



Early Childhood Australia
A voice for young children

**OUR
VISION:
EVERY
YOUNG
CHILD IS
THRIVING
AND
LEARNING**

Pre-Budget Submission 2015-16

Submission from Early Childhood Australia

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About us

Early Childhood Australia (ECA) is the national peak early childhood advocacy organisation, acting in the interests of young children, their families and those in the early childhood sector. ECA advocates for quality in education and care as well as social justice and equity for children from birth to eight years. We have a federated structure with Branches in each state and territory. In 2013, ECA celebrated 75 years of continuous service to the Australian community.

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1. Early childhood development and productivity

Over the past year, the potential contribution of investment in early childhood development to productivity growth has never been clearer. Participation in quality early learning amplifies children's early development, whilst also supporting parents' workforce participation; making a significant contribution to the nation's economy.

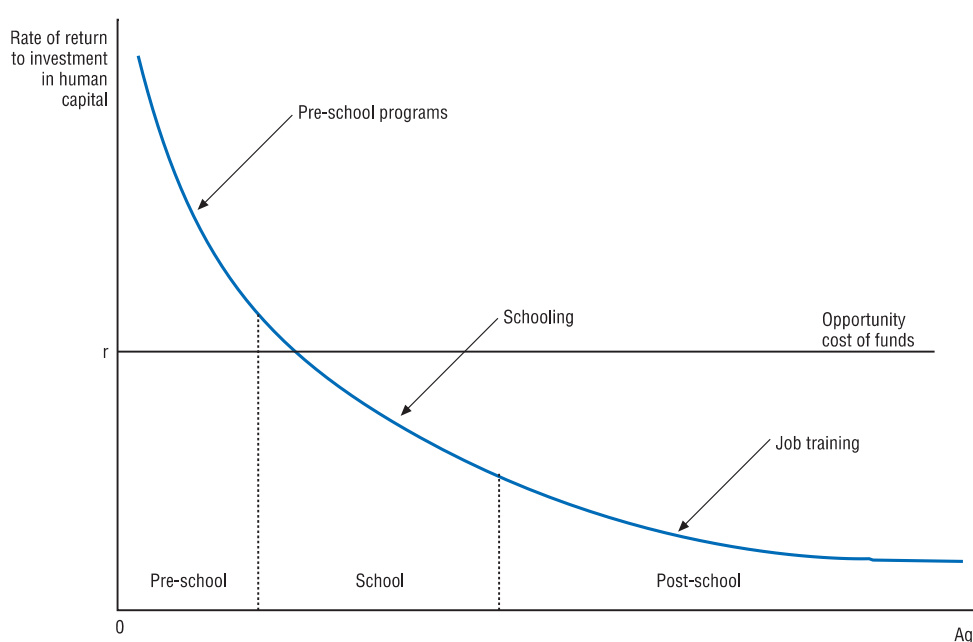
Improving access to quality early childhood education and care can improve life outcomes for Australian children and drive our nation's future prosperity.

PricewaterhouseCoopers' (PWC) 2014 Report, *Putting a value on early childhood education and care in Australia*, has now modelled significant potential economic benefits from increased investment in early childhood education and care in Australia:

- The benefits to GDP for children receiving a quality education and care program are \$10.3 billion cumulative to 2050
- The benefits to GDP of increased participation of vulnerable children whose parents are in the lowest income bracket are \$13.3 billion cumulative to 2050.

PWC draws on and adds to the body of international research on the potential economic benefits from investment in early childhood education. Investing in the early years is increasingly accepted as offering a much higher return than later investment.

Figure 1: Rate of Return to Human Capital Investment at Different Ages



Source: Cunha et al. (2005), *Interpreting the Evidence on Life Cycle Skill Formation*.

Improving lifelong skills

A critical time to shape future prosperity is from birth to age five, when the brain develops rapidly to build the foundation of cognitive and character skills necessary for success in school, health, career and life (Heckman 2014).

At the biological level, the brain is developing more complex circuits that build on the more basic circuits that were created previously.

In other words, the increasingly complex hierarchy of neural circuits creates a framework for the development of increasingly complex behaviors and skills. (Galinsky, 2006, p.6)

By age three, a child's brain has reached about 85 per cent of its adult weight.

Because of the decreasing plasticity of the brain as it matures investment in early childhood is more effective *and* efficient than investing in human capital later in life (Oberklaid, 2007).

If these foundations are poor in early childhood, the level of achievement of the child will be much lower when children transition to school, tertiary education and the workforce.

Workforce Participation

Access to affordable, flexible quality early childhood education and care has positive effect on workforce participation of parents. This in turn benefits the economy through increased GDP growth and government revenue.

