Supplementary information from ELACCA for the Productivity Commission's Inquiry into Early Childhood Education and Care

This paper builds on ELACCA's February 2024 submission to the Productivity Commission's Inquiry into Early Childhood Education and Care, and ELACCA's 19 March 2024 attendance at a Public Hearing of the Productivity Commission.

About ELACCA

The Early Learning and Care Council of Australia (ELACCA) was established to promote the value of quality early learning and care as an integral part of Australia's education system. Our 18 CEO members include some of the largest early learning providers in the country, representing both not-for-profit and for-profit services.

ELACCA members operate 1,984 long day early learning services, 310 preschool/kindergarten services and 92 OSHC services, covering every state and territory. They offer one-quarter of all the early learning places in Australia. Together, our members serve 369,776 children and their families, and employ more than 56,708 staff.

As well as promoting the value of quality early learning and the need for greater public investment, ELACCA advocates for the right of all children to access quality early learning and care, particularly children facing disadvantage. We do this by drawing on the knowledge and practical experience of our members and representing their views to decision makers in government, the media and the public.

Overview and purpose of paper

This paper addresses the following issues, and provides clarification sought by the Productivity Commission at ELACCA's Public Hearing:

- Possible future funding reform
  - Concerns regarding a possible flat-fee model, such as $10 a day
  - Higher cost of delivery for children under three years of age
  - Concerns regarding cost-based methodology
  - Mechanism for wages supplement
- Nationally consistent approach to preschool
- Workforce uplift initiatives
  - Practical advice for supporting workforce upskilling programs
  - Enrolment information for University of Wollongong ITE Boost program
- Inclusion support
  - Building capacity in the workforce, and streamlining inclusion in the early years

Possible future funding reform

As indicated in our submission (p34-36), ELACCA supports continuation of the demand-side funding model for the early learning and care sector. We support additional supply-side supplementary funding that directly targets policy goals around equity, inclusion and quality – which we are hopeful will soon include a component of wages funding for our workforce.

Concerns regarding a possible $10 a day flat-fee model

ELACCA is concerned about possible adoption of a flat-fee model, such as the $10 a day early learning and care commitment in Canada. In our submission to the Productivity Commission, we recommend rejecting consideration of a flat-fee, supply-side funding model. We noted that a model similar to the Canadian model does not translate well to an Australian context and would have significant unintended, perverse impacts, particularly around families' access to services and the quality of early learning and care for children.

While we appreciate the temptation to introduce apparent simplicity through a low, flat-fee commitment for early learning and care, we urge the Productivity Commission to consider the substantial risks. This model is regressive and will result in higher income families receiving significantly higher benefits than lower-income families.

We firmly believe that this is a model not well-suited to the Australian environment where we operate under a National Quality Framework, with required standards, workforce qualifications and ratios. This is a world-leading quality framework and one we should seek to maintain and build upon, rather than water down.

The $10 a day model has had serious issues in implementation in Quebec, and these issues, including to access (supply of places) and quality (use of unqualified staff), should be considered very deeply. A two-tiered system where families choose between an available place in a lower-quality service, versus facing a long waiting list in a high-quality service would be a perverse outcome and one that is currently being experienced in Quebec. A two-tiered system that favours higher income families is particularly problematic. Lower income families are under-represented in high-quality centres in Quebec.[1]

Labour costs is one of the primary levers providers can apply to reduce the cost of delivery, and lower investment in workforce is likely to drive down quality. Further, our mixed market in Australia is responsive and agile to need, with a greater capacity to respond to increased demand for places.

As articulated in the sections below, costs also vary considerably in relation to location, cohort and occupancy across services, making a flat-fee unviable in a market as diverse as Australia.

[1] E. Dhuey, '3 years after Canada's landmark investment in child care, 3 priorities all levels of government should heed', *The Conversation*, 4 April 2024

Higher cost of delivery for children under three years of age

The higher cost of delivery for children under three years of age needs to be considered and addressed in any funding reform.

ELACCA notes the ACCC finding that, while services for children birth to three years of age cost more (labour costs due to very necessary ratios, and materials including nappies), the fees for this age group generally do not reflect the full extent of the higher costs of delivery.

