

Inquiry into Early Education and Care Draft Report

CPD Submission to the Productivity Commission

February 2024

Centre for Policy Development

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Table of Contents

About CPD..... 2

Executive Summary..... 3

CPD urges the Productivity Commission to tackle the major challenges with Australia's current ECEC system head on.....5

Part 1 - CPD's recommendations for the final report..... 9

Recommendation 1: Outline a unifying, long-term vision for the ECEC system and steps for how to get there.9

Recommendation 2: The Commission consider a legislated national entitlement for all children that includes childcare and preschool and the Activity Test be abolished..... 10

Recommendation 3: That the final report consider and make recommendations on price regulation 13

Recommendation 4: That the Commission include quality explicitly as a feature/design principle of the ECEC system, alongside affordability, accessibility, flexibility and inclusion. 15

Recommendation 5: That the Commission include an explicit recommendation to raise award wages, and further consider specific workforce strategies in unserved and underserved communities..... 17

Recommendation 6: That the Commission further consider the roles and responsibilities of all governments, and governance arrangements to support a reformed system..... 18

Recommendation 7: Outline a transition away from the CCS over time to a child centred, supply side funding model. 24

Recommendation 8: That the Commission consider and make recommendations on a more systemic response to inclusion. 30

Part 2. CPD offers a possible long-term vision for reform..... 32

A roadmap to implement this long-term vision 35

Endnotes..... 36

Executive Summary

The Centre for Policy Development (CPD) welcomes the opportunity to make a second submission to the Productivity Commission (the Commission) inquiry into Early Childhood Education and Care (ECEC) following the release of the draft report. We congratulate the Commission on their detailed draft report, particularly the strong focus on children's development and early learning as the primary purpose of ECEC, and the commitment to a 3 day universal entitlement for all young children and families. The report, alongside other recent reports such as the Australian Competition and Consumer Commission's (ACCC) interim and final reports and the South Australian Royal Commission into ECEC, highlights the system-wide challenges in the ECEC system. They clearly demonstrate the case for change, and offer positive steps to move Australia to a better system.

There is currently a historic opportunity for reform to ECEC and the creation of a high-quality truly universal ECEC system in Australia. With the confluence of a number of expert reviews into ECEC; preschool reforms being rolled out across jurisdictions; and the Commission's own ambitious Terms of Reference, the Commission has an opportunity to outline a comprehensive and bold set of reforms.

While the Commission's report is underpinned by excellent principles and overarching aims, there is at times a disconnect between the principles and goals that the Commission outlines as important, and the recommendations and findings for creating a system that delivers on these principles and goals. There is a strong need for a unifying, bold, long-term vision, and steps for how to get there. CPD urges the Commission to put forward the vision for the ideal end state of ECEC in Australia.

Critically, by conceiving of changes to ECEC within the Child Care Subsidy (CCS) funding approach, the draft report shies away from the transformative systems change that is needed to develop a high-quality, truly universal system that supports all of Australia's children and families to thrive, and delivers on the primary purpose of child development. The work of the ACCC provides clear and authoritative evidence that the CCS funding approach is unable to drive the affordability, quality, simplicity and equity that is needed to create a truly universal system. The CCS is unable to ensure a truly affordable system as it does not guarantee an upper limit on fees that parents are required to pay, and it is inherently complex for families. It is also not tied to quality, removing its effectiveness to drive government objectives or the system outcomes needed. The ACCC's final report outlines many of these challenges, and we urge the Commission to address these challenges more comprehensively in its final report.

In this submission, we offer 8 recommendations for consideration as part of the Commission's final report. CPD recommends that the Commission:

1. Outline a unifying, long-term vision for the ECEC system and steps for how to get there.
2. Consider a single legislated national entitlement for all children that includes childcare and preschool, and that the Activity Test be abolished.
3. Consider and make recommendations on price regulation.
4. Include quality explicitly as a feature/design principle of the ECEC system, alongside affordability, accessibility, flexibility and inclusion.
5. Include an explicit recommendation to raise award wages, and further consider explicit workforce strategies in unserved and underserved communities.
6. Further consider the roles and responsibilities of all governments, and governance arrangements to support a reformed system.
7. Outline a transition away from the CCS over time to a child-centred, supply side funding model.
8. Consider and make recommendations on a more systemic response to inclusion.

For each recommendation, we outline the relevant findings and recommendations from the draft report that we welcome, and identify areas where we believe that they could go further to ensure the development of a high-quality universal ECEC system.

Bringing together the recommendations above, in the final section of the submission, CPD offers a holistic long term vision and set of options for reform that would respond to the issues in the system for the long-term, and enable the system design to meet all of the design principles set out by the Commission and the additional principles offered by CPD.

CPD urges the Productivity Commission to tackle the major challenges with Australia’s current ECEC system head on

While Australia’s ECEC system has many strengths, there are numerous challenges with the current system that prevent Australia from delivering an affordable, low-cost, high-quality universal system. The ACCC’s Final report shows that the current approach does not - and will never - fully meet the governments’ objectives for the system. CPD has previously identified critical system issues that must be addressed to move Australia to a universal system:

1. There is no agreed national purpose and the system is not delivering the outcomes we want for children and families.
2. Quality is not high enough, and high-quality services are not fairly distributed.
3. The workforce, essential to high-quality delivery, is in crisis.
4. ECEC is not accessible for all children and families.
5. The national ECEC system does not promote equity.
6. Services are not sufficiently inclusive.
7. The system does not provide a universal platform for entry to other services and supports.
8. The governance of the ECEC system is confusing and disjointed.
9. There is a lack of current and comprehensive data¹.

While the draft report starts us on the journey of tackling many of these issues, the scale of the system challenges requires further bolder reform solutions. In particular, the following inherent challenges of the current system must be addressed in the final report:

Affordability challenges

- ⇒ Two-thirds of surveyed parents either find ECEC a financial burden, or don’t use it because it’s too expensive.²

Providers tend to compete on quality rather than price variation within local markets.³

- ⇒ The ACCC final report shows that the unique characteristics of childcare markets mean that the CCS and the hourly rate cap are having limited effectiveness as a price signal and constraint on prices, meaning that retaining the subsidy-based CCS system is unlikely to be able to ensure affordability for households.⁴
- ⇒ The ACCC reports that, ‘While demand-side subsidies improve the purchasing power of consumers, we find that the use of such demand-side subsidies can result in the market being further incentivised to supply childcare services to the areas with the greatest demand and willingness or capacity of households to pay’.⁵
- ⇒ While the ACCC Report did ‘not observe excessive profits in aggregate across the sector’, it did find that ‘the trend we observe is that when government subsidies increase, out-of-pocket expenses decline sharply in the immediate term, but then quickly revert to levels preceding the subsidy change. Fees may rise more freely in the childcare sector as households are less sensitive to price changes because the Child Care Subsidy offsets some of the additional expense for households, and due to the experience and credence good characteristics of childcare services. If current regulatory settings remain, it is likely that the trend of affordability gains through increased subsidy being eroded by increases to fees, will recur’⁶.
- ⇒ Approximately 22.9 percent of long day care services are currently charging above the rate cap.⁷ This is despite the largest indexation of the cap in July 2023.⁸ The ACCC recommended that the Commonwealth Government reconsider the base rate cap and indexation to more closely reflect cost inputs.⁹ Although families earning under \$80,000 per year will receive a 100 percent subsidy under the Productivity

Commission’s recommendations, many of these families will still pay a fee, determined by providers.

- ⇒ The ACCC Report found that about 40 percent of large for-profit providers of centre based day care charged above the hourly rate cap in the September quarter 2023, compared to about 15 percent of large not-for-profit providers.¹⁰
- ⇒ Affordability challenges are greatest in households with the lowest incomes.¹¹

A lack of price regulation

- ⇒ The draft Commission report notes that ‘out of pocket expenses are a key determinant of whether families can afford early childhood education and care’.¹² However there is currently no price regulation of out of pocket costs to families.
- ⇒ The ACCC found that ‘direct price regulation is more likely to be required where countries expand public expenditure as this reduces the price sensitivity of households (any price increase has only a limited impact on out-of-pocket expenses)’.¹³
- ⇒ They reported that many OECD countries are moving toward greater regulation of childcare fees such as low fees or free hours for parents and guardians, supported with supply-side subsidies to cover providers’ costs of provision, and that many Australian states and territories are requiring providers not to increase fees more than is reasonably necessary and imposing reporting and monitoring requirements as a condition of supply-side funding.¹⁴

Participation is limited by the Activity Test

- ⇒ Access to the CCS, and therefore ECEC, is significantly restricted by the activity test, that generally sets a family’s entitlement to a subsidy according to how much work (or related activity such as study) both parents are undertaking. It has been estimated that the activity test is contributing to at least 126,000 children missing out on ECEC.¹⁵

- ⇒ The ACCC found that ‘households with the lowest incomes spend a greater share of disposable income on childcare and are disproportionately impacted by the Child Care Subsidy activity test, which acts as a barrier to access and affordability’.¹⁶

- ⇒ **Inequity when it comes to quality**
- ⇒ Market dynamics mean that those with the highest capacity to pay are being provided with higher quality services. The ACCC’s final report shows that providers’ supply decisions are highly influenced by expectations of profitability within a particular area or market, which is driven by expectations of demand and ability to pay. This is resulting in inequitable educational and/or developmental outcomes across all children and households and reduced workforce participation in some areas.¹⁷

Persistent workforce challenges

- ⇒ A stable educator workforce is critical for the quality of services and viability of providers. As the ACCC noted, the current educator shortages are having a material impact on the supply and cost of childcare.¹⁸ The Commission finds in the draft report that the sector is low paid, including in comparison to school teachers and to some retail, office based and care occupations.¹⁹ The Commission has equally noted that ‘addressing workforce issues will be fundamental to achieving universal availability’.²⁰

Limits of a market based system

- ⇒ In the current ECEC system with the CCS, there are limits on markets’ ability to deliver broader government objectives, which requires governments to take on a stronger stewardship role ‘closely overseeing, monitoring and taking responsibility for overall system functioning and coordination’.²¹
- ⇒ In many areas in Australia a market model does not work as ‘low levels of demand mean the costs per child of delivering services are higher than

families are willing or able to pay with current subsidy arrangements'.²²

Complexity of the current system

- ⇒ The ACCC final report found that the CCS is complex and difficult to navigate, with the majority of submissions that responded to this issue strongly confirming this complexity and difficulty to accurately estimate and compare out of pocket costs.²³
- ⇒ Parents find the subsidy system opaque and difficult to understand what they are entitled to.²⁴

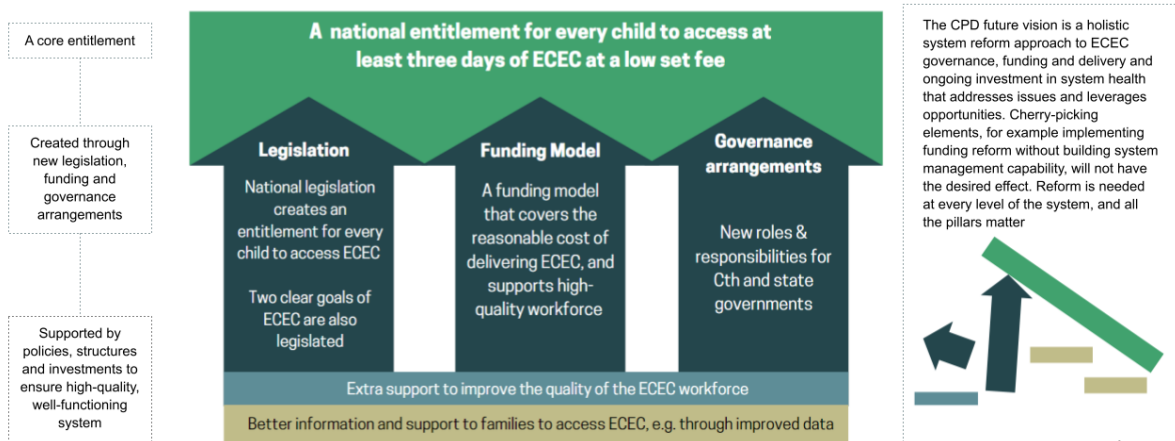
Lack of inclusion embedded in the current system

- ⇒ The Review of the Inclusion Support Program (ISP) has found that 'the ISP in its current form is a programmatic response, however, the aspiration of inclusive early childhood provision requires a systemic response which is incorporated into the very structure of ECEC'.²⁵
- ⇒ The recent National Disability Insurance Scheme (NDIS) Review found significant challenges with the lack of inclusion within early childhood education in Australia.²⁶ The Final Report recommended to 'increase the scale and

pace of change in mainstream and community inclusion and accessibility and improve the connection between mainstream services and the NDIS'. This includes an Action that 'All Australian governments should take steps to protect the right to inclusive education for children with disability and developmental concerns in early childhood education'.²⁷

Tackling these major challenges requires a long-term vision for a new ECEC system. Rather than limiting recommendations to immediate to medium-term goals and tweaks to the current system, we encourage the Commission to propose a long-term vision for Australia to work towards. CPD has developed a long-term vision for how to transform Australia's ECEC system to deliver universal access that is detailed further in part two. A snapshot of CPD's long-term vision is provided below.

