



Early Learning Association Australia
Response to Productivity Commission Inquiry into
Childcare and Early Childhood Learning Draft Report
September 2014

Executive Summary

We welcome this opportunity to provide a further response to the Productivity Commission's draft report into Childcare and Early Childhood Learning, released on 22 July 2014.

We ask that this paper be read together with our initial submission to the inquiry, lodged on 2 February [submission #271]; and as a supplement to the discussions we have been pleased to have with the Commission at the Melbourne public hearing on 18 August, and at a further meeting with the Commissioners on 2 September.

We congratulate the Commission on the breadth, depth and rigour of the draft report. This inquiry provides a critical opportunity for governments, and for the community as a whole, to consider where childcare and early learning sits in the Australian policy landscape - and the funding options that best support that policy.

The report makes many recommendations - some we support, some we do not support – and others which we believe raise significant questions as to how they would be implemented by governments and the service system – and hence critically, how they would be experienced by children, parents and families.

Since the release of the draft report on 22 July, ELAA has worked closely with other sector partners – notably, Early Childhood Australia; Goodstart Early Learning; the Centre for Community Child Health at the Murdoch Children's Research Institute; Early Childhood Management Services; KU Children's Services; Community Child Care Association (Victoria); and others – to respond collaboratively to the wide ranging commentary and proposals outlined in the draft report.

We commend our partners' submissions to the Commission.

Accordingly, this submission and the accompanying recommendations seek to tightly focus on those issues and recommendations in the draft report that are of principal concern to ELAA members, and which sit at the intersection of Commonwealth-State relations in early childhood learning and care. These issues and recommendations go to:

- **Ensuring the Commonwealth contribution to Universal Access funding (15 Hours) continues beyond 2014 – and that the funding is transparent and provided for the purposes of supporting early childhood education** (draft recommendation 12.9)
- **Ensuring that preschools / kindergartens remain within the National Quality Framework** (draft recommendation 7.9)

Our submission will also go to three other matters of particular significance to ELAA members:

- **Maintaining qualification and ratio requirements for teachers of 0-3 year olds** (draft recommendation 7.2)
- **Maintaining Fringe Benefits Tax and Payroll Tax exemptions for not-for-profit early learning providers** (draft recommendation 10.1)
- **Ensuring no disadvantaged or vulnerable children and families are worse off under the recommendations ultimately made by the Commission** (draft recommendation 12.4)

Background to the Inquiry

In considering the Commission's draft report – and how we as a peak membership-based organisation respond to its proposals – we believe it is important to acknowledge the origins of the inquiry, and the difficult task the Commission has been set.

In late 2012, then Federal Opposition Leader, the Hon Tony Abbott, announced that a future Coalition Government would task the Productivity Commission with inquiring into the cost of child care – with a view to improving access and affordability, and thus enabling parents (especially women) to return to the workforce. The announcement was underpinned by the claim that child care costs had risen by 20 per cent under the former Commonwealth Government, prohibiting over 110,000 parents from returning to work.

We do not comment on the validity or otherwise of this claim, but note that the initial terms of reference put forward at that time addressed only issues of affordability and accessibility of child care, and were underpinned by the assumption that the productivity gain to be derived from more affordable child care options came solely from returning adults to employment. The initial terms of reference did not address the learning and developmental needs of young children, or consider the economic and social value of early learning for children or the economy more broadly.

When the Commission released its ultimate terms of reference in late 2013, ELAA was pleased to note that early childhood learning outcomes and benefits were now within scope. The broadening of the terms of reference reflected the views of many sector organisations, early childhood experts, State Governments, and other bodies including the Business Council of Australia, all of which had expressed concern that the inquiry might otherwise overlook the importance of the educational and developmental components within the childcare and early childhood learning policy frame.

In this regard, we encourage the Commission to ensure that the quality of care *and* early childhood learning are considered as equally important influences on a child's development. Moreover, we ask the Commission to view the potential productivity gain of policy reform in this space – and the long-term economic value of quality early learning intervention - through a child-focused lens.

Section 1: ELAA's response and recommendations

1.1 Ensuring the Commonwealth contribution to Universal Access funding (15 Hours) continues beyond 2014

In draft recommendation 12.9, the Commission has suggested that: *"the Australian Government should continue to provide per child payments to the States and Territories for universal access to a preschool program of 15 hours per week for 40 weeks per year"*.

