the need.

Supporting inclusion through Reconciliation

Early childhood education and care services play an important role in the authentic advancement of Reconciliation in Australia. This role was acknowledged in the 2022 Review of the Approved Learning Frameworks for early learning and in the subsequent updates to strengthen and embed Aboriginal and Torres Strait Islander perspectives through the national learning frameworks, including in the vision, principles, practices and outcomes.

First Nations children and families often face explicit and implicit barriers to participating in ECEC, including challenges in relation to cost, location, culture and communication. Services that are particularly successful in engaging Indigenous families tend to be run by First Nations people or communities, have First Nations educators or are delivered by educators with strong cultural safety or responsiveness.[135]

Improving access and participation for First Nations children and families can be achieved by providing culturally safe learning environments, supported through professional development. At Goodstart, we invested over $1 million between 2022-2022 in supporting our staff to participate in Arrilla Indigenous cultural competency training.

As part of a commitment to quality and inclusion, all ECEC services should be supported to develop a Reconciliation Action Plan (RAP), which is a formal statement of commitment to Reconciliation. An early learning service can develop a RAP using the Narragunnawali platform to register and extend on existing initiatives, or to begin a new journey. Narragunnawali RAPs provide a whole-scale framework and process for driving Reconciliation in education, with a holistic focus on strengthening relationships, respect and opportunities in the classroom, around the service or school, and with the local community.

Across Goodstart, all centres are on a Reconciliation journey and have registered to develop their centre level RAPs with 37% or 246 centres successfully publishing their RAP, through the Narragunnawali platform. At the enterprise-level, we have published our second RAP – our Stretch RAP 2020-2023 – which builds on our vision for Reconciliation to be genuinely at the heart of our organisation and deeply embedded in everything we do.[136]

Case study: An effective approach to service level investment to address vulnerability - Victorian School Readiness Funding

School Readiness Funding is a permanent and ongoing part of the Victorian kindergarten funding model. The purpose of this funding is to fund programs, and support service capability building around three child outcome priority areas: communication (language development); wellbeing (social and emotional); and access and inclusion. The amount of School Readiness Funding each service receives is based on the level of need of the children enrolled at their service. This is informed by parental occupation and education data (also known as Student Family Occupation and Education data) as this is considered an accurate (and available) predictor of educational disadvantage. Similarly, Student Family Occupation and Education data is used in schools to allocate 'needs-based' funding.

Funding for each service ranges between:

- $1,000 for services with lower levels of need and/or small enrolment numbers
- more than $200,000 for services with higher levels of need and large enrolment numbers.

[135] ACECQA (2020), Indigenous participation in ECEC – Qualitative Case Studies.
[136] Goodstart (2020), Stretch Reconciliation Action Plan 2020-2023.

Services spend most of their funding on items selected from a 'menu' of evidence-informed programs and supports aligned with the three priority areas (listed above). Services that receive over $5,000 in School Readiness Funding may spend up to 25% of their funding flexibly on programs and supports not listed on the menu. Items purchased using flexible funding must:

- align with the three priority areas or a local priority
- address educational disadvantage
- address the needs of the group of children in the service.

The Victorian Government allocated $38 million to SRF in 2021, rising to $53.5 million by 2023 with the addition of three-year-old children in kinder programs.

In 2023, Goodstart has been able to leverage our scale and used Victorian School Readiness Funding to fund nearly 3,000 hours of direct allied health coaching in our Victorian centres, across occupational therapy (37%), speech pathology (36%) and psychology (26%).

Case study: Gonski needs-based funding, Schooling Resource Standard

The Schooling Resource Standard (SRS) is an estimate of how much total public funding a school needs to meet its students' educational needs. The Department of Education calculates an SRS for each school every year by adding the base amount and loadings it has calculated for the school using the formulas in the *Australian Education Act 2013*. The SRS base amount is calculated by multiplying the number of students enrolled at the school for the year by the SRS funding amount for the school for the year. For most non-government schools, the SRS base amount is reduced by the school's capacity to contribute.

The SRS loadings provide additional funding for student priority cohorts and disadvantaged schools. A school's SRS can include up to four student-based loadings and two school-based loadings. Loadings are not affected by assessments of families' capacity to contribute.

A student may attract funding under more than one loading. The four student-based loadings are:

- students with disability loading
- Aboriginal and Torres Strait Islander loading
- socio-educational disadvantage loading
- low-English proficiency loading.

The two school-based loadings are for school size and location.

Of particular relevance to ECEC is the socio-educational disadvantage loading, which provides extra funding above the base amount for each student from a recognised vulnerable grouping. The Gonski loading measures were designed around a nationally integrated model on a needs-basis and there is merit in this approach.

However, schools funding is dominated by large schooling systems – Government, Independent and Catholic systems – that can make operational decisions about how investment is directed across their system. This can mean that the schools with the highest need do not necessarily benefit from the 'needs-based funding' they are entitled to, based on their enrolments.[137] However, this approach does allow school systems to leverage efficiencies and economies of scale by pooling investment across services. New Zealand's equity funding system for ECE uses a similar approach.[138]

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137 https://www.theguardian.com/australia-news/2022/mar/13/the-gonski-failure-why-did-it-happen-and-who-is-to-blame-for-the-defrauding-of-public-schools

138 https://www.education.govt.nz/early-childhood/funding-and-data/equity-funding-for-early-learning-services/

Investment to centres based on the needs of children with identified vulnerabilities attending a service would recognise that, within some markets, some service providers are serving greater proportions of children likely to be vulnerable than others, and children with multiple vulnerability risk factors need additional investment to support their participation and outcomes.

Recommendation:

A reformed ECEC system must include service-level inclusion investment delivered through a new financing instrument to meet the needs of children with identified vulnerabilities attending a specific service.

Service-level inclusion investment would:

- Be allocated at the service level, on an annual basis, based on the number of children experiencing vulnerability enrolled at a service
- Support local inclusion capability uplift, outreach and other service level solutions
- Recognise that, within some markets, some service providers are serving greater proportions of children likely to be vulnerable than others, and children with multiple vulnerability risk factors need additional investment to support their participation and outcomes. (Subject to financing instrument – but suggest Victorian Government School Readiness Funding-style payments and loadings).

Community-level inclusion supports are also required

A future ECEC system must include community-level inclusion support in recognition that some communities have a higher concentration of disadvantage than others. Market based approaches to financing ECEC in these communities are less likely to be financially viable due to the low and variable employment patterns and opportunities for local families. Families in these communities often experience entrenched disadvantage, evident in risk factors such as low school attainment, high unemployment, poor health, and higher rates of domestic and family violence and/or child abuse.[139] In such communities, ECEC services often require investment to deliver quality practice, e.g. more qualified educators than prescribed by minimum regulatory benchmarks, additional time for out-of-ratio educators, and ongoing investment in professional development, such as trauma-informed practice and family support integration. There is good evidence demonstrating higher rates of success with place-based initiatives and approaches that reflect the particular needs of a community and build on a community's strengths.[140]

These communities can be relatively easily identified using publicly available information. For example, Social Ventures Australia, in partnership with the Centre for Community Child Health, commissioned Deloitte Access Economics to explore the need and funding options for a national approach to integrated child and family centres.[141] The project used geographic and population modelling using AEDC and SEIFA data to identify and rank the communities across Australia with the highest levels of child need in the birth to six population. Of the 100 suburbs most experiencing disadvantage, 81 have centre-based care services present. Liverpool – West and Chester Hill – Sefton, both in New South Wales, have over 10 centres in the

[139] Murdoch Children's Research Institute (2012), Place-based initiatives transforming communities: Proceedings from the place-based approaches roundtable.

[140] Murdoch Children's Research Institute (2014), The evidence: what we know about place-based approaches to support children's wellbeing; Jesuit Social Services et al (2023), What works for place-based approaches in Victoria, Part 2: A review of practice.

[141] Deloitte Access Economics (2023), Exploring need and funding for integrated child and family centres. Prepared for Social Ventures Australia in partnership with Centre for Community Child Health. For access, contact SVA.

area. However, nearly one-quarter of the suburbs (23) have only one service – leaving families with little choice and limited supply.

Across these locations experiencing disadvantage, 31 Goodstart centres are present in 22 of the identified suburbs, two of which are suburbs where Goodstart is the sole provider of services (Seymour in Victoria and Smithfield – Elizabeth North in South Australia). Goodstart holds an average of 37% share of offered places and, in line with our social purpose as a not-for-profit enterprise, we make additional inclusion investments at a child- and service-level and cross-subsidise loss-making centres in these 22 disadvantaged suburbs. Our higher market share and additional investment demonstrate the relative importance of strong NFP provision in these markets that are less likely to be commercially viable and therefore less attractive for expansion by for-profit operators.

Communities facing disadvantage should have access to the best possible ECEC we can deliver

As outlined in Quality Area 6 and Quality Area 5 of the NQS, each centre is expected to reflect on how it connects with its community and on its inclusion practice. This is a core part of the stewardship expectation on services in countries like the Netherlands[142]. In Australia, the impact of these practices can make a radical difference to children and families in communities facing disadvantage. This could include providing investment to support centres in these communities expand their QIPs to include a strengthened focus on inclusion and community connection activities, which could become one of the activities on which a centre is held accountable. However, it is crucial to recognise these activities require investment.

Integrated services (like Child and Family Centres) offer one solution to support communities experiencing disadvantage.[143] SNAICC has called for the reinstatement of funding for Aboriginal and Torres Strait Islander Children and Family Centres, as well as consideration of supply/cost-based funding as a mechanism for ensuring quality supply in areas of high need.

Based on the continuum of integration (see Graph 11), the higher or more complex the need, the greater the level of integrated service delivery likely to be required. This frame allows us to consider how and where government investment may best be directed. Certain place-based measures may involve grant funding for integrated service delivery in very disadvantaged communities or supply-side (block) funding for services with high delivery costs and low demand, e.g., very remote service provision and/or in Aboriginal-controlled community organisations.

GRAPH 11: Continuum of Integration

High/complex needs = <u>integrated</u>, co-located services	Moderate support needs = <u>targeted</u> service or program	Low/time-limited support needs = <u>referral</u> pathway or outreach	No support needs = <u>universal</u> delivery

Engaging families and children who are missing out on ECEC

In 2022, 48% of children under five were attending CCS approved childcare services in Australia, which rises to 56% when preschool attendance is included.[144] That still leaves 44% of children under five not currently

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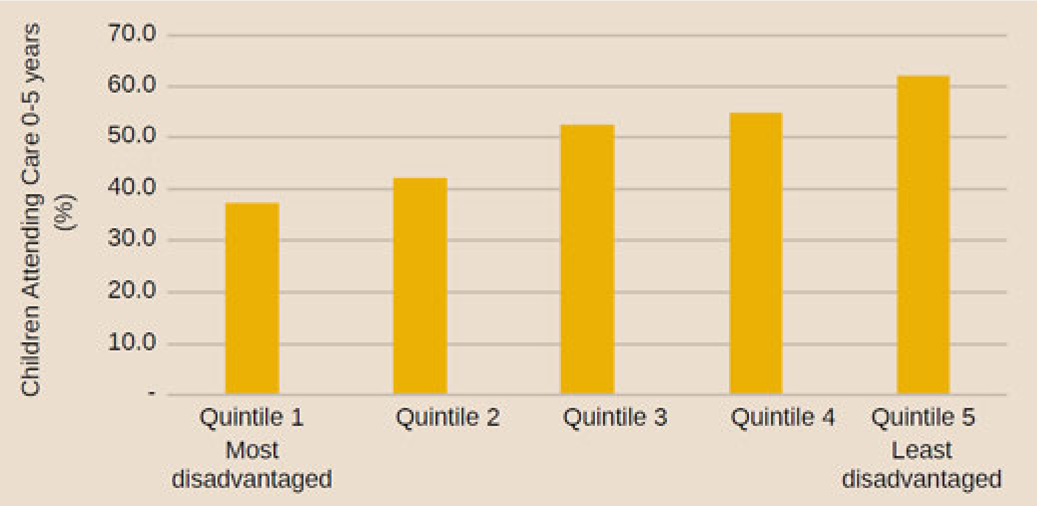
[142] Van der Werf W, Slot P, Kenis P and Leseman P (2021) Inclusive practice and quality of education and care in the Dutch hybrid early childhood education and care systems, International Journal of Child Care and Education Policy (2021) 15:2 https://doi.org/10.1186/s40723-020-00079-x

[143] Harman-Smith, Y., Brinkman, S., Gregory, T., Brushe, M., & Herreen, D. (2017) "Children's Centre Evaluation: Evaluation Report: a report on the measurement of process and impacts" Adelaide, Australia: Department for Education and Child Development.

[144] ROGS 2023 table 3A.14, ABS 4240, Preschool Education 2021

attending ECEC. Children from lower income households are less likely to attend ECEC than children from high income households (see Graph 12).

GRAPH 12: Percentage of children using formal ECEC by income quintile



Source: Impact Economics (2022)[145]

Children from low-income households are more likely to start school developmentally behind and benefit most from access to high quality ECEC.[146] Yet, they are the least likely to attend ECEC. Unfortunately, children who start school behind too often stay behind.[147]

While there is research on the barriers to access ECEC, there is not a great deal of research on who is not attending, why, and how that can be turned around. Our hypothesis is that the CCS changes in 2018 led to low-income families dropping out of the system because cost became an insurmountable barrier to access exacerbated by the complexity of the activity test. As a national provider operating in over 600 communities, we also see evidence that the cultural norm in the community has become that ECEC (other than preschool) is only for working families and 'you have to pay full fees if you're not working'.

Goodstart encourages the Commission to focus on this area by examining the administrative data held by Services Australia and comparing the FTB-A eligible cohort of children with children who have (and have not) accessed CCS, and also those who accessed CCS but only for a short period. Identifying the characteristics of the children who are not accessing CCS consistently will provide crucial insights into who is missing out, what their local ECEC market looks like and how a new universal ECEC system should be designed to ensure it is accessible to the children and families that stand to benefit the most, but are currently missing out.

The Australian Government has made a promising policy commitment to children at risk – ensuring they can access up to five days of free ECEC through ACCS. However, the administrative barriers to this program are significant and many eligible children and their families in the community do not know this support is available. Goodstart has partnered with the Victorian Government to deliver a program of outreach and

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145 Derived from ABS (2017) Childhood Education & Care Survey, from Impact Economics (2022) Undermining Child Development and Parental Participation.

146 Goldfeld S., et al (2016) "The role of preschool in promoting children's health development: evidence from an Australian population cohort" Early Childhood Research Quarterly 35 (2016) 40-48; Sayers M., et al (2012) "Starting School: A Pivotal life transition for children and their families" Family Matters, AIFS, no 90 p. 45-57.

147 Brinkman S., Gregory T, Harris J, Hart B, Blackmore S, Janus M (2013) Associations Between the Early Development Instrument at Age 5, and Reading and Numeracy Skills at Ages 8, 10 and 12: a Prospective Linked Data Study, Child Ind Res.

support in specific communities to address this issue. Our *Increasing Access and Participation* program provides a case management style approach with a Family and Community Engagement Worker who both facilitates the administrative processes with Services Australia and develops a customised orientation plan for each child and family to meet their unique needs. Over the last five years, more than 1,500 children have been supported to access ECEC at Goodstart through the program. We have also been working with the South Australian and Queensland Governments on similar initiatives.

The Tasmanian Government has piloted an outreach program to reach families facing disadvantage as part of its Working Together initiative to increase ECEC participation for three year old children, as has the Australian Capital Territory Government as part of its Set Up For Success strategy. In both these jurisdictions, a fixed cost per place is provided to services to keep places available for children experiencing vulnerability and disadvantage. The Western Australian Government supports facilitated playgroups for First Nations children to connect them with the ECEC systems.

Goodstart would like to see more support for these sorts of very place-specific, community-specific initiatives to engage with families who are disadvantaged and not currently attending ECEC and support them to participate.

Case study: Community Child Care Fund (CCCF)

The CCCF provides a range of grants for childcare services. Grants are intended to help services address barriers to participation in early learning and are targeted towards disadvantaged, regional and remote communities, and Indigenous communities.[148] There are different grant categories with some funding targeted to supporting services to stay open or increase demand, while other funding is targeted to supporting establishment of services in areas of limited supply, including in remote Indigenous communities.

Services in disadvantaged or regional and remote locations generally face higher costs of delivery due to costs associated with maintaining learning environments in remote locations as well as workforce challenges. While workforce challenges are being experienced across the ECEC sector, there are unique challenges and costs associated with remote delivery, including recruiting local, qualified educators or upskilling local residents with professional development ‘in place’, or bearing the cost of fly-in, fly-out educators or short to medium-term secondments in community. As such, the CCCF grants have generally been considered inadequate, particularly where funding supports service establishment but there is insufficient demand in the community to rely on a demand-driven subsidy like the CCS for long-term service viability, let alone to support ongoing investment in quality. Targeted investment should support both the establishment and ongoing viability of these services, with a particular focus on expanding the number of Aboriginal community-controlled organisations, including integrated early years services.

Case study: Early Years Education Program

The Early Years Education Program is a targeted ECEC model, which aims to provide education and care experiences for infants and toddlers (children under 3 years) who are living with significant family stress and social disadvantage. The objective is to deliver a child-focused teaching and learning model that will enable these young children to begin formal schooling developmentally equivalent to their peers.[149] Key features of the model include high staff-to-child ratios, qualified and experienced educators, an infant

[148] Department of Education, Community Child Care Fund, https://www.education.gov.au/child-care-package/community-child-care-fund

[149] https://fbe.unimelb.edu.au/__data/assets/pdf_file/0008/3059297/EYERP-Report-3-web.pdf

mental health consultant as part of the team, and a comprehensive relationship-based curriculum informed by trauma and attachment theories.

The Early Years Education Program is an example of delivering a targeted program – in this case, one that applies a therapeutic framework with attachment and trauma theory – to meet the needs of highly vulnerable children in a particular community. It is an example of how community-level inclusion funding could be used under a reformed ECEC system.

Recommendation:

A reformed ECEC system must include community-level inclusion investment to meet the needs of communities facing disadvantage, to support place-based initiatives reflecting the particular needs of a community, conduct outreach and engage with the community to connect with families not currently accessing ECEC.

