

# *A practical vision for early childhood education and care*

March 2011





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# Foreword

For some time we have known that the period between birth and five years is vital in so many ways to children for both their future well being and their development.

However, in Australia today we have a very fragmented Early Childhood Education and Care (ECEC) system with all three levels of government involved as well as community groups and the private sector. There is also no overall system design on a national basis with significant variation between jurisdictions.

In July 2009 the Council of Australian Governments (COAG) released its National Strategy for Early Childhood Development, setting out a vision for the reform of early childhood services in Australia to 2020. While the COAG Strategy is a great start to the reform process, there are many practical challenges and barriers that need to be addressed.

PwC considers that the creation of an integrated early childhood education and care system is one of the key issues for Australia's social and economic development into the 21st Century. The importance of this area to the future of Australia has prompted the investment by PwC in the development of this thought leadership paper.

## *Global Thought Leadership Group*

To move this forward, PwC brought together some of the leading experts in Early Childhood from around the world and challenged them through multiple meetings over a six month period to identify the vision for the future in ECEC in Australia.

Participants were invited to join the group on the basis of their expertise rather than as representatives of particular interest groups or government departments. All discussions were conducted under the **Chatham House Rule**, and the views contained in the paper should not be interpreted as being endorsed by either the individuals who participated or by their agencies.

PwC takes full responsibility for the ideas expressed in this paper, which have been distilled from the range of opinions and views expressed by the thought leadership group members.

This paper, "*A practical vision for early childhood education and care*" is the result of the workshops and discussions carried out by this group and supporting research by PwC.

While there will clearly be a journey to take to arrive at a position where we have an integrated environment across both education and care, we know that putting the *child at the centre* is essential, and this has been a foundation in the development of this vision.

PwC and all of the participants hope that this paper will contribute a vision and a road map for Australia so that future generations of children may benefit from an integrated system of education and care.

**Chris Bennett**  
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Her Excellency Ms Quentin Bryce AC  
Governor-General of the Commonwealth of Australia

Message from Her Excellency Ms Quentin Bryce, AC  
Governor-General of the Commonwealth of Australia

*for the Global Leadership Program's launch of A practical  
vision for early childhood education and care*

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The future of our nation rests on the capacity, confidence, resilience and self esteem of our youngest Australians.

In an age of increasing demands on our daily lives, this paper acknowledges a growing dependency on services within the community to assist parents raising their children. Its authors and contributors seek to establish a cohesive approach to education and care, and stress the importance of embedding good practices from a young age.

As a society we must place children at the centre of our attention, we must value their uniqueness and worth as individuals and citizens, and we must champion parents, carers and teachers in their vital roles. Alert to the special challenges of social, economic and indigenous disadvantage, we must ensure that all Australian children have access to services that nurture positive development. This support, and the continued engagement by parents, families and extended circles of care, will provide young people with a strong, stable foundation for learning and maturing.

I commend the research, professionalism, insight and thoughtfulness underpinning *A practical vision for early childhood education and care*. Here, we see constructive proposals for the support of children in their early years providing sound building blocks for adolescence, teenage years and early adulthood.

This paper is a marvellous platform and tool for consultation, discussion and collaboration. I urge you to bring it to the table with open minds and a willingness to find the best possible solutions for our nation's children.

14 Feb. 2011



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# A practical vision for early childhood education and care

Early childhood education and care (ECEC) services are a cornerstone of everyday life for many Australians. In today's society, ECEC has a crucial role to play in supporting child development and facilitating greater workforce participation and economic engagement.

However despite considerable policy attention and significant advances in recent decades, Australia's ECEC services remain fragmented. Australian services continue to be shaped by divisions between education and care systems; between child development and workforce participation objectives; and between Commonwealth, State and Territory Governments.

As a result, many families find it difficult to access the services they want. Systemic inefficiencies mean that we fail to reap the full benefits of significant public and private investment in the sector. The potential of high quality ECEC services to improve outcomes for vulnerable and disadvantaged children remains unrealised.

This paper proposes a new approach to ECEC in Australia that better harnesses the current mix of providers and investment to meet the needs of children and families. This approach seeks to utilise the unique capabilities of governments to align incentives of service users and providers with public policy objectives more effectively.

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## Principles

*We propose four key principles that should underpin the future development of ECEC service delivery in Australia.*

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### 1. The interests of the child are paramount

While the needs of parents and the social and economic objectives of individuals, business and government all have a place in this discussion, recognising that the interests of the child are the key issue, provides a common focus for these competing considerations, and rightly prioritises the inherent agency and value of children.

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### 2. Parents have the primary role in their child's development

Parents are the first and most important carers and educators of their children. The role of ECEC services is to support and complement parents, rather than replace them. The ECEC system should be designed to ensure that parents can access early childhood care and education when and where they need as they balance the care of their children with their decisions to participate in the workforce. Amongst other things, this implies that the system should be easy to navigate, and that transitions and discontinuities between services should be minimised for both parents and children.

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### 3. ECEC services should be universally accessible

The potential for good ECEC services to improve early childhood outcomes, most importantly for disadvantaged children, means that high quality ECEC services must be accessible to all Australian families – regardless of their ability to pay, or their employment circumstances.

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### 4. All ECEC services should be of high quality to support good developmental outcomes

The evidence continues to demonstrate that the quality of ECEC services matters. While they may be more costly, good quality ECEC services generate significant and lasting benefits for children. It is a fundamental expectation that ECEC services are of high quality and that funding is available to support this.



It is a complex task to create a unified system of ECEC based on these principles. The service system envisaged by the four principles outlined earlier is a bold reform. Its key features include that families should expect to be able to access a high-quality early childhood education and care system for their children before school age, and that cost should not be a barrier preventing them from doing so. In this sense their expectations should mirror those they have regarding access to the school system.

The current early childhood scene in Australia includes an array of services operated by governments, non-

government agencies and “for-profit” providers. It is funded by different levels of government for different reasons and to different levels.

As a way forward, this paper recommends an approach in which the concerted actions of government shape the existing landscape of services into a more coherent system. Acting together, governments have the opportunity to use the powerful levers of funding, planning, regulation and service delivery to move Australia towards a system of Early Childhood Education and Care which genuinely meets the needs of children and families.

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## **Recommendations**

*Building on these principles, and reflecting on current challenges and opportunities within the sector, we propose a series of high level policy settings that should form the basis of future ECEC service delivery.*

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### **Expand the commitment to measures that drive quality improvement**

- Governments continue to pursue and extend a national regulation and quality improvement framework.
- Governments monitor and review the effectiveness of the National Quality Framework in improving the quality of ECEC Services.
- Governments undertake workforce development measures to expand the number of early childhood professionals and to provide appropriate registration and professional development opportunities.

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### **Flexible funding driven by the needs of families and children**

- The primary objective of funding should be to provide universal access to high quality ECEC services, ensuring that cost is not a barrier to participation for any children or families.
- Given the mixed market approach in ECEC in Australia, funding should predominantly be provided through a subsidy to services based on the parents' choices so that funding follows the child.
- The level of subsidy should be based on the cost of a model of a high quality service and be subject to variation to reflect high needs children or high cost locations.
- Funding should, as far as possible, be available to child care and preschool services in ways which promote the development of a unified system of ECEC.

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### **Strategic monitoring and engagement to ensure the right services are available in the right places**

- All levels of government undertake regular analysis of supply/demand at macro and local levels.
- High quality data aligned to children's outcomes and service delivery frameworks informs the decision-making of governments, industry, and parents.
- Governments undertake strategic interventions to influence the service delivery mix as necessary, utilising funding levers (such as tailored funding rates and grants) or direct service delivery to ensure public policy objectives are met.

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### **Investment levels that match the importance of ECEC**

- Public investment in the sector is increased to reflect the recognised value of ECEC services.
- Alternative investment models attract investment to the sector.

*Australia needs a unified system of Early Childhood Education and Care*

*ECEC services must be readily accessible to families regardless of their ability to pay or their employment circumstances*

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# Introduction

The purpose of this paper is to help shape Australia's national discussion of early childhood education and care (ECEC). *A practical vision for early childhood education and care* identifies the features of a system designed to promote the best development of children, and recognise that the majority of parents will rely on such a system as they choose to re-enter the workforce before their children go to school.

In recent years, services for children aged up to five years have assumed a prominent place in discussion about the social investment aspect of developing human capital in Australia. Governments have grown to appreciate the importance of a child's early development to outcomes later in life. Consequently, they are paying closer attention to the quality and availability of early childhood education and care services.

Understanding the importance of these services to the child, as well as their role in facilitating the significant increase in female workforce participation, has led governments to acknowledge that action in this area can deliver substantial social and economic benefits.

However, despite this policy attention, systems for early childhood services – particularly for ECEC services – continue to reflect the models and policy decisions of the past more than the needs of the present and future. The service system remains divided between a work-related child care system and an education-focused preschool system. This fragmentation and disconnectedness mean that there is no effective, coherent platform for the delivery of high quality, accessible and affordable services. It also raises questions about whether the existing Australian ECEC system is able to deliver on the expectations of both parents and policy makers.

In some areas reform is underway: in 2009, all Australian governments agreed to a National Early Childhood Development Strategy; a new National Quality Framework, integrating regulatory and quality components, is currently being implemented; and governments have committed to ensuring that all children have access to 15 hours per week of high quality ECEC in the year before school.

These initiatives reflect the broader community discussion in Australia about the balance between the developmental needs of children and the workforce choices of their parents. Paralleling this discussion has been the recognition that parents of very young children are re-entering the workforce in increasing numbers, driven by a range of social and economic factors including financial pressures and growing employment opportunities for women. This shift has prompted governments to respond with initiatives such as paid parental leave schemes and significant increases in child care spending.

While this kind of discussion is common to some of Australia's OECD partners (Canada, the United Kingdom, the United States), it is one that Australia is coming to much later than some European countries. Many OECD countries have well established systems of early childhood education and care explicitly worked out in the context of other social programs of income support, health and parental leave.

It is time for Australia to do the same.



# Policy context for early childhood education and care services in Australia\*

The range of government-supported services encompassed by the child and family agenda is broad. It includes:

- early childhood education and care
- antenatal and maternity services
- parenting support services
- family support services
- maternal and child health services
- broader healthcare services
- higher intensity services for at-risk children and families.