ELAA welcomes this recommendation, which emphasises the joint responsibility of Commonwealth and State governments to fund early childhood education and care. However, we are concerned by the implications of the Commission's further advice that: *"the Australian Government should negotiate with state and territory governments to incorporate their funding for preschool into the funding for schools, and encourage extension of school services to include preschool."*

In particular, we are concerned that this proposal could allow the Commonwealth (over time) to remove itself from the provision of direct funding support to preschools. This approach could also leave the community unable to identify those public moneys intended for preschools - and unable to hold governments to account should those moneys not flow to preschools.

It sometimes seems inherent in our Federal system that the tiers of government – regardless of political persuasion – haggle over the proportion of Commonwealth taxation revenue provided to States to meet their service delivery obligations. Where the disbursement of Commonwealth revenue is not transparent – and the policy framework for implementation by States is not mutually agreed – the experience of the community is that the Commonwealth and the States can lose sight of the outcomes sought.

In this regard, the announcement by the Western Australian Government on 28 August that it will make up the \$49 million shortfall in that State (should the Commonwealth withdraw its contribution) was understandable from the perspective of a State Government wanting to provide families and communities with certainty for the coming year. But it was also concerning from a medium-to-longer term perspective, in that it enables the Commonwealth to avoid responsibility for a critical area of previously agreed partnership between the tiers of government to fund quality early learning programs to children in the year before school.

In our view, the Commission's recommendation that the Commonwealth make its Universal Access contribution through the funding instrument for schools is laden with medium-to-longer term risk. The proposal could well be implemented in such a way as to transform what the community now understands as the Federal funding contribution to Universal Access, into yet another policy and service delivery issue over which governments bargain and blame with regard to the proportion of GST revenue they receive.

We are cognisant that the public policy debate on childcare and early childhood learning is not occurring in isolation from other policy and funding directions being considered and/or implemented by the Commonwealth. In delivering the 2014-15 Federal Budget, the Commonwealth Treasurer strongly implied in various forums that if States and Territories don't like the slice of the GST pie they get, then they should campaign not for a bigger portion, but for a larger GST pie – a politically unappetising course for all governments. Moreover, both the Commonwealth Minister for Education and Assistant Minister for Education are on record as stating that preschool and kindergarten are (in their view) State-only responsibilities, an assertion ELAA and other sector organisations fundamentally reject.

While we therefore support the recommendation that the Commonwealth continue to fund 15 hours of preschool, we stress that this contribution should be made through a transparent funding instrument, such as the *National Partnership Agreement on Early Childhood Education*. We do not want Commonwealth money to be incorporated into a global schools bucket from which it may evaporate or leak over time.

Recommendation 1.1:

ELAA recommends that the Commonwealth contribution to Universal Access funding (15 Hours) continues beyond 2014 - and that the funding is provided for the purposes of early childhood education through a transparent funding instrument such as the National Partnership Agreement.

1.2 Ensuring that preschools / kindergartens remain within the National Quality Framework

ELAA commends the Commission on the draft report's mostly positive commentary on the importance of quality in childcare and early childhood learning. However, we are unclear as to the rationale behind the Commission's proposal that: "*dedicated preschools should be removed from the scope of the National Quality Framework and regulated by state and territory governments under the relevant education legislation. The quality standards in state and territory education legislation should broadly align with those in the NQF.*" (draft recommendation 7.9).

We believe it is contradictory to endorse the importance of quality – even to suggest that quality requirements be extended to nannies – and then to propose removing preschools from the National Quality Framework (NQF). When coupled with our concern that the Commonwealth could (over time) remove itself from a funding role in preschool, we believe the proposal to return full regulatory responsibility for preschools to States and Territories - making participation rates, teacher ratios, and most importantly, quality - State-only issues, could create an even more stratified early childhood learning and care sector from jurisdiction to jurisdiction than now.

One of the acknowledged benefits of the national reform agenda has been to unite contrasting jurisdictional preschool systems around a tangible, demonstrable conception of quality in early childhood learning and care. Regardless of the setting, children are entitled to receive a quality service; and parents and families can understand what quality is, how it should be delivered, and how it will be measured.