Community-level investment should:

- be grant-based and aligned to nationally identified priorities and on a scale much larger than the CCCF to significantly increase participation of children most likely to benefit from access to ECEC
- support service provision in 'thin markets' where demand is insufficient to support a commercially viable service, with ongoing capital and recurrent funding to ensure that children in these areas are not missing out on access to ECEC.

Section 7: Preschool

As discussed in Section 2 – Universal ECEC, delivering universal access to preschool in the year before school has been a notable education policy success story. Between 2012 and 2016, the proportion of children enrolled in preschool increased from 84% to 93%. During the same period, the proportion of children enrolled from the most disadvantaged quintile also rose from 59% to 89%, although these enrolment rates were lower than for children from more advantaged backgrounds. Since 2016, however, enrolment rates in preschool have declined to 87% in 2021 and to around 86% in 2022.[150]

In addition to increased participation rates, reforms delivered under the Universal Access National Partnership to Early Childhood Education (preschool), alongside the NQF, have closed the historic divide between 'preschool' and 'care' to deliver high quality early childhood education and care preschool programs. This has provided more choice and improved access to quality preschool, especially for working families.

A key benefit of delivering preschool in CBDC is that high quality preschool programs are offered five days per week for up 52 weeks a year, with flexible drop-off and pick up times. Families can also book additional casual days if they need to work extra hours, which is not usually an option in community or government preschools. Traditionally, session preschools were offered for two to three short sessions per week for just 40 weeks a year with generally fixed drop-off and pick up times. However, over the last decade many sessional preschools have been innovating to provide greater flexibility for families.

The composition of preschool programs has also changed, with the proportion of children enrolled in standalone government and community preschools falling and the proportion enrolled in CBDC programs rising. While 53% of children in ECEC in the year before school were enrolled in a standalone preschool in 2022, one in four of these children also attended a long day care program. These trends highlight the rise in maternal workforce participation rates over the last decade and the closing of the quality gap between the two parts of the ECEC sector. By 2023, 92% of not-for-profit and public CBDC programs and 87% of private CBCD programs were assessed as meeting the NQS, compared to 96% of preschools, although preschools were more likely to have an Exceeding rating.[151]

TABLE K: Percentage of preschool children enrolled by setting

Setting	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
% Preschools	61%	55%	53%	48%	47%	45%	44%	43%	43%	39%	39%
% CBDC only	38%	42%	43%	47%	45%	46%	46%	46%	47%	48%	47%
% Both	1%	3%	4%	5%	8%	8%	9%	10%	10%	13%	14%

Source: ROGS, ABS 4240.0

Children enrolled in CBDC preschool programs are far more likely to achieve 600 hours of preschool in a year than children enrolled in standalone or sessional preschools. In 2022, 99% of children enrolled in a CBDC program attended for at least 600 hours in a year, compared to just 57% of children enrolled in a government preschool only and 66% of children enrolled in community preschools only. 99% of children who enrolled in both a preschool and a CBDC program attended for 15 hours (ABS 4240.0, 2022).[152] This reflects the difficulties many families have complying with the five day fortnight offered by preschools in Australia. While attendance rates are very high for two full days, attendance drops off for the third day (typically offered as a half day or an alternate Wednesday). One in four families using preschools have

[150] Estimate based on ABS 4240.0
[151] NQS Snapshot March 2023
[152]Children in government and community preschools attending for 15 hours a week are unlikely to achieve 600 hours of ECE over a year once pupil free days and public holidays during term are taken into account.

opted to enrol their child in a CBDC for the third day (and for additional days) for the certainty, though the preschool receives the funding for the provision of preschool on that day, rather than the CBDC.

Enrolment of children facing disadvantage continues to lag enrolment of more advantaged children. This is particularly the case in the two states most reliant on delivery of preschool in CBDC – New South Wales and Queensland. These two states have not met their commitments under the National Partnership Agreement to enrol 95% of vulnerable and disadvantaged children in every year for which reports are available, missing out on a total of $167 million and $77 million in Commonwealth performance-linked preschool funding as a result between 2013 and 2021.[153] Queensland has provided a fee subsidy of $1,409.50 in 2023 for children with a Health Care Concession Care but this amount will be reduced to $1,000 on July 1 – notwithstanding very recent comments by the Queensland Premier that they are considering further affordability measures for the 2023 Budget.[154],[155] Based on commitments in place at the time of lodging this submission, we estimate the average weekly out-of-pocket cost for a non-working family accessing preschool will increase from $12.25 per day in 2022 to $20.87 a day in 2023, even after the Cheaper Childcare reforms take effect.[156] NSW has introduced a fee subsidy of $2,110 per annum for all preschool families in CBDC programs in 2023, which will substantially reduce out-of-pocket costs. Clearly, more needs to be done to increase participation of disadvantaged children in preschool programs and cost remains a key barrier to access.

The national shortage of early childhood teachers is also impacting on the ability of ECEC services to provide stable, quality preschool programs. This issue is further discussed in Section 5 - Workforce. Shortages are particularly acute in rural and remote areas. In regional Queensland, teacher attrition rates were in excess of 40% in 2022 but have fallen sharply in 2023 after the Queensland Government funded incentives for kindergarten teachers in outer regional and remote areas.[157] There is good evidence of programs, particularly in Queensland and Victoria, that have been effective in addressing teacher shortages and these should be applied nationally.

Ensuring all children benefit from Australian Government investment in preschool

While the preschool reform has been an objective success, there is still work to be done. One specific area that has not been successfully implemented is ensuring all children in preschool benefit from dedicated Commonwealth investment. Each successive agreement has included the statement that, “States agree to be responsible for …providing funding to support all children’s quality early childhood education participation, *regardless of whether the program is delivered through schools (government and non-government), standalone preschools or long day care centres*” (emphasis added).[158]

Some states and territories – namely Western Australia, Tasmania and the Australian Capital Territory – have continued to disregard this statement, so the universal access investment was not supporting children whose parents were choosing to access their preschool program in a CBDC setting. So, while each Universal Access agreement allocated Commonwealth funding of $1,340 (in 2022) for every child attending preschool in the year before school, not all states and territories allocate funding in a way that benefits children in

[153] From responses to Senate Estimates Questions on Notice.
[154] Qld is introducing a fee subsidy for non-Health Card Concession families FTB Part A eligible) at a rate of $400 p.a.
[155] May 2023: Free kindy? Qld Government flags plan to save families thousands
[156] Relying on the 36 hours CCS preschool exemption, and assuming average fees increase with CPI
[157] Queensland Government kindergarten funding for long day care providers, available here.
[158] UANP 2009-2012; UANP 2013-2014; UANP 2015; UANP 2018 and 2019; UANP 2018-2021, available at Federal Financial Relations.

whichever setting or service their parents choose. In response to this ongoing issue, the 2022 Preschool Reform Agreement explicitly stated, "Commonwealth funding follows the child at the setting level,"[159]

States that have allocated funding for all children in all settings have seen success, namely Queensland, Victoria, South Australia and, more recently, New South Wales. For example, in Queensland, preschool participation has increased from 29% in 2008 to over 95% in 2022 because preschool funding did follow the child in a way that leveraged long day care participation in the year before school. However, the ACT, Western Australian and Tasmanian Governments still do not allocate any funding to children participating in preschool in CBDC, even when a child is only accessing a CBDC for preschool.

Under the new Preschool Reform Agreement, States only need to acquit Commonwealth funding at the sector level, not at the child level – this means individual children in CBDC services continue to miss out on investment that supports the delivery of a high quality preschool program. For Goodstart, this means children from working families who choose to enrol their children in CBDC-based preschool do not get access to Commonwealth preschool investment, which would be spent on ensuring the preschool program was high quality, e.g. funding for incursions, excursions, in-room resources, higher teacher pay and conditions, etc.

As a national provider, we have insights and observations of the strengths and limitations of preschool funding and delivery in every state and territory in the country. A nationally consistent and equitable outcome for children does not necessarily mean a nationally uniform approach. Instead, leadership from the Australian Government should steer a nationally uniform commitment to each child's preschool access and delivery that leverages state investment and each state's unique strengths. Fundamentally, however, Commonwealth investment in preschool should be allocated to children in the setting they attend.

Addressing the issue of fragmented care

A growing structural flaw in preschool funding yet to be addressed by policy makers is the issue of fragmented care, where children attend two or more settings. Typically, these are children who attend a sessional preschool (usually because it is cheaper) but also attend long day care on the third (and in many cases fourth and fifth) day because the inflexibility of the sessional care five day fortnight does not marry with their family responsibilities. The sessional preschool then receives 100% of the preschool funding allocated for this family, even though they may actually receive equal, or more preschool in another centre. It also means that CBDC services are providing preschool programs for 40,000 children each year without any additional funding beyond that provided by the CCS. If 40,000 preschool children spending at least one day a week in CBDC continues, then the funding arrangements should reflect that to improve the retention of teachers in CBDC. This should also include fee relief to remove cost barriers and various inclusion funding streams to remove other barriers to access and provide additional supports when needed.

Nationally, one in four children attending a preschool attend a CBDC on the third day or for multiple additional days. Cost is a key driver as evidenced by the fact that this proportion tends to be higher in states with government-funded preschool on school sites, which tend to be delivered at low or no cost to all families – e.g. 33% of children in South Australia preschool also attend a CBDC service as do 37% of Northern Territory preschoolers, 28% of Western Australian preschoolers and 44% of ACT preschoolers. The ACT result is particularly remarkable as this jurisdiction has failed to comply with commitments under successive NPAs to fund children attending long day care preschool programs.

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[159] Preschool Reform Agreement 2022.

TABLE L: Children attending both CBDC and preschools and as a % of all children in preschool

State	% children in preschool 2022	2022	2021	2020	2019	2018	2017	2016
NSW	29.1%	9,254	7,897	6,009	6,007	5,287	4,501	4,162
VIC	26.1%	11,303	10,227	7,181	7,920	6,912	6,302	5,559
QLD	17.2%	2,729	2,644	2,263	2,352	2,252	2,197	2,095
SA	33.4%	4,159	4,209	3,980	3,889	3,799	3,553	3,586
WA	28.1%	8,983	8,681	7,351	6,846	5,960	5,732	5,500
TAS	20.0%	1,108	1,174	916	998	904	858	850
NT	36.6%	863	900	868	776	691	612	592
ACT	43.9%	1,688	1,778	1,519	1,607	1,462	1,332	1,354
AUST	**27.2%**	**40,094**	**37,524**	**30,087**	**30,395**	**27,265**	**25,097**	**23,703**

Source: ABS 4240.0

International Thought Leader Carla Rinaldi, during her period as 'thinker in residence' in South Australia in 2013, was very critical of the 'fragmented' approach of ECEC, where four year old children participate in both part-time preschools and long day care centres, which she warned could result in the "*discontinuity of the required conditions and protective factors for welling and education of citizens from birth*":

> *"Among the rights of children and in particular the very small ones, there is the right to live and be in situations in which it is possible to build long lasting, constant relationships….. If early childhood services are considered just as places to meet the needs of working families, and the right of children to build strong and constant relationships and friendships is not taken into consideration, there is a risk of environmental, cognitive and affective fragmentation that could disorient children."*[160]

As discussed earlier, research has identified the educator-child relationship and its 'emotional' aspect as the core of high quality ECEC and child development outcomes[161]. Fracturing that into multiple relationships across multiple settings is well short of best practice and this also creates unnecessary complexity for busy working families. Stability is important to children's development because children thrive with predictable schedules and routines, familiar settings and people with whom the feel secure.[162] Research has found that instability in ECEC arrangements in preschool years is related to behavioural problems for children and later school internalising problems[163] and that unaffordability of ECEC likely contributes to low-income families using multiple arrangements.[164]

In a survey of Goodstart families in South Australia,[165] families confirmed that, if there was no difference in cost, 63% would choose preschool within a centre-based day care setting, 29% would choose a school-based preschool and 8% who would choose a community-based preschool. When asked why

[160] Rinaldi, C "Re-imagining Childhood" The inspiration of Reggio Emilia education principles in South Australia" Adelaide Thinker in Residence 2012-13, Govt of South Australia, p. 37-39

[161] Shonkoff J & Phillips D eds 2000 From Neurons to Neighbourhoods: The Science of Early Childhood Development. Washington, D.C.: National Academies Press

[162] Sandstrom H Huerta S. (2013) "The Negative Effects of Instability on Child Development: A Research Synthesis." Low-Income Working Families discussion paper no. 3. Washington, D.C.: Urban Institute

[163] Claessens A, Hao-Chenm J (2013) "Multiple child care arrangements and child wellbeing: Early care experiences in Australia" Early Childhood Research Quarterly vol 28 p 49-61; Schmitt S., Mihalec-Adkins B., Lipscomb S, Pratt M, Horvath F (2022) *Longitudinal relations among child care stability during the prekindergarten year and behaviour problems, Children and Youth Services Review vol. 138 July 2022 106522* https://doi.org/10.1016/j.childyouth.2022.106522'

[164] Pilarz A (2018) *Child care subsidy programs and child care choices: Effects on the number and type of arrangements, Children and Youth Services Review vol 95 Dec 2018 p 160-173* https://doi.org/10.1016/j.childyouth.2018.10.013

[165] Goodstart parent survey (2023) for the South Australian Royal Commission – 1,243 responses.

preschool in a centre-based day care setting would be their first choice, 86% of families said the hours and flexibility would suit them better.

Moving to a three day universal entitlement would provide greater flexibility and choice for families by ending the current inflexibility of a five day fortnight in sessional preschool arrangements and better supporting high quality preschool programs in CBDC. Provided cost is no barrier in either setting, such arrangements could be seamless and could also improve the professional standing of teachers working in CBDC.

As has occurred in Victoria, Governments should provide support for services in local communities to consider how they can innovate to meet the needs of families. For example, enrolment policies could consider three longer-day programs (with additional days offered to those who need it), flexible age groupings, introducing playgroups, etc. Preschools could also investigate other flexible arrangements, such as offering a third day on Saturday, or offering five half day programs consistent with the original EPPE model. Extended hours could also be considered noting that regulatory requirements should be consistent with the NQS for approved CBDC, in line with services primarily attended by children aged five and under.

Extending the offer for three year old preschool

The evidence is clear that children receive better educational outcomes from two years of preschool rather than one.[166] The Victorian Government in 2023 became the first Government in Australia to fund access of 15 hours a week of preschool across the State. All 183 Goodstart centres in Victoria now offer a funded preschool program led by a teacher for all three and four year olds.

Most other jurisdictions are progressing expanding preschool to three year olds:

- The previous New South Wales Government funded access to three year olds in community preschools and in 2022 set up a $64 million trial of offering preschool programs in long day care in the 2022 Budget[167]. The new Government is yet to confirm that this important trial will proceed
- The South Australian Government has committed to offering preschool for three year olds from 2025 and set up a Royal Commission to map out a plan. The Commission's interim report recommends a mixed model of delivery relying heavily on provision in CBDC services[168]
- The Tasmanian Government has committed to continuing to expand access to early learning for three years olds, building on previous initiatives[169]
- The ACT Government is funding access to preschool for three year olds starting with the most disadvantaged children[170]
- The NT Government has been piloting delivering of three year old preschool on school sites and consulting with the CBDC sector about further options. [171]

There are currently no initiatives to expand access to preschool programs for three year olds in Queensland or Western Australia, although the majority of three years olds attend CBDC services, many of which are already offering early learning programs delivered by qualified early childhood teachers to three year olds.

[166] Fox S, Geddes M (2016) "Preschool – Two years are better than one" Mitchell Institute report 03/2016
[167] https://www.budget.nsw.gov.au/budget-papers
[168] https://www.royalcommissionecec.sa.gov.au/news/latest-news/royal-commission-releases-interim-report
[169] https://www.premier.tas.gov.au/site_resources_2015/additional_releases/working-together-to-deliver-more-early-learning-opportunities-for-our-children-and-young-people
[170] https://www.education.act.gov.au/early-childhood/set-up-for-success-an-early-childhood-strategy-for-the-act/quality-early-childhood-education-for-three-year-olds
[171] https://newsroom.nt.gov.au/article/_nocache?id=2037a3bf3d784143ac4352feec9f98d5

Goodstart has strongly welcomed the initiatives by various state and territory governments to expand access to preschool programs. We are already the nation's largest provider of preschool programs for three year olds with around 21,000 three year old children in our centres at any point in time, a large proportion of whom are in programs delivered by early childhood teachers. Pedagogy and practice is informed by the Goodstart 3-5 Practice Guide developed with from national and international experts.

Our offer for three year old children could be improved if we were able to employ more teachers, and provide them with more resources, professional support and recognition. A full three year old preschool program, as well as seeking to raise the quality of learning for children already enrolled in CBDC, should also see to increase the participation of the 40% of three year olds not currently attending preschool.

While every state will seek to develop a pathway to deliver preschool in a manner that reflects local priorities, a national commitment should at least ensure that these efforts are to provide truly universal access to the benefit of two years of preschool. The National Partnership Approach achieved great success for four year olds. That model could be extended to support three year olds.

A renewed national commitment to universal access to preschool

Goodstart supports the cooperative approach between the Australian Government and States and Territories on universal access to preschool and recommends this be maintained. Collective responsibility by both levels of government is driving improved outcomes for children and families and delivering efficiencies for taxpayers by leveraging investment to support workforce participation and investments made by the Australian Government and State Governments in preschool. This was confirmed by the independent review in 2020.[172]

To continue the strong progress made to date, and reflect the new commitment to the early years led by the Albanese Government, Goodstart urges all governments to make a renewed national commitment to universal access to preschool. Governments should work together to ensure all children can access two years of preschool before they start school, focusing on achieving better child development outcomes, simplicity for families and equity for children at a local level. A renewed commitment should:

- Ensure cost is not a barrier: Parents should not be forced to choose one setting over another because of cost. Rather the choice should be made on the basis of what is best for their child
- Support balancing work and family responsibility: Families should not have to scramble to meet a 3pm pick up, services should be more responsive to their families' needs. But where extended hours are offered, they should be a full ECEC program and not just 'babysitting' as an extension of the school's OSHC program
- Be led by teachers who are respected, recognised and valued as professionals. The national shortage of early childhood teachers must be addressed. Teacher registration for early childhood teachers should be consistent across Australia. Teachers should be nurtured with access to professional development, enough time and support for programming, great resources, and access to mentoring and networking
- Be inclusive via a concerted policy effort to reach out to children not currently accessing preschool, and ensure they are supported when they are in the service
- Measure outcomes as teachers and parents need to know how their children are developing, just as policy makers need to know that the system is delivering on desired child development outcomes.