CPD offers a snapshot of a possible future universal ECEC vision



This long-term vision for ECEC in Australia involves the following critical changes:

Legislating an entitlement for all young children to access at least 3 days of ECEC per week free or at a low set fee

- ⇒ Early childhood education and care, including preschool, is guaranteed to be available for free or at a low cost for at least three days per week as soon as families want it, with more available at minimal cost for those who need it.
- ⇒ This would include 2 days of free preschool per week for three and four year old children, with preschool integrated into a national ECEC system.

All actors in the system, especially governments, have clear roles and responsibilities and are active system stewards

- ⇒ The different roles and responsibilities between levels of government are agreed, with a nationally collaborative approach reducing confusion and complexity, system objectives are aligned and consistently cascaded through the national system.
- ⇒ This approach is supported by a new national early childhood agreement.
- ⇒ A joint Commonwealth-State body should consider and agree on system design, future roles and responsibilities for governments and ongoing governance arrangements, which could include a governance body established by legislation.

Moving to a child-centred, supply side funding model

- ⇒ Transition from a subsidy based funding model to a child centred supply side funding model that supports reasonable cost of quality provision.

- ⇒ Government funding drives policy objectives on quality standards, wages and conditions and support for priority cohorts. Services serving small communities have a minimum funding level guaranteed to ensure they have sufficient scale to operate.

Further details of this long-term vision can be found in part two of this submission. This system would take time to build and transition to, and would require significant commitment and investment from government. All social service systems have challenges, and there is no 'perfect' system. The long-term vision offered has many benefits such as a more affordable and easy to navigate system, educators having fair pay and conditions, strong return on investment for government and children and families experiencing disadvantage and vulnerability receiving more access to higher quality services, funded adequately based on their need. However, the setting and monitoring of reasonable cost is critical, as is ensuring adequate supply of high-quality places to deliver on the entitlement. The design of a future system will require careful consideration of the implications of reform, and how changes can be transitioned to over time.

We invite the Commission to consider this long-term vision, as well as the recommendations below, as the final report is developed.

Part 1 - CPD's recommendations for the final report

The Commission draft report is a critical first step to moving Australia toward a universal ECEC system. This section of the submission outlines the aspects of the draft report CPD welcomes, and CPD's recommendations for where the Commission could go further or conduct further research to progress the transition to a universal, high-quality ECEC system.

Recommendation 1: Outline a unifying, long-term vision for the ECEC system and steps for how to get there.

What we welcome:

Centring child development as the primary purpose of ECEC

CPD strongly welcomes the inquiry *'centr[ing] children in ECEC policy – understanding what aspects of ECEC make a difference to children, how services can be inclusive for all children, and how governments can ensure that their investments in ECEC support better outcomes for children.'*²⁸

Raising children is one of the most important things we do as a society, and supporting the education, development and wellbeing of children, both in the short and long term, should be a central priority for governments. The benefits of early childhood education and care for children are well-researched, and there is evidence that there are lifelong social and economic benefits of attending ECEC. It is critical that the child is at the centre of the ECEC system and that policy decisions around ECEC are designed first and foremost with the interest of the child at the centre.

CPD also welcomes the Commission's findings on the importance of early childhood education and care in supporting families to balance work and family life. The system can and should be able to support both objectives, with both objectives ultimately supporting children, families and Australian society to thrive.

Where the Commission could go further.

Outline a bold long-term unifying vision for the ECEC system and how to get there

The draft report outlines many welcome first steps towards creating a universal ECEC system. However, these could be more effective at catalysing long-term change if a bold long-term unifying vision was provided in the final report. This could include a clear vision, system objectives and the key elements that will make up the future system such as the national entitlement, funding model, and split of roles and responsibilities.

To support government and the sector to stay the course and maintain reform momentum, an ideal end state provides the beacon that we all aim for. The final report is an opportunity to create this vision that actively drives the coordination, collaboration and reform needed to build a well-connected, high quality early childhood system. It can provide a unifying framework for current government reform processes and greater clarity about how they fit together. The Commission may wish to align this with the draft National Vision for Early Childhood Education and Care.

This long term vision should be accompanied by agreed system objectives and outcomes, which system stewards take active responsibility for delivering. The need for clear system objectives and priorities has been recommended in the final ACCC report.²⁹ As the ACCC states, 'ultimately, the design of the government support model and regulatory measures will depend on the Australian Government's overarching policy objectives for the early childhood education and care sector, including appetite to take on a market stewardship role and the delineation of roles between the Australian Government and state and territory governments.'³⁰

The Commission has an important opportunity to outline a long term vision based on children's development being the primary purpose of ECEC. With this clear vision, the necessary system architecture can be designed and a path to its success mapped.

As summarised above, CPD offers a possible future vision for the Commission to consider as

the final report is drafted. Further details on this vision are outlined in this part 2 of this submission.

Recommendation 2: The Commission consider a legislated national entitlement for all children that includes childcare and preschool and the Activity Test be abolished

What we welcome:

Universal entitlement

We welcome the Commission's recommendation to introduce a universal entitlement to three days of early childhood education and care. CPD, along with sector partners and colleagues, has been recommending a minimum three day entitlement to ECEC as a critical element of the guarantee for young children and families, with additional days for children and families that need it. Published in *Starting Better*, this entitlement is based on research, consultation and work with partners and the Council on Early Childhood Development. A three day guarantee balances stability and continuity for children and parents and cost-effectiveness for governments, using a combination of evidence for vulnerable children and ECEC usage patterns for working parents.

The complex interaction between ECEC quality, attendance, dosage and degree of vulnerability makes it difficult to determine the 'optimum' amount of ECEC for a child. As *Starting Better* outlines, the early childhood development system needs to be considered holistically to achieve the outcomes we want for children. Government should not attempt to identify a single, 'optimal' amount of ECEC for every child (also known as 'dose') and build the entire ECEC system around that. Rather, the system should provide a broad entitlement to children and provide families the opportunity to use what best meets their needs and preferences.

Where the final report could go further

Create an entitlement analogous to schooling or Medicare³¹

Placing children's education and development as the primary purpose of ECEC underpins the promise to children and families of a truly universal system. Australia has several major universal service systems that are long-standing pillars of our social compact, notably universal healthcare and universal schooling. ECEC should also be one of these pillars. We encourage the Commission to further consider the universal entitlement to ECEC as analogous to all children's entitlement to schooling, or all Australians to Medicare.³²

It's in everyone's interest for children to be educated and safely cared for, and doing so has major social and economic benefits, both in the short and long term. While the Commission's draft recommendations assist lower income families to access ECEC, it is not only low income families that experience vulnerability. Vulnerability, while more concentrated in disadvantaged areas, can impact children in all communities. Universally affordable ECEC means that potential vulnerabilities are more likely to be identified for all children and addressed.

Universal ECEC also shapes community norms to foster widespread participation. It better reflects what is known about the value of early childhood education, sending a clear message to parents and the community about its importance in a child's learning and development. This has been seen through the introduction of universal 4-year-old preschool in Australia which has fundamentally built community consensus around the role and importance of early education and normalised preschool attendance in the year before school.³³

Evidence also suggests that children experiencing disadvantage obtain greater benefits from preschool if they are in a mixed cohort with children from diverse backgrounds.³⁴

The benefits of universal ECEC on children experiencing disadvantage have led academics to conclude that subsidising ECEC for all children is a worthwhile investment, even if the gains are greatest for children and families experiencing disadvantage.³⁵

It is important to note that it is not an either/or choice between a universally affordable service system and targeted and tailored services. These two approaches must work together, with universal services providing a platform upon which targeted and tailored services and supports can be 'stacked', or a backbone to which they can be connected.

Extend the entitlement to be a national entitlement that includes childcare and preschool

CPD recommends that in the final report, the Commission consider extending the three day entitlement to ECEC to one that includes both long daycare and preschool. This could create a national entitlement to access high quality ECEC that includes an entitlement to a preschool program in the two years before school, and services for children under the age of 3. Both long daycare and preschool are integrated into the National Quality Framework (NQF) and this is a strong platform from which to build greater integration.

The national entitlement would be supported by an improved funding model that better integrates preschool into the national ECEC system, and a new approach to Commonwealth and State and Territory roles and responsibilities (this is further detailed in recommendations below). This would mean existing preschools would access the national funding system, it would be more straightforward for current standalone preschools to offer long daycare around their preschool programs and families would be less likely to have to move their child between services or navigate between different systems and entitlements. It may also increase the supply of long-day care in the system if preschools are able to expand their service offering. The South Australian Royal Commission in its Final Report, made a similar recommendation that 'the State Government should be proactive in the national policy discussions around early education and care and strive to get a national settlement of roles and responsibilities which has affordability issues, including for preschool, as the preserve of the Commonwealth'.³⁶

While it may take some time to transition to a nationally integrated approach to preschool, jurisdictions such as NSW, Victoria and Queensland's preschool systems already draw heavily on the long day care sector.³⁷ Bespoke funding arrangements may be required in other states and territories if they wish to continue the dominance of school-based delivery models.

It will take sustained effort to build the capacity of the sector, including building the workforce, to fully meet the entitlement. It will also involve continuing to build on the mindset shift of no longer separating education and care, for example seen in the NQF. It is critical that a clear implementation plan accompanies the roll out of a national entitlement. Without a carefully planned and staged approach, there is a risk that quality service delivery will be compromised.

Enshrine the universal entitlement in legislation

We recommend enshrining the universal entitlement in legislation to ensure that it is something that children and families can rely upon. It is important that this entitlement is for the child, rather than the family.

Many OECD countries have legislated entitlements. Countries such as Denmark, Germany, Sweden and Norway have legislated extensive entitlements to ECEC, beginning from six months (Denmark) or age one (Germany, Sweden, Norway). These legal entitlements interact with the paid parental leave system of each country, beginning by the time the period of paid parental leave ends.³⁸

Other countries offer a partial legal entitlement that begins at preschool age and specify a number of hours that children are entitled to.

- ⇒ New Zealand offers an entitlement of 20 hours per week from age three.
- ⇒ France offers five days of preschool from age three.
- ⇒ UK offers 15 hours for all children from age three.

In countries that provide an entitlement to free or low cost universal early childhood services, attendance is generally high, even for quite young children. For example, in Denmark, legal entitlement starts early and is full time

(40hrs/week). Eighty-nine (89) percent of children aged one or two and 98 percent of children aged from three to five years are enrolled in ECEC.³⁹

There are a number of benefits to legislating a national entitlement. These include providing government with a mandate, propelling them to deliver the entitlement; and the symbolic value of embedding an entitlement in legislation rather than, for example, program guidelines or policy settings. Legislation can strengthen the reform effort as a government priority and help set community norms; entrenching the entitlement, making it difficult to remove with a change of government; and it can help to drive operational change.