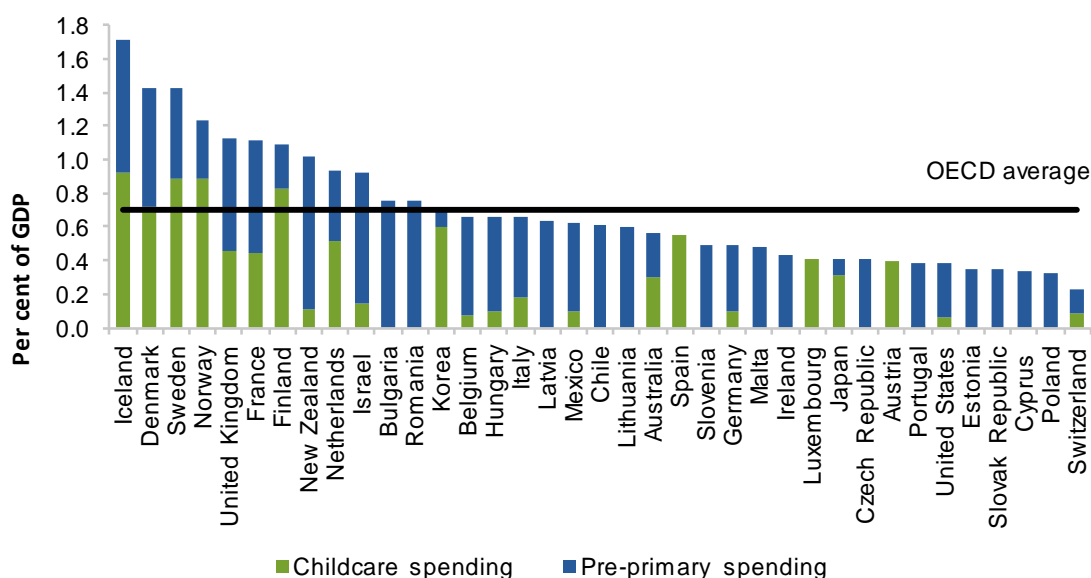
There are also productivity benefits for business in retaining skills, corporate knowledge and investment in their employees.

- The benefits to GDP from a 5 per cent decrease in the net price of ECEC and increased workforce participation is \$6.0 billion cumulative to 2050 (PWC, 2014).
- The Grattan Institute suggests that an increase in women's workforce participation by 6 per cent would increase Australia's GDP by \$25 billion (Daley, McGannon, & Ginnivan, 2012, p.39).

The Government has made significant investment in early childhood education and care through the Budget. As indicated in MYEFO investment in the Child Care Benefit and Child Care Rebate is forecast to be 31 billion over the forward estimates.

However, Australia's investment in early childhood education falls below comparable Organisation for Economic Cooperation and Development (OECD) countries (OECD, 2013).

Figure I.3 Public spending on childcare and early education services
2009 ^{a b}



^a 'Childcare spending' refers to spending for children aged under three. 'Pre-primary spending' refers to spending on preschool institutions (typically for children aged 3-5) ^b For Spain, only aggregate spending data is presented

Data source: OECD (2012a).

The economic modelling shows that there is a strong case for increasing investment in early childhood education and care over time. System reform to increase participation, address affordability and accessibility issues is also required, but to achieve the economic outcomes suggested above this also requires further investment.

At the time of writing the Final Report from the Productivity Commission's Inquiry into Child Care and Early Learning has not been released. However, the Commission's preferred option to reform the subsidy system in its Draft Report required further investment beyond the current funding envelope without many families being worse off.

We welcome the Government's foreshadowed 'families package' which may redirect savings from the proposed paid parental leave scheme into child care. ECA believes that in developing the package workforce participation benefits should not be the only focus. Data from economists, social scientists and medical experts conclusively shows that the best - and most efficient way - to improve productivity is to invest in early childhood development—from birth to age five—particularly in disadvantaged children.

For Australia to enhance its future prosperity over the long term requires greater access to quality early childhood education and care. ECA has put forward a range of proposed Budget measures that might be taken to reach this goal, including savings measures.

2 Increasing children's participation in ECEC

2.1 Preschool/kindergarten (the year before formal schooling)

The Government provided additional funding of \$406 million through the Budget for an extension of funding for the universal access to 15 hours preschool. While ECA welcomed the additional funding ('Extension to preschool funding welcomed', May 2014), the 2014/15 Budget measure only funded universal access to preschool for the 2015 calendar year.

As a result, further funding will be required through the budget process to continue universal access from 2016 and beyond. Preschool and kindergarten services and their families need the certainty of a long term ongoing agreement which covers the forward estimates period.

Future agreements should be focused on the core outcome of providing access to 15 hours preschool for all children in the year before school. If additional, ancillary outcomes are included, such as providing funding to all services including long day care, or on a per child basis, this must be commensurate with the additional costs of these objectives for jurisdictions.