These services also span broader policy settings that have a direct impact on the education, care and development of young children, including paid parental leave, tax policy and other government assistance to support families with young children.

Recognising this, recent Australian approaches to early childhood policy such as the COAG National Early Childhood Development Strategy have moved towards an integrated focus on the full range of needs of young children and their families.

However, ECEC services emerge as the focus for policy attention in this paper because they provide the most widely used service platform for non-parental care and education for children under five, and they are explicitly designed to address key policy issues.

The public importance of a coherent and effective ECEC system has been widely recognised as policy makers respond to two key issues:

- the significant impact of early childhood development on later learning and life outcomes
- the importance of ECEC services in supporting workforce participation, particularly among mothers.

## Importance of early childhood

In recent years, our understanding of children's developmental needs has advanced considerably. Research into the neurobiology of children's development has strengthened the arguments in favour of providing high quality services for children from the earliest age.

This research has demonstrated that the skills and abilities acquired in early childhood are fundamental to a person's success and well-being in later life. A positive early childhood provides personal and economic benefits to the individual and also to society. On the other hand, negative experiences in early childhood fundamentally undermine the building blocks on which later achievement relies.<sup>1</sup> A landmark study in this area concluded that:

*“Virtually every aspect of early human development, from the brain's evolving circuitry to the child's capacity for empathy, is affected by the environments and experiences that are encountered in a cumulative fashion, beginning in the prenatal period and extending throughout the early years”.*<sup>2</sup>

This period of development “sets either a sturdy or fragile stage for what follows”.<sup>3</sup> Early learning not only supports the development of cognitive, social, emotional and motivational skills, but also drives later learning and achievement, which in turn contributes to the ‘human capital’ that underpins the economic well-being of the broader community.<sup>4</sup>

While it is clear that a child's family is the most powerful influence on their development<sup>5</sup> it is also true that good quality ECEC services can have a substantial impact as well.

\* Some research material in this section has been drawn from: White, M. (2009) *Rethinking Early Childhood Services. The Case for Reform*

1 National Scientific Council on the Developing Child (2004), ‘Children's emotional development is built into the architecture of their brains.’ Working Paper No. 2. Available online: <http://www.developingchild.net/pubs/wp.html>

2 Shonkoff, J. P., and Phillips, D. A. (Eds) (2000) *From Neurons to Neighbourhoods: The Science of Early Childhood Development*. Washington DC: National Academy Press. Quoted in Knusden, E., Heckman, J., Cameron, J. and Shonkoff, P. (2006) ‘Economic, neurobiological, and behavioural perspectives on building America's future workforce’. *Proceedings of the National Academy of Sciences of the United States of America*. July 5, Vol 103( 27):10155-62, 1.

3 Ibid. p. 5.

4 Heckman, J. (2000a), ‘The real question is how to use the available funds wisely. The best evidence supports the policy prescription: Invest in the Very Young.’ *Ounce of Prevention Fund and the University of Chicago Harris School of Public Policy Studies*: Chicago.

5 National Scientific Council on the Developing Child (2004a), ‘Young children develop in an environment of relationships.’ NSCDC Working Paper No. 1. Available online: <http://www.developingchild.net/pubs/wp.html>. Accessed 23/1/09.

Indeed, there is evidence that early childhood services can provide children with opportunities for learning and development that may exceed those available in their families. As a result, participation in high quality ECEC services may be particularly important for vulnerable children. For governments, early intervention through the provision of early childhood services is an important instrument for reducing the negative developmental impacts of disadvantage, and disrupting patterns of poverty and inequality that begin in early childhood.<sup>6</sup>

This balance between parental care and that provided by an ECEC system becomes crucial when considered in the light of the OECD's observation that:

*“Today's rising generation in the countries of the OECD is the first in which a majority are spending a large part of their early childhoods, not in their own homes with their own families, but in some form of child care”.*<sup>7</sup>

## Workforce participation

Australia, like much of the Western world, has witnessed a change in the historical model of family relationships. In earlier generations women typically gave up paid employment during their young adult years to care for their young children full-time. By 2006 however, workforce participation rate of Australian women aged 18-44 had risen to 70 per cent, compared to 84 per cent for men of this age group. In 2006 over 50 per cent of women with a child under the age of five were in the workforce; 16.2 per cent of women with a child aged under five were employed full-time; and a further 35.5 per cent employed part-time.<sup>8</sup>

This shift has stimulated the swift expansion of child care services in Australia. By 2008, half of Australia's three-year-old children attended formal child care services; 48 per cent of two-year-olds and one-third (35 per cent) of one-year-olds also attended child care services, and for significant periods of time. Over half of all children attending child care services did so for 10 hours per week or more, with the average being 17 hours per week; 13 per cent attended formal care for more than 35 hours per week.<sup>9</sup> The most frequent reasons given for children's attendance in formal care are work-related.<sup>10</sup>

Nevertheless, lack of child care remains a barrier to employment for some women. In a 2008 survey, the most commonly reported reason for not looking for work or seeking more hours of work, was that the respondent was 'caring for children' (143,600 responses). Women comprised the majority of this group (89 per cent or 127,800). For 22,700 out of the overall total respondents (16 per cent), the reason for not seeking additional work was that child care was too expensive.<sup>11</sup>

The employment choices of parents, particularly women, are complex family decisions. There is, however, evidence of a connection between access to child care services and female workforce participation. For example, a recent Commonwealth Treasury paper concluded that increases in gross child care prices were associated with reduced female employment.<sup>12</sup>

However, when the provision of children's services is seen simply as an initiative to support female workforce participation, there is a risk that “children may be seen as an obstacle to women's work, with child care considered as a necessary evil”.<sup>13</sup>

The research findings regarding the importance of children's early development imply that if a society takes concerted action to increase the workforce participation of parents with young children, it should also ensure that children have at least the same developmental opportunities which they would have enjoyed if they had remained in the care of their parents.

To do this, the ECEC service model of the future must address the developmental needs of children at the same time as promoting the workforce participation needs of parents.

6 Organisation for Economic Co-operation and Development (OECD) (2006), 'Starting Strong II, Early Childhood Education and Care', OECD Publications, Paris.

7 UNICEF (2008), 'The child care transition', Innocenti Report Card 8', UNICEF Innocenti Centre, Florence p. 3.

8 Organisation for Economic Co-operation and Development (OECD) (2006), 'Starting Strong II, Early Childhood Education and Care' OECD Publications, Paris, p. 265.

9 Australian Bureau of Statistics (ABS) (2009), 'Childhood Education and Care Australia' Cat. no. 4402.0, Australian Bureau of Statistics, Canberra.

10 Ibid.

11 Australian Bureau of Statistics (2009), 'Barriers and incentives to labour force participation, Australia, Jul 2008 to Jun 2009.' Cat. no. 6239.0, Australian Bureau of Statistics, Canberra.

12 Gong, X., Breunig, R., and King, A. (2010), 'How responsive is female labour supply the childcare costs – New Australian estimates.' Treasury working paper 2010 – 03.

13 OECD (2006), 'Starting Strong II', p. 22.

# Where are we now? The current state of Australia's ECEC services

The major systems for ECEC delivery in Australia are the Commonwealth child care system and the various State and Territory preschool systems. This division reflects historical circumstances as well as the policy agendas that separate the concepts of 'care' and 'education'.

The national child care system has developed primarily to support female workforce participation, with accompanying access and funding policies that reflect this objective. On the other hand, the State and Territory preschool systems are primarily designed to provide developmental programs for children, and are not tailored to meet the work-related needs of parents.

This division between education and care is also observed internationally, reflecting the separate development of community-based care services for vulnerable children and State-based early education services for children prior to school entry. In many countries, this historical division has become entrenched through subsequent administrative, cultural and professional divergence.

These divisions have tended to be more acute in liberal market economies, where care for children under three is frequently viewed as being a predominantly private responsibility, with a stronger role for government in the early education of children aged three to five. In contrast, countries with an equally strong role for government in relation to both cohorts, such as the Nordic countries, have tended to develop more integrated systems.<sup>14</sup>

Recent policy initiatives in Australia reflect the established view that, by contemporary standards, this separation is inappropriate and undesirable. In particular the national reforms to the quality assurance systems for ECEC aim to apply the same standards and assessment procedures to both the preschool and child care systems.

However, separation remains embedded in the service delivery platforms, the funding mechanisms and the program objectives of the two major components of the ECEC system. This constrains the effectiveness of the overall system and limits its capacity to meet its twin objectives of child development and workforce participation. For example, the focus on work-related care in the child care system has led to very low levels of participation by children from families where at least one parent does not work. Also, the restriction of child care funding to services which operate 48 weeks per year and 40 hours per week has limited the capacity of the preschool system to provide extended hours care to families which may require this.

## Early learning and care in Australia today

Currently ECEC services in Australia are delivered by a diverse range of providers in a 'mixed market' that includes government, for-profit, not-for-profit and community-based organisations. A different mix of providers characterises the child care and preschool sectors, reflecting the historical divide between the two systems. This divide, however, is beginning to blur.

## Participation

Child care in Australia includes family day care, long day care and occasional care services<sup>15</sup> as well as services provided for school-aged children (outside school hours care (OSHC) and vacation care). Over 870,000 Australian children use formal child care services of some kind, with more than 600,000 under the age of six (i.e. below compulsory school age). The majority of these children are in long day care, which accounts for 61 per cent of all children in formal child care, or family day care (12 per cent).<sup>16</sup>

Preschool education is very popular in Australia, with most children (82 per cent) participating in preschool education programs. In 2008, almost 400,000 Australian children aged three to five years attended a preschool program, being 50 per cent of all children of this age.<sup>17</sup>

<sup>14</sup> Bennett, J. (2008), 'Early childhood education and care systems in the OECD countries: the issue of tradition and governance'. Available at: <http://www.child-encyclopedia.com/documents/BennettANGxp.pdf>. Accessed 29 October 2010.

<sup>15</sup> Family day care refers to child care services provided in the home of the caregiver. Long day care refers to services provided by a dedicated child care centre. Occasional care refers to child care provided in a centre-based setting on a short-term or irregular basis.

