

A path to universal early childhood education and care

South Australian Government submission to the Productivity Commission
– March 2024

Summary statement

The South Australian Government welcomes the Productivity Commission's draft report on its inquiry into early childhood education and care (ECEC) and the opportunity to provide input to the inquiry.

ECEC in Australia performs two very important functions in supporting a fair and prosperous society. First, quality ECEC is part of supporting the learning, development and wellbeing of children in their most formative years. Second, it supports parents' and carers' workforce participation – which in turn supports families, communities and the economy as a whole.

Historically, the Australian Government has focused more on the latter and state and territory governments the former. This has produced an incoherent market design, which does not consistently achieve the agreed outcomes of affordability, accessibility, equity, inclusion and quality. Many children and parents miss out on this essential service or cannot access or afford the hours or quality of service they need to make a real difference to their lives.

This history of fragmentation in purposes and design also means that governments do not currently have at their disposal the suite of stewarding settings – including funding settings – required to move to a new, higher performing model. The Productivity Commission's draft report, along with the work of the Australian Competition and Consumer Commission, is a very significant contribution to making the case for and defining those future settings. The South Australian Government would encourage the Productivity Commission to consider going further and deeper its final recommendations in a range of ways (set out in this submission). This would support the Australian Government, in collaboration with state and territory governments, to do the critical but complex work that is to follow.

As part of this work, there is an opportunity to create significantly more equitable outcomes across the nation. This includes the removal of the activity test, a focus on Aboriginal self-determination and services, the introduction of better support for equity and inclusion, the move to a universal entitlement to 2 years of teacher-led preschool programs for all children, and an end to federal funding inequities affecting states and territories. Of particular relevance to South Australia is the way in which the current funding mechanism results in a vastly inequitable distribution of Australian Government funding across the nation depending on the way in which jurisdictions deliver education and care services to children in their year before school.

Through National Cabinet, all governments have recognised the necessity of supporting children's education and development outcomes and parents' workforce participation through ECEC supported by a strong and sustainable workforce. This underpins National Cabinet's call for a National Vision for ECEC to provide long-term direction to achieve a quality, accessible, affordable and equitable ECEC system.

The South Australian Government welcomes the National Vision and the Productivity Commission's inquiry as a pivotal moment for the ECEC sector and the way in which the sector is funded. The terms of reference provide scope for the Productivity Commission to identify a pathway for all governments to negotiate a new national settlement of roles and responsibilities in the ECEC sector, and a new funding partnership.

In policy terms, this is a once-in-a-generation opportunity to make a significant shift away from an at-least-partially incoherent market design to a fit-for-purpose design that serves all children and families, and from an offer driven largely by demand-side



voucher where many outcomes are left to market forces to a system with a full suite of stewarding levers, roles and responsibilities.

The draft report's recommendations provide a sound basis for reform. The South Australian Government particularly welcomes the draft recommendations concerning the availability and affordability of 30 hours (or 3 days) of quality ECEC per week for all children, including the recognition of there being a need to relax or abolish the activity test. We do, however, suggest there is scope for the Productivity Commission to venture even further down the pathway towards a new national settlement, by identifying a possible Australian Government funding structure for the ECEC sector which is child-centric and sector-blind, and includes funding streams aligned to policy objectives.

The South Australian Government invites the Productivity Commission, in its final report, to:

- consider potential models for a fundamental funding reform that would ensure that Australian Government funding to the ECEC sector (with preschool as an integral part of the system) is child-focused, needs-based, and sector-neutral
- increase the minimum national preschool entitlement for all children to 2 years before full-time schooling, supported by state and Australian Government investment
- consider how the Australian Government can provide greater support for equity and excellence in ECEC to ensure the sector is equipped to provide equitable learning opportunities for all children
- address how the Australian Government in its lead role can work with states and territories to service persistently thin markets, including specific models of supply-side funding
- consider and suggest supply-side funding models to attract and retain a quality and thriving ECEC workforce
- consider Australian Government investment in integrated services across the whole spectrum of community need.

Other areas of further inquiry should include:

- recommending models of funding for preschool out of hours care on government preschool sites
- exploring ways to support the ECEC sector, should further data collection requirements result through supporting the role of a national steward
- recommending that governments urgently commence a negotiation for reform to the national split of roles and responsibilities in the ECEC sector that has regard for its evolution and that ensures fiscal sustainability and accountability, and that the Commission provide options to support these negotiations.

