

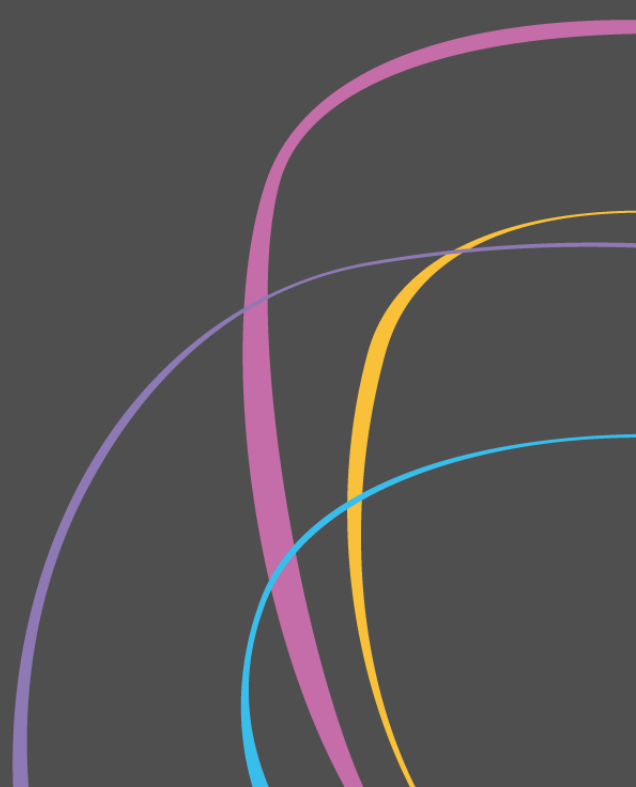
Goodstart Response to Productivity Commission Draft Report

Inquiry into Childcare and Early Childhood Learning

9 September 2014

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We welcome this opportunity to provide a further response to the Productivity Commission's Draft Report into Child Care and Early Childhood Learning, released 22 July 2014, and the Technical Supplement released 28 August 2014.

We request this paper be read together with our initial submission to the inquiry [submission 395]; and as a supplement to discussions we have been pleased to have with the Commission, including at the Canberra public hearings on 26 August.

Since the release of the Draft Report, Goodstart has worked with our syndicate members and sector partners to consider the implications of the draft recommendations and to respond collaboratively to the wide-ranging commentary and proposals outlined in the draft report.

We commend our partners' submissions to the Commission.

Executive Summary

The Productivity Commission's *Childcare and Early Childhood Learning—Draft Report* makes an important and positive contribution to understanding the vital role that early childhood education and care (ECEC) services play in children's development and learning, and in enabling parents to participate in the workforce.

Early learning gives every child the best possible start in life. Most of a child's brain development occurs in the first five years. Learning habits and learning problems emerge early with lifelong effects. If a child is developmentally vulnerable when they start school, they are likely to start and stay behind their peers.

The 23 per cent of Australian children who start school developmentally vulnerable represents a significant long-term diminution of Australia's future human capital potential.

Getting the policy settings right for the ECEC sector offers a significant opportunity for Australia to improve our national human capital potential well into the future.

The OECD's *Going for Growth* report has identified participation in early learning as a key policy to promote economic growth, higher productivity, and social equality.

Quality and affordability of care are both central to parental decisions about returning to work. Affordability is a key factor in the initial decision to go back to work, but quality, as reflected in the relationships between children and their educators, is an ongoing consideration for families.

The Commission was given a dual task to consider the contribution that access to affordable, high-quality care can make to:

- increasing participation in the workforce, particularly for women; and
- optimising children's learning and development.

While the Draft Report makes a strong case for increasing investment to support workforce participation and access to quality learning for children with additional needs, its broad thrust is undermined by some recommendations we believe do not align with the stated policy objectives and the available evidence. We urge the Commission to consider and address these matters so the Final Report can provide the blueprint Australia needs for the ECEC sector to achieve its full potential to contribute to raising Australia's productivity and social equality.

Increasing workforce participation drives the recommendations for reform of the payments system to provide additional support for lower income families. Goodstart supports the broad objective of increasing childcare assistance for low- and middle- income families, but notes there are too many families who would emerge as losers under the report's proposals.

Ensuring all children have access to quality early learning is in Australia's best long-term interests because investing in early learning now will increase our potential human capital and make Australia's economy more productive and competitive in the future. It is in children's best interests to have the best possible start in life, and access to quality early learning has been shown to improve school readiness and later life and learning skills.

We welcome the report's recognition that children with additional needs or who are developmentally vulnerable benefit most from some early learning but are least likely to attend. Goodstart is concerned that under the Commission's proposals, many thousands of vulnerable children would lose access to early learning they currently access because the Commission prioritises workforce participation

objectives for their parents ahead of the development needs of the children. Such an approach acts to perpetuate the cycle of disadvantage rather than break it.

We welcome the report's support for continued improvement in the quality of early learning to support children's learning and development through the National Quality Framework (NQF). However, the report does not give children's learning and development objectives the same prominence as it does to workforce participation objectives. Goodstart does not support watering down quality standards, particularly for younger children.

In this submission, Goodstart provides responses to the Commission's draft recommendations and information requests. As the largest provider of early learning and care in Australia, Goodstart has drawn on our experience and data covering the 73,000 children cared for in our 643 centres to test the practicality of the Commission's recommendations. We would welcome the opportunity to work with the Commission as it considers our recommendations and prepares their Final Report.

Goodstart's response to the Draft Report recommendations can be summarised as follows:

1. **Support for increased investment:** Goodstart supports the Commission's recognition that public investment in ECEC needs to be increased to improve the affordability and accessibility of ECEC services. The Commission's options within the funding envelope result in unacceptably large numbers of families having their childcare assistance cut. Goodstart recommends the Commission rejects models within the existing funding envelope and makes the case for a well-targeted model underpinned by increased public investment available within the proposed expansion of Paid Parental Leave and existing family payments system.
2. **Support for new payments system underpinned by increased investment to improve affordability:** Goodstart supports replacing the complex Child Care Rebate (CCR)/Child Care Benefit (CCB) system with a single payments system, with a higher 90 per cent assistance rate for low-income families earning less than \$60,000, reducing to a lower 30 per cent assistance rate for families earning more than \$300,000. However, we have concerns that how the subsidy is applied will leave many families facing higher out-of-pocket expenses, especially in city areas where the cost of childcare is above the 'deemed cost'. We support a 'deemed cost' that is based on a benchmark price that reflects the reasonable price of meeting quality standards in all significant markets, but excluding high-priced luxury services.
3. **Reforms to continue to raise the quality of early learning for all children from birth to 5 years must continue:** Goodstart supports the report's recommendation that the NQF reforms be retained to continue raising the quality of early learning and care to a national minimum standard and that efforts to streamline regulation continue. However we strongly reject the Commission's recommendations to water down qualification requirements for educators of children under three years of age, applying average ratios, and removing preschool from the NQF. These recommendations would significantly reduce the quality of early learning and care.
4. **Reforms must ensure all children can access quality early learning:** The Commission makes a strong and compelling case for increasing and tailoring assistance to children with additional needs or who are developmentally vulnerable. Goodstart welcomes the recommendation that additional investment will be required to ensure equity of access. However, the Commission's recommendations would also result in many thousands of vulnerable children losing access to quality early learning because of increased price barriers and tighter eligibility requirements. Goodstart believes supporting vulnerable children to access quality ECEC is a high priority for reform, and further additional investment should be allocated accordingly.

1. Investment

RECOMMENDATION FOR ADDITIONAL INVESTMENT

The Draft Report notes limited increases in workforce participation are possible within the ECEC funding envelope, and that more significant family benefits are likely from increased investment in ECEC than in the proposed expanded Paid Parental Leave (PPL). Redirecting investment from PPL could add up to a further \$1.5 billion per year to Australian Government assistance for ECEC. The Commission has also noted the withdrawal of Family Tax Benefits are contributing to the disincentives to work. The Commission has also noted investment needs to be prioritised and that trade-offs will be necessary.

Objective

Goodstart argued in our first submission that investing in the early years delivers a three-fold return to the nation through:

1. Increasing women's workforce participation
2. Building our human capital through quality early learning in the first five years
3. Early intervention to address vulnerability and disadvantage.

No other social investment opportunity can deliver these short- and long-term economic and social benefits. The Commission's Draft Report has acknowledged that additional investment in ECEC can deliver these benefits, noting their modelling has been limited to measuring changes in workforce participation only.

RESPONSE

Goodstart has carefully considered the Draft Report, the recommendations, and the implications for children, families and the sector more broadly, as well as the implications for the Goodstart network.

The basic policy principles and key recommendations provide a solid basis to ensure government and the nation can reap the benefits from investment in ECEC. However, the Productivity Commission's current model has too many losers, and low-income families and their children bear the brunt of the reductions in subsidies.

Priorities

We have identified some key specific gaps in the draft reforms that must be addressed in the Final Report in order to maximise the return on investment and ensure the proposed reforms are targeted and equitable. These are covered in detail in response to specific recommendations later in this submission, but in summary, key recommendations that will require additional investment include:

- Children with identified additional needs must be adequately funded to ensure ECEC is affordable and to ensure they receive the support they need so they can participate just like other children.
- A base entitlement to an ECEC subsidy must be retained for low-income families who do not meet the activity test.
- The design of the subsidy must ensure affordability for as many families as possible using standard services through a 'deemed cost' set higher than the median, with other design features that will maintain affordability over time.

The Productivity Commission's Terms of Reference clearly provided scope to consider the broad range of government payments and there is adequate funding in this envelope to implement our recommended changes. Specifically by:

- Redirecting funds from the expanded PPL scheme. We note the Productivity Commission's analysis that it is unclear if the expanded PPL scheme would deliver significant additional benefits, and there is a case for diverting funding to ECEC where more benefits are likely.
- Reprioritising Family Tax Benefit (FTB) Part B for partnered mothers. We would also encourage the Productivity Commission to consider the strong case for diverting funding from FTB Part B to ECEC. FTB Part B for partnered mothers currently provides a cash payment for partnered mothers with no or very-low workforce participation and also contributes to the high effective marginal tax rates faced by women looking to return to work. Goodstart does not support redirecting FTB Part B for single parents.

We also draw to the Commission's attention that some of our recommendations will deliver *savings* to the Commission's preferred current model by prioritising investment where it will deliver the best 'bang for buck' without significantly limiting the modelled workforce participation outcomes or negatively impacting on children's learning and development. Specifically:

1. Tighter eligibility for access to government subsidies for nannies
2. Eliminating the 100 per cent subsidy rates in low-fee markets by applying the subsidy to whichever is *lower*: the deemed cost or the price.

We contend the reforms we are recommending are likely to be net revenue positive in the medium-to-long term, pointing to the impact of increasing childcare subsidies in Quebec, Canada, and the strong economic analysis by James Heckman and others on the high rates of return of improving access to early learning for disadvantaged children.

When this inquiry commenced we noted this was a once-in-a-decade opportunity to get ECEC reform right. By prioritising investment, we believe sustainable equitable reform that meets the policy objectives of supporting children's learning and development and supporting workforce participation is achievable.

Goodstart recommends the Productivity Commission considers the broad definition of the funding envelope to include other family payments in presenting options 'within the funding envelope' in its Final Report.

Goodstart recommends the Final Report include a specific recommendation to redirect funding to ECEC from the expanded Paid Parental Leave scheme.

Goodstart also recommends the Productivity Commission considers the disincentives to workforce participation created by Family Tax Benefit Part B for partnered mothers and consider if this funding would be better invested in ECEC.

Goodstart recommends that funding for nannies for very-high-income earners should be a lower priority than providing adequate funding for vulnerable children.

2. Subsidy Design

DRAFT RECOMMENDATION 12.2

The Australian Government should combine the current Child Care Rebate, Child Care Benefit and the Jobs Education and Training Child Care Fee Assistance funding streams to support a single child-based subsidy, to be known as the Early Care and Learning Subsidy (ECLS). ECLS would be available for children attending all mainstream approved ECEC services, whether they are centre-based or home-based.

DRAFT RECOMMENDATION 12.4

The Australian Government should fund the Early Care and Learning Subsidy to assist families with the cost of approved centre-based care and home-based care. The program should:

- assist with the cost of ECEC services that satisfy requirements of the National Quality Framework
- provide a means tested subsidy rate between 90 per cent and 30 per cent of the deemed cost of care for hours of care for which the provider charges
- determine annually the hourly deemed cost of care (initially using a cost model, moving to a benchmark price within three years) that allows for differences in the cost of supply by age of child and type of care
- support up to 100 hours of care per fortnight for children of families that meet an activity test of 24 hours of work, study or training per fortnight, or are explicitly exempt from the criteria
- pay the assessed subsidy directly to the service provider of the parents' choice on receipt of the record of care provided.

DRAFT RECOMMENDATION 12.3

The Australian Government should exempt non-parent primary carers of children, and jobless families where the parents are receiving a Disability Support Pension or a Carer Payment from the activity test. These families should still be subject to the means test applied to other families.

INFORMATION REQUEST 13.1

The Commission seeks information and advice on the costs and risks involved in the transition to the proposed new funding arrangements for mainstream services (including home-based care providers paying for the services of coordinators) and advice on how these costs can be minimised and risks managed.

RESPONSE

1. Early Care and Learning Subsidy (ECLS) design options

Goodstart considers the Commission's preferred model for the ECLS—Option 1 with a 90 per cent to 30 per cent linear taper—has the following benefits:

- improves affordability for low- and middle-income working families who are the most responsive to costs in making participation decisions
- maintains assistance for *all* working families recognising childcare is a cost of participation for all secondary earners, regardless of family incomes—Option 3 and Option 4 do not deliver this.

Options 2 and 4 do not deliver improved overall affordability—which is one of the key objectives of reform. Goodstart also believes the income point at which families face higher out-of-pocket costs than under current arrangements is also unacceptably low in these two options (roughly \$100,000 family income).

Goodstart broadly supports the Productivity Commission’s preferred option, Option 1, with a 90 per cent to 30 per cent linear taper.

We do not support, and recommend the Productivity Commission rules out, Options 2 (90-30 kinked taper) and 4 (90-0 kinked taper) from its final report as they do not meet policy objectives, particularly improving affordability.

Goodstart has concerns with two of the proposed design features of the ECLS (in all options), which are discussed further below, namely:

- the ECLS being based on a ‘deemed cost’ model; and
- the proposed activity test to receive any childcare assistance (with some exceptions).

We are also concerned about the proposed extension of the ECLS to nannies with broad eligibility—see Section 5.

2. Income testing design issues

Family Means Test

INFORMATION REQUEST 12.2

The Commission seeks feedback on the impact of adopting the income of the second earner, family income, or some combination as the basis for the means test. If a combination is preferred, the Commission seeks information on how this should be applied and what it would mean for effective marginal tax rates facing most second income earners in a family.

Goodstart notes the assessment in the *Australia’s Future Tax System Review* (Henry Review) that a family income test for childcare payments would be appropriate *where a base level of assistance is provided* (that is, no means-test cut out). Having a base level of assistance for all working families recognises childcare is a cost of employment for single-parent families and families with two working parents, regardless of income, and this cost can affect participation decisions. We believe the importance of reducing the bias against paid work, and in particular the social value of encouraging women’s participation, is sufficient to justify a base level of government assistance.

Goodstart supports the proposed family means test, provided Option 1 with a base level of assistance of 30 per cent for working families is accepted.

If Option 3 (or an alternative option where assistance cuts out at a certain income level) is accepted, then the means test should independently consider the secondary earner's income.

Per Child Rate

INFORMATION REQUEST 12.1

The Commission seeks views on the effect on families of having a per child subsidy rate that is not adjusted for the number of children in a family accessing ECEC services.

Goodstart considers that payment arrangements should recognise that families with several children in care spend a larger share of their disposable income on ECEC, and face stronger cost pressures (and associated workforce disincentives). The most recent ROGS report showed the significant increases in the percentage of weekly disposable income spent on childcare for families with two children. The increases have occurred across all income levels over the past five years in families—from 14.9 per cent to 17.3 per cent.

A 'child add-on' would reduce the impacts of effective marginal tax rates and would help ensure it was affordable for women from low- and middle-income families to return to work when they have more than one young child. CCB is an example of per-child payments (like the proposed ECLS) that have 'child add-ons' in their income thresholds.

Goodstart recommends the proposed income thresholds in Option 1 should be adjusted upwards by a reasonable child add-on for each additional child in care (noting this will have an additional cost).

3. A deemed cost model

INFORMATION REQUEST 12.4

The Commission seeks information on the best approach to setting and updating the deemed cost of ECEC services. In addition, information on the cost premiums of providing services in different locations, to different ages, and in meeting different types of additional needs is sought.

Objectives and risks of a deemed cost model

Goodstart notes the Commission's analysis that the key advantage of a deemed cost model is that it limits the flow of government funds to aspects of services 'additional to those required to satisfy the NQS'. In short, the Commission considers taxpayers should not be funding families' choices for 'premium' services.

Goodstart acknowledges this concern. However, we believe premium services are a very small proportion of the market—we estimate less than 2 per cent of the market (there are no specific data published on premium services).

On considering options for setting and updating the deemed cost, we think the policy response should be proportionate to the problem it is trying to address, while ensuring the vast majority of families using standard, non-premium services (including the 643 centres in the Goodstart network) continue to receive adequate assistance to help with their childcare costs.

For example, in assessing whether the median fee is an appropriate benchmark, Goodstart believes the Commission should consider whether effectively increasing out-of-pocket costs for up to 50 per cent of all families is proportionate to a problem in a very small proportion of the market.

Goodstart also notes the Commission has identified risks associated with a deemed cost model, particularly that it could allow governments to use it as a mechanism to limit their expenditure (for example, by not appropriately indexing the subsidy).

In summary, Goodstart's views below reflect the following considerations:

- the design should address the problem without adversely impacting a large proportion of families; and
- the design should limit the identified risks with a deemed cost model.

Efficient price vs benchmark price

Of the two mechanisms proposed by the Commission—an efficient price and a benchmark price—Goodstart prefers a benchmark price based on actual fees.

Building up a set of accurate efficient prices based on individual cost components and updating it, would be very complex and require significant new data collection and validation. We believe it would need to be done by a new independent pricing authority in order to be credible, sufficiently accurate, and maintain its value over time. This would be costly for governments and would burden providers with more red tape for relatively limited benefit.

Even with a new pricing authority, and significantly improved data, fixed costs vary so significantly between centres it would be impossible to apply an efficient price (even if segmented by age and care type), without having a significant impact on affordability in the short run. Many of the drivers of costs in the sector are uncontrollable in the short run, and would likely to continue to be passed on to families through higher fees for a significant period of time regardless of whether subsidies were referenced to a theoretical efficient price.

Based on an assessment of the Goodstart network, the variations in fixed costs are due to a significant range of factors, many of which are not controllable in the short run. Across our network, the fixed cost¹ per licensed place per day varies by \$26 from lowest to highest. When analysing fixed costs per attendance the spread is greater still—a range of \$42.

Factors that contribute to variations in fixed costs in long day care (LDC) markets include:

- Location
- Ownership versus rental or lease of facility
- Lease and rental conditions where long 25-year leases are common
- Age of facility
- Size of facility
- Service mix of facility as there are space and peripheral cost differences between age groups.
- Licensed places versus configured places. The licenced places of a centre determine the maximum number of children who can attend given the overall dimensions of the centre. Configured places are determined by the way the centre has specifically configured the inside and outside space.

¹ Fixed costs include: rent and property costs, repairs and maintenance, gardening, cleaning, utilities

In relation to *variable costs*, in practice there would be challenges in estimating the 'efficient' variable costs from 'discretionary' costs that are excessive or premium. Some matters to consider would include:

- What is a 'fair' amount of profit/surplus compared with an 'excessive' profit?
- Which quality improvements would be considered 'efficient' and which are delivering a 'premium' service?
- What level of consumables (eg, art resources), food and nappy provision is 'premium'?

In summary, Goodstart agrees with the Commission's assessment of the downsides of an efficient price.

