

Response to the Productivity Commission Review of Early Childhood Education and Care



CEW

Women Leaders Empowering All Women

About CEW

Chief Executive Women's (CEW) shared purpose is 'women leaders empowering all women'. CEW's over 1,200 members represent Australia's most senior and distinguished women leaders across business, academia, government, sport, the arts, and not-for-profit sectors. CEW's members have leading roles within Australia's largest private and public organisations. They oversee more than 1.3 million employees and \$749 billion in revenue. Members' organisations have a combined market capitalization greater than \$1.144 trillion and contribute in excess of \$249 billion to Australia's GDP.

Since 1985 CEW has influenced and engaged all levels of Australian business and government to achieve gender balance. Through advocacy, research, targeted programs and scholarships, CEW helps to remove the barriers to women's progression and ensure equal opportunity for prosperity. CEW's members work actively to realise our vision of a community where women and men have equal economic and social choices and responsibilities.

Acknowledgment

We acknowledge the Traditional Custodians of Country throughout Australia and pay our respect to their Elders past and present. CEW celebrates the diversity of First Nations people and their continuing connection to land, water, and community, and acknowledges the strength of First Nations women leading their communities. We extend that respect to Aboriginal and Torres Strait Islander people who are part of the CEW community.

To learn more about CEW, and how our team can support your organisation's journey to gender equality, visit our website www.cew.org.au or contact us at cew@cew.org.au

Message from CEW

CEW members, as business and community leaders, drive change to realise a vision of:

- **Diverse women leaders at every decision-making table**
- **Women's workforce participation enabled across all sectors**
- **Women's economic security and freedom from violence across their life course**
- **Workplace flexibility for men and women to work and care for family.**

CEW is pleased to make a submission to the Productivity Commission Review of Early Childhood Education and Care Draft Report released on the 23rd of November 2023: A path to universal early childhood education and care. We welcome the Commission's notable commitment to prioritising care and children's wellbeing.

CEW commends the Federal Government's progress towards universal early childhood education and care (ECEC), and in particular the Productivity Commission inquiry which aims to "chart the course for universal, affordable early childhood education and care" in Australia. [1] The Commission's Draft Report identifies vital steps to ensure that Australian children have the best start in life.

This submission builds on the Draft Report's recommendations. It includes both immediate actions as well as long-term reforms that can unlock women's economic participation and contribution to address some of these challenges but also positively impact Australia's productivity.

Any long-term roadmap towards universal ECEC must take into account the economic context that surrounds it. Namely, the recognition that sustainable and universal ECEC is pivotal to women's economic participation, both by enabling women to work in their chosen sector, and within the care sector itself.

This submission focuses on ECEC as a critical lever in children's wellbeing and development, and a foundational tool in gender equality.

Australia's care sectors are both vital and systemically undervalued

The care sector has been an important safety net for the entire economy, highlighted during the recent Covid-19 pandemic, natural disasters, and economic challenges. Unfortunately, this sector has been widely undervalued. For women, this is a double-edged sword. Approximately 80% of care sector roles are occupied by women, nearly half of whom are employed part-time.[2]

Australia's care sectors are encumbered by critical workforce shortages, high levels of insecure work, and low pay. These challenges are exacerbated by the rising inflation and living costs currently experienced across the economy. A thriving care economy is vital to unlocking women's economic participation in other sectors and progressing gender equality.