Further, we are currently seeing state and territory governments increasingly intervening in the market, drawing three- to five-year-old children to school-based settings and redirecting funding out of long day settings. This presents:

- a significant risk to the continued delivery of high-quality preschool programs in long day settings
- risks families with younger children incurring higher fees as the CCS hourly rate cap does not reflect the higher cost of delivery for birth to three-year-olds
- additional challenges in maintaining valued workforce, as they may drift to other settings.

Mechanism for wages supplement

ELACCA remains hopeful of positive outcomes from the Multi-Employer Bargaining process currently underway. Should the Australian Government invest in a wages supplement for our sector, an auditable mechanism for delivering this funding must be introduced.

ELACCA supports a supply-side mechanism where wages funding flows directly to the workforce. ELACCA does not support the use of the CCS as an appropriate mechanism to deliver a wages supplement. The CCS is not an efficient or effective measure for delivering a wages supplement – and fundamentally, the CCS is linked to families, not providers.

Risks of using the CCS to deliver a wages supplement would be difficult to mitigate, including:

- Increasing the complexity of the CCS – not all providers/employers under the CCS are likely to be eligible for the wages supplement (for example, Outside School Hours Care providers)
- Lack of oversight that the wage supplement had been passed on to the employee in full.

ELACCA recommends that the Productivity Commission and/or Commonwealth Department of Education liaise with the Australian Taxation Office as a matter of priority to determine a more optimal mechanism for delivering a wages supplement.

Concerns regarding cost-based methodology

ELACCA rejects an average efficient cost methodology – or any cost-based methodology – for calculating the hourly rate cap for the following reasons:

1. There is significant complexity and expense in deriving an accurate or meaningful estimation of the cost of delivery (across different operating contexts). There is a high risk of unintended negative consequences for families and government/s.

2. An average efficient cost does not recognise or reflect the significant cost variability across the early learning and care sector, including by location or age or by occupancy level.
3. Efficient cost approaches in human service delivery can be a disincentive to investments in quality, inclusion or supply in higher cost markets.
4. Reducing the hourly rate cap to an 'average' will result in many families having higher out of pocket costs.

Importantly, there is no strong rationale for change – the ACCC inquiry didn't find any evidence of widespread profiteering or excessive fees in the sector.

ELACCA recommends maintaining the existing fee-based methodology as an effective mechanism for determining the hourly rate cap, noting the ACCC found that fees have risen slower than costs over the last five years and that margins have reduced. The current price-based methodology ensures Government is not subsidising excessive fees by design in that the top 5% of fees are excluded and subsidy is established reflecting the 85th percentile of fees.

As noted in our February 2024 submission to the Productivity Commission, ELACCA recommends the price-based hourly rate cap be reset. The HRC has been losing value over time as a result of indexation substantially lower than actual cost increases, as found by the ACCC.

1. **There is significant complexity and expense in deriving an accurate or meaningful estimation of the cost of delivery (across different operating contexts). There is a high risk of unintended negative consequences for families and governments.**

Determining an 'efficient cost' in a highly dispersed market – as is the case for early learning and care – would be complex and costly for both government and providers. The data infrastructure does not currently exist. The sector has relatively low data maturity and limited experience in extracting and reporting the level of data required for such an exercise, as evidenced through the recent ACCC Inquiry into the Price of Childcare.

In addition, there are numerous unavoidable cost variations at the service level (including geographic location, regulatory differences, occupancy rates, labour mix, session lengths) that would need to be addressed through a cost-based approach. Loadings and/or weightings to accommodate these would add to the complexity for governments and providers in designing and implementing a cost-based approach, and for families to understand their entitlement. If these factors are not considered, there is a high risk that many services will not be able to deliver at the efficient cost, resulting in significant viability risks with the potential to constrain supply of services.

If a cost-based approach was adopted, an independent pricing body, separate from any ECEC Commission (if established), would need to be created to determine an efficient price. The data recently collected by the ACCC from large providers is not representative of the sector, fit-for-purpose or sufficient for this use case, as acknowledged by the ACCC. An independent pricing authority would require significant additional government investment and substantially increase regulatory and administrative costs for the sector, with little to no perceived benefit compared to the already established price-based mechanism.