<sup>16</sup> Australian Government Office of Early Childhood Education and Care (April 2010), 'State of child care in Australia', p. 3.

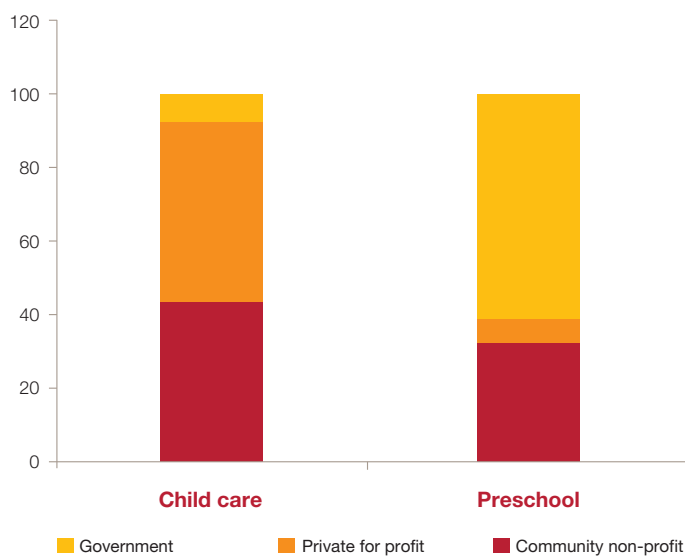
<sup>17</sup> ABS (2010), 'Childhood education and care'.

## Ownership

Child care services in Australia have long been provided under a 'mixed market' approach, with both for-profit and not-for-profit providers. However, over the past two decades there has been a clear shift towards a 'market-based' approach, with State and Commonwealth governments today playing virtually no role as service providers or owners in the child care field. Conversely, preschools in Australia have remained predominantly public or not-for-profit institutions.

The chart below provides a high-level overview of the ownership of ECEC services in Australia. Nationally it is clear that the not-for-profit community sector plays an important role in owning and operating both preschool and child care services. In the child care sector however, government has largely withdrawn from this role, relying on the for-profit sector to provide services directly.

### Early childhood education and care services in Australia by ownership structure (average percentage)



At a State or Territory level this overall trend is maintained, with the for-profit sector being more involved in child care and government directly providing a large proportion of preschool services. Nevertheless, the relative mix of providers can vary substantially among States and Territories.

For example, in the east coast States (Victoria, NSW and Queensland), the not-for-profit sector is the dominant provider of preschools, managing up to 90 per cent of services; while in other States (WA, SA and Tasmania) and the Territories, preschools are mostly government-run. Private for-profit organisations make up only a minority of preschool services in most States.

The same variation is apparent in child care services where the overwhelming majority of services are provided by the for-profit market in the larger States. As a result, privately managed centres account for 75 per cent of the more than 13,500 child care services nationally.<sup>18</sup>

## Funding

Government funds ECEC services through different mechanisms depending on the nature of the service provider, the types of services offered and the jurisdiction. A provider's principal means of government assistance is generally determined by whether it is a child care provider or a preschool/kindergarten. However the situation is becoming more complex as the boundaries between these provider types diminish.

### Child care

Government assistance for child care services is principally provided by the Commonwealth in two forms:

- **Child Care Benefit.** Eligible families receive assistance for up to 24 hours care per week, and up to 50 hours of care if they are engaged in at least 15 hours per week of work, training or study. This may be in the form of a lump sum or paid directly to child care providers. This payment is income-tested.
- **Child Care Rebate.** Eligible families who use child care for work, training or study purposes can receive payment for 50 per cent of their out-of-pocket child care costs.<sup>19</sup> Payments are received quarterly. This payment is not means-tested.

The Commonwealth provides additional subsidies through a number of other payments including:

- **Special Child Care Benefit** – which provides additional funding up to the full cost of care for at-risk children or for families experiencing hardship
- **Grandparent Child Care Benefit**
- **Jobs, Education and Training Child Care Fee Assistance (JETCCFA).**

The Commonwealth also provides some assistance directly to child care providers. Through the Child Care Services Support Program, the Commonwealth provides funding to improve access to child care in areas of need, including regional, remote and low socio-economic status locations. This includes payments to help new providers establish themselves and payments to sustain existing providers. The Commonwealth also provides inclusion support funding to support the participation of children with high needs.

State and Territory governments also provide some funding for child care providers. For example, the Victorian Government funds a number of occasional child care programs.

<sup>18</sup> Productivity Commission (2010), 'Report on Government services'. Note that 'private' includes services delivered by private schools, which are not-for-profit providers.

<sup>19</sup> The Child Care Rebate increased from 30 per cent to 50 per cent from 1 July 2008.

In some jurisdictions, child care providers that deliver a kindergarten program are also eligible for State or Territory government funding.

### Preschool/kindergarten

Government funding of preschool and kindergarten programs is the responsibility of State and Territory governments and its administration varies across the jurisdictions. In some States and Territories, preschool is delivered as part of the school system. As such, government provides capital and recurrent funding through education budgets on a similar basis as for schools.

In other jurisdictions, preschool/kindergarten is delivered through a 'funded provider' model, involving a mix of government, community-based and for-profit providers. State and Territory governments provide recurrent funding through a range of approaches, as well as capital funding through mechanisms such as grants programs. Targeted funding mechanisms such as additional subsidies, inclusion support and differential funding for providers with higher delivery costs are also used to increase access and participation among children at risk of poorer developmental outcomes.

In some jurisdictions – most prominently in Victoria – local governments also have a central role in funding and delivering preschool programs.

### Bridging the child care–preschool divide

More recently, the actions of providers and government have begun to bridge the historical divide between child care and preschool education and move towards a more integrated approach.

Child care services in many parts of the country have expanded their services to offer preschool programs.

By 2006, almost half of all long day care services offered access to a preschool program.<sup>20</sup> A key advantage of child care services over preschools in the eyes of many families is their extended operating hours. The vast majority of services (93 per cent) open for 10 hours or more each day, making them more suitable to the needs of families with two employed parents. This compares favourably with kindergartens or preschools, which typically offer shorter programs, although in some cases these programs are supported by 'wrap around' child care. For these reasons, today more than 40 per cent of children who usually attend preschool programs do so within child care services.<sup>21</sup>

Australian governments have also recognised the need to break down the separation of the two systems. In July 2009 COAG released the National Early Childhood Development Strategy, which emphasised the importance of early childhood development with a significant focus on integration, and set an agenda for the reform of the system by 2020.

Under the new National Quality Framework, also agreed by COAG in 2009, a new national, integrated quality and regulatory framework will be introduced from 2012. The standards aim to lift the quality of child care programs and for the first time provide a common national framework for staff to plan and assess early childhood programs. Notably, the Framework will apply to both child care and preschool/kindergarten services, requiring both systems to meet the same standards and to improve child:staff ratios and staff qualifications.

COAG has also agreed that by 2013 every child will have access to 15 hours per week of early childhood education for 40 weeks in the year before school. These programs must be delivered by qualified early childhood educators, and may be delivered through a range of provider and service types. This supports the growing trend in some States, noted above, of kindergarten or preschool programs being provided through the child care system.

While these developments will have a significant impact on ECEC in Australia, they do not fully constitute a cohesive system for the delivery of ECEC services. The following chapter considers options for an Australian ECEC system as a basis for developing this agenda.

### Challenges in the existing ECEC sector

Australia's mixed market of ECEC providers has yielded a range of benefits to the sector, including a vibrant mix of providers, responsiveness to parents' changing needs and the generation of substantial private investment. The diversity of providers is a strong platform for a contemporary ECEC system, with the potential to deliver choice, flexibility, investment and efficiency, including variation in cost and service offering.

Nevertheless, the current arrangements have had clear shortcomings in quality, accessibility and affordability. There is evidence that the current ECEC sector is failing to deliver on the expectations of both parents and policy makers. Specific concerns include:

- lack of access to child care places in particular geographic locations, and for infant and additional-needs places
- limited quality of developmental and learning opportunities afforded by many child care services, including the qualifications and experience of staff
- continuing increases in the price of child care services, creating affordability pressure on families and an increasing cost burden for government.

These challenges are symptomatic of a system that is poorly designed for the contemporary needs of Australian families; they make a case for significant reform of the sector's funding and quality arrangements.

<sup>20</sup> Australian Institute of Health and Welfare (2010), 'Australia's welfare', p. 47.

<sup>21</sup> ABS (2010), 'Childhood education and care'. Please note that some children attend both preschool and a preschool program at long day care.



## Accessibility

Service accessibility is a complex concept that combines elements of cost, service quality and location as well as personal choices and preferences. As a recent Commonwealth Treasury analysis noted:

*“Reports [by parents] of problems with availability, quality and cost are highly correlated and all of the questions appear to have a very common element to them. We take this as evidence that people respond to these questions on the basis of overall difficulty with obtaining childcare and do not clearly separate out quality from affordability from availability”.*<sup>22</sup>

There is evidence of families encountering significant difficulties accessing ECEC services. In a 2005 ABS survey, 49,000 parents of children aged up to four years reported not using care because there were no places available.

Patterns of ECEC service participation and employment also help to build the picture of service use and accessibility, and suggest that a significant proportion of children and families face barriers to access.

Many families construct a patchwork of care for their young children, supplementing the system of formal care with informal arrangements or modified work arrangements. Overall, 38 per cent of children aged up to four years use informal care, involving relatives and neighbours in their child care arrangements. As in the case of formal care, work-related reasons are most commonly given for using informal care. Parents modify their work patterns to enable them to care for their children when neighbours and extended families cannot help. Many seek flexible working hours, permanent part-time work, shiftwork, work from home and job sharing arrangements. The ABS reports that 61 per cent of all families with at least one parent employed, indicate that at least one parent normally used one of these work arrangements to help them care for their children.<sup>23</sup>

Traditional ECEC services such as preschools which offer sessional programs struggle to meet the need for the flexible care and education which modern families require. Extended hours care in these services is often limited by structural and funding issues such as the Commonwealth child care funding requirement that they operate for at least 40 hours per week for 48 weeks per year.

There is also evidence of barriers to access for disadvantaged children and families. Indigenous children do not participate in child care at the same rate as non-Indigenous children, while children living in remote areas and children with disabilities also participate at a lower rate.