Goodstart considers a benchmark price has three key advantages:

- less administrative burden for government and providers;
- less risk that the price does not reflect the cost of delivery; and
- automatically moves with changes in the actual fees that families face.

In light of the costs and risks of an efficient price, Goodstart does not support the Commission's proposal to start with an efficient price and move to a benchmark price after three years. We think a benchmark price should be supported from the start of any new subsidy.

Setting a deemed cost based on a benchmark price

Goodstart believes the median fee is not an appropriate benchmark to address the policy objective. We are concerned that by definition, a deemed cost set at the median fee could see up to 50 per cent of families face relatively higher fees on an arbitrary basis.

This approach would see families living in higher cost markets receive a less-effective subsidy than families at the same level of income living in low-cost markets.

As a provider, we will not be able to simply reduce fees for any services above the deemed cost because higher fees generally reflect higher operating costs. Due to regulated minimum quality standards for labour, limited capacity to spread fixed costs across additional attendances and tight margins, it is not possible to simply constrict costs to meet a median benchmark.

Some unintended consequences of a deemed cost benchmarked to a median fee would be:

- Half of families pay fees above the median and arbitrarily pay relatively higher out-of-pocket costs than equivalent families in lower cost markets
- There would be a relatively lower incentive to open new centres in high-rent markets, like capital city areas because, other things being equal, the proportion of fees subsidised would be lower in these areas
- Driving more 'efficient' operation through increased occupancy levels risks reducing availability in local markets

Impacts of a median fee benchmark on low- and middle-income families in higher cost markets

Under the Commission's proposed approach, families in higher cost markets (that is, those in which childcare fees are above the median) will receive a lower effective subsidy than families at the same income level living in lower cost markets. This would be broadly appropriate if higher and lower cost markets corresponded very closely to higher and lower family income. However, Goodstart's analysis of our own network shows this is not the case. In summary, across our network:

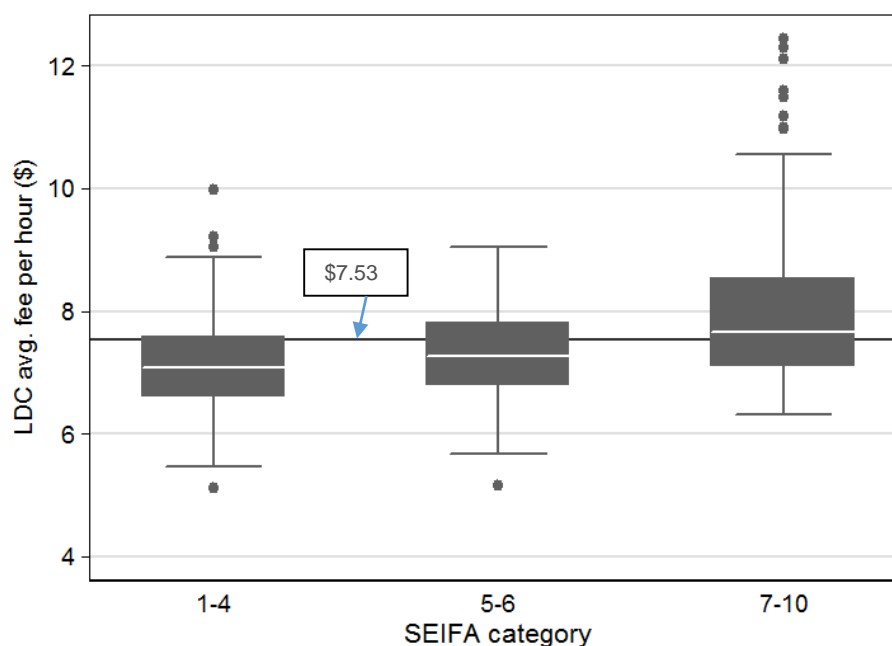
- Many centres in areas of greater socioeconomic disadvantage are in fact higher fee centres, suggesting many low-income families live in high-cost markets
- Many low-income and very-low-income families attend childcare in areas of higher socioeconomic advantage, which are more likely to be higher cost
- Many low-income and very-low-income families currently actually attend higher fee childcare centres.

We are therefore particularly concerned about the impact the proposed deemed cost arrangements will have on low-income and very-low-income families living in higher cost markets.

Many centres in areas of lower socioeconomic advantage are in fact higher fee centres

Goodstart considered the distribution of our FY2014 prices by SEIFA band—a measure of socioeconomic advantage and disadvantage—compared to the benchmark median 'deemed cost' of \$7.53.² Our analysis shows we have services where fees are well above the median across *all* SEIFA bands. As outlined in the chart below, above-median fees do not only occur in high-SEIFA markets; they are also observed in lower-SEIFA (decile 1-4) and mid-SEIFA (decile 5-6) areas.³ This suggests there are many low-income families living in markets with a higher cost of delivery and higher fees.

FIGURE 1—Distribution of average Goodstart LDC hourly fee by SEIFA of centre (FY2014)



² Note, that in practice the benchmark median of \$7.53 would apply in 2015 and this would increase the number of services with fees greater than \$7.53.

³ The higher fee centres in the Goodstart network tend to have higher fixed costs.

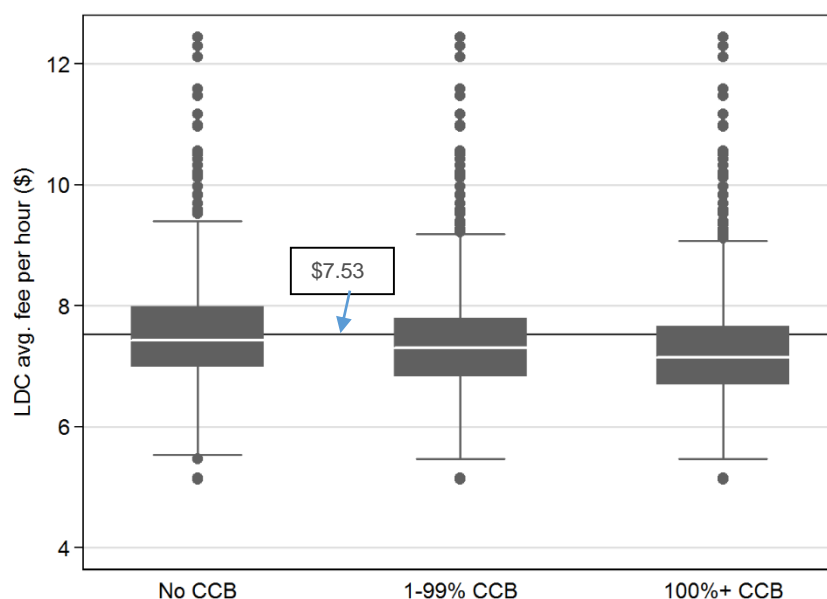
Many low-income and very-low-income families attend childcare in areas of higher socioeconomic advantage

Across the Goodstart network, children from very-low-income families are more likely to attend low-SEIFA centres. However, there are also many low-income families attending high-SEIFA centres: more than half of all children attending high-SEIFA centres are receiving some CCB, with around 16 per cent of children attending high-SEIFA centres receiving 100 per cent CCB.⁴ This demonstrates that many low-income families attend childcare in higher SEIFA areas—which are likely to be markets with higher delivery costs and higher fees. Under the Commission's proposed approach, these families will receive a lower effective subsidy than families on the same incomes in lower cost markets.

Many low-income and very-low-income families currently actually attend higher fee childcare centres

We considered children's CCB eligibility as a proxy for family income. The chart and corresponding table below shows there is a similar range of fees across all CCB categories. This demonstrates that across the Goodstart network, there are many very-low-income families (100 per cent or more CCB children) attending child care where the fee is above the median fee 'deemed cost' of \$7.53.

FIGURE 2—Box and Whisker Plot - Distribution of average Goodstart LDC hourly fee by percentage of CCB entitlement (FY14)



⁴ For the purposes of this analysis, children are grouped by three categories, those receiving *no CCB* (a CCB rate of 0%), those receiving *some CCB* (a CCB rate of between 1% and 99%) and those receiving a CCB rate of *100% or more*. 80% of all children in centres in SEIFA 1-4 areas received some CCB or 100% CCB, (38% receiving 100% CCB and 42% receiving some CCB). 69% of all children in centres in SEIFA 5-6 areas received some CCB or 100% CCB, (26% receiving 100% CCB and 43% receiving some CCB). 53% of all children in centres in SEIFA 7-10 areas received some CCB or 100% CCB (16% receiving 100% CCB and 38% receiving some CCB).

Table supporting Figure 2 - Total children in box plots of centre average fee by CCB category and outlier status

CCB category	Total children	Low outliers	High outliers	Total non-outliers	Avg. Quartile size (excluding outliers)
No CCB	22,541	52	1417	21,072	5,268.00
1-99% CCB	29,592	85	868	28,639	7,159.75
100%+ CCB	20,424	83	326	20,015	5,003.75

In fact, around a quarter of a very-low-income families or around 5,000 children receiving 100 per cent or more CCB attend centres with a median fee greater than \$7.53. These families would receive a lower effective subsidy than families on the same income level attending lower cost centres.

Goodstart's proposal

The deemed cost should be set at a higher benchmark than the median price to ensure the subsidy achieves affordability objectives for the overwhelming majority of families using standard early learning and care services operating in the current competitive market. The benchmark price should be based on fees for services that are at least meeting the National Quality Standard (NQS) to ensure the subsidy adequately funds quality.

Based on the available fee data on MyChild and the analysis in the Commission's report, we note the distribution of fees is characterised by:

- a wide variation in prices—which we consider reflects varying costs of delivery
- significant 'bunching' of pricing in local markets, which reflects the Productivity Commission's own analysis that 'fees are set within the ballpark of average fees in the area'—which we consider reflects both localised cost factors and market-based pricing approaches
- a long tail of very high priced providers (outliers)—which we consider reflects services with very high costs, premium services, or excessive profits.

As such, we consider that setting a benchmark price equivalent to the average price (mean) plus 2.5 standard deviations would effectively limit taxpayer funds to 'reasonable' fee levels, while ensuring families using standard services in legitimately higher cost markets are not penalised.

While this may appear a high benchmark, we note the Commission's own finding that "providers are constrained in their ability to raise prices significantly above costs"⁵—in general, competition is sufficient to ensure prices will be contained, even in markets where the deemed cost is higher than cost of delivery.

As an illustration, based on the fee data that Goodstart could source and use on MyChild for 4,875 services, the mean plus 2.5 standard deviations would see a benchmark of \$108.43. However, there are a number of data issues with MyChild and we recommend the Commission conduct its own modelling using the administrative fee data available to it.⁶

The 'deemed cost' would then act as an effective daily cap on the level of subsidy—the maximum payment families would receive is 90 per cent to 30 per cent of \$108. In this model, families with fees below the deemed cost would receive their assessed ECLS percentage applied to their actual fees.

⁵ Draft Report p439

⁶ Fee data is incomplete and also includes some very low fee services (eg. \$25 a day) that are an anomaly. This analysis also includes services that are not meeting the NQS, which should be excluded. See histogram and methodology at Appendix A

For example if their fee was \$90, they would receive 90 per cent to 30 per cent of \$90. (See further discussion below—How the ‘deemed cost’ applies in low cost markets.)

The benchmark price should be updated annually based on the most recent fee information. Linking the ECLS to a benchmark price that was updated annually based on fee data would be administratively simple and ensure subsidies maintain their value over time.

An even simpler variation on this would be where the subsidy is paid as a percentage of fees, with a daily cap on the dollar amount of subsidy. A daily cap would overcome the disincentives to work an extra day the current annual cap provides, and could be set using the methodology discussed above. In this model families would receive 90 per cent to 30 per cent of their fees up to \$108.

How the ‘deemed cost’ applies in low-cost markets

Goodstart notes the Commission intends that even if a family’s fee is below the deemed cost, the family would still receive a subsidy equal to their ECLS rate (%) applied to the deemed cost—even where this results in an effective subsidy rate of 100 per cent.⁷

The on-the-ground impact of this approach would be that some low-income families in lower cost markets receive free childcare.⁸ The table below illustrates this: Families on \$50,000 and \$100,000 in a lower cost market receive free ECEC.

TABLE 1—Impacts of proposed deemed cost approach in higher cost and lower cost markets

Location & daily fee (Deemed cost = \$75.30 per day)	Family Income	Assessed ECLS rate	ECLS subsidy paid / day	Out of pocket / day	Proposed effective subsidy rate	Current effective subsidy rate (CCB + CCR)
Redfern (NSW): \$113 Higher cost market	\$50,000	90%	\$67.77	\$45.45	60%	69%
	\$100,000	80%	\$60.24	\$52.98	53%	59%
	\$200,000	55%	\$41.42	\$71.81	37%	42%*
	\$300,000	30%	\$22.59	\$90.63	20%	42%*
Charleville (Qld): \$57 Lower cost market	\$50,000	90%	\$57.00	\$0.00	100%	87%
	\$100,000	80%	\$57.00	\$0.00	100%	68%
	\$200,000	55%	\$41.42	\$15.59	73%	50%
	\$300,000	30%	\$22.59	\$34.41	40%	50%

Notes: Daily fee average LDC taken from MyChild. Subsidy applied for a family using three days a week for 52 weeks a year for a single child under the age of three, 10 hour day. ‘Effective subsidy rate’ is the % of actual fees covered by the ECLS or current subsidy system. * Effective subsidy rate is lower than the 50% CCR rate as these families reach their CCR limit of \$7500 before the end of the year.

This table also illustrates the generally unequal impact of a deemed cost approach. The effective subsidy rate varies in an arbitrary way for families in the same income level: a family earning \$200,000 living in a higher cost market receives a 37 per cent subsidy, compared to a family on the

⁷ Goodstart notes that this policy feature was not specifically articulated in the Draft Report but was clarified in the Technical Paper.

⁸ This approach appears to be inconsistent with Commission’s analysis on co-payments in Chapter 12 of the Draft Report, finding that ‘other than in exceptional situations (such as where a child is at risk), the Commission considers that the maximum subsidy rate should not be 100 per cent’ (pg. 524).

same income living in a lower cost market that receives 73 per cent. It also shows that the current effective subsidy rates (CCB+CCR) are more equitable across all same income bands than the proposed 'deemed cost' model.

The Commission's proposed approach to applying a 'deemed cost' would provide heavily subsidised or free care to families in low-cost markets while making childcare relatively less affordable for families in higher cost markets. It is unclear how prioritising funding in this way would achieve affordability objectives for families that are already struggling with higher than average fees.

In practice, we believe the current proposal would also encourage fee increases in services below the deemed cost. Because families are being over-subsidised for their income level (up to 100 per cent assistance), fees can increase without families experiencing cost pressures.

Goodstart believes the proposed approach is inequitable and impractical. ECEC funding and additional investment should be allocated to maintain affordability for as many families as possible.

This would be achieved by setting a higher benchmark price than the median as the deemed cost, but also expecting co-payments from all families according to their income, except those in identified vulnerable circumstances (such as children at risk).

As such, a family's assessed ECLS percentage rate (based on their income), should be applied to whichever is *lower*: the deemed cost or the fee.

Cost premiums

Goodstart conducted a multivariate analysis of our network to provide the Productivity Commission with advice about cost premiums.

Location

Goodstart has conducted analysis of location-based factors that contribute to variations in cost. The location factors of state, population, Greater Capital City Statistical Area (GCCSA), and SEIFA were significant determinants of centre costs after controlling for other influential factors such as age mix and number of attendances.

Of these location factors, state played the largest role in determining cost. The variations largely reflect current inconsistencies in regulation and may be minimised when consistent ratios are implemented across the country from 2016.

After controlling for variation due to all other factors, centres inside GCCSAs (or the ACT) incurred almost \$32,000 extra in annual costs than those outside the GCCSA, while for every one unit increase in SEIFA there were additional costs of \$46,000. In addition to these factors, there was an annual premium of between \$46,000 and \$58,000 associated with operating a centre in an 'Urban Centre or Locality' with a population in the range of 50,000–999,999 persons. This is likely to reflect higher prices for sourcing goods and services (including rents) in markets where there is moderate-to-high demand but less competition than in areas with higher populations. As stated these are average values and will vary for individual centres. In some cases there may be large deviations from this pattern.

Localised benchmark prices could be set using these locational parameters.

While we found that age mix (across a service) and number of attendances also have a significant impact on variations in cost from one centre to another, it would not be feasible to factor these variations into an efficient price or benchmark price 'deemed cost' model given the degree of variation across the market.

Age of child

The Productivity Commission has also noted that a cost premium that reflected the different ages of children would encourage providers to set their prices to better reflect costs. Such an approach may also address other problems in the market—for example, it could increase the supply for nursery places by making them more profitable.

For simplicity and to accommodate 2016 ratio changes, Goodstart suggests an additional loading, for children from birth to 35 months (consistent with NQS definitions). From 36 months up to preschool the benchmark price we proposed earlier would apply. As there is unlikely to be a sufficient variation in prices across these age groups currently, it is recommended an additional loading of 25 per cent to 20 per cent is applied to the benchmark deemed cost for children from birth to 35 months. This would reflect the difference in the cost base between the lower ratios required for younger children.

This loading should be implemented in time to accommodate the 2016 ratio changes. This would provide incentives for providers to set their fees to better reflect their costs. It may also free up revenue so providers can compete on price in older age groups. Once implemented, the benchmark price mechanism would maintain differential rates based on fees.

Goodstart recommends setting the deemed cost based on a benchmark price, where the benchmark is set at 2.5 standard deviations above the average fee for services that meet or exceed the NQS.

- **Based on available MyChild data this would be around \$108 a day for 2014.**

Families should receive their assessed ECLS rate (between 90 per cent and 30 per cent based on their income) applied to their fee or the benchmark price, whichever is *lower*.

Goodstart recommends the Commission reconsider a percentage of fees model as proposed by the Commission of Audit and the Henry Review as a simpler alternative to the deemed cost model. The model should include a daily cap on the amount of subsidy that could be paid, with the cap to be determined as described above for the benchmark price.

The benchmark price should vary for identified cost premiums (specifically Greater Capital City Areas Statistical Areas as defined by the ABS, and for children under three years). The Productivity Commission should also consider other localised cost drivers for their final report.

Goodstart does not support starting with an efficient price and moving to a benchmark price after three years. Any new payment arrangements should start with a benchmark price.

Centres in high-SEIFA areas do not generally cross subsidise low-SEIFA areas

The Productivity Commission has suggested that high-SEIFA centres are cross-subsidising centres in low-SEIFA areas. This is not the case.

There is a weak relationship between profitability and SEIFA, a correlation coefficient of only 0.3. In comparison, the relationship between viability and average occupancy is moderately strong with a correlation coefficient of 0.6. The relationship between occupancy and SEIFA is also weak—a correlation coefficient of only 0.3 indicating that because a centre is in a higher SEIFA area does not generally mean it has higher occupancy.

In the Goodstart network, the cross-subsidisation of centres with lower profitability generally occurs through higher occupancy centres as opposed to higher SEIFA centres. Further, there are only a few not-for-profit providers large enough to cross-subsidise a network which means it is not a systematic, sector-wide practice.

4. Activity Test

INFORMATION REQUEST 12.3

The Commission seeks information on who is using ECEC services on a regular basis but working below the current activity test of 15 hours per week, or not actively looking for work or undertaking work, study or training. Views are sought on the activity test that should be applied, how it could be implemented simply, and whether some means tested access to subsidised care that is not subject to an activity test should be retained. If some subsidised care without an activity test is desirable, for how many hours a week should it be available, what should the eligibility criteria be, and what are the benefits to the community?

RESPONSE

Goodstart supports the Commission's proposed activity test of 24 hours a fortnight to receive assistance for up to 100 hours, which is more generous than the current CCB activity test.

Goodstart believes the proposal that all parents must meet the activity test to receive any childcare assistance is a significant failing of the proposed payment arrangements and must be addressed in the Commission's final report. We welcome the Commission's information request on this issue and our response is below.

Impact of no base entitlement on families and children

Goodstart's view is that there should be a base entitlement to subsidised ECEC—subject to means testing—for all children and families, regardless of parents' activity. There are two key reasons for this.