[172] Nous (2021), Review of the National Partnership Agreement on Universal Access for the COAG Education Council.

Recommendations:

A new national commitment to two years of preschool for all children, regardless of location or setting that:

a. Builds on the strength of the existing State and Commonwealth Universal Access partnership to establish a new National Commitment ensuring universal access to two years of preschool for all children that:
   i. equalises the experience for children across state/territory systems where most are moving towards a two year preschool model
   ii. focuses on achieving better child development outcomes, simplicity for families and equity for children at a local level
   iii. leverages existing participation in CBDC environments by providing higher level of subsidies for teacher-delivered programs in the two years before school and ensures the Australian Government's commitment that 'funding follows the child' is delivered to the service the child is actually attending
   iv. increases the minimum preschool dose to three days per week, in line with the minimum entitlement for all children from birth to five, with up to five days for children who need more
   v. establishes improved data transparency and accountability, including for children experiencing vulnerability and children attending multiple settings
   vi. moves to a more streamlined approach over time, capitalising on existing investments in larger States with a pathway for smaller jurisdictions to provide equitable access for all children in Australia
   vii. includes a holistic focus on outcomes – assessment.

b. Simplifies understanding of quality, access and affordability for families making decisions about preschool enrolments by improving transparency and accessibility of preschool subsidy information, i.e. on the *Starting Blocks* website.

c. Improves the quality of preschool delivery by investing in the teachers and the delivery of programs and learning frameworks.

d. Investigates and addresses the high incidence of children experiencing fragmented ECEC and peer groups by attending multiple preschool settings to ensure those children and their families are able to make decisions based on the best interests of the child without cost barriers.

Section 8: A new funding system that delivers quality, access and inclusion

This section builds on the proposed policy objectives for the design of universal, high quality, affordable ECEC and outlines key considerations and options for a new funding system to deliver on these objectives.

As outlined in the Terms of Reference, the funding models should ensure ECEC is:

- **More accessible** – ensuring parental activity is not a barrier to optimal child development, via a child-based entitlement of at least three days of ECEC, regardless of parental activity and more days available if:
  - the family works more than three days a week and requires it to support workforce participation OR
  - the child is vulnerable or disadvantaged and would benefit from more days
- **More affordable** – ensuring that cost is not a barrier to optimal child development or to parental workforce participation
- **Higher quality** – ensuring quality delivers on the promise of optimal child development, backed by stronger policy levers to ensure quality provision and pay and conditions that reflect the workforce's crucial role in delivering quality services in early education;
- **More equitable and inclusive** – ensuring children get the support they need to develop optimally, and services are more responsive to the needs of disadvantaged communities.

Importantly, a financing instrument to support universal access to high quality and affordable ECEC must be complemented by funding mechanisms to support inclusion at the child, service and community level (see Section 6 - Inclusion). These complementary funding instruments provide a critical safety net and support for children with additional inclusion support needs, for the services that support them and for communities experiencing disadvantage or place-based challenges.

Strengths and limitations of the current funding system

The CCS was implemented in 2018 after the PC's 2015 Inquiry report concluded that 'there is no compelling case to shift from the current child-based to a provider-based payment system for mainstream ECEC funding in Australia'.[173] The CCS changes sought to address affordability and availability challenges for families in order to encourage workforce participation and to reduce complexity in the system. There are strengths of the current funding system and it has supported thousands of working families; access to preschool for working families; and it supports a high degree of choice in where families send their children (with some inadequacies which we will discuss later in this section).

The CCS was not designed to achieve the universal ambition and the Independent Evaluation of the reforms found they had disproportionately disadvantaged children from low-income families where their parents either had insecure work or were looking for work.[174]

[173] PC 2015, pp.566 -567

[174] AIFS (2021). Evaluation of the Child Care Package, p 208-209.

The current funding system is inadequate and the problems we should seek to address are summarised below.

- Cost and availability remain a barrier to access. Children in the most advantaged quintile are 1.5 times more likely to attend ECEC than children in the least advantaged quintile,[175] even though attendance at ECEC reduces these children's risk of developmental vulnerability.[176]
- The activity test does not create incentives for work and prevents children from attending regularly, meaning that children who benefit most from ECEC access the least.
- Funding is not linked to achieving, or improving performance against, minimum quality benchmarks, or to create incentives for Exceeding Quality Standards.
- Funding instruments are not adequately supporting inclusion with a one-size-fits-all approach that assumes children largely have the same needs and require the same package of support.
- Funding arrangements do not efficiently or effectively support increases in wages and conditions for the workforce as the market rewards providers with the lowest fee, putting downward pressure on wages.
- Funding arrangements are not supporting the sustainability and growth in high quality NFP and public sector services, restricting family choice and the provision of inclusive services in some markets.
- There is a high administrative burdens on families to access subsidies, with an even higher burden for children at risk, families experiencing hardship, and families in receipt of income support payments.
- A lack of transparency makes it very difficult for families to compare quality, price and out-of-pocket costs across services.
- The single hourly rate cap for CBDC encourages cross-subsidisation between ages.
- Funding arrangements are inadequate to ensure supply of ECEC services in markets with low demand, particularly low SEIFA areas, where greater proportions of children are eligible for fewer hours of subsidy.
- There is no systemic funding mechanism to engage and support disadvantaged families, or to recognise higher costs of delivery in communities experiencing disadvantage.
- ISP does not fully cover costs of inclusion and has narrow eligibility.
- Growth in high quality service provision has reduced as capital follows providers with highest surplus and returns and NFP services are constrained due to challenges in accessing capital.
- There is no provision to ensure the sector is sustainable after emergencies and natural disasters (COVID, floods and bushfire, for example).
- Leakage of funding out of the sector occurs to support profits, potentially in ways that are undesirable for Governments and taxpayers.
- Inadequate indexation means the subsidy is losing value over time and eroding affordability for families.

Insights from international funding models

There are two key ECEC funding approaches used around the globe which support child development and workforce participation benefits – supply side (provider based) and demand side (parent or purchaser). Supply side funding can be delivered in a range of ways - block funding, activity-based funding, benchmark funding or programmatic funding[177]. Demand side funding is generally paid to offset family fees based on

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[175] Impact Economics and Policy (2022), Childcare Subsidy Activity Test: Undermining Child Development and Parental Participation, p. 11

[176] Goldfeld S., et al (2016) The role of preschool in promoting children's healthy development" evidence from an Australian cohort, Early Childhood Research Quarterly 35 (2016) 40-48

[177] Front Project (2022) Funding Models and Levers for Early Childhood Education & Care https://www.thefrontproject.org.au/media/attachments/2022/08/30/ecec-funding-models-and-levers.pdf

child enrolments and delivered as either a flat amount or income tested (either as a subsidy, tax credit or voucher).

Demand side funding is a feature of marketised child care systems, found most commonly in English speaking countries and the Netherlands, while other European countries are typified by public provision and taxpayer funding, or supply side funding where private provision occurs[178]. Generally, net childcare costs for families are higher in marketised systems than in supply side funded systems. In practice, many international systems incorporate elements of both funding approaches (e.g. New Zealand and England) and all jurisdictions have experienced challenges in maintaining accessibility and affordability for families. In Australia, Federal Government funding is mostly demand based (CCS), while most State preschool funding is supply funded (i.e. direct to providers).

In some jurisdictions including the UK[179] and New Zealand[180], supply-side funding is targeted to deliver a nominated level of free childcare hours, for which no fees are charged to families. Yet, out of pocket costs in both of these jurisdictions are higher than Australia. The government grant is intended to cover the full 'reasonable' cost of care – however, experience suggests the rates are often inadequate, which can lead to very high out-of-pocket costs for families outside of the base entitlement.[181] In these systems, fees are charged to families for additional hours outside of the free entitlement, which are often used by services to cover the funding shortfall for the funded 'free' hours[182]. Subsidies and/or tax offsets are generally also provided to assist families with the costs of additional hours outside of the free hours entitlement.

The Netherlands has a demand side subsidy with the childcare benefit impacted by income, childcare expenses and the type of care.[183] Dutch out of pocket costs are similar to Australia, although the Dutch system – also a hybrid system of public and private provision – has a stronger system of quality regulation than Australia.[184]

Further detailed information about international models is in Appendix B. Key insights follow.

- Free almost never means free unless it is delivered by fully funded public provision.
- A certain number of 'free days' or 'free hours' for some or all children often have to be cross subsidised by higher fees for other children, mostly working families which can create disincentives for work.
- Supply side 'block funding' can be efficient and effective if the overwhelming majority of children attend close to full time, and if families have limited choice in which service they use.
- The composition of the market in terms of NFP, private and public provision matters in considering which approaches best deliver on outcomes and mitigate risks for Government.
- Governments are considering how to have pay and conditions for the workforce and quality measures tied to financing instruments. Ireland's new ECEC funding model includes a new 'core funding' grant

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178 Productivity Commission 2014 p. 927-8

179 BBC explainer "What is the plan for 30 hours of free childcare and how will it work? 16/3/2023 https://www.bbc.com/news/education-62036045

180 Fawcett Society (2022) Childcare and early education systems: a comparative literature review of liberal welfare states, London

181 UK Early Years Alliance (2023) https://www.eyalliance.org.uk/news/2023/02/almost-nine-10-early-years-providers-set-increase-fees-year; Harris C 25/2/2019 https://www.stuff.co.nz/business/industries/110773655/childcare-centres-defend-rising-fees-as-cost-of-raising-a-child-rises

182 New Zealand Child Care Subsidy see https://www.workandincome.govt.nz/products/a-z-benefits/childcare-subsidy.html; United Kingdom tax credits see https://www.gov.uk/get-childcare

183 https://www.iamexpat.nl/expat-info/allowances-benefits-netherlands/child-benefits

184 Van der Werf W., Slot P., Kenis P & Leseman, P. (2021) Inclusive Practice and quality of education and care in the Dutch hybrid early childhood education and care system, International Journal of Child Care and Education Policy (2021) 15:2 https://doi.org/10.1186/s40723-020-00079-x

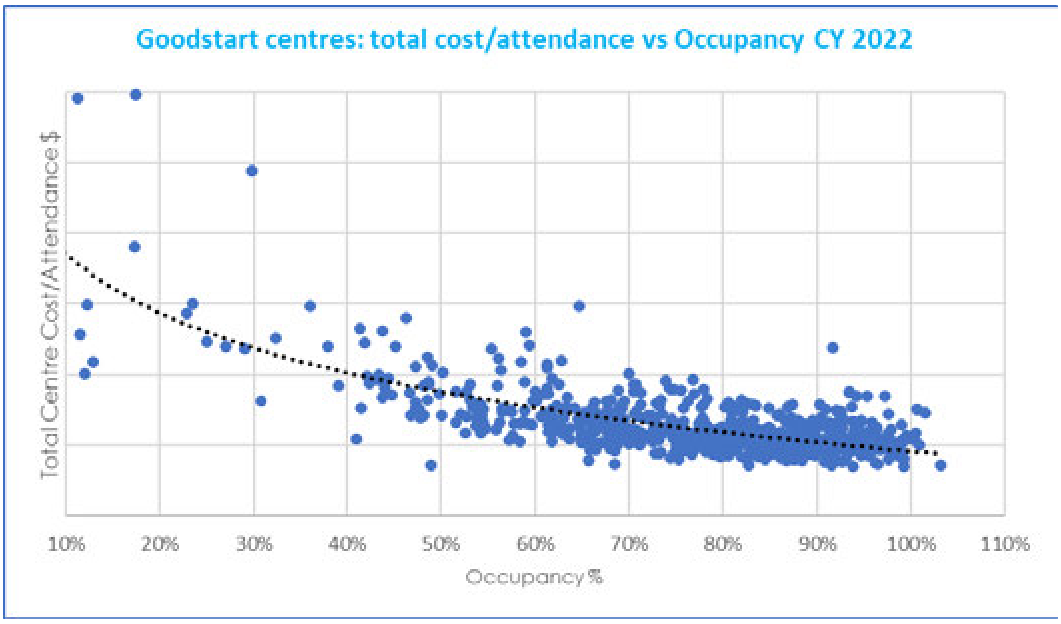
that provides a contribution to providers' reasonable wages and non-wages costs.[185] It is supported by a child-based subsidy to assist families with residual fees. Providers receive core funding grants but must agree to fee controls including approvals for fee increases.

Crucial considerations in the Australian context

Reflecting on the international experience, there are a small number of crucial factors that have a significant impact on the viability and feasibility of various financing instruments for ECEC in Australia:

- **Australia has significantly more variability in attendance patterns than other OECD counties, both in terms of days attended and hours attended[186], with much higher high proportion of parents who work part time**.[187] Unlike other repeat-use human services systems like schools or aged care, where each student or client fully utilises a place, variation in numbers of days attended makes it challenging to efficiently utilize all places and establish meaningful, efficient benchmarks.
- **Occupancy is seasonal.** With the departure of preschool children to school in January, occupancy drops to the lowest point for the year before gradually increasing, typically by 11-15% to peak in November before starting to drop again. This means that average costs for providers are higher in the first half of the year than the second.
- **Many costs within a service are fixed, including labour and rent – with limited capacity to achieve efficiencies – which is amplified by variable occupancy.** A centre must have a centre director, an early childhood teacher and a cohort of permanent staff based on minimum standards, regardless of variations in occupancy. Most overheads and regulatory costs are also obligatory, such as costs of compliance, information technology, financial oversight and some marketing and administrative costs. As a result, average costs vary significantly and rise and consistent with occupancy levels. For example, a centre that is 95% full has an average cost per utilised place one-third lower than a centre that is 45% full.[188]

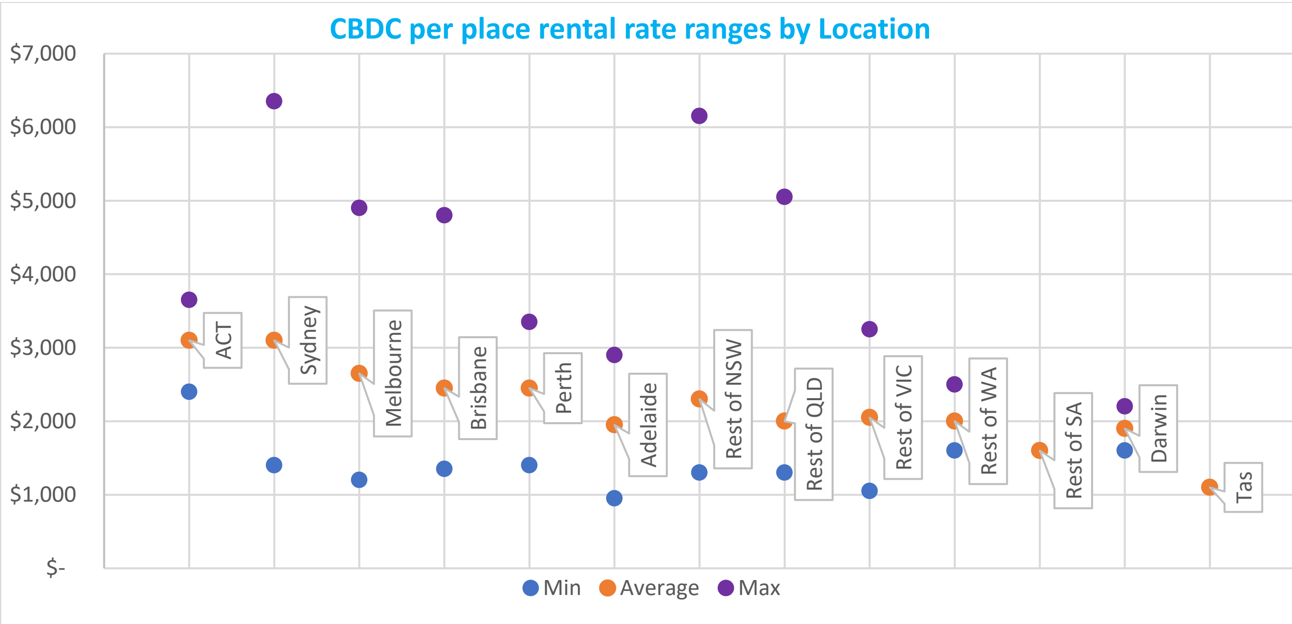
GRAPH 13: Total cost per attendance vs occupancy (2022 calendar year)



185 https://first5fundingmodel.gov.ie/
186 See Attachment 2
187 OECD Family database LMF 1.2 Maternal Employment. Only the Netherlands and Switzerland have a lower proportion of part time working mothers than Australia, although both have a much higher maternal participation rate.
188 Centre based costs only – excludes overheads.

- **Property costs are highly variable between regions:** Analysis by childcare property specialists Cushman and Wakefield, shows that rents for childcare centres have risen strongly in recent years. Recent childcare sales indicate rents per place varied from $1,550 to $6,950 per place. The average rent in Sydney and Melbourne was around $3000 a place, while the average rent in South Australia, Tasmania and much of regional Queensland was below $2000 a place.[189] Goodstart's centres show a similar variety, with the average rent per place for centres in the most expensive quintile around 2.5 times higher than the average rent for place for centres in the bottom quintile. The broader sector shows even wider variety, with some NFP and public services enjoying 'peppercorn' rents, while some developers of new centres are asking for as much as $10,000 a place. The Federal Education Department's reporting of average hourly fees for CBDC shows that the average fee for the most expensive decile of centres is $13.74 compared to $9.51 for the lowest decile of centres.[190]

GRAPH 14: CBDC rent per place by location



Source: Cushman & Wakefield 2022

- **The ECEC sector is highly fragmented**. In 2022, there were 3,944 discrete providers of CBDC, of which 3,514 operated just one or two services, comprising 46.3% of all services. [191] Just 21 providers operated 26% of services with business models that generally delivered higher levels of quality than smaller providers.[192] 31.3% of services were run by NFP or public providers with a much higher proportion of costs allocated to wages and smaller proportions allocated to property and finance costs and profit than private providers .[193]

- **The involvement of multiple levels of government is a strength that delivers better outcomes**. Approaches that leverage State and Australian Government funding, particularly in relation to preschool deliver positive outcomes in terms of improved quality provision for children, improved pay

[189] Cushman & Wakefield (2022) "Australia Property Insights: An Overview of the Australian Child Care Real Estate Investment Market" p. 20.
[190] Dept of Education - child care statistics June 2022: Compared 'average fee of the SLA3s with highest average fees containing 10% of centres' with 'average fee of the SLA3s lowest average fee containing the bottom 10% of centres'.
[191] Analysis based on ACECQA NQS National Register Q4 2022.
[192] Harrison L et al (2023) Structures and systems influencing quality improvement in Australian early childhood education and care centres, The Australian Educational Researcher https://doi.org/10.1007/s13384-022-00602-8
[193] Based on analysis of publicly released annual financial statements of larger providers.

for teachers and improved affordability for families that supports workforce participation. See detailed explanations in Section 7 - Preschool.