The implementation of the NQF has had significant traction in bridging the gap that existed between preschools and Long Day Care (LDC) services. We believe the proposal to excise preschools from the national framework would create a two-tier system, whereby preschool programs delivered in LDC settings are subject to the NQF, while dedicated preschools and kindergartens are subject to another regime, i.e. State and Territory legislation. Notwithstanding the further stratification of the service system this could create – and the confusion among service providers and educators with regard to program planning and delivery – we believe this could also lead to significant viability issues for services, as families make decisions about which "system" better delivers quality programs for their children.

We therefore submit – in the strongest terms – that returning preschools to a State and Territory-only regulatory system is a retrograde step for children and families.

We also remain concerned about the practical implications of the draft report recommendation to "*identify elements and standards of the National Quality Standard that can be removed or altered while maintaining quality outcomes for children*" [draft recommendation 7.1].

While we support efforts to improve the NQS - and to reflect on where practice and process could better align – the implementation of the standards have been critical to the delivery and maintenance of quality. It has been the practical experience of a majority of our members that for all the initial anxiety around implementation of the NQS, the so-called “red-tape burden” has been significantly over-stated, has reduced markedly over time, and has led to tangible positive outcomes for children.

Recommendation 1.2:

ELAA recommends that all preschool/kindergarten programs be kept within the National Quality Framework regardless of the settings in which they are delivered.

1.3 Maintaining qualification and ratio requirements for teachers of 0-3 year olds

Draft recommendations 7.2 and 7.3 effectively reduce educator qualifications and ratio requirements for children aged 0-36 months. In our view, these proposals run counter to the Commission’s stated support for quality early childhood learning and care, as it is these requirements in particular that ensure high quality programs are available to children.

As highlighted in our initial submission to the inquiry, a child’s early, formative experiences are most important in shaping his/her physical, social, emotional and cognitive development, and in shaping a life course. If governments and communities and service providers get the early years right for **all** children, we can significantly reduce future pressure on the health, welfare and justice systems.

Many leading experts in early childhood development - including Professor Frank Oberklaid, Professor Ted Melhuish, Dr Charles Pascal, Dr Tim Moore, Professor Colette Tayler and others - have presented to the Commission over the past nine months on the research evidence that supports the criticality of early learning, and we wish to endorse their work and formally record our support for the conclusions they draw from it.

On 25 July in Melbourne, the importance of the early years was articulated by Dr Moore in a presentation to a Centre for Community Child Health seminar, *Investing in Early Childhood – the future of early childhood education and care in Australia*¹. During this seminar, Dr Moore highlighted the nexus between all aspects of childhood development and quality early nurture, care and learning experiences.

The research strongly suggests that our brains do not suddenly “switch on” to learning when we reach 3 years of age. Neuroscience research demonstrates that brain development begins before birth and is most rapid in the first five years. To optimise this, it is essential to deliver high quality programs early in life. This is vital to improve the social and economic outcomes for all children in general, and more particularly for vulnerable and disadvantaged children.

We acknowledge the Commission’s endeavours to identify ways to ensure that families have access to *affordable* early childhood learning and care that is available where and when it is required; and we understand the perceived link between teacher ratios and cost. However, we regard the claim of a cost “blow-out” as a result of increased ratios to be significantly over-stated, and the additional investment required by governments to be justified. Quality early childhood learning and care not

only provides the best outcomes for children, it also provides parents with the confidence to return to work knowing their children are getting the best possible start in life.

In summary, ELAA contends that the research evidence strongly supports the benefits of maintaining qualification and ratio requirements for early childhood teachers of children between 0-3 years old; and that the research suggests those benefits are significant for all children, not only those that are vulnerable or experience disadvantage.

Recommendation 1.3:

ELAA recommends that the current qualification and ratio requirements for teachers of 0-3 year olds be maintained to ensure high quality education and care programs can be delivered leading to better child development outcomes for all Australian children.

1.4 Maintaining Fringe Benefits Tax and Payroll Tax exemptions for not-for-profit early learning providers

We believe that the proposal to remove eligibility of not-for-profit early learning providers to Fringe Benefits Tax and Payroll Tax exemptions could create issues of service viability and/or is likely to impact adversely on the affordability of early childhood learning and care for families.

Given the Commission's acknowledgement that many not-for-profit services would not pay payroll tax due to their sub-threshold turnovers, and that many not-for-profit services do not make FBT arrangements available to their employees, it is difficult to understand the practical motivation behind this recommendation.