First, we know all children benefit from quality early learning. This means all Australian children should have the opportunity to participate in some amount of quality early learning on an equitable basis, regardless of their parents' attachment to the workforce. Indeed, children from low-income families whose parents are not in the workforce are probably among those most likely to benefit from ECEC participation.

Second, it is likely that many parents' work patterns involve them working less than 24 hours per fortnight, for a range of reasons including personal preferences and employment demand. We don't believe the Commission has made the case that this amount of work is insufficient or undeserving of support. Moreover, while some of these parents could potentially be encouraged to work longer hours by the new activity test, it is equally likely that some would be unable to or choose not to increase their hours, and would instead reduce their activity due to the loss of subsidised childcare. This would represent a significant negative unintended consequence.

It is difficult to determine exactly how many families will be affected by the new activity test, and we note the challenges the Commission has identified with the available datasets. However, it is likely the number is significant. In addition to the information provided in the Technical Paper, we also have considered ABS data, which shows around 18 per cent of women work 15 hours a week or less⁹. We also note that around 19 per cent of children in LDC attend for less than 10 hours a week¹⁰. These

⁹ ABS, 2010 (Australian Labour Market Statistics, 6105.0)

¹⁰ ABS, 2011 (ABS 44020D001_201106 Childhood Education and Care Australia, June 2011, table 8)

groups may include women who are working only one day a week as well as those who are using a combination of formal and informal care arrangements.

The current entitlement for children where their parents do not meet the activity test is means tested, and only covers a maximum of 24 hours of care a week. We think this is the right balance to help children from these families, particularly low-income and disadvantaged families, access the same learning opportunities as other children.

Removing a base entitlement disproportionately affects children from *very-low-income* families:

- The Commission estimates up to 45 per cent of families earning under \$50,000 a year who currently access childcare payments will lose their assistance.¹¹
- We also note that families on incomes below \$40,000 lose far more in subsidies than any other income group—around \$2.8 million per week. Those on incomes above \$160,000 lose less than very-low-income families.¹²
- We estimate the families of around 10,000 children currently in Goodstart centres would not meet the new activity test. Around half of these families receive the maximum rate of CCB so are on very-low incomes (less than \$42,000).

Goodstart notes the Commission's modelling that some of the affected families will increase their participation in order to continue to receive subsidies. The Commission is also clear that its modelling does not consider demand for labour. We provide some limited analysis below of the challenging labour market facing parents in low-SEIFA communities. We suggest the Commission should consider the available evidence about the factors that impact participation among low-income households in low-SEIFA communities.

We expect that increasing participation to meet the activity test would be easier for a parent who is already working some hours—they are more likely to be able to pick up an extra shift. In this scenario, the parent is already connected with the workforce and their continued participation is likely to depend on continued access to childcare subsidies.

However, very-low-income families where at least one parent is not working at all (including income support families discussed further below) are the *least* able to change their workforce participation in order to continue to receive subsidies for their children.

It is also these families that are most developmentally vulnerable, and most benefit from quality ECEC:

- Poverty compounds problems that lead to poorer life outcomes such as poor nutrition and poorer levels of education. These children are also at greater risk of social exclusion due less access to services such as a General Practitioners and less connectedness (eg, internet at home).¹³
- Children living in poverty are at much greater risk for poorer developmental outcomes than their more advantaged peers. By age two and certainly by age five, the gap in learning, development and wellbeing for the most vulnerable children is present and persists throughout formal schooling and impacts on education levels, work opportunities, mental and physical health, and life outcomes.¹⁴

11 PC Technical Paper, Figure A.1

12 PC Technical Paper, Table 4

13 NATSEM, 2013

14 McCain M, Mustard J and Shanker S (2007). *The Early Years Study 2: Putting Science into Action*. Toronto: Council of Early Childhood Development

- Children living in the most socio-economically disadvantaged communities in Australia are twice as likely to be developmentally vulnerable on each of the AEDC domains.¹⁵
- ECEC can deliver early intervention to address these vulnerabilities

Underemployment is common amongst low-income earners¹⁶. The absence of a base entitlement would mean a parent who could only pick up two five-hour shifts a week would have to pay the full cost of childcare. Paying the full fee for childcare combined with low wages and effective marginal tax rates would mean there would be very limited financial gain from working. It would also disadvantage casual and seasonal workers who might meet the test in some fortnights but not in others. Under this scenario children may be put in and out of ECEC from week to week or month to month. This lack of stability can have a negative impact on children's learning and development. Goodstart strongly believes that low-income families must have a base entitlement of ECLS to address these issues.

Income support families

We are particularly concerned about the impact on children from income support families, including single-parent families, most of whom would no longer receive childcare assistance under the proposed model.

We acknowledge and welcome the Commission's proposal that looking for work would be an eligible activity under the new activity test. A person receiving the Newstart Allowance would have job search requirements above this threshold (15 hours a week). However in couple jobless families, generally one parent receives Newstart and the other receives Parenting Payment until their child turns six years old. Because both parents must meet the activity test to receive the ECLS, these families can meet their income support participation requirements and not be eligible for childcare assistance.

Single parents receiving Parenting Payment Single are also not required to undertake activities until their youngest child turns six. The impact on this group of very vulnerable families would be significant. Around half of non-working single parents use ECEC for a birth to two-year-old child increasing to almost 90 per cent for a three to four-year-old child. Access to ECEC provides important support for single parents who may not have access to family or other informal support networks; it also provides quality learning and development opportunities for children.

Unless participating in the Jobs, Education and Training (JET) childcare program, non-working income support families already pay a co-payment for childcare (the maximum rate of CCB covers around 54 per cent of fees on average). This would be a significant cost for a family on a fixed income and reflects the priority that families place on ECEC for their children.

It is highly unlikely these families could afford ECEC without any government subsidy. Many children from income support families would no longer be able to attend ECEC, compounding the entrenched disadvantage associated with welfare dependency.

Other Impacts

We have also considered the Commission's modelling estimates that around two-thirds of families currently accessing ECEC but who would not meet the new activity test would stop accessing ECEC.¹⁷

¹⁵ Commonwealth Department of Education (2013) Australian Early Development Index 2012 Summary Report, Updated November 2013.

¹⁶ ABS Labour force, Australia, July 2014 (cat. no. 6202.0)

Underemployed people comprise part-time workers who would prefer to work more hours in the reference week or in the four weeks following the survey, and full-time workers who worked part-time hours in the reference week for economic reasons (e.g. being stood down or insufficient work being available).

¹⁷ As advised by the PC.

Our analysis is that:

- There are 35 Goodstart centres that have high concentrations (more than 30 per cent) of children currently receiving 100 per cent CCB for 24 hours who we expect would not meet the new activity test (that is, high concentrations of very-low-income families).
- There are 85 Goodstart centres that would become financially unviable due to reductions in occupancy—two-thirds (55 centres) in low-SEIFA areas (Band 1 to 4).
- If all these centres were closed, this would see a reduction of 6,383 daily places in the market.
- To keep just the centres in low-SEIFA areas open, operational funding of \$3.2 million a year would need to be provided as part of the Disadvantaged Communities Program (DCP).
- Further additional investment would be required to cover other markets beyond the Goodstart network.

Our top three centres most affected centres all have more than 50 per cent of children from families that would not meet the new activity test:

- Boonah, Qld (SEIFA 2)—60.5 per cent of children from families that would not meet new activity test
- Loganlea, Qld (SEIFA 2)—57.6 per cent of children from families that would not meet new activity test, 24 per cent of families are single-parent families, and female unemployment is well above average at 9.5 per cent
- Fairfield Heights, NSW (SEIFA 2)—55.8 per cent of children from families that would not meet new activity test, 24 per cent of families are single-parent families, and female unemployment is well above average at 9.8 per cent.¹⁸

Further information on Goodstart's analysis is in Appendix B.

With a softening labour market, Goodstart believes the Commission's estimated drop in attendances for children who will not meet the new activity test is conservative. If fewer families took on more work, or started to work in response to the activity test, the impacts would be even more significant.

In the absence of a base entitlement to ECLS, block funding would need to be provided in these communities or services would close. Our analysis of the Disadvantaged Communities Program as currently proposed suggests these services would not be eligible, and the program budget would be inadequate even if eligibility criteria were amended.

As we have previously advised the Commission, Goodstart runs our network to ensure we are sustainable and viable as a whole. We are not suggesting all these centres would necessarily close, however we would have to re-evaluate the viability of keeping these centres open considering our overarching goal of ensuring the network as a whole is financially stable. Depending on how the 'deemed cost' is applied, our ability to cross-subsidise may be limited. Further, these impacts would also be felt by other providers and there is a real risk that the activity test and a 'deemed cost' that is set too low could reduce supply across the board in order to drive increased occupancy at fewer centres. This would create significant uncertainty for families, employers, and providers and a consequence could be the local market may no longer supply enough places for all children to access childcare. This would not achieve the objectives of delivering affordable, accessible, flexible childcare.

¹⁸ ABS, 2011 Census:

http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/communityprofile/12702?opendocument&navpos=230

Options for a targeted base entitlement

Goodstart supports retaining a base entitlement to support up to two days' attendance at ECEC for families that do not meet the activity test, in light of the significant benefits for children's learning and development.

We acknowledge the fiscal constraints, and the possible effects that an activity test can have in encouraging participation, and as such suggest we recommend eligibility be limited to families with income below \$100,000, plus a reasonable child add-on for families with more than one child in care. This aligns with the new primary earner income limit for FTB Part B proposed by the Government in the 2014-15 Budget.

Goodstart recommends maintaining a means-tested, base entitlement to the ECLS for two days a week for families that do not meet the activity test.

Eligibility would be limited to family income below \$100,000 (for a one-child family), plus parents receiving Carer Allowance (child).

Goodstart supports the Commission's proposed exemptions to the activity test, noting that if no base entitlement is supported the exemptions must be expanded to include other income support families including Parenting Payment recipients, possibly with an entitlement of less than 100 hours per fortnight.

As the subsidy rates under the ECLS for low-income families are more generous than the current CCB rates, we would expect more low-income families to take up ECEC as affordability improves under Goodstart's proposal. This would deliver significant benefits to children from low-income families, addressing disadvantage and vulnerabilities early and helping them to start school on the same footing as their peers.

Goodstart has considered alternative options for a base entitlement. These options are not preferred as they do not deliver the same benefits for children and families. However, these options are outlined below:

- a lower income threshold
- restrictions on age of the child—for example, the base entitlement could apply to children from two years of age until they start school, with an exception for single parents receiving Parenting Payment Single
- a different subsidy rate and/or a tiered activity test—either a new (lower) tapered rate more commensurate with current CCB entitlements, or a lower flat rate

Further income testing options

Although Goodstart considers that a family income limit of \$100,000 would be an appropriate balance between participation and early childhood development objectives, other income limits the Commission may wish to consider are:

- Family income below \$60,000 (proposed maximum rate for new ECLS); and/or
- Health Care Card (HCC) and Pensioner Concession Card (PCC) holders (either the parent or the child).

An advantage of eligibility linked to HCC or PCC eligibility is that it would pick up families where a parent is receiving (the non-means-tested) Carer Allowance (child). Carers of a child with disability, regardless of household income, face unique workforce participation challenges and their children should not be excluded from ECEC on this basis. An alternate option would be to include Carer Allowance (child) recipients as a separate eligibility category for the base entitlement of ECLS.

Age restrictions

An alternative could be to limit access based on the age of the child, for example from 12 months or two years of age. The rationale for such an approach may be that the benefits of early learning are most clearly demonstrated from age two years and above. The United Kingdom has recently extended two days of free ECEC to disadvantaged children aged two years and above.

Goodstart does not support this option as it would create a barrier to workforce participation for women with young children working less than 12 hours work per week. A base entitlement for all children, regardless of age would ensure the subsidy system doesn't inadvertently create a barrier to workforce participation for women with very young children. It would facilitate them maintaining some connection to the workforce during a child's early years, including a gradual return to work. It also helps facilitate a continuity of early learning for older siblings.

Different subsidy rates and / or a tiered activity test

Another but more complex alternative would be to provide different subsidy rates for families that do not meet the activity test. Under such a model, families that don't meet the 24-hour activity test would receive a lower rate of subsidy and would receive a higher rate of subsidy and access to more hours if they did meet the 24-hour activity test.

As outlined in the table below, this would be similar to the current system, which effectively provides three tiers of assistance. This system ensures children from low- and middle-income families can access some ECEC subsidy regardless of their parents' attachment to the workforce and it is also reasonably effective at addressing disincentives to work for low-income, casual, and underemployed parents. The trade-off is that it is more complex, and provides lower subsidies to the most vulnerable children (for example, jobless families on income support).

TABLE 2—Options for a Tiered Activity Test and Subsidy Rates

Work requirements under current arrangements	Subsidy available under current arrangements	Possible Alternative design based on ECLS Model ¹⁹
No work, training or job search activities	24 hours of means-tested CCB	2 days of means-tested ECLS at a lower rate, eg, 75% of the 'deemed cost' for family income of \$60,000 tapering down to \$100,000.
Some work, training or job search activities—no hourly requirement	24 hours of means-tested CCB Non-means-tested CCR	2 days of means-tested ECLS at the standard rate of 90% for family income of \$60,000 tapering down to \$100,000.
Work, training or job search for at least 15 hours per week	Non-means-tested CCR 50 hours means-tested CCB	ECLS as recommended by PC for up to 100 hrs a fortnight (with activity test of 24 hours per fortnight)

¹⁹ These rates are provided for demonstration purposes only

The impact of a base entitlement on participation

Families who currently use ECEC, and are not meeting the activity test²⁰

Goodstart's proposed \$100,000 income limit is lower than the current CCB income cut outs. For families with income above the new limit, the participation incentive of the new activity test would still apply.

We expect that of the population set to lose assistance under the Commission-proposed model, those with higher family incomes (that is, above \$100,000), would be the most likely to increase participation due to stronger labour force connections. As such, some of the modelled workforce participation gains of the new activity test would still be realised while protecting the lowest income families.

Families who do not currently use ECEC, are not meeting the activity test²¹

This group delivers the majority (almost 70 per cent) of the total increase in workforce participation modelled from the new payment arrangements²². For the reform package to meet one of its key objectives in increasing workforce participation, the incentives and disincentives facing this group are important. It is also a big group of families—40 per cent of families—so a behavioral change in even *some* of the group can give significant participation benefits.

Based on our discussions with the Commission in relation to the modelling, and our analysis of the results, Goodstart's view is that the significant participation impact from this group is largely driven by more generous subsidy rates available under the new system. This is also confirmed in the elasticity studies on net childcare prices by Gong and others.²³ As such, changes to the activity test as proposed by Goodstart should still deliver the sizable participation impact modelled from this group. We expect our proposed base entitlement, combined with the new more generous subsidy for low- and middle-income earners would provide a new incentive for women to work, and they would work more hours in order to maximise their income and utility.

We acknowledge the FTB Part B secondary earner income limit may suppress parents' choices to work more hours, even in light of increased childcare subsidies. As such, we consider the Commission should address the effective marginal tax rate impacts of FTB B for couple families in its Final Report.

As set out in Section 1, we believe the Commission should consider limiting FTB Part B to single-parent families and redirecting the funds into ECEC as this would deliver a greater workforce participation benefit.

4. Other considerations

100 hours per fortnight limit

A limit of 100 hours a fortnight is consistent with current CCB rules of up to 50 hours a week, and the fortnightly application could potentially deliver more flexibility. However, depending on centre opening hours, it may not cover full-time work as the Commission intends. For example, at 11.5 hours a day (the average opening hours across the Goodstart network), 100 hours would cover 8.7 days a fortnight.

There is an existing provision for families to apply on a case-by-case basis for additional CCB hours to meet their work commitments, which should be continued under the new system.

²⁰ Group B from the Commission's technical paper.

²¹ Group A from the Commission's technical paper.

²² Table 3, technical paper.

²³ Gong, X. and Breunig, R. 2012, Estimating Net Child Care Price Elasticities of Partnered Women with Pre-school Children Using a Discrete Structural Labour Supply-Child Care Model, November, working paper, Australian Treasury, Canberra.

Goodstart supports an entitlement of up to 100 hours a fortnight provided there is a provision for families to apply for increased hours to meet their workforce participation requirements (consistent with the existing process for CCB).

Payment arrangements

A related issue is how the hourly rate would apply in terms of billing. Goodstart notes the Commission's recommendation suggests the ECLS would be paid 'on receipt of the record of *care provided*' (p. 46), however the Draft Report also suggests it 'applies to the hours of care *charged for*' (p. 21).

The vast majority of centres bill families by the day. This approach recognises children arrive and depart at different times each day, and staff must be available for the full day.

There are two likely consequences of an hours-used billing approach:

1. Our revenue would drop but the cost base wouldn't. The consequence would be that the fee per hour would have to increase up to cover the difference.
2. We would move to lower our cost base by limiting opening hours. For example, instead of operating 6.30am until 6pm, we would open from 7.30am until 5.30pm. This would be more efficient but would limit parents' flexibility.

These outcomes would disadvantage those families that need to access childcare for longer hours as they would bear the brunt of higher fees, while families seeking to access sessional or just a few hours care would also face higher fees in order to cover fixed costs and to manage the risk of offering hourly care.

Goodstart would argue a daily rate that bills for all hours in a daily session strikes the right balance between efficiency and ensuring services meet the needs of working families.

Goodstart recommends providers should be able to continue to charge a daily fee with the ECLS to be paid for all hours of the day.

Goodstart supports payments being made direct to centres.

Labour Costs

The Commission notes that "A professional and skilled workforce is critical to achieving quality ECEC services and consequent learning and development outcomes (chapter 5). The ECEC sector is also highly labour-intensive—labour costs are by far the largest cost for services (chapter 10)—and therefore increases in wages and other employment costs contribute very significantly to upward pressure on fees."

As mentioned in our first submission, Goodstart supports moves towards professional wage rates for educators in the ECEC workforce provided they are funded and affordable for families. We note the Commission has acknowledged that an increase in wages arising from the applications to the Fair Work Commission for Equal Remuneration Orders would dramatically increase the costs of delivering

LDC services and would put pressure on fees. The Productivity Commission should consider the importance of professional wages and the application for an Equal Remuneration Order currently before the Fair Work Commission in recommending subsidy design and future levels of public investment.

Operating hours

DRAFT RECOMMENDATION 8.3

The Australian Government should abolish operational requirements that specify minimum or maximum operating weeks or hours for services approved to receive child-based subsidies.

RESPONSE

Goodstart notes the analysis in the report that the existing minimum operating requirements may have restricted supply, particularly in rural and regional areas. The proposal would potentially mean that services like sessional preschools currently receiving registered CCB may receive the much more generous ECLS. There is likely to be an increase in demand and government spending associated with this recommendation, which should be tested against other priorities for investment.

INFORMATION REQUEST 8.3

The Commission seeks feedback on making the places of children who are on an extended absence available to other children on a short-term basis. In particular, the Commission is interested in disincentives or regulatory barriers that discourage or prevent services from implementing these arrangements

RESPONSE

We note the Commission's use of the term 'extended absence' is focused on absences longer than 42 days. That is, when current Government guidelines require that a family is unenrolled. Goodstart does not believe there are regulatory barriers or disincentives that prevent making places of children who are on an extended absence available to other children.

The main challenge is a lack of supply in some markets, either in terms of the availability for the right age group, and/or vacancies being available on the days that parents want. The other consideration is that often parents do not want to accept a temporary place and move their children between centres. We believe the current system provides sufficient flexibility to offer vacancies arising from extended absences to other children.

3. Vulnerable Children

Overall approach, funding and target groups

DRAFT RECOMMENDATION 7.8:

The Australian Government should establish three capped programs to support access of children with additional needs to ECEC services.