Options to create a pathway to a universal ECEC system

We considered a wide variety of supply and demand side financing approaches. All options considered below are based on the following core design features:

- Universal child level entitlement to three long day sessions of ECEC[194]
- A radically simplified activity test that allows all children to access up to two additional days to either support workforce participation; or for children likely to be vulnerable
- Adequate annual indexation and adjustment approaches to retain value over time
- A primary funding model for a child's (and in fact, all children's) three to five day entitlement is desirable, with additional and necessary options for investment to fully fund costs of inclusion at a child, service and community level
- Each option could be calibrated to deliver a flat 90% subsidy for all children or could be targeted to achieve affordability objectives using an income test such as the current CCS taper.

Three key options are summarised below. We would be pleased to share our more detailed analysis of options, risks and benefits with the Commission.

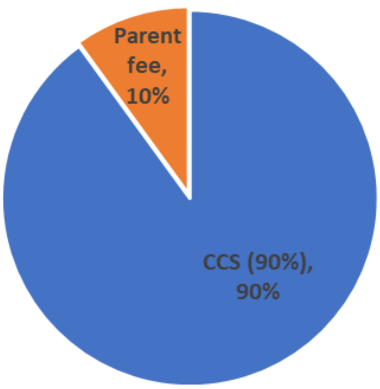
Options for further consideration	
Option 1: Improve the Child Care Subsidy: under this model the foundations of the existing CCS would be retained , including the hourly caps. Suggested improvements could include differential rates for age of child, preschool programs, very high cost regions, session lengths; a new market based methodology to ensure the rate cap retains value over time; higher rates, including free provision for some cohorts; option for flat 90% subsidy or with a means test with a flatter taper and a base entitlement for all families.	
Advantages	**Disadvantages**
- builds on existing system - efficiently addresses variability in costs of delivery - differential caps could support a fairer attribution of costs to families via fees - supports co-investment in preschool - if a means test is retained, market pressure and co-payments keep downward pressure on fees - responsive to demand	- no lever to fund and influence pay and conditions, quality or inclusion - reliance on market fees has not supported fair wages for educators - unlikely to drive supply where needed - unlikely to influence system policy objectives - unlikely to act as a constraint on fee growth which could increase costs to government over time - moving to a flat rate would be regressive with the bulk of extra funding flowing to high income earners
Option 2: A mixed supply (direct) and CCS style payment: Under this model a new 'cost of provision' direct payment would be made to providers based on attendance to cover a large proportion of the costs that are least variable across the sector (e.g. wages, consumables, centre running costs). This would include additional loadings linked to system policy objectives such as inclusion and quality, and could include a per centre loading to smooth variations in costs across the year to ensure viability. Other more variable costs (e.g. property, surplus etc) would be covered by a residual fee charged to families and subsidised by a CCS style payment, retaining key features of the current CCS. An alternative option that would help ensure supply would be to make the 'cost of provision' payment to services for all configured places for services that meet quality and inclusion benchmarks and objectives to replace the attendance payment in full or in part.	
Advantages	**Disadvantages**
- lever to fund and influence pay and conditions, quality or inclusion without passing costs onto families - significantly reduced reported daily fee for families - cost of provision payment based on attendance already reported to government	- complex to accurately calculate 'cost of provision' provision with significant variability expected across services - effectiveness is highly sensitive to adequacy of payment and loadings and to variability in attendances

[194] 10-12 hour sessions per day to meet needs of working families with rationale outlined under 'Other important considerations for financing'.

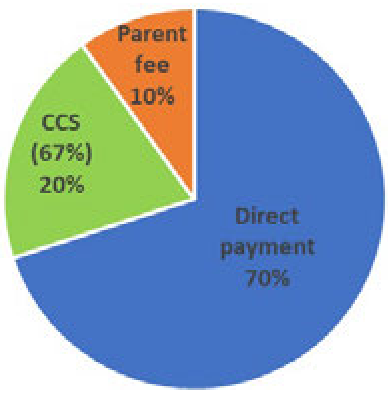
- payments and loadings can be aligned more closely to public policy objectives - maintaining CCS on residual fee reduces risk of providers or families being out of pocket if funding does not keep up with cost increases	- investment required to inform calculation methodology and annual review - complexity generated by the need to account for variability in cost structures and to achieved desired policy objectives - risks of under and over subsidisation and high costs to families in high fee markets, although this is tempered by the CCS - variable attendances may need to be smoothed out for funding to reduce under & over payments
Option 3: Direct Wages Subsidy (variation of Option 2) and CCS style payment: Under this model a new 'wages subsidy' would be paid directly to providers to fully cover wages costs and on-costs based on NQS ratios and government agreed rates which would be set to pay above the minimum benchmarks where this reflects the true and incurred labour costs of a service. This could include additional levers for quality and inclusion (including ensuring the instrument doesn't put downward pressure on qualifications and wage rates). The remainder of the fee would be covered by a residual fee to families and subsidised by a CCS style payment that retains key features of the current CCS. *Note – the service would continue to be the employer responsible for all labour decisions and employment contracts.*	
Advantages	**Disadvantages**
- strongest lever to fund and influence pay and conditions as biggest driver of quality - significantly reduced reported daily fee for families - funding immediately responsive to variability changes in labour costs - government could agree to fund higher level of wages to meet agreed quality and Inclusion goals	- complexity in implementation, including developing new payroll linked IT system - providers could perceive they lose some control over labour - incentives to manage labour efficiently could be diluted

Examples of funding sources under each of the options:

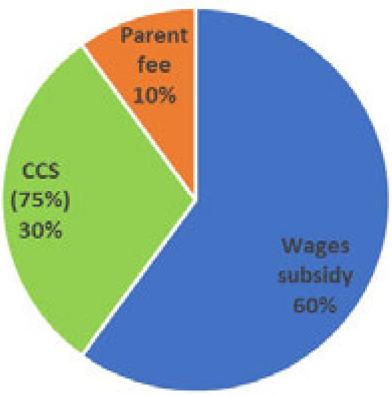
Option 1
90% CCS



Option 2
Direct payment + CCS*



Option 3
Wages Subsidy + CCS*



* Options B and C include a CCS (income-tested) component, which covers 67% and 75% of the residual fee respectively, to produce a total out-of-pocket cost to parents of (on average) 10% of total cost.

Suggested criteria to consider financing options

The following criteria are useful in assessing financing options, noting a combination of approaches is likely to be needed.

1. **Quality** – supports child development by providing financial and regulatory incentives for quality (and disincentives for poor quality); supports workforce participation by giving parents confidence about ECEC quality

2. **Inclusion** – recognises and funds the real cost of inclusion for children experiencing vulnerability or with additional needs and for inclusion of children from culturally and linguistically diverse backgrounds, children who have experienced trauma, and supports workforce participation for parents of children with additional needs and long term unemployed families seeking to enter the workforce.
3. **Sector sustainability**
    a. **Workforce:** provides a mechanism for funding appropriate wages and conditions, without negatively impacting affordability and access
    b. **Market Stewardship**: supports growth of high-quality provision (e.g. NFP) and discourages low quality provision
4. **Access** – provides appropriate places to support workforce participation and, provision in underserved or 'thin markets' including in rural and remote areas; and removes excessive administrative barriers
5. **Affordability –** provides adequate assistance to families so that cost is not a barrier to access; and ensures appropriate financial incentives for parents to work additional days (especially secondary income earners) with reference to the overall tax transfer system
6. **Efficiency** – encourages cost-effective delivery (technical efficiency) and distributes government funding to activities that will deliver the greatest value (allocative efficiency)
7. **Sustainability & Compliance** – manages long term costs for Government and tax payers and reduces the risk of sharp practice or fraud

Other important considerations for financing

Higher rate for multiple children:

Under all the options, the higher CCS rate for multiple children would be retained at up to 95% for the second and subsequent child. The residual CCS under Options 2 and 3 would be set to achieve an out of pocket cost of no more than 5 per cent on average for the second and subsequent.

Managing variability in attendances and ensuring supply:

Option 2 is based on an average cost of delivery and Option 1 on the flat fee set by the provider. The high variability of attendances presents cashflow challenges, which could limit supply in some markets. Option 2 could be designed to 'smooth' out attendances to a degree, or allow part of the funding to be paid on configured places rather than attendances, which may be desirable in some markets, or if Government is trying to increase supply more broadly.[195] Funding under Option 3 would flex to cover the wage costs as they change with attendance.

Shifting from funding based on hourly fees to daily fees:

Goodstart encourages the Commission to investigate whether ECEC funding should shift from a 'per hour' basis to a 'per day' basis. Families compare ECEC providers on the basis of daily fees, while services currently compete on the basis of hourly fees. A shift to per day would make it easier for families to compare fees. The rest of the education sector is funded on 10-week terms, rather than hourly blocks. It would remove the complexity of differing hourly fees (and hence funding) between 9, 10, 11 and 12 hour sessions and leave the length of the session as a commercial decision between providers and families – noting an 11 hour opening time (and 11 hour session offer) allows flexibility for parents in pick up and drop off, which is highly valued by families.

[195] For example, the new Irish ECEC funding model includes an element of 'core funding' based on places.

Remove distortions in the market by covering costs when a service is closed:

Services are closed are public holidays, staff training days, Christmas shutdowns, while undertaking repairs and during emergencies (e.g. floods, cyclones, bushfires, infectious disease outbreaks). In most circumstances where a centre is closed, the Families Assistance Law does not allow a centre to charge families a fee or claim CCS for that day yet centres continue to incur wage and rent costs. Centres are allowed to charge families and families are currently allowed to use absence days for public holidays. In 2022, after many years of lobbying, the Federal Government agreed to allow centres to claim CCS without charging a gap fee on days that a centre was closed due to an emergency.[196]

In 2020 Goodstart decided not to charge families for public holidays and increased its daily fee to largely cover the cost of 10 fewer billable days in a year. Over time, as costs have increased above inflation, this has pushed more of our sessions above the hourly fee cap even though families are being billed for fewer days annually. Most providers (other than OSHC) continue to charge for public holidays and can charge a lower daily fee as a result. Our preferred approach would be that providers receive the CCS payment that covers most of their costs on public holidays and not charge families a gap fee. This would be similar to the rules that were applied to the 2022 floods (and previously to COVID-related closures).The same principle could be extended to a limited number of whole of centre staff training days, similar to the four days per annum that schools and preschools are able to offer their teams for child-free, whole of team professional development and training days. This would have a positive impact on quality and workforce retention.

Under Options 2 and 3 above, the standard payment could be provided for authorised centre closure days without families incurring a fee.

Educator (staff) discounts:

Goodstart welcomed the decision of the Government in December 2022 to allow educator discounts to be deducted against the gap fee. Around 20% of our educators claim the discount, which is a significant attraction and retention measure in the midst of a workforce crisis. It should continue to be a feature of CCS policy moving forward but the government should ensure that the concession is being utilised appropriately by all providers.

Fee constraint:

Higher ECEC subsidies increase the risk that the benefit to families is consumed by provider fee increases. In general, we consider that local markets currently operate effectively to constrain fee growth. Across Goodstart's network of 660 centres, our experience is that:

- centres priced above the local average often see occupancy decline
- centres in markets where a new entrant opens often see occupancy decline, although many families subsequently return
- in the rare years when Goodstart's fee increases were above the sector average, our occupancy overall tended to fall while in years our fee increases were below the sector average, our occupancy tended to rise.

In short, families are price sensitive and the market works to constrain fees.

However, changes to funding arrangements to support universal access to low or very low-cost care for families – which will weaken price signals to families – will likely require a stronger role from government in

[196] https://ministers.dese.gov.au/robert/gap-fee-waiving-available-child-care-services-flood-affected-queensland-and-new-south-wales

fee transparency and potentially control. If the government moved to provide a flat 90% subsidy, it is effectively the 'purchaser' and should promote stronger price transparency.

Our assessment is that the hourly fee cap in the current CCS arrangements acts as a modest restraint on fees. In the first years of the CCS, fee increases were noticeably higher in markets with lower average fees, but hourly rates have risen faster than the hourly fee cap since 2018. As at June 2022, 21% of long day care centres had an average fee above the fee cap, compared to 11% in 2018.

Working to strengthen local markets could address this issue and would involve two key initiatives:

- Improve fee transparency, so families and providers can more easily compare fees, and
- Monitoring excessive fees and requiring providers to justify such excessive fees as a condition of funding and/or to be an approved provider for CCS.

While local market competition is generally effective, there continue to be outliers burdening families with excessive fees and excessive fee increases. Fee growth will continue to be a concern under more generous subsidies with weaker price signals (from much lower out-of-pocket costs) for families.

The PC should consider the findings and recommendations from the ACCC Inquiry on what additional options may be desirable, practical and effective. Goodstart looks forward to the opportunity to comment on and test these options in the next stage of the PC's Inquiry process.

Fee transparency needs to be improved:

Real time transparency of fees gives families good information as they consider local centres and gives providers real-time information on local market conditions and strengthens competition at a local level – especially in the context of the highly fragmented ECEC market. It also gives policy makers real-time information on what is happening with fees and affordability.

The Government's website, *Starting Blocks,* does not provide accurate information on fees and makes it hard for families to compare like-for-like services or accurately compare and calculate out of pocket costs. Many providers are not updating their fees regularly or accurately on the site, even though it is a requirement to do so, and penalties may apply for non-compliance. Inaccurate information erodes confidence and the ability to make informed decisions about pricing in local markets.

Fee transparency through Starting Blocks could be improved by:

- Mandating real time fee disclosure and potentially linked to fees reported to the CCMS
- Specify which fee is to be disclosed (e.g. a '3-day, 10-hour' fee or the longest daily session), so families can compare like with like
- Provide information on other fee polices such as discounts, fees charged on public holidays and whether the service is CCS eligible
- Make the data publicly accessible in bulk (open source), so other aggregator websites (e.g. Kindicare and Care for Kids) and providers have broader access to market fee data
- Make it easier to for families to compare fees and services in a local area
- Ensure quality ratings are given equal prominence.

Alternatively, the Australian Government could also use real-time administration data reported through CCMS (Child Care Management System) to Services Australia to ensure fees are reported accurately. The inclusion of the date a centre's fee was last updated on Starting Blocks would also give families an indication of the currency of the fee information and an indication of whether fees are likely to increase in the near future. We would be pleased to share our internal analysis about this with the Commission.

Affordable vs free:

Goodstart does not support government funding to provide a universal entitlement to 'free' ECEC for all children. In comparable jurisdictions (New Zealand and the UK in particular) where commitments to provide free ECEC have been made, subsidies have invariably failed to adequately cover the full costs of providing care. As a result, the cost of additional hours beyond the 'free' hours or fees for families outside the target group for free hours (e.g. younger children), may be very high as providers seek to recoup losses[197]. This leads to very high out-of-pocket costs and workforce disincentives for families of young children, especially mothers.

We strongly support a universal entitlement to *affordable,* high quality ECEC for families that is provided by fair and transparent government funding. However, while we recognise that for most families a co-payment at some level is affordable, we know that for some families on very low incomes any cost is a barrier to access and for these families ECEC should be free.

We note the complexity and undesirable outcomes that have developed in funding systems that seek to provide 'free' ECEC with different funding mechanisms supporting different types of entitlement – one system for the free hours and another for additional hours. We support an integrated government funding system that supports all the hours of a child's assessed entitlement. This is simpler to administer for Government and providers, and simpler for families to understand when they make their choices.

This approach also reduces the risk that interaction between funding systems creates or exacerbates very high effective marginal tax rates for secondary income earners. A single system allows the Australian Government to ensure child development and workforce participation incentives are set with reference to the broader tax transfer system and settings that influence family decision making about work, study, and training especially when children are young.

Funding approaches not prioritised for further consideration

We considered a number of alternate design features that are not prioritised for further investigation given time constraints. These are:

- **subsidy rate or cap based on an *efficient* rather than *benchmark* price** – significant variability in costs across Goodstart's network of centres demonstrates that an efficient price (typically calculated on an average efficient cost basis) would significantly underfund families using some services with higher cost profiles, unless many multiple differential caps were added
- **subsidy rate or cap benchmark based on *median* price rather than *85th percentile* –** as above, a median price benchmark would significantly underfund families using roughly half of services that higher cost profiles. A higher benchmark where the subsidy paid is based on actual fees up to the benchmark rate balances fairness for those families accessing higher cost care with efficiency
- **an annual cap on the amount of subsidy a family can receive for a child** – experience with the CCR annual cap has demonstrated how arbitrary caps on subsidies can distort parental workforce participation decisions and encourage gaming, and was rejected by the independent evaluation of the CCS in 2021
- **varying hourly or daily subsidy caps based on quality indicators** – we consider that such an approach would be complex to administer, too confusing for families to assess cost and quality and could have the perverse outcome of making it harder for low quality providers to improve quality

[197] Brennan & Admonson 2015 ibid

- **higher hourly caps for services in vulnerable or disadvantaged communities** – not recommended because it would result in different fees across services making it hard to compare based on price, and would not address out of pocket costs for low income families which is a key barrier to access
- **higher hourly caps for individual children with higher support needs or vulnerability indicators –** not recommended as it would be highly complex to administer and direct payments to support these children is more effective in meeting costs of inclusion (as happens now)
- **varying hourly or daily subsidy caps based on whether providers have industrial agreements in place to improve wages and conditions** – as above, this would be very complex to administer, confusing for families and an inefficient way of funding wage increases liable to leakage.