2. An average efficient cost approach does not recognise or reflect cost variability across the sector

An average efficient cost does not recognise cost variability (by location, age mix or qualification ratios), particularly across more than 4,500 providers with over 9,000 services in a country as geographically dispersed as Australia.

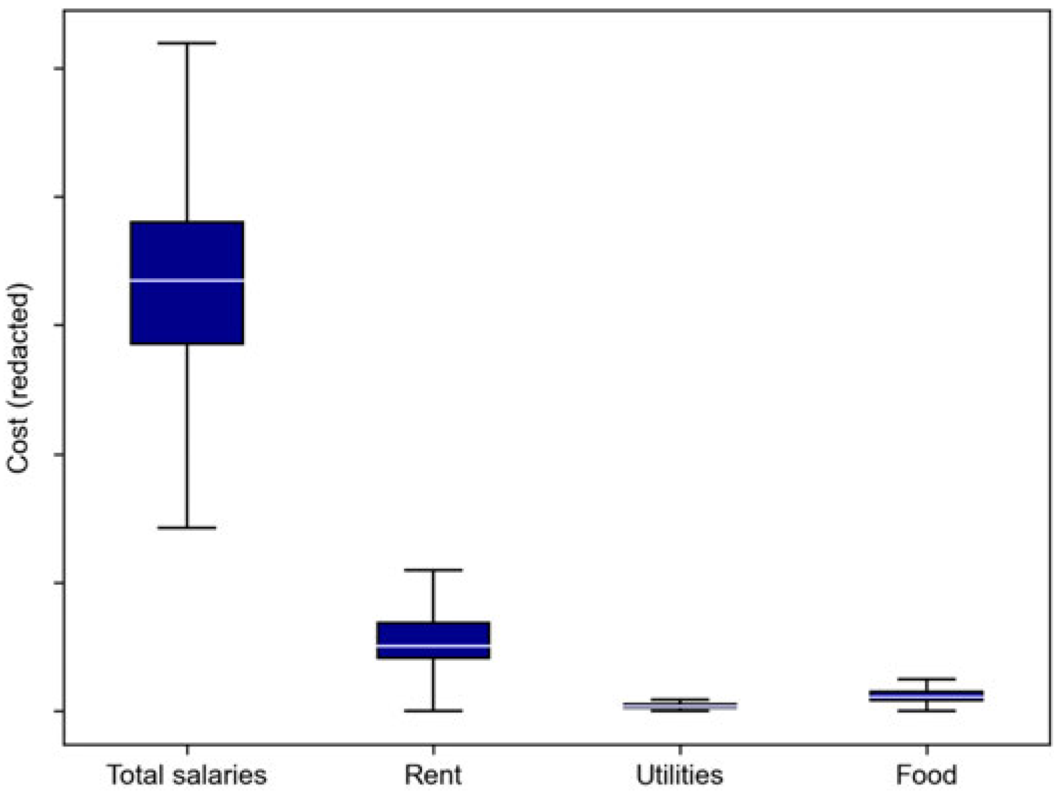
ELACCA has leveraged our internally-held member dataset used to inform our ACCC response to demonstrate significant cost variation across ELACCA services.

Variability in fees is likely explained due to cost variability at service level.

Chart 1 (below) demonstrates variation across core cost categories for a sample of ELACCA members.

Costs per configured place per week vary greatly, with large standard deviations and considerable ranges (both interquartile range and range between maximum and minimum). There are both significant outliers in terms of cost, and a substantial version between the 25th and 75th percentile.

Chart 1: Cost per configured place per week across core categories[2]



[2] Cost per child per week was calculated on costs for December 2022, divided by number of configured places and 4 weeks. Outliers were removed: services with negative values for costs, less than 52 weeks open and services with number of licensed places that are zero or missing. Box-and-whisker plots show the box made of the 25th and 75th percentile, with the median (50th percentile) as the middle line of the box, and the whiskers are 1.5 times the interquartile range above the 75th or below the 25th percentile.

