



NATIONAL COMMISSION OF AUDIT COVER SHEET FOR SUBMISSIONS

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National Commission of Audit

Submission from Early Childhood Australia

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About Early Childhood Australia

Early Childhood Australia (ECA) has been a voice for young children since 1938. We are the peak early childhood advocacy organisation, acting in the interests of young children, their families and those in the early childhood field. ECA advocates to ensure quality, social justice and equity in all issues relating to the education and care of children from birth to eight years.

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Introduction

The Early Childhood Education and Care (ECEC) system in Australia has undergone significant reform and growth over the past 17 years, under successive Governments. The common goal has been to improve access to quality early childhood education and care services for young children and support parents to participate in the paid workforce. A complex array of payments, subsidies and tax deductions has developed over this time. There is a need to simplify and streamline the social investment and ensure the system is sustainable into the future.

Early Childhood Australia has welcomed the Government's establishment of a root and branch review of the system through the Productivity Commission's inquiry into Child Care and Early Learning. This will enable a thorough look at how the system can best meet Australia's needs into the future and there are a number of areas that genuinely need reform. It is critically important that the whole system is considered and that potential changes are thoroughly analysed for secondary, as well as primary impacts. There are significant price sensitivities that can impact on workforce participation at the macro level; there are also very tight margins in a sector which has many small businesses and non-government organisation (NGO) providers with limited capital reserves to fall back on. This can mean that temporary changes can impact significantly on the supply of services and therefore access for families.

New Government priorities and the role of early childhood education and care

Since the last Commission of Audit in 1996 there has been a significant shift in the role of early childhood services. While early childhood services continue to support workforce participation objectives, Organisation for Economic Co-operation and Development (OECD) countries including Australia are now placing a significant focus on, and making investment in, early childhood services because of the critical role they play in early childhood development and early learning and consequential national social and economic benefits.

There is now extensive evidence demonstrating that the care and education of young children (birth – eight years) greatly impacts on their health, wellbeing and resilience throughout their lives. The early years are a time of rapid brain development and a secure, nurturing environment provides a solid base for learning. A child's learning and development is a critical foundation for success in schooling and later life (Oberklaid, 2007).

Many analysts are concerned that Australia is falling behind other OECD nations in education. Young people aged 15 years are performing moderately well, when compared to their peers in OECD countries but the performance of Australian children in Year 4 in reading, writing and numeracy is ranked in the bottom third of OECD countries (ARACY, 2013). Data from the Australian Education Development Index (AEDI) suggests that one in

five Australian children are starting school developmentally vulnerable on one or more domains. This increases to one in two for Aboriginal and Torres Strait Islander children (Australian Government, 2013). However, there have been improvements in Queensland between 2009 and 2012 largely attributed to increased preschool participation in that State. Attendance at early childhood education programs has been found to have significant beneficial effects on a child's readiness for future learning and their ability to make a successful transition to full-time schooling, particularly among disadvantaged children. Children who attend quality early childhood education programs show better performance and progress in their early school years in intellectual, cognitive and social domains (Barnett, 2008).

The Australian Government's role

Australia's focus on early childhood development is reflected in the Council of Australian Government's (COAG) *Investing in the Early Years: A National Early Childhood Development Strategy* 'to ensure that by 2020 all children have the best start in life to create a better future for themselves and for the nation' (COAG, 2009, p.4).

The Australian Government has performed an important national leadership role in supporting the strategy and leading reforms through the National Partnerships on the National Quality Agenda, Early Childhood Education and Indigenous Early Childhood Development and Technical and Further Education (TAFE) Fee Waivers as well as other initiatives (COAG, 2009, p.3). This reflects the Commonwealth's accepted position as the principal investor in the Australian early childhood education and care sector; an investment of around \$26 billion over the next four years including around \$23 billion in government child care assistance paid to families (Department of Treasury, 2013, p.36). This also represents a modest level of investment as a percentage of gross domestic product (GDP); many OECD countries invest more than this in recognition that it represents an investment in both education and productivity.