## Quality

Historically there has been a large gap between the quality of early childhood services and the quality of service for school-aged children in the education system.

This has reflected dominant views that young children’s learning is less important than later learning; and that young children are away from the care of their parents for less time than older children and so lower quality of care is more acceptable at this age than it is later on. These views have been superseded by contemporary knowledge of child development and the reality of families’ living and employment circumstances. As a result, the policy focus on improving quality within ECEC services has increased.

International research and experience suggests that the qualifications of ECEC staff is the most important determinant of quality, with clear links demonstrated between a higher proportion of qualified and experienced primary contact staff and a higher quality service.<sup>24</sup>

There is limited data available on the qualifications of Australia’s current ECEC workforce, particularly in relation to preschool staff. The following table outlines the proportion of staff with formal qualifications. In many cases the relevant regulations specify a minimum number of qualified staff that must be present at each preschool session. In some settings, the relatively low proportion of qualified workers reflects the number of aides assisting qualified staff.

**Primary contact staff in preschools by qualification/experience (%) (2008-09)<sup>25</sup>**

	NSW	Vic	Qld	WA	SA	Tas	ACT <sup>26</sup>	NT	Aust
With formal qualification	70.5	46.5	90.3	50.0	56.7	64.9	60.9	62.1	n/a
Without formal qualification	29.5	53.5	9.7	50.0	43.3	35.1	39.1	37.9	n/a
More than 3 years experience	n/a	n/a	2.8	n/a	31.2	n/a	31.2	n/a	n/a
Fewer than 3 years experience	n/a	n/a	4.3	n/a	12.1	n/a	7.9	n/a	n/a

<sup>22</sup> Breunig, R. and Gong, X. 2010 Child care availability, quality and affordability: Are local problems related to maternal labour supply? Treasury working paper 2010 – 02.

<sup>23</sup> Australian Bureau of Statistics (2009), ‘Barriers and incentives to labour force participation, Australia, Jul 2008 to Jun 2009’. Cat. no. 6239.0 Australian Bureau of Statistics Canberra.

<sup>24</sup> OECD (2006), ‘Starting Strong II’.

<sup>25</sup> Productivity Commission (2010), ‘Report on government services’.

<sup>26</sup> Figures relate to 2007-08 year, as 2008-09 figures are unavailable.

The recent introduction of the National Quality Agenda in Australia aims to improve the qualifications of ECEC staff, particularly in child care. Amongst child care staff, only 16.2 per cent of those who hold early childhood qualifications hold a Bachelor's degree, while 42.1 per cent and 41.8 per cent hold Certificate III and Certificate IV qualifications respectively. Nationally, 37 per cent of primary contact staff at child care services held no formal qualifications.<sup>27</sup>

The new standards will require all staff to hold or be working towards at least a Certificate III, and services will need to employ a teacher for at least "some of the time" that the service is being provided to children.<sup>28</sup>

### Cost to parents

Maintaining affordability for parents is a key element of access and a key challenge for ECEC in Australia.

Child care costs have increased significantly over the past decade (see figure page 17). In order to maintain the affordability of child care and to encourage primary carers to return to work, the Commonwealth Government subsidises child care services – most notably through direct subsidies to parents and families (Child Care Benefit and Child Care Rebate).

Government assistance reduces the cost of care to primary carers considerably. In real terms, the direct cost to parents is only slightly higher than in the 1980s. Treasury analysis undertaken in 2007 indicated that the cost of child care as a proportion of net family income was relatively stable between 2000 and 2004 for most family types, despite an increase in child care fees over this period.<sup>29</sup>

Nevertheless, there is evidence that affordability continues to be a problem for a minority of families. A 2008 ABS survey found that, of children with unmet demand for child care services (6 per cent of families), 17 per cent (or 16,000 children) had parents who would not take up a place because of the cost.<sup>30</sup> The 2007 HILDA (Household, Income and Labour Dynamics in Australia) survey found that 18 per cent of couple families and 20 per cent of single parent families using child care reported difficulties meeting the cost of child care; this reported difficulty was evenly distributed across income groups, reflecting the means-tested nature of Child Care Benefit.<sup>31</sup>

Finally, the Treasury analysis noted above, while finding no significant increase in costs to families on average, also indicated that for some family types, such as sole parents receiving Parenting Payments, child care costs as a proportion of family income did increase over the period 2000–2004. This discrepancy illustrates an important point – that the complex interaction of income, workforce participation and a range of transfer payments can have differential impacts on different family types.

The picture of affordability remains somewhat clouded. There is, however, sufficient evidence of families experiencing cost pressures to warrant that containment of costs and the ongoing affordability of services be established as important design features of the ECEC system.

*Many families have to construct a patchwork of arrangements to meet their needs*

*The qualifications of staff are a key determinant of the quality of care*

<sup>27</sup> 'Formal qualification' in this context includes Certificate III/IV, Diploma, Advanced Diploma and bachelor's degrees (or higher).

<sup>28</sup> 'National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care', p. 18.

<sup>29</sup> Breunig, R. and Gong, X. 2010 Child care availability, quality and affordability: Are local problems related to maternal labour supply? Treasury working paper 2010 – 02.

<sup>30</sup> ABS (2008), 'Childhood education and care – Australia', Tables 10 and 11.

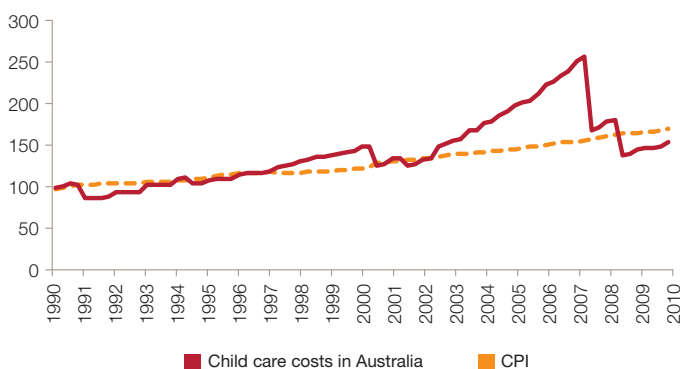
<sup>31</sup> Wilkins, R., Warren, D., Hahn, M. and Houng, B. (2010) 'Families, Incomes and Jobs, Volume 5: A Statistical Report on Waves 1 to 7 of the Household, Income and Labour Dynamics in Australia Survey' p. 17.

## Cost to government

As noted above, the costs of attending child care have increased significantly over the past decade. In acting to maintain affordability for families, much of these additional costs have been borne by government.

The following graph compares child care costs in Australia to the broad-based consumer price index (CPI) based on ABS data. Since the late 1990s, the trend in child care costs has far outstripped increases in the CPI. The sharp reductions in child care costs (in 2000, early 2007 and again in 2008) reflect government intervention such as the introduction of Child Care Benefit.

### Child care costs in Australia (nominal)<sup>32</sup>



These cost trends imply that while the cost to families has, in real terms, remained largely unchanged, this has only been achieved by government assuming an increasing cost burden.

Commonwealth Government expenditure on financial support to families was almost \$3.3 billion in 2008-09, up 85 per cent from 2004-05 (\$1.8 billion).<sup>33</sup> A large component of this cost increase appears to be due to the rising per unit cost of child care. In 2004, the Australian Government provided an average of \$2,959 in funding for every child in child care; by 2009 this had risen to \$4,545 – an increase of more than 50 per cent.<sup>34</sup>

The reasons for this rate of increase are not well understood. The increase may be driven by rising costs of provision, although there is little evidence of increased wage costs, which is the largest component in child care costs. It may also be due to market factors such as continuing under-supply in certain areas and for specific places. Differences in the rate of price increases across locations supports this argument.

Finally, price increases may also reflect opportunistic behaviour from providers, associated with the introduction of Child Care Benefit and Child Care Rebate and increases in the amounts of these subsidies.

These cost pressures will be accentuated by the impending, permanent impact of the National Quality Framework.

*Cost of ECEC for parents needs to be actively managed by Government*

<sup>32</sup> ABS (2010), 'Consumer Price Index – Australia', Table 13.

<sup>33</sup> Productivity Commission (2010), 'Report on Government services'.

<sup>34</sup> Productivity Commission (2010), 'Report on Government services'.

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# Principles for an Australian ECEC system

The long-term challenge for Australian governments is to design a service system that meets the developmental needs of all children, regardless of their parents' financial and employment circumstances. While ECEC services are only one part of this agenda, it is clear that a strong ECEC system will form a critical component of a comprehensive approach to family and child support.

This chapter focuses on the design of an ECEC system that provides quality, accessibility, responsiveness and efficiency. It adopts a definition of ECEC, similar to that of the OECD, as 'all arrangements providing care and education of children under school age'.

## *The interests of the child are paramount*

ECEC services occupy a complex space in which child well-being, educational outcomes, family cohesion, economic development and business intersect. In particular, recent arguments for devoting resources to early childhood have been framed in terms of 'human capital' and 'investment'. While all of these elements have a legitimate and meaningful place in the ECEC context, it is essential that the interests of the child remain the first consideration.

Placing the interests of the child at the centre of decision-making around ECEC services provides a common focus and orientation for the full range of stakeholders, including parents, providers, policy makers and the broader community.

This principle does not prevent a balanced consideration of the full range of issues relating to ECEC, or lead to simple prescriptions for policy directions. For example, trade-offs and relationships between contesting factors such as parental care, parental employment, service delivery and economic growth will remain fraught. Rather, recognition of the primacy of the child brings a common organising and prioritising focus to these considerations.

## *Parents have the primary role in their child's development*

In addressing the role of government in early childhood development, it is important to remember that parents are a child's first and most important carers and educators.

It is inevitable however, that families will rely on the ECEC services to share the care and education of their very young children, just as they rely on the school system to do this for their older children.

While all children have the same developmental needs, individual children and families will vary in how they use the available service mix based on their differing circumstances. Families will make different choices about how they carry out their parenting role and how they balance this with their employment decisions.

It must also be acknowledged that some parents struggle in their parenting task and government has a role to play by providing increased support for those parents and creating opportunities for their children to receive the best possible ECEC services.