CEW's Recommendations

- 1. Legislate and invest in universal access for all children to quality, flexible ECEC: at a minimum three days of ECEC from when families need it until children start school.**
- 2. Relax the Childcare Subsidy Activity Test**
- 3. Invest in a thriving ECEC workforce by:**
 - Fully implementing and resourcing the National Children's Education and Care Workforce Strategy, addressing low wages and challenging working conditions.
 - Supporting applications in the Fair Work Commission that seek to raise the wages and improve the job quality of early childhood educators, to address historical undervaluation of educators' work, and fully fund outcomes of these applications.
 - Ensuring ECEC is a sustainable and attractive career path for women and men.
- 4. Adopt a stewardship approach to ECEC.**
- 5. Embed intersectionality in policy and practice.**
- 6. Adopt a child-centric approach.**
- 7. Address thin markets and childcare deserts.**

Investment in ECEC is an investment in economic growth and prosperity

In recent years ECEC has been shown to be a critical enabler of parents', particularly women's, workforce participation and our nation's productivity. Research shows that children who flourish in early childhood flourish in adulthood.[3] Children who have access to quality ECEC can expect better school success, a decreased crime rate, less substance abuse, and increased long-term employment.[4]

With 90% of brain development occurring before the age of five, investing in ECEC will have decadal benefits for Australia's economy and community at large.

However, ECEC in Australia is characterised by high prices and prohibitive wait times that impact children's growth and depress women's economic participation. Australia has the third lowest rate of maternal full-time employment across OECD countries.[5]

Thrive by Five found that seven in ten parents find childcare costs to be unmanageable, and more than half the women surveyed had been forced to turn down a job or a promotion because additional childcare costs meant it was not worthwhile.[6] The combination of high costs, inaccessible care, and lack of support for women's economic participation has long term impacts on our community. This developmental gap entrenches social and economic inequity even before children start school.

- In Australia, one in five children starts school developmentally vulnerable.
- For children who do not receive ECEC, that number jumps to 2 in 5.[7]
- By the age of five, there are significant gaps in the developmental progress between children in remote and metropolitan locations, higher and lower socio-economic areas, and between indigenous and non-indigenous children.

ECEC has the potential to play a central role in promoting social mobility and breaking the cycle of disadvantage.

International best practice shows investment in ECEC pays significant dividends:

- In Canada, each dollar invested in ECEC has resulted in \$1.49 to \$2.78 of benefit to the economy (from increased tax revenue and other benefits)[8]
- Canada is now moving towards universal ECEC, estimated to increase Canada's GDP by 1.2% over the next two decades.[9]
- Iceland spends 1.8% of its GDP on ECEC and has the best maternal employment rates in the OECD.[10]

ECEC is vital in the early years in shaping later life outcomes. Compromising on quality may reduce short run costs but will limit long term benefits.

1. Legislate and invest in universal access for all children to quality, flexible ECEC: at a minimum three days of ECEC from when families need it until children start school.

CEW supports the Draft Report's recommendation for access to universal ECEC. Further, CEW supports the Women's Economic Equality Taskforce (WEET) decadal plan's call to legislate universal ECEC. CEW recommends universal access to free or low-cost high-quality, flexible ECEC be available for a minimum of three days (30 hours) from when families need it until children start school. This guarantee would help Australia support all children to develop to their full potential, physically, cognitively, and socially.[11] It would also be a fundamental means to support parent's (predominantly women's) workforce participation and women's economic security.

ECEC needs to meet the needs of modern families, be culturally appropriate, and be delivered by a highly skilled, securely employed, and well-paid sector.

The economic and social costs of someone not completing school are high, with lower lifelong earnings and higher costs associated with health care and criminal justice.

- A 2017 study from the Mitchell Institute estimated that the costs of early school leavers and disengaged young people equated to \$1.1 million per person over the life course, in 2022 dollars.
- Impact Economics and Policy estimates that the provision of two years of universal pre-school will increase school completion rates by 6%. If implemented across Australia, Impact Economics and Policy estimates that this would represent between \$10.9 billion and \$14.5 billion in additional earnings over the lifetime for children.