The Australian Government's role has been driven by the national importance of early childhood education and care services to economic productivity and growth. There is a significant relationship between child care affordability, quality, and availability and the workforce participation of women (Bruenig & Gong, 2010, p.21). Gong and Bruenig suggest that a one per cent increase in the gross child care price, on average, results in a decrease to mothers' employment rate of 0.07 per cent (Bruenig & Gong, 2012, p.27). This relationship has led successive Governments to increase child care assistance to families to make child care more affordable and support more women into the workforce. Currently, of mothers of children aged over three years, 44 per cent of lone mothers are employed and 63 per cent of mothers in a couple (AIFS, 2013). The Grattan Institute has found that increasing women's workforce participation by 6 per cent would increase Australia's GDP by \$25 billion (Daley, McGannon, and Ginnivan, 2012, p.39). This highlights the continued need for reform and investment in access to quality early childhood education and care services.

Quality early childhood programs also deliver a high return in terms of investment in human capital. Research supported by the OECD shows that investment in the early years increases the productivity of the next stages of development and accumulates into adulthood (OECD, 2006, p.37). This is supported by the *Early Childhood Development Strategy*; 'national effort to improve child outcomes will in turn contribute to increased social inclusion, human capital and productivity in Australia. It will help ensure Australia is well placed to meet social and economic challenges in the future and remain internationally competitive' (COAG, 2009, p.4). This shared vision for early childhood by all governments is also reflected in the Productivity Commission's Terms of Reference for its Inquiry into Child Care and Early Childhood Learning; 'The Australian Government is committed to establishing a sustainable future for a more flexible, affordable and accessible child care and early childhood learning market that helps underpin the national economy and supports the community, especially parent's choices to participate in work and learning and children's growth, welfare, learning and development.'

New functions

The *Early Childhood Development Strategy* has required new investment to support better access to ECEC, national quality improvements and regulation of early childhood education and care services as well as support for training, professional development, sector development and research. Many of these initiatives form part of agreements developed in conjunction with State and Territory Governments where both Governments play a coordinated role in implementing early childhood programs such as the *National Early Childhood Workforce Strategy*.

Some functions have been partially devolved from the Commonwealth including the implementation of the original 1996 National Commission of Audit's finding to reduce unnecessary regulation by bringing together the National Childcare Accreditation Council (NCAC) with state licensing bodies. The Australian Children's Education and Care Quality Authority (ACECQA) is now jointly-governed by the COAG Standing Council for School Education and Early Childhood (SCSEEC) (Commonwealth of Australia, 1996, Ch.5.3).

Australian Government	State Government	Local Government
Funds child care assistance to families	Minimal funding provided to approved child care services	Responsible for the local planning and development of child care services
Funds establishment, operational and sustainability assistance to child care services	Funds Aboriginal and Torres Strait Islander early childhood services	May operate or fund the provision of child care services and facilities
Funds Budget Based Funded services	Regulates early childhood education and care services	
Funds universal access to preschool	Responsible for state planning and development	
Professional and inclusion support	Primary funding responsibility of Preschools/Kindergartens and may operate them	
Funds sector development and early childhood research	Delivers and funds early childhood workforce development initiatives	
Funds early childhood workforce development initiatives	Member of the Standing Council for School Education and Early Childhood	
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The role of the Commonwealth, State and Territory Governments in funding and regulating early childhood education and care is clearly settled and articulated in national partnership agreements overseen by COAG. Future reform of the funding responsibilities of early childhood education and care services beyond the National Partnerships will form part of the detailed inquiries of the Productivity Commission and the forthcoming White Paper on the Australian federation.