The Commission may wish to include in their final report some steps that government can take to create a legislated national entitlement. These could include:

- ⇒ Create an act that encompasses ECEC as a whole - include the vision and purpose, the legal entitlement, the funding and regulation.
- ⇒ Incorporate the entitlement into existing legislation (e.g. Family assistance administration).

What we welcome

Improved affordability for low income families

Improved affordability for low income families is an important measure to support improved access. As the Commission has found, ECEC is particularly beneficial for children and families experiencing vulnerability and disadvantage. While CPD recommends further consideration be given to long-term reform of the funding model, increasing the CCS to 100 percent for low income families will have an immediate benefit while broader reforms are developed and implemented.

Where the final report could go further:

In addition to a minimum entitlement, consideration be given to a differential entitlement for children experiencing vulnerability or disadvantage

The three day entitlement must be available to everyone, but where children have higher needs, they should receive more support. This ‘progressive universalism’, whereby services are available to everyone, but delivered with an intensity and scale proportionate to the level of need, combines the benefits of a universal system with the benefits of targeted systems.

Consistent with *Starting Better*, CPD proposes an entitlement of at least three days free or low-cost high-quality early education from as soon as families want it, with additional days available at minimal cost for those who need it. The Commission may wish to consider a differential entitlement for children experiencing vulnerability and disadvantage, including an entirely free entitlement to provide vulnerable children with a safe and supportive environment, and to promote participation in a preschool program in the two years before school, noting the strength of evidence of the benefits of these approaches.

The Commission may also wish to consider and recommend a range of system improvements for greater equity in their final report. This could include prioritised access and improved staff arrangements for children experiencing vulnerability and disadvantage; enhanced connections to complementary health and wellbeing services and supports; and needs-based funding. Also, continued and improved investments in place-centred and integrated delivery are important to tailoring a universal service to the needs of communities and families

What we welcome:

Relaxing the Activity Test

We welcome the PC’s recommendation to ‘*relax the activity test to allow all families to access up to 30 hours of subsidised care a week (60 hours per fortnight) regardless of activity*’. This mirrors our recommendation in our *Starting Now* report (2023) to recalibrate the activity test to ensure that all families can access at least 3 days a week of education and care. As the work of Equity Economics highlights, the Activity Test is contributing to 126,000 Australian children from low-income households missing out on ECEC.

Where the final report could go further:

The activity test could be removed altogether over time.

CPD recommends that the Commission considers building on their recommendation to relax the Activity Test, to see it removed all together over time.

Consistent with the Commission's centring of child development as the primary purpose of ECEC, a child's access to more than three days of ECEC should not be conditional on their parents' workforce participation or related activity. The Activity Test does not align with the intent or objectives outlined in the draft report for a future ECEC system nor the vision of a truly universal ECEC service.

The Commission may also wish to consider whether relaxing the Test for 3 days adds further complexity into the system for families who wish to access more than 3 days, and whether removing it altogether better meets the system's objectives.

As noted above, delivering on a 3 day entitlement will require significant capacity to be built across the system. As such, the recommended relaxation of the Test will help to manage demand in the early years. However, the Commission could recommend that, as system capacity is increased and the 3 day entitlement is able to be met for all children, the Activity Test be removed altogether.

Recommendation 3: That the final report consider and make recommendations on price regulation

The draft report is relatively silent on price regulation. Retaining the current CCS funding model means providers maintain the ability to set parent fees. While we acknowledge the Commission's draft recommendation on government monitoring of changes in fees and out of pocket costs regularly, with a regulatory response taken if there are unreasonable fee increases, and improved information provided to families, we encourage the Commission to further consider and make recommendations to more directly address the issue of affordability for all families.

Major affordability and reliability of price issues remain in the system when there is no limit on the out of pocket fees that providers can charge. As seen in the graph below, fee levels increased materially in the three months to September 2023 when the July changes to the CCS were introduced. The cost of long day care as measured by hours increased by 8.9 per cent, nearly twice the amount recorded post the CCS implementation and well above the average increases of the last ten years. This trend has been consistent over the last decade, where Commonwealth government spending on ECEC has increased and so have child care prices. This trend was confirmed in the final ACCC report.⁴⁰

Wages are the main driver of costs, with the ACCC finding that labour costs have increased significantly for large providers of centre based daycare over the last 5 years.⁴¹ They also found that 'costs for large providers of centre based day care grew faster than inflation'.⁴² The hourly rate cap was increased by 7.8 percent in July 2023, reflecting increased provider costs. While the ACCC have found that costs are increasing for large centre based day care providers, with providers able to set fees, government affordability measures are having limited effect within the CCS model.

The high cost of ECEC prevents and limits children participating. Parent surveys regularly report that the cost of ECEC is a significant reason they do not use it, or do not use it more.⁴³ Efforts to restrain prices through a cap on the amount of fee eligible for the CCS have not succeeded, with the proportion of long day care services charging above the fee cap increasing, from 11 percent in December 2018 to 22.9 percent in September 2023.⁴⁴

As noted at the start of the submission, the ACCC has shown that the unique characteristics of childcare markets mean that the CCS and the hourly rate cap are having limited effectiveness as a price signal and constraint on prices, and if CCS settings are increased, this will be even less effective.⁴⁵ As the ACCC has stated 'the nature of childcare markets and the role played by price, as well as the impact of the Child Care Subsidy, also mean it is unlikely that market forces alone will act as an effective constraint on prices to ensure affordability for households (including

households with low incomes and vulnerable cohorts) and to minimise the burden on taxpayers.¹⁴⁶

To achieve a truly universal system that all families can access, CPD encourages the Commission to undertake further research and consideration on price regulation approaches and consider more closely funding models/approaches that will support the reasonable cost of quality delivery and more effectively align with maintaining a regulated price.

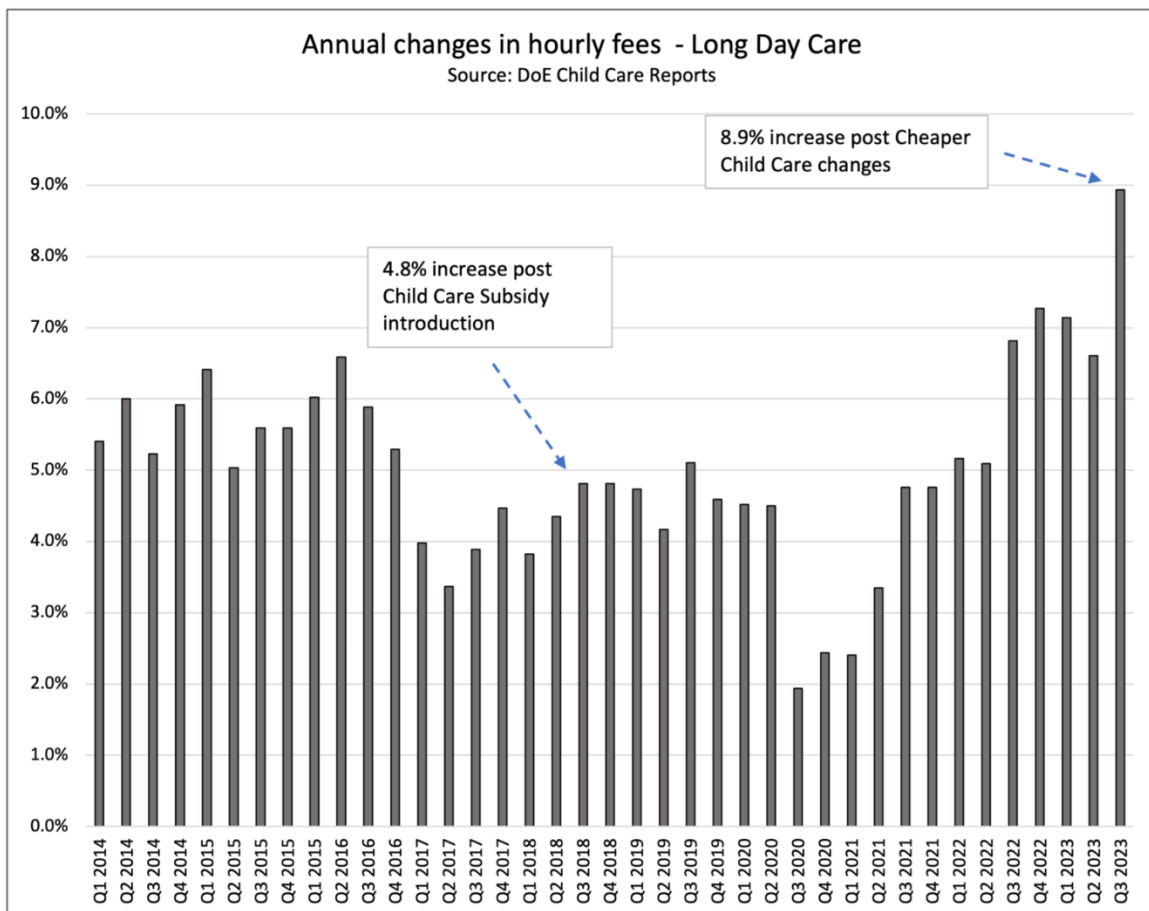


Figure 1: Annual changes in hourly fees - Long Day Care. Source: Jason Roberts, *Cheaper Child Care changes to CCS yielded only modest LDC attendance increases, says DoE data, The Sector, 8 January 2023.*

The national entitlement is to a place in ECEC at a low-cost set or capped fee

CPD encourages the Commission to consider options for moving to a set or capped family fees model over time as part of the national entitlement. This can be an effective way to regulate the price that families pay and ensure that ECEC is affordable for all families.

Capped and set fees are effective in promoting access and increasing participation, and also at sustaining a commitment of increased funding from governments (in response to increased demand). This has been seen in Norway where fees have been capped since 2004. This was a critical step in creating universal provision in Norway, alongside steps including a national funding reform agreement and requiring municipalities to deliver universal ECEC.⁴⁷

There are a number of options for parent fee models that the Commission could consider⁴⁸ such as:

- ⇒ A set fee per child amount such as \$10 per day for all children, and/or free for low-income families. This is similar to the model in Quebec.
- ⇒ The fee is a small percentage (e.g. 3 percent) of parental income, up to a maximum weekly limit. This is similar to the model in Sweden.
- ⇒ A simple fee structure that changes depending on current tax brackets (and could adjust as tax brackets change).
For example:
 - up to \$80,000 - free;
 - up to \$120,000 - \$10 per day;
 - up to \$180,000 - \$15 per day;
 - up to \$250,000 - \$20 per day;
 - more than \$250,000 - \$25 per day.

The different set fee options have different trade-offs. For example, a flat fee is simple for families, but may not be as equitable as an income based fee. However, an income based fee would maintain some complexity in the funding system.

The Commission cited issues with Canada’s model as evidence of the failure of a set fee approach, yet it’s worth noting that this model now has expanded to more provinces across Canada beyond Quebec. While Canada has

faced many of the same delivery challenges as other nations, such as care workforce availability, it would be useful for the Commission to consider and outline what lessons Australia can learn from Canada’s experience and how these could inform any approach taken here.

Quebec introduced \$5 a day ECEC in 1997, with the objectives of supporting parents to balance work and family, and fostering children’s development and school readiness by providing access to high-quality regulated child care for all regardless of socioeconomic status. After the introduction of the universal program, ECEC attendance rose dramatically, with evidence suggesting that lower income families had greater access to and participation in ECEC under Quebec’s universal model than the rest of Canada (which was taking a targeted approach). Quebec’s universal system had major benefits for the workforce participation of mothers, with evidence suggesting that it was the low, fixed fee that really provided mothers with the ability and confidence to re-enter the labour market.⁴⁹

While Quebec has at times faced quality issues, a set price was nonetheless very successful in improving availability and attendance, and proved extremely popular with parents.⁵⁰ Key takeaways from Quebec’s experience is that fixed-fee ECEC has to be adequately funded, building and managing supply needs to be supported and quality needs to be prioritised and incentivised for it to be effective at delivering high quality universal ECEC.