In this context, respect for the parent–child relationship means that the role of government and a government-supported services system is to support and complement parents, rather than replace them. It suggests that:

- parents should be empowered to make decisions on behalf of and in relation to their children, rather than having governments determine their choices
- service delivery should be responsive to the changing needs of parents and families
- as the most important carers and educators of young children, and in most cases the primary provider of a developmental environment, parents should be closely engaged by an ECEC system.

These imperatives have important implications for the design of an ECEC system.

An ideal set of arrangements might be a fully integrated system of service delivery offering the full range of required services, with minimal barriers or boundaries to negotiate. At the service level, access and navigability

should be clear objectives. There should be a consistent focus on transitions and interfaces between systems and service settings, as well as flexibility within services and systems to enable services to be configured and aligned to reflect family and community needs.

Coordination and coherence is required at a broader level as well – for example, by ensuring that funding approaches for ECEC services are consistent with family payments or paid parental leave.

Parents also need to have good information to make effective decisions about the ECEC services they choose for their children. This is particularly the case where market mechanisms are employed. Regardless of the ownership structure of the service, parents have a right to rely on a system of quality assurance which provides them clear and reliable information on the quality of the service they have chosen for their child.

Finally, engagement with parents is increasingly coming to be seen as a fundamental aspect of good practice for ECEC service delivery. Given the importance of consistent, coherent nurturing environments to child development, it is critical that services have an understanding of parenting and family contexts, and that parents are empowered to participate in decision-making about their child's experiences. As an aspect of service practice, engagement with parents can be encouraged in the same way as any other element of practice, such as pedagogy or interaction with children. Under the new National Quality Framework, 'collaborative partnerships with families and communities' has been embedded as one of seven elements of the quality and regulatory framework.

## ***ECEC services should be universally accessible***

There is now clear evidence of the developmental benefits of quality ECEC programs for even young children well before school age. Data from the Effective Provision of Pre-School Education (EPPE) Project in the United Kingdom showed that children who attended good quality ECEC programs have significantly higher literacy achievements at eight years of age than children who did not attend these programs.

The evidence is even more compelling for children from disadvantaged backgrounds. Over the past 40 years longitudinal studies have repeatedly shown that the benefits of early childhood programs for disadvantaged children include higher levels of school performance, reduced need for special education, higher school completion rates, reduced welfare dependency and greater levels of employment and income.<sup>35</sup>

This evidence creates a clear policy imperative that quality ECEC services should be accessible to all Australian children.

In many ways this public priority parallels the acknowledged need to provide a high quality and universally accessible primary and secondary school education system. In relation to four-year-olds, Australian governments already acknowledge this imperative, agreeing to work towards universal access to 15 hours of preschool/kindergarten programs for all four-year-old children through the National Partnership for Early Childhood Education.

However, in contrast to school education, governments are not well placed to determine a general level of desirable participation throughout the early childhood period. The optimal level of participation will depend on an individual child's family circumstances, and reflect the quality and quantity of parenting available. As such, governments have been reluctant to establish a fixed entitlement to (or requirement for) a minimum amount of service participation other than the 15 hour target for 4 year olds. In this area, the choice should remain with the family, in contrast to the compulsory school education.

Nevertheless, government can, and we propose that it should, design a system to ensure all children and families can access the amount of ECEC services they need. By providing a high maximum level of subsidy, including covering all of the costs of a high quality service for some children, governments can ensure that all children have access to the ECEC services they need. No family should be prevented from accessing the system because of its cost.

Furthermore, access to these services should be determined on the basis of a child's needs, not the employment circumstances of their parents. This is not to deny that many parents will use ECEC services for work related purposes. Indeed that is a key point of this paper. The point being made here is that ECEC services should be judged first and foremost on the quality of their programs rather than their success as a labour market strategy.

For many ECEC services – specifically, those delivered through the child care system – access for children remains linked to their parents' workforce status. Under current arrangements, in order for children to receive Child Care Benefit for more than 24 hours in a week, their parents must be participating in employment, study or training. This requirement is appropriate for a system designed to support workforce participation; however it is not consistent with an approach that recognises the significant potential developmental benefits to a child participating in ECEC services.

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<sup>35</sup> Currie, J. (2001), 'Early childhood education programs' *Journal of Economic Perspectives*, 15(2): p. 213.

## All ECEC services should be of sufficient quality to support good developmental outcomes

There has been significant debate about the impact of participation in ECEC services upon children at various ages. While there is still a degree of ambiguity in the evidence around these impacts, it is clear that quality is a critical factor.

The Productivity Commission's inquiry report on paid parental leave<sup>36</sup> notes that the impacts of ECEC programs are largely dependent on the quality of ECEC programs relative to the quality of care in the home environment. This has two important implications. First, it suggests that services must be of high quality in order to have a remedial impact on children from a poor developmental home environment. Second, it suggests that children from positive home environments may be placed at risk by poor quality care.

Some of the most compelling evidence for the effect of quality of early education on child outcomes comes from the UK Effective Provision of Pre-School Education (EPPE) Project.

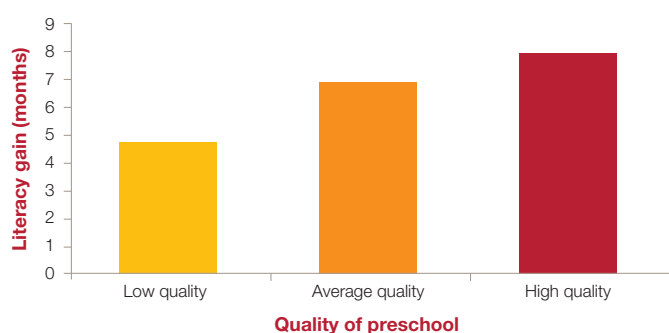
The study found that by age seven, children who had attended high quality preschools scored higher on measures of social, behavioural and cognitive development. High quality in the educational component of preschool contributed to gains in academic achievement, whereas high quality in the 'care-oriented' component of the preschool contributed to significant gains in social behavioural development.<sup>37</sup>

The figure below, also derived from the EPPE study, shows the months of literacy gain for children aged eight years who experienced different qualities of preschool education compared to those children who received no preschooling. As mentioned above, children who attended ECEC programs had substantially higher literacy results than those who did not. But it was also clear that the extent of this difference was driven by the quality of the program. Children who received a low quality preschool education improved by an average of 4.6 months in literacy compared to those children who receive no preschool. Children who received the highest quality preschooling gained a full 7.8 months of advantage over children who had received no preschooling.

Importantly, the EPPE project showed those preschools that were led by highly qualified staff and teachers had the greatest impact on outcomes.<sup>38 39 40</sup> It has been demonstrated that staff with higher qualifications tend to interact more often and more effectively with young children.<sup>41</sup> This interaction is crucial to children's development. Recent research tells us that the relationships that are established between the child and the carer are a fundamental driving force in the child's development.

These findings make it clear that the quality of ECEC services can have a significant and lasting impact. The structural determinants of quality mean that there will be cost implications for better quality services. Despite this, the evidence regarding the risks of low quality care is sufficiently compelling to make quality a key principle of an ECEC system.

### Literacy gains for different quality preschool programs at age eight years



*“Children who attended ECEC programs had higher literacy results than those who did not”*

<sup>36</sup> Productivity Commission (2009), 'Paid parental leave: Support for parents with newborn children'.

<sup>37</sup> Sylva, K., Melhuish, E., Sammons, P., Siraj-Blatchford, I., Taggart, B., and Elliot, K. (2003), The Effective Provision of Pre-School Education (EPPE) Project: Findings from the pre-school period. Institute of Education, University of London. Research Brief No: RBX 15-03.

<sup>38</sup> Ibid

<sup>39</sup> Sylva, K., Siraj-Blatchford, I., Taggart, B., Sammons, P., Melhuish, E., Elliot, K., and Totsika, V. (2006) 'Capturing quality in early childhood through environmental rating scales', *Early Childhood Research Quarterly*, 21(1): p. 76-92.

<sup>40</sup> Sylva, K., Taggart, B., Siraj-Blatchford, I., Totsika, V., Ereky-Stevens, K., Gildena, R., and Bell, D. (2007), 'Curricular quality and day-to-day learning activities in pre-school', *International Journal of Early Years Education*, 15(1): p. 49-64.

<sup>41</sup> Burchinal, M., Cryer, D., Clifford, R., and Howes, C. (2002), 'Caregiver training and classroom quality in child care centres', *Applied Developmental Science*, 6(1): p. 2-11.



# Designing an Australian ECEC system

This chapter outlines an approach to tackling the key challenges that now face Australian governments endeavouring to implement a reformed ECEC agenda which is consistent with the principles outlined in the previous chapter.

The service system envisaged by the four principles is a bold reform. Its key features include that all families should expect to be able to access a high-quality early childhood education and care system for their children in the years before school, and that cost should not be a barrier to them doing so.

In this sense their expectations should mirror those they have regarding access to the school system.

## Australia's Mixed Market

The challenges in delivering such a system are immense. Not only because the creation of an ECEC system is a major undertaking in itself, but also, and this is crucial, because we have to begin where we are. We have seen that ECEC services in Australia are provided by two separate 'mixed markets': the preschool/kindergarten sector largely consists of government provided services or non-government not-for-profit organizations, while childcare services (particularly long day care services) include a substantial for-profit component.

The mix of providers is supported by funding from a mix of private and public sources including government, for-profit and not-for-profit finances, as well as parent contributions (fees). Funds are therefore contributed to the sector for a range of reasons and to achieve different objectives.

Government policy responsibilities are also split, with the Commonwealth primarily supporting the childcare sector and the States, the preschool sector.

It is unlikely that this structural mix of services will change significantly in the near future. Commonwealth and State governments rely on the for-profit sector to provide a great deal of infrastructure within long day care and they do not appear inclined, either in a financial or policy sense, to change this approach; nor do governments that currently provide preschool services as part of their school education services show any intention of withdrawing from the sector.

This reliance on both for-profit and not-for-profit agencies is not unusual in Australia. A number of major human services sectors are administered in this way, including aged care, healthcare and Vocational Education and Training. However, this approach requires both careful design and an active role for government to use its full range of policy levers – including funding, regulating, planning and delivering services – to ensure that children and families receive high-quality services.

