

# Productivity Commission Inquiry into Childcare and Early Childhood Learning

## Victorian Government Submission

21 February 2014

## Inquiry into Childcare and Early Childhood Learning

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## Inquiry into Childcare and Early Childhood Learning

### **Executive Summary**

Victoria welcomes the opportunity to make a submission to the Productivity Commission's Inquiry into Childcare and Early Childhood Learning (the Inquiry), and makes eleven recommendations.

The Victorian Government is committed to supporting the provision of high-quality Early Childhood Education and Care (ECEC). ECEC plays a critical role in supporting children's outcomes and ensuring children have the opportunity to fulfil their potential, regardless of their background or circumstances. Further, investment in high-quality ECEC is returned in multiples to the individual and society through reduction in the need for later more costly remediation, maximising human capital formation and productivity, and facilitating social cohesion.

Victoria believes that consideration should be given by the Inquiry to a stronger role for government in promoting children's development through the design of the ECEC market. Reviewing Commonwealth subsidies in light of the growing body of evidence showing the importance of the first years of life for children's development will send a clear market signal about the public value of ECEC. Over the longer term it has the potential to lift Australia's educational performance to the level of comparable international jurisdictions.

The productivity benefits from a high-quality ECEC system – for workforce participation and childhood development – will be realised nationally. High-quality early learning experiences lead to higher levels of future achievement and engagement in school, leading to longer-term social and productivity benefits for Australia. It is appropriate therefore that the Commonwealth Government continues to underpin its public commitments to quality childcare and early childhood learning with ongoing funding for the sector. Long-term funding reform should also consider the benefits of Commonwealth-funded expansion of participation in high-quality ECEC to human capital outcomes. This includes increasing the participation of Australian three year olds to a minimum benchmark, and potentially extending this to disadvantaged two year olds.

Consideration should be given by the Inquiry to potential funding models that are better aligned to an objective of participation in high-quality early learning in line with leading international jurisdictions. For instance, a Commonwealth subsidy offer that enables every family to access a base number of high-quality ECEC hours per week in any centre-based ECEC service has the potential to better support children's learning and development. This could be supplemented by progressive needs-based Commonwealth subsidies for families to support study or workforce participation, and for children at higher levels of developmental risk. At a minimum, subsidies should be structured in such a way that families understand the actual cost of ECEC after Commonwealth and State/Territory payments have been taken into account.

In addition, Victoria's submission identifies immediate practical steps that would strengthen ECEC participation to address disadvantage and vulnerability. This includes extending eligibility for maximum approved Child Care Benefit (CCB) to all Health Care Card (HCC) holders and streamlining administration of the Special CCB (SCCB). Together these reforms would reduce the administrative burden on service providers and better align eligibility for ECEC subsidies across jurisdictions.

Given that the quality of ECEC is largely driven by its workforce, there is a continuing role for government to enable sufficient workforce supply and support the development of the ECEC workforce. Specifically, the Inquiry is asked to consider the benefits of continuing to provide incentives to promote the supply and upskilling of this workforce.

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There is also the opportunity for the Inquiry to consider more effective responses to support the market in areas of low ECEC supply. This includes providing better information to local planners and service providers on supply and demand trends by geographic area.

Consideration of alternative models of provision should be underpinned by a solid evidence base as to where there are gaps in the market, and whether these could be addressed by improving the effectiveness of current models in the first instance. This would be aided by building the evidence base for what works. Recommendations are made to improve the capacity of family day care (FDC) to provide greater flexibility for parents and ensure access to education and care experiences with existing quality frameworks.

Finally, Victoria supports the need for a more streamlined national quality and regulatory system, but recommends the Inquiry promotes alignment between concurrent reviews of the ECEC system to avoid duplication or inconsistent findings. It also supports current work to remove legislative constraints to information sharing and to promote proactive intervention regarding service financial viability.

A summary of Victoria's recommendations is as follows:

*Recommendation 1: The Inquiry recognises the benefits of quality ECEC to child development (and associated societal and economic benefits) in developing options for the future of the ECEC system and the role of government.*

*Recommendation 2: The Inquiry considers the importance of ongoing collaboration between Commonwealth, States and Territories to enable the continuation of 15 hours of universal access to high-quality ECEC in the year before school, and the potential benefits of expanding participation in high-quality ECEC for human capital outcomes supporting the public good.*

*Recommendation 3: The Inquiry investigates the benefits and potential role of subsidies in supporting an objective of expanded participation in high-quality ECEC.*

*Recommendation 4: The Inquiry considers opportunities to provide greater transparency to the public and families on the cost of ECEC after subsidies to support informed decision making.*

*Recommendation 5: The Inquiry considers the benefits of continuing to provide incentives to promote the supply and upskilling of the ECEC workforce.*

*Recommendation 6: The Inquiry considers the benefits of improving service provision and access through a better-informed market and more active collaboration and service planning between different levels of government.*

*Recommendation 7: The Inquiry considers the National Quality Framework (NQF) and delivery of an approved learning framework, such as the Early Years Learning Framework, as the base-line for alternative service models, and the impact for regulatory services of new funding models entering the market.*

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*Recommendation 8: The Inquiry promotes the continued building of evidence on what works in ECEC through initiatives such as the Effective Early Educational Experiences for Kids longitudinal study (E4Kids).*

*Recommendation 9: The Inquiry reviews the impact of incentives for FDC services on demand and quality outcomes for children.*

*Recommendation 10: The Inquiry notes the current reviews of the NQF and seeks an exchange of information with the Standing Council on School Education and Early Childhood Education (SCSEEC) prior to the release of Inquiry's report.*

*Recommendation 11: The Inquiry promotes continued improvements in data sharing between the Commonwealth as funders and States/Territories as regulators, particularly regarding proactive intervention addressing 3service financial viability.*

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### Background and context

#### Definitions used in this submission:

Common expressions in this submission are based on the following definitions:

- **Early Childhood Education and Care (ECEC) services** – services providing education and care on a regular basis to children below the age of 13 years and under the Education and Care Services National Law, including delivery of an approved learning framework. This includes family day care services, long day care services, outside school hours care services and kindergarten programs.
- **Quality ECEC** – ECEC services rated as meeting or above the National Quality Standard.
- **High-quality ECEC** – ECEC services providing a structured, play-based learning program, delivered by a degree-qualified teacher, including Victorian funded kindergarten programs.
- **Children’s services** – a service operating under the Victorian children’s services legislation including limited hours and short-term licensed services, budget-based services not funded for CCB, occasional care, early childhood intervention, mobile services, and some school holiday care programs.
- **Centre-based ECEC** – an ECEC service other than a family day care service.
- **Integrated ECEC** – delivery of a funded kindergarten program within a long day care childcare service.