Recommendation 4: That the Commission include quality explicitly as a feature/design principle of the ECEC system, alongside affordability, accessibility, flexibility and inclusion.

What we welcome:

Acknowledging the importance of quality

We welcome the Productivity Commission’s recognition that *‘quality is paramount to achieving the benefits of ECEC’* and that improvements to the National Quality Framework and regulatory activities may be needed to

ensure quality ECEC is delivered throughout Australia.

Quality is essential to delivering an effective ECEC system, particularly for children experiencing vulnerability or disadvantage. As CPD outlined in our first submission to the Commission, quality ECEC is not universally available, and remains generally lower in low socioeconomic areas, and evidence suggests that the quality levels in the system may be insufficient to shift children's outcomes.⁵¹

Where the Commission could go further.

Quality should be an explicit feature/ design principle of the ECEC system

While the draft report does recognise the importance of quality, it is not explicitly highlighted as a key feature of the desired future ECEC system. A focus on quality is essential to secure value for money for government investment and support children's outcomes in the short and long-term.

We recommend that the Commission consider quality as a design principle of the ECEC system, alongside affordability, accessibility, flexibility and inclusion. This would emphasise the importance of quality for achieving the overall goals of the system — a universal system can be accessible, affordable, flexible and inclusive, however, if it is not delivering quality ECEC, it will not achieve the desired outcomes for Australian children and families. This would also be consistent with its inclusion in the principles of the National Cabinet vision for ECEC.

Quality should also be explicitly linked to workforce, and wages, given that the workforce is the primary driver of quality ECEC. The evidence clearly highlights that 'process quality', i.e. the quality of adult-child interactions, has the most significant influence on child development.⁵²

In addition to quality being an explicit design feature of the reformed system, CPD encourages the Commission to consider and canvas further options and recommendations for the following:

- ⇒ Improving quality regulation and assessment regularity and consistency.
- ⇒ Incentivising quality, including for new providers coming into the system, ensuring not to set up perverse incentives.
- ⇒ Government working with underperforming services to improve their quality.
- ⇒ Tougher regulatory action, as a last resort, for providers consistently not meeting quality requirements.

In considering the ideal funding system for universal ECEC in Australia, it may also be worth considering how the funding system can support and incentivise high-quality provision. As the ACCC report highlights, quality service delivery costs more, and services with higher quality ratings paying educators and teachers higher wages.⁵³ The ECEC workforce is the cornerstone of a quality service and the ACCC confirmed that 'the availability and quality of educators and staff delivering child care services has a significant impact on the quality, reputation and profitability (through influencing occupancy) of a service'.⁵⁴

In addition to funding at a level sufficient to provide a high quality service, the funding system could encourage high quality delivery and quality improvement (for example, additional payments for improving quality ratings), and discourage low quality provision through conditions placed on receiving government funding (for example, the requirement to meet minimum standards).

Recommendation 5: That the Commission include an explicit recommendation to raise award wages, and further consider specific workforce strategies in unserved and underserved communities.

What we welcome:

Highlighting the importance of workforce

CPD welcomes the Commission's emphasis on workforce, including practical measures to support building the workforce. The workforce is the single greatest challenge facing the ECEC system today, and an essential enabler for future quality and growth. The ECEC workforce is the cornerstone of a quality service. Comprehensive Australian research has highlighted the importance of the quality of adult-child interactions to child development outcomes. A comprehensive literature review concluded that '[t]he most significant factor affecting quality appears to be caregiver education, qualifications and training', and E4Kids confirmed 'the association of higher-level educator/teacher qualifications with better process quality, and subsequently improved child cognitive outcomes.'⁵⁵

CPD welcomes the practical recommendations of the Commission to build and retain the ECEC workforce, including reducing barriers to educator upskilling, supporting the innovative delivery of teaching qualifications, and government support for the professional development of the ECEC workforce. These measures, when combined with improved wages for educators, will be critical for fostering rewarding careers.

Where the PC could go further:

Include an explicit recommendation to raise the award wage, recognising that multiemployer bargaining processes are just one strategy of many to improve pay and conditions

While we welcome the Commission's emphasis on the importance of workforce, in order to meaningfully and practically tackle the current workforce challenge, we urge the Commission to

make an explicit recommendation that the ECEC workforce is underpaid and that the award wage must be raised.

As has been covered extensively in other publications and reports (including CPD's initial submission to the Inquiry), the workforce is critical to the effective operation of a high quality system, and low pay and conditions are a significant impediment to quality and adequate supply. The capacity of Australia's ECEC system is currently constrained by workforce shortages, so the sooner a broad and material improvement in pay and conditions can be introduced, the sooner supply challenges will begin to be addressed. A quick and significant improvement in pay and conditions could provide a quick boost to supply, relieving some current pressures. Coupled with this, the Commission should also consider ways to ensure that the system is designed to continue paying educators fairly over the long-term.

While the Commission may not wish to comment on the amount that the award should be raised to, raising the award is inextricably tied to the availability of the workforce, the quality of ECEC, and the capacity of the sector to grow and deliver on a 3 day entitlement. Given that raising workforce wages underpins both the vision for universal ECEC and many of the Commission's recommendations, it is critical for the Commission to be explicit about the need to raise wages.

Provide specific recommendations to support workforce attraction and retention in underserved and unserved communities, particularly rural and remote areas

CPD has undertaken work on the challenges facing unserved and underserved communities, particularly those in rural and remote areas. The highest priority challenge identified was the recruitment and retention of workforce. Many of the challenges faced by these communities are different from those faced in metropolitan locations. For example, high recruitment costs, higher costs of living, access to housing, community acceptance or 'fitting in' to the new community, costs of travelling to access training and professional development.

Our research also found that many communities identified that this challenge could best be addressed through the development of a local workforce.

CPD encourages the Commission to further consider the unique workforce challenges facing regional, rural and remote communities, and consider specific recommendations to address these, including ways to support local workforce attraction, development and retention.

Recommendation 6: That the Commission further consider the roles and responsibilities of all governments, and governance arrangements to support a reformed system

What we welcome:

The call for more active stewardship

We welcome the Commission's support of stewardship to 'address some of the challenges observed in the market, coordinate a more cohesive policy response and steer the sector towards universal access'. To create an affordable, accessible, high-quality universal ECEC system, governments need to take greater responsibility for the system and the outcomes it achieves.

Agreeing the necessary roles and responsibilities between levels of government is a vital early step to developing a new ECEC system. Developing a new national approach is an opportunity to reduce confusion and complexity, and align system objectives, and CPD welcomes the draft reports's recommendation on this.

Where the Commission could go further:

The current approach to ECEC governance, funding and delivery is not seeing the results that government would like. Continuing the current approach while attempting to move to a universal system is likely to exacerbate problems in the system rather than solve them.

As part of system stewardship, governments need to provide greater oversight, facilitation and system management in the ECEC market. This means taking a role that goes beyond funding and regulating, to include other more intentional steps such as provision planning, better informing consumers, monitoring the market for inequities, filling service gaps, and actively setting and adjusting the 'rules of the game' (such as funding rules).

While the draft report recommends clarifying roles and responsibilities across jurisdictions, it does not recommend any changes from the current system. The current system involves a complex funding, delivery and regulatory arrangement and this complexity is reflected in how children and families experience the system. As the Commission itself notes, this division of responsibilities is a product of history rather than planning.⁵⁶

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

CPD recommends that the Commission further consider the roles and responsibilities of the Commonwealth and state and territory governments in the final report, including providing more detailed consideration of all the roles and responsibilities required across a reformed system. Rather than maintaining the status quo, consideration could be given to a different allocation of roles and responsibilities, drawing on the strengths of different levels of government and existing experience in related service delivery. This could better enable governments to more actively use their levers so the system better delivers on its objectives and create a more robust accountability framework.

CPD offers an option for consideration to realign roles and responsibilities. This option sees the Commonwealth take responsibility for the national entitlement, and States and Territories take on the role of system managers.⁵⁷ This realignment would be very important to enable the integration of long daycare and preschool policy and funding. Both levels of government would be stewards of the system.

Currently the roles are confusing, duplicative and overlapping in places while leaving gaps in others. This leaves families and services frustrated and sometimes overwhelmed. Greater role clarity will make the system more responsive, efficient, effective and accountable.

In this option, the Commonwealth Government could be responsible for the national entitlement and supporting funding system as it receives most of the financial benefits of a well functioning ECEC system, through increased income and company tax, and would see a reduction in welfare spending if families can engage in work. In addition, having one level of government fund the system provides national consistency. This role would involve the Commonwealth making payments to providers.

The States and Territories could be the system managers as they are most closely connected to their local communities, with an extensive existing presence including but not limited to the operation of public schools. They have a significant foundation to build from. States and Territories would work directly with services on issues such as quality, access and inclusion, and connect services with other service systems (such as schools and health). They could support transition to the new system and expansion, accessing workforce supports and identifying areas of supply or demand challenges. States and Territories would also invest in the system, and there should be no reduction of investment with the transition to the system manager role.

Grouping most of the 'system management' functions with the one level of government is also important as it provides role clarity and a clear point of accountability for the community. This removes or reduces the number of points where levels of government may have overlapping or conflicting responsibilities, and reduces the need for complex coordination arrangements or governance. It allows for

consistency and coherence across different policy domains (for example, connection between early childhood and schools or health), while also allowing for local priorities to be accommodated.

This approach could also include employing local staff across a state or territory, to enable governments to manage at least some interactions with individual services and local workforces, and manage local issues locally. These local staff could also support integration of ECEC with other service systems, for example working with the broader ECD system and health services. This approach is similar to the South Australian Royal Commission's design of the Office for the Early Years or other jurisdictions' regional approaches.

An outline of the suggested new roles and responsibilities is below.

	Commonwealth	States and Territories
	<p>Determine entitlement (including preschool)</p> <p>Funding system design and delivery</p> <p>Unserved and underserved communities - operational funding approach</p> <p>Workforce attraction</p>	<p>Unserved and underserved communities: establishing new services (including, where needed, acting as provider)</p> <p>Workforce retention</p> <p>Sector support/quality improvement</p> <ul style="list-style-type: none"> ● Provision planning ● Quality support and improvement, including regulatory activity ● Support for services to meet children’s needs ● Support for small and community providers <p>Parent and family support - enrollment processes</p>
Shared	<ul style="list-style-type: none"> ● Set objectives of the system ● Workforce planning ● Sector support/quality improvement ● Change management ● Regulation setting ● Parent and family support - information ● Data and information improvements 	

Figure 2 - Option for roles and responsibilities of Commonwealth and State and Territory governments in a reformed ECEC system

Alternative arrangements

States retain preschool funding responsibility

A minimum level of preschool entitlement should be nationally agreed, with states and territories able to provide more than this, but no less. If states and territories were unwilling to give up responsibility for preschool funding, they could retain responsibility for funding the preschool part of the ECEC system (for instance, through a 'preschool loading' as proposed in the reformed funding approach suggested below). This could still be administered through the national funding system, with the states making payments via the national system to services in their jurisdiction. In this scenario, the other changes could be retained (eg. bringing preschools into the national system and base funding and other additional funding being provided by the Commonwealth discussed further below).

A national funding pool

Another option is for a national funding pool to be created where the Commonwealth and States pool their funding. It would be managed jointly and the funding allocated through the single national approach outlined above. This could be done either by the Commonwealth Government or the new ECEC Commission to service providers. This could be broadly similar to the approach for the National Health Funding Pool.