If implemented across Australia, universal pre-school for 3- and 4-year-olds could generate benefits of between \$30.9 and \$40.9 billion. The lack of sustainable and high quality ECEC could lead to poor economic impacts:

- The lifelong economic losses would equate to between \$10.1 billion and \$11.5 billion per year across Australia.
- These losses would be concentrated in NSW, Victoria, and Queensland because these states rely more heavily on long daycare centres to deliver pre-school than in other states.[12]

2. Relax the Childcare Subsidy Activity Test

The Activity Test is a barrier to women's economic participation and prevents children from accessing vital ECEC. It places unnecessary search costs on low-income families. Failing to account for casual and uncertain hours of work, it creates barriers for families who are concerned about the risk of incurring debts with Centrelink. The 2023 expansion of the Childcare Subsidy was a welcome means to address affordability, however the benefits of the legislation are limited by the current operation of the Activity Test.

CEW supports the Productivity Commission's recommendation to relax the Activity Test so that it is not a barrier for any family accessing three days (30 hours) of subsidised ECEC a week. The Government should immediately remove the Activity Test for families accessing up to three days/ 30 hours per week and low-income families with annual incomes at or below \$80,000. We further recommend the Activity Test is abolished in the implementation of universal access.

Impact Economics and Policy found that:

- The average benefits for each child of two years of pre-school are \$102,700 over the life course from increased educational attainment and the higher probability of completing school.
- 82% of 3-year-olds subject to the Activity Test are not receiving 15 hours per week.
- 93% of 4-year-olds subject to the Activity Test are not receiving 30 hours per week.
- Even with the NSW and Victorian state government policies to expand access to universal pre-school, families impacted by the Activity Test will face out of pocket costs of between \$7,000 and up to \$24,000 per child over two years to access preschool.
- Up to 108,000 children in NSW and Victoria risk missing out on universal access to pre-school each year because of the Activity Test.
- The Activity Test compromises \$5.9-\$6.6 billion of benefits across the lifetime of NSW and Victorian children. [13]

3. Invest in a thriving ECEC workforce

Invest in a thriving ECEC workforce by:

- Fully implementing and resourcing the National Children's Education and Care Workforce Strategy addressing low wages, and challenging working conditions.
- Supporting applications in the Fair Work Commission that seek to raise the wages and improve the job quality of early childhood educators, to address historical undervaluation of educators' work, and fully fund outcomes of these applications.
- Ensuring ECEC is a sustainable and attractive career path for women and men.

HESTA's 2021 State of the Sector report found that:

- **1 in 5** survey respondents intended to leave the ECEC sector due to low pay and a lack of career development opportunities[14]
- **1 in 3** felt that the sector was undervalued by society
- Of the respondents surveyed, **95%** were women [15]
- While pay for care and support jobs varied by role, **95%** of workers were earning at rates below the Australian average.[16]

Noting that the care sector employs significant numbers of migrant and refugee women, CEW recommends reforming the financial structure of the sector, so it creates incentives for quality and inclusion. Policy and funding instruments should reinforce that ECEC must be high quality to shift child outcomes and that a professional, capable workforce is crucial to delivering quality. This could include a reformed finance instrument that creates incentives for quality and inclusion and that delivers and maintains wages and conditions for early childhood educators that is comparable to educators in schools. It must provide a mechanism to fund a wage increase delivered under the Governments Multi-employer Bargaining or as directed by Fair Work.

ECEC requires strong professional pipelines, where young workers are excited to build their career. To support a sustainable ECEC sector, careers must be secure and have clear progression; remuneration must be competitive; and conditions must support safe, sustainable careers.

- The Australian Childcare Alliance states that **at least 10,000** additional teachers and educators are needed to address urgent supply shortages.[17]
- To meet international best practice, the VET system would need to produce **48,000 new ECEC graduates per year** by 2030. From 2015-2018, there was an average of 35,000 graduates per year.[18]

Australia-wide, people working in ECEC are **paid 20% less** than primary school teachers, leading to two thirds of graduates of ECEC choosing employment in primary school. It is likely that the average pay of the ECEC sector will increase in the future as a result of the recent changes to the Fair Work Act and changes to facilitate multi-employer bargaining.