Without additional funding there is the risk that preschool hours will be reduced, fees may increase in some services and some children will lose access altogether.

Universal access to preschool has been highly successful in improving access to quality early childhood education and improving the educational outcomes of those children in entering primary school. The research shows that children attending just one year of preschool education score up to 20 points higher for reading, spelling, writing and numeracy in NAPLAN—four years later in Year 3.

Recommendation

- 1) Fund universal access to preschool/kindergarten for all children in the year before school over the forward estimates.**

2.2 Reforming the child care subsidy system

ECA supports reform of the child care subsidy system being delivered in the Budget.

At the time of writing the Final Report from the Productivity Commission's Inquiry into Child Care and Early Learning has not been released.

ECA gave in principle support Commission's draft proposal to streamline and simplify the subsidies that support participation in early childhood education and care.

However, in our submission we noted that other details of the model required significant modification.

In particular, the activity test would see the base entitlement removed entirely for any families not working greater than 24 hours, and therefore exclude many children from disadvantaged backgrounds from accessing early childhood education and care. Such a test would reduce the economic potential explained above in improving the outcomes of vulnerable children (whose parents are not working training or studying) through access to ECEC.

ECA also proposed that a 'benchmark' costs model should be considered in setting a subsidy cap, instead of the 'deemed cost model'. The deemed cost model proposed by the Commission would see many families substantially worse off than under the current system.

Recommendation

- 2) Reform the child care subsidy system to improve access to quality early childhood education and care for children and families.**

2.3 Improving flexibility for families

ECA also supports the inclusion of in-home care services within the *National Quality Framework* (NQF) and the subsidy of these services under Family Assistance Law because of the growing role that these services are playing in supporting families, particularly by providing flexible care arrangements.

As in-home care services have not previously been regulated by states and territories funding will be required for regulatory authorities to take on these additional functions. Funding of this type to regulatory authorities has previously been provided through the COAG National Partnership on the National Quality Agenda.

In-home care services are currently operating under the *In-Home Care Guidelines* which are of a much lower standard than the NQF. Yet, some in-home care services are already demonstrating that they are meeting the NQS with qualified educators and professional support and monitoring delivered through a central coordination unit.

There are similarities between the provision of in-home care and family day care, with both service types operating in a home-based environment. To ensure quality, the NQF standards expected of family day care could apply to in-home care in the future. Uncapped subsidies for all in-home care services without adequate regulation under the NQF presents significant financial risks for the Government as well as risks for children, and should not be pursued separately.

3) Fund the regulation of in-home care services under the *National Quality Framework*.

3 Improving children's outcomes in ECEC

3.1 Improving children's mental health and wellbeing

KidsMatter Early Childhood is a national mental health promotion, prevention and early intervention initiative. KidsMatter strengthens educators' skills, knowledge and confidence to support children's mental health and wellbeing.

KidsMatter Early Childhood involves the people who have a significant influence in making a positive difference for young children's mental health during the early childhood years, which is a critical developmental period. KidsMatter provides a flexible, whole-of-service approach to supporting children's mental health and wellbeing: it emphasises a shared responsibility between families, early childhood services and the broader community. KidsMatter provides a continuous improvement framework to enable services to plan and implement evidence-based mental health promotion, prevention and early intervention strategies.

These strategies aim to:

- Improve the mental health and wellbeing of children from birth to school age
- Reduce mental health difficulties among children
- Achieve greater support for children experiencing mental health difficulties and their families

Research has demonstrated that mental health problems exist and can be identified in early childhood. Certain risk factors presented before six months of age, have been found to predict increasing levels of depressive and anxious symptoms in children in the first five years of life. In a recent Australian study, it was reported that between four and 14 per cent of children aged from one-and-a-half to three years had externalising problems such as aggression and other acting out behaviours, or internalising behaviours such as anxiety, being withdrawn and depression. Children's mental health disorders are generally associated with a range of poor immediate and future outcomes, including lower school performance. Evidence suggests that half of all mental health problems begin before the age of 14 years.

However, research also indicated that only one third to one half of children who require professional assistance for mental health difficulties actually access the mental health system.

Kidsmatter has been funded through the Commonwealth Government since 2006.

In 2010, KidsMatter Early Childhood undertook a two year evaluation study. The KidsMatter evaluation pinpointed significant results for early childhood services, educators, families and children. Most noteworthy, one of the outcomes of the evaluation study showed that a significant

number of children who were identified as having experienced mental health difficulties at the beginning of their services involvement with KidsMatter Early Childhood shifted into 'normal ranges' of mental health as measured by the Strengths and Difficulties Questionnaire as the early childhood services completed a cycle of KidsMatter.