This approach would enable the model outlined above to be implemented with all jurisdictions continuing to provide funding for ECEC based on the current funding division. To enable a consistent national entitlement for all children, States and Territories would need to ensure funding for preschool at an agreed level. A single payment to providers would be enabled through this funding pool to all services providing ECEC and/or preschool.

Creating a funding pool does add administrative complexity and cost to administer.

Funding for the State and Territories' system management role would need to be negotiated as part of the National Agreement and Bilateral Agreements. This would need to ensure that there is no cost shifting. States and territories would be relieved of much of their current preschool expenditure, but would incur costs, including in system management, infrastructure contributions, quality investment and workforce support. This may result in states and territories making an ongoing contribution to the national funding system (although as discussed above, the Commonwealth is best placed to fund entitlement, demand and price growth in the funding system over time). It will be important that the states and territories are provided with sufficient funding to perform their role, particularly regarding quality uplift and the service integration/'glue' work. This is consistent with the findings of the South Australian Royal Commission.⁵⁸

Through State and Territory Governments both strengthening existing and building new relationships with individual services, providers and communities, their understanding of local needs and circumstances is improved, helping to inform future policy development. This enables governments to respond quickly and effectively when needed - for example, to respond to natural disasters and emergencies; if policy changes have unexpected effects; if community needs or preferences change; or if a service has to close, to find a different provider to operate it, or to support families to a new service.

Implementing a system management approach should have multiple benefits for government and the system - helping improve service quality (and therefore child outcomes); helping to coordinate activity or aggregate purchasing power to achieve economies of scale; improving governments' understanding of local needs and circumstances (applicable both to the early childhood system and more broadly); and smoothing the operation and experience of the

system for parents. This is an important way in which governments' stewardship of the ECEC system is given effect.

Responsibility for provider/contract management would likely be best coordinated between the Commonwealth and the States and Territories. The Commonwealth would require data and information to inform the funding system design, and would be best placed to identify risks or possible fraud (for example, services claiming an anomalously high level of children experiencing disadvantage in a highly advantaged area), and States and Territories may be best placed to investigate given their local presence, relationship with services and ongoing regulatory functions. These responsibilities could be detailed as part of the proposed National Agreement.

What we welcome:

New governance arrangements

We welcome the draft recommendation for a new National Partnership and that this be used to clarify roles and responsibilities and agree a national vision. This is a critical early step in moving to a reformed system.

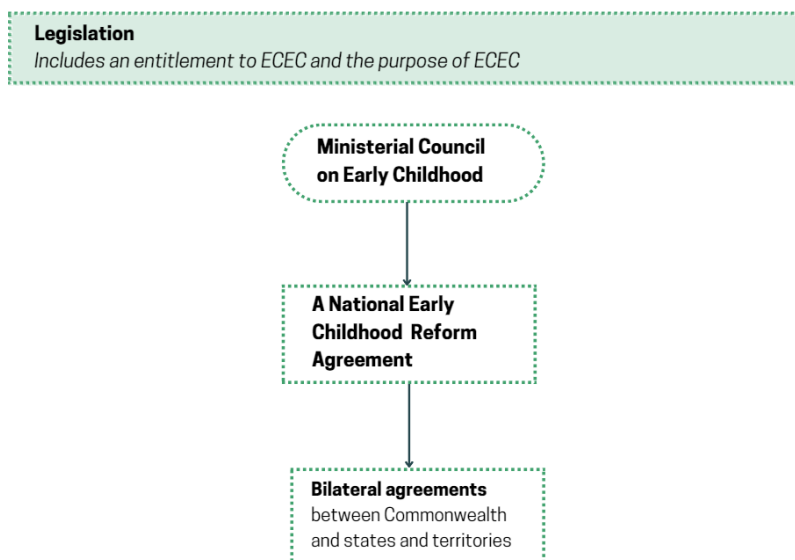
Where the Commission could go further:

In the final report, CPD encourages the Commission to consider broadening the scope of the new National Partnership Agreement to

encompass early childhood reform more broadly. This would enable other critical early childhood development system reforms to be integrated and coordinated with ECEC reform, such as maternal and child health. While we suggest consideration of a broader Agreement, ECEC reform would be the first priority area to be addressed.

As system reform will take time, we suggest that the Agreement be a long-term agreement that incorporates the 10 year vision. This may require a series of National Partnerships that advance achievement of the long-term vision. This could provide the benefits of certainty and stability. It could be supported by jurisdiction-specific action plans or bilateral agreements, for example covering three or four year periods. These agreements could include commitments to a minimum level of spending, funding arrangements and specific system performance targets.

To support the implementation of reform, the Commission may wish to consider new governance arrangements. A dedicated Council of Early Childhood Ministers could be established as part of the existing National Cabinet architecture. This could provide a specific forum for relevant Ministers to meet, oversee progress and resolve issues related to ECEC reform, but also include broader ECD reforms. Another option for consideration could be regular (6 monthly) joint meetings of the Education and Human Services Ministerial Councils.



Updates could be regularly provided to National Cabinet as a Key Priority reform.⁵⁹ As with other Ministerial Councils, parallel arrangements among officials could be adopted as well. As the reforms roll out, working groups could be established to focus on agreed priority areas.

In order to provide clarity of purpose and role, consideration could also be given to an approach similar to that proposed by the South Australian Royal Commission into ECEC, which recommended that an Office for the Early Years be established in legislation, which would clearly set out its role and functions, embedding governments' stewardship of the ECD system.⁶⁰ This would be particularly relevant for other States and Territories and their roles as system managers.

What we welcome:

The establishment of a Commission

The draft recommendation to establish a new National Commission could assist with stewardship of the ECEC system, supporting coordination and alignment, particularly in the implementation of a reformed system. We welcome the purpose of the Commission - for all jurisdictions to work together to enable implementation of reform and to ensure system accountability.

Where the Commission could go further:

For system stewardship to be effective, all stewards need to take joint responsibility for the health and performance of the system, and steering all participants towards high quality long term outcomes.⁶¹ To ensure the new ECEC Commission is set up to enable and support active system stewardship, CPD suggests that further consideration be given to:

- ⇒ All relevant Ministers remaining accountable for the work of the new Commission. This could be achieved through accountability and responsibility being vested in the relevant Ministerial Council.
- ⇒ Broadening the scope of the Commission to include early childhood development reform. Consistent with the

National Partnership, while the Commission would have a broad scope, its first area of focus would be ECEC system reform and implementation.

- ⇒ Creating the Commission as a legislated body, rather than through a National Partnership. Enshrining it in legislation along with the purpose and objectives of the system helps to ensure it has sufficient authority and longevity.
- ⇒ The functions of the Commission and where these are different from the functions of governments. There may be a risk that either jurisdictions pass their responsibilities to the Commission, abdicating their stewardship of the system; or that it is ineffective as it is limited to an advisory function with no power or mandate. Ensuring that the Commission has appropriate powers to undertake their role will be important. Additional functions such as delivering the reformed funding system could be included and would assist in national engagement and coordination.
- ⇒ How to ensure sector buy-in. The early childhood sector is a critical partner in the implementation of system reform and should be considered as partners in the Commission. This could be done through sector representatives being involved in the Commission in formal roles or key advisory bodies.

Lessons from previous reform: establishing separate bodies

Examining how other bodies were established and why they endured could provide critical insights for ensuring the effectiveness and longevity of the ECEC Commission, and ensure that governments ultimately remain responsible and accountable for the reform and health of the system

Australian National Training Authority

The Australian National Training Authority (ANTA) was established in 1992 to create nationally consistent training standards for vocational education. It created new, enduring funding arrangements for vocational training. Although it was dismantled in 2005, it endured for over a decade and had a lasting impact on Australia's vocational education system. Some factors contributing to its success include:

- ⇒ The reforms were initiated by the Council of Australian Governments (COAG, now National Cabinet)
- ⇒ Clear goals and objectives of ANTA, agreed to by all governments
- ⇒ The Commonwealth committed to investing a significant amount of money in a new area, which encouraged the involvement of states.
- ⇒ The National Ministerial Council maintained responsibility for directing policymaking, meaning that governments were held responsible and accountable, including ANTA being the secretariat of the Ministerial Council.
- ⇒ Both industry and government representatives were involved in running ANTA, supporting longevity and buy in.

Recommendation 7: Outline a transition away from the CCS over time to a child centred, supply side funding model.

Communities where supply doesn't meet demand - unserved and underserved communities

What we welcome:

CPD welcomes the draft findings and recommendations on separate funding approaches for unserved and underserved communities to support ongoing service sustainability, and the establishment of new services where the market doesn't meet need.

Where the Commission could go further:

The work undertaken on childcare deserts by both the Mitchell Institute and the Commission highlights that unserved and underserved

communities exist across Australia - not just in rural and remote communities. We urge the Commission to consider expanding their recommendations on communities experiencing less supply than demand/unserved and underserved communities beyond rural and remote communities, allowing these supply side responses to be available for all those who need them to maintain viability and ensure universal provision across Australia.

CPD also encourages the Commission to consider and make recommendations on a range of ways in which capital support can be delivered to meet future supply needs, such as direct public capital investment, better use of public and community facilities, philanthropic investment, opportunities for peppercorn rent in private facilities in communities experiencing disadvantage.

Supply side funding mechanisms

Building on the draft report's recommendations for supply side funding approaches in unserved

and underserved communities, CPD welcomes the information request for further details on expanding the use of supply side funding mechanisms over time. CPD have undertaken work on options for a future long-term child centred, supply side funding model which we offer to the Commission to inform their considerations.

As outlined previously in this submission, the ACCC has found that the current subsidy based model is not working, and that tweaks to it will exacerbate existing challenges in the system. If the Commission chooses a partial reform approach through maintaining the CCS, significant funding will continue to be spent on a broken system.

A child centred, supply side funding model could offer a solution to many of the problems identified with the current funding system, and the system more broadly. Moving to such a model would be a significant system change and, as such, it is suggested that consideration be given to how it could be introduced over time. Some options could include:

- ⇒ The gradual introduction of supply side elements such as a wages supplement or needs based funding.
- ⇒ Trialling it at scale in a range of selected communities, including but not limited to, unserved or underserved communities and then evaluating for wider rollout.
- ⇒ Introducing the model in stages by selected ages, eg 3 and 4 year olds, or 0-3 year olds.

CPD offers a supply side funding model based on the reasonable cost of delivery for the Commission's consideration as part of the long-term vision. This model funds a high quality, equitable and inclusive ECEC system.

Under this model, services could receive:

1. **Base funding** to cover the core costs of providing ECEC, based on the age of children and the number of days of ECEC provided. The base cost could reflect all the ordinary, reasonable costs of ECEC delivery, including staff costs, occupancy, consumables, administration, regulatory compliance,

building maintenance, etc. It should function as an average over the year based on a reasonable expectation of occupancy. It could also include funding for the costs incurred by a service as being an active part of a service system, for example in supporting families to access allied health or other services, and outreach and engagement to local families; or to support innovation.

2. **Additional funding** that accounts for:

*Child based differences*⁶²

- ⇒ The educational need or disadvantage experienced by the children enrolled in a service. This could be done relatively simply by collecting demographic information as part of the enrolment process, with higher per-child additional funding for a higher level of disadvantage. This is already used as the basis for calculating the School Resourcing Standard.
- ⇒ Whether a child is Aboriginal or Torres Strait Islander. This reflects the multiple and concurrent challenges faced by many Aboriginal and Torres Strait Islander children (including socioeconomic disadvantage, geographic challenges and the current poor outcomes), and the need to dedicate additional resources and efforts to 'close the gap'.
- ⇒ Whether a child requires additional inclusion funding for disability or additional needs. Consistent with the findings of the Review of the Inclusion Support Program, additional funding needed to support children should be built into the overall funding model. Different funding levels (tiers) could be established based on the level of need⁶³. Government could also help support capability uplift by ensuring services have access to dedicated support and that they are funded to work with other inclusion support services to create a linked up system or 'wrap around

approach' (also see Recommendation 8 on a systemic approach to inclusion).