Finally, the South Australian Government notes the need for any final recommendations to reflect the needs identified in the National Vision for ECEC so as to provide a considered and thoughtful pathway to a supported and truly universal ECEC system in Australia.

South Australian context

In October 2022, the South Australian Government launched a Royal Commission into Early Childhood Education and Care in South Australia (Royal Commission) to examine and report on how the state's ECEC services can support young South Australians to have a quality start to their education, regardless of social background.

[The Royal Commission's Final Report](#), handed down in August 2023, provides 43 recommendations and a roadmap for:

- a universal but not uniform system that means help gets where it is needed, from birth through to the school years
- higher quality early childhood and out of school hours services, irrespective of postcode or who is providing the service

- a long-term vision for South Australia to be a nation leader in early childhood development, bringing together best practice, research and data.

Many of the recommendations set out in the Productivity Commission's draft report are consistent with recommendations contained in the report of the Royal Commission and the South Australian Government welcomes these as, if implemented by the Australian Government, they will align with South Australia's ECEC reform program.

South Australia also published its ['Early Learning Strategy 2021-2031: All children thriving and learning'](#) articulates children's right to high-quality educational preschool programs that support their learning and development in their local government preschool.

Recommendations for immediate action

FUNDAMENTAL FUNDING REFORM

We welcome the Productivity Commission's proposals to relax the activity test and reform the Child Care Subsidy (CCS) in terms of affordability for lower income families. We encourage the Productivity Commission to further consider the abolition of the activity test for all families, or alternatively, abolition for families experiencing vulnerability and disadvantage, and for Aboriginal and Torres Strait Islander families.

We also welcome the Commission's commitment to further investigate the implications of a broader funding reform in the ECEC for children, families, service providers and governments, including the benefits and costs of expanding the use of supply-side funding mechanisms (information request 9.1).

In addition to the further exploration of the above issues, the South Australian Government encourages the Productivity Commission to consider further exploration of possible models for comprehensive reform to the way in which the ECEC sector is funded in Australia.

The Australian Government is the predominant funder of ECEC via the CCS. Only families using centre-based long day care (LDC), family day care, OSHC or in-home care are eligible for the CCS.

Funding arrangements for preschools differs considerably across jurisdictions owing to differing service delivery models and the effect this has on families' eligibility for the CCS.

States and territories which deliver a significant proportion of their preschool through sessional programs are systematically disadvantaged by not being eligible for Australian Government funding contribution via CCS, as sessional programs currently don't meet the CCS eligibility criteria.

South Australia's preschool program is delivered primarily via government-operated dedicated preschools as sessional programs. This differs from other eastern states where preschool is predominantly delivered by LDC centres.

This means that jurisdictions in which preschool is delivered through LDC receive an effectively larger proportion of CCS funding compared with jurisdictions that offer dedicated government preschool, including South Australia. The Royal Commission, in its [interim report](#), estimated the value of this inequity to South Australia at \$35.5m per annum.

The complexity of different funding arrangements between jurisdictions and across service types is a barrier to the ECEC sector operating as a 'backbone' universal infrastructure for early child development.

The Productivity Commission should consider potential models for fundamental funding reform that is child-focused and sector-blind to ensure that the Australian Government's investment in the ECEC sector is distributed equitably. Given the current ineligibility of government preschool programs to attract CCS, coupled with the immediate urgency of the reform, we encourage the Commission to consider alternatives that would allow sessional government preschools to attract a CCS-equivalent funding contribution.

Further on the topic of CCS, we commend the Commission on recognising the application process for subsidies is complex and confusing. Applications for additional payments, such as the Additional CCS (ACCS) impose further burden on families who are experiencing disadvantage and may have difficulty navigating the system.