In addition, although there are a range of tax offsets and rebates in use in comparable jurisdictions, Goodstart does not consider these options for delivering demand side subsidies are worth further exploration in the Australian context. The disadvantages canvassed comprehensively by the PC's 2015 Inquiry Report, namely that these mechanisms are regressive and provide no or limited assistance to the lowest income families, are compelling and given the short timeframe for this inquiry do not warrant further investigation.

Consideration of a 90% flat rate CCS

A universal flat rate of subsidy and/or access to free ECEC for all families may be desirable in the long term but the Government's key objectives will be better met by foundational investments in staff, provision and quality in the shorter term.

The Commission has been specifically asked to consider a universal 90% childcare subsidy rate for all children and families, and other advocates have proposed an entitlement to at least some level of free childcare (as is the offer in comparable jurisdictions including NZ and the UK). Goodstart fully supports recognising ECEC as a fundamental part of the Australian education system. Universal access to public schools is free for all families regardless of income and, in principle, it makes sense to adopt a universal approach to access to early childhood education.

However, moving to a 90% flat rate subsidy for all children would cost around $3 billion a year with the largest benefits for high income families, [198] and substantially increase demand for ECEC while the system is struggling to provide quality ECEC for current levels of demand. As discussed earlier, other reforms to allow Australia to eventually provide all children universal access to affordable, high quality ECEC should be prioritised.

There are a number of considerations that Goodstart would suggest the Commission take into account in its considerations:

1. Moving from a means test to a flat subsidy rate is an inherently regressive investment. Childcare costs are regressive, with a low income family typically paying three times as much as a share of disposable income than a high income family. The means tested CCS ameliorates this. A flat rate 90% CCS would provide a substantial additional benefit to high income earners, but none to low-income earners. Around 70% of the additional cost of moving to a flat rate 90% CCS would flow to high income earners. An alternative 'flat rate' approach considered by the Biden Administration in the USA was to set the 'flat rate' as a percentage of income, with a proposal to fund subsidies to cap child care costs at not more than 7% of income.[199]

[198] KPMG (2020) The child care subsidy: Options for increasing support for caregivers who want to work.
[199] https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/

TABLE M: Out of pocket costs for family with one child in 30 hours of ECEC as a % of disposable income

	Net cost as % Income before CCS	Net cost as % income after CCS
$35 000	31.0	4.7
$55 000	28.2	4.2
$75 000	24.4	4.1
$95 000	20.6	4.8
$115 000	17.9	5.4
$135 000	15.8	5.8
$155 000	14.1	6.1
$175 000	12.8	6.4
$195 000	11.7	5.9
$215 000	10.9	5.4

Source: ROGS 2023 table 3A.23

2. The limitations of the CCS in linking to other public policy objectives, such as quality and inclusion. Based on market fees, the CCS provides little scope for Government to influence other public policy objectives, such as quality or inclusion.

3. The effect of reliance on market fees on wages. The reliance on a market has the effect of placing maximum pressure on providers to restrain costs, which in turn has not supported an environment where wages for ECEC educators reflect the true value of their work. To address this, in the absence of an across the board increase in award wage rates, a separate funding stream will probably need to be developed to directly fund wages.

4. Consideration of whether the CCS has acted as an effective break on fee increases. In a private market, fees will rise dependent on what families are willing to pay. An increase in public subsidy will change this dynamic. Between 2018 and 2022, average hourly fees rose rather than CPI (which was used to index the hourly fee cap). As a result, around twice as many centres have an average fee above the hourly fee cap.

5. A high flat rate of subsidy may build public commitment to a universal system. Universal entitlements can build a sense of universal ownership of a policy. This has been part of the enduring popularity of Medicare. Access to public schools is free and the same principle could be applied to ECEC.[200]

6. The subsidy could crowd out capacity for public investment in higher priority objectives. The cost of moving to flat rate of CCS is around $3 billion p.a., twice the cost of the 2022 Cheaper Childcare reforms. Some of this cost could be recouped in improved labour market participation and subsequent economic growth.[201] KPMG, Grattan and the Australia Institute make a case that a 95 to 100% subsidy would increase workforce participation (rates and days worked) compared with a means tested subsidy.

On balance, while in the long term a flat 90% subsidy may desirable, shorter term a better return on investment for child development and workforce participation outcomes would be achieved through an income test, similar to the current CCS income test. This would allow the money saved to be directed to higher priorities such as funding the child level entitlement, fully covering the costs of inclusion and improving wages for the workforce. Then, and only then, can the system deliver as truly universal offer that could meet the expected increase in demand generated by a 90% or free ECEC subsidy offer.

[200] Grudnoff M, 2022 “The Economic Benefits of high quality Universal Early Childhood Education” Australia Institute
[201] KPMG “The child care subsidy: Options for increasing support for caregivers who want to work” Sep 2020

Further, some low-income families need their full cost of ECEC to be covered to overcome cost as a barrier, for other families more targeted assistance is adequate to support access. Retaining some variant income testing – at least initially while other higher priority investments are funded –might produce a better outcome for both child outcomes and workforce participation than an increase in CCS for middle and upper incomes.[202] A sense of 'universality' in entitlement could also be engendered with a flat subsidy rate for middle and upper incomes, as proposed in the original CCS bill in 2015 before it was amended as it moved through the Senate.

Another way to think about a 'universal subsidy' may be as a flat percentage of family income rather than of fee. Finland, for example, caps families out of pocket costs as a flat percentage of family income.[203] The Biden Administration proposed a similar approach in the US for its stalled child care affordability plan.[204] To address cost as a barrier, some very low-income families need their full cost of ECEC to be covered, which is a feature of Finland's system.

Recommendations:

A new or reformed financing and funding model tied to quality, inclusion and building a skilled ECEC workforce. We specifically recommend the following key considerations:

a. That the Commission consider financing approaches that make progress towards a universal, affordable quality ECEC system, which encompasses the most positive elements of demand and supply side funding. The new or reformed model should be developed in close consultation with the sector to test for unintended and intended consequences.

b. That the financing approach and model moves away from attempting to meet all need with a single financing instrument and recognises the need for a multi-layered financing model to meet broader public policy objectives of supporting child development and workforce participation by ensuring:
   i. inclusion funding supporting the child, service and the community (see Section 6 - Inclusion)
   ii. quality by more closely tying funding and regulatory instruments to the inputs that are most important to delivering quality, particularly improved pay and conditions for the workforce
   iii. ensuring funding prioritises supporting a stable, professional ECEC workforce that is paid decent wages broadly comparable with the schools sector
   iv. ECEC market management and funding that supports the growth of services that are high quality, in communities that need them and delivering on national priorities on access, quality and inclusion.
   v. has robust tools in place to ensure local markets are effective and that fee transparency is improved with real time fee disclosure and that excessive fees are addressed.

[202] Gong X & Breunig R (2012), "Estimating Net Child Care Price Elasticities of Partnered Women with Preschool Children using a discrete structure labour supply-child care model" Treasury Working Paper 2012-01
[203] https://okm.fi/en/client-fees-ecec
[204] https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/

Section 9: ECEC market growth and not-for-profit provision

In this section, we explore the role of NFP services in driving higher quality, better wages, higher levels of inclusion and lower out of pocket costs for families.

The role of NFP services in a balanced market

The NFP sector plays a vital role in the long day care sector. Evidence shows that NFP services are likely to be higher quality, more inclusive and more affordable than private services, while also paying their employees more.

Charities with the dominant purpose of the advancement of education, like Goodstart, are exempt from income tax and payroll tax in every State and Territory in Australia. These invaluable concessions have allowed us to increase our investment in social inclusion initiatives for vulnerable children, raise the quality of early learning through professional development and learning and improve wages and conditions to our hard working teachers and educators. Conversely, the consequences of Goodstart losing our status would be profound. Liability for payroll tax would increase our costs by around 4%, severely impacting on our long-term viability without a large increase in fees, a reduction in over-award wages and conditions for educators, or reduced investment in social inclusion activities. Private providers with only one centre are also typically exempt from payroll tax, but generally do not make the investments in workforce, quality and inclusion that Goodstart and other large NFPs make.

NFP and public services have higher quality ratings on average than privately operated services

NFP services make up 31% of all CBDC services, but 52% of Exceeding services and just 21% of Working Towards services.

TABLE N: Long day care centre quality ratings – March 2023

	Exceeding	%	Meeting	%	Working Towards	%	Total
NFP	685	33.1%	1239	59.9%	143	6.9%	2067
Ind. Schools	94	42.2%	110	49.3%	19	8.5%	223
Govt.	133	39.6%	182	54.2%	21	6.3%	336
Private	998	18.2%	3791	69.1%	695	12.7%	5486
TOTAL	**1910**	**23.6%**	**5322**	**65.6%**	**878**	**10.8%**	**8110**

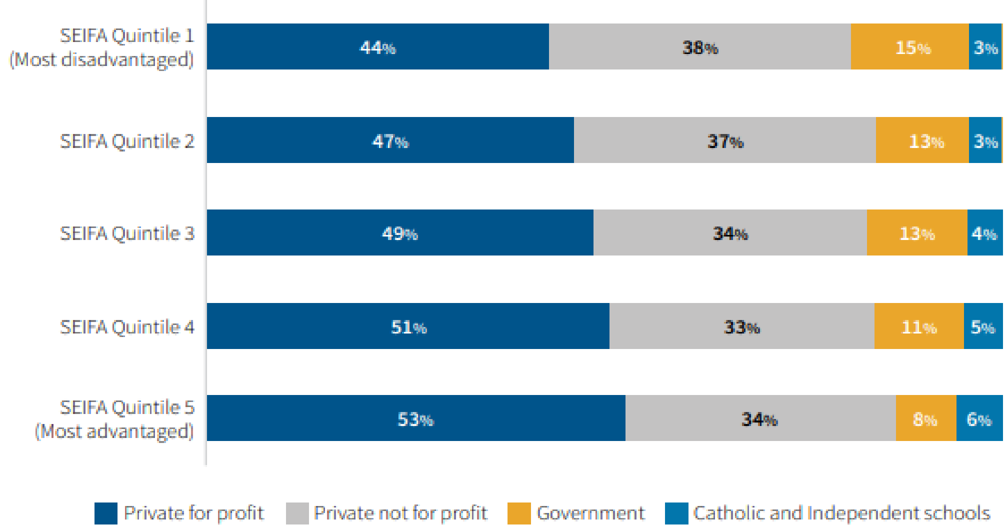
Source: ACECQA NQS Snapshot March Quarter 2023

NFP providers are more likely to serve disadvantaged communities

ACECQA data shows that the majority of services in the two bottom quintiles of communities by disadvantage were NFP or Government run, while the majority of services in the most advantaged quintiles were privately operated (see Graph 15).[205]

[205] ACECQA Occasional Paper no 7 Quality ratings by SEIFA 2020 p. 14

GRAPH 15: Percentage of Approved services by provider management type & SEIFA quintile



Source: ACECQA 2020

NFP services are – on average – more affordable than private services

In Q3 2021, the average hourly fee charged by NFP CBDC services was $10.80, while for-profit services was $11.05 per hour.[206] Taking into account the average session lengths offered in both sectors, this works out to an average daily fee of around $118.60 for a typical NFP service in 2021, and $125.20 for a typical private service, a difference of 5.3% per day.[207] The CCS Evaluation found that fees as a proportion of family income were lower for families using NFP services (3.6%) than in private services (4.0%).[208]

NFP providers are able to redirect surplus back into supporting children

In 2022-23, around 5.5% of ECEC revenue was profit, or around $800 million. This was down from a peak of 10% of revenue ($1.4B in profit) pre-COVID in 2018-19, but is projected to increase to around $900 million next year on the back of strong revenue growth.[209] NFP services are able to invest surplus back into supporting children, while privately owned services use surpluses to pay a return to owners, or service debt to deliver a future return.

Modelling by the Australia Institute finds that the leakage of profit from the ECEC sector erodes the potential economic dividend that improved affordability could deliver from improved workforce participation. Modelling the economic gains of moving to 'free' ECEC, it found that the GDP gain would be 13% higher and the employment gain 31% higher if all new growth was in the NFP sector compared to all new growth occurring in the private sector, in addition to the benefits of higher quality provision.[210]

NFP providers tend to pay their staff more and have better staff retention

As discussed in Section 5 - Workforce, 99% of Enterprise Agreements in Children's Services are in NFP services, with analysis of the National Workforce Census showing that NFP staff are more likely to be paid

[206] Senate Education & Employment Committee Budget Estimates 2022-23 Department of Education response to question on notice SQ22-000397

[207] Analysis of the ACECQA national register (June 2022) showed the average session length for private providers was 11:20 hours and for all other providers (NFP, Govt & Indep. Schools) was 10:59 hours).

[208] AIFS Child Care Package Evaluation Aug 2021 p.122

[209] IBIS Consulting (2023) Childcare Services in Australia, IBIS Industry Report Q710

[210] Grudnoff M, 2022 The Economic Benefits of High Quality Universal Early Childhood Education, Australia Institute

above award rates and to stay with their employer longer.[211] While average tenure for paid contact staff in ECEC services is 3.6 years,[212] the average tenure of Goodstart paid contact staff is 5.6 years. A 2019 survey of NFP community services found that 41% of community services operated at above NQS staffing ratios.[213]

NFP providers are more likely to provide high cost places for birth to two year old children, i.e. nurseries

The Productivity Commission report in 2014 found that 20% of private providers did not provide places for birth to two year olds, compared with just 10% of NFP providers. Providing nursery places for these children costs twice as much as places for three to five year olds due to higher staffing ratios and can be less profitable.[214] We encourage the Commission to consider current availability of birth to two places.

NFP providers invest heavily to support children who are vulnerable

In 2019, 87% of NFP ECEC providers reported they had children in their services who were in vulnerable circumstances.[215] As the largest NFP provider, we allocated $16.9 million in 2022 to support social inclusion activities. KU Children's Services, the second largest NFP provider, allocated $2.3 million to support social inclusion activities in 2021.[216]

NFP providers are more likely to accept children with additional needs

As discussed in Section 6 - Inclusion, the cost of supporting children with additional needs is not fully met by the ISP, and providers often face significant costs supporting these children. 8% of children enrolled at Goodstart are children with additional needs, twice the sector average of 4%. Many parents have told us that their child was turned away from other centres before they came to us.

Despite the strong quality, inclusion and affordability record of the NFP sector, fewer and fewer families have the choice of sending their children to a NFP service because of the declining share of services that are NFP. Between 2013 and 2023, the percentage of LDC services that are NFP (including private school and government services) fell from 40% of all centres to 31.1%. In that period, just 81 new NFP services and 113 services at private schools opened, compared to 2,363 new private services. This reflects the difficulties that the NFP sector faces in raising funds for capital growth, particularly community centres that rely very heavily on government funding for capital.

TABLE O: Growth in long day care services by management type

Setting	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
NFP	2063	2078	2072	2072	2071	2077	2095	2111	2125	2131	2146
	32.2%	**32.1%**	**30.8%**	**29.9%**	**28.9%**	**27.8%**	**27.1%**	**26.3%**	**25.5%**	**24.9%**	**24.5%**
Private	3838	3904	4156	4337	4553	477	5108	5367	5637	5848	6035
	60.0%	**60.3%**	**61.7%**	**62.5%**	**63.5%**	**64.6%**	**66.0%**	**66.8%**	**67.7%**	**68.3%**	**68.9%**
Ind. schools	122	131	134	142	166	186	192	211	223	231	235
	1.9%	**2.0%**	**2.0%**	**2.0%**	**2.3%**	**2.5%**	**2.5%**	**2.6%**	**2.7%**	**2.7%**	**2.7%**
Government	375	360	360	383	376	376	349	346	345	346	345
	5.9%	**5.6%**	**5.3%**	**5.5%**	**5.2%**	**5.0%**	**4.5%**	**4.3%**	**4.1%**	**4.0%**	**3.9%**
TOTAL	**6398**	**6473**	**6734**	**6934**	**7166**	**7455**	**7744**	**8035**	**8332**	**8556**	**8761**

Source: ACECQA NQS Snapshot, June Qtr, March for 2023

[211] NFP services are not liable to pay payroll tax, but nor are standalone private providers which typically fall under the payroll tax payment threshold in most jurisdictions.
[212] National ECEC workforce census 2021 p.23
[213] ACCS Trends in Community Children's Services Report 2019 p. 20
[214] Productivity Commission Childcare Report 2014 p.957-8
[215] ACCS Trends in Community Children's Services Report 2019 p. 33
[216] KU Children's Services Annual Report 2021

Trends in growth of the ECEC market

A key argument in favour of demand-based subsidies like the CCS is that they support the sector to increase the supply of places to meet demand. This has been the case in Australia, but only in the private sector. In the eight years to June 2022, ACECQA data shows that the number of long day care centres increased by 31.7% and the number of approved places in those centres rose by 50.8%[217]. In the same period, Department of Education data shows that children enrolled in long day care rose by just 23.6%, less than half the growth rate in places, with children per place falling from 1.54 in 2014 to 1.39 in 2018 to 1.26 by 2022.[218]

TABLE P: Centre based day care services – growth in centres and child enrolments

Jun Qtr	2014	2015	2016	2017	2018	2019	2020	2021	2022
Centres[1]	6473	6734	6934	7166	7455	7744	8035	8332	8556
% Growth	*1.7%*	*3.7%*	*3.0%*	*3.35%*	*4.0%*	*3.9%[3]*	*3.8%*	*3.7%*	*2.7%*
Places[1]	409,560	428.294	447,432	471,123	500,460	532,861	562,905	592.266	617,545
Children enrolled[2]	631,400	643,810	660,370	682,060	694,830	738,410	706,000	782,760	787,500
% Growth[3]	*4.1%*	*2.0%*	*2.6%*	*3.3%*	*1.9%*	*5.2%*	*-4.4%*	*10.9%*	*0.6%*
Children per place[3]	1.54	1.5	1.48	1.45	1.39	1.37	1.24	1.31	1.26

Sources: [1]ACECQA NQS snapshot; [2]Dept of Education child care statistics. June 2020 estimated from Sep 2020 data; [3]Children excludes 7,260 children transferred from former BBF and OCC centres to the CCS in July 2018.