Productivity Commission Inquiry

The Australian Government established a Productivity Commission Inquiry into Child Care and Early Childhood Learning on 17 November 2013 with a final report due to be handed down by October 2014. The Terms of Reference for the Inquiry is that the Productivity Commission should use evidence from Australia and overseas to report on and make recommendations about:

In undertaking this Inquiry, the Productivity Commission should use evidence from Australia and overseas to report on and make recommendations about the following:

1. *The contribution that access to affordable, high quality child care can make to:*
 - a. *increased participation in the workforce, particularly for women*
 - b. *optimising children's learning and development.*
2. *The current and future need for child care in Australia, including consideration of the following:*
 - a. *hours parents work or study, or wish to work or study*
 - b. *the particular needs of rural, regional and remote parents, as well as shift workers*
 - c. *accessibility of affordable care*
 - d. *types of child care available including but not limited to: long day care, family day care, in home care including nannies and au pairs, mobile care, occasional care, and outside school hours care*
 - e. *the role and potential for employer provided child care*
 - f. *usual hours of operation of each type of care*
 - g. *the out of pocket cost of child care to families*
 - h. *rebates and subsidies available for each type of care*
 - i. *the capacity of the existing child care system to ensure children are transitioning from child care to school with a satisfactory level of school preparedness*

- j. *opportunities to improve connections and transitions across early childhood services (including between child care and preschool/kindergarten services)*
- k. *the needs of vulnerable or at risk children*
- l. *interactions with relevant Australian Government policies and programmes.*

Whether there are any specific models of care that should be considered for trial or implementation in Australia, with consideration given to international models, such as the home based care model in New Zealand and models that specifically target vulnerable or at risk children and their families.

Options for enhancing the choices available to Australian families as to how they receive child care support, so that this can occur in the manner most suitable to their individual family circumstances. Mechanisms to be considered include subsidies, rebates and tax deductions, to improve the accessibility, flexibility and affordability of child care for families facing diverse individual circumstances.

The benefits and other impacts of regulatory changes in child care over the past decade, including the implementation of the National Quality Framework (NQF) in States and Territories, with specific consideration given to compliance costs, taking into account the Government's planned work with States and Territories to streamline the NQF.

In making any recommendations for future Australian Government policy settings, the Commission will consider options within current funding parameters.

Early Childhood Australia recommends that the Commission of Audit's work should make recommendations in the context of the forthcoming inquiry by the Productivity Commission.

The Productivity Commission now has a mandate to conduct a comprehensive inquiry into all subsidies, rebates and tax deductions. Many of these payments have a complex interaction with each other impacting on the operational costs and the fees of services, access to these services and workforce participation of families. Therefore we believe that the Productivity Commission is in the best position to be able to make recommendations on reforms to early childhood education and care programs, looking at them as a whole. Early Childhood Australia is of the view that removing individual programs or changing the policy settings of individual payments in isolation from the detailed inquiry by the Productivity Commission inquiry is likely to have unintended consequences for services and families and make it more difficult to reform the ECEC system for the future. Changing the funding parameters would disable the work of the Productivity Commission in redirecting funding

‘within the existing funding envelope’ to deliver according to its Terms of Reference. Changes to funding parameters before the conclusion of the inquiry would also make it impossible for the Productivity Commission to deliver on its mandate to make recommendations on reforming the sector based on the ‘current funding parameters’ as at 17 November 2013.

Reform of the early childhood education and care system

Early Childhood Australia (ECA) strongly supports the Government’s proposal to review the early childhood education and care system. The current system of child care payments and subsidies is complex, poorly targeted and in bad need of reform to meet modern workforce participation and early childhood development objectives. ECA will be making a detailed submission to the Productivity Commission inquiry which addresses these issues and provides recommendations for a new model of early childhood education and care funding in Australia.

The Child Care Rebate is currently not means tested. Early Childhood Australia believes that there is merit in reviewing the targeting of child care assistance through an income test. However, savings must be re-invested to support better access to early childhood education and care for children from disadvantaged families. This is important to mitigate the significant real decline in the value of the Child Care Benefit (CCB), which is indexed to Consumer Price Index (CPI), compared with average annual long day care fee increases of 7 per cent (September 2004-September 2012) (DEEWR, 2013, p.7). The diminishing value of the Child Care Benefit has made it more difficult for families earning under \$150,000 per year to access early childhood education and care.

Income testing with budget re-investment in supporting better access for disadvantaged families has previously been supported by recommendations in the *Henry Review* and the Productivity Commission’s Early Childhood Development Workforce Inquiry (Australian Treasury, 2009 and Productivity Commission, p.50). However, ECA is of the view that a new model of supporting families which meets the same objectives should be considered by the Productivity Commission Inquiry into Child Care and Early Childhood Learning, which encompasses all payments and subsidies, and delivers adequate funding.