In the interest of equity and inclusion (discussed further below) and in line with its draft finding 6.2 (Complex ECEC subsidy arrangements can be a barrier to access for some families) and draft recommendation 6.3 (Make information about CCS eligibility easy to find and understand) **we ask the Commission to make specific recommendations on ways to improve ease of access to targeted assistance (including for longer periods of time) and reduce its administrative complexity, particularly for vulnerable families and families whose personal circumstances mean that they face additional barriers to accessing ECEC.**

MINIMUM NATIONAL PRESCHOOL ENTITLEMENT

As noted above, we welcome the Productivity Commission's recommendation of making up to 30 hours or 3 days a week of quality ECEC available to all children aged 0–5 years through the relaxing of the activity test and proposed changes to subsidy levels for CCS. We consider the relaxation of the activity test (or its abolition) to be a critical reform, with the draft report's modelled CCS policy option 2 (ie the removal of an activity test for all families for 3 days of ECEC per week coupled with a lift in the subsidy rate for lower income families) to be the minimum needed to ensure universal access.

We would welcome a consideration from the Productivity Commission of recommending an expansion of the minimum national preschool entitlement to include the 2 years before school (ie. 3- and 4-year olds), including recommending allowances for more hours of preschool for children who need it.

Specific consideration should be given to funding models of the reform that are child-focused and sector-blind to ensure that the Australian Government's investment is distributed equitably across all jurisdictions regardless of the model of ECEC and preschool delivery.

The South Australian Government encourages the Productivity Commission to make recommendations as to increasing the minimum national preschool entitlement for all children from 3 years of age, in addition to existing 4-year-old preschool entitlement under the Preschool Reform Agreement. A nationally consistent 2-year minimum preschool entitlement would also provide a very useful starting point for negotiations between all governments on a national settlement of roles and responsibilities in ECEC.

With the introduction of 3-year-old preschool in some jurisdictions it is essential now, more than ever, to ensure appropriate funding streams are in place to support every child's healthy early development and learning so that they can thrive, now and in the future.

EQUITY AND INCLUSION

We commend the Productivity Commission on its draft recommendations pertaining to inclusion in ECEC. We agree with the Commission's conclusion as to the inadequacy of the Australian Government's Inclusion Support Program (ISP) funding and its calls for increased ISP funding to ensure children with additional needs (including those without a diagnosed disability) are adequately supported and included in ECEC.

The provision of a quality, accessible, affordable and equitable ECEC is at the heart of National Cabinet's call for the National Vision and the recommendations of the South Australian Royal Commission. In delivering on the Royal Commission's aspiration of reducing developmental vulnerability to 15 % in 20 years, we need to engage with all children in all settings.

In South Australia, children attending government preschools have access to a range of supports including allied health professional support, targeted funding for interventions and adjustments for students with a disability. LDC and non-government preschool providers have more limited access to supports, primarily through the ISP. Royal Commission analysis suggests that ISP expenditure equates to approximately \$180 per capita for each child enrolled in LDC. State government expenditure on inclusion in government preschools is around \$1,200 for each 15-hour enrolment—or nearly 7 times the amount spent on children in LDC.

We note, for completeness, that consideration of inclusion will no doubt be connected with, and potentially informed by, the work underway by all governments to develop a Foundational Supports Strategy which will include a focus on children and young people.

In addition, governments are increasingly cognisant of the impact of concentration of disadvantage, its impact on learning and development outcomes at all levels of education, and the need to work harder to alleviate it. It is anomalous that needs-based/equity funding is not available to support educationally disadvantaged children in ECEC – the most critical period of a child's learning and development journey.

Accordingly, we consider there to be a need for a broader systemic reform focused on equity, and the capacity for services to meet the learning and development needs of the particular children within each service.

The recommended 30 hours (or 3 days) of quality ECEC for all children aged 0-5 years is the first step to achieving this in terms of children being able to attend ECEC, but true equity in terms of learning and development outcomes can only be achieved via a recognition of the necessity for funding to address need and in a way that recognises the impact of disadvantage on average learning outcomes.

This point is made in addition to the point already made above, being agreement with the Productivity Commission's call for increased ISP funding. Equity and inclusion are separate (if overlapping) considerations and require separate approaches to achieve the desired outcomes.

The South Australian Government encourages the Productivity Commission to give consideration to funding streams for equity in ECEC, to alleviate the impacts of disadvantage in terms of learning and development outcomes.

ACCESSIBILITY

CCS is a demand-driven funding mechanism. As such, it only incentivises the market to operate in areas of high demand while children and families continue to face challenges to accessing high quality ECEC in regional and remote areas.