The growth in centres has been driven by the demand by investors for child care properties with record sales in 2021 and 2022, as "...investors targeting these asset's recession-proof qualities like stable long-term leases, rather than the hunt for yield that dominated the past few years."[219] Another analysis enthused that: *"Childcare centres have become the new bank; Covid and recessionary-proof in terms of avoiding disruption, heavily subsidised by the Commonwealth and featuring long leases with built-in increases*."[220] A 2020 analysis of the child care property sector noted that the average rent per place increased from $2,002 to $2,864 per place between 2015 and 2020, and the average sale price per place had risen by 54% as 'appetite for investment increased.'[221] In 2021, child care centre transactions surged from around $400 million a year to $950 million, dropping back to $480 million in 2022.[222] Just this month (May 2023), a financial services company was offering investors returns of 9.5% for investments in its Childcare Income Fund and has previously advertised returns as high as 10%.[223]

An Urban Economics report on occupancy rates across the sector in 2018 found that, "generally there has been a decrease in occupancy…which is coincident with an increase in the opening of new centres."[224] The report noted that the appetite for ECEC centre investment was strong with the advent of national and international operators taking control of independent operators, major international private equity firms

[217] The average size of long day care centres rose from 63.1 places in 2014 to 72.2 places in 2022.
[218] This was offset to a degree by growth in average weekly hours in long day care over the period.
[219] "Childcare centre market poised for growth in 2023" The Property Tribune 16/3/2023 https://thepropertytribune.com.au/industry/commercial/childcare-centre-market-poised-for-growth-in-2023/ citing Cushman & Wakefield "Child's Play: An overview of the Australian Child Care Real Estate Investment Market 2022".
[220] Sandro Peluso 15/10/2021"$98m childcare deal sealed as centres dubbed 'the new bank' https://www.realcommercial.com.au/news/98m-childcare-deal-sealed-as-centres-dubbed-the-new-bank
[221] Burgess & Rawson "Childcare industry insights" August 2020
[222] Cushman & Wakefield ibid p. 23
[223] https://www.finexia.com.au/childcarefund.html accessed 14/5/2023
[224] Urban Economics (2018) "Occupancy and Performance Appraisal: Early Childhood Education and Care Sector"

investing in the sector and self-managed super funds and 'mum and dad' investor/operators attracted to the sub-$5million price point of many centres coupled with the long leases to operators and are therefore competing with institutional and corporate real estate all "driving record yields for centres (particularly in metropolitan areas) across Australia".[225]

The demand for childcare centres as investment assets reflects the high margins that landlords can achieve with high lease occupancy rates, long term 'triple net leases' where tenants carry much of the cost or repairs and maintenance, including structural building costs, such as roofs and foundations, rebuilds after damage and even building upgrades and playgrounds. In FY 2022, Australia's two largest owners of childcare centres enjoyed bumper years.[226]

TABLE Q: Financial outcomes – ECEC Real Estate Industry investment trusts 2021-22

	Charter Hall social infrastructure REIT[227]	**ARENA REIT[228]**
Number of properties	368	263
Percentage of childcare properties	85%	96%
Occupancy	100%	100%
Average lease length	14.3	19.8
Total revenue	$104.0m	$67.2m
Operating profit	$62.9m	$56.3m
Like for like asset valuation lift	$269.4m	$254.4m
Statutory profit	$358.5m	$334m

Source: Annual Reports

Like all REITS, both entities face significant increases in finance costs in FY2023 as interest rates rose.[229]

Large profits are also made buying and selling childcare operations. In 2021, large private equity fund Anchorage Partners booked a profit of $400 million on selling Australia's second largest privately owned childcare operator Affinity Education Group for a reported $650 million, having acquired the group five years before for $212 million.[230] In April 2023, the current private equity owners of Affinity appointed agents to manage the sale of the company.[231]

Australia's third largest private provide, Guardian Early Learning Group changed private equity owners in 2016 with a profit over $300 million for the previous owners.[232] The group has been put up for sale again by the current owners in 2023 with a potential price tag of $1 billion.[233] The next three largest providers Busy

[225] Urban Economics *2018) p. 4
[226] Goodstart is the largest tenant of both Charter Hall Social and ARENA and has had a long term productive leasing history with both REITs.
[227] Charter Hall Social Infrastructure REIT Annual Report 2022
[228] ARENA REIT Annual Report 2022
[229] Australian Financial Review 15/2/2023 "Finance cost rise hits childcare landlord"
[230] Australian Financial Review 17/6/2021 "Quadrant $650m Affinity but puts childcare in the hotseat"
[231] "The Australian" 4/4/2023 "Barranjoey, Jeffries Australia tapped for Quadrant Private Equity's Affinity Education childcare business"
[232] Australian Financial Review 31/1/2016 "Partners Group buys Guardian Early Learning from Mavis Capital"
[233] "The Australian" 10/3/2023 "Morgan Stanley wins role to sell Guardian Early Learning Group"

Bees[234], Think Child Care[235] and Only About Children[236] have all changed owners in the last five years and are now held by large foreign owned entities.

Most of the growth in ECEC has not been from high quality providers…

Family Assistance rules for approved providers include no requirement that a would be operator has demonstrated competency in managing quality early learning facilities.[237]

In the last two years, 86% of new, long day care centres opened in Australia were privately owned, 13% were NFP (including non-government schools) and just 1% were government owned. Of the providers who ran these centres, just 35% had a proven quality record with at least 90% of their existing services meeting the National Quality Standard (NQS). 33% had less than 90% of their existing services meeting the NQS, while 32% were new operators with no proven quality record.

TABLE R: New long day care centres opened by quality of provider in CY2021 & 2022

Provider type	New provider	Providers with <90% of current services meeting NQS	Providers with >90% of current services meeting NQS	Total
Private operators	128 (32%)	130 (33%)	140 (35%)	398 (86%)
NFP operators	23 (38%)	6 (10%)	31(51%)	60 (13%)
Local govt	2 (33%)	1 (17%)	3 (50%)	6 (1%)
TOTAL	**148 (32%)**	**164 (35%)**	**174 (38%)**	**464**

Source: ACECQA National Register

Supply is not always corresponding with need

Services are too often being oversupplied in areas already well serviced and undersupplied in other areas, the so-called 'childcare deserts'. Analysis by the Mitchell Institute[238] showed that 36.5% of Australian children aged birth to four live in neighbourhoods described as 'childcare deserts' with three children for every available place, while 13% live in 'oversupplied' areas (1.7 children for every available place). Children in the four deciles of the most disadvantaged areas were twice as likely as children in the top two deciles to live in a 'childcare desert'. Outer regional and remote areas are three times more likely to be in childcare deserts than children in major cities.

Childcare 'quality' deserts are also a concern. At 30 June 2022, 84 per cent of ECEC services in the most disadvantaged areas were rated Meeting NQS or above, compared with 89 per cent of ECEC services in the most advantaged areas.[239] Goodstart has a strong focus on supporting these communities and is proud to buck this sector trend, with 96 per cent of our services in SEIFA 1-3 areas are Meeting or Exceeding the NQS (see Graph 4).

Impact of unregulated growth in the sector

Basic economics suggest that, as supply grows in a market, then the price will fall. This, however, relies on the extent to which price (and costs) are variable. When a large part of a price reflects fixed costs, the

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[234] "Courier Mail" 1/5/2018 "Blue Sky Foundation Early Learning childcare sale finally done but far below book value"
[235] https://thesector.com.au/2021/10/22/busy-bees-announces-acquisition-in-new-zealand-completes-think-childcare-deal/
[236] https://investors.brighthorizons.com/news-releases/news-release-details/bright-horizons-acquire-only-about-children-premier-child-care
[237] https://www.education.gov.au/child-care-package/child-care-subsidy/approval/check-your-eligibility
[238] Hurley, P., Matthews, H., & Pennicuik, S. (2022). *Deserts and oases: How accessible is childcare?* Mitchell Institute, Victoria University.
[239] ACECQA 2022 NQF Annual Performance Report, p. 32.

average cost of provision actually rises when occupancy rates fall. This is the case in ECEC, where a large part of the cost base is fixed. Fixed costs include[240]:

- Property costs: Rental costs per place are fixed regardless of occupancy
- Property related costs: including fixtures, utilities, insurance, rates, repairs and maintenance
- Much of labour costs: Labour costs are fixed by NQS ratios. Low occupancy centres have much higher labour costs per attendance than high occupancy centres. Fixed labour costs include the wage costs of a centre director, early childhood teacher, educational leader and the first educator in each room
- Overheads: Information technology, marketing, regulation and compliance and administration all have a fixed element and with average costs falling as occupancy rises.

As a general rule of thumb, the breakeven occupancy rate is around 70-80%, although this is highly variable and can be much higher in major cities where property costs are higher. As occupancy falls, quality often suffers, as services struggle to find the resources to invest in programming and professional development needed to maintain quality. In its latest industry analysis report, IBIS Consulting notes that relatively low occupancy rates are working against childcare services, due to surplus capacity, opening of new centres, the COVID effect and the impact of new private equity investors. IBIS observed, *"Low occupancy rates in key geographic markets are also contributing to declining profit margins. In response, childcare providers have sought to raise fees."*[241]

Oversupply of centres is also an inefficient use of labour; a finite resource.[242] While CBDC services have grown 23% between 2016 and 2022, completions in Certificate III and Diploma courses have fallen by 2.4% and 14%, and completions for Early Childhood Teacher degrees by around 14% (see Section 5 - Workforce). While the childcare sector averaged 3,257 new vacancies per month in 2016, it averaged 6,720 per month in 2022. The growth in the workforce has not kept pace with the growth in new centres.

A planned approach to sector expansion should see more investment directed to communities that need more services. Markers of success would include an increase in average occupancy rates in those communities and meeting local demand for places without contributing to shortages. If achieved, this should then reduce the average cost of provision. Provided the local market was competitive, fees should reflect that over time. Such a planned approach would require the Government to collect and analyse data about the demand and supply for ECEC places in local areas and adopt a proactive approach for approvals.

The pro-active approach to ECEC market management in New Zealand

A more deliberative and planned approach is taken to approvals in the Network Management rules for new and existing operators in New Zealand which require that applicants meet seven criteria before being granted 'network approval' to open a new service.[243] This approach follows a National Statement of priorities aiming to *'help ensure that all children have access to quality learning and prevent the unintended consequences of over supply'.*[244] The first two criteria (financial position and suitability of the applicant) are similar to the criteria for an 'approved provider' under Australia's Family Assistance law. But the five additional criteria could provide a sensible addition to Australian requirements. The seven criteria are:

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[240] See discussion under Section 8 – Funding.

[241] IBIS Consulting (2023) ibid p. 11-12

[242] Recent example: https://www.theguardian.com/australia-news/2023/may/11/the-labour-shortage-in-regional-towns-forced-our-daughter-out-of-childcare

[243] https://www.education.govt.nz/early-childhood/running-a-service/starting-a-service/network-management/

[244] https://assets.education.govt.nz/public/Documents/Early-Childhood/network-management/National-Statement-24-Nov-2022.pdf

- **Capability:** demonstrating they have the capacity, skills and experience that 'reflect all aspects of establishing, governing and providing a high-quality early childhood service'. For example, applicants must provide details and evidence of experience in:
    - managing the proposed development including, where relevant, building or renovating premises
    - governing or providing early childhood services or other relevant organisations, and
    - delivering education and care that incorporates any special characteristics, philosophy or service provision the applicant has identified.
- **Previous licence history**
- **Attributes of the area,** including the needs of communities and children in the area, and the availability of licenced early childhood services in the area. This can include relevant information on supply, growth, demand and the need for services in the area, which is laid out in the National Statement
- **National Statement priorities:** Whether the service will meet the need of the area, or a priority identified in the National Statement. These priorities include:
    - Māori or Pacific bilingual or immersion services
    - Services well-equipped for learning support needs
    - Services well equipped for migrants or former refugees
    - Services on new school sites and wrap around services
    - Wrap around services
    - Any other matter the applicant thinks may be relevant.

After a 'network approval' is granted, the operator then requires a licence for the new service, which demonstrates that it complies with the physical requirements for a centre[245]. This is similar to the Service Approval by a State and Territory regulators under the Education and Care Services National Law in Australia.[246]

The Canadian approach to ECEC market expansion

In its 2021 Budget, the Canadian Government committed to a $30 billion investment to build a Canada-wide early learning and childcare with quality provision a key part of their plan:[247]

> *"The federal government will work with provincial, territorial, and Indigenous partners to build a Canada-wide, community-based system of quality childcare. …..Just as public school provides children with quality education in their neighbourhoods, the government's goal is to ensure that all families have access to high-quality, affordable and flexible early learning and childcare no matter where they live."*

The plan commits to develop funding agreements with the provincial and territorial governments to *" to support primarily not-for-profit sector childcare providers to grow quality spaces across the country while ensuring that families in all licensed spaces benefit from more affordable child care."*[248] [249]

The Canadian decision to prioritise non-profit provision was taken to ensure that expansion of access to affordable care was linked to quality. This was the lesson of the earlier rollout of $10 a day childcare in Quebec, which had very positive outcomes for women's workforce participation but more mixed outcomes

[245] https://www.education.govt.nz/early-childhood/running-a-service/starting-a-service/starting-a-centre-based-ece-service/applying-for-a-licence/
[246] See for example: https://www.vic.gov.au/approval-process-early-childhood-services
[247] Canadian Budget 2021 Chapter 3 https://www.budget.canada.ca/2021/report-rapport/p2-en.html#chap3
[248] Canadian Government 2021 ibid
[249] https://www.canada.ca/en/early-learning-child-care-agreement/agreements-provinces-territories.html

for child development as quality was variable. Positive behavioural and cognitive outcomes were consistently achieved in higher quality, non-profit childcare centres.[250] An earlier study of 325 Canadian childcare classrooms found a particularly strong quality advantage for non-profit centres .[251]Here the Victorian Government has adopted a similar approach, with state funded capital grants for new kindergarten services and places restricted to local government and not-for-profit organisations.[252]

A potential ECEC market management approach in Australia

While the evidence shows that quality ECEC is more likely to be delivered in NFP settings than in for profit settings, that is not to say that quality cannot be delivered in private settings. There are almost 1000 for profit services assessed as Exceeding the NQS. While 52% of Exceeding centres are privately owned, 79% of Working Towards centres are privately owned. And only a third of new centres opened in in the last two years by providers with above-average quality ratings.

A new approach to ECEC market management should seek to ensure that pre-approvals for new services explicitly consider local demand and supply to ensure that they are built in communities where they are needed, and that operators (or centre leadership teams) with a proven record of delivering quality early learning are able to operate them.

A more robust ECEC market management approach for Australia could require:

1. New service approvals to be limited to providers with proven quality records

Provider would not be granted a new service approval unless 90% of their existing services Meet or Exceed the National Quality Standard, which could be increased over time to 95%. Exceptions could be made for new operators where the operator has previously owned or managed a service that was assessed as meeting NQS; or where the service is not-for-profit and meets national priorities around quality and inclusion.

2. **New service approvals to require an assessment of need**

There must be an identifiable need for the service in the community. The regulator should publish datasets of demographic trends, demand and supply to assist potential providers to identify communities that either under- or over-serviced. Education Ministers should develop a national statement of ECEC market priorities similar to New Zealand, which outlines priorities for market growth beyond simple demand and supply, for example the need to meet the needs of First Nations communities, newly arrived migrants, children with additional needs, or to provide integrated services or very high-quality learning.

3. Direct investment in new NFP and publicly owned centres

The current funding system has failed to provide families with sufficient choice in ECEC, particularly the option of attending high quality NFP or publicly owned services. The long-term decline in the share of services that are NFP or public must be reversed to give families genuine choice.

High quality NFP and public services play a crucial role in the market by setting benchmarks for quality, increasing competition on price, providing inclusive options for children with additional needs, and

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[250] Pierre Fortin 2018 “Quebec’s Childcare Program at 20” Insights issue 42 Spring https://inroadsjournal.ca/issues/issue-42-winter-spring-2018/

[251] Gordon Cleveland and Michael Krashinsky, “The Non-profit Advantage: Producing Quality in Thick and Thin Child Care Markets,” *Journal of Policy Analysis and Management*, Vol. 28, No. 3 (Summer 2009), pp. 440–462

[252] https://www.schoolbuildings.vic.gov.au/building-blocks-grants-capacity-building ; Education Minister statement 12/3/2020 at https://www.premier.vic.gov.au/supporting-kindergarten-building-boom-victoria

improving the market rate for educators' wages and conditions. A more vibrant NFP sector would encourage all providers to lift their game in terms of quality and inclusion.

The Federal Government should create an infrastructure fund to support the opening of new high quality ECEC services. Services would be asked to priorities similar to those laid out in New Zealand's National Statement[253]. These could include:

i. new services proposed by proven high quality NFP and public providers in communities that currently have little or no access to high quality NFP or publicly owned services
ii. innovative centres in thin markets that meet the broader needs of the community (and where larger LDC services are not viable)
iii. supporting and expanding the network of community-controlled First Nations ECEC services
iv. place-based services that are responsive to local community needs, particularly in communities of deep disadvantage
v. new integrated services on all new school sites
vi. services well equipped for learning support for children with additional needs

4. Funding to support upgrading existing NFP services

Many NFP services have suffered from under investment in capital for many years and face daunting backlogs of d repairs and maintenance. Many community operated centres are ageing, having been built in the 1970s, 1980s or 1990s, and need upgrades to meet modern expectations on contemporary internal and external learning spaces.

Funding should be created to give NFP services access to capital for maintenance and upgrades, with applications assessed against quality, inclusion and access priorities. This fund could support capital grants sufficient to allow the provider to then access external capital to upgrade the centre (e.g. on a 50/50 centre except in exceptional cases). Funding could be prioritised to areas of particular need, with applications then invited. Funding should generally be restricted to NFP and government services or, in exceptional cases, private providers with strong records of delivering high quality inclusion practice in areas where no other service is available. Social impact investors with the capacity to leverage funding to support an even larger pool of eligible projects should also be able to access the fund.