In principle, ECA supports the streamlining of current child care payments into a single payment and simplifying the administration of the payments system for Government, services and parents. This necessarily requires changes to the Child Care Management System (CCMS) administered by the Department of Human Services (DHS). We believe that the administration of child care assistance by DHS is in need of review. This should include how the payment delivery can be simplified, how the timeliness and cost in the delivery of CCMS changes can be improved, and improvement of current compliance strategies on child care assistance eligibility.

The Special Child Care Benefit (SCCB) is in need of review, as it is not meeting its original program objectives to support children at risk of serious abuse and neglect, and families experiencing hardship, with short term child care support. We believe that the Productivity Commission is best placed to consider whether SCCB program is meeting its objectives and how families with complex needs can be better supported.

Other child care payments including Jobs Education Training Child Care Fee Assistance (JETCCFA), Inclusion Support Subsidy (ISS) and the Community Support Program (CSP) should also be reviewed as part of the Productivity Commission inquiry. The Community Support Program has recently been audited by the Australian National Audit Office (ANAO, 2012), however, the future of establishment, operational and sustainability assistance must be considered alongside demand-side payments in the Productivity Commission Review, as both impact on child care costs for families interdependently.

The Budget Based Funded (BBF) program is also currently subject to an ongoing review requiring further consultation with the early childhood sector. The services are important in supporting Aboriginal and Torres Strait Islander children and those children in rural and remote areas to access early learning opportunities.

The National Quality Framework (NQF) for Early Childhood Education and Care which began in 2012 is now at a critical stage of implementation. COAG will review of the implementation of the NQF in 2014 and will recommend improvements to the system through the Standing Council for School Education and Early Childhood (SCSEEC). The review will have the scope to consider any regulatory burden or 'red tape' issues arising from the Education and Care Services National Law and Regulations, to be considered with the States and Territories. These are also covered by the Productivity Commission's Terms of Reference.

Early childhood workforce and professional support initiatives which are supporting the new qualification requirements under the NQF for ECEC services beginning in January 2014 continue to remain important. Sector surveys such as the National Early Years Workforce Census due to be published in early 2014 will also provide further evidence regarding how these programs are assisting the sector to meet its workforce training needs. Changes to these initiatives before consideration of this comprehensive data set would be premature.

Access to preschool education continues to remain important in improving outcomes for children, particularly from disadvantaged backgrounds. While enrolment targets have so far been achieved for universal access to 15 hours preschool for children in the year before formal schooling, the attendance levels need to be significantly improved (COAG Reform Council, 2013, pp.17-18). As the National Partnership Agreement on Early Childhood Education finishes at the end of 2014, additional investment will be required to support the States and Territories to continue to increase and maintain the achievement of universal

access targets. We consider that the universal access initiative is fundamental to Australia's overall investment in early childhood education and must be maintained beyond 2014 to support school readiness and improve cognitive and socio-emotional development for all children, regardless of where they live.

Conclusion

Early Childhood Australia supports the Government's review into the early childhood education and care system led by the Productivity Commission, which will provide a significant opportunity to reform the child care funding system to meet both workforce participation and early childhood development objectives. Any savings measures implemented before the Productivity Commission has begun to undertake its review would make it difficult for the Commission to provide advice to Government on meaningful and much needed reform of the Early Childhood Education and Care system. It may also have unintended consequences for families, services and the economy.

Recommendation 1: The Commission of Audit should not recommend any changes to Government Child Care assistance or the Child Care Services Support Program (CCSSP) pending the outcomes of the full review being undertaken by the Productivity Commission. Changes to any of these will potentially have significant effects on supply, availability, affordability and flexibility of early childhood education and care.

Recommendation 2: The National Commission of Audit should support continued investment in universal access to preschool through the National Partnership Agreement on Early Childhood Education. Increasing and maintaining access to preschool education is fundamental to improving educational outcomes in Australia.

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