Costs per hour fluctuate substantially based on occupancy rates

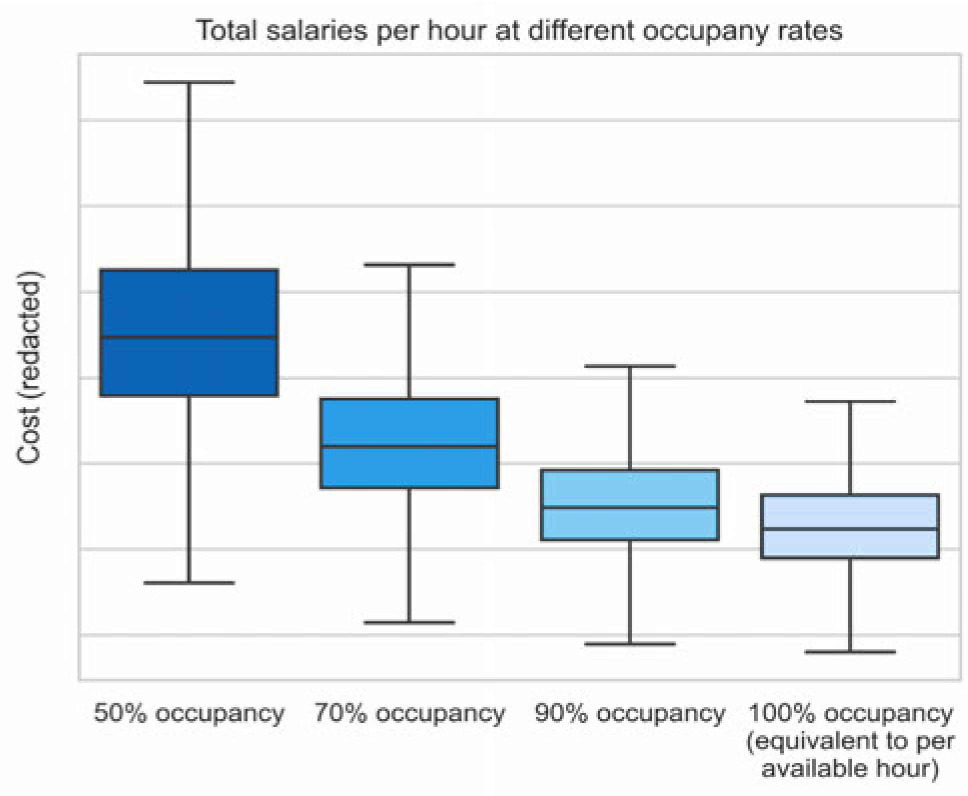
In our sector, occupancy rates greatly impact labour costs to deliver early learning and care. Variable costs are a relatively small proportion of total costs in early learning and care, and this means lower occupancy will increase per-child costs. The high proportion of fixed costs is due to ratio requirements, property costs and other rigidities in labour demand and supply.

When comparing four hypothetical occupancy scenarios of 50%, 70%, 90% and 100% of configured places being occupied, median labour costs per hour increase as occupancy rates decrease, with considerable variance across the distribution at each occupancy rate.[3]

Total salaries (in Chart 2 below) includes head office and other non-contact staff. Primary contact staff (Chart 3 on following page) are staff in direct contact roles, including early childhood teachers and educators.

Both charts demonstrate the significant variation in costs, particularly at the lower (70%) hypothetical occupancy rate.