In short, the challenge for governments is to construct a system in which accessible, affordable and high-quality ECEC services are consistently delivered. In doing so governments will need to build on strengths of the existing system, while being open to new approaches that overcome existing inefficiencies and rigidities, particularly in the separation of childcare and preschool.

This paper considers four areas that are crucial for policymakers seeking to engage in ECEC reform:

- Mechanisms for **quality assurance**
- Approaches to providing **recurrent funding**
- **Planning and strategic management** functions

and, in the light of these,

- The level of **total investment** in the sector.

## Quality assurance

The quality of ECEC services is essential to its effectiveness. This is fundamental to an ECEC system which genuinely places the interests of the child first and which recognises that children should experience high-quality programmes, not just because they have long term benefits for society but simply in recognition of the right of the child to access services which meet their needs in the present.

However, in a mixed market the incentives for efficiency and cost reduction may compete with the goal to ensure that the services are of the best quality they can be. Furthermore the active role of parents to exercise choice on their child's behalf may be blunted by lack of information on the quality of services or an unwillingness or inability to move a child from one service to another.

This means that governments have a particular responsibility to act decisively to ensure quality. We propose two ways in which governments might act to address this issue.



We propose that governments:

*Establish and maintain strong regulatory standards and processes to assure quality and develop a high quality, professional ECEC workforce as a driver for higher quality services in the future.*

### **Establish and maintain strong regulatory standards and processes to assure quality ...**

In this area there is much good work already underway through the National Quality Framework (NQF) under the COAG process.

Australian governments are currently implementing the NQF, which constitutes an integrated, national regulation and quality improvement framework for all ECEC services. The NQF has a strong focus on quality improvement, and includes a rating system to assist parents in assessing the quality of a service. These measures attempt to provide effective information to service parents and families, and alleviate the significant information asymmetries they face relative to service providers.

The NQF is also a substantial step forward in quality assurance in ECEC. It combines the existing Commonwealth quality assurance program and the various State/Territory regulatory process into a single system. It also addresses seven aspects of a high quality service; these range from features of the physical environment to the staff/child ratios and staff qualifications, as well as the educational program and the way it is delivered through, amongst other areas, the staffs' relationships with children.

These national standards are supported for the first time by an "Early Years Learning Framework" which outlines the key outcomes of an effective early childhood program.

The initiatives of the NQF are an important step towards improving the quality of ECEC services in Australia. They are appropriate to the current context of Australian ECEC services, which show significant variation in quality, and they will be applied to both childcare and preschool/ kindergarten services.

However in light of the evidence of the importance of high quality ECEC services to achieving good developmental outcomes for children, the NQF quality standards are not ambitious. They fall short of precedents set by ECEC systems overseas in terms of the qualifications required by early childhood staff, and compare poorly with those quality standards that are taken for granted in the school education systems.

Furthermore, the implementation of the NQF is at its earliest stages. Successful implementation of the NQF will require sustained effort and collaboration, adequate resourcing of national and State agencies, and support for existing providers and communities during the transition. In addition, the State/Territory governments responsible for the ongoing implementation of the system will need to develop ways of ensuring that the decisions of the assessors

have an independence and a rigour to sustain the challenges to the assessments which they make of each service.

The National Partnership for the National Quality Agenda provides for a review of the NQF in 2014. Among other issues, the review will consider the efficiency and cost effectiveness of regulation. In addition it must include a robust assessment of its effectiveness in driving improvement in the quality of services. It is essential that this review is forward-looking and ambitious, and considers the potential for further changes to drive quality improvement.

While this regulatory approach is essential to ensure Governments have the capacity to provide direction and support for quality improvement, there is no clear evidence internationally that this approach alone will guarantee the outcomes being sought. At the very least this regulatory approach must be combined with a commitment to professionalise the workforce as another vehicle for lifting the quality of services over time.

### **... and develop a high quality, professional ECEC workforce as a driver for higher quality services in the future.**

A high-quality ECEC system will require a highly skilled, professional early childhood workforce. Indeed it could be argued that such a workforce will be the driver of the quality outcomes which the quality assurance/ regulatory system is designed to monitor. In this way the two initiatives will jointly promote quality improvement over time. However, the present levels of qualified staff required even under the new national standard remain low by international standards. Real improvement in quality in ECEC will require ongoing improvement in the numbers of qualified staff required by regulation.

While the NQF will increase the demand for qualified early childhood professionals, the long lead times mean that there is likely to be a role for government in helping to facilitate supply of appropriately qualified early childhood staff.

One issue within the existing ECEC workforce is the disparity between the preschool and child care sectors across a range of dimensions including pay, conditions, status and stability. Some of these issues may be addressed indirectly through the NQF, which will remove the gap in staff requirements between child care and preschool. Indeed if the separation of care and education is to be addressed then early childhood educators should be receiving the same pay and conditions regardless of the setting in which they are working.

Governments have already demonstrated an interest in improving the quality of the early childhood workforce. The Commonwealth is currently taking measures to increase supply, including creating additional university places for appropriate courses. State and Territory governments undertake a range of functions, including providing funding to individuals for education, training, professional development and backfill, and incentivising work and study in the profession.

Through COAG, governments are also developing a National Early Years Workforce Strategy.

There is a range of potential measures that governments should explore to facilitate labour supply, including innovative approaches to qualifications such as recognition of prior experience; creation of new career pathways that intersect with the school sector; and registration of early childhood teachers.

The registration of ECEC teachers can provide a platform for the development of a strong profession, for the specification of qualification standards and for promoting ongoing professional development as a requirement for continued registration.

Government action should focus on addressing the underlying structural causes of mismatches between supply and demand for early childhood professionals. For example, this might include understanding the drivers of low pay or poor conditions; or addressing genuine barriers to participation in education and training, such as in areas where relevant courses are unavailable.

In developing potential interventions to improve the workforce, the absence of detailed data is a significant barrier. The National Workforce Census (currently underway) will help to fill this gap. In addition, the Productivity Commission will undertake a study of the early childhood workforce commencing in 2010 and reporting October 2011. This will provide further insight into workforce aspects including the implications of integrated service delivery, the impact of alternative forms of provision, potential labour market failures, and career pathways.

*The 2014 review of the National Partnership on the National Quality Agenda for Early Childhood Development should focus the effectiveness of this approach to improving quality*

*The development of a unified national early childhood profession should include the registration of ECEC teachers as well as the establishment of entry standards and the promotion of ongoing professional development*

*The 2014 review of the National Partnership on the National Quality Agenda for Early Childhood Development should set an agenda for improved staffing standards, particularly increased requirements for qualified staff*



## Recurrent funding

Given the significant role of governments in resourcing ECEC, the mechanisms through which public funding is provided will have a profound impact on provision and participation. The primary objective of funding should be to provide universal access to high quality ECEC services, ensuring that cost is not a barrier to participation for any children or families.

The recurrent funding model should also distribute public resources equitably and efficiently, putting in place incentives that encourage the optimal level and mix of service delivery. This includes the need for government to develop a rational basis for the determination of the costs of delivering a high quality service and linking the level of funding to this model. In addition the funding model needs to be sufficiently flexible to respond to both the particular needs of individual children as well as the cost of delivering services in high cost localities.

Our proposed model is:

*Government assistance that ensures cost is not a barrier to participation, using subsidies that 'follow the child', which are linked to the cost of delivering a quality service and are available to all suppliers, through a unified funding system.*

This recurrent funding can be supplemented by other funding sources where necessary to achieve planning and market management objectives.

### Cost is not a barrier

This paper has argued previously that ECEC should be available based on the needs of the child and be driven by the choices of parents. One implication of this position is that the service should be free to those who wish to use it. Certainly such a position is consistent with the provision of other children's services such as family and child health services and primary schools which provide services at no cost. Even within the ECEC field there are services that are free of charge to all or most users – kindergartens provided by the education department in some States being one example. Whatever the final position which government would adopt on this, at the very least it can be said that affordability and accessibility are vital attributes of a system that provides universal access for Australian children.

At the same time, there is also a private benefit that accrues to the children and families who participate in ECEC – both through improved outcomes for individual children, and in enabling parents to work or undertake other pursuits. This suggests that it may be reasonable for families using ECEC services to bear some of the costs, commensurate with these private benefits.

Currently, ECEC policy settings include a range of measures to influence the amount that families in different circumstances contribute to the costs of ECEC services. These measures include the means-testing of Child

Care Benefit, and targeted subsidies to reduce costs of preschool and kindergarten programs for vulnerable or disadvantaged children. The increasing cost of child care has been well documented, with affordability to parents being maintained by increasing government subsidies (for example, Child Care Rebate). However, despite government intervention, the cost of care is still too high for some families.

There are a number of broad approaches to ensuring access under revised funding arrangements.

- One approach would be to define a minimum free service entitlement for all children and families. This entitlement could be defined on the basis of hours of service per week, and incorporate specified measures of service quality, with governments meeting the costs of the minimum entitlement, and families meeting the costs of any additional quantity or quality of service.
- Alternatively, the entitlement could be broadly defined as a 'place' within an ECEC service with governments simply meeting the costs of all ECEC services for families, regardless of the intensity of use or the type of service offered.
- Another approach would be to continue to incorporate some form of income-testing for all government subsidies, regardless of the duration or intensity of service use, as currently applies to Child Care Benefit. This approach would provide flexibility to government in influencing the costs of ECEC for families as a proportion of disposable income. An essential design feature of any income-testing approach would be to ensure that ECEC services are affordable for all families and therefore accessible for all children. For some families, this would mean that the government subsidy would cover the full cost of services, effectively creating free access.

These broad models differ in their likely impact on efficiency, equity, patterns of participation, and total cost to government. Whichever model is pursued, the objective must be to achieve an equitable balance of public and private investment, while ensuring that all children are able to participate in ECEC regardless of their family's financial circumstances.

*Public subsidies should ensure that ECEC services are affordable for all families. For some families this will mean government meeting the full cost of the service*

## *Level of subsidy linked to the cost of service delivery*

The concept of the “full cost of the service” introduced above raises the question of how such a cost is determined.

A range of funding mechanisms are currently in place for Australian ECEC services including Child Care Benefit, which provides a per-hour rate to families; Child Care Rebate, which provides a fixed proportion of consumer costs to families; and supply-side approaches that provide a fixed amount per child.