⇒ if a set fee model was introduced, do not charge parents more than the parent contribution set by government.

Cost driven differences

- ⇒ Access to a preschool program for three and four year old children. This could be paid for 2 days per week where a three or four year old child was enrolled. This could take the form of an additional amount per child enrolled.
- ⇒ Quality Standard. A small amount of additional funding could be provided to a service that improves its quality rating. This recognises the additional costs likely incurred in operating at a higher level, provides an incentive for services to improve and is a signal from government that it wants and is willing to incentivise this.
- ⇒ An additional loading based on certain service-specific costs. This would apply to higher costs than those factored into the base funding that are both material and generally outside the service's control, such as rent or, more broadly, the higher cost of operating in some geographies.⁶⁴

In this model, funding is paid directly to the provider, but remains generally demand-driven.⁶⁵

To support the implementation of a model such as this, we suggest that the Commission consider establishing an independent pricing authority.⁶⁶ The authority could set funding rates and monitor the funding system. A combination of regular adjustments (eg. annual changes to reflect cost inflation) and periodic reviews should be used to ensure the funding levels are appropriate. The authority could also consider if there was a 'single price' or whether a number of different prices are needed based on factors such as provider size or geography. For example, a single service provider may have a different reasonable cost to a large multi-service provider which can make the most of economies of scale.

A strength of funding paid directly to providers, is that government can make the payment conditional, and can use the payment to drive and deliver policy objectives. CPD suggests that the Commission consider a range of conditions that could be attached to services being eligible for funding. Some possible conditions could include:

Benefits and risks of a child centred, supply side funding approach

The proposed funding approach has a number of significant benefits over both the existing funding system, and some other alternatives.

Benefits

- ⇒ meet minimum quality standards;
- ⇒ pay their staff a specified and fair wage (where this has not been resolved through other industrial or legal processes, government should use its funding lever to support and require improved pay and conditions across the system);
- ⇒ agree to implement a system of priority of access for enrolments; and

⇒ **Funding is based on a child's need, ensuring more support is provided to those who need it.** This is a core element of Australia's current school funding system, and consistent with a 'progressively universal' approach to universal service provision. As it is calculated not just on the *number* of children experiencing disadvantage but also the *concentration* of them, more funding is given to services supporting more children experiencing disadvantage. This would result in services operating in communities experiencing disadvantage, or Aboriginal Community Controlled Services receiving significantly more funding than under a subsidy or per-child funding system, and with the flexibility to use the funding in

ways that best meet the needs of the children they support.

- ⇒ **Needs based funding also provides additional funding for services supporting *any* children with any additional needs.**⁶⁷ Disability and disadvantage can be found in different forms and right across the country, so an approach based on child characteristics rather than community averages will better identify and meet need. Importantly, this also provides an incentive for services to enrol higher-needs children. Previously, services would not usually have been resourced to provide the support these children need, so enrolling the children created an unfunded burden on the service. Anecdotally, this caused some services to turn these children away.⁶⁸ Introducing needs based funding helps address this.
- ⇒ Paying a different core funding level based on age **removes the cross-subsidy and potential perverse incentives built into the system,**⁶⁹ and **makes clear the policy choices for government.** If the reasonable cost of delivery is covered, it could significantly increase the availability of ECEC for younger children, as place availability would no longer be dependent on the services having a sufficient number of older children to cross-subsidise their operation.
- ⇒ By aligning funding to cost (and differential funding to cost differences) it will lead to a **more efficient allocation of funding,** and may make some services or locations newly viable, as their cost levels were previously uneconomical in the old funding system. It will also help to more equitably fund educators across the system as those services able to pay above award wage, or over ratio would do so at their own cost. All services are funded equally for staffing.⁷⁰
- ⇒ It also **uses the funding system to require and drive desired outcomes in the system,** including minimum quality levels and improved workforce conditions, by being deliberate about

funding conditions and levels and sending clear signals to providers. Building in improved minimum workforce conditions means that the cost is shared deliberately between government and families, and is protected from downward pressure from price competition. A small incentive for services that improve their quality rating sends a signal about desired behaviour. The model is flexible enough to also allow for the inclusion of additional funding for other government priorities as, and if, needed.

Risks and mitigations

As with any funding system, there are risks associated with it. This funding model is similar to a needs-based Gonski-style funding model for schools. We acknowledge that the ECEC sector is fundamentally different to the schooling sector and as such, there is inherent complexity in implementing a funding model such as this. However, fundamentally these costs should be knowable to government and a functioning funding system able to be created. To enable this, a number of other preconditions are required such as detailed and accurate cost information and comprehensive data architecture for implementation to be successful.

Transitioning to a supply side model would also require a long implementation timeline as if it is introduced too quickly, there is a risk to the overall quality and viability of the system. Careful monitoring of these risks should allow governments to address them if they emerge, as part of a responsive approach to monitoring and managing the system - active system stewardship.

The most significant risk is that the **effectiveness of the funding system relies on the base funding level (and, to a lesser extent, the additional funding) being set at the correct level.** This is a significant risk - if funding levels are set too low, the system will not be sustainable, or will require families to make up the short fall through increased fees. If set too high, government risks wasting money. However, based on the ACCC's final report, cost variations are not large for the majority of services. They

report that overall, 'costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and greatest socio-economic advantage'⁷¹

Coupled with this, it will be critical that prices are regularly adjusted to reflect the reasonable cost of quality provision. In the current system, the hourly fee cap is not linked to the actual cost of quality delivery. While it is indexed by the Consumer Price Index (CPI), the cost of ECEC has been increasing considerably faster than the CPI for over a decade. As such, the funding model will need to be responsive to increasing costs for providers.

Determining cost would be a large undertaking, but should not be ruled out as unachievable. Consideration could be given to ways in which providers could be supported during this process such as standard templates or additional funding to enable them to respond to information requests/collection.

This risk can be mitigated by:

- ⇒ Improved system monitoring by government, including collecting data on service costs and expenditures.
 - ⇒ Managing funding at a provider level, rather than service level, would allow multi-service providers to, in the first instance, manage any 'overs and unders' within their broader operation. The new stream of needs based funding could also provide some flexibility and contingency in the funding system.
 - ⇒ Government could provide some pricing flexibility in the initial years as a way of managing the risk of imprecisely-set funding. For example, services could be permitted to set fees within a range (potentially still allowing some competition on price but also some provider pricing power), or be able to set higher fees by agreement from the Pricing Authority where they are able to demonstrate cause. The Authority could also establish a list of pre-approved additional services for which fees would be permitted (eg. bilingual programs).
- ⇒ Detailed co-design and consultation with the sector during development of the funding system (including providing indicative allocations based on current and historical data).
 - ⇒ Providing services with indicative funding levels well in advance of the commencement of the year, smoothing funding decreases over several years (for example, guaranteeing that funding [or some aspects of funding] will be no less than 90 percent of the previous year's, so any significant decline can be managed over several years.⁷²
 - ⇒ In the initial years, government could factor in a contingency to the funding allocation (especially for small providers who will be less able to manage 'unders and overs' across multiple services) and/or an 'exceptional circumstances' fund established that services experiencing financial hardship could apply to.

There is also a risk that **funding provided will not all be spent in the way intended**, in particular that funding provided to meet the additional needs of some children may be retained by services, diverted to other services, or spent in ways that do not support those children.

This risk can be mitigated by:

- ⇒ Government could more intensively work with or monitor services receiving a large amount of additional funding. For example, government could require all services or providers receiving over a set threshold of additional funding to submit a plan in advance of how they plan to expend it, or to work with government through a planning process. This is likely to be of additional benefit, as the service or provider is serving the highest need communities.
- ⇒ Connecting the respective regulatory and oversight responsibilities across Commonwealth and States/Territories.
- ⇒ Additional monitoring could be risk-based, taking into account both the

provider's history and quality, and the quantum of funding involved.⁷³

There is a risk that as funding under the model is demand driven, services will have difficulty forecasting and planning year to year. It is important to note that this describes the current subsidy approach. There may be a slightly greater level of variability under the proposed approach (for example, as resourcing is partially determined by the characteristics of individual children), but given the small local catchments that services operate in, and that most families in a service one year would be expected to continue in a service the next year, this is unlikely to be significant. If needed, the Pricing Authority could implement a smoothing mechanism if services experience significant and problematic funding volatility year to year.

A demand-driven funding model continues a key strength of the current system – a demand-driven system encourages supply, and aligns incentives between government and provider to increase the number of children accessing ECEC.

The detailed design of the funding system and setting of funding levels would need to take the practical operation of services into account – services need to be viable under normal operating conditions, so, for example, funding should not be set at a level that assumes full occupancy, and funding should recognise that occupancy generally varies over the course of the year. This doesn't require funding rates to vary throughout the year; services can manage seasonality over the course of the year as they do now. But funding rates should be set at a level that accommodates this. The Pricing Authority would set rates at a level to ensure that services can plan, and there is an incentive for services to enter the market and supply places.

If a service is not viable due to low occupancy, consideration could be given to whether it is a service in an unserved or underserved market and requires a different funding approach, or whether the service needs to change an aspect of its approach to better attract families. Through the increased role of the States and Territories in

provision planning and service support, demand would be better understood and better matched to supply, mitigating this risk.

Where a provider operates more than one service, they could manage funding across all their services. This provides services and providers with additional funding flexibility. For some small services there may be less flexibility, and transitional arrangements could be made to reduce risk while the system is implemented, or a small service loading could be built into the model (although care would be needed to not incentivise inefficient operation or gaming of the system).

Alternatively, the approach taken in Canada could also be considered for determining the base rate based on both enrollment and occupancy. In Quebec, 'enrollment has to be at least 90 percent and attendance has to be at least 70 percent or else the funding allocation is reduced.'⁷⁴ Australia's enrollment pattern is different to Quebec, and as such this may be a more complex task. Work would need to be undertaken to determine if this is an appropriate approach for Australia and if so, what reasonable enrollment and occupancy rates would be to ensure that services are viable for providers and reliable for families.

Ensuring compliance with funding conditions, and generally ensuring providers act consistently with **the integrity of the system**, will be important. Consideration should be given to appropriate monitoring and reporting arrangements, but this should be supported by service and provider audits (both targeted and random) and strict and severe enforcement of consequences for non-compliance, including where appropriate criminal prosecution. There should be an active attempt by government to create a deterrent for dishonest provider behaviour.

Consideration would also need to be given to the importance of regular quality assessments being undertaken to enable the additional quality improvement funding. This would also include consideration of whether these assessments will become more contested.

Costs and benefits of a reasonable cost of delivery model

While a reasonable cost of delivery model would see a funding increase on current expenditure, there are a range of benefits to this model that outweigh the costs.

Modelling done for Starting Better demonstrates the return on this investment to deliver free or low cost universal ECEC is large:

Benefits for children

- ⇒ \$1.3b - \$5.1b in annual additional income tax revenue, and \$2.9b - \$10.9b annual GDP increase from children who attended ECEC working more hours in adulthood.
- ⇒ \$290m - \$6.7b in savings on annual crime expenditure from ECD participants' lower probability of committing crime.
- ⇒ \$570m - \$2.7b in welfare savings from the overall impact of ECD attendance on likelihood to access welfare in adulthood.
- ⇒ \$4.1b in annual reduced healthcare expenditure.

Benefits for families

- ⇒ \$2.9b - \$3.2b in additional annual tax revenue and \$6.2b to \$6.9b in annual GDP increase from parents working more hours incentivised by free or low-cost ECEC.
- ⇒ \$36m in additional taxes from parents who are working more increasing their earnings.