Alongside this, CEW recommends that the Federal Government work in collaboration with their State and Territory counterparts to enact the Productivity Commission's recommendations to create:

- Free or subsidised VET courses in ECEC
- Scholarship programs for educators to upgrade teacher qualifications
- Professional development and wellbeing programs for educators

4. Adopt a Stewardship Approach

CEW supports the Productivity Commission's recommendation to adapt a more formal stewardship approach, underpinned by an ECEC Commission. A stewardship approach would involve:

- **Federal Government as lead steward**, as primary funder of ECEC and with dual policy responsibilities of child development and parental workforce participation.
- **State and Territory Governments as co-stewards**, with responsibility for quality regulation and (historical) role in pre-school
- **An ECEC Commission to oversee a stewardship approach** and hold State, Territory and Federal governments and the market accountable in relation to access (supply), affordability (price, out-of-pocket cost), quality, and inclusion
- **Local Governments to support stewardship efforts**, particularly in relation to planning and supply. Local government representation could be achieved similarly to National Cabinet structure, e.g. with representation at meetings once annually.

Adopting a stewardship approach would make use of the various regulatory and financing levers available in ECEC across different levels of Government, create new levers to monitor and report on the performance of the market against these objectives, and take action to ensure they are being met.

CEW recommends that the Federal Government work in partnership with the State and Territory Governments to oversee and administer the stewardship model as an important regulation mechanism.

The ECEC Commission should oversee the attainment of universal, high quality, and inclusive early learning through the following activities:

1. **Access (supply):** ensure all children have access to affordable, high quality, and inclusive early learning that meets their needs, regardless of where they live, by ensuring an adequate supply of ECEC places, including the choice of high quality, not-for-profit services. This would be achieved through:
 - Promoting high quality services and providers, particularly not-for-profit providers.
 - Local market supply and demand monitoring, reporting and advice to governments, including direct regulatory intervention, with consideration to impacts of both over- and under-supply
 - Workforce monitoring, planning and funding and regulatory activities to ensure there is a sufficient pipeline of teachers and educators to meet future demand for places
 - Planning and commissioning services in identified unserved and underserved markets, for example through alternative financing instruments, including supply-side funding, government loans and/or loan guarantees to support supply (growth) of NFP services, and
 - Ensuring the market meets the needs of families in the community, for example ensuring supply of places for children birth to two years, OSHC, occasional care, flexible hours of delivery

2. **Equity:** supporting universal access to high quality, inclusive ECEC for all children through:
 - Access and availability monitoring, reporting, and intervention in relation to inclusion indicators to understand which cohorts of children are missing out, where and why
 - Advising on or directing government funding for services, programs, or initiatives to support inclusion of all children in ECEC and that funding is adequate to address need, and
 - Supporting research and pilots on improving service delivery of inclusive ECEC

3. **Affordability:** ensuring affordability for families and effective use of taxpayer investment through:
 - Stronger price monitoring and transparency to support comparability for families, providers and governments. And as indirect price controls as recommended by the ACCC operate as effectively as possible within local markets.
 - Ensuring that price constraint policies are effective (e.g. that the hourly rate cap is up to date, identifying and addressing 'excessive' fee increases and excessive profits)
 - Ensuring fee subsidy programs (Commonwealth and State) are effective in achieving their stated objectives
 - Closely monitoring participation of key equity groups to ensure cost is not a barrier to access

5. Embed intersectionality in policy and practice

CEW supports the Productivity Commission's findings that Universal ECEC must be considered in the context of the community and needs of people serviced. Parents and children face multiple intersecting and compounding forms of discrimination and disadvantage based on their gender, race, culture, sexual orientation, gender identity, disability, location, life stage, and social-economic status. An intersectional lens should be applied to shaping ECEC policy, considering the diverse experiences and needs of communities and families. ECEC educators must have adequate training and resources to respond to the diverse needs of the children and community.