The provision of ECEC is a key issue for Australia’s social and economic development into the twenty-first century.

#### National policy and regulatory context

Quality ECEC supports workforce participation and the positive health, learning and development of Australian children. The Commonwealth, State and Territory Governments, through the Council of Australian Governments (COAG), have committed to improving ECEC in recognition of its nationwide economic and societal benefits.

The National Quality Framework (NQF) on ECEC is an agreement between all Australian governments to work together to provide better educational and developmental outcomes for children through education and care services. It is designed to help children get the best start in life by raising quality, consistency and transparency in education and care services across Australia.

The regulation underpinning education and care service provision across Australia, and giving effect to the NQF, is:

- *Education and Care Services National Law Act 2010* (National Law)
- Education and Care Services National Regulations 2011 (National Regulations).

This system is progressively introducing improved education and care across long day care, FDC, preschool/kindergarten and outside school hours care. The National Early Childhood Development Strategy agreed by COAG in 2009 underpins these reforms with the vision that “all children have the best start in life to create a better future for themselves and for the nation”.

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### **Victoria's ECEC landscape**

There are over 800,000 children in Victoria aged 0–12. The birth rate of Victorian children has been increasing rapidly over the last decade and recent data forecasts continued growth above current rates (ABS, 2013).

At June 2013, Victoria had over 3,700 approved ECEC services and a further 400 licensed children's services. These services are accessed by over 400,000 Victorian children and families every year and are provided by community-based and private entities as well as local government, school councils and individuals. ECEC provision in Victoria is estimated to employ around 32,000 early childhood educators.

Integrated ECEC service delivery is a feature of Victorian provision with 70 per cent of long day care services offering a Victorian Government funded kindergarten program at June 2013. Integrated provision is also common across New South Wales and Queensland and is a feature of some other state and territory systems.

### **Victorian Government's role in the ECEC system**

The Victorian Government has a limited role in the direct provision of ECEC services but undertakes a number of important functions:

- *Funding participation in a high-quality ECEC program* – contributory funding is provided to support all children to participate in a kindergarten program in the year before school. Commonwealth Government funding through the National Partnership on Universal Access to Early Childhood Education (NP UAECE) is crucial to ensure that children have access to 15 hours per week. Victoria provides an additional Kindergarten Fee Subsidy to enable children from disadvantaged families and all Indigenous children to access a core kindergarten program at no charge. In addition, Indigenous children and children known to child protection are subsidised to participate in a three year old kindergarten program at no charge. Kindergarten cluster management grants are provided to support service governance and administration.
- *Regulating ECEC and children's services* – licensing and regulation of children's services and education and care services under relevant Acts, including delivery of an approved curriculum framework and supporting parental choice through published provider information.
- *Provision of incentives to support the workforce and expanded infrastructure* – this includes grants and scholarships to incentivise and reduce costs in areas such as upgrading workforce qualifications, developing professional capabilities and expanding infrastructure to support provision.
- *Supporting sector development* – such as facilitating partnership arrangements, guidance in relation to curriculum implementation and promoting innovation in provision.

As part of its recognition of the importance of the early years, the Victorian Government has a strong record of supporting children and families. The Victorian Government continues to increase access to high-quality early childhood health, education and care for all Victorian children and to

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improve outcomes for disadvantaged young Victorians. The Victorian Government's significant investment in early years, beyond ECEC, includes:

- *Maternal and Child Health Service* – access to the universal Maternal and Child Health Service, supported by local government, with 10 key age and stage visits for every child commencing in the first weeks of life and enhanced support for disadvantaged children.<sup>1</sup>
- *Early Childhood Intervention Services* – tailored services (e.g. therapy, counselling, planning and coordination) to meet the individual needs of children with a disability or developmental delay and their families from birth to school entry in their everyday community settings.
- *Parenting initiatives* – parenting information education and support services throughout Victoria, and targeted access to supported playgroups and the *smalltalk* program to enhance the home learning environment.

An important element of supporting children and families in Victoria is the prominent role played by local governments. Local governments undertake a key role in planning for the early years and in supporting local partnerships. In this capacity, they manage, fund and deliver many ECEC and other children's services. Local governments also plan and support new facilities for children and families.

### **Victoria's policy context**

Victoria has outlined its aspiration to be a world leader in learning and development to contribute to a vibrant economy (DEECD, 2012). This aspiration recognises that, while educational outcomes in Australia have been relatively static, the results of many advanced and aspirational jurisdictions have moved ahead. It also recognises that there is a cumulative effect across stages of development, with those who succeed at one stage more likely to later succeed at others.

The Victorian Government recognises the critical role of the early years in supporting children's outcomes and the opportunity to fulfil their potential, regardless of their background or circumstances. The Victorian Government has been investing in key services, such as Maternal and Child Health, Early Childhood Education (ECE), Early Childhood Intervention Services and supported playgroups to enhance children's early development.

Victoria has committed to the development of an Early Years Strategic Plan. Consultation with parents, practitioners, managers and stakeholders about improving children's outcomes has reaffirmed that we are on the right path but that there is more to do.

It was emphasised that while most young Victorians are benefiting from a good start in life we can and should strive for better results for all Victorian children. The increase to 15 hours per week of universal access to early childhood education funded by the Commonwealth was a crucial aspect to this.