It is also noted that the report suggests that any additional tax revenue or administrative savings achieved by government should be returned to expand the funding envelope provided for early childhood learning and care, again a recommendation of questionable value in either a practical funding or public policy sense.

That said, we note that the majority of not-for-profit early childhood learning and care providers operate on extremely low margins and/or at a deficit. For some of our larger cluster-based members that would be exposed to payroll tax under this proposal, an increase in cost in the vicinity of \$150-200,000 per annum would impact significantly on the bottom line, raising viability issues and/or leading directly to an increase in parent fees.

Recommendation 1.4:

ELAA recommends that Fringe-Benefit Tax and Payroll Tax exemptions be maintained for not-for profit service providers in the interests of service viability and affordability.

1.5 Ensuring no disadvantaged or vulnerable children and families are worse off under the recommendations ultimately made by the Commission

AEDI data in Australia demonstrates that more than one in five children is developmentally vulnerable on one or more domain/s, with over one in ten developmentally vulnerable on two or more domains.ⁱⁱ Accordingly, ELAA supports draft recommendations 12.2 and 12.4 in principle – that the Australian Government fund a new single means tested payment to services covering up to

90% of childcare costs, with an additional subsidy for lower income families. Streamlining the currently complex Child Care Benefit/Child Care Rebate system in this way will simplify processes both for families and services and also potentially address issues of affordability for families and viability of services.

However, careful consideration will need to be given to the details of how the Early Care and Learning Subsidy (ECLS) proposal is operationalised. In particular, ELAA is of the view that:

- the deemed cost model has the potential to push costs up in general, and exclude some families due to affordability issues, if the price per hour is set lower than the *actual* costs of education and care; and
- some vulnerable families, whose children need access to high quality care, may be excluded through the activity test of 24 hours of work, study or training per fortnight.

For further details about the impact of the proposed ECLS on vulnerable children and families, we would direct the Commission in particular to the further submissions of various sector organisations, including ELAA member, Early Childhood Management Services.

We also support the recommendation discussed at our meeting with the Commissioners on 2 September - outlined in attachment 2, *Bringing Australia's System of ECEC into line with the needs of Vulnerable Children* – and reiterate our commitment in participating in this work should the Commission recommend it occur, and the Commonwealth support such a proposal.

Recommendation 1.5:

ELAA recommends that the Productivity Commission ensure that no disadvantaged or vulnerable children and families are worse off as a consequence of the proposed new Early Care and Learning Subsidy funding model.

Conclusion

In this submission, we have focused on those aspects of the draft report that sit at the intersection of Commonwealth-State relations in early childhood education and care: the *National Partnership Agreement* that delivers Universal Access funding for 15 hours of early learning in the year before school; and the National Quality Framework that was developed and agreed by all jurisdictions through COAG.

ELAA members remain committed to the ongoing implementation of the national quality and universal access reforms, as we believe they are fundamental to the delivery of quality early learning and care programs. These programs are in turn essential for the wellbeing and development of our children now and into the future.

We submit also that the Commission's final recommendations with regard to preschool funding and policy direction need to consider the outcomes of the Commonwealth's review of the *National Partnership Agreement*, which is anticipated to be released in the coming weeks.

As stated in our original submission, ELAA is pleased that the Productivity Commission is addressing the vital issue of childcare and early childhood learning. While we acknowledge the

importance of workforce participation to the nation's economy, we believe that a focus on quality for children is essential to producing Australian citizens best able to meet the social and economic challenges of the future.

In this regard, we also note recent research undertaken by PricewaterhouseCoopers – which we understand will be submitted to the Commission – suggests that increasing the number of children from low income families in early learning settings, and improving the quality, would add more than \$20 billion to the Australian economy by 2050.ⁱⁱⁱ PwC contends that increasing the number of working mothers to grow the total Australian workforce by 0.09 per cent would add \$6.0 billion (\$3.7 billion in 2014 dollars) to GDP by 2050; whereas lifting the quality of early childhood learning to at least the national quality standard would add some \$10.3 billion cumulatively to GDP by 2050 (\$3.0 billion in 2014 dollars), and ensuring early learning was provided to children from lower socio-economic families would add a further \$10.2 billion. When cost assumptions are factored in, PwC estimates a \$1.0 billion direct benefit to the taxpayer by 2050.