CEW has welcomed the introduction of gender responsive budgeting in the 2023-2024 state budget. We support the continued growth and improvement of the Federal Government's intersectional lens in policy and practice. A comprehensive, whole-of-government application of a gender lens to all new policy proposals is required to deliver coherent, effective policy and avoid unintended gendered outcomes.

In alignment with the 2020 Wiyi Yani U Thangani Report, childcare centres must be tailored to meet the needs of local families and communities.[19] The plan has begun to address 'childcare deserts', where ECEC is not readily available or affordable, by investing in provision of government funded and not-for-profit centres. These services should reflect diverse communities and their needs, including First Nations run and owned, culturally safe ECEC services for First Nations communities.[20] The Federal Government should embed an intersectional lens, and community consultation into its policy and implementation process as a fundamental element of community engagement.

CEW recommends that the Federal Government supports the amendment of the Disability Standards for Education 2005 (Cth) to include all services within the ECEC sector. To ensure this work is adequately resourced, CEW recommends that the Federal Government amend eligibility requirements for inclusion funding for at least diploma certified staff.

6. Adopt a child-centric approach

Substantial evidence from neuroscience, developmental science, and economics identifies the quality of experiences during the first five years of life as critical in establishing the foundations of ongoing life trajectories of learning, wellbeing, and productivity.

An OECD study shows that almost all countries have some form of national-level curriculum or framework in place for early learning. Public policy can also facilitate children's transition from ECEC to primary school. Well-managed transitions support children's well-being, ensure that the benefits of early childhood education and care endure, prepare children for school and for life, and improve equity in education outcomes.

CEW supports Goodstart and Thrive by Five's calls to re-centre ECEC to focus on the child, including:

- Plan and design all aspects of the service to meet the individual needs and abilities of every child.
- Give all children the same opportunity to access and participate in all parts of the service.
- Adjust and tailor activities towards all children's unique needs.
- Include the child, their family and support team in decision making.
- Make the 'child's voice' and preferences a priority.
- Reflect and seek feedback from all involved.[21]

The Federal Government can ensure this focus through policy engagement and stewardship.

7. Address Thin Markets and Childcare Deserts

CEW supports the Commission's recommendation to further clarify the needs of thin markets and make policy in alignment with the community's needs. CEW recommends that while reviewing access to ECEC across Australia, there should be a particular focus on families living in disadvantaged, regional or remote areas of Australia. Further, the development of flexible ECEC care models should support women's workforce participation, including outside school hours and vacation care.

Recent Australian research has found women living in regions characterised as "childcare deserts" where there is not ready access to early childhood education and care, have reduced rates of workforce participation. A recent Australian study finding that a ten dollar per hour increase in childcare costs reduced the probability of primary carer's being employed by five percentage points. When the primary carer was already employed, a ten dollar increase in hourly costs reduced the total hours worked by 12%.

CEW supports the Productivity Commission's report recommendation for universal access in persistently thin markets via supply-side funding.

The Federal Government should provide additional support in markets where ECEC providers are unlikely to invest, even with the changes recommended in the Productivity Commission inquiry. This support could take the form of:

- Grant funding to establish a service in communities that are able to cover the operating costs of a service (such as wages, rent and other overheads) via childcare subsidies and families' out-of-pocket gap fees, but expected earnings would not cover the capital costs of building or expanding physical facilities
- Reserving funding to cover capital and operating costs in communities where the level of demand is too low to support all of the costs of operating a service or there are substantial barriers to accessing childcare subsidies. Funding in these markets should generally be ongoing, with periodic review to determine if a service can be self-sustaining with childcare subsidies.
- Specific arrangements for Aboriginal Community Controlled Organisations, co-designed with Aboriginal and Torres Strait Islander communities.

The Federal Government could use the process of competitive tendering to provide services in markets where community representatives do not apply for grants. Centre-based day care, family day care, and mobile care should all be considered for funding to help address the varying needs of thin markets. An advisory program should be established that works with community representatives and enables them to get the support they need.

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