Two overarching messages were for government to invest deeply in:

- *Better fulfilling children's potential* – Learning is fundamental to children's futures and delivers benefits to society and the economy. While the early learning and development of Victorian

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<sup>1</sup> In 2012-13 Victoria invested an additional \$79 million over 4 years in Maternal and Child Health Service responding to population growth pressures (DEECD administrative data)

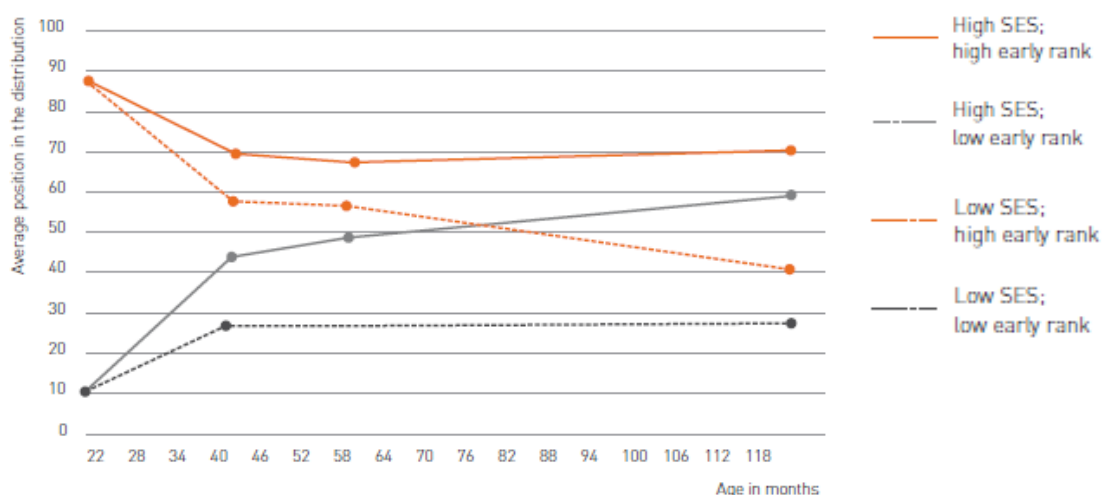


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children is similar to other states nationally, it has improved slowly over the past decade. Meanwhile, international jurisdictions are rapidly moving ahead.<sup>2</sup>

- *More effectively breaking the cycle of disadvantage* – Children’s brain potential is remarkably similar at birth (Pascal, 2009). However, by 2–3 years of age, the impact of socio-economic differences becomes significant, with children from low socio-economic backgrounds who show promising early signs of cognitive development at age 22 months falling behind their high SES peers by the age of 5. These gaps persist into the school years and throughout life (Figure 1, Feinstein, 2003). Results from the 2012 Australian Early Development Index (AEDI) illustrate that around 20 per cent of Victorian children (over 12,000 children in 2012) are developmentally at-risk in their learning and development at school entry.

Figure 1. Influence of socio-economic status on early and continuing development



The Early Years Strategic Plan will emphasise and expand on the importance of participation in high-quality ECEC, recognising that alternative funding approaches would be required to achieve sustainable reform that extends access for younger children (as discussed in more detail in Sections 1 and 2 below). Governments should consider better alignment of State and Commonwealth ECEC subsidies to achieve greater price certainty, clarity and consistency of funding sources for service providers, and improved affordability and confidence in the quality of provision for families.

<sup>2</sup> For instance, Australia is ranked 27<sup>th</sup> in Year 4 reading in PIRLS, behind similar international jurisdictions such as England and Canada (Thomson 2012)

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### **Section 1 – Public investment in ECEC: the dual benefits of workforce participation and child development**

It is appropriate that the Inquiry considers optimal design characteristics for the ECEC market and the role of government in ensuring the delivery of highest net community benefits from options considered. Inclusion of proposed paid parental leave changes in an overall system of child development is an important part of these considerations.

A focus on ECEC as a labour force support mechanism is a legitimate and important economic policy objective that should be the subject of continued government focus. The rationale for governments to subsidise ECEC as a labour force support has been widely outlined and is consistent with the productivity reforms that have been pursued nationally over a number of years.

Currently, the majority of Commonwealth funding to ECEC is allocated to this objective through the CCB and Child Care Rebate (CCR), estimated at \$5.2 billion in 2013-14 (Productivity Commission, 2013). The aim is that parents are encouraged and supported to participate in the workforce thereby strengthening the economy.

Very recently, however, dramatic advances across science and economics have taught us just how important the first years of life are for children's development, and have prompted rethinking of what should be driving funding for this sector:

- *Life chances are heavily influenced by what happens in the first years of life.* Studies demonstrate that children who live in families with lower income and less parent education begin to score lower on standardised developmental tests as early as 18 months, and the differences typically increase into the school-age years. Earlier entry to ECEC benefits children's cognitive and language/linguistic achievements, especially for children at risk (Hansen et al. 2010; NICHD ECCRN 2005; Burchinal et al. 2009; US DHSS 2010; Coley et al. 2013).
- *Quality ECEC has been shown to deliver improved outcomes sustained through the primary years and adolescence* (Dearing et al. 2009; Sammons 2010; Vandell et al. 2010). Stable and stimulating environments lay the foundation for developing basic skills, such as rapid language growth and the ability to regulate emotions. This benefits all children, and particularly those from the most disadvantaged backgrounds, for example those with low family income (Dearing et al. 2009), low parental education levels (Watanabe et al. 2011), or special education needs (Sammons 2010). The OECD's PISA results show that in practically all OECD countries 15 year old students who had attended more than one year of pre-primary school outperformed students who had not, even accounting for their socio-economic backgrounds (OECD 2009).
- *Targeted early childhood interventions offer high returns and are very cost effective.* Studies illustrate that investment in high-quality ECEC has the opportunity to be highly effective in reducing vulnerability and is returned in multiples to the individual and society through reduction in the need for later more costly remediation, maximising human capital formation and productivity, and facilitating social cohesion (Kilburn & Karoly 2008; Cunha & Heckman 2010; Ramey et al. 2012). Children who experience a poor start in life are more likely to develop learning, behavioural or emotional problems which may accrue to society as a whole in the form of increased social inequality, reduced productivity and high costs associated with entrenched intergenerational disadvantage (COAG, 2009).

While separate histories and traditions of early childhood 'care' and 'education' programs have evolved, needing to choose between care on the one hand and education on the other will not meet

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the needs of parents and children, nor achieve the broader economic and societal outcomes we want into the future.