Benefits for the workforce

- ⇒ \$600m - \$1.1b in increased annual tax revenue and \$1.1b - \$2.3b in GDP increase from ECEC staff receiving a 10 percent pay rise, and accounting for additional growth from the guarantee.
- ⇒ \$450m - \$920m in annual savings to ECEC services from lower turnover costs from better quality, more stable jobs.⁷⁵

Recommendation 8: That the Commission consider and make recommendations on a more systemic response to inclusion.

What we welcome:

CPD welcomes several elements of the Commission's draft report that support a more inclusive ECEC system, particularly the recommendations to increase funding for the Inclusion Support Program and make the process easier and less burdensome are welcome steps towards creating an ECEC system that works for children with additional needs.

CPD also welcomes the Commission's support for the Aboriginal Community Controlled Sector, including greater investment in the sector and a funding model that better reflects its needs.

CPD supports the recommendation for wraparound services in preschool settings that support the needs of a broader range of families.

Where the PC could go further:

CPD encourages the Commission to consider a more systemic response to inclusion in the final report. The need for a systemic response has been recommended in the recently released final report of the Review of the Inclusion Support Program. Over the long term they highlight that, 'to truly realise the Australian Government's longer-term vision of universal access to ECEC as anticipated in the Early Years Strategy and the draft National Vision for ECEC, it will be necessary to consider structural, systemic reforms to ECEC policy beyond the ISP. Inclusion is simply too important and too broad of a goal to be associated with a single program.'⁷⁶ The importance of inclusion in early childhood education and care has also been highlighted in the recent NDIS review.⁷⁷ The report observed that 'failing to include children in the early years can set them on what Inclusion Australia described as the 'polished pathway' to lifelong segregation'.⁷⁸ It also referenced that in Australia one-in-five children have disability or developmental concerns, emphasising the necessity for inclusivity in mainstream settings such as early childhood education and care.⁷⁹

As part of the final report, the Commission may wish to draw on the long-term findings of the ISP Review and make recommendations that can embed inclusion across the ECEC system and support better service integration across the ECD system. This may include transitioning to a needs based funding model over time, and investing in service level capability uplift. As the ISP Review states, 'A needs-based funding model recognises educators as professionals and allows them to determine the support needs of children. This approach is responsive to children's changing needs over time and is not overly dependent on strict diagnostic criteria or lengthy or complex administrative processes. This means children can be supported at point of need and in a flexible manner, and this support can be strengthened through consultation with families and external professionals in order to establish the most appropriate support for children with disability and additional needs'.⁸⁰

A needs based funding model provides the systemic child-centred approach recommended by the Commission and responds to the ISP Review's finding that services are currently reactive, rather than proactive, to the inclusion needs of children. By embedding inclusion through needs based funding, the system can move to one that supports the inclusion needs of the child by funding the appropriate cost of provision.

Part 2. CPD offers a possible long-term vision for reform

Bringing together the recommendations above, CPD offers a holistic long term vision for reform that responds to the issues in the system for the long-term, and enables the system design to meet all of the principles set out by the Commission and the additional principles offered by CPD.

In designing this long term vision, we have built on, and maximised, the value of the system we have today and many of the recommendations in the Commission’s draft report. The broad architecture of the current system is retained, but new approaches to key elements are proposed to address its deficits and missed opportunities.

The proposed future system has been designed to form an integral part of a new better-connected early childhood development system, to fully realise the promise of the Starting Better guarantee.

What follows is a brief outline of this future vision, provided to the Commission to assist in their development of an ideal ‘end state’. It is a holistic system reform approach to ECEC governance, funding and delivery and ongoing investment in system health that addresses issues and leverages opportunities. Cherry-picking elements, for example implementing funding reform but without building system management capability, will not have the desired effect. Reform is needed at every level of the system, and all the pieces matter.

In our first submission to the Commission we offered 8 design principles for a new system:

1. A clear and agreed national purpose and system outcomes, built first and foremost around the interests of the child.
2. All actors in the system, especially governments, have clear roles and responsibilities.
3. System actors (including governments and providers) are accountable for the significant public investment made, and the interests of the child and family drive

- how this funding is used
4. There are high-quality services and continuous improvement, with a particular focus on sustaining and supporting the workforce.
 5. ECEC is accessible to all children and families. This means places are available at a place and time to support their needs and preferences, that price is not a barrier to attendance, and the system can be easily navigated
 6. The system’s design and settings actively seek to improve equity, including in access, affordability and quality, so disadvantage is alleviated and not compounded.
 7. ECEC is inclusive and welcoming of all children
 8. ECEC is a universal platform that also serves as an entry point to additional services and supports where needed.

These principles underpin CPD’s proposed future vision. The new ECEC system could realise these principles through a range of reforms. These include:

Two clear legislated goals for the ECEC system - to support children’s education, development and wellbeing and to support families to balance work and family life.

An entitlement for all young children to access at least 3 days of ECEC per week free or at a low set fee

- ⇒ Every child would be entitled to 3 days per week of ECEC free or at a low set fee, with further ECEC available for a slightly higher set fee. For families experiencing disadvantage, 3 days per week would be free. For highly vulnerable children, up to 5 days per week could be free. Options for this fee are outlined on page 14.
- ⇒ This would include 2 days of free preschool per week for three and four year old children, with preschool integrated into the national ECEC system.

All actors in the system, especially governments, have clear roles and responsibilities and are active system stewards

Clearly defined roles and responsibilities are agreed by Commonwealth and State and Territory governments. Options to achieve this include:

- ⇒ The Commonwealth could take responsibility for the national entitlement and the supporting funding system - making payments to providers.
- ⇒ States and territories could be system managers, investing and working with the sector to support quality, help change management, increase regulatory effort, and plan provision for the future.
- ⇒ Local staff within states and territories to manage at least some interactions with individual services and local workforces, and manage local issues. These local staff could also support integration of ECEC with other service systems, for example working with health services.
- ⇒ Alternate options include:
 - States and Territories retain preschool funding but it is administered through a national system to services in their jurisdiction (this can be done in conjunction with the changes in the dot points above).
 - A national funding pool could be created, managed jointly and allocated through the single national approach outlined above.
 - A new National Early Childhood Reform Agreement between governments, to be overseen by a new Commonwealth-State body.

A child centred supply side funding model

- ⇒ The Child Care Subsidy would cease and a child centred supply side funding

model would be established for all children.

- ⇒ Funding for services could be determined on the reasonable cost of quality provision taking into account the needs of children and service specific costs.
- ⇒ Conditions could be placed on services to be eligible for funding including that they meet minimum quality standards, provide their staff a specified and fair wage and conditions (if this has not already occurred through industrial or other processes), and agree to implement a system of priority of access for enrolments.
- ⇒ Current preschool services would become eligible for funding, forming part of a national system.
- ⇒ Have a minimum funding level guaranteed to eligible services serving small communities, to ensure they have sufficient scale to operate.

Investment to fill current service gaps, to establish new services in unserved and underserved communities so supply meets demand

Additional support to improve the workforce

- ⇒ This would include attracting and incentivising new people to the sector, and supporting new and existing staff so they stay in the system and grow their careers.

Active support for the sector and quality improvements

- ⇒ Consistent with a stewardship approach, government can be more active in seeking and supporting agreed outcomes, including planning for the future and improving quality and practice.

Better information and supports to families

- ⇒ Have families receive clearer and more timely information about their options, their service's performance, and their child's progress. They would benefit from a streamlined and coordinated enrolment processes in each State/Territory, so they don't have to join multiple waitlists to find a place.

Improved data and information sharing

A roadmap to implement this long-term vision

This is proposed as a future vision for the system. This system would take time to build and transition to, and would require significant commitment and investment from government. A careful transition approach will be needed to ensure success.

Moving to the new system will take many years. Even when key building blocks, such as a supply side funding system and revised roles and responsibilities for governments, are in place, it will take many years to build out the system - to grow the workforce and build new services to expand capacity, and fully realise the entitlement for all children.

A staged approach to implementation is recommended over ten years.

Consistent with a stewardship approach, 'implementation' of the new system will never be complete. Governments will need to monitor it, and where needed, adjust policy settings or otherwise act to address gaps, unforeseen challenges or new developments. It will be a process of learning, not just delivery. Doing this will require data and networks, to understand the system from the perspective of children and families, providers, and other stakeholders.

Throughout the implementation journey, communication, monitoring, consultation and refinement will be essential. What is proposed are major changes to some aspects of the current system, which will affect all stakeholders - children and families, the workforce, services and providers and governments.

An implementation roadmaps is provided below as an example to help inform and guide the implementation of the reformed system over the next 10 years. The timetable offers three stages of reform.

The first lays the foundations for the system. It slowly builds out elements of a reformed funding model while establishing critical system infrastructure such as an independent Pricing Authority, focusing on building the workforce and

improving data collection and distribution. Three and four year old preschool is rolled out nationally.

The second stage starts to build the reformed system. Supply side funding is increased and set fee bands are introduced. The Activity Test is removed and new governance arrangements including a new National Partnership and Ministerial Council are brought into effect.

The final stage sees a full child centred supply side funding system, and a low cost, set fee or low cost, simple fee structure rolled out with a single national entitlement.

Implementation roadmap

<i>Phase 1 - Laying the Foundations</i>			
Objectives		Objectives of the system enshrined in legislation	
Entitlement	Legislate a three day entitlement to ECEC, including two years of preschool (and the timeline for its rollout) Relax the activity test and incremental increase to CCS to manage affordability		
Funding model, including unserved and underserved communities	Supply side wages subsidy to provide an immediate wages boost 100% CCS subsidy for families under \$80,000	Pricing authority established. Supply side funding for thin market communities CCS opened to preschools	Pricing Authority works with the sector to begin determining the reasonable cost of delivery Quality incentives paid to services Free or low cost provision of 3 year old (15 hours) and 4 year old (30 hours) of preschool
Workforce	Workforce attraction and retention activities commence/increase	Attraction and retention activities increase. Pay supplement progressively increased.	

Inquiry into Early Education and Care Draft Report | CPD Submission to the Productivity Commission

Sector support/quality improvement	Provision planning Regulatory investment	Progressively ramp up other supports.	
Parent/family support	Parent information about changes to the funding model	Central enrolment process developed and trialled	
Data and information		Develop data architecture, including any new measures	Progressively collect and distribute more data
Roles and responsibilities		Negotiation of new Commonwealth/State and Territory agreement governing roles and responsibilities and funding commitments. Establish new ECEC Commission	Finalisation of new National Partnership

	<i>Phase 2 - System building</i>		
Funding model, including unserved and underserved		Roll out needs based supply side funding ¹	Introduce a provider fee band - maximum amount that providers can charge families

Inquiry into Early Education and Care Draft Report | CPD Submission to the Productivity Commission

communities			
Sector support/quality improvement		Support for services (including preschools) to move to new funding system.	
Parent/family support	Central enrolment		
Data and information	Progressively collect and distribute more data		
Roles and responsibilities	New Ministerial Council established. New agreement commences operation		Governments progressively assume new responsibilities.

	<i>Phase 3 - Transitioning to the reformed system</i>		
Entitlement	Abolish activity test		
Funding model, including thin			New funding system set.

markets		Set low cost family fee, child centred supply side funding for all children based on reasonable cost of delivery
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¹ This timing is consistent with the indicative timeframe in the Australian Government Department of Education, Review of the Inclusion Support Program - Final Report, September 2023 p118

Endnotes

¹ For more detail on these challenges please refer to our submission to the Productivity Commission Inquiry -

https://www.pc.gov.au/data/assets/pdf_file/0008/362780/sub156-childhood.pdf

² The Parenthood, Parent Survey: How childcare costs affect parent choices, October 2023.

³ ACCC, Childcare Inquiry - Final Report 2023, p 222.

⁴ ACCC, Childcare Inquiry - Final Report 2023, p 7, p 38 and p 44.

⁵ ACCC Childcare Inquiry - Final Report 2023, p 3.