While funding mechanisms are complex and should be tailored to the specific circumstances of the market for services, one important principle of efficient funding is that funding should be linked in some way to the cost of delivery.

The potential for creating a stronger link between funding and delivery costs is significant in Australia for a number of reasons. The first of these is price. From the mid-1990s, the price of child care has increased at a higher rate than CPI. Since 2002, the price of child care increased by an average of 12 per cent per annum, relative to an annual average for all goods and services of 2.8 per cent.<sup>42</sup>

In order to maintain the proportion of public and private investment, public funding rates need to increase in response to price increases. Clearly, increases tied to CPI will not keep pace with the increases in costs to families. On the other hand, increasing public funding in line with prices may create an incentive for providers to increase prices above the cost of delivery, creating an inflationary effect. Linking funding increases to increases in the cost of delivery is therefore an appropriate basis for determining public funding rates.



This is particularly true where Government on the one hand is trying to drive up the quality of service, and therefore its cost, and at the same time manage a for-profit market where there is potential for providers to seek higher rates of return.

The second argument for linking funding to delivery costs relates to equity. For ECEC services, costs are likely to differ for children of different ages, for delivery in regional locations, and delivery to children with high needs. In the Australian child care context, observers have noted significant undersupply of high cost places – that is, places in regional or concentrated urban areas, places for younger children and places for children with special needs. Providing funding that is linked to the costs of delivering these places will help to reduce these disparities.

Some service delivery funding models reflect these costs of delivery directly. For example, in New Zealand, funding for child care is largely determined on the basis of a ‘child per hour’ rate that differs based on a number of factors, including the age of the child. These arrangements also include additional funding for small services located in isolated areas. Rates are regularly reviewed with reference to actual costs of delivery based on market conditions – not simply on fixed rates of indexation. The costs to providers of delivering ECEC services, and how costs vary in different locations and for children of different ages and needs, are not well understood. Estimating the efficient cost of delivering ECEC services, and the impact of various service characteristics on these costs, is therefore an important short term objective for governments.

*Funding rates should be linked predominantly to actual costs of delivering ECEC services to the regulated quality standards, reflecting differences based on age, location and special needs*

<sup>42</sup> Brennan, D. (2009), ‘A Strategic assessment of the children’s services industry – A paper prepared for the Children’s Services Subcommittee of the Community and Disability Services Ministers’ Advisory Council’

### ... of government assistance that 'follows the child' ...

In the complex mixed market situation, which Australia faces in ECEC, it is appropriate to query the process by which services are funded. Broadly, funding mechanisms can be grouped into those in which the funding follows the child (referred to as 'demand side' funding) and those in which the service is funded independently of its enrolments at any given point in time (supply side funding). In reality, funding models are typically a hybrid of the two, weighing the efficiency and responsiveness of demand side arrangements with the administrative simplicity and certainty of directly funding suppliers.

The current Australian model for childcare funding could best be described as demand side funding. Funding is provided to parents (either in the form of a subsidy or tax rebate) based on their purchase of services – although in practice, parents can elect to have some funding (Child Care Benefit) provided directly to the supplier.

On the other hand, in the preschool sector where for-profit services are uncommon, funding is largely provided through the supply side mechanism of funding the service on the predicted enrolments of the actual enrolments on a given census day. This supply side approach in preschools is more consistent with models in European countries which have lower levels of for-profit providers and which rely more heavily on funding the service rather than on the particular choices of the parent.

It could be argued that Governments should avoid funding for-profit organisations independently of their actual enrolments. In these situations governments usually prefer funding that is directed by parents and carers according to where they choose to place their child, thus ensuring clear accountability for public funds, and a greater transparency for government policy. In this situation, government is seeking a benefit for the child and family, and funds that benefit directly, provided that the family is using a service which meets appropriate quality standards.

In the Australian context, a further attraction of a linking funding to the attendance of the child at the service is the existence of the current Child Care Benefit funding system itself, which represents a significant system asset that could be adapted to apply to a revised model.

In theory, demand-side funding has important advantages in terms of responsiveness and efficiency. Under this model funding is directly responsive to the choices of parents, empowering them to decide the provider, location and other specifics of the ECEC services their child receives. However, this approach faces a number of important constraints in the ECEC sector. The nature of ECEC services limits the ability of parents and families to freely exercise informed choice. Parents do not experience the service directly, and the effects of good or bad quality services are not immediately apparent. Parents are therefore limited in their ability to assess the quality of ECEC services.

In addition, the upheaval associated with switching services, and the impact of locality and convenience, undermine families' efforts to exercise real choices.

Perhaps more importantly, where funding is linked to the child it can be varied to reflect the needs of the child so that children living in high cost areas or with special needs can be funded at a higher rate. Similarly, Governments may choose to achieve other policy goals, such as expanding workforce participation, by adding to the funding which follows the child and reflects the decisions of parents beyond any basic entitlement for ECEC. Once again this provides the transparency linking policy objectives to specific funding without the complication of supporting for-profit agencies with supply side funding.

The experience of growth in the Australian childcare market suggests that the current hybrid is broadly successful in matching supply and demand. Despite this, supply shortages exist, particularly for specific locations, child ages and additional needs places. In addition, the tendency of market-based systems to under-supply services to locations or families where the cost of service delivery may be higher, or the ability to pay is lower, must be acknowledged.

These constraints are not insurmountable as pointed out above. Governments can pre-empt and manage market failure by actively monitoring outcomes and intervening appropriately to achieve public objectives. Additional funding mechanisms (such as additional funding or 'loading' for higher cost services or direct 'supply-side' assistance to providers) can exist to fill gaps where demand-side funding is unlikely to attract sufficient service delivery. These options should be informed by strategic analysis of market dynamics in specific locations and for specific services under the 'Planning and Industry management' functions discussed later in this section.

*Given the mixed market in Australia, funding should be predominantly provided through subsidies to reflect parents decisions of the service of their choice, supplemented by other funding approaches where necessary to achieve planning or Government policy objectives*

### ... and is available to all suppliers ...

The diversity of ECEC providers has the potential to be a significant strength for the system, offering the capacity to deliver choice, flexibility, investment and efficiency, including variation in cost and service offering, providing a strong platform for a contemporary ECEC system.

In support of the 'mixed market' approach, public funding of ECEC services should be available to parents regardless of the ownership structure (private/public, for-profit/not-for-profit) of the service provider they choose.

Similarly, public funding should be agnostic to outmoded distinctions between 'child care' and 'early childhood education' providers. There is a clear case for 'child care' and 'early childhood education' providers both being eligible for common funding under a new ECEC system provided they meet common standards.

Current ECEC funding approaches also draw distinctions between ECEC providers on the basis of factors such as weekly hours of operation. For example, in order to be eligible for full Child Care Benefit funding, long day care providers must be open for 40 hours a week and 48 weeks a year. These aspects of services operation should more appropriately be subject to the preferences of families using the system.

In determining eligibility for public funding of ECEC services, the principal considerations should be the needs and preferences of children and families, and compliance with regulatory and quality requirements.

This paper recommends that Commonwealth and State funding be combined into a unified funding system. The principles outlined in this section lead us to the conclusion that even where an integrated funding approach does not exist, public funding should still move towards greater contestability. In practical terms this means that States should be willing to fund preschool programs operating within the broader ECEC sector yet outside their preschool systems, and that the Commonwealth should allow State-based preschool services to be eligible for Child Care Benefit and Child Care Rebate.

### A unified funding system ...

Government funding for ECEC services is currently provided through a range of different mechanisms. The Commonwealth Government provides both the means-tested Child Care Benefit and non-means-tested Child Care Rebate for approved child care services, while States and Territories generally fund kindergarten or preschool programs in the year before school. Annually, the Commonwealth provides around \$3.6 billion, with State and Territory governments contributing around \$0.8 billion. In addition, both levels of government administer associated programs such as inclusion services, professional development and service improvement.

The separation of these funding streams creates complexity and constrains the efficient allocation of funding across the breadth of ECEC services. The Henry Review of Australia's tax system noted the complexities of this system, proposing that Child Care Benefit and Child Care Rebate be combined into a single payment for each child.<sup>43</sup>

Moreover, the experience of service delivery in Australia suggests that single-funder models are preferable to multiple-funder models. The potential benefits of single-funder models include:

- more effective allocation of funding
- less complexity and administrative burden for providers
- less risk of cost-shifting between different funding sources.

A clear design feature of an Australian ECEC system should be a simplified, integrated funding system for all providers. This is not to say that all funding need be combined into a single funding stream. But it does mean that the various funding streams should be reviewed to ensure that they are compatible with each other and can be managed seamlessly by systems, minimising the administrative burden on families and services.

*Eligibility for public funding for providers should be determined on the basis of children's and families' needs, and determined principally by regulatory and quality requirements under the National Quality Framework*

<sup>43</sup> Australia's Future Tax System (2009), 'Report to the Treasurer – Detailed analysis', p. 592. Available online: [http://www.taxreview.treasury.gov.au/content/downloads/final\\_report\\_part\\_1/00\\_AFTS\\_final\\_report\\_consolidated.pdf](http://www.taxreview.treasury.gov.au/content/downloads/final_report_part_1/00_AFTS_final_report_consolidated.pdf)

Reform of these funding arrangements is likely to involve significant practical hurdles including the considerable variation in the way ECEC services are delivered across different jurisdictions. In considering an adjustment of the funding responsibilities, a good starting point would involve a broader reconsideration of the roles and responsibilities of Commonwealth and State and Territory governments in relation to ECEC. This should take into account a range of issues including:

- synergies with roles and responsibilities in other service delivery areas
- balance between local and national interests
- efficiency of policy and funding responsibilities.

COAG has agreed to the development of a National Agreement in relation to early childhood development, for its consideration in 2011. Consistent with the six other National Agreements, this will set out the policy and funding responsibilities of Australian governments, as well as outlining an agreed public accountability and reporting framework. A National Agreement provides an ideal opportunity to define the relative responsibilities of Commonwealth and State and Territory governments and end the fragmented funding arrangements for ECEC services.