The NQF is a critical step in service provision to improve outcomes for children. The NQF recognises that quality ECEC provision is a fundamental underpinning of a national system that delivers efficiently the twin aims of:

1. participation in ECEC sector that will bring about the best outcomes for children
2. supporting parental participation in the labour market.

Under the NQF, a transition has occurred that now sees key features of national arrangements include:

	<b>Historical arrangement...</b>	<b>To...</b>
<i>Legislation</i>	Split licensing and accreditation functions across Commonwealth and State jurisdictions	A unified ECEC system for Australia
<i>Community understanding</i>	Separate systems and expectations of quality and provision	ECEC provider ratings progressively publicly available from 2012
<i>Staffing</i>	Kindergarten programs led by degree-qualified staff, childcare led by diploma-qualified staff	Centre-based ECEC programs being led by degree-qualified staff (teachers) from 2014
<i>Curriculum</i>	No common framework in either kindergarten or childcare	All ECEC services required to deliver the Early Years Learning Framework or Victorian Early Years Learning and Development Framework

The current Inquiry provides an opportunity to apply the evidence around children’s development to further improve the role of government in current ECEC arrangements, particularly in relation to the alignment of Commonwealth and State/Territory subsidies (as outlined in 2.3 below).

*Recommendation 1: The Inquiry recognise the benefits of quality ECEC to child development (and associated societal and economic benefits) in developing options for the future of the ECEC system and the role of government.*

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### **Section 2 – Affordable and accessible ECEC for all children and families**

The Inquiry provides an opportunity to consider options for a long-term vision for the ECEC system, including participation objectives and funding reform. To assist the Inquiry in developing more immediate options to improve access and affordability, the following discussion identifies system improvements, as well as practical steps towards improving access for vulnerable children, workforce support and supporting access in areas of low supply.

#### **2.1 Participation in high-quality ECEC as a national policy objective**

Learning and skill formation do not wait until children start school. Earlier and sustained participation in high-quality ECEC is recognised to improve educational outcomes.

At present, a very high proportion of four year old children participate in high-quality ECEC. The Commonwealth Government commitment to supporting participation in the year before school through the NP UAECE has seen a dramatic rise in participation. The achievement of this significant policy reform has been a substantial focus for the sector, including a 50 per cent expansion in service delivery in Victoria. No Commonwealth funding has been committed beyond 2014 to sustain this initiative and maximise investment to date. As an immediate priority, a stable and ongoing funding commitment from the Commonwealth Government beyond 2014 is required at a level to sustain current services. Aside from the immediate impact created by late decisions on funding<sup>3</sup>, short-term funding arrangements with the Commonwealth creates uncertainty for the sector and State/Territory governments and limits the capacity for long-term planning.

Commencing and sustaining participation in high-quality ECEC before four years of age has been found to improve cognitive/language achievements (refer Section 1) and is the benchmark now set by many leading (e.g. Hong Kong, Finland, Shanghai, Germany) and aspirational (United Kingdom, New Zealand) educational jurisdictions, which have concluded that it has a measurable and marked impact on educational outcomes. High-quality early learning experiences lead to higher levels of future achievement and engagement in school, leading to longer-term social and productivity benefits for Australia (OECD, 2006). Research also demonstrates that improvements in the quality of ECEC services lead to better and more sustained outcomes, 'with the magnitude of quality effects being larger at higher levels of quality' (Vandell et al 2010). At present, national data suggests that just 18.2 per cent of three year old Australian children participate in high-quality ECEC - well below the OECD average of 67 per cent (OECD, 2013).

Australia has the opportunity to follow leading nations who are acting on the evidence to expand participation in high-quality ECEC. With around 65 per cent of Australian three year old children participating in ECEC (ABS, 2013), and a requirement that all centre-based ECEC services be led by a degree-qualified teacher from 2014, there is a very real opportunity to move toward a Commonwealth-funded system in which all three year old children participate in high-quality ECEC, and with the potential to extend this to disadvantaged two year old children (explored further

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<sup>3</sup> For example, the uncertainty of the Universal Access funding arrangements is compromising Victoria's service planning for 2015 which has already commenced.

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below). On balance, Victoria suggests that teacher-delivered ECEC programs have the strongest likelihood in relation to achieving desired learning outcomes.

Victoria suggests that the Inquiry considers the potential benefits of expanded ECEC access for future social and economic productivity. A national commitment to participation in high-quality ECEC supported by appropriate information to market participants will support well-informed decisions, however it may not, in its own right, provide sufficient incentive to participate in high-quality ECEC. Funding implications of expanded access to a high-quality ECEC system would need to be considered, with options developed that balance Commonwealth and family contributions in the context of maintaining current quality standards. Reconsideration of the current subsidy model to support this commitment may also be required as discussed below.

*Recommendation 2: The Inquiry considers the importance of ongoing collaboration between Commonwealth, States and Territories to enable the continuation of 15 hours of universal access to high-quality ECEC in the year before school, and the potential benefits of expanding participation in high-quality ECEC for human capital outcomes supporting the public good.*

### **2.2 Improving ECEC funding subsidies to promote expanded participation in high-quality ECEC**

The Inquiry has the opportunity to assess the potential for improved public value through the dual benefits of early learning for educational success and long-term productivity, as well as parental workforce participation. Consideration of funding models that provide children with a core educational offer in the early years (with the associated benefit of enabling parents to work) would build on the NQF reforms and support the participation of high-quality ECEC as a national policy objective.

For example, France and the United Kingdom both provide free universal pre-school from the age of three to all children for a specified number of hours paid for through subsidies to providers, with the United Kingdom providing an additional subsidy to disadvantaged parents (Economist Intelligence Unit, 2012). Similarly, the introduction of a two-year full-day Early Learning Program in Ontario is an example of a funded universal access model that recognises the public good benefit of a core educational offer available to all families (Pascal, 2009).

Commonwealth ECEC subsidies as currently structured are substantially focussed on encouraging and supporting parents to participate in the workforce with child development an incidental aspect of funding subsidies. Recent initiatives such as the NP UAECE and the NQF have recognised the importance of child development in ECEC. Over the longer term, funding reform has the potential to provide a clearer market signal about the public value of ECEC. In line with the objectives of the NQF, consideration should be given to a Commonwealth funding model that better promotes participation in high-quality early learning to support child development.