⁶ ACCC Childcare Inquiry - Final Report 2023, p 35. However, the ACCC also noted that there were limitations in the data available to them, p 201.

⁷ Department of Education (2023) Data on usage, services, fees and subsidies, quarterly report tables, September 2023.

⁸ ACCC, Childcare Inquiry - Final Report 2023, p 44.

⁹ ACCC, Childcare Inquiry - Final Report 2023, Recommendation 2a.

¹⁰ ACCC, Childcare Inquiry - Final Report 2023, p 44.

¹¹ ACCC, Childcare Inquiry - Final Report 2023, p 63.

¹² Productivity Commission, A path to universal early childhood education and care, Draft supplementary paper, 2023, page 355.

¹³ ACCC, Childcare Inquiry - September Interim Report 2023, p 27.

¹⁴ ACCC, Childcare Inquiry - Final Report 2023, p 40-41 and 201.

¹⁵ Impact Economics and Policy (2022) Child Care Subsidy Activity Test: Undermining Child Development And Parental Participation. Since this report was prepared, the Commonwealth has modified the activity test for First Nations children and families so they can access at least 36 hours of subsidised care per fortnight (from July 2023). See Australian Department of Education (2022) Changes to the activity test for families with First Nations children attending child care.

¹⁶ ACCC, Childcare Inquiry - Final Report 2023, p 24.

¹⁷ ACCC, Childcare Inquiry - Final Report 2023, p 19.

¹⁸ ACCC, Childcare Inquiry - Final Report 2023, p 23.

¹⁹ Productivity Commission, A path to universal early childhood education and care, Draft supplementary paper, 2023, pp 201 and 202.

²⁰ Productivity Commission, A path to universal early childhood education and care, Draft Report, 2023, p 3.

²¹ ACCC, Childcare Inquiry - Final Report 2023, p 42.

²² Productivity Commission, A path to universal early childhood education and care, Draft Report, 2023, p 313.

²³ ACCC, Childcare Inquiry - Final Report 2023, p 248.

²⁴ The Parenthood, Parent Survey: How childcare costs affect parent choices, October 2023; Cortis et al. (2021) *Challenges of work, family and care for Australia's retail, online retail, warehousing and fast food workers*, Social Policy Research Centre, UNSW Sydney.

²⁵ Deloitte Access Economics, Review of the Inclusion Support Program Final Report, September 2023 p 122.

²⁶ The Australian Government, Working together to deliver the NDIS: Independent Review into the National Disability Insurance Scheme, December 2023, p 117.

²⁷ The Australian Government, Working together to deliver the NDIS: Independent Review into the National Disability Insurance Scheme, December 2023, Recommendation 2, Action 2.5, ps 74 - 75.

²⁸ Productivity Commission, A path to universal early childhood education and care - Draft Report, November 2023, page 4.

²⁹ ACCC Childcare Inquiry, Final Report 2023, p 8 and 42.

³⁰ ACCC Childcare Inquiry, Final Report 2023, p 42.

³¹ This is consistent with the Commission's Terms of Reference which include '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.'

³² For more detail on the rationale for a universal entitlement please refer to our submission to the Productivity Commission Inquiry - https://www.pc.gov.au/_data/assets/pdf_file/0008/362780/sub156-childhood.pdf

³³ Nous, UANP Review - Final Report, October 2020, p2 page 5, S Fox & M Geddes, Preschool – Two Years are Better Than One: Developing a Preschool Program for Australian 3 Year Olds – Evidence, Policy and Implementation, Mitchell Institute Policy Paper No. 03/2016, Mitchell Institute, Melbourne, 2016 p 64.

³⁴ Bartik (2014) From Preschool to Prosperity: The Economic Payoff to Early Childhood Education, Upjohn Institute for Employment Research; Fox and Geddes (2016) Preschool – Two Years are Better than One, Mitchell Institute.

³⁵ S Fox & M Geddes, Preschool – Two Years are Better Than One: Developing a Preschool Program for Australian 3 Year Olds – Evidence, Policy and Implementation, Mitchell Institute Policy Paper No. 03/2016, Mitchell Institute, Melbourne, 2016.

³⁶ South Australian Royal Commission Final Report, 2023 p17.

³⁷ These three jurisdictions collectively represent approximately 77 percent of Australia’s children aged 0-5, with only 7.8 percent of ECEC aged children being aged 4 or 5 in the other jurisdictions. (ROGS 3A.1).

³⁸ International Leave Network on Policies and Research (2021), *Relationship between leave and ECEC entitlements*.

³⁹ Janna van Belle, Early Childhood Education and Care (ECEC) and its long-term effects on educational and labour market outcomes, RAND Europe
file:///C:/Users/dansa/Downloads/Policy%20Brief_Outcomes%20of%20ECEC.pdf

⁴⁰ ACCC Childcare Inquiry, Final Report, 2023 p 63.

⁴¹ ACCC Childcare Inquiry - Final Report 2023, p 111.

⁴² ACCC Childcare Inquiry - Final Report 2023, p 222.

⁴³ See, for example, The Front Project. (2023) Work and play: Understanding how Australian families experience early childhood education and care, pps 21 and 23; The Parenthood, Parents survey: How childcare costs affect parent choices, October 2023.

⁴⁴ Department of Education (2023) Data on usage, services, fees and subsidies, quarterly report tables, December 2018, September 2023.

⁴⁵ ACCC, Childcare Inquiry - Final Report 2023, p 7, p 34 and p 38.

⁴⁶ ACCC, Childcare Inquiry - September Interim Report 2023, page 17.

⁴⁷ For more information on Norway’s journey to a universal ECEC system, see, for example, Friendly et. al (2020) Early childhood education and care in Canada 2019, Toronto.

⁴⁸ All of the figures used in the examples below are illustrative only.

⁴⁹ Haeck, Lefebvre, Merrigan (2015) [Canadian evidence on ten years of universal preschool policies: The good and the bad](#), *Labour Economics*, vol. 36, pp. 137-157.

⁵⁰ See, for example, Kohen et. al (2008) Child Care in Quebec: Access to a Universal Program, *Canadian Journal of Public Health*, Vol. 99, No. 6, pp. 451-455; Jenson (2009) Rolling Out or Backtracking on Quebec’s Child Care System? Ideology Matters, *Public Policy For Women*, University of Toronto Press; Cleveland (2022) [Early Learning and Child Care in Canada: Where Have We Come From, Where Are We Going?](#)

⁵¹ Tayler (2016) The E4Kids Study: Assessing the effectiveness of Australian early childhood education and care programs, p.11.

⁵² See, for example, Tayler, C. (2016). The E4Kids Study: Assessing the effectiveness of Australian early childhood education and care programs. Overview of findings.

⁵³ ACCC Childcare Inquiry - Final Report 2023, p. 213 and p 121; ACCC Childcare Inquiry - September Interim Report 2023, pp 87-88 .

⁵⁴ ACCC Childcare Inquiry - Final Report 2023, p. 1.

⁵⁵ Huntsman (2008) Determinants of quality in childcare: A review of the research evidence (NSW Department of Community Services), p. iii, Tayler (2016) The E4Kids Study: Assessing the effectiveness of Australian early childhood education and care programs, p. 9.

⁵⁶ Productivity Commission, A path to universal early childhood education and care, Draft supplementary paper, 2023, page 13.

⁵⁷ This is consistent with the proposal out the South Australian Royal Commission into Early Childhood

Education and Care, August 2023, see in particular recommendations 3 and 18, and page 33.

⁵⁸ The South Australian Royal Commission into Early Childhood Education and Care - Report, August 2023, p 66.

⁵⁹ Under current National Cabinet arrangements, relevant Ministerial Councils report regularly to National Cabinet on Key Priorities; all Councils report annually on work plans.
<https://federation.gov.au/sites/default/files/2022-11/federal-relations-architecture.pdf>

⁶⁰ See in particular Recommendation 2. Although in this design, the Office would still sit in a Department.

⁶¹ The Front Project (2022) The case for system stewardship in Australia Early Childhood Education and Care System.

⁶² Child level disadvantage is preferred over community level disadvantage as it is a more accurate targeting of need (important given the very small markets and communities that services support), and alignment of incentives and costs for services. Adjusting funding by *concentration* of disadvantage has the effect of capturing community and scale effects in services. Adding another loading for community level disadvantage adds complexity to the system and provides funding less likely to be accurately targeted to need.

⁶³ See tiers suggested in the Review of the Inclusion Support Program Final Report, page 114.

⁶⁴ Detail on when and how large this loading should be would be determined by the Pricing Authority, but preliminary advice includes:

⇒ It should not include costs generally within the discretion or control of the service - for example, operating over-ratio or offering a bilingual program. These costs should be met where necessary through needs-based funding (for example, where there are a large number of children experiencing disadvantage that require additional support) or optional parent fees. Paying a loading for discretionary costs risks perverse incentives (as it would incentivise services to increase their costs) and inefficient and inequitable allocation of funding and resources, including workforce.

⇒ It should also not include extra costs incurred (or economies of scale not realised) due to small service size or single service providers - this is more efficiently dealt with elsewhere in the system (for example, block funding for services serving small communities and

additional support from government to services). Including such a loading also risks removing an incentive for services to expand operations or work with other providers.

⁶⁵ In this context, funding is demand-driven because the level of funding received by a provider is determined by the number and needs of the children enrolled, even if administratively the payment is made directly to the provider.

⁶⁶ The NSW Independent Pricing and Regulatory Tribunal (IPART) has undertaken similar work to that suggested by the pricing authority in its work on service provider costs and revenue and benchmarking prices through their work on ECEC affordability, accessibility and consumer choice. Interim Report: Review of early childhood education and care, October 2023 from page 140.

⁶⁷ Allocation of additional funding on the basis of needs would, amongst other uses, allow services with children experiencing disadvantage to employ additional and/or higher qualified staff to better support their children, bring in specialist support (such as a speech therapist, or psychologists) or support staff to undertake specific training. It should complement and support, but not replace, other service systems such as health.

⁶⁸ Productivity Commission into Early Childhood Education and Care, draft supplementary paper, p 148.

⁶⁹ Providing ECEC to younger children (under 3) is significantly more expensive than old children (3 or older) because younger children require more intensive supervision in the form of staffing ratios. However the current system, with undifferentiated subsidy levels and hourly rate cap, does not recognise this, effectively requiring services to use older children to cross-subsidise younger children. Among other challenges, this inherently limits the number of places available for younger children.

⁷⁰ This approach would need to be transitioned to over time, and risks actively mitigated.

⁷¹ACCC, Childcare Inquiry - Final Report 2023, p 5.

⁷² Detailed design and modelling would be required to determine a reasonable approach to this that does not provide significant perverse incentives or inefficiency, but a broad mechanism is outlined as a way to manage predictability and variability.

⁷³ Services receiving a significant amount of funding through loadings would be, by definition, serving more disadvantaged communities and are therefore

likely to be not for profit, reducing the likelihood that a service would be seeking to retain the funding.

⁷⁴ Gordon Cleveland, Cost Controls and Supply-Side Funding: What Does Quebec Do?, February 8, 2023, <https://childcarepolicy.net/cost-controls-and-supply-side-funding-what-does-quebec-do/>

⁷⁵ Centre for Policy Development, Starting Better. A guarantee for young children and families, November 2021, pps 52-58 <https://cpd.org.au/wp-content/uploads/2021/11/CPD-Starting-Better-Report.pdf>

⁷⁶ Australian Government Department of Education, Review of the Inclusion Support Program - Final Report, September 2023, p.ix

⁷⁷ Working together to deliver the NDIS. NDIS Review: Final Report, 2023, p 69.

⁷⁸ Working together to deliver the NDIS. NDIS Review: Final Report, 2023, p 69.

⁷⁹ Working together to deliver the NDIS. NDIS Review: Final Report, 2023, p 116.

⁸⁰ Australian Government Department of Education, Review of the Inclusion Support Program - Final Report, September 2023, p.122.



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