Chart 2

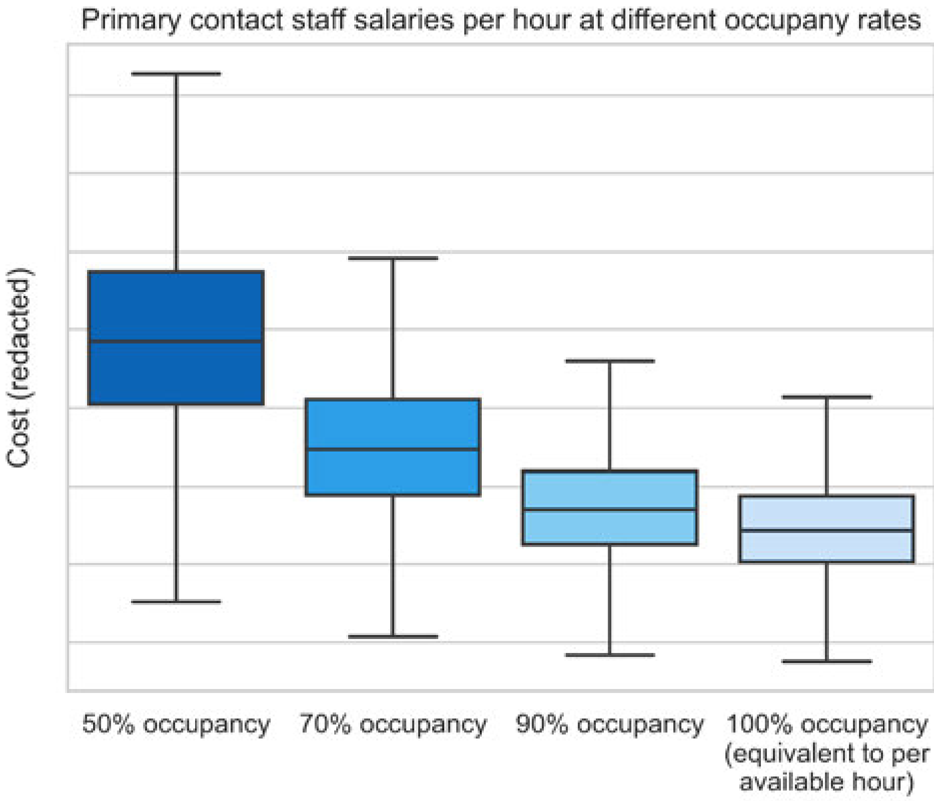


[3] Data was not available on actual occupancy rates per service, so costs per hour were calculated for 4 different hypothetical occupancy rates in the following way:

1. Calculate available hours of childcare for each month in 2022: number of configured places X hours open per day X business days for a given month
2. Calculate hours occupied under 3 hypothetical occupancy rate scenarios of 50, 70 and 90%: available hours X hypothetical occupancy rate
3. Consider available hours as the hypothetical of 100% occupancy and calculate costs per hour for the 4 scenarios: actual monthly cost / (available hours OR hour occupied)

Final sample size was 10,326 monthly cost observations across 893 long daycare services in 2022.

Chart 3



3. Efficient cost approaches in human service delivery can be a disincentive to investments in quality, inclusion or supply in higher cost markets.

Defining what is an efficient cost (and what is inefficient) is highly complex in human services, particularly in a mixed market. Considerations include:

- What is an 'efficient' labour cost? Higher wage costs generally represent higher quality and inclusion.
- What is an 'efficient' finance cost? Some providers operate with very high finance costs in order to invest in expanded supply.
- How much enhanced investment in quality and inclusion would be considered 'efficient'?
- How much profit or surplus is 'efficient'? The new aged care efficient pricing model for example includes no allowance for margin to contribute to surplus, which is necessary in our sector for sustainability.

An average efficient cost could disincentivise provision in some markets or inclusion of some children. The ACCC found there are higher costs of delivery in low socio-economic (low SEIFA) locations and for certain cohorts of children, including Aboriginal and Torres Strait Islander children and children with a disability. An average efficient cost that did not take this into account would disincentivise providers from offering places to some children or from operating in some contexts.

4. **Instead, the existing price-based methodology should be reset to reflect actual costs of delivery**

As indicated in our submission, we recommend the existing price-based methodology be retained because:

- It is an established and effective methodology.
- The ACCC did not find any evidence on widespread profiteering or excessive fees.
- Local market competition is effective as an indirect price control, with the ACCC finding that fees within local markets are more tightly grouped together.
- Average cost data takes time to collect and is rarely contemporary, as opposed to the Department collecting average fee data almost immediately, so the fee cap remains current.
- The ACCC has found that fees have risen slower than costs over the last five years, and that margins have reduced.