This objective may be feasible with differentiated weighting of current ECEC subsidies. More likely however, it will require a different configuration of subsidies in which access to education is a key funding driver. This could include, for instance, a core Commonwealth-funded offer that gives every family access to a base number of high-quality ECEC hours per week in any centre-based ECEC service. This offer could be supplemented by further Commonwealth subsidies for families to

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support study or workforce participation, and for children at higher levels of developmental risk. A Commonwealth subsidy structure that continues to provide universal access to high-quality ECEC for all families, with additional subsidies available to families on a progressive-needs basis (for example, to support increased hours for disadvantaged children) is considered to deliver the most effective returns from government subsidies.

*Recommendation 3: The Inquiry investigates the benefits and potential role of subsidies in supporting an objective of expanded participation in high-quality ECEC.*

### 2.3 Greater transparency for families on the cost of ECEC

Victoria notes the issue of affordability of the ECEC system is complex and the extent to which affordability is a barrier to access requires careful consideration. As highlighted by the Productivity Commission, ECEC fees have consistently grown in real terms over the past decade. At the same time, Consumer Price Index (CPI) growth in other educational services has also been above the average growth in CPI. An analysis of cost drivers (e.g. rent, utilities, consumables, normal wage increases) is an important part of greater transparency in relation to the costs of ECEC and should be part of the Inquiry's consideration of price increases in this sector.

It should also be noted that increased costs associated with the introduction of the NQF were anticipated through the regulatory impact statement (COAG 2009b). There is also a need to ensure that, in seeking to reduce costs, the result is not lower-quality ECEC with reduced benefits for long-term productivity. Examination of the influence of current Commonwealth Government subsidies on fees levied by service providers may also be warranted.

Greater simplicity and transparency of subsidies and the out-of-pocket costs of ECEC are an important area of focus. It is appropriate that greater transparency be provided to the public and families about the actual cost of ECEC, particularly after subsidies.

*Recommendation 4: The Inquiry considers opportunities to provide greater transparency to the public and families on the cost of ECEC after subsidies to support informed decision making.*

### 2.4 ECEC as a platform to address vulnerability

Significant evidence points to the benefits of high-quality ECEC for disadvantaged and vulnerable children. The opportunity cost of non-participation by disadvantaged and vulnerable children is significant for both individual wellbeing and for future economic productivity.

The AEDI identifies that about 1 in 5 children are developmentally at-risk at entry to school. The National Framework for Protecting Australia's Children has committed to enhance access to ECEC services for children at serious risk of harm.

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Longitudinal Study of Australian Children (LSAC 2009) data show that sole parents, young mothers aged under 25, Indigenous families and families in which the mother speaks a language other than English are more likely than other families to experience multiple disadvantages, but are less likely to use preventative or support services, including playgroups and parenting education, and more likely to use crisis services (Blakemore et al, 2009).

For low-income families, childcare fees appear to absorb a greater proportion of average disposable income (Productivity Commission, 2013). Charging even a low fee for ECEC is a strong disincentive for very low-income families and fails to recognise the significant other barriers (such as lack of transport and co-prevalence with disability) these families experience. Commonwealth subsidies should be reviewed as part of this Inquiry for those families for whom ECEC fees present a significant barrier to access.

Children in state (or out-of-home) care are some of our most vulnerable, yet Special Child Care Benefit (SCCB) eligibility guidelines do not recognise the ongoing risks of social, emotional and development problems of these children. As a result States/Territories are, in some instances, cross-subsidising what should be a Commonwealth responsibility for these children by providing supplementary payments to cover the cost of childcare.

Victoria's experience is that engagement of vulnerable children in high-quality ECEC requires well-designed planning and continuity of support. Victoria's Access to Early Learning program for children known to child protection enables sustained participation through the free access to high-quality ECEC, dedicated family-support, professional development for services and brokerage funding. Formal evaluation of the program has highlighted benefits in improving child outcomes and in building the capacity of educators to engage with vulnerable children and their families.

The Victorian Government supports Aboriginal three and four year old children to participate in a kindergarten program at no charge. The Commonwealth Government provides budget based funding to Multifunctional Aboriginal Children's Centres which are also eligible for Inclusion Support Funding.

Over the longer term, the achievement of full participation of children aged two and three years from disadvantaged backgrounds in high-quality, Commonwealth-funded ECEC should be considered. For the most vulnerable children, family wrap-around supports that reflect particularly high needs are required. As evidenced by high profile ECEC studies, there are significant potential cost-benefit returns from such action.

Targeted subsidies are an important aspect of support but are unlikely to be sufficient alone. An integrated approach to planning support for vulnerable children should commence from a service in which all children participate. For example, almost every child participates in Victoria's Maternal and Child Health service from birth, providing a platform to enable sustained engagement that supports a child's health, learning and development needs.

In addition to potential longer-term reforms, there are immediate practical steps that would strengthen ECEC participation to address disadvantage and vulnerability:

- *Extending eligibility for maximum approved CCB to all Health Care Card (HCC) holders* – Victorian analysis suggests that HCC status is a strong predictor of developmental vulnerability. This reform can also reduce the impacts of current disincentives. Disadvantaged families are reported to often choose participation in a stand-alone setting at no charge as participation in

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high-quality ECEC in a long day care setting attracts fees. This reduces participation in full-day integrated programs and the opportunity to support workforce participation. At present maximum approved CCB is available for incomes at or below \$41,000. Families are eligible for a HCC if their income is at or below \$45,136 (or \$868 per week) for a single parent with one dependent child. With Victoria, Queensland and NSW incorporating HCC status as core aspects of their funding models, there is practical potential to simplify ECEC subsidies, maximise the efficiency of funding and streamline the administrative burden for providers.

- *Streamlining administration of the SCCB* - A number of challenges with the administration of SCCB are consistently raised with the DEECD. The requirement to provide new evidence of continued vulnerability every 13 weeks is prohibitive and does not recognise the sustained nature of vulnerability for many families. It creates a heavy administrative burden for service providers, particularly in areas of concentrated disadvantage, and can serve as a disincentive to plan for and actively engage vulnerable children in their programs. The requirement that a service cannot have more than 18 per cent of CCB funding through SCCB is a further barrier that should be removed where services can demonstrate effective practice to respond to the particular needs of vulnerable children (Case Study: Doveton College Early Learning Centre below).