- The *Special Early Care and Learning Subsidy* would fund the deemed cost of meeting additional needs for those children who are assessed as eligible for the subsidy. This includes funding a means tested proportion of the deemed cost of mainstream services and the ‘top-up’ deemed cost of delivering services to specific groups of children based on their needs, notably children assessed as at risk, and children with a diagnosed disability.
- The *Disadvantaged Communities Program* would block fund providers, in full or in part, to deliver services to specific highly disadvantaged community groups, most notably Indigenous children. This program is to be designed to transition recipients to child-based funding arrangements wherever possible. This program would also fund coordination activities in integrated services where ECEC is the major element.
- The *Inclusion Support Program* would provide once-off grants to ECEC providers to build the capacity to provide services to additional needs children. This can include modifications to facilities and equipment and training for staff to meet the needs of children with a disability, Indigenous children, and other children from culturally and linguistically diverse backgrounds.

INFORMATION REQUEST 12.7

The Commission seeks views on the best way to allocate a fixed funding pool to support the ECEC access of children with additional needs and deliver the greatest community benefit. This includes views on the best option for allocating the Special Early Care and Learning Subsidy payments for children with disabilities to ensure that the program enables as many children with disabilities as possible to access mainstream ECEC services.

INFORMATION REQUEST 12.9

The Commission seeks information on whether there are other groups of children that are developmentally vulnerable, how they can be identified, and what the best way is to meet their additional needs.

RESPONSE

1. Capped funding and additional investment

Goodstart welcomes the recognition by the Commission of the benefits of quality ECEC for children with additional needs, and the recommendation that additional investment will be required to ensure equity of access.

We note the Commission’s initial estimate that an additional \$195 million a year should be allocated to children with additional needs.

Goodstart has included some analysis of funding levels in the sections on children at risk and children with disability on the following pages. This analysis is intended to be indicative only, and where possible mirrors the methodology used by the Commission in developing broad estimates for the Draft Report. We suggest the Commission conduct more robust modelling for the Final Report given the importance of adequate support for children with additional needs.

Our assessment is that the indicative additional investment of \$195 million a year is significantly below that required to deliver the level of support set out in the Draft Report. Further, Goodstart supports expanding eligibility and/or entitlements for a number of groups that will also increase the amount of additional funding required.

Goodstart believes supporting vulnerable children and children with additional needs to access quality ECEC is a high priority for reform, and further additional investment should be allocated accordingly.

We note the Commission proposes the Special Early Care and Learning Subsidy (SECLS) for children with additional needs be capped, and rationing of hours and places may be required. We do not support this proposed approach.

Goodstart believes subsidies to support the inclusion of children with additional needs should be demand driven (uncapped) just like mainstream subsidies. Funding levels should be increased to meet demand.

A capped funding program means vulnerable children will not have a legislated entitlement to support in the same way as other children. So the support set out in the Commission's Draft Report—for example, up to 100 hours a fortnight for children with disability—is not actually an entitlement but an aspiration.

Rationing support for children with additional needs is not equitable (particularly when compared to the proposal for demand-driven funding to provide subsidies to families using a nanny), but it also is not consistent with the analysis in the Commission's report that identifies quality ECEC for vulnerable children delivers the biggest 'bang for buck' of all.

If the Commission does not support uncapped funding for additional needs, at a minimum, fee relief for all vulnerable groups should be provided under the demand-driven ECLS, with SECLS to provide funding for additional support needs. This would mean fee relief for children at risk of abuse and neglect would be demand-driven, as is proposed for children with disability.

2. Proposed program structure for supporting children with additional needs

Access to the Early Care and Learning Subsidy (ECLS)—fee relief

Under the Commission's proposed model, the interaction between the ECLS and the SECLS is different for children with disability, and children at risk of abuse and neglect.

Goodstart supports a consistent model for all additional needs groups where the ECLS provides fee relief, and SECLS provides 100 per cent of the additional support costs to address a child's additional needs.

A special 100 per cent rate of ECLS, not subject to means or activity testing, should be provided for children at risk of abuse and neglect, children with a grandparent carer who receives an income support payment, children who are newly arrived via refugee or humanitarian programs, and children suffering temporary financial hardship due to a traumatic event.

There is also a risk that subsidies based on 'deemed costs' could create cost barriers for very vulnerable families in higher cost markets, even at the highest subsidy rates.

As an example, the average fee for LDC in Redfern, Sydney,²⁴ is \$113 a day. This is well above the median fee nationally, and would mean an out-of-pocket cost of around \$38 a day for a child at risk²⁵ if the benchmark price was the median fee. This would be unachievable for many vulnerable families and non-parent carers, particularly those on income support and we believe many children at risk would not be able to attend.

If Goodstart's recommendations on a higher benchmark for determining the 'deemed cost' are not supported by the Commission, subsidies for very vulnerable families who receive the 100 per cent rate of ECLS should cover full fees rather than 'deemed costs'.

Goodstart recommends the Commission models the impacts of its proposed deemed cost in suburbs with high concentrations of public housing as a proxy of families experiencing disadvantage to assess the likely out-of-pocket cost for children at risk in these areas. We note that many of these communities are in inner-city areas where ECEC services are likely to have higher costs and therefore higher fees.

As the Commission notes in its report:

There can be situations where even a low co-payment would be likely to discourage high priority (from a community wide perspective) child participation in ECEC or workforce participation. In such situations, such as where the child is at risk, a zero co-payment may be appropriate. (p. 521)

As such, the Commission should consider whether full-fee relief would be more appropriate for this group.

²⁴ Redfern is an inner city suburb with very mixed demographics, but includes high concentration of public housing. Similar results would be found for other inner city suburbs with high concentrations of public housing such as Fitzroy and Kensington in Melbourne.

²⁵ Based on average opening hours in Redfern of 10 hours.

The Special Early Care and Learning Subsidy (SECLS)

We welcome the recognition by the Commission that children with disability and children at risk of abuse and neglect have additional needs above and beyond fee relief. Further information about the support needs of children in these groups is provided in the sections on the following pages.

Goodstart supports a tiered model of support under the SECLS that applies to all target groups, accounts for level of need, and supports both participation and more intensive early intervention.

Goodstart proposes the following model for SECLS across all eligible target groups (children at risk of abuse and neglect, children with disability, and humanitarian entrants). See Table 3 over the page.

TABLE 3: Proposed Tiered Design of Special Early Care and Learning Subsidy				
SECLS support level	Qualifications	Hourly rate	Duration	Examples
Establishment support One-off funding to support the establishment of the child's place at the service including developing an individual inclusion support plan that documents ongoing support needs.	n/a Provided through the Inclusion Support Agencies in collaboration with ECEC services	n/a	One-off	A child with a mild physical impairment requires support for their enrolment and orientation to ECEC. A child with a disability or at risk requires an individual inclusion support plan to allow them to access and participate ECEC.
Ongoing support (medium needs) —participation The child requires additional educator support to participate in the program (for all hours of attendance).	ECEC worker— Certificate III	\$23.31	Could be time limited or ongoing	A child with autism requires support to meaningfully engage with other children in ECEC and requires one-on-one support at meal times and for toileting. A child at risk requires ongoing support to promote appropriate behaviours, consolidate relationships and participate in the program (likely to be time limited).
Ongoing support (high needs) —participation The child has higher needs to participate in most or all aspects of the program (required for all hours of attendance).	ECEC worker— Diploma educated	\$26.88	Could be time limited or ongoing	A child at risk experiencing ongoing abuse requires intensive support to reduce violent behaviours and build trusting relationships at ECEC and with family. A child with a cerebral palsy requires ongoing support to adapt learning experiences, promote inclusion with other children and support at mealtimes and for toileting.
Ongoing support—early intervention The child requires more intensive, specialist support to address developmental vulnerabilities and maximise early learning.	Specialist or allied health worker, eg. Occupational Therapist, Speech Pathologist, Autism specialist,	Varies. Should be funded under NDIS package, by state child protection	According to the child's plan/package, but would not be all hours of care.	A child at risk requires specialist support from an Infant Mental Health specialist for 4 hours a week who also supports the educator delivering the individual inclusion support plan.

<p>Ongoing support—early intervention <i>Continued</i></p>	<p>Psychologist, Social Worker, Infant Mental Health specialist</p>	<p>where a care plan in place, or settlement services for humanitarian entrants and 'brought in' to ECEC environment.</p> <p>For other eligible children,</p> <p>ISAs could source specialist services from other funded programs, or SECLS to fund where there are service gaps.</p>		<p>A child with cerebral palsy has a physiotherapist and occupational therapist review equipment support needs, assess environmental modifications, and analyse any mobility hazards in ECEC environment. Review informs the ECEC program delivered by educators.</p>
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Under this model, Goodstart supports retaining and strengthening the role of Inclusion Support Agencies (ISAs) to support all special needs groups eligible for SECLS by:

- Assessing level of need (establishment, medium ongoing, or high ongoing) and required training or equipment.
- Developing inclusion support plans with the ECEC educators and other professionals and providers already working with the child (eg, National Disability Insurance Scheme, child protection, health services). These plans assist to upskill educators to provide appropriate and quality inclusion support.
- Coordinating more intensive early intervention support where required, including:
 - Bringing in the National Disability Insurance Scheme (NDIS) and child protection-funded services where ECEC would be an appropriate environment for those interventions to be delivered.
 - Sourcing and/or purchasing services for children who do not have a package/plan in place.

The professional expertise available under the current Inclusion and Professional Support Program (IPSP) will be a critical success factor to make sure the additional financial assistance provided under SECLS delivers inclusion on the ground.

Inclusion and Professional Support Program (IPSP)

We welcome and support the improved SECLS to replace the current Inclusion Support Subsidy (ISS). However, the other elements of the current IPSP are successful and should be retained and strengthened.

Goodstart supports retaining and strengthening the following elements of the current IPSP: Inclusion Support Agencies, inclusion support facilitators, the bi-cultural support program, and access to specialist equipment.

The current IPSP is a highly regarded program supporting the inclusion needs of children by providing services with access to professionals who can ensure services plan for and support children with additional needs. Part of the success of the program is that it is ongoing, enabling services to build relationships with the Inclusion Support Agencies and Inclusion Support Facilitators. Each service can then pull on that support as often as it is needed.

A one-off grants approach as proposed by the Commission would not enable the same continuity of service. Further, if competitive funding rounds were introduced services would lose timely access to professionals who can support an assessment of a child's inclusion support needs as and when it is required for each child. This type of assessment and support will continue to be required under the new SECLS particularly if there is to be different levels of funding according to the extent of a child's inclusion needs.

We provided suggestions for strengthening the performance of ISAs in our first submission.

Disadvantaged Communities Program (DCP)

The Commission's support for integrated services as a way to address concentrated disadvantage is welcomed. We provided examples in our first submission of how a universal platform such as ECEC centres can be highly effective in integrating service delivery.

However, our assessment of the available funding envelope for the DCP is that much of the proposed allocation of \$100 million a year will be required to continue block funding for Budget Based Funded (BBF) services (currently \$79 million a year).

We note the Commission suggests the DCP also support BBF services to meet the NQS and move into the mainstream system. This would require significant financial investment, and as such, it appears funding for the integration stream would be very limited.

In addition, the Commission has advised it intends for new migrant communities and Indigenous communities to be the key target groups for DCP funding²⁶. Goodstart supports additional resources for these very vulnerable groups, however we consider the DCP should also support access and integration in other communities of high disadvantage.

Further, if the Commission does not support a base entitlement to ECLS, the DCP would need to be significantly expanded to provide block funding for services in low-SEIFA communities that would become unviable under the proposed activity test. Further analysis of the impact of the activity test on Goodstart centres in low-SEIFA areas is in Section 2—Subsidy Design.

Goodstart recommends estimated funding for the Disadvantaged Communities Program (DCP) should be expanded to include adequate funding for an integration stream, and include low-SEIFA communities in the groups eligible for funding.

Goodstart notes the DCP may need to be significantly expanded to provide block funding for some centres in low-SEIFA areas affected by the proposed activity test.

3. Target groups—overview

Goodstart welcomes the Commission's recognition of the benefits of quality ECEC for children with additional needs, particularly children at risk of abuse and neglect, children with disability, and Indigenous children.

Goodstart notes that when considering the needs of very young children the United Nations Committee on the Rights of the Child²⁷ identifies a very young child's health and psychosocial wellbeing are interdependent and both may be put at risk when subjected to adverse living conditions, neglect, insensitive or abusive treatment, and restricted opportunities to access a healthy and safe environment, education, and play opportunities.

²⁶ The proposed structure, target groups and types of assistance under the DCP is not clear in the Draft Report. We suggest the PC seek to clarify these issues in their final report.

²⁷ UN Committee on the Rights of the Child (CRC), CRC General Comment No. 7 (2005): Implementing Child Rights in Early Childhood, 20 September 2006, CRC/C/GC/7/Rev.1, Retrieved from <http://www.refworld.org/docid/460bc5a62.html>

As such, Goodstart considers the following groups are developmentally vulnerable, but not adequately supported under the Commission's model:

- Low-income families including income support families—see Section 2 on the new activity test for ECLS.
- Children who are recent humanitarian entrants.
- Children from families experiencing temporary financial hardship due to a traumatic event, for example domestic violence, homelessness, the death of a parent/s, or a natural disaster.

A summary of the Commission's proposed support by target group and Goodstart's recommendations is in Table 4 on the following page. More detailed comments and suggestions about the eligibility, proposed entitlements, and costs of supporting these groups are in following sections.

TABLE 4: Additional needs target groups and recommended supports		
Group	PC proposed	Goodstart recommendation
Low SES	ECLS up to 90% of deemed costs if meet work, study, training (WST) test. No entitlement if do not meet work test.	A means-tested, base entitlement to the ECLS for two days a week for families that do not meet the activity test. Eligibility would be limited to family income below \$100,000 (for a one child family), plus parents receiving Carer Allowance (child).
Income support families	DSP/Carer Payment—ECLS exempt from work test. Parenting Payment (PP)—no entitlement if do not meet work test. Newstart—access to ECLS because their participation requirements mean they will meet work test (however for families with children aged under 6, one parent will be on PP).	Eligible for base entitlement of two days a week. If the Commission does not support a base entitlement, all income support families should be exempt from the activity test.
Children with disability (diagnosed)	ECLS—up to 100 hours a fortnight, means-tested, exemption from activity test if parent receives Disability Support Pension or Carer Payment. SECLS—100% of additional deemed costs up to 100 hours a fortnight. ISP—one-off grants.	ECLS—Up to 100 hours a fortnight if meet work test, or exempt; or base entitlement if receiving Carer Allowance (child) and not meeting the work test. SECLS as proposed—‘top-up’ for additional needs. ISP—inclusion support.
Children with developmental delay	ECLS only	Same as diagnosed disability above
Children at risk of abuse and neglect	SECLS—100% of ‘deemed costs’ up to 100 hours a fortnight, including any ‘special’ services.	ECLS—special rate of 100% (regardless of income), and exempt from activity test. SECLS—‘top-up’ for additional needs. ISP—inclusion support.

Children with a grandparent as primary carer	ECLS, exempt from activity test.	<p>ECLS, exempt from activity test.</p> <p>Grandparent carers who receive an income support payment should also receive special ECLS rate of 100%.</p> <p>Note—under Goodstart's proposed eligibility for 'at risk', all grandparent, kinship and foster carers would receive special ECLS rate of 100%.</p>
Temporary hardship due to a traumatic event	None	<p>ECLS—temporary special rate of 100% (if financial hardship).</p> <p>ECLS—temporary exemption from activity test (if no financial hardship, but would lose entitlement due to activity test).</p>
CALD	<p>ECLS—means-tested, activity tested.</p> <p>ISP—one-off grants.</p>	<p>ECLS</p> <p>ISP—bi-cultural support</p>
Newly arrived via refugee or humanitarian programs	ECLS only—means-tested, activity tested.	<p>ECLS—special rate of 100% (regardless of income), and exempt from activity test.</p> <p>SECLS—'top-up' for additional needs.</p> <p>ISP—inclusion and bi-cultural support.</p>
Aboriginal or Torres Strait Islander	<p>Mainstream in disadvantaged communities—ECLS + SECLS, ISP.</p> <p>Mainstream, non-disadvantaged communities—ISP only.</p> <p>BBF—DCP.</p>	Support BBF services in Indigenous communities meeting National Quality Standards.

Children at risk

DRAFT RECOMMENDATION 12.7

The Australian Government should continue to provide support for children who are assessed as 'at risk' to access ECEC services, providing:

- a 100 per cent subsidy for the deemed cost of ECEC services, which includes any additional 'special' services at their deemed cost, funded from the Special Early Care and Learning Subsidy program
- up to 100 hours a fortnight, regardless of whether the families meet an activity test
- support for initially 13 weeks then, after assessment by the relevant state or territory department and approval by the Department of Human Services, for up to 26 weeks.

ECEC providers must contact the state or territory department with responsibility for child protection within one week of providing a service to any child on whose behalf they apply for the 'at risk' Special Early Care and Learning Subsidy. Continuation of access to the subsidy is to be based on assessment by this department, assignment of a case worker, and approval by the Department of Human Services. The Australian Government should review the adequacy of the program budget to meet reasonable need annually.

INFORMATION REQUEST 8.1

The Commission seeks further information on the nature of the barriers faced by families with children with additional needs in accessing appropriate ECEC services and the prevalence of children with additional needs who have difficulty accessing and participating fully in ECEC. Information on the additional costs of including children with additional needs is also sought.

RESPONSE

1. Eligibility

The current eligibility criteria for Special Child Care Benefit (SCCB) for children at risk stipulates a child is at 'serious' risk of neglect or abuse. Children are identified by educators and centre directors who can approve 13 weeks of SCCB. We support this continuing under the Productivity Commission's recommendations. In order to receive support beyond 13 weeks, approval is required from the Department of Human Services (DHS).

In Goodstart's experience, one of the problems with the current SCCB program is the threshold for continued support changes frequently and is based on subjective assessments by DHS, who may not be the best placed to assess risk. In addition, the process of gathering supporting evidence from various professionals for re-applications and waiting times for approval can result in disrupted access to ECEC.

As such, we support advice from state child protection departments forming the basis of the assessment for continued support.

We note the Commission's recommendation that a case manager or social worker should be assigned for support to continue beyond 13 weeks. We suggest the Commission clarify in its final report how this would work in practice, what types of social worker or case manager support they envisage, and how it would be funded. Case management support is very expensive and is not a

realistic expectation under the current social services and child protection system. In particular, a requirement that a child protection case manager be allocated for a child at risk to receive childcare assistance would see many children fall through the cracks.

Goodstart considers a referral from a support service would be a more appropriate response. We understand Early Childhood Australia has provided the Commission with examples of specific Commonwealth agencies that could provide referrals.

Goodstart supports clear and objective eligibility criteria for determining whether children are ‘at risk’.

Goodstart recommends the following groups be considered ‘at risk’ and be eligible for the special 100 per cent rate of ECLS and access to additional support under SECLS:

- **Children in out-of-home care, or who have been removed from and then re-united with their family, or who have a substantiated child protection concern and remain with family.**
- **Children who are notified to a state child protection department and assessed as needing ongoing support (Tier/Priority 3 in state child protection risk assessments)²⁸.**

Goodstart recommends that for support to continue after the first 13 weeks, DHS confirms with the state child protection department that the child is ‘at risk’ according to this criteria, with annual reviews for support to continue.

Goodstart also supports the establishment of a focused taskforce to work on the implementation of reforms for children at risk of abuse and neglect.

Goodstart supports continuing to classify children as ‘at risk’ for the purposes of ECEC payments, even when they have been removed from their family and are in out-of-home care, because:

- It is well established in the literature that even when children enter into foster care their risk of impact from early trauma remains high.
- Many children experience multiple placements, and sometimes re-unification and dis-unification with biological family occurs intermittently.
- Access to a stable care environment like childcare can mitigate some of those risks particularly if out-of-home placements change but childcare remains consistent.
- Easy access to care for foster parents may also be a protective factor in helping to maintain a foster care placement.²⁹

²⁸ States and territories have broadly consistent criteria to classify children who are in need of ongoing support. Consequently, this criteria could be agreed by the states and territories and nationally applied in the ECEC context.

²⁹ Ebert, C., Watson, S. and Dolby, R. (2008) Child Care- A ‘holding environment’, supporting infants and their parents with mental illness and emotional difficulties in Sved Williams, A. and Cowling, V. (eds) (2008) Infants of Parents with Mental Illness: Developmental, Clinical, Cultural, and Personal Perspectives, Australian Academic Press.