As the Productivity Commission has identified, the Australian Government's only supply-side funding mechanism – the Community Child Care Fund (CCCF) – is manifestly inadequate in enabling universal availability of child care in persistently thin markets, including rural and regional areas. There is a need to establish separate supply-side funding streams to address accessibility issues that have arisen in thin markets and in communities with complex needs.

In the absence of supply-side funding streams, children's access to ECEC is, and will continue to be, negatively impacted by remoteness and socio-economic status. These challenges particularly effect the participation of Aboriginal and Torres Strait Islander children.

The [Mitchell Institute's Childcare Deserts and Oasis report](#) demonstrated about 9 million Australians live in neighborhoods where there are not enough childcare places to meet the needs of families. The need for childcare infrastructure is even higher in remote areas.

There is a clear role for the Australian Government to help ensure better and more universal coverage in areas where the market is deficient or has failed, particularly as accessibility of high-quality, culturally responsive ECEC is one of the underpinning elements of the National Vision for ECEC. This could involve increased capital expenditure and potentially direct procurement in areas where the private sector would not otherwise be viable. The Productivity Commission recognises this in its draft recommendation 5.1. This recommendation is pivotal to ensure there are ECEC services in every area of South Australia.

The South Australian Government invites the Productivity Commission to address specifically how all governments, led by the Australian Government, can collaborate in servicing affected communities. Furthermore, we welcome the Commission's further consideration of alternative models of supply-side funding arrangements to address specific deficiencies (e.g. capital investment, the requirement for a cost contribution, the time-limited nature of the funding preventing services from planning longer-term) that would allow sufficient flexibility for all types of service providers to deliver care in thin markets.

WORKFORCE FUNDING

We congratulate the Productivity Commission on its draft recommendations 3.1 – 3.7 aimed at addressing ECEC workforce supply and retention. Most of the draft recommendations, however, go to matters of qualifications and professional development, and do not address fundamental issues with pay and conditions.

There is a clear and persistent national shortage of early childhood educators and teachers, particularly in LDC. According to the latest release of [ACECQA's quarterly NQF Snapshot](#), 16.5% of all LDC services nationally had at least 1 staffing waiver in place, with many states including South Australia at an even higher percentage. High staff turnover also compromises the quality of the service that is offered to children.

In addition, the planned expansion of preschool in some jurisdictions will increase demand for early childhood teachers (ECT) in all settings. In South Australia, the Royal Commission estimated additional 800 ECTs and 880 educators will be needed. The South Australian Government is investing to support this expansion, recently announcing \$56 million to support a workforce strategy. The South Australian Government also supports staff in its own preschool services with significantly above-Award pay and conditions, through Enterprise Agreements.

It is clear that an additional Australian Government funding stream is necessary to support attraction, retention and quality of the ECEC workforce. Current arrangements in the CCS-funded sector are inadequate and not designed to ensure adequate pay and conditions for staff.

The South Australian Government invites the Productivity Commission to consider a model for the Australian Government to invest in a supply-side funding stream to enable providers to offer their staff better pay and conditions, along with considering other options to lift the structural floor of pay and conditions for all ECEC professionals. We also ask the Commission to consider models for potential Australian Government investment in specific, evidence-based actions to increase workforce supply beyond its key role in improving pay and conditions.

These reforms are time sensitive and urgent, as supported by both unions and employer groups.

INVESTMENT IN INTEGRATED SERVICES

The South Australian Royal Commission highlighted the work of the early childhood workforce in connecting families to the supports they need, also referred to as 'the glue', and highlighted this work is significantly underfunded and under-recognised. The Royal Commission recommended providing the 'glue' through integrated, co-located services as this model can have a meaningful impact on community outcomes. It further noted that identifying children's developmental needs, connecting children to interventions, and providing pathways to broader parental and community supports should be defined as inherent to the delivery of preschool and funded accordingly. This intersects with the discussion of systemic, system-wide support for equity and inclusion, above, noting that in some communities the concentration of disadvantage may be so great that an additional investment may be required above ordinary levels of needs-based funding to support highly integrated service provision.