### **Case study – Doveton College Early Learning Centre**

*Doveton College Early Learning Centre is a best practice example of a full-day integrated service model targeting vulnerable children aged 0–9 years and their families. This innovative service model provides access to an integrated range of high-quality child and family services including Maternal and Child Health, playgroups, long day care and kindergarten. Located on-site at Doveton College, it also provides seamless access from ECEC to school.*

*The Commonwealth funding constraints described above limit the capacity of Doveton College to provide access to vulnerable children in an area characterised by high levels of disadvantage and where one in four families hold a HCC. The 18 per cent service cap on the SCCB means that over a third of eligible families cannot access the subsidy. This is compounded by the 13-week limit on access to the SCCB, and the requirement that vulnerable families contribute fees compared to kindergarten which is free. Combined, this presents a significant disincentive for vulnerable families to access the integrated child and family services offered by the College.*

## **2.5 Promoting the supply and upskilling of the ECEC workforce**

The quality of ECEC is largely driven by its workforce. The Productivity Commission (2011) has previously reported on the ECEC workforce as a key issue requiring government attention.

Victoria has undertaken significant steps to grow and develop the ECEC workforce in response to growing service demand due to population growth, greater service utilisation and the implementation of the NQF.



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Over the past three years, Victoria has invested an estimated \$26 million for: the provision of over 2000 scholarships for early childhood professionals to upgrade or attain an early childhood qualification; incentives to fill vacancies in hard-to-staff locations; professional development support such as mentoring, educational leadership programs and promoting early childhood as a career; and the implementation of *Victorian Early Years Learning and Development Framework*. An internal evaluation undertaken for DEECD by KPMG in November 2012 found that the *Improving Victorian's Early Childhood Workforce* initiatives were effective in enabling early childhood workers to undertake and complete new qualifications that may not otherwise occur.

Victoria has also played a major role in building a skilled ECEC workforce to meet the NQF reform requirements. Victorian investment in ECEC workforce development through the Victorian Training Guarantee has been significant. Training in children's services in metropolitan areas has more than doubled since 2010 (from 10,100 in 2010 to over 23,000 in 2013) and there has been growth in regional training (growing from 4,100 in 2010 to around 5,000 in 2013).

Participation in training has been supported by Commonwealth Government funded workforce initiatives including the TAFE Fee Waiver for students undertaking government subsidised training in certain Early Childhood Diploma or Advanced Diploma qualifications. The National Partnership Agreement on TAFE Fee Waivers for Child Care Qualifications will expire on 31 December 2014 and should be extended as part of sustainable ongoing funding through the Victorian Training Guarantee. In addition, HECS-HELP benefit for early childhood education teachers is providing assistance to eligible people by reducing the compulsory HELP repayment.

This investment is contributing to the effective implementation of the NQF with services having now transitioned to improved staff:child ratio requirements for children under three, a certificate III baseline qualification requirement and the requirement that all centre-based services for children preschool age or under have access to or have in attendance at the service an early childhood teacher. This investment is also contributing to sound performance in relation to the NQF ratings and assessment process. With a quarter of ECEC services rated, Victoria has the highest national performance with 76 per cent of the services assessed to date being rated at meeting or exceeding the National Quality Standard (ACECQA, 2013).

There is a continuing role for government to enable sufficient workforce supply and support the development of the ECEC workforce. Evidence emerging from longitudinal studies points out some of these continuing challenges:

- LSAC (2009) data highlights the importance of higher levels of teacher-supported learning activities on higher cognitive outcomes while higher levels of child-initiated activities were associated with decreased scores.
- The Effective Early Educational Experiences for Kids (E4Kids) study (Taylor et al 2013) has highlighted the need to focus more on high-quality teaching and learning in ECEC. A key emerging finding has been relatively sound practice in emotional support and classroom organisation, but less sound practice in instructional support, which is the way educators promote thinking skills, encourage language development and extend children's learning.

As well as focussed improvement on instructional practices, experience through Victoria's Early Start Kindergarten (ESK) and Access to Early Learning (AEL) programs highlight the need for improved capacity to work with vulnerable children. The ESK provides a free program for children known to Child Protection and for Aboriginal and/or Torres Strait Islander children. The AEL program is an

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evidence-based service model that addresses access barriers for highly-vulnerable children to three year old kindergarten.<sup>4</sup>

*Recommendation 5: The Inquiry considers the benefits of continuing to provide incentives to promote the supply and upskilling of the ECEC workforce.*

### **2.6 Supporting access in areas of low ECEC supply**

ECEC provision has expanded over time through market-based responses. By and large this works well and should continue to be promoted.

An opportunity to better inform local planners and potential service providers is to make supply and demand data available on a geographic basis. At present, provider registers are required to be made available through Australian Children's Education and Care Quality Authority (ACECQA). The Inquiry may consider the potential benefits and feasibility of enhancing this information with known current and projected demand at a geographic area level.

In addition, thinly spread and volatile enrolments are common in some areas, such as small rural communities. This feature exists across ECEC, stand-alone kindergarten and school. Challenges are also experienced in high-growth communities and when policy objectives call for changes in access, such as the expansion to provide universal access to 15 hours of high-quality kindergarten in the year before school. The Inquiry has the opportunity to consider more effective responses to support the market.

To enable sustainable provision of high-quality ECEC in small rural areas, Victoria includes a per capita loading within subsidies. Victoria is also looking at innovative service models (Case Study: Linking Learning below) that better combine seamless ECEC and school experiences. These will complement Victorian initiatives such as *Transition: A Positive Start to School* that outlines what families, early childhood services and schools can expect during this pivotal time.

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<sup>4</sup> Greater administrative flexibility on the part of the Commonwealth to support programs such as the AEL is required. The Commonwealth has previously worked with Victoria in supporting vulnerable families to gain ongoing access to the Special CCB whilst participating in this program; however this arrangement was discontinued by the Commonwealth.