2. Entitlement—what extra support do children at risk need to overcome barriers to access?

Types of support

In Goodstart's view, children at risk of abuse and neglect require two types of support to participate in, and benefit fully from, ECEC:

- *Full fee relief*—any cost can be a barrier to access for children at risk of abuse and neglect. Depending on where the deemed cost is set, the ECLS may need to cover 100 per cent of fees, not deemed costs for this group. As the proposed process requires approval from DHS, appropriate compliance arrangements could be put in place to ensure fees are reasonable.
- *Support for additional needs*—in Goodstart's experience, children at risk do generally have additional needs arising from trauma that is usually expressed in significant challenging and unsafe behaviours (for themselves and others). SECLS funding for these children above and beyond fee relief is needed to meet two objectives:
 - *Participation*—support to ensure children at risk can meaningfully join in the program while also ensuring the environment is safe for all children and staff
 - *Early intervention*—more intensive support to address a child's response to trauma, any developmental delays, and maximise early learning opportunities.

SCCB does not fund 'additional needs' of children at risk (either for participation or early intervention). Unless the service is a specialist service, this means the additional cost is usually absorbed by providers.

In Goodstart's experience, these costs are two-fold:

- Higher labour costs to ensure safety for other children and staff
- Costs to services due to children from other families being removed.

Unfortunately, as the additional support needs of children at risk are unfunded, providers are limited in their capacity to provide the more intensive support that is required to address developmental delays and ameliorate the impacts of trauma. This is a significant lost opportunity to address the disadvantage experienced by children at risk from a very early age.

Goodstart has invested in a program called Partnerships in Early Childhood (PIEC) run by The Benevolent Society. The program places a child and family practitioner in a centre with children at high risk to work directly with educators to provide therapeutic responses in their ECEC program. A case study is provided below.

CASE STUDY

Sam and Sarah (4-year-old twins in ECEC four days a week)

Sam and Sarah were born with Fetal Alcohol Syndrome (FASD) and were placed in permanent foster care soon after birth

Educators reported both children from infancy were 'very hard' and violent towards other children. They had been assessed by a health professional to have 'little-to-no concentration span', with a profound impact on their capacity to learn.

The PIEC worker observed the children's aggressive behaviours were worst on arrival to the centre, when a carer was leaving or when a change occurred in the day's activities—these are

referred to as 'transition times'. During these times the children would hit other children, spit at staff, throw chairs, or turn tables over. Staff would often receive physical injuries in their attempt to keep all of the children safe.

The intervention

The PIEC worker suggested a sensory activity, such as pouring water or running fingers through rice, is often cathartic and calming to many children who may be struggling emotionally. This was combined with the children's morning routine to help reduce the negative impact transition times had on them. The routine involved the predictability of the same educator every day working with the children one-on-one to implement the sensory experience. It allowed the children to form a positive relationship with the educator as well as giving them time to regulate emotionally before entering into a large group of children. This routine is also applied at other 'high-risk' times, such as when they are tired or have had an altercation with another child.

Outcome

Within three months of the intervention plan, there was a dramatic reduction in reported incidents of violence from the children to other children and there have been no reported acts of violence towards educators. The children are now able to stay task focused for long periods of time, greatly increasing their ability to learn.

Options for schooling are now being collaboratively explored with the children's educators, local schools and their pre-school, and with the allied health professionals involved in their care. Previously, schooling options were considered to be very limited with very poor educational outcomes predicted.

This example highlights the successful combination of professional development, multi-disciplinary collaboration, and one-on-one educator support for the daily program. This model of support can ensure children at risk can participate in a way that is safe for them and other children, and can also address significant learning and wellbeing issues.

Goodstart has funded this program internally, but this type of support should be available to all children at risk. Goodstart's proposed approach to SECLS would support this model.

Continuous rather than intermittent support

Children at risk of abuse and neglect have ongoing support needs to address their early experiences of trauma. Adverse experiences in early childhood are not additive—they are multiplicative, meaning the more adverse circumstances a child is exposed to over time the more detrimental the long-term outcome is likely to be.³⁰ To thrive, children need access to safe, nurturing, secure relationships with people they can trust. If these relationships are not available to a child at home, it should be available in other environments in which they are cared for, such as ECEC.

The system must be child focused to ensure continuity of access and participation and to increase the chance of children starting school relatively safe, without a learning and development gap that, with the right support, could be avoided or at the very least reduced.

Under the current arrangements, frequent reviews and changing eligibility and evidence requirements mean many children at risk come in and out of ECEC. Very few children experience risk for a short time only. This must be addressed in the new payment arrangements³¹.

30 Moore, T.G., and McDonald, M. (2013). Acting Early Changing Lives: How prevention and early action saves money and improves well-being. Prepared for the Benevolent Society. Parkville, Victoria: Centre for Community Child Health at the Murdoch Children's Research Institute and the Royal Children's Hospital.

31 The Commission's intended review process is unclear in the Draft Report and we suggest the Commission clarify this in the Final Report. From discussions with the Commission, we understand that the intention is that additional support is not time-limited (but is subject to review),

Children ‘at risk’ should receive 100 per cent ECLS and SECLS from the time risk is identified until the child enters school. Once eligibility is determined, a review every 12 months to verify the child’s ongoing risk should be conducted.

3. Costs & funding implications

Goodstart’s assessment is that the funding estimated to support an access target of 100 per cent for children at risk of abuse and neglect will need to be significantly expanded:

- *The target population*—we understand the Commission’s estimate of the target population is based on the number of child abuse and neglect substantiations each year for children aged from birth to four years. This is not an appropriate indicator of the population at serious risk in any year given the length of time an investigation can take and the significant backlog in investigations. There are many thousands of children at risk but not subject to a substantiation. It also does not take into account children who were investigated in a previous year but who have continuing additional needs, for example children in out-of-home care.
 - Including children under school age in out-of-home care (on top of 14,000 substantiations estimated by the Productivity Commission³²) would approximately double the population³³. Adding in the children assessed as having ongoing support needs but who remain with their family (and not subject to a substantiation) would further increase the numbers.
- *Continuous support*—the current annual SCCB cost per child at risk (\$7,300³⁴) supports an average of 17 weeks access due to difficulties in accessing continuing support. To cover a full year (which the vast majority of children would require) the annual cost would be around \$21,500³⁵.
- *Funding for additional needs*—supporting participation, and providing more intensive support to address developmental delays and improve behavioural issues associated with trauma and attachment, would require additional expenditure above the current SCCB funding—even for the existing cohort.

Just providing fee relief (based on full-year SCCB costs and including children in out-of-home care) would require funding of at least \$602 million a year. As the Commission has noted, some of this cost would already be modelled in the ECLS cost estimates.

Given the clear evidence of the comprehensively poor learning and life outcomes for children at risk of abuse and neglect, and the benefits that quality ECEC can have for these children, Goodstart believes this is an investment that must be made.

³² There are a number of figures used in the Draft Report in relation to the Commission’s ‘target population’ for children at risk. For our analysis we have used 14,000 based on Draft Report page 352.

³³ Base on figure B.2 in the Draft Report (pg.629).

³⁴ This has been calculated using annual cost of \$86.2m (Table 13.5) divided by 11,812 children (Table 8.3). We note the Commission has stated the annual SCCB cost per child is \$11,500 (pg.574) but it is unclear how this number was estimated.

³⁵ Based on a 50 week year.

Children with disability

DRAFT RECOMMENDATION 12.8

The Australian Government should continue to provide support for children who have a diagnosed disability to access ECEC services, through:

- access to the mainstream ECEC funding on the same basis as children without a disability and up to a 100 per cent subsidy for the deemed cost of additional ECEC services, funded from the Special Early Care and Learning Subsidy
- block funded support to ECEC providers to build the capacity to cater for the needs of these children, funded through the Inclusion Support Program.

The relevant Government agency should work with the National Disability Insurance Agency and specialist providers for those children whose disability falls outside the National Disability Insurance Scheme, to establish a deemed cost model that will reflect reasonable costs by age of child and the nature and extent of their disability. Based on an assessment of the number of children in need of this service, and the costs of providing reasonable ECEC services, the Australian Government should review the adequacy of the program budget to meet reasonable need annually.

INFORMATION REQUEST 12.8

The Commission seeks views on what types of services (that are not the funding responsibility of the National Disability Insurance Scheme) should be provided for children with a diagnosed disability attending ECEC, and how best to prioritise available funding. It also seeks information on the range of needs and the costs of meeting these needs for children of different ages and by the nature and extent of their disability.

INFORMATION REQUEST 8.1

The Commission seeks further information on the nature of the barriers faced by families with children with additional needs in accessing appropriate ECEC services and the prevalence of children with additional needs who have difficulty accessing and participating fully in ECEC. Information on the additional costs of including children with additional needs is also sought.

RESPONSE

1. Eligibility

Early Care and Learning Subsidy (ECLS)

Goodstart agrees it is reasonable that access to the ECLS for children with disability is means tested on the same basis as other families.

We support the proposed exemption from the 'work, training, study' test for Carer Payment recipients, recognising that meeting the activity test could be difficult given their caring responsibilities.

However, other carers of a child with disability also face significant participation barriers and their children should not be excluded from the benefits of ECEC on that basis. Parental eligibility for Carer Allowance (child) would provide an appropriate threshold for eligibility to a base entitlement of ECLS.

A Health Care Card (HCC) is issued to the child with disability where their parent is eligible for Carer Allowance (child) so these families could also be picked up under a HCC definition of eligibility.

Goodstart supports parents who receive Carer Allowance (child) eligible for a base entitlement to ECLS of 24 hours a week for all children in their care.

If the Commission does not support a base entitlement, Goodstart recommends that Carer Allowance (child) recipients are exempt from the activity test.

Special Early Care and Learning Subsidy (SECLS)

Goodstart noted in our first submission that there are many children who do not have a recognised disability who require inclusion support to maximise their learning and development and maintain quality for others who attend care at the same time.

A disability diagnosis can be complex in the very earliest years of life. As such, Goodstart recommends a broader definition of 'additional needs' to include 'developmental delay' should be applied.

This is consistent with the national agreement under the NDIS, which ensures children under six years old with a diagnosed disability and/or developmental delay have the opportunity to receive reasonable and necessary supports³⁶. Similarly, access to state government early childhood disability services can include 'developmental delay'. For example, in Victoria eligibility includes disability or a 'developmental delay which is the result of an impairment and causes substantial functional limitations'.³⁷

Further, to determine eligibility for kindergarten/preschool inclusion support, some states use additional eligibility criteria, such as being at significant risk of serious injury to self or others, or being extremely restricted in their capacity for movement.

These measures are already working in practice and could be easily adopted in the context of SECLS to ensure these vulnerable children have the opportunity to benefit from quality early learning.

Goodstart supports SECLS to provide funding for children who have demonstrated inclusion support needs (including 'developmental delay'), but do not have a diagnosed disability.

Eligibility for inclusion support should be determined by relevant professionals, for example General Practitioners, Speech Pathologists, Occupational Therapists, Psychologists, Social Workers, Physiotherapists, and Infant Mental Health Specialists.

³⁶ See: http://www.ndis.gov.au/sites/default/files/documents/participating_ndis_barwon_0.pdf
³⁷ Victorian Government Disability Act 2006.

For the last three months Goodstart has tracked the number of children with behavioural needs and inclusion support needs (that would not meet the criteria for disability). There were:

- 113 children with inclusion needs based on a behavioural issue (some of these may be picked up under Goodstart's proposed definition for at risk)
- 114 children with inclusion needs due to developmental issues not associated with a diagnosis.

As a comparison, approximately 1,100 Goodstart children received ISS funding in 2013-14. Based on Goodstart data, including children with developmental delay would roughly increase the target population by between 10 and 20 per cent.

2. Entitlement—what extra support do children with disability need to overcome barriers to access?

Types of support

Goodstart supports the proposal that the SECLS would provide a top-up to a family's entitlements under the ECLS. In particular, we welcome:

- The increase in the maximum number of hours a child can access additional support—from 25 to 50 a week. In Goodstart's experience, children attend for more than the five hours of care that is covered by their ISS as their parents participate in the workforce. The impact of having their inclusion support removed due to limited hours can be significant for not only the child and their parents, but also for other children, and educators.
- SECLS to cover 100 per cent of additional costs—as noted in the Commission's report, the current rate of ISS is 30–35 per cent below the cost of providing basic inclusion support.

As previously noted, we think it is critical the Commission's proposed entitlements for children with disability is adequately funded, and funding is not capped.

In Goodstart's view, as with children at risk, children with disability need two types of support to realise the benefits of ECEC:

- *Participation*—support to access ECEC and meaningfully participate in activities on the same basis as other children
- *Early intervention*—more intensive support to maximise early learning opportunities and respond to developmental delays.

The current ISS supports participation, and generally funds an additional worker to enable early learning providers to increase the ratio of educators to children in a child's room to enable a child's inclusion and meaningful participation in early learning. The current ISS is highly valued by educators but does not currently provide for full funding for the hours that an eligible child attends.

Interaction with the National Disability Insurance Scheme (NDIS)

The NDIS has only just begun to be implemented and as such Goodstart's experience of the interaction on the ground is limited to the trial in South Australia, in which some children attending our services are now receiving support through their Local Area Coordinator.

NDIS funding does not provide for ECEC services, however, in planning with Local Area Coordinators so families can choose to have some services (eg, allied health) delivered from an ECEC service. Also, the NDIS can fund equipment items that can be used in the ECEC and home environments. The interaction with the NDIS is reliant on the strength of local area networks, the connection of ECEC services to these networks, and the understanding of the new system by parents and ECEC services.

As the NDIS is more broadly rolled out, more intensive early intervention support could be funded under a child's NDIS package (where they are eligible for one), and with agreement could be delivered in an ECEC setting. In this circumstance, NDIS funding, rather than SECLS funding, can address this need (although SECLS would still need to cover inclusion/participation support).

However, not all children with disability will be eligible for a package under the NDIS. Goodstart considers that inclusion support agencies should be responsible for coordinating additional services to be brought in to the ECEC environment for these children. This may include access to services such as speech pathology, occupational therapy, physiotherapy, and mental health services. These could be from other funded programs (Commonwealth or state) or with SECLS funding where there are service gaps.

3. Costs and funding implications

Goodstart's assessment is that the funding estimated by the Commission (based on ISS cost per child) to support an access target of 50 per cent for children with disability will need to be expanded, to account for:

- *The target population*—Goodstart's proposed eligibility to include developmental delay could expand the target population by between 10 to 20 per cent—an increase of 6,000 to 12,000 (3,000 to 6,000 once 50 per cent access target applied).
- *Meeting demand for more hours from parents currently receiving ISS*—the ISS restricts the number of hours a child can access in a week—25, with no more than five in one day. At Goodstart the average ISS-funded attendance is two days (10 hours) but demand is for three full days (30 hours).
- *Adequate per-hour funding*—as noted by the Commission, the current rate of ISS is 30 per cent below the average cost of a Goodstart worker.
- *More intensive early intervention support*—current ISS does not allow for specialist support for early intervention.

As such, an estimation of the funding required for participation support for children with disability would be:

- Current annual ISS cost per child (\$3,000) x 130% (to reflect actual hourly cost) x 3 (to reflect demand for 30 hours, but only 10 hours currently funded) = \$11,700 per child.
- Target population of 33,000 (Productivity Commission's estimate of 60,000 plus 10 per cent for developmental delay, adjusted for access target of 50 per cent).
- Total of \$386.1 million a year—around \$335.5 million a year on top of existing ISS funding.

Other vulnerable groups

INFORMATION REQUEST 12.9

The Commission seeks information on whether there are other groups of children that are developmentally vulnerable, how they can be identified, and what the best way is to meet their additional needs.

1. Children who have recently arrived via refugee or humanitarian programs

Young children who have recently arrived under humanitarian programs are very vulnerable and may have high additional needs including mental health and behavioural issues due to trauma, the compounding impact of English language barriers, and other developmental delays arising as a result of their experiences. If these children have access to early childhood experiences that foster and promote their learning, development and wellbeing at this crucial stage, they have improved chances of building the resilience needed to overcome these negative early experiences.

Goodstart is concerned the Commission has not proposed additional support for this group and our suggestions are below.

Eligibility

These children would be easily identified from their visa categories, and should be actively referred to ECEC services as part of their settlement support.

Entitlement

Children who are humanitarian entrants face similar barriers to access as children at risk of abuse and neglect. They require both full-fee relief, additional support to enable participation, and early intervention to address issues of learning, development and wellbeing before they become entrenched and far more costly.

In addition, Goodstart strongly values the elements of the current IPSP that supports services to include children from humanitarian programs, in particular bi-cultural support, because this support can help to ensure enrolment, orientation, and transition to ECEC is supported and culturally safe.

The Bi-cultural Support Worker can also assist educators to identify if there are other developmental concerns to be followed up where the language and cultural barrier may mask early identification.

Goodstart considers additional support for children who have recently arrived under humanitarian programs is required to ensure they can access, and benefit from, ECEC. These children should be eligible for the same support as children at risk of abuse and neglect (100 per cent fee relief under ECLS and SECLS for additional needs for the first two years of their settlement), plus continued access to cultural competence training for educators, continued access to the bi-cultural support program, and translating and interpreting services.

In Goodstart's experience, children newly arrived under humanitarian programs may manifest their experiences in behaviours that seem 'out of control' to others. When considered through the lens of trauma, their behaviours, while disruptive to an ECEC program and other children, are not unusual.

As outlined above in relation to children at risk, there are approaches that can help these children to overcome their early trauma and build their resilience for the future. With adequate funding to put the right supports in place, high costs of later interventions can be avoided.

2. Temporary hardship due to traumatic event

Goodstart is concerned the Commission has not recommended retaining full-fee relief for families facing temporary but traumatic circumstances.

We believe support must be provided to ensure children can maintain continuity of care throughout a traumatic event, and families are assisted as they manage a crisis.

Eligibility

Goodstart proposes services should be able to apply for temporary support for families affected by high-impact or traumatic events.

Some examples, while not an exhaustive list, are provided below:

- Homelessness
- Death of one or both parents
- Diagnosis of a terminal illness—child or parent
- Domestic violence

Any one of these events may impact very significantly on a families' capacity to pay for ECEC and/or on their ability to meet the activity test.

Maintenance of a secure place with trusted adults and secure friendships is a protective factor for these children and likely to contribute to their ability to overcome adverse circumstances and build resilience.

Goodstart proposes families affected by high-impact or traumatic events should be able to access the following temporary support:

- **Where the event has caused financial hardship—full-fee relief at 100 per cent rate of ECLS**
- **Where the event has affected the family's ability to meet the activity test, but is not causing financial hardship—an exemption from the activity test.**

3. Grandparent carers

INFORMATION REQUEST 12.9

The Commission seeks information on the impact that removing the current free access of up to 50 hours a week to ECEC services for eligible grandparents will have on them and the children for whom they care.

RESPONSE

For a grandparent carer on income support, under the current system Grandparent CCB covers 100 per cent of their fees. Under the new system, there is no special provision for grandparent carers, so the same carer would receive 90 per cent (the proposed maximum entitlement under ECLS) of the 'deemed costs'.

If they used care in a high-cost market, the impact could be higher than having to pay 10 per cent of their fees. For example, in Redfern they would now have a daily out-of-pocket cost of around \$45 a day.

Cost should not be a barrier for these very vulnerable families. The alternative to grandparents taking on the responsibility for providing care to their grandchildren is likely to be foster care with a family or series of families not known to the child.

In addition, grandparents often have their own challenges in coming to terms with the circumstances that have led to their own grandchild being in need of their care, and facing the cost of 'parenting for the second time'. Access to ECEC may also provide a respite option for grandparents thrust into an unexpected and demanding role.

Under Goodstart's proposed definition of 'at risk', all children in out-of-home care, including under the care of a grandparent, would be eligible for a special 100 per cent rate of ECLS, plus ECLS. However, should the Productivity Commission not accept this recommendation, at a minimum grandparent carers who receive an income support payment should receive a special rate of ECLS at 100 per cent.