*Commonwealth and State funding for child care and kindergarten – including Child Care Benefit, Child Care Rebate and State and Territory preschool funding – should be aligned under a unified ECEC funding system*

*COAG should clarify policy and funding roles and responsibilities for Australian governments in the National Agreement for Early Childhood Development*



## Planning and industry management

In the current Australian child care landscape, planning has been largely market-led, with most of the increase in service created by the for-profit sector. While this has contributed to the swift expansion of ECEC services, there is evidence that for some locations and service offerings (for example, additional needs places) this approach has failed to deliver the required services.

We therefore propose:

*A planning and industry management function, based on comprehensive data collection and analysis, that engages all levels of government according to their respective positions.*

### A planning and industry management function ...

The nature of ECEC services is such that solely market-led planning is unlikely to match supply and demand for ECEC services in all locations and for all services. Governments therefore have a clear role to play in ensuring equity of access for all children and families, and should be ultimately accountable for ensuring that ECEC services are meeting the needs of the community in relation to quality and access.

For example, ECEC services play a particularly important role in supporting Indigenous families and promoting the health and development of Indigenous children. However the factors of supply and demand associated with delivering services that engage and support Indigenous children and families are complex, and differ to those for non-Indigenous children.

More broadly, the costs of delivering different kinds of ECEC services can vary significantly – for example, the costs of providing services to younger children, or services that support children with a disability, are likely to be higher. Delivering services in areas of high land value, such as inner metropolitan areas, or in small communities where the number of service users may be small, is also likely to be higher cost. When available funding is the same for all services, a solely market-driven planning system is likely to lead to under-provision of higher cost services, and indeed there is anecdotal evidence of this in Australia's current child care market.

Governments can use a variety of tools to influence what services are delivered where. In managing other human services, one approach has been to use licensing and regulatory functions to control the number of services and government-funded places available in a particular location. However this requires complicated determination of service need that is unlikely to be responsive or flexible. The planning and industry management functions of governments should not cut across the proven ability of the market to effectively allocate services to a significant proportion of Australia's families. The growth in service

numbers through the 1990s and 2000s suggests that a market-led approach can be broadly effective in responding to changes in demand for services. In 2006, only around 6 per cent of parents of children up to four years of age reported problems with child care availability. While a small proportion, this represents a significant number of families that require a new approach, but it does also suggest that market mechanisms can be effective for a large proportion of the population.

Alternatively, governments can play an active, strategic role in managing the market, working to ensure the right incentives and information are in place to encourage the desired provision. For example, additional funding could be provided for high needs children to reflect the actual costs of delivering services. On the demand side, high needs children could be allocated a greater amount of funding or 'loading'. On the supply side, providers could receive additional funding for delivering services in high cost areas or to higher needs children; contracting or delivering specific services; or providing incentives for preferred configurations of service delivery. This approach would be similar to that of the Commonwealth's Child Care Services Support Program, which provides additional funding for the establishment and operation of child care providers in identified areas of need.

The optimal approach is therefore likely to combine the strength of market mechanisms with a 'fine-tuning' mechanism led by governments. The most appropriate role for government is likely to be three-fold, involving:

- analysis of market dynamics to identify current and future demand and supply
- strategic action to facilitate service provision in areas of inadequate supply
- facilitating integration of ECEC with other child and family services.

In the UK, local government authorities ('LAs') are responsible for ensuring 'sufficient' child care provision within their catchments. Notably, LAs are expected to fulfil their duty through facilitating and supporting the child care market using a range of strategies including business support; one-off or ongoing funding support; and developing and disseminating information. While the general effectiveness of this approach has reflected the uneven capabilities of LAs, there are some examples of excellent practice that could be applicable in the Australian context.

Finally, it is well acknowledged that ECEC services need to have an appropriate interface with the broader range of services that children and families use. For example, in some cases, integration of these services, including co-location, can yield significant social benefits and may not occur autonomously. There is therefore an important role for government in facilitating appropriate integration of child and family services regardless of who directly provides them.



### ... based on comprehensive data collection and analysis ...

Sophisticated data collection and analysis will be a critical element of the planning and market management function. Data collection should be aligned with a framework that encompasses data relating to children's outcomes as well as service delivery data.

Currently, there is insufficient data collection and analysis in relation to service delivery at the local level. For example, the Commonwealth publishes child care supply and demand data at the aggregated national level; but this does not provide sufficient specificity to understand the local dynamics of ECEC services. Better information on supply and demand could include analysis of prices, trends, projections and locally specific factors. For example, in the UK some authorities have developed sophisticated models of demand and supply that take into account local residential layouts and road systems and their impact on patterns of usage.

This kind of information will serve two important functions. Firstly, it will enable service providers to be more responsive to emerging patterns of demand. Secondly, it will inform the actions of governments, at both the system-wide and the local level. At a system-wide level, market information can indicate to what extent services are meeting the needs of children and families. This information can drive modifications to the design of key features of the system, such as the configurations of public subsidies; regulatory settings; or extent of government intervention. At a local level, service delivery information can guide targeted strategic interventions, for example by identifying particular areas of insufficient supply.

Consistent with a broad focus on effectiveness and accessibility, data collection, reporting and analysis should align with key principles for ECEC services:

- that the interests of the child are paramount
- that parents have the primary responsibility in their child's development
- that ECEC services should be universally accessible
- that services should be of sufficient quality to deliver good developmental outcomes.

There are number of existing practices that provide a strong starting point for this level of data collection. National data collections, for example those undertaken by the Australian Bureau of Statistics, already produce information that may be utilised by governments. In relation to child development outcomes, the Australian Early Development Index provides high level descriptions of the percentage of children in a given local area who are developmentally vulnerable, based on a comprehensive range of measures. Other available child outcome measures include the headline indicators which have been adopted by all States and Territories and the Commonwealth to describe children's development.

### ... that engages all levels of government according to their respective positions.

All levels of government need to be engaged in this planning process.

Through its central funding role, the Commonwealth is well-placed to undertake system-wide analysis of supply and demand patterns and provide high-level information to providers and families. This is consistent with its current functions, such as the MyChild website.

State, Territory and local governments are well-positioned to understand local level market dynamics, and design appropriate local level interventions. An appropriate function for local government is planning local infrastructure developments for ECEC services, particularly in relation to 'greenfields' developments or public infrastructure projects. Local government should also play an important role in data collection and reporting to inform planning and industry management decisions.

All of these roles should feed into the determination of planning-related engagements with the industry. An integrated approach to planning that captures all of this input is likely to be necessary. The national governance model adopted for the NQF may provide a platform for such an approach.

*Government should influence service delivery through active strategic interventions informed by rigorous analysis of outcomes at local and macro levels*

## Total sector investment

Expanding access to high quality ECEC services that meet the needs of children and families will require substantial ongoing investment. Demand for new ECEC services and the facilities in which they are delivered will continue to grow, driven by new patterns of population growth, increasing workforce participation and progressive replacement of outmoded facilities. In addition, the implementation of the NQF is likely to increase these costs as it increases the costs to providers of delivering the services. Analysis undertaken during the development of the NQF suggests that the NQF will increase costs by between \$1.2 and \$2.1 billion over the next 10 years.<sup>44</sup>

In the context of a mixed market, a blend of private and public investment will continue to be needed to expand access to high quality, affordable ECEC services. Securing this investment will be a significant challenge, but essential to success. Even with the right configuration of providers, funding instruments and quality arrangements, a system without sufficient investment will not lead to the desired outcomes.

One approach would be simply to dramatically increase public investment. Government assistance for ECEC services already represents a substantial public investment, with total government expenditure exceeding \$4.4 billion annually. Nevertheless, there is a case for additional public investment to ensure this level reflects the public value of ECEC services. It is also important to note that in order for governments to simply maintain their current proportion of costs, their level of investment will have to rise as total system costs increase.

One crude measure of the appropriateness of existing public funding is to benchmark Australia against other jurisdictions. UNICEF has established a benchmark of 1.0 per cent of GDP as a minimum level of public spending on ECEC among OECD countries. In 2002-03, Australia's spending was around 0.45 per cent of GDP. This is a relatively crude measure which excludes expenditure on cash transfers to parents, however it provides some broad evidence that there is scope for more targeted public investment in early childhood.

Equity must be key when considering the contribution of governments to ECEC services. For example, allocating additional subsidies to ECEC will disproportionately benefit those children and families who use those services more. Any additional investment therefore needs to consider economy-wide welfare implications, and employ mechanisms that ensure a fair sharing of the costs and benefits of ECEC services between governments and system users.

Clearly, the case for greater public investment will be constrained by the multitude of interests competing for public funding as well as the prevailing environment of fiscal constraint. Another approach would be to increase the share of costs paid by system users through lowering government subsidies and reinvesting any savings. However, any significant adjustment of the balance between the user and government share of costs would be likely to generate affordability problems and create barriers to access.

A further and potentially more promising approach is to pursue greater participation of private investors and lenders in the ECEC system. In particular, there may be scope to test creative models of infrastructure funding that improve incentives for private investment. Over the last two decades, the growth of the child care market has seen significant increases in private investment in ECEC, led by the increase in private provision, particularly for-profit provision. More recently however, a number of barriers to private investment have emerged, with many private operators reporting greater difficulties in obtaining finance, associated with a perceived increased risk of ECEC providers. Given these circumstances, there may be a case for restructuring government capital investment to focus on leveraging private investment in a way that is aligned with governments' ECEC objectives.

*Total government investment in ECEC should increase to reflect the public value of early childhood development*

<sup>44</sup> Access Economics (2009), 'An economic analysis of the proposed ECEC National Quality Agenda'. Available online: [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2009-07-02/docs/National\\_Quality\\_Agenda.pdf](http://www.coag.gov.au/coag_meeting_outcomes/2009-07-02/docs/National_Quality_Agenda.pdf)

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# Early Childhood Thought Leadership Participants

*PwC takes full responsibility for the ideas expressed in this paper, which have been distilled from the range of opinions and views expressed by the thought leadership group members.*

*Participants were invited to join the group on the basis of their expertise rather than as representatives of particular interest groups or government departments. All discussions were conducted under the **Chatham House Rule**, and the views contained in the paper should not be interpreted as being endorsed by either the individuals who participated or by their agencies.*

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In addition, PwC would like to thank staff of the Commonwealth Department of Employment, Education and Workplace Relations who provided advice at various points in the preparation of the paper.

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