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### **Case study – Linking Learning**

*Victoria’s ‘Linking Learning Birth-12 Years Project’ aims to improve collaboration between ECEC services and schools to create a more seamless approach to curriculum and pedagogy across the sectors. The project aims to improve learning outcomes for Victorian children by enabling parents, educators and other professionals to work effectively together to support children’s learning and assist in smooth transition processes. Demonstration locations will focus on quality learning over a three year period, sharing their learning and building an evidence base for new practices and interventions. The Linking Learning Project aligns with the Victorian Government’s goal for a world-leading education system helping every Victorian child to learn and achieve to the highest standards.*

To grow supply of ECEC places, Victoria has also provided substantial assistance through infrastructure incentives, typically around a third to a half of the total infrastructure expansion funding requirement.<sup>5</sup> The Victorian Auditor General’s Office 2011 report, *Early Childhood Development Services: Access and Quality*, recommended that DEECD exercise more purposeful oversight of the quality and consistency of council planning develop a better understanding of service demand, particularly for the vulnerable and disadvantaged, and strengthen its monitoring of service quality. A more informed planning role has similarly been advocated by the Commonwealth, through the Community Support Program (CSP) that contributes to the establishment and operating costs of service provision in areas where the market would otherwise fail to provide services. A recent Australian National Audit Office report, *Improving Access to Child Care—the Community Support Program*, made two recommendations:

1. Analyse the childcare market, including the areas where the market would fail to meet childcare needs without CSP funding; and review the appropriateness of the current eligibility criteria and payment rates in light of this analysis.
2. Develop performance measures that directly address the program objective in order to monitor and evaluate the effectiveness of CSP funding.

The Commonwealth has also recently undertaken a review of Budget Based ECEC provision. The outcomes of this review are noted to be particularly important for the participation of Indigenous children in Multi-Functional Aboriginal Centres and Child and Family Centres (CFCs) established under the National Partnership Agreement for Indigenous Early Childhood Development (NPA IECD). During a two week snapshot review of Element 1 of the NPA IECD in 2013, Victoria’s two CFCs provided services to 94 Aboriginal and Torres Strait Islander children, including high-quality ECEC,

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<sup>5</sup> In 2012-13 Victoria provided an estimated \$44 million in capital funding to the ECEC sector (Productivity Commission, 2014).

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Maternal and Child Health, and parent and family support services. Future Commonwealth funding to support continuation of these services to Indigenous children is crucial to their ongoing development.

The experience of Victoria in Kindergarten Cluster Management may also be beneficial (Case Study: Kindergarten Cluster Management below). A Cluster Manager approach might assist to deliver services where markets are not strong – allowing services to balance income and meet demand issues across a number of services, rather than requiring a stand-alone service to be viable.

### ***Case study – Kindergarten Cluster Management***

Kindergarten Cluster Management involves grouping a number of kindergarten services under a management organisation, which is responsible for the employment of staff, management of the administration of the service, and maintenance of licensing and regulatory responsibilities. Cluster managers may be local councils, community based organisations, or federated and amalgamated kindergarten organisations. An external review found that this initiative reduces the administrative, management and legal responsibilities of parent committees, provides increased professional support and stability for kindergarten staff, and improves the sustainability of kindergarten services for the communities served by them.

A better understanding of how families and children are using the ECEC system is also needed. Continuity of care is an important aspect of quality care for children in the early years, yet Australian research indicates that multiple child care arrangements in Australia are relatively common (Bowes, 2003). There is an opportunity for the Inquiry to review the current data sharing arrangements by the Commonwealth in relation to ECEC usage patterns to support a more transparent approach to planning for this sector.

*Recommendation 6: The Inquiry considers the benefits of improving service provision and access through a better-informed market and more active collaboration and service planning between different levels of government.*

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### **Section 3 – Current and alternative models of ECEC provision**

Victoria is open to understanding the benefits and costs of different models of ECEC provision, drawing on international best practice and with a view to the applicability of these models for the Australian context. Alternative models of provision should be underpinned by a solid evidence base as to where there are gaps in the market, and whether these could be addressed by improving the effectiveness of current models in the first instance.

#### **3.1 Regulatory requirements of new models**

While there are a variety of ECEC options already, the Australian ECEC system is still evolving and it is important to consider system design improvements that will deliver improved outcomes for families and children.

The NQF and delivery of an approved learning framework, such as the Early Years Learning Framework, provides the base-line for a competitive market place of services, particularly where attracting equivalent government subsidies. Victoria supports changes to the regulatory framework that will reduce unnecessary red tape and duplication for both current and future models of ECEC.

Commonwealth Budget-based services for non-mainstream service provision<sup>6</sup> make up a relatively small proportion of overall ECEC provision and should be included under the NQF, signalling that quality services for Aboriginal children and children in rural locations are important.

Occasional child care attracts government subsidies and consideration may be given to inclusion under the NQF. Victoria already regulates occasional child care under separate state-based law, with resulting inefficiencies and duplicative processes. Inclusion of these services under the NQF recognises their role in a unified ECEC system, with consideration to be given to the level of standards that should apply (noting that these are likely to differ from other components of the system such as kindergarten and long day care).

Consideration would need to be given to the impact for regulatory services of funding alternative ECEC models. Victoria does not currently regulate services with fewer than four children. Expanding access to subsidised nanny programs is likely to involve significant additional regulation which would need to be designed and adequately funded. Victoria would be concerned if funding of alternative service models creates additional unfunded regulatory burdens for States/Territories.

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<sup>6</sup> In Victoria the Commonwealth funds two Multi-functional Aboriginal Children's Services (MACs) through this program, and clarity regarding the future sustainability of MACs is required following the Commonwealth review of the budget based funding model.

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*Recommendation 7: The Inquiry considers the NQF and delivery of an approved learning framework, such as the Early Years Learning Framework, as the base-line for alternative service models, and the impact for regulatory services of new funded models entering the market.*

### 3.2 Building the evidence base for what works

Victoria sees a stronger role for the Commonwealth in working with jurisdictions to build the evidence base for what service models are most effective in improving access for families in diverse circumstances. In a tight fiscal environment increasing the capacity of the ECEC system to deliver flexible and innovative services that are known to work is critical.