Integrated services

DRAFT RECOMMENDATION 5.2

Governments should plan for greater use of integrated ECEC and childhood services in disadvantaged communities to help identify children with additional needs (particularly at risk and developmentally vulnerable children) and ensure that the necessary support services, such as health, family support and any additional early learning and development programs, are available.

INFORMATION REQUEST 8.2

The Commission is seeking feedback on the role that integrated services can play in making ECEC more accessible for families. In particular, the Commission is interested in:

- the extent to which integrating ECEC services with other family services and schools will deliver benefits to families and/or ECEC providers, and in particular, Indigenous and potentially other disadvantaged communities
- views on the best way to fund integrated services that provide ECEC, including whether child-based funding would be an appropriate funding model
- how funding could be apportioned across activities operating within an integrated service, including for the coordination of services, the management of administrative data and an evaluation of outcomes

RESPONSE

As outlined in our first submission, Goodstart strongly supports a role for ECEC services in integrated service delivery. In that submission, we provided evidence of the benefits of integration, and examples of Goodstart's practice.

There is also significant evidence of the benefits from integrated service delivery, and critical success factors, from the evaluations of Communities for Children, Early Years Centres, and HIPPO the Commission may find useful.

Some additional information on Goodstart's approach to integrating service delivery in areas of high disadvantage is below. This approach is called Enhancing Children's Outcomes (EChO).

Goodstart's plan is to invest more in targeted, established services in high-priority communities to increase the social benefits that can be derived from access to high-quality and inclusive ECEC programs.

Investing in these services will involve:

- Intensive community engagement to ensure services are responsive to what the community wants; and
- Program offerings that go beyond a standard LDC model to reflect specific community circumstances. For example, a child and family practitioner and speech pathologist working alongside educators to share practice and increase quality and inclusion; playgroups to provide outreach to vulnerable families in targeted communities; health and wellness checks, including visits by maternal child health nurses; transport to and from ECEC or to and from health appointments; and home visiting and parenting support.

To identify high-priority centres Goodstart has undertaken a cluster analysis to separate centres into groups that share similar features on important social inclusion and vulnerability variables. While a range of relevant variables were initially considered for use in the exercise, variables were only included in the final model if they both:

- were of acceptable data quality; and
- played a significant role in distinguishing groups of similar centres.

The variables found to meet both of these criteria were:

- the average SEIFA (IRSAD) rating of families attending the centre;
- the percentage of children at the centre receiving more than 100 per cent CCB;
- the percentage of children at the centre who received SCCB for children at risk of abuse or neglect at any point during the financial year; and
- the percentage of children in the Australian Early Development Census (AEDC) community in which the centre was located who were considered vulnerable on two or more domains.

This type of analysis may be useful for prioritising funding for an expanded Disadvantaged Communities Program.

Funding model

Funding for these services will be from a range of sources including access to ECEC subsidies; internal funding from Goodstart; funding from state or federal sources for different program elements (eg, maternal child health funding, programs delivered through federal funding such as the Families and Communities Program); and from philanthropic sources.

Funding to coordinate programs, establish partnerships, engage community, collect data, conduct research, and monitor outcomes is currently being provided by Goodstart at a cost of approximately \$100,000 per annum for a cluster of four centres.

We think this funding model could be applied more broadly where ECEC services are the platform for integration. In addition, capital grants could be made available to ECEC services in priority locations for modifications to enable co-location of some services or space for outreach.

Other levers to support integration with ECEC services

In addition to funding coordination, Goodstart supports the following levers available to governments to support integration with ECEC services:

- State and federal funding agreements should require health, education, and social welfare services (universal or targeted) to be provided from ECEC locations where possible in the same way as schools and preschools. This could include immunisations and child health checks, allied health services, and counselling.
- Funding guidelines for state and federal programs that support families and children such as the Families and Communities Program funded by the Department of Social Services should require funded services to engage with ECEC services and seek options for service provision within ECEC environments.

4. National Quality Framework and Regulation

Objective

The Productivity Commission has noted a range of benefits and possible recommendations to streamline the National Quality Framework (NQF), National Quality Standards (NQS), and the Assessment and Rating process. We will respond to each specific recommendation below. However, we note the NQF was developed after extensive consultation with early years experts and was informed by the best available international and Australian research and practice evidence.

Goodstart believes the minimum qualification and ratio requirements, the NQS, and the Assessment and Ratings process have improved the regulation and the quality of ECEC in Australia. We believe these should be maintained.

Goodstart has made a substantial investment in implementing and embedding the reforms to date. There are opportunities to continue to improve the regulation of ECEC in order to reduce the regulatory burden and promote quality early learning. Goodstart believes the achievements to date will be enhanced over time as the reforms are bedded down and the final ratio changes are implemented in 2016.

DRAFT RECOMMENDATION 7.8

Governments should extend the scope of the National Quality Framework to include all centre and home based services that receive Australian Government assistance. National Quality Framework requirements should be tailored towards each care type, as far as is feasible, and minimise the burden imposed on services.

RESPONSE

Given substantial levels of public investment that recognise the value of ECEC in delivering social and economic benefits to the nation, it is reasonable the community is assured all children, no matter where they live, will receive a minimum standard of quality. It is also reasonable that comparable and transparent information is provided to parents and the community about the quality of ECEC services.

Goodstart agrees the NQF should be extended to include all services that receive Australian Government assistance. This ensures value for money for governments by ensuring all services receiving subsidies meet national minimum standards, and the reporting delivered through the Assessment and Ratings process helps parents make informed decisions about the services best meet their needs.

Goodstart also advocated in our recent NQF Review submission that the NQF should be tailored for different care types while ensuring minimum quality and safety standards for children.

Goodstart supports extending the scope of the NQF noting that tailored requirements for different service types should be developed in consultation with the sector and must ensure minimum quality and safety standards.

DRAFT RECOMMENDATION 7.1

To simplify the National Quality Standard, governments and ACECQA should:

- identify elements and standards of the NQS that can be removed or altered while maintaining quality outcomes for children
- tailor the NQS to suit different service types—for example, by removing educational and child-based reporting requirements for outside school hours care services.

RESPONSE

Goodstart supports all seven quality areas of the NQS as they all contribute to quality outcomes for children. In a mixed market like the Australian ECEC market, regulation is necessary to both ensure a consistent minimum safety and quality standard and to promote continuous improvement. Compliance and quality improvement activities are equally important, and so, the Standards are all important.

From a provider's perspective, the specific elements are also very useful in helping a service to 'unpack' and identify the specific elements of quality. Reporting against these elements as part of the Assessment and Ratings process is also very valuable in identifying specific elements of quality and practice that need to be improved. It is disappointing the new reporting template no longer provides reporting against specific elements, however, so far regulators and assessors have continued to provide detailed feedback about areas where services need to improve. This detailed feedback is critical.

Goodstart also notes that some of the Quality Areas and Quality Standards are interrelated. Quality Area 1 is intrinsically linked to Quality Areas 5 and 6 and is underpinned by Quality Areas 2, 3 and 4. Quality Area 7 is essential to driving and embedding outcomes across all of the other Quality Areas. This inter-relationship is not a flaw in the system, rather a reflection of the relationship between the structural and process elements of quality early learning. It follows that some of the elements are also interrelated.

Goodstart has conducted an internal analysis of the elements and the Assessment and Rating process and we believe there are some opportunities to streamline the standards or elements without compromising quality.

Our specific suggestions to streamline the elements without compromising quality are:

- Remove Element 7.1.5 and make it clear that under Element 4.1.1 the term 'qualified' includes ensuring all staff have the appropriate working with children check.

7.1.5	Adults working with children and those engaged in management of the service or residing on the premises are fit and proper.
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- Combine elements 4.2.2 and 4.2.3 and use the guide to ensure the intent of both elements is captured to deliver the desired outcome of respectful and ethical staff arrangements.

4.2.2	Educators, co-ordinators and staff members work collaboratively and affirm, challenge, support and learn from each other to further develop their skills, to improve practice and relationships.
4.2.3	Interactions convey mutual respect, equity and recognition of each other's strengths and skills.

Goodstart supports retaining the elements that relate to sustainability.

In relation to outside of school hours care (OSHC), the NQF did impose new requirements regarding qualifications and maintaining records about children's learning. It does appear there is scope to scale back these requirements without compromising children's safety and still ensure a minimum quality standard for OSHC. As older children are receiving their learning in a school environment it could be argued the learning and development outcomes from OSHC are less critical. However, this is not the case for non-school-aged children, where their learning and development must be supported through ECEC while their parents are at work. It is critical any reductions in structural or process quality elements in the NQS remain limited to OSHC.

As an OSHC provider Goodstart is actively participating in the Deloitte review of the OSHC NQS requirements to identify opportunities for improvements.

Goodstart supports efforts to streamline the standards or elements while ensuring quality early learning is not compromised, particularly for children under five years of age.

DRAFT RECOMMENDATION 7.2

Requirements for educators in centre-based services should be amended by governments such that: all educators working with children aged birth to 36 months are only required to hold at least a certificate III, or equivalent; the number of children for which an early childhood teacher must be employed is assessed on the basis of the number of children in a service aged over 36 months.

INFORMATION REQUEST 7.1

The Commission seeks participants' views on the expected impacts on the development of children under 36 months of focusing required teachers in centre-based care on children over 36 months.

RESPONSE

The ECEC sector and leading early years experts overwhelmingly do not support this recommendation and we strongly urge the Commission to reconsider this recommendation in its Final Report. The Commission has received extensive evidence in public hearings from educators and providers including practice-based examples of the importance of appropriately qualified educators caring for children from birth to three years old. We particularly commend the Commission's attention to the evidence of Goodstart educator Margaret Owen in Perth on 7 August 2014. There would be thousands of examples of practice evidence similar to the evidence Margaret provided.

Goodstart does not support this recommendation for a number of reasons, specifically:

- It does not align with the best applied research and practice evidence about children's learning development
- It underestimates the difference between a Certificate III qualification and a Diploma qualification
- It does not ensure appropriate minimum safety requirements are maintained
- It will not deliver significant cost savings as the sector has already met these requirements
- It will limit career progression opportunities for educators
- Parents want qualified and skilled educators
- Reductions in regulated quality would be more likely to impact vulnerable children

Research and Practice Evidence

Research in Australia, the United States, and the United Kingdom clearly shows access to quality early learning in the very early years, particularly between ages two and three, has long-lasting benefits for children's cognitive skills up to at least seven years of age.³⁸ Goodstart understands a joint submission to the Commission has been lodged by Australia's professors of Early Childhood Education, and we commend their evidence to the Commission's attention.

While there is no randomised controlled trial that proves the benefits of having Diploma-qualified staff and Early Childhood Teachers (ECTs) for children under three years of age, there is a wide range of evidence that supports the existing requirements indirectly.³⁹ For example, *Sound Foundations* (a major research review of the research evidence of the quality of early childhood education and care for children under three years of age in the United Kingdom) recommended a minimum qualification for carers of a Level 3, which is higher than our Certificate III, supervised by a Graduate, which is higher than our Diploma.⁴⁰ A list of relevant research can be found at Appendix A for the Commission's information. We also encourage the Commission to take into consideration the limitations of studies quoted in their draft report that do not control for quality factors, just exposure to "dosage" of ECEC (that is, the amount of time a child is in non-parental care with no consideration for the quality of the experience). It is the quality of the experience that matters and qualifications are an accepted proxy for quality. We suggest the Commission directly consults with Australian academics in finalising its report as we believe the Commission has not considered all the research evidence available, and the Commission may have misinterpreted some of the evidence submitted/presented to them.

38 Coley et al 2013, Li e l 2012, Mullis et al 2011*, Sammons 2010, Degotardi 2010, Mathers et al 2014.

39 Goodstart also notes that the draft report dismissed almost two decades of test results across 40 countries in the TIMMS and PIRLS database on the basis that 'these results failed to take into account the socioeconomic backgrounds of the children who attended pre-primary education and those that did not (p. 170)'. It is unclear whether the Commission consulted the Australian Council of Educational Research which managing the tests in Australia in forming this view. The TIMMS and PIRLS tests are based on representative samples validated independently by Statistics Canada. The pattern of higher achievement for more than 3 years of ECEC is evident not just in countries like Australia with low rates of participation for more than 3 years of ECEC where socioeconomic factors could be strong, they are also evident in those countries with high rates (70% to 86%) of children with more than 3 years of ECEC where all socioeconomic groups would be likely to be represented.

⁴⁰ Australian ECEC regulators accept UK Level 2 early childhood qualifications as equivalent to a Certificate III.

The difference between a Certificate III and a Diploma

The Certificate III is a minimum qualification with content geared towards the category of an ‘assistant’, assisting a more qualified educator. The Diploma course includes 10 units of competency not found in the Certificate III course. These skills are absolutely critical in the LDC context including:

- Establishing and maintaining a safe and healthy environment for children
- Implementing strategies for the inclusion of all children
- Facilitating compliance in an education and care service
- Maintaining work health and safety, including duty of care for other workers
- Establishing and implementing plans for developing cooperative behaviour
- Working in partnership with families

A full list comparing these qualifications can be found at Appendix D. Having access to an ECT also provides pedagogical leadership across the service. We encourage the Commission to consider these differences and the practice evidence in forming its final recommendations.

A mix of qualified staff ensures safety

Providing quality and safe ‘care’ for very young children in an LDC context requires Diploma-skilled educators. As outlined above, Diploma-qualified educators have skills that are not included in the Certificate III qualification. That is why Goodstart has a policy of ensuring Group Leaders are Diploma qualified. Diploma-qualified staff have the skills and knowledge in attachment theory, sleep theory in infants, and nutrition and physical development, all of which are essential to ensure children are safe in care in their first 18 months. As the nation’s largest LDC provider, we do not believe it is reasonable from a risk and governance perspective to have a blanket minimum standard of working towards or holding a Certificate III for educators caring for children under three years of age.

The change will deliver minimal cost savings

Providers have already incurred the cost of upskilling their staff. Removing these qualification requirements would not deliver significant savings as:

- educators would continue to be paid at their award rates
- people are our foundation at Goodstart—we would not make educators redundant in order to lower the quality of early learning. If we were to consider doing this, offering redundancies would come at a significant cost
- costs have already been incurred in training up staff
- we are working to lower turnover rates, and therefore it would take many years of natural attrition before there were any substantial labour savings.

It will limit career progression opportunities for educators

In a sector characterised by a relatively flat career structure, the current requirements provide a pathway for educators who want to build a career in ECEC. We want to encourage passionate, skilled educators to stay in the sector. Removing the Diploma-level qualifications and reducing the number of ECTs working in the sector will limit career progression opportunities for educators. It would also unfairly disadvantage those educators who have invested or are investing in upgrading their skills.

Parents demand qualified and experienced staff

The Parenthood has conducted a survey of parents' attitudes to the Commission's recommendations, which included input from over 1,200 Goodstart families. The survey found that 95 per cent of parents were opposed to the Commission's recommendations to lower the qualifications requirements for birth to three-year-old children.⁴¹ This also accords with a recent survey of almost 400 families by the consumer ratings organisation Canstar, which found over 60 per cent of families wanted their childcare centre to do more to educate their children.⁴²

Vulnerable children would be most likely to be negatively impacted

If the qualifications requirement were removed for educators caring for children under three years of age, we believe centres in more affluent areas would be very unlikely to roll back qualification requirements. The qualified educators are already working in rooms. But in low-SEIFA communities where parents may be more responsive to price, operators may come under pressure to accept the cost saving to maintain occupancy particularly if a 'deemed cost' model does not fund current quality requirements. As Professor Collette Tayler's evidence to the Commission highlights, the E4Kids research project has already identified quality is lower in services in low-SEIFA communities. This change could exacerbate the quality difference between services based on parents' capacity to pay. This would not be an acceptable outcome for the children who stand to benefit most from quality early learning.

Goodstart strongly opposes the recommendations to water down qualification requirements for Diploma-qualified staff and Early Childhood Teachers for children under 36 months.

Goodstart recommends maintaining the existing qualification requirements as outlined in the NQS.

DRAFT RECOMMENDATION 7.3

Differences in educator-to-child ratios and staff qualification requirements for children under school age across jurisdictions should be eliminated and all jurisdictions should adopt the national requirements.

RESPONSE

Goodstart strongly supports the minimum ratio requirements outlined in the NQF and is committed to implementing the final tranche of ratio changes in 2016. As noted in our first submission, ratio requirements are critical to delivering structural quality. The requirements agreed through the COAG NQF process were the subject of extensive consultation and were informed by evidence and input from eminent early years experts in Australia.

The long implementation timeframe has meant the sector has had time to prepare for these changes and it should be noted the previous reforms under the NQF have been implemented at a lower cost than was predicted. Last year the Department of Education reported the NQF had been implemented at around half the cost estimated by Access Economics. Fee growth between the September quarter 2011 and September quarter 2012 was 7.3 per cent nationally. This increase equates to

⁴¹ www.theparenthood.org.au

⁴² www.canstarblue.com.au

approximately 50 cents per day, which is significantly lower than the modelling undertaken by Access Economics, which estimated an increase of approximately \$1.07 a day between 2011 and 2012.⁴³

Further, having nationally consistent ratios is important to ensuring the equity of any new funding model, but it will be particularly critical under the 'deemed cost' model proposed in the draft report. It is therefore vital that implementation of the new ECLS takes into account the cost of the final tranche of ratio changes in those states that still need to meet the minimum standards.

Goodstart supports the Productivity Commission's recommendation to implement national requirements for ratios. The new subsidy should take into account the cost of implementing the agreed NQS ratio requirements in 2016.

DRAFT RECOMMENDATION 7.5

To provide services with greater flexibility to meet staffing requirements, ACECQA should:

- remove the requirement that persons with early childhood teacher qualifications must have practical experience for children aged birth to twenty four months
- explore ways to make the requirements for approving international qualifications simpler and less prescriptive in order to reduce obstacles to attracting appropriately qualified educators from overseas.

All governments should allow services to temporarily operate with staffing levels below required ratios, such as by maintaining staffing levels on average (over a day or week), rather than at all times.

The New South Wales and South Australian Governments should allow a three month probationary hiring period in which unqualified staff may be included in staff ratios before beginning a qualification, as was recently adopted in all other jurisdictions.

RESPONSE

Requirement for practical experience with children aged birth to 24 months for Early Childhood Teachers (ECTs)

Addressing ECT turnover has been a well-documented challenge for the sector. Having practical experience working with very young children is important to ensuring ECTs have an understanding of what is expected in a LDC setting. Further, the ECT provides educational leadership across a LDC setting and needs to have practical experience for children aged birth to 24 months in order to perform that role effectively.

Our own independent research found there is a lack of public and centre-based knowledge of the differing roles within the LDC setting, particularly in relation to the difference between kindergarten/preschool programs and other early education programs provided in LDC centres. It is important that ECTs receive that instruction as part of their qualification, otherwise their qualification does not adequately prepare them to work in LDC settings.

Goodstart does not support the recommendation to remove the requirement that persons with early childhood teacher qualifications must have practical experience for children aged birth to 24 months.

⁴³ DEEWR, ChildCare in Australia (2013)

Approving international qualifications

Goodstart supports reducing obstacles in approving international qualifications. Specifically we recommend that ACECQA should instigate approvals rather than waiting for international universities to approach ACECQA. This could be easily done, starting with New Zealand, Ireland, and United Kingdom institutions based on an assessment of where existing approvals have been granted.

Goodstart agrees ACECQA should explore ways to make the requirements for approving international qualifications simpler and less prescriptive.

Averaging ratios over a day or week

As noted in our first submission, Goodstart supports the existing NQS, including in relation to ratio requirements. These requirements are vital to ensuring the care provided in LDC environments is safe for children and supports a minimum standard of learning and development.

The current system provides the flexibility to match staffing ratios to actual children in the centre. Effective labour management across a day can achieve significant cost efficiencies without compromising safety or quality of care.

Averaging ratio requirements across a day or week would compromise children's safety by allowing for unsafe ratios during busy periods, provided they were offset during quiet periods. This is not acceptable as a minimum standard for ECEC. We would also argue that averaging ratio requirements across a day or a week is also not a workable regulatory solution when considering the best interests of children.