Recommendations:

Stronger governance and funding programs to ensure investment in ECEC market growth is directed to high quality provision and where it is needed:

a. Implement an ECEC market strategy and planning approach where new service approvals must demonstrate a need for the service and/or that it meets nationally set priorities for quality, inclusion and access
b. Require that providers cannot add a new service to their network until at least 90% of their existing services meet the NQS, and that new approved providers must demonstrate their Persons with Management and Control have ECEC expertise and experience in delivering quality ECEC services to ensure services owned by new providers become high quality.
c. establish a fund to directly invest in new quality not for profit and public services in accordance with a statement of national priorities to ensure more families have the option to choose higher quality and inclusive provision. Priorities should include:

[253] https://assets.education.govt.nz/public/Documents/Early-Childhood/network-management/National-Statement-24-Nov-2022.pdf

i. new services in communities that currently have little or no access to high quality NFP or publicly owned centres
ii. innovative centres in thin markets that meet the broader needs of the community
iii. supporting and expanding the network of community controlled First Nations ECEC services
iv. place-based services that are responsive to local community needs, particularly in communities of deep disadvantage.
v. new integrated services on all new school sites, with NFP ECEC delivery partners.
vi. services well equipped for learning support for children with additional needs.

d. Establish a capital fund to cover costs of major repairs and upgrades for not-for-profit services and high quality private providers based on national priorities.

Appendix A: The benefits of ECEC for Australia

The benefits of ECEC are well recognised within Australia and by countries all around the world. As the OECD has noted, investments in high quality ECEC pay dividends in terms of children's long-term learning and development, make children's learning outcomes more equitable, reduce poverty, and improve social mobility from generation to generation.[254] The OECD's Programme for International Student Assessment (PISA) at age 15 shows that children who attended early childhood education for at least two years performed better than other children, on average, at age 15.[255]

Economist Eric Hanusek found the research indicates ECEC has the ability to raise a country's educational outcomes by the equivalent of 2 to 17 PISA points, which, in the USA alone, could increase GDP by as much as $29 trillion in present value terms, and by up to a further $20 trillion by closing the achievement gap for black and Hispanic children.[256]

Affordable and high-quality ECEC with an adequate number of hours per week contribute to an increase in the participation of women in the labour force, especially for mothers with their youngest child under the age of three. Countries with the highest level of labour market participation, such as Denmark, Luxembourg, the Netherlands, Portugal, Slovenia and Switzerland (above 70% employment among women aged 15 to 64 with their youngest child under the age of three), also have the highest proportions of young children enrolled in formal childcare.[257]

Australian research shows that investment in ECEC generates a 2:1 return on investment to Government, from both the child development and workforce participation benefits[258]. Failing to investment in early childhood potentially carries a larger longer term avoidable human and economics costs due to the impact of youth unemployment, health costs, out of home care and legal system costs.[259]

The economic benefits of ECEC fall into two main categories:

1. **Benefits from improved educational and social outcomes for children** from quality early learning (which are particularly strong for children facing disadvantage in the early years), which accrue to:
    - Children through stronger academic performance through school and a greater likelihood of school completion and undertaking further education, which are key predictors of lifetime earnings
    - Governments through avoided costs of remedial education, health, social support and welfare, and justice costs and increased taxation.
2. **Benefits from increased workforce participation** of mothers and other primary carers, in terms of benefits to:
    - The broader economy, (e.g., in terms of increased GDP)
    - Women and other primary carers through increased earnings, both immediately from increased hours of work, and longer term from reductions in the 'lifetime wages gap', increased retirement income savings and career progression, and improved health and wellbeing outcomes.

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[254] OECD (2017) Starting Strong: Key OECD Indicators on Early Childhood education and Care, Paris, p. 11-12

[255] OECD (2017) ibid p 32, 153; OECD (2011) PISA in Focus 1: Does participation in pre-primary education translate into better learning outcomes at school? OECD, Paris. http://www.oecd.org/pisa/pisaproducts/pisa2009/47034256.pdf

[256] Hanusek, E (2014) The Economic Relevance of Early Childhood Development in Maas J, Ehmig S & Seelmand C (eds) "Prepare for Life! Raining Awareness for Early Literacy Education" German Ministry of Education and Research, http://hanushek.stanford.edu/publications/economic-relevance-early-childhood-development

[257] OECD (2017) p. 30

[258] PWC (2019) A Smart Investment for a Smarter Australia: Economic analysis of universal early childhood education in the year before school in Australia, The Front Project

[259] William Teager, Stacey Fox and Neil Stafford, How Australia can invest early and return more: A new look at the $15b cost and opportunity. Early Intervention Foundation, The Front Project and CoLab at the Telethon Kids Institute, Australia, 2019.

Workforce participation benefits

The workforce participation of Australian women is high by international standards and has risen over the last decade. The increase in women's workforce participation was particularly marked following the large reductions in out-of-pocket costs for child care in 2007-2009[260]. However, Australia has high rates of women working part time compared to the OECD average[261]. In a joint unions/employer statement of joint principles in the lead up to the Jobs Summit, the Australian Council of Trade Unions (ACTU), Australian Chamber of Commerce and Industry, Business Council of Australia and American International Group agreed that:

"Increasing inclusion and diversity in the workforce, including gender diversity, and improving workforce participation, is critical to overcoming long term disadvantage, improving labour market outcomes and supporting a fairer society."[262]

Economists have consistently argued that the combined impacts of Australia's tax and transfer system create financial disincentives for women to work more days. The workforce disincentive rate (WDR) measures the percentage of income from an additional day's work that a parent would lose to combined tax, reduced or lost family payments, and additional out of pocket childcare costs (as CCS payments reduce with additional income).

Economic modelling undertaken by the Grattan Institute[263] in 2020 (based on pre-1 July 2023 CCS arrangements) shows:

- There are significant disincentives to work beyond three days for secondary earners at all income levels – the WDR is between 65 per cent and 110 per cent when working a fourth or fifth day (Grattan Institute 2020);
- Women with multiple children in long day care settings, and sole parents, face the highest WDRs; and
- Child care costs are a significant contributor to WDRs at all income levels.

In the same year, KPMG modelling delivered similar findings[264].

Undoubtedly, some women's workforce participation decisions are not driven by WDRs or by financial incentives as part time work reflects their preference. However, in the same report the Grattan Institute summarises the evidence that childcare cost is a barrier to increasing work hours for some women, and that women's participation in general is responsive to financial incentives. This evidence led them to conclude that 'women's work choices are not set in stone – many women will choose to work more paid hours if the financial barriers to doing so are reduced.'[265].

The impact of high WDRs are twofold – there is a lost opportunity to grow GDP by harnessing the full potential of women's participation and productivity, and women face significant financial disadvantage and insecurity over their lifetimes from lower earnings and superannuation, and reduced wellbeing.

The Grattan Institute and KPMG modelled a number of different scenarios of changes to CCS arrangements. Both groups modelled an option which is close to the Government's 1 July 2023 changes, but with a more generous upper subsidy rate of 95 per cent. The scenarios are not directly comparable due to different taper rates and taper points – but they estimated direct increases to GDP of between $4bn and $11bn[266].

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[260] Net child care costs in the CPI fell 33.4% in Sep 2007 and 23% in Sep 2008, with the workforce participation rate for coupled mothers with children <15 years rising from 65% in June 2078 to 68% by December 2008 (ABS 6291, 6401).

[261] OECD Labour Force data, stats.oecd.org.au/index.aspx?queryid=103872, accessed 11 May 2023.

[262] Statement of Common Interests Between the ACTU, Ai Group, ACCI and BCA On Skills & Training, September 2022

[263] Grattan Institute 2020, Cheaper Childcare: a practical plan to boost workforce participation.

[264] KPMG 2020, The Child Care Subsidy: options for increasing support for caregivers who want to work.

[265] Grattan 2020, p. 30.

[266] KPMG 2020 & Grattan Institute 2020.

Both groups also modelled a flat 95 per cent subsidy option which they estimated would deliver a boost to GDP of between $6bn and $12bn, but with a lower return on investment.

This benefit comes not just from increasing women's participation but increasing the number of hours they work. With Australia's high rates of part time work among women in the OECD, as much as 25% lower for women aged 30-40 than in Nordic countries this change could be significant.

This participation gap narrows but continues throughout later age groups, reflecting the ongoing impacts of career disruption for women. The Australia Institute estimated that if Australia could achieve Nordic levels of female workforce participation and incidence of female full-time work, the GDP benefit could be as high as $168 billion p.a., generating $48 billion of additional revenue, more than enough to fund free universal ECEC for all families. Of this benefit, 38% flows from more women in the workforce, 41% from more women working full time and 21% from an expansion of the ECEC sector. [267]

The Grattan Institute also calculates an estimated improvement to a typical mother's lifetime earnings of about $150,000 from a 13 per cent boost in participation associated with their recommended CCS expansion option.

There are a range of additional economic benefits associated with ECEC that cannot be easily quantified including social cohesion, social capital, increased workplace diversity and improved social mobility.

Not all studies show that increasing child care subsidies automatically increase workforce participation, as substitution of other forms of care (formal and informal), broader economic conditions and shortages of places are important, as is the size and the scope of the change to subsidies.[268] Thus in Australia the very large increase in subsidies in 2007 and 2008 contributed to a large increase in women's workforce participation, but the impact of the much smaller 2018 subsidy changes was more modest.[269] The 2018 reforms also produced a large number of losers because of the introduction of the activity test, which acts as an impediment to parents facing disadvantage attempting to enter the workforce.[270] The modest reduction in EMTRs combined with the easing of the annual cap on subsidy has seen a significant increase in average weekly hours of children enrolled in CBDC, from 28.4 hours in June 2018 to 32 hours in June 2022.[271] This period has also seen a reduction in the proportion of women in the workforce who are part time from 46.7%[272] of women employed in Jun 2018, to 45.7% in December 2019 to 42.6% by March 2023.

The 2023 childcare reforms are more in the magnitude of the 2007/08 changes than the 2018 changes and are likely to accelerate the increase in hours worked by women. Moving to a universal childcare system could further accelerate this trend.

Economic benefits from improved outcomes of children participating in quality ECEC

A 2019 economic analysis[273] of the investment benefit of Australia preschool programs commissioned by The Front Project, found that 15 hours of early education a week in the year before school, delivered by a Bachelor qualified teacher deliver a ROI of 1:2. In addition to benefits from increased workforce

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[267] The Australia Institute 2022, The Economic Benefits of High Quality Universal Early Child Education

[268] Haeck C, Lefebvre & Merrigan (2015) Canadian evidence on Ten Years of Universal Preschool Policies: The Good and the Bad, Labour Economic 36 https://doi.org/10.1016/j.labeco.2015.05.002

[269] AIFS (2021) Child Care Package Evaluation: Final Report pp 250-280

[270] Impact Economics and Policy (2023) Childcare Subsidy Activity Test: Incentive or Barrier to Labour Force Participation

[271] Dept of Education quarterly childcare statistics

[272] ABS 6202 Labour Force, trend estimates of employment. In the five years to June 2018, 53% of new female jobs were part time. In the 4.75 years since, 7% of new female jobs have been part time.

[273] The Front Project 2019, A smart investment for a smarter Australia: Australia's first Economic Analysis of early childhood education in the year before school.

participation discussed above, this study quantifies the economic benefits from improved social and education outcomes, namely:

- benefits accrued to children - $997m in lifetime earnings because higher school achievement leads to higher qualifications and higher earnings throughout life
- benefits accrued to Government - $495m in future tax revenue due to higher qualifications and higher earnings from children who attend ECEC; $1.2bn of avoided costs from reduced health, welfare and crime expenditure.

An analysis by the British Institute of Fiscal Studies found that children the long lasting learning benefits of preschool mean that children who attended preschool would earn on average around £27,000 over their working lives than children who did not attend preschool, and that those who attended higher quality preschools gained even more.[274] A cost benefit analysis for the Washington State Institute for Public Policy found that State pre-k universal programs had a benefit to cost ratio of 3.12,[275] and that the State's ECE programs targeted at low income earners has a benefit to cost ratio of 4.3.[276] The introduction of universal high quality preschool for three year-old children in Spain was found to have a benefit cost ratio of over four,[277] while a study of the expansion of access to preschool in France in the 1960s was found to have a long lasting impact on schooling and later employment outcomes.[278]

A Canadian study showed that tolerating high levels of developmental vulnerability in young children could cause Canada to forgo 20% in GDP growth over 60 years.[279] An experimental modelling exercise by PWC in Australia in 2014 estimated that benefits to GDP of increased participation of vulnerable children in ECEC were around $13 billion (to 2050), more than double the benefit to GDP of increased female workforce participation ($6 billion).[280]

Australian data shows that children who attended ECEC are around a third less likely to start school developmentally vulnerable, with the benefits most evident for children who are disadvantaged.[281] It should be unacceptable that one in five Australian children start school developmentally behind. Achievement gaps too often widen in school, and children who start behind tend to stay behind, and get further behind. Indeed, research shows a strong predictive relationship between developmental vulnerability in entering school and later poor outcomes on NAPLAN.[282] Early intervention is far more cost effective than trying to close gaps later on.

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[274] Cattan, S., Crawford, C., and Dearden. L. (2014) The Economic Effects of Pre-school Education and Quality. Institute for Fiscal Studies. IFS Report R99 http://www.ifs.org.uk/uploads/publications/comms/R99.pdf
[275] Washington State Institute of Public Policy (2019) State early childhood education programs: universal evaluation https://www.wsipp.wa.gov/BenefitCost/Program/975
[276] Washington State Institute of Public Policy (2019) State early childhood education programs: low income evaluation https://www.wsipp.wa.gov/BenefitCost/Program/270
[277] Van Huizen T, Dumhs L, Plantenga J (2016) A cost benefit analysis of Universal Preschool Education, European Commission https://ecec-care.org/fileadmin/careproject/Publications/reports/CARE_D5_4_Report_CBA_FINAL.pdf
[278] Dumas, C., and A. Lefranc (2012) "Early Schooling and Later Outcomes." Chapter 7, 164-189, in J. Ermisch, M. Jantti, and T. Smeeding (eds). *Inequality from Childhood to Adulthood: A Cross-National Perspective on the Transmission of Advantage*. New York: Russell Sage Foundation.
[279] Kershaw P, Warburton B, Anderson L, Hertsman C, Irwin L, Forer B (2010) The economic costs of early vulnerability in Canada, Can J Public Health Nov-Dec 2010 101 Suppl 3:S8-12
[280] PWC (2014) Putting a Value on early childhood education and care in Australia
[281] Goldfeld S., et al (2016) "The role of preschool in promoting children's health development: evidence from an Australian population cohort" Early Childhood Research Quarterly 35 (2016) 40-48; Sayers M., et al (2012) "Starting School: A Pivotal life transition for children and their families" Family Matters, AIFS, no 90 p. 45-57
[282] Brinkman S., Gregory T, Harris J, Hart B, Blackmore S, Janus M (2013) Associations Between the Early Development Instrument at Age 5, and Reading and Numeracy Skills at Ages 8, 10 and 12: a Prospective Linked Data Study, Child Ind Res (2013) 6:295-708 DOI 10.1007/s12187-013-9189-3

The Federal Child Care Subsidy was developed predominately to support women's workforce participation. It was no mistake that the bill that established it in 2015 was the 'Jobs for Families' package. As discussed earlier, the Federal Government has been very successful in promoting women's workforce participation, and the participation rate has grown from well below the OECD average in 2000 to well above now. The job is not done – we fall well short in terms of matching the impressive full time maternal employment rates in Europe. But good progress has been made.

Goodstart believes that if barriers to access are removed, parents will make the best choices for their own families, and as concluded by the Grattan Institute 'ultimately, any policy change that creates more options for parents, allowing them to make choices better suited to their family's needs, will improve well-being.'[283]

Importantly, multiple studies have found that ECEC needs to be of high quality to make an impact to child outcomes.[284] The 2014 PWC study estimated that the economic benefit of increasing quality in ECEC would be $10 billion (to 2015) based on the EPPSE findings from the UK.

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[283] Grattan Institute 2020.

[284] Sylva, K., E. Melhuish, P. Sammons, I. Siraj-Blatchford, and B. Taggart. (2004) *The Effective Provision of Pre-School Education(EPPE) Project: Final Report.* London, England: University of London; Taggart, B., K. Sylva, E. Melhuish, P. Sammons, and I. Siraj. (2015) *Effective Pre-School, Primary and Secondary Education Project (EPPSE 3-16+).* London: Department of Education; Van Huizen, T., and J. Plantenga. (2015) "Universal Child Care and Children's Outcomes: A Meta- Analysis of Evidence from Natural Experiments." *Discussion Paper Series/Tjalling C. Koopmans Research Institute*, No. 15(13), Utrecht University School of Economics.

Appendix B: Recent ECEC reforms in other countries

OECD countries have differing approaches to legal entitlements to ECEC, most offering a free unconditional entitlement of at least 20 hours a week for children aged three to five years, but varying approaches for children aged birth to three (see Section 3 – Child Entitlement).[285] However, a legal entitlement to ECEC (i.e., the offer of a place) does not necessarily mean free in countries that offer it.

In addition to legal entitlements, some countries explicitly outline the objectives of ECEC in national legislation. Norway's Kindergarten Act (Barnehageloven), for example, provides: "*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*."

Norway offers a national integrated system of ECEC for all children aged one to six, with a legal entitlement from age one. The National Government sets policy, ceiling prices for ECEC and provides block grants to local government, which directly run around half of all kindergartens and fund and regulate private providers.[286]

In Germany, The Child and Youth Welfare Act (Kinder-und Jugendhilfegesetz section 22 (2) SGB VIII) includes the objectives to:

- *Support children in becoming independent and socially integrated personalities*
- *Support and complement education and care in the family*
- *Assist parents in better combining childcare and employment responsibilities*

Its 16 states hold primary responsibility for ECEC, although the Federal Government sets out the overarching objectives of ECEC and a legal entitlement from age one. The National Law on Quality Development (2018) is a major milestone for the federal and state governments working together to improve outcomes for children, reflecting the larger role that the Federal Government increasingly plays in policy stewardship on quality, affordability and access for ECEC.[287]

As discussed in Section 8 - Funding, supply side funding is a common feature of funding arrangements in most OECD. However, countries with a more 'marketised' approach to ECEC tend to include direct subsidies to families to reduce out of pocket costs, including the Netherlands, the United Kingdom, New Zealand and the United States. With affordability and accessibility becoming significant political issues in many of these countries, major reform initiatives have commenced in a number of these countries which might provide guidance for Australia.