KidsMatter Early Childhood builds the capacity of educators so that they have a greater understanding of mental health in early childhood and are confident in their abilities to support children with difficulties.

Investing successful early intervention like KidsMatter during early childhood has a lasting impact for children, families and the broader community resulting in potential long-term economic and social benefits for society as a whole, especially through reducing expenditure on costly later interventions.

Currently KidsMatter Early Childhood supports 260 services directly (over two years), as well as supporting all services through the online portal. Further funding over four years would enable the program to be delivered directly to another 560 services and continue to provide mental health and wellbeing resources to all early childhood services.

Recommendation

- 4) Given the reported statistics on mental health in young children and the rapid rate of brain development in the first five years of life it is an imperative that future funding for the KidsMatter Early Childhood initiative is continued over the next four years to support up to 560 early childhood services directly and made available to all early childhood services through the online portal.**

4 Savings measures

ECA supports savings measures being taken which contributes to, and offsets, structural reform of the subsidy system.

4.3 Activity tests

Currently the Child Care Rebate has a much more generous activity test than the Child Care Benefit.

The current CCB activity test allows both parents working, training or studying for at least 15 hours per week to access 50 hours of CCB. Parents who do not work more than 15 hours can still receive 24 hours of CCB.

However the CCR activity test only requires both parents to have undertaken some form of work, training, study commitments during the week to access 50 hours of CCR. This could be as low as one hour per week.

ECA supports the alignment of the CCB and CCR activity tests so that a family must work more than 15 hours to receive up to 50 of CCB and CCR, with families not meeting the test being entitled to 24 hours of subsidised ECEC. This would reduce complexity of the system and generate savings.

Notwithstanding this recommendation, we do not support changes to the activity tests recommended by the Productivity Commission in its Draft Report on the Inquiry into Child Care and Early Learning which would see the base entitlement removed entirely for any families not working greater than 24 hours. The exclusion of children from accessing early childhood education and care through such a test would impact on thousands of Australia's most vulnerable children from accessing important developmental opportunities.

Recommendation

- 5) Align the Work Training Study Test for the Child Care Rebate with the Work Training Study Test for the Child Care Benefit, which would allow up to 24 hours of subsidised ECEC per week for all children regardless of the work/study participation of their parents, increasing to 50 hours per week for families when both parents are working for more than 15 hours per week.**

4.4 Diverting revenue from the proposed Paid Parental Leave scheme

While we recognise that the Government's Paid Parental Leave scheme has not been introduced, ECA supports funding from the extension of the proposed scheme being diverted to support the reform of the early childhood education and care system.

ECA is very supportive of an effective scheme for supporting parents to spend time with infants and children newly adopted into a family which contributes to important bonding and attachment. However, significant investment in the proposed full-wage replacement scheme is likely to create difficulties for families in the long term if it is not matched by an increased investment into ECEC.

The end of the proposed paid parental leave is likely to impact on the age at which children transition into ECEC; parents who have received significant financial support in the first six–12 months of having a child may have a heightened expectation regarding financial support for ECEC.

Increased support to access quality early childhood services would reap greater benefits to the majority of Australian families. Business also benefit significantly because of the economic benefits of early childhood development in building foundation skills and workforce participation. Workforce participation also provides productivity benefits for business in retaining the skills, corporate knowledge and investment in their employees.

Reform of the early childhood system which archives these objectives requires additional investment, which could be delivered through the proposed levy on business. The Productivity Commission's draft preferred option to reform the subsidy system in its Draft Report required an additional \$1.3 billion per year, at least, beyond the current funding levels (Productivity Commission, 2014, p. 569). This would also deliver a rise in tax revenue and a fall in family payments, with a net fiscal cost of \$750 million per year (not accepted under Budget Rules).

Recommendation

- 6) Revenue for the proposed Paid Parental Leave extension should be diverted into reforming the early childhood education and care system.**

5 Summary of recommendations

- 1) Fund universal access to preschool/kindergarten for all children in the year before school over the forward estimates.
- 2) Reform the child care subsidy system to improve access to quality early childhood education and care for children and families.
- 3) Fund the regulation of in-home care services under the National Quality Framework.
- 4) Given the reported statistic's on mental health in young children and the rapid rate of brain development in the first five years of life it is an imperative that future funding for the KidsMatter Early Childhood initiative is continued over the next four years to support up to 560 early childhood services directly and made available to all early childhood services through the online portal.
- 5) Align the Work Training Study Test for the Child Care Rebate with the Work Training Study Test for the Child Care Benefit - which would allow up to 24 hours of subsidised ECEC per week for all children regardless of the work/study participation of their parents, increasing to 50 hours per week for families when both parents are working for more than 15 hours per week.
- 6) Revenue for the proposed Paid Parental Leave extension should be diverted into reforming the early childhood education and care system.

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