Such a system would create an incentive for unscrupulous providers to stack rooms in order to manage labour more efficiently, which would compromise children's safety. The current regulatory system and provisions in relation to ratios provide safety and quality early learning for children and their parents while also providing adequate flexibility for providers.

Goodstart strongly opposes the recommendation that staffing levels could be maintained on average over a day or week, rather than at all times.

Goodstart recommends the Final Report recommends maintaining the existing flexibility provisions for 30 minutes per day as this provides sufficient flexibility and ensures the safety and wellbeing of all children at all times.

Three-month probationary hiring period

Goodstart has made a significant investment to ensure our staff have or are working towards their qualification. We have not found that meeting the Certificate III requirements has been a barrier to recruiting staff.

Goodstart does not support the recommendation to extend the probationary hiring period to allow unqualified staff and will continue our business practice of requiring all new staff to meet minimum qualification requirements.

DRAFT RECOMMENDATION 7.6

Governments and ACECQA should: urgently reconsider the design of the assessment and ratings system, giving particular consideration to finding ways to increase the pace of assessments; explore ways to determine services' ratings so they are more reflective of overall quality; abolish the 'Excellent' rating, so that 'Exceeding National Quality Standard' is the highest achievable rating.

RESPONSE

Goodstart supports the current Assessment and Rating process. The process is meeting the objective of continuous improvement in ECEC services. As of August 2014, 16 Goodstart centres have been through Assessment and Rating twice and have finalised reports. Of the 16 centres, 15 improved and one remained consistent with its first assessment. Of the 15 services that improved, 12 improved their Overall Result and three improved at an Element, Standard, and Quality Area level, but did not improve their overall result.

Across the sector, centre quality assessments have continued to improve as providers and regulators better understand and apply the NQS. In the most recent quarter (June 2014), 80.3 per cent of centres were assessed as meeting or exceeding the NQS, up from 55.5 per cent in the corresponding quarter last year.⁴⁴

The process is also providing clear and comparable information to parents and the community about the quality of ECEC providers. We believe this should be a priority.

Goodstart has seen positive improvements in the length of time taken to complete assessments since the process commenced. We are concerned that extending the Assessment and Ratings process to incorporate nannies would compromise the improvements achieved to date and would result in a further delay as many more individual assessments would need to be conducted. The most recent changes to streamline reporting and improve timeframes should be embedded before any further changes are made otherwise there is a risk the overall integrity of the process will be undermined.

Goodstart believes the current ratings process is reflective of overall quality. We note there are valid arguments both for and against rating at a Quality Area level only and including an Overall Rating. The Overall Rating is easy for parents and the community to understand but may not necessarily reflect the different levels a service is at, particularly within the Working Towards category. We have found that having specific information at hand, like the final reports, is useful in explaining to parents and the community why a service has received a specific rating. On balance, in the interests of simplicity Goodstart supports maintaining an Overall Rating.

Goodstart has also noted discussions that the binary nature of the ratings may not reflect the different levels a service is at within the Working Towards category. For example, a service not meeting one element compared to a service not meeting 30 elements. We acknowledge there are opportunities within the process to address unmet elements. A comprehensive final report assists in explaining to families why a particular rating was achieved, however a parent glancing at an Overall Rating on a

44 NQS Snapshot published by ACECQA. NB: these are the figures for centres assessed in that quarter, not the total centres assessed as reported in ACECQA tables.

website would not have the benefit of that contextual information. Goodstart has provided this feedback as part of the NQF Review submission and public hearings processes.

Goodstart does not support abolishing the Excellent rating as it provides a useful benchmark to recognise highly accomplished practice, innovation, and quality leadership in the ECEC sector. However in the interests of equity it may be reasonable that further Excellent ratings are not awarded until all services have received their first assessment.

Goodstart supports the current Assessment and Ratings process and notes that improvements to streamline the process have recently been implemented.

DRAFT RECOMMENDATION 7.7

Governments, ACECQA and regulatory authorities, as applicable, should: abolish the requirement for certified supervisor certificates

- provide more detailed and targeted guidance to providers on requirements associated with Quality Improvement Plans, educational programming, establishing compliant policies and procedures and applying for waivers
- explore potential overlaps between the National Quality Framework and state and local government requirements as part of the ongoing review of the Framework, and ensure any identified overlaps are eliminated
- review:
 - ways that services with higher ratings ('Exceeding National Quality Standard') could be relieved of some paperwork requirements, where these are less important to ensuring quality given the service's compliance history
 - removing the requirement for outside school hours care services operating on school facilities to provide site plans as a condition of service approval.

RESPONSE

Goodstart made a substantial submission to the NQF Review that considered these issues in detail. A copy of these recommendations and detailed responses can be provided on request.

In summary, regulation that ensures a minimum standard of quality early learning and continuous improvement, including existing requirements to document children's learning, educational programming, and the Quality Improvement Plans must be maintained. Genuine opportunities to achieve national consistency in regulation, to reduce 'red tape' and streamline paperwork and administrative burden should be considered and adopted by governments in consultation with service providers.

Goodstart supports the recommendation to abolish the requirement for certified supervisor certificates.

Goodstart notes the COAG NQF Review is an appropriate mechanism to consider micro-regulatory issues.

5. Nannies

DRAFT RECOMMENDATION 8.5

Governments should allow approved nannies to become an eligible service for which families can receive ECEC assistance. Those families who do not wish their nanny to meet National Quality Standards would not be eligible for assistance toward the costs of their nanny.

National Quality Framework requirements for nannies should be determined by ACECQA and should include a minimum qualification requirement of a relevant (ECEC related) certificate III, or equivalent, and the same staff ratios as are currently present for family day care services.

Assessments of regulatory compliance should be based on both random and targeted inspections by regulatory authorities.

RESPONSE

Objectives

Goodstart notes the Commission's view that extending subsidies to registered nannies would "make the current support arrangements more equitable and improve the accessibility, flexibility and affordability of childcare for many families".

In relation to *equity and affordability*, Goodstart notes the Commission's intention that the subsidy rate for a nanny be capped at the median Family Day Care (FDC) fee (\$6.84 an hour)⁴⁵ means the key beneficiaries would be higher income families, and families with several children in care. For other families, a nanny would not be affordable compared with other care types.

For example, even at the highest subsidy rate for families earning under \$60,000 a year, the subsidy would be 90 per cent of \$6.84 (\$6.16 an hour per child), leaving an out-of-pocket cost of:

- between \$14 and \$29 an hour with one child (depending on the nanny's fee)
- between \$8 and \$23 an hour with two children.⁴⁶

This proposal would also deliver a significant financial benefit to families already using a nanny for no workforce participation benefit. Extrapolating from hours of care usage estimates in the Productivity Commission Report (Table 13.9), we estimate the cost of expanding subsidies *just to families already using a nanny at their current usage* will require new funding of least \$200 million a year.⁴⁷

This is more than the proposed additional annual investment for children with additional needs. With resources limited, Goodstart believes additional investment should be targeted where it delivers the best social and economic returns. A much higher return on investment would be delivered by:

- uncapping support for children with additional needs; and
- providing financial assistance to assist children from low-income families to access ECEC for a minimum of two days, regardless of their parents' work status.

⁴⁵ Goodstart notes that the intention that the nannies subsidy rate be capped at the FDC 'deemed cost' is not explicit in the description of the proposed ECLS in the draft report, and the Commission may wish to clarify this in the final report.

⁴⁶ These estimates are based on the Commission's estimate that the hourly cost of a nanny is between \$20 and \$35.

⁴⁷ This calculation assumes that all these families earn above \$300,000 a year and therefore receive the lowest subsidy rate under the new system. Some of these families would be on lower incomes, so the cost would be higher.

In relation to *flexibility and accessibility*, there is limited evidence of significant demand for care outside of the opening hours of current care types. Goodstart believes there are two key groups that do demand irregular or outside-of-standard opening hours care:

- Shift and casual workers—these are largely lower-paid workers for whom a nanny would remain unaffordable under the proposed arrangements unless they had multiple children in care; and
- Parents who work long hours—these are more likely to be higher paid workers who can afford a nanny regardless of subsidies, and for whom government subsidies deliver marginal additional workforce participation benefits.

Eligibility

The Commission's proposal for extending subsidies to nannies is very broad and there are no eligibility requirements beyond the ECLS activity test. As such, the Commission expects a very significant expansion in usage of this care type.

As noted above, Goodstart is concerned this approach is poorly targeted, requiring significant additional funding for marginal workforce participation benefit.

Goodstart is also concerned that as proposed, there would be both an immediate and long-term unintended consequence on the supply of qualified staff across all sectors of the childcare and early childhood learning industry:

- There would be an immediate drain of current qualified staff from current approved care types.
- We believe there will also be a longer-term effect of declining quantity and quality of early years' educators in Australia. The nanny environment is not one that will support or encourage the educator to further their education and pursue professional development, and this will ultimately demote the status of early childhood learning as a respected and rewarding career path.

Further, given far lower ratios for in-home care, a shift towards more nanny care would require a dramatic increase in the number of staff required to care for the same number of children if they were in a LDC setting. This would lead to an inefficient use of an already scarce human resource. To the extent that LDC providers are unable to replace these staff, this could also lead to a reduction in places available.

For these reasons, we support a more restricted eligibility for subsidies for nannies that would address genuine flexibility issues with the current system. Our analysis of the Draft Report and technical paper is that this more targeted approach would deliver similar participation benefits without the dead weight loss associated with giving subsidies to families already using nannies.

Goodstart recommends that eligibility for subsidies for nannies should be restricted to those who require care outside of current FDC and LDC opening hours due to work commitments, who live in a location where care is not available, or who have multiple children in care (similar criteria to the current In-Home Care program but uncapped).

Goodstart recommends that funding for nannies for very-high-income earners should be a lower priority than providing adequate funding for vulnerable children.

Regulation and quality

Service delivery model

Goodstart considers that developing an appropriate, cost-effective regulatory and compliance regime for nannies would be complex in light of the following factors:

- a new area of regulation for the States (or the Commonwealth)
- a dispersed workforce with many thousands of individual nannies to monitor (currently around 45,000) and massive and rapid expansion expected when subsidies are extended (noting the expansion would be more limited if Goodstart's proposals for more restricted eligibility are accepted)
- nannies operating in individual homes, some directly engaged by families.

There would be significant regulatory costs to governments associated with the proposed model, but there is also significant risk that payments could be open to abuse, and nanny services would be non-compliant with the NQS. Other processes such as registration and establishing payment arrangements for nannies to receive Commonwealth subsidies would also have a significant cost.

To address these issues, Goodstart considers nannies should operate in a 'coordinator' model to receive subsidies. We note the Commission expects that in practice a large proportion of nannies would be engaged through agencies, however we support this being a requirement to receive subsidies.

A 'coordinator' service delivery model would also have benefits for nannies and families:

- The coordinating service would manage claims for government payments in accordance with legislation, reducing burden on nannies.
- Improved learning for children and professional development for nannies.
- Established back-fill arrangements when a family's nanny needed to take leave.

Some LDC providers may wish to take on a coordinator role, which would also deliver more choice for families who would like to combine centre-based and home-based care through continuity of carers and continuity of learning programs.

To receive subsidies, nannies should be engaged through an agency or 'coordinator' who would provide:

- **Quality assurance and monitoring including home visits and phone support**
- **Subsidy management and other administration (tax, HR, etc)**
- **Professional development and support**
- **Links with learning programs and resources in line with the Early Years Learning Framework (EYLF)**
- **Coordination and support for visits from the relevant regulatory authority.**

The coordination fee (as part of the 'deemed cost') should reflect this role.⁴⁸

⁴⁸ We note that the Family Day Care Association has indicated that FDC fees will need to increase in light of changes to the Community Support Program, which funded FDC coordinators. If the Commission's further recommendations to cease the CSP are accepted, FDC fees could increase again. If a benchmark price model for setting a 'deemed cost' is supported, coordination costs will be reflected in that benchmark.

Qualifications and ratios

Goodstart supports nannies being regulated under the NQF and notes the proposed Certificate III qualification requirements and ratios in line with FDC.

In line with evidence that ECEC delivered by educators with higher qualifications (Diploma or Bachelor) has stronger early learning benefits⁴⁹, we believe in-home care coordinators should have higher qualifications—Diploma and/or Bachelor level.

This approach would provide an appropriate balance between early learning and flexibility objectives.

Goodstart recommends that Certificate III-qualified nannies under the NQF should be supported by a Diploma-qualified educator and/or Early Childhood Teacher (ECT) as part of a regulated coordination role.

The Diploma-qualified educator or ECT would provide professional development and support, and guide the development of learning plans for children cared for by nannies in line with the EYLF.

We consider that ACECQA and state regulatory authorities should determine appropriate regulations to determine how many nannies each coordinator can support.

The New Zealand home-based care model and Australian FDC model also require coordinators have higher qualifications, to support less-qualified in-home educators:

- The *New Zealand home-based care model* requires that in-home educators must have a coordinator, and that coordinator must be a registered ECT. Each ECT can support up to 20 in-home carers, and must contact each educator once a fortnight and visit once a month.
- The current Australian regulations for *FDC* require all coordinators to have an approved Diploma-level early childhood education and care qualification or above, but the number of educators to be supported by each coordinator is not specified.

49 Warren D and Haiken-DeNew (2013) Early Bird catches the Worm: The causal impact of pre-school participation and teacher qualifications on Year 3 National NAPLAN cognitive tests, Melbourne Institute Working Paper 34/13 p. 17

6. Preschool

DRAFT RECOMMENDATION 12.9

The Australian Government should continue to provide per child payments to the states and territories for universal access to a preschool program of 15 hours per week for 40 weeks per year.

- This support should be based on the number of children enrolled in state and territory government funded preschool services, including where these are delivered in a long day care service.
- The Australian Government should negotiate with the state and territory governments to incorporate their funding for preschool into the funding for schools, and encourage extension of school services to include preschool.

RESPONSE

Objectives

Goodstart welcomes the Commission's view about the importance of preschool in providing a “benefit to the general population and a significant benefit to disadvantaged children”.

There are a number of factors that are critical to ensure universal preschool attendance rates and the delivery of quality preschool programs. First, preschool must be affordable and cost should not provide a barrier to access for low-income families. To achieve this aim, the Commonwealth should continue to play a role in funding preschool, providing recurrent funding on a per capita basis, and directly fund integrated LDC centres where this funding is not provided by states. Ideally, all states and territories would adopt a model to fund preschool in all contexts.

Second, preschool must be delivered in a context that meets the needs of working families. This necessitates the continued provision of preschool through integrated delivery in an LDC context.

Finally, all preschool programs should be delivered in line with the NQF to ensure universal access to the provision of high-quality preschool.

Continued Commonwealth Universal Access funding

Goodstart supports the Commonwealth playing an ongoing role in providing Universal Access funding; and supports this funding being provided to states and territories on a per capita basis. We welcome the Government's recent announcement to extend the current Universal Access National Partnership for one year and that the new national partnership arrangements make funding available to all types of accredited preschool programs—regardless of whether they are delivered through schools, standalone preschools, or LDC centres.

Beyond this agreement, it will be important to clarify the purpose and level of ongoing Commonwealth funding for preschool. The indicative funding levels used in the Draft Report are based on the existing Commonwealth contribution to Universal Access funding under the National Partnership Agreement. This figure is insufficient, as this funding was intended to assist states and territories in developing the capacity to achieve Universal Access objectives. Critically, states remain the primary funding of preschool and there are large variations in the contributions states are making. The effectiveness of Commonwealth funding in achieving access and possibly attendance objectives will depend on how it is designed and what proportion of delivery costs it covers.

Goodstart strongly supports the recommendation that the Commonwealth Government continues to provide funding to support universal access.

Preschools to be funded and co-located within schools

Goodstart does not support preschool being integrated into government school systems in all states and territories.

Goodstart considers this proposal would represent an inefficient use of the infrastructure and workforce of the LDC centres—which are increasingly of the same quality as those required for preschool programs. This approach is also less likely to respond rapidly to community demand. LDC centres are likely to be more responsive to changing demographic patterns than government schools. Finally, it runs counter to reform directions over the past decade, through which governments have encouraged LDC centres to develop preschool delivery, including using Universal Access funding as a means of expanding access to preschool for working families. For example, in states such as Queensland, preschool delivered through a LDC service now accounts for a considerable proportion of the state's preschool delivery. In order to co-locate preschools within a primary school setting, significant capital investment would be required to develop facilities to deliver preschool on site.

While providing OSHC as a wraparound service to school-based preschool would potentially meet the needs of working families using preschools on school sites, it raises several issues. This approach has a number of characteristics that are unsuitable for preschool children. For example, moving young children between significantly different environments creates discontinuity that can have negative impacts on child development.⁵⁰ Further, the qualifications and ratios suggested by the Commission are below the minimum quality standards in ECEC for children of preschool age in other settings.

Goodstart does not support the recommendation that state and territory governments should incorporate preschool funding into funding for schools, and does not support the recommendation to encourage the extension of school services to include preschool.

DRAFT RECOMMENDATION 12.10

The Australian Government should provide per child preschool payments direct to long day care services for 15 hours per week and 40 weeks per year, where long day care services do not receive such funding from the states and territories.

INFORMATION REQUEST 12.10

The Commission seeks views on how best to transition to full state and territory responsibility for preschool delivered in long day care services as well as in dedicated preschools. This includes a transition to the provision of preschool at no cost to parents, in those dedicated preschools attached to public primary schools.

⁵⁰ Margetts, Kay. "Understanding and supporting children: shaping transition practices." *Informing transitions in the early years* (2007): 107-119.

RESPONSE

Ensuring funding reaches preschools in all contexts

Goodstart welcomes the Commission's proposal for all states and territories to fund preschool delivery across all settings, including dedicated preschools and preschool provided in LDC services. There is no policy rationale for excluding some preschools from funding based on the delivery setting (that is, LDC centres delivering preschool programs). Goodstart has LDC centres with integrated preschool in all eight states and territories. Consequently, we are directly affected by the inconsistency of funding allocation between the different states and territories.

As a transitional measure, we support the Commonwealth directly funding LDC centres with integrated preschool where states do not pass on the per child subsidy themselves. Depending on the purpose and amount of this funding, this may encourage more affordable access to preschool in LDC settings, and encourage these states and territories to move to a more flexible funding approach in due course.

While we support the policy direction of states and territories moving towards more flexible preschool funding arrangements, we note the differing starting positions of all the states and territories raises significant practical barriers. We covered these matters in detail in our first submission. Working through these issues will require detailed negotiations between the Commonwealth, states and territories.

As a transitional arrangement, Goodstart supports Commonwealth funding being directed to LDC centres providing formal preschool in those states and territories where funding is withheld from LDC providers.

Goodstart supports the states and territories moving towards funding neutrality for preschool delivered in all contexts, including LDC across all states and territories, noting the practical challenges associated with this.

INFORMATION REQUEST 5.1

What are the optimal hours of attendance at preschool to ensure children's development and what is the basis for this?

The sector has made a significant investment to deliver preschool programs consistent with the requirements outlined in the Universal Access National Partnership. Goodstart supports maintaining 15 hours of preschool per week for 40 weeks per year in all states and territories.

DRAFT RECOMMENDATION 5.1

Payment of a portion of the Family Tax Benefit Part A to the parent or carer of a preschool aged child should be linked to attendance in a preschool program, where one is available.

RESPONSE

Goodstart recognises the potential merit of linking FTB payments to attendance at preschool in order to instil preschool attendance as a norm and expectation.

However, Goodstart does not currently support the proposed approach. There are still a significant number of families for whom the cost of preschool presents a serious barrier to participation, in some states more than others. Further, the shortage of preschool places in some communities can create a barrier to access. In practice, these limitations of the current preschool service system means that linking attendance to FTB payments would have a significant and immediate negative impact on some families' discretionary incomes. This impact would be inequitable, with a varying impact on families depending on where they lived and what preschool services were available to them. Goodstart could only support a recommendation of this type if these barriers to access did not exist.