The South Australian Government appreciates the Productivity Commission's findings pertaining to the lack of funding security and consistency for existing integrated services, and recommendations to consider block-based funding to better support Aboriginal and Torres Strait Islander communities (including Aboriginal community-controlled integrated services). **We are highly supportive of these findings, and encourage the Productivity Commission to broaden its inquiry into funding models of integrated service delivery more broadly (including, as a priority, Aboriginal and Torres Strait Islander communities, and consistent with the principle of self-determination).**

Recommendations for further consideration

PRESCHOOL OUT OF HOURS CARE

The South Australian Government welcomes the Productivity Commission's draft recommendation 7.6 for the Australian Government to facilitate greater access to preschool out of hours care by amending the *Family Assistance Law* to allow defined preschool programs to claim the CCS for additional 'non-preschool' hours by creating a separate 'wrap-around preschool' care type. This action is viewed as the absolute minimum funding contribution that ought to be made under the CCS by the Australian Government to preschool delivery to facilitate workforce participation.

Discussions with the Australian Government on the change of the *Child Care Subsidy Minister's Rules 2017* indicate significant delays in the process, with any supported changes not taking effect until the beginning of the 2024-25 financial year at the earliest. Furthermore, any changes will only apply to outside of preschool hours and not to vacation care or half-day preschool sessions (which are essential to South Australian government preschool delivery of 15 hours per week of quality preschool under the Preschool Reform Agreement).

In South Australia, vast majority of preschools are not located on school sites and therefore have very limited access to OSHC, preventing children needing care outside government preschool hours from accessing out of hours care from the site where they receive preschool. Furthermore, school-based OSHC services are unlikely to be an appropriate solution to providing age-appropriate out of hours care for 3-year-old children attending preschool.

We invite the Productivity Commission to highlight to the Australian Government the urgency of changes to the Minister's Rules 2017 to enable greater access to OSHC by preschool children. Furthermore, we invite the Productivity Commission to recommend funding models to specifically support out of hours delivery in government and other sessional preschools.

DATA NEEDS

In its interim report, the Productivity Commission calls for the establishment of an ECEC Commission to support governments to better coordinate and deliver ECEC policies and to hold the system stewards publicly accountable for where the needs of the system are not being met. The interim report also notes the ECEC Commission will require access to high quality data to execute its advisory and reporting functions effectively.

We recognise quality data is essential to support effective sector stewardship, however, imposing further data requirements on a sector already under significant administrative pressure may be problematic without there also being consideration given to the way in which data is to be collected and the support for services who are required to participate in data collection.

The Productivity Commission should explore ways to support the sector in meeting any agreed data collection requirements, including funding support by the Australian Government.

ECEC COMMISSION

The South Australian Government notes the opportunity provided to the Productivity Commission to clearly and comprehensively step out a pathway for governments in terms of negotiating a new national settlement of roles and responsibilities in the ECEC sector, and notes its recommendation to establish a new national ECEC Commission.

We see that the proposed ECEC Commission has the potential to ensure an ongoing national focus on the sector and make governments and other stakeholders accountable for their performance. It could also monitor the sector's alignment with the National Vision for ECEC. However, without there being a clear understanding of roles and responsibilities for the Commission, its purpose could be misinterpreted or

greeted with scepticism (particularly that it might add to the complexity of an already fragmented system).

Accordingly, we feel that these potential functions, and the ECEC Commission’s potential interaction with existing national structures, could be better articulated in the final report.

It would also be useful if the timeframes for the proposed establishment of the ECEC Commission were better elucidated to clarify that its establishment is not a precondition for the negotiations of the national settlement of roles and responsibilities as recommended by the Royal Commission and the National Partnership Agreement for ECEC (draft recommendation 9.1).

Indeed, there is a potential role for the ECEC Commission in guiding and supporting governments’ focus relative to their nationally-agreed roles and responsibilities.

We urge the Productivity Commission to discuss options for the role and timing of the ECEC Commission’s establishment, and that it notes that its establishment should ideally be considered by governments as part of more detailed design work and negotiations to achieve a stronger ECEC system in Australia, including roles and responsibilities of the Australian, state and territory governments alongside a potential ECEC Commission.

Other areas of agreement

The South Australian Government congratulates the Productivity Commission on its findings and draft recommendations in areas of cultural safety, regulator resourcing and inclusion supports where the draft recommendations are closely aligned with those of the Royal Commission.

If implemented by the Australian Government, these changes would support South Australia’s ECEC reform agenda and benefit all children attending an ECEC service.