Major recent ECEC reforms in English speaking marketized countries:

1. Canada

In its 2021 Budget, the Canadian Government committed to a $30 billion investment to build a Canada-wide early learning and childcare plan "…to drive economic growth, a plan to secure women's place in the

[285] OECD (2017 p. 42, 63; UNICEF (2021) p. 15

[286] OECD (2015) Engel, A., Barnett, W. S., Anders, Y., & Taguma, M. Early childhood education and care policy review, Norway.

[287] Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (2022) *Das* Gute-KiTa-Gesetz, Deutsches Jugendinstitut; The German ECEC System, OECD (2016) Starting Strong IV Early Childhood Education and Care Data Country Note: Germany.

workforce, and a plan to give every Canadian child the same head start."[288] The plan sought to replicate the success of child care reforms in Quebec, where public investment has capped parental costs at just $10 a day. But the plan also sought to avoid the problems with inadequate quality provision that emerged during the rapid expansion of places in Quebec.[289] The Canadian plan places a strong emphasis on delivering places that are high quality, with public and NFP provision to be preferred. Investment in workforce is also a key part of the reforms. The plan commits to working with the provincial and territorial government to " to support primarily not-for-profit sector childcare providers to grow quality spaces across the country while ensuring that families in all licensed spaces benefit from more affordable child care."[290] Funding agreements with all provinces and territories commit to grow around 250,000.[291] Canada's early learning and childcare reform guiding principles are laid out in national legislation:[292]

"Section 7(1): Federal investments respecting the establishment and maintenance of a Canada-wide early learning and childcare system — as well as the efforts to enter into related agreements with the provinces and Indigenous peoples — must be guided by the principles by which early learning and child care programs and services should be accessible, affordable, inclusive and of high quality and must, therefore, aim to:

> *(a) facilitate access to early learning and childcare programs and services — in particular those that are provided by public and not for profit child care providers — that meet standards set by provincial governments or Indigenous governing bodies and respond to the varying needs of children and families;*
>
> *(b) enable families of varying incomes to benefit from affordable early learning and childcare programs and services;*
>
> *(c) support the provision of early learning and childcare programs and services that are inclusive and that respect and value the diversity of all children and families and respond to their varying needs; and*
>
> *(d) support the provision of high-quality early learning and childcare programs and services that foster the social, emotional, physical and cognitive development of young children, including through the use of a qualified and well-supported early childhood education workforce.*

(2) Federal investments in respect of early learning and childcare programs and services for Indigenous peoples — as well as the efforts to enter into related agreements with Indigenous peoples — must be guided by the principles set out in the Indigenous Early Learning and Childcare Framework, in addition to the principles set out in subsection (1)".

2. New Zealand

New Zealand is regarded as providing a high quality ECEC system with high standards for qualified educators and a funded guarantee of 20 hours of free ECE for all children aged three to five years. However, successive New Zealand governments have failed to adequately fund their initiatives, with the result that out-of-pocket costs for New Zealand families have risen.[293] The Ardern Government placed children and families at the centre of its policies, and in the 2018 budget increased funding for ECEC.[294] It then developed an Early Years Action Plan, which has five key objectives:[295]

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[288] Canadian Government Budget 2021 Chapter 3 https://www.budget.canada.ca/2021/report-rapport/p2-en.html#chap3
[289] Pierre Fortin 2018 "Quebec's Childcare Program at 20" Insights issue 42 Spring https://inroadsjournal.ca/issues/issue-42-winter-spring-2018/
[290] Canadian Government 2021 ibid
[291] https://www.canada.ca/en/early-learning-child-care-agreement/agreements-provinces-territories.html
[292] House of Commons of Canada Bill C-35 "An Act respecting early learning and care in Canada" 8/12/2022
[293] OECD (2021) ibid
[294] https://www.treasury.govt.nz/publications/budget-speech/budget-speech-2018-html
[295] New Zealand Government "Early Learning Action Plan 2019-2029" https://www.education.govt.nz/news/early-learning-action-plan-released/

1. *Children and whānau experience environments which promote their wellbeing and support identity, language and culture*
2. *All children are able to participate in early learning and have the support they need to learn and thrive*
3. *Teaching staff and leaders are well qualified, diverse, culturally competent and valued*
4. *Children develop capabilities that are valued by their whānau and community and support them to be competent and confident learners*
5. *Early learning services are part of a planned and coherent education ecosystem that is supported, accountable and sustainable.*

The most significant actions in the plan aim to strengthen quality across sector through workforce initiatives moving towards a fully qualified teacher workforce and improving wages; and in the development of a ECEC market management function for Government to ensure new services support national priorities.

3. Ireland

The Irish Government released 'First 5; a Whole of Government Strategy for Babies, Young Children and their Families' in 2018,[296] encompassing family, parental leave, parenting, health and education programs. The ECEC commitments included more funding, more inclusive services and better planning. Ireland's ECEC system offers free ECE for three to five year olds and significant quality regulation but has some of the highest out of pocket costs in the OECD, significant workforce turnover, a 'sense of precariousness and fragility among providers' and no specific programs to tackle socio-economic disadvantage.

To address this, the Irish Government commissioned an Expert Group to develop a new funding system for ECEC, which reported in 2021. The Expert Group's vision is that the sector is increasingly publicly funded and publicly managed, delivering a service for the public good, to the benefit of children, parents, practitioners and society overall. It will enable a shift away from the marketisation of service delivery and towards partnership model, with responsibilities and benefits for both the State and providers.[297] The Government has accepted this approach and is implementing a new funding system with four key elements: [298]

i. core funding: new supply-side payment to support quality (including better pay and more qualified staff) but with conditions around accountability and fee constraints
ii. Early Childhood Education & Care Program: offering free access to quality ECE (three days a week) in the two years before school
iii. National Childcare Scheme: Commenced in 2019 offering financial support for parents using care based on an hourly rate up to 45 hours a week on top of the ECEC scheme, at a 'universal' and 'income related' rate
iv. tackling disadvantage: new universal and targeted approaches to tackle socio-economic disadvantage.

4. England

England has some of the most expensive childcare costs in the OECD.[299] English support for ECEC is a combination of provider based and parent-directed subsidies. The core entitlement is 15 hours of free ECEC for three to five year olds, also extended to disadvantaged two year olds. In addition, the

[296] https://www.gov.ie/en/publication/f7ca04-first-5-a-whole-of-government-strategy-for-babies-young-children-and/
[297] https://first5fundingmodel.gov.ie/report/
[298] https://first5fundingmodel.gov.ie/
[299] BBC story 16/2/2023 https://www.bbc.com/news/education-62036045

Government has extended the free entitlement to 30 hours for working families on incomes up to £100,000. In the March 2023 Budget, the Government announced the 30 hour free entitlement would be extended to birth to three year olds.[300] In addition to the 'free' element, families are also entitled to a Universal Credit for Childcare which covers up to 85% of childcare costs up to a monthly cap. The Government has been criticised for underfunding the 'free entitlement' with providers forced to recoup losses by higher fees on 'non-free' children.[301] Influential think tank the Institute for Public Policy Research has called for major reforms leading to a 'childcare guarantee',[302] as has the Children's Commissioner.[303] The Labour Opposition has committed to make child care a key policy priority for the 2025 election.[304]

5. United States

US President Joe Biden unveiled a $1.7 trillion American Families Plan in April 2021 that would have funded two years of free preschool for all three and four year olds ($200 billion) and improved access to affordable quality childcare ($225 billion) with subsidies to families so that they would spend no more than 7% of income, subsidies to providers to provide high quality care, and workforce measures to increase wages and access professional development.[305] The plan failed to pass Congress, but was included in the Presidents 2024 Budget Proposal to Congress. In March 2023, the President issued executive orders which he said would increase access to childcare for Federal Government employees and improve wages for workers in Head Start services.[306] The Biden Administration also provided $39 billion of assistance to the States to support childcare services and provides subsidies for low income families in 2021.[307]

6. Finland

Since the 1970s, expansion of ECEC provision in Finland progressed as a fundamental part of the welfare state with local municipalities responsible for its provision and regulation[308]. All children have a legal entitlement to ECEC from age one. The last decade has seen significant changes, with responsibility for ECEC shifted from the health and social services portfolio to education, and recognition of ECEC as part of the education system.[309]

A 2015 law made the preschool year before school compulsory (from age six), introduced a national curricula, and have intensified the process of ECEC staff professionalisation by reforming both initial teacher education and professional development. The 2015 reform made a strong case for the overall improvement of the quality of ECEC, putting the rights of children and their welfare at the centre. Combining care, play and learning, ECEC was seen as the best instrument to foster the interests of children,

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300 https://www.childcarechoices.gov.uk/

301 Early Years Alliance statement 15/3/2023 https://www.eyalliance.org.uk/news/2023/03/chancellor-reveals-plans-extend-30-hours-offer

302 Institute of Public Policy Research (2022) Towards a Child Care Guarantee https://www.ippr.org/research/publications/towards-a-childcare-guarantee

303 Children's Commissioner for England(2022) Vision for Childcare. https://www.childrenscommissioner.gov.uk/blog/the-childrens-commissioners-vision-for-childcare/

304 BBC story 9/3/2023 https://www.bbc.com/news/uk-politics-64900405

305 https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/

306 https://www.whitehouse.gov/briefing-room/statements-releases/2023/04/18/fact-sheet-biden-harris-administration-announces-most-sweeping-set-of-executive-actions-to-improve-care-in-history/

307 https://theconversation.com/biden-administrations-39-billion-child-care-strategy-5-questions-answered-159119

308 https://www.oph.fi/en/education-and-qualifications/what-early-childhood-education-and-care

309 Nafsika Alexiadou, Carina Hjelmér, Anne Laiho & Päivi Pihlaja (2022): Early childhood education and care policy change: comparing goals, governance and ideas in Nordic contexts, Compare: A Journal of Comparative and International Education, DOI: 10.1080/03057925.2022.2092451; OEDC (2016) Starting Strong IV Finland https://www.oecd.org/education/school/ECECMN-Finland.pdf

while at the same time to contribute to social equality, democratic participation, personal development and lifelong learning, and bring in parents as partners in the process.

As a cost containment measure, the 2015 laws limited the right to full-day childcare to 20 hours/week (when both parents are not in full-time employment, partially reversed in 2019) and introduced maximum fees to (only) municipal ECEC . A new binding National Core Curriculum[310], and the 2018 Act on Early Childhood Education (540/2018) embedded the ECEC curriculum for every kindergarten to implement. The 2018 Act contained strict regulations that governed the operations of both municipal and privately provided ECEC, from the ratio between staff and children, to the qualifications of staff who could be ECEC teachers or 'practical nurses', set out the conditions of operations for the private sector (around 20% of all provision), including the procedures of regular inspection by the municipalities. The privately provided ECEC (about 20% of all provision.

Most of the cost of ECEC is subsidised in Finland, with parent fees making up around 14%. Low-income earners are fully exempt from fees, with the threshold increased by a third in 2023 based on the size of the family (now €5,675 per month for a four person family). Fees in public services (80% of the sector) are capped at a fixed percentage of family income (10.7%) to a maximum of €295 per month. Private fees are usually higher.[311]

ECEC funding and affordability comparisons

Australia's net childcare costs are above the OECD average, which is typical of countries that rely more heavily on market provision rather than public provision of ECEC:

TABLE S: Net childcare costs one child as a percentage of average wages selected OECD countries 2021 (# denotes countries with a strong element of demand side funding)

Country	Single 67% avg wage	Couple, min. wage	Couple, 67% avg wage	Couple, avg wage
Australia#	7.0	12.0	16.0	21.0
United Kingdom#	5.0	24.0	27.0	27.0
United States#	20.0	20.0	20.0	20.0
Ireland	1.0	15.0	24.0	29.0
New Zealand*#	12.0	23.0	23.0	38.0
Canada#	-3.0	5.0	15.0	28.0
Netherlands#	6.0	10.0	14.0	18.0
Finland	6.0	n/a	15.0	16.0
Norway	3.0	n/a	8.0	8.0
France	3.0	7.0	9.0	12.0
Germany	1.0	1.0	1.0	1.0
OECD Average	**6.0**	**10.0**	**11.0**	**13.0**

Source: OECD (2023), Net childcare costs (indicator). doi: 10.1787/e328a9ee-en; *2018 #Denotes countries with subsidies of fees in markets with substantial amounts of private provision

Many OECD countries, particularly in Europe, adopt supply side funding as the primary ECEC funding mechanism. Where residual fees are charged by providers, governments generally adopt fee controls by capping fees and/or provide subsidies to assist families with costs.

[310] https://okm.fi/en/early-childhood-education-and-care-services
[311] https://okm.fi/en/client-fees-ecec; Eurydice website https://eurydice.eacea.ec.europa.eu/national-education-systems/finland/early-childhood-education-and-care.

In some jurisdictions including the UK[3] and New Zealand[4], supply-side funding is targeted to delivering a certain level of free childcare hours, for which no fees are charged to families. The government grant is therefore intended to cover the full reasonable cost of care – although experience suggests the rates are often inadequate to fully cover this cost which can lead to very high out-of-pocket costs for families outside of the base entitlement.[5] Out of pocket costs in both jurisdictions are higher than Australia. In these systems, fees are charged to families for additional hours outside of the free entitlement, which are used by services to make up the funding shortfall for the funded 'free' hours[6]. Subsidies and/or tax offsets are generally also provided to assist families with the costs of additional hours outside of the free hours entitlement.

Some further examples of how supply-side funding is incorporated in other jurisdictions are[7]:

- Canada[8], Sweden and Norway – ECEC services are directly funded for a certain number of places or enrolments. Services can charge fees but parental fees are capped as a condition of funding. Bookings are typically for a full week and children often attend five days and in some cases families have limited choice in which provider they attend, compared to Australia where child attendances vary widely and part time attendance (two or three days) is the norm.
- Ireland's new ECEC funding model includes a new 'core funding' grant that provides a contribution to providers' reasonable wages and non-wages costs.[9] It is supported by a child-based subsidy to assist families with residual fees. Providers that receive core funding grants agree to fee controls including approvals for fee increases.

Until recently, most of Canada (other than Quebec), along with Ireland, delivered demand side subsidies as the primary form of government funding for ECEC. The Canadian Government has now finalised agreements with all provinces and territories moved to a provider-based funding system where parental co-payments will be capped at $10 a day.[10] The Netherlands also has a childcare benefit with the benefit impacted by income, childcare expenses and the type of care.[11] Dutch out of pocket costs are similar to Australia, although the Dutch system, a hybrid system of public and private provision, has a stronger system of quality regulation than Australia.[12] Child care provision in the United States is also typically privately provided, with means tested State subsidies for low income families funded in part by the Federal Government.[13]

Variability in hours of attendance in ECEC

One of the challenges of funding ECEC in Australia, in comparison with overseas countries, is the variability in cost structures and variability in attendance patterns. This stems from the part time nature of provision, market driven variance in occupancy, seasonal variation in occupancy and the wide range of property costs. This makes it very difficult to develop one size fits all 'benchmarks' that can accommodate the variety of settings. In comparing the Australian ECEC system with other countries, a key difference is the part time nature of provision. This starts with the high proportion of mothers who work part time in Australia.

While the average in the OECD is that 75% of mothers in work are working full time -,rising to 90% in Sweden, in Australia it is just 46%. In Canada, 79% of working mothers are full time[14], in the United Kingdom it is 54%, New Zealand 65.3%, Ireland 63%, United States 83% and France 80%.[15] This is reflected in Australia having an enrolment rate of birth to two year olds above the OECD average, but attending on average for 10 hours a week less.

TABLE T: Average usual weekly hours attended in ECEC services birth – two year olds 2020

Country	Average hours attended	Enrolment rate
Lithuania	39.6	29.8
Norway	34.8	58.3
France	32.4	58.1
Germany	32.2	39.2
Sweden	30.9	47.6
Ireland	29.4	35.8
United Kingdom	19.5	45.1
Netherlands	18.5	69.4
OECD Average	**32.0**	**36.0**
New Zealand	21.1[16]	45.6
Australia	21.7[17]	44.9

Source: OECD Family database PF3_2 Enrolment Childcare Preschool 2020

The complexity of maintaining occupancy to support 'efficient' or fully utilised capacity within a service is further evidenced by the distribution of hours. In 2019, just 13% of children attending CBDC attended full time, 13.8% attended four days, 28.5% attended three days, 30.6% attended two days and 14.0% attended just one day.[18]

Appendix C: Case study: Goodstart's use of Early Years Toolbox to assess child outcomes

Goodstart is committed to measuring child outcomes in our centres. After an international assessment of possible scalable child outcomes measures and based on advice from Goodstart's Thought Leaders Advisory Group, Goodstart implemented the Early Years Toolbox (EYT) developed by researchers at the University of Wollongong and Oxford University.[312] The EYT database allows us to compare levels of improvement and participation for Goodstart children in comparison to Australian norms (which do not include Goodstart children). By March 2021, 21,939 children aged 3-5-years across 278 Goodstart services completed at least one Early Years Toolbox assessment, although results were only considered for children who had undertaken assessments at three time points across the reference year.

For each year since the Toolbox pilot in 2019, Goodstart children have made greater progress than the Australian norms. The results for 2021 showed 39% greater progress in expressive vocabulary and 21% greater progress in numeracy for Goodstart children compared to the Australian norms. This suggests a positive effect on children's progress from attending a Goodstart service.

Goodstart children classified as 'at risk' had lower initial scores and a slower rate of growth in language and numeracy relative to Goodstart children not classified as at risk, although the differences in these rates of growth were slightly less than expected based on previous research. Comparing the progress of these at-risk Goodstart children to the level of monthly change expected based on Australian norms, results showed Goodstart 'at risk' children progressed 38% more in vocabulary and 22% more in numeracy than would be expected in normal development. This suggests Goodstart children identified as 'at risk' progressed better than normal developmental expectations yet at a slightly slower rate than children without risk factors.

Goodstart notes these results provide an indication of two narrow areas of child development and are interpreted by us as just one part of a more holistic approach to assessing each child's progress. We would be happy to provide the Commission with a more detailed briefing on our outcomes measurement work.

[312] Howard, S. J., & Melhuish, E. (2015). An Early Years Toolbox (EYT) for assessing early executive function, language, self-regulation, and social development: Validity, reliability, and preliminary norms. Journal of Psychoeducational Assessment, 35(3), 255-275.