As the Business Council of Australia has said “policies to optimise children’s learning and development are important in enabling children to successfully establish foundation skills and navigate the education system as they grow up. Ultimately, these foundations enable people to realise their potential in work and in the life of the community.”^{iv}

We believe it is also important to restate a core view: high quality early learning enriches the development and wellbeing of ***all*** children - and is of particular benefit for disadvantaged children and families. This is not an opinion based on conjecture or an article of faith. It is a view informed by the research evidence; by our members’ experience in delivering high quality early learning; and by the positive outcomes achieved by children in our members’ care.

References

ⁱ Moore, Dr Tim (2014) *Understanding the nature and significance of early childhood: New evidence and its implications*. Centre for Community Child Health Seminar, 25 July 2014. Available: http://www.rch.org.au/ccch/for_professionals/Productivity_Commission_Inquiry/

ⁱⁱ Australian Early Development Index 2013 Summary Report (Update November 2013), page 4. Available: <http://www.aedc.gov.au/resources/detail/aedi-summary-report-2012-updated>

ⁱⁱⁱ *Early childcare's '\$20bn return'*, Justine Ferrari, p.5, The Australian, 4 September 2014

^{iv} Business Council of Australia (2014) Submission No. 21 to the Productivity Commission Inquiry into Childcare and Early Childhood Learning.

Terms of Reference

Bringing Australia's System of ECEC into line with the needs of children at risk

Background

In tasking the Productivity Commission with an inquiry into Childcare and Early Learning, the Commonwealth Government has in part acknowledged that the current Early Childhood Education and Care (ECEC) system fails to reach and properly support the needs of vulnerable children. In 2011-12 there were approximately 48,000 substantiated cases of child abuse and neglect concerning 38,000 children in Australia. Children aged less than one were the most likely to be the subject of a substantiation of abuse or neglect.

These children are largely underrepresented in our system of ECEC. However, there is overwhelming, empirically sound and persuasive evidence that increasing the access and participation of children at risk and their families in high quality ECEC services improves long term developmental outcomes and return significant productivity gains for the economy and the broader community.

The current systems of support have failed to facilitate the level of access to quality ECEC for vulnerable children – the Special Childcare Benefit is target inefficient, under-utilised and offers little incentive or obligation on ECEC services to facilitate greater participation of vulnerable children.

In its draft report, the Commission has outlined a number of recommendations, including the introduction of a new Special Early Care and Learning Subsidy (SECLS). Our experience in working with the complex and multidimensional needs of children at risk demonstrates that support must be continuous (not intermittent) and demand driven. While the intent behind the SECLS to target additional support to those in most need is welcomed, the design of the subsidy and its inter relationship with other policy and systems of support will be critical in maximising the access and participation of children at risk in ECEC in ways that optimise social outcomes and economic benefits to the nation.

We urge the Productivity Commission to recommend the establishment of a taskforce to consider how the entitlement of a child at risk to support under the SECLS should be implemented in practice to ensure alignment with the needs of those children.

Scope

The taskforce will have a particular focus on the effective and efficient inclusion and sustained participation of vulnerable at-risk children in ECEC.

Terms of Reference

1. To consider the report of the Productivity Commission and make recommendations on how the entitlement of a child at risk to support under the SECLS should be implemented in practice to ensure alignment with the needs of those children;
2. To make recommendations on the implementation of SECLS and related matters that will enhance the access and participation of children at risk in ECEC;
3. In considering the design and implementation of SECLS and related matters to consider the interface with the broader service system (eg: welfare, child protection, NDIS);
4. To assess and make recommendations on the implications for the ECEC workforce;
5. To identify and make recommendations on specific models of care that should be considered for trial or implementation in Australia, with consideration given to international models
6. To propose a framework for evaluation and assessment of the effectiveness of policy and practices as they relate to children at risk.

Composition of taskforce

It is proposed that the taskforce bring together individuals and organisations combining ECEC policy, research and practice with both national and international perspectives. The following individuals and organisations are committed to resourcing this important work:

- The Centre for Community Child Health at the Murdoch Children's Research Institute;
- Early Childhood Management Services;
- Early Childhood Australia;
- Goodstart Early Learning;
- Benevolent Society
- Early Learning Association Australia;
- Community Child Care Association (Victoria);
- International thought leaders (eg: Professor Ted Melhuish).

Timelines

The taskforce aims to undertake the work and make recommendations to Government within an agreed timeframe aligned with the May 2015 Budget.