The Inquiry should also consider options for building the evidence base for what works to improve outcomes for children in the Australian context through initiatives such as Victoria's funding of the Effective Early Educational Experiences for Kids longitudinal study (E4Kids).

*Recommendation 8: The Inquiry promotes the continued building of evidence on what works in ECEC through initiatives such as the Effective Early Educational Experiences for Kids longitudinal study (E4Kids).*

### 3.3 Enhancing Family Day Care

FDC has emerged as a small but significant component of ECEC in recent years, reflecting the diversification of the market and parental expectation for subsidised home-based care. In Victoria, FDC growth has been particularly marked since June 2010, when 94 services were approved. By January 2014 this figure had grown to 267, with a further 117 applications under assessment. These services are concentrated in the western and northern suburbs of Melbourne.

Expanding access to quality FDC programs can support greater flexibility for parents and ensure access to education and care experiences with existing quality frameworks. However, a number of quality and regulatory issues have emerged with the rapid expansion of this sector that should be addressed if growth continues to be pursued as a policy option.

The rapid expansion of the FDC sector (due, in part, to the combination of Commonwealth incentives<sup>7</sup> in addition to approved CCB) has exposed structural problems in the design, application and intersection of both the National Law and the *A New Tax System (Family Assistance Act) 1999*.

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<sup>7</sup> For example, the ANAO in its audit of the Community Support Program identified that ten FDC services received between \$765,000 and \$1.4 million in funding because FDC services are supported at specific rates per place, per hour; whereas for other major care types, services are eligible for fixed annual amounts.

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Market incentives to boost supply of FDC have not required demonstration of demand for education and care, nor been accompanied by sufficient regulatory controls through the National Law in service establishment. This has resulted in non-compliant FDC services operating in the market, compromising the integrity of the NQF and ongoing compliance action being taken against FDC providers.

*Recommendation 9: The Inquiry reviews the impact of incentives for FDC services on demand and quality outcomes for children.*

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### **Section 4 – Quality and regulation**

COAG has designed a world leading regulatory and quality system, built from sound foundations. Australia is making significant progress towards achieving a high-quality ECEC system with the introduction of the NQF. This is an evidence-based best practice framework for the provision, monitoring and assessment of education and care services. It places a focus on continuous improvement led by ECEC services and includes an ongoing review process to assess its effectiveness.

The inclusion of a National Quality Standard (NQS) within the Framework which has been independently evaluated by ACER as to its validity and reliability is pivotal to the NQF. As highlighted throughout this submission, the importance of quality standards to the achievement of the educational and development outcomes of ECEC cannot be underestimated. Further, a quality, well regulated ECEC system will contribute to building Australia's human capital, on par with similar advanced economies.

Victoria supports the continued implementation of the NQF reforms with support for the sector, children and families to enable Victorian children and families to access high-quality ECEC services. At the same time, Victoria acknowledges the need to reduce the regulatory burden associated with the NQF, recognising that a high level of regulation has costs to government, service providers and consumers. To this end, it supports ongoing discussions regarding improvement to the NQF, provided the standard of education and care is not compromised.

#### **4.1 Refining regulatory arrangements and addressing unintended consequences**

Victoria acknowledges there is capacity to refine the National Law and National Regulations under the NQF, and some elements and processes associated with the NQS, with a view to better clarifying legislative intent, reducing some unintended regulatory burden, and addressing inconsistencies or inadequacies in the intersections of the National Law with Commonwealth legislation.

To this end, Victoria supports the 2014 Review of the National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care (NP NQA) to reduce inefficiencies and unnecessary red tape, and is open to revisions where the current settings are proving to place unnecessary constraints on the education and care system, such as approval processes for Supervisor Certificates and inflexible timelines associated with the assessment and rating process. The Review, for instance, will incorporate the first stage of the NQS Review - the Assessment and Rating Analysis. The Review will build on and consolidate legislative and regulatory amendments to the NQF identified throughout 2013 by SCSEEC.

Of interest to the Inquiry is the preliminary assessment of regulatory burden that found that overall the sector is highly supportive of the NQF, despite perceiving a significant level of administrative burden (ACECQA, 2013). This report suggests that this burden may decrease as the NQF becomes fully operational and more services become quality rated. It also found that certain segments of the market (e.g. community-managed and not-for-profit providers) experience a higher level of burden. A key finding is that documenting educational programs and assessing learning, whilst the costliest requirement, also generates an equivalent increase in the quality of education and care. Further, it found that this burden could be minimised through better guidance and support.



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The report acknowledges that the administrative burden associated with meeting the obligations of the NQS<sup>8</sup> is not typically seen as ‘red tape’. Nonetheless, in coming months, ACECQA will release a suite of strategies to minimise administrative burden.

Victoria recommends that the Productivity Commission formally consult with SCSEEC to jointly discuss progress against the reviews as part of its Inquiry. This would help to ensure regulatory reviews are aligned and help to avoid any duplication or inconsistent findings.

*Recommendation 10: The Inquiry notes the current reviews of the NQF and seeks an exchange of information with SCSEEC prior to the release of Inquiry’s report.*

### 4.2 Removing constraints to information sharing

The National Law provides for regulatory Authorities to share information with the Commonwealth Government. The Commonwealth Government is constrained in its information sharing by Commonwealth legislation. The Commonwealth derives its funding powers related to subsidies for childcare from *A new Taxation System (Family Assistance Act)*.

Legislative change is required to increase the information sharing powers of the Commonwealth Government regarding financial non-compliance. Currently, Commonwealth officers issue ‘public interest notices’ on a case-by-case basis and on request by the regulators where there is knowledge of non-compliance. This is a process reliant on workarounds, rather than being a systemic approach by the Commonwealth to informing regulators of issues in the market that require remediation. Reforms in this area would provide greater regulatory efficiency in relation to ECEC provision and should be addressed as a matter of priority.

*Recommendation 11: The Inquiry promotes continued improvements in data sharing between the Commonwealth as funders and States/Territories as regulators, particularly regarding proactive intervention addressing service financial viability.*

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<sup>8</sup> Record keeping and administration tasks (e.g. enrolment information – custody issues, anaphylaxis, asthma, other health conditions) which might appear burdensome are required to protect children.

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