As recommended by the ACCC, the price-based hourly rate cap should be reset to reflect that costs have increased faster than CPI since the hourly rate cap was introduced in 2018. Further, as recommended by the ACCC, indexation should more closely reflect actual costs.

Nationally consistent approach to preschool

ELACCA advocates that preschool programs should be affordable, high-quality, and delivered by a qualified early childhood teacher.

We support a nationally consistent approach that includes:

- two years of funded preschool programs in the years before school, in the setting that best suits the child and their family.
- access to preschool programs available to children for up to five days a week –particularly for children and families who are facing vulnerability or disadvantage.
- funding that follows the child to their preschool program, regardless (and without preference) of the setting.

Preschool funding and provision should be governed by a National Agreement between the Australian and State and Territory Governments, and should provide long-term funding certainty, a commitment to the National Quality Framework, National Law and improved nationally consistent regulations with clear roles and responsibilities agreed for policy, operation and funding.

ELACCA notes infrastructure and staffing challenges in the sector, and that a staged approach to the provision of nationally consistent preschool programs will be a required.

All states and territories should accept early childhood teacher qualifications as determined by the Australian Children's Education and Care Quality Authority (ACECQA).

Workforce uplift initiatives

Practical support for educators participating in upskilling programs.

ELACCA supports investment that enables educators the best possible chance for success in their studies, and upon entering the profession. In our submission to the Productivity Commission, we reference successful initiatives we have co-designed with Australian universities, including:

- **ITE Boost**, an upskilling program to support student retention and completion of an accelerated initial teacher education (ITE) course. We are currently partnering with the University of Wollongong (UoW) to deliver ITE Boost to our inaugural 2023 intake.
  The Queensland Government is supporting an ITE Boost Queensland program, under its Qualifications Pathways Program, to commence in 2024.
- **From the Ground Up**, a program strengthening and extending the leadership skills of early childhood educators around Australia. From the Ground Up is designed to build the knowledge and confidence of current and emerging leaders. Co-designed and co-delivered with Queensland University of Technology (QUT), we have over 200 educators who have successfully completed this program to date.

To ensure that educators are best prepared to enter and succeed in the profession, courses that are co-designed and co-delivered via robust and genuine university-sector partnerships are strongly advocated by ELACCA. Ongoing monitoring and feedback of the course – from both the sector and the university – is necessary to inform and refine future delivery and support mechanisms.

In addition, the following practical support helps set educators up to succeed in their studies:

- Targeted, wrap-around support, including system navigation assistance to negotiate the tertiary environment (particularly for educators who may not have previously undertaken formal study at a university)
- Online and asynchronous delivery, to ensure that the enrolled educator can access the learning program while they continue working
- Opportunities for collaborative learning (face-to-face) and to form communities of practice
- Mentoring and coaching– these are imperative but we note current workforce shortages make providing and covering mentors a significant challenge.
- Dedicated time off the floor / study breaks

A robust and carefully designed induction program for educators, educational leaders and early childhood teachers upon completion of their studies is important for their transition into the profession.

Professional development opportunities and best practice

More generally, regular opportunities for professional development should be a feature of workforce development. Professional development should be flexible and accessible, informed by interest and beneficial to both the employee and service provider. Staff attending professional development outside of regular work hours (including evenings and on weekends) should be paid for their time.

ELACCA advocates that professional development is most beneficial when it features:

- Opportunity to learn as a whole team to have the greatest impact on practice

- Contextually appropriate and aligns with centre's vision
- Sustained learning with opportunity to test and embed learnings into workplace
- Action research as an important learning and development tool.

Mandatory training is vital in early learning settings, and is necessary for legislative compliance and workplace/child safety – mandatory training eg anaphylaxis and first aid, should not be counted as professional development.

Enrolment information for University of Wollongong ITE Boost program

In the University of Wollongong ITE Boost degree, there are approximately 72 enrolled educators who work in ELACCA member-run services. These comprise around a third of the ITE Boost cohort, with approximately 210 educators enrolled in inaugural Bachelor of Education – The Early Years accelerated degree at the University of Wollongong.

Table 1 below shows the geographical spread of enrolled educators from ELACCA member organisations across different states.

Table 1 Enrolled educators from ELACCA members by location (state/territory)

State	No. enrolled educators
New South Wales	51
Queensland	12
Western Australia	6
Victoria	2
South Australia	1

The bulk of our enrolled educators live in major cities, but we are pleased to have enrolled educators who are living in inner and outer regional locations, and remote locations.

The design and delivery of the course seeks to enable participation and success regardless of where you live, and to ensure access to a quality early childhood education degree in even the most remote corners of the country.

Inclusion

Building capacity in the workforce and streamlining inclusion

ELACCA supports a system where early childhood intervention services are delivered in a child's natural environment and through child- and family-centred practices. Early learning and care services are a comfortable, familiar space for young children to receive therapeutic and other allied health support and services.

As the universal platform, or back-bone, for children in their early years, early learning and care services should be supported by governments to embed a systemic approach to equitable access and outcomes through inclusion, and implementing recommendations in the NDIS Review.

Ensuring optimal inclusion support in early learning and care settings requires adequate and targeted investment in our workforce, to:

- build service / community-level inclusion capacity and capability, supported by appropriately resourced Inclusion Agencies
- improve the additional educator subsidy to deliver universal access to early learning and care and the NDIS review. Additional educators must be funded for their expertise and experience, at least to a Diploma-qualified level, (as advocated in our previous submission to the Productivity Commission)
- equip teachers and educators with the skills to refer or provide necessary supports for children with identified additional needs (with and without diagnoses) to ensure all children experience the full benefits of early learning and care
- develop and implement workforce strategies for early intervention and allied health to complement other existing early learning and care workforce strategies (including *Shaping our Future)*
- support the sector to work with training providers and universities to ensure the best practice guidelines for early childhood early intervention model is an essential part of their curriculum
- provide regular training for early learning and care staff in best practice for early intervention
- offer incentives to study in allied health and early childhood teaching professions, noting shortages in both sectors.

Governments must ensure that all early childhood education services have *ongoing* capacity building funding to support inclusion. Capacity building is particularly important in this period of transition of NDIS arrangements, to ensure services can provide targeted management strategies for individual children and families, that are connected to local services. Building relationships and understanding the role and expertise of local allied health professionals and services, including early childhood invention specialists, in an important cog in the capacity-building process.

The experience of children and families currently accessing or seeking to access early intervention and inclusion support can be confusing, delayed and disparate. This results in children who may vitally need support missing out at the most crucial time in their development.

Families and carers are often faced with a complex, disconnected network of services, with multiple application processes and funding streams before they can even access early intervention supports. System navigation support of both the early learning and care system and the NDIS should be funded and readily available to families to ensure they understand and can access required support.

A streamlined approach to inclusion should include:

- a ‘no wrong door’ approach rather than a single entry point to the system
- simplified funding applications, removing any burden on families and service providers to unnecessarily re-apply for funding entitlements, particularly where circumstances remain unchanged
- joined-up funding and navigation system where a family should not be required to ‘tell the story’ of their child across multiple or varied settings
- a nationally consistent approach to funding and policy, built on evidence-based best practice.

Best practice recognises that children learn and develop in natural, everyday settings.

This includes their own home, and other places, such as childcare, playgroup, kindergarten or preschool, where they play with family or friends. This means the adults they are with need information, tools and support to help the child’s development and participation.

Being included in these everyday activities gives children with developmental delay or disability the same opportunities as all children.

It provides them with opportunities to develop friendships, interact with others and be a part of their community.

Best practice not only takes into account broad early childhood intervention research, but also evidence relating to the needs of children with a specific diagnosis, such as autism spectrum disorder or cerebral palsy.

(Source: NDIS Guidelines https://ourguidelines.ndis.gov.au/early-childhood/early-childhood-approach/what-early-childhood-intervention, accessed 2 April 2024)

Thank you for considering this paper.

For further information, or clarification, please contact Elizabeth Death, Chief Executive Officer, or Sally Maddison, Policy Manager