As preschool is not yet universally accessible and cost remains a barrier to access for some families, Goodstart does not currently support linking the payment of FTB to preschool attendance.

DRAFT RECOMMENDATION 7.9

Dedicated preschools should be removed from the scope of the National Quality Framework and regulated by state and territory governments under the relevant education legislation. The quality standards in state and territory education legislation should broadly align with those in the National Quality Framework. Long day care services that deliver preschool programs should remain within the National Quality Framework.

RESPONSE

Goodstart does not support removing dedicated preschools from the NQF, while leaving LDC services with integrated preschool within the NQF.

The proposed recommendation undermines the decades-long move by the sector towards integrating care and education that has taken place in Australia and internationally over the past two decades. This integrated service delivery is important because it reflects that a child's learning and development needs are the same, regardless of the environment or setting.

This regressive change would also reinforce the perception of a stratified quality of service. Exacerbating existing perceptions that LDC provides a lower quality of dedicated preschool would have significant implications for attracting and retaining quality preschool teachers. Preschool teachers working in dedicated preschools may already be paid better and considered in higher

regard, so this recommendation is likely to lead to further “diminution of the LDC teacher’s status” and higher attrition of LDC preschool teachers.⁵¹

The proposal also means services delivering the same programs are treated differently for regulatory purposes.

We also do not support preschools delivering programs based on the National Curriculum. The EYLF is the appropriate curriculum for preschool programs.

Goodstart strongly opposes the Commission’s recommendation to remove dedicated preschools from the NQF.

Commonwealth funding

The Draft Report suggests measures to eliminate ‘double dipping’ of Commonwealth, state and territory subsidies by LDC centres. The Productivity Commission suggests ‘double dipping’ may occur in circumstances where a LDC centre with an integrated preschool receives both Commonwealth and state/territory subsidies to cover the hours in which preschool programs are delivered.

Moves to limit ‘double dipping’ sound efficient. However, the specific mechanism proposed by the Productivity Commission has significant limitations and does not recognise the complexity of current funding arrangements, including the variations between and within states, and the variations between standalone preschools and LDC centres. The suggestions by the Productivity Commission could have unintended negative consequences for families and providers and would compromise children’s access to quality preschool programs. We note no specific recommendations are made in the Draft Report about limiting access to the ECLS.

Specifically, the Draft Report suggests LDC services should charge a ‘standard co-payment’ for preschool—however no such ‘standard co-payment’ exists. There would be similar challenges in identifying a standard co-payment for preschool as have been identified in Section 2 associated with determining an efficient price for LDC. Determining the difference in the cost of each hour per child would be complex to calculate accurately and would add a significant administrative burden to LDC centres. It would also be confusing for parents if different subsidy rates applied for preschool hours and other hours.

The Draft Report also suggests that where preschool hours are fully funded they should not be claimable for Commonwealth subsidy. It is important to emphasise that state and territory funding does not fully fund the cost of delivering preschool. In LDC centres this funding is used to subsidise the teacher salary, enhance outdoor learning environments, and upgrade indoor learning resources to meet the Universal Access requirements. In some states this funding provides some fee relief for vulnerable children.

As this funding is not sufficient to fully deliver a preschool program, both LDC centres and standalone preschools generally charge fees to cover the gap. However, these fees are significantly lower in standalone preschools compared to LDC centres, reflecting the lower costs associated with standalone preschools. A LDC centre has substantial additional costs associated with longer opening hours, being open 52 weeks a year rather than 40 weeks, higher labour costs associated with providing flexible pick-up and drop-off times for families, and generally higher rental and other fixed costs. Conversely, preschools have a much lower cost base often typified by: lower labour costs

⁵¹ Dowling, Andrew, and Kate O’Malley. “Preschool education in Australia.” Policy Briefs (2009)

associated with sessional services with strict drop-off and pick-up times; historical funding arrangements with state governments; and often more generous rental arrangements.

It would not be reasonable to exclude parents from claiming childcare subsidies while their child accesses a preschool program while at their LDC centre. Any moves in this direction would raise the cost of preschool in an LDC context and would mean prices for preschool in the Goodstart network and across the LDC sector more broadly would significantly increase for families, creating a barrier to access.

Goodstart recommends the Final Report confirm the ECLS is available to parents with children accessing a preschool program in LDC, noting this is vital to maintaining affordability of care for families and providing access to quality preschool for children.

With significant variation in preschool funding arrangements across the country and a low likelihood of achieving national consistency in funding arrangements, Goodstart does not support a 'standard co-payment' approach for preschool.

7. Tax Concessions and Concessions

DRAFT RECOMMENDATION 10.1

In line with the broad level recommendations of the Productivity Commission's 2010 study into the Contribution of the Not-for-profit Sector, the Australian Government should remove eligibility of not-for-profit ECEC providers to Fringe Benefit Tax exemptions and rebates.

State and territory governments should remove eligibility of all not-for-profit childcare providers to payroll tax exemptions. If governments choose to retain some assistance, eligibility for a payroll tax exemption should be restricted to childcare activities where it can be clearly demonstrated that the activity would otherwise be unviable and the provider has no potential commercial competitors.

DRAFT RECOMMENDATION 12.1

The Australian Government should remove section 47(2) from the *Fringe Benefits Tax Act 1986*, that is, the eligibility for Fringe Benefit Tax concessions for employer provided ECEC services. It should retain section 47(8), which enables businesses to purchase access rights for children of their employees without this being considered an expenditure subject to the Fringe Benefits Tax.

DRAFT RECOMMENDATION 12.11

The Australian Government should redirect any additional tax revenue gained, or administrative savings from, removing ECEC related tax exemptions and concessions to expand the funding envelope for ECEC. For not-for-profit providers of block funded ECEC services to children with additional needs, the tax savings should be included in their block funding arrangements while these programs continue under the current funding agreements.

RESPONSE

1. Objective

The Productivity Commission is concerned that concessions provided to the not-for-profit sector are creating an uneven playing field and are not an efficient use of government investment to achieve social purpose objectives. Goodstart does not agree with this conclusion. The not-for-profit sector delivers wide-ranging benefits to children, the community, the workforce, to governments, and the economy more broadly and the value delivered by not-for-profits far outweighs the concessions provided.

Goodstart does not support recommendations to remove existing exemptions and concessions that are critical to maintaining a strong not-for-profit sector and run contrary to long-established taxation and public policy decisions by the Commonwealth, state, and territory governments.

Goodstart would argue there is a case instead for expanding tax concessions applying to schools and preschools to the early learning sector, in some cases to both not-for-profit and for-profit operators.

Goodstart is concerned an unintended consequence of removing section 47(2) from the *Fringe Benefits Tax Act 1986* is that it would significantly reduce our ability to provide staff discounts on childcare provided in the ECEC sector.

2. General contribution of the not-for-profit sector

Not-for-profit ECEC providers play an important role in the ECEC sector. The Draft Report notes that not-for-profit ECEC providers:

- are more likely to be assessed as meeting or exceeding NQS than for-profit centres (p. 433);
- are more likely to provide high-cost nursery places for children under two years of age than for-profit providers (p. 819);
- employ more qualified staff (p. 828);
- provide more places in outer regional and remote areas than for-profit providers (p. 817); and
- within a network, may cross-subsidise to support services in low-SEIFA areas or regional centres with low occupancy (p. 447).

The Commission suggests that “...tax concessions provided to not-for-profit providers are likely to be causing distortions to efficient market operation with uncertain benefits, because:

- it appears not-for-profit provision of childcare services is no more prevalent in disadvantaged communities (which tend to be less profitable), and
- not-for-profit providers deliver services in markets where commercial provision of services is feasible and therefore directly compete with for-profit providers.” (p. 463)

We do not agree with the premise of the first argument as our network demonstrates occupancy drives profitability, not SEIFA location. Provided high levels of occupancy can be maintained, reasonable returns can be made in all markets. Where *occupancy* is consistently weaker is in outer regional and remote communities. These services are less likely to be profitable and not-for-profit providers dominate these markets (p.817).

The second argument appears not to consider the draft report finding that not-for-profit providers “appear to compete on service quality” (p. 433). Goodstart would put it differently—not-for-profit providers place a strong emphasis on improving the quality of early learning and care, and reinvest any proceeds they make into quality and inclusion. For many parents, this is an important consideration in their choice of centre. Many private providers also place a strong emphasis on quality in their offer to families. Having a vibrant not-for-profit sector ensures that competition based on quality remains an important element in all markets.

The Commission further questions tax concessions for not-for-profits by noting that, on average, not-for-profit and government LDC providers charge slightly higher fees than for-profit operators in disadvantaged areas (p. 462). This is not true in all cases and some variation can be explained by differences in opening hours, which can distort differences in hourly fees. For-profit providers tend to open for slightly longer hours than not-for-profits—when this is taken into account, the daily fees actually paid by parents may be lower in some cases.

Further, this modest price differential may be justified in comparing the quality ratings of centres in SEIFA 1 postcodes, with not-for-profit and government services far more likely to meet or exceed NQS than for-profit services. In NSW, just 23.8 per cent of for-profit services in SEIFA 1 postcodes met the NQS. This is much lower than the national averages of quality reported by the Commission.

TABLE 5: LDC centres assessed as meeting or exceeding NQS in SEIFA 1 postcodes

Ownership Type	NSW	Vic
Gov. owned	86%	83.3%
Not-for-profit	43.8%	91.7%
For profit	23.8%	50%
Number in sample	103	40

(Source: MyChild website)

3. Goodstart's contribution

Goodstart's social purpose is expressly stated in its company constitution and underpins the operation of the entire organisation. Some of the key investments Goodstart made in 2012-13 to meet our twin social goals of raising the quality of early learning and improving social inclusion include:

- **Social inclusion programs:** These programs support children in the most disadvantaged communities. In 2013-14, Goodstart delivered 21 social inclusion programs involving 811 staff in 201 centres.
- **Support for loss-making centres:** Goodstart supports loss-making centres in SEIFA 1-3 communities because we believe it is important that children in those communities have access to quality early learning.
- **Support for loss-making nursery rooms:** Goodstart supports loss-making nursery rooms (children aged under two years) representing around 17 per cent of the market for this age range compared to 10 per cent of the market for other ages because we believe learning begins at birth and should be supported.
- **Support for children with additional needs:** In 2013-14, Goodstart supported 988 children with additional needs who were eligible for inclusion support (up 17 per cent on the previous year), even though Federal funding (\$5.0 million) covers only about two-thirds of the cost of supporting these children.
- **Training and professional development:** Goodstart delivers training and professional development to our employees, with a focus on improving the knowledge of our educators.
- **Early learning and research:** Goodstart regularly contributes to early learning and research, dedicated to improving both knowledge and practice.
- **Support for the Goodstart Institute of Early Learning:** Goodstart supports the Institute to promote high-quality qualifications in the sector. While most graduates of our Institute will work for Goodstart, a significant number move straight into other parts of the sector.
- **Partnerships with service providers:** Goodstart partners with child and family service providers to bring a wider range of programs into our centres, including the Benevolent Society (Partnerships in Childhood), the Murdoch Children's Research Institute ('Let's Read' program), Foodbank, the Brotherhood of St Laurence, and Mission Australia.
- **Support for Indigenous relationships:** Goodstart has also developed and is implementing a national Reconciliation Action Plan and individual centres conduct reconciliation activities and work with their local Indigenous communities.

- **Financial support for families:** Goodstart also assesses and writes off unpaid debts for low-income and disadvantaged families, where appropriate.

This national action is complemented by activity on the ground in local communities. There are too many activities to list in this submission but the examples below provide a snapshot of the types of social purpose outcomes and community connections being delivered by Goodstart. These activities can be prioritised because we are a not-for-profit organisation.

- Goodstart Merriwa—Hughie Edwards Drive's (WA) work with their local Aboriginal and Torres Strait Islander community, including participating in committees, hosting regular meetings, and running programs to involve children and families.
- Goodstart North Mackay's (Qld) initial partnership with Autism Queensland has expanded to other community agencies as they have become the preferred provider of early learning and care to children with additional needs, their families and carers.
- Goodstart Shepparton—Archer Street (Vic) ran a program that provided 6,000 meals for vulnerable children and their families.
- Goodstart Delacombe (Vic) started a library for local children and families to improve literacy and inspire a love of reading in a community that did not have books in the home.

4. Payroll tax

Goodstart does not support the Commission's recommendation that not-for-profit providers be subject to payroll tax. Goodstart employs over 13,000 employees with employee expenses of \$514 million in 2012-13. Imposition of payroll tax would cost the organisation an estimated \$27.9 million per year, based on 2013-14 figures. In order to make up this shortfall we would need to either increase fees for families or reduce services for families.

Removal of this exemption, or restricting to locations where services are otherwise unviable *and* with no commercial competition, would impact on all not-for-profit providers, as there are few, if any, metropolitan or regional (other than rural) locations where there are no potential commercial competitors. This could force not-for-profit operators to abandon those areas where children are most in need of services.

The exemption for charities from payroll tax was a significant outcome of the payroll tax harmonisation exercise undertaken by COAG in the period 2007-2009. The harmonisation exercise saw states and territories agree to a common approach to payroll tax under eight key topics, including treatment of charities and schools.

Based on the available information available, Goodstart also considers that only a minority of the sector—possibly as low as 20 per cent—actually pays payroll tax. This is because the charities, schools, state and local government exemptions cover 60 per cent of centres (LDC and preschools). Around half of the remaining 40 per cent of centres that are privately owned are likely to fall below the payroll tax thresholds in each state, as around half of all centres are standalone operations. Table 5 outlines the different thresholds in different states. Further, even if payroll tax exemptions for not-for-profits were removed, there would continue to be anomalies and distortions in the market:

- Standalone operators, both for-profit and not-for-profit, would continue to be exempt, covering around half of all centres.
- Preschools would continue to be exempt as part of the schools exemption, providing a further market distortion for LDC centres providing preschool programs.
- State and local government services could continue to be exempt under their separate exemptions.

Table 6: Payroll Tax Thresholds⁵²

Jurisdiction	Payroll Threshold	Equivalent sized LDC centre (est. no places)
NSW	\$750,000	65
Vic	\$550,000	50
Qld	\$1,100,000	90
WA	\$800,000	70
SA	\$600,000	55
Tas	\$1,250,000	105
ACT	\$1,850,000	155
NT	\$1,500,000	125

As only a small part of the ECEC sector currently pays payroll tax (privately owned operators owning more than one service), it could be argued the least-distorting approach would be to extend payroll tax exemptions to all ECEC providers, both for-profit and not-for-profit.

This would be consistent with the broader tax treatment of schools and preschools, recognising that since COAG endorsed the National Strategy on Early Childhood in 2009, the early years have been recognised as important part of the national education effort.

The Commission further suggests the funds 'saved' from removing tax exemptions for not-for-profit ECEC providers should be redirected into increasing the funding envelope for ECEC. This suggestion is not workable in practice. States generally do not have programs in place to directly fund LDC centres (other than preschool programs) and would be unlikely to be agreeable to entering this space by hypothecated savings from removing payroll tax exemptions from LDC centres.

Goodstart does not support the recommendation that state and territory governments should remove eligibility of all not-for-profit childcare providers to payroll tax exemptions.

Goodstart suggests the Productivity Commission considers the early childhood education and care provision in both the for-profit and not-for-profit sectors be exempt under payroll tax in recognition of the essential role the sector plays in education.

5. Fringe Benefits Tax

The Commission proposes that not-for-profit providers should lose access to Fringe Benefits Tax (FBT) concessions. As a rebatable employer, this would mean Goodstart would no longer be eligible for the 48 per cent rebate on Fringe Benefits, which is currently capped at approximately \$16,000 (\$30,000 taxable) of benefits per employee. Few employees access these concessions within Goodstart and the cost to Goodstart of removal of the concessions would be fairly small, in the order of \$0.3 to \$0.45 million.

⁵² <http://www.payrolltax.gov.au/harmonisation/payroll-tax-rates-and-thresholds>

Goodstart notes the Not-for-profit Sector Tax Concession Working Group report to Treasury in May 2013⁵³ recommended a comprehensive approach to review of FBT concessions for not-for-profit organisations. It would seem sensible that any reform of FBT concessions should be part of a broader package of reforms for the entire not-for-profit sector.

Goodstart recommends that changes to FBT concessions for not-for-profit ECEC providers should only proceed as part of a broader reform of FBT treatment of the not-for-profit sector.

6. Removal of section 47(2) from the *Fringe Benefits Tax Act 1986*.

Goodstart is very concerned this recommendation, as it stands, would inadvertently render most staff discounts on childcare liable for FBT. These arrangements are common across the sector, both for-profit and not-for-profit, and provide a vital workplace incentive. Within Goodstart, 3,660 of our 13,000 staff enjoy access to staff discounts. The concession is important to the staff, as it allows educators to work in the same centre as their children, improving their work and family balance. The practice also builds commitment of educators to their centre, contributing to lower staff turnover. In what is acknowledged is a low-wage sector, this is an important and valuable incentive to staff.

Notwithstanding the current section 47(2) exemption, staff discounts on childcare are classified as an “in-house residual benefit” and eligible for concessional valuation rule for FBT purposes. Our preliminary advice is that removal of section 47(2) would have the effect of rendering the benefit as a taxable fringe benefit. The impact to Goodstart is substantial—based on FY14 figures, Goodstart provides approximately \$10.2 million in employee discounts to a total of 3,660 employees. Excluding around 500 employees for whom the benefit is likely to remain outside the FBT net, \$9.9 million of benefits would become subject to FBT. Using FY14 discounts, the application of the FBT valuation rules would give rise to taxable Fringe Benefits of \$6.9 million or FBT of \$6.45 million. In addition, bringing the existing level of staff discounts within the FBT net would impact approximately 2,100 employees due to the inclusion of \$13.87 million in Reportable Fringe Benefits on their incomes reported for government benefit purposes, reducing their entitlements to childcare subsidies, family payments, and so forth.

The prevalence of this type of arrangement across the sector is unknown, but expected to be significant, and will likely extend to both not-for-profit and for-profit providers. It should be noted that were this recommendation to be adopted, the impact could not be circumvented by way of contra deals with other providers. It is not possible to estimate the impact on individual employees, as Goodstart does not have visibility over an employee’s individual circumstances.

From the discussion in the Draft Report it appears the Commission’s intention was only to capture salary sacrificing arrangements. In principle, Goodstart supports removing FBT exemptions for childcare to the extent they provide more assistance to very-high-income earners. However we cannot support this recommendation due to the impacts on staff described above.

However, the interactions appear to be complex and there is no simple solution to avoid this significant unintended consequence other than not to proceed with the recommendation.

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<http://www.treasury.gov.au/~media/Treasury/Access%20to%20Information/Disclosure%20Log/2014/1447/Downloads/PDF/NFP%20Sector%20WG%20Final%20Report.ashx>

Goodstart does not support removing section 47(2) from the *Fringe Benefits Tax Act 1986* unless it can be ensured that discounts for staff working in childcare will not be impacted by the change.

7. Deductible gift recipient status

Goodstart would encourage the Commission to restate its recommendation 7.3 from its Charities Research report⁵⁴ which recommended that:

The Australian Government should progressively widen the scope for gift deductibility to include all endorsed charitable institutions and charitable funds. Consistent with the Australian Taxation Office rulings on what constitutes a gift, payments for services should not qualify as a gift.

The treatment of ECEC under the deductible gift recipient status rules of the tax acts is anomalous in that it picks up schools and preschool programs, but not the rest of the early learning sector.

Goodstart could then seek endorsement by the Tax Office to establish a scholarship program for disadvantaged children to access our preschool programs, but could not be endorsed for a program for younger children.

It is unclear whether we could apply for endorsement to establish a building program for our preschool program, as the Tax Rulings exclude 'childcare'.

The definitions of schools and preschools were last reviewed 15 years ago in 1999 and predate the national COAG agreements on early childhood. As such, they should be reviewed. More recently, the Review of NSW Government Funding for Early Childhood Education in 2012 recommended that (p. 53):⁵⁵

The Government could also consider making representations to the Commonwealth to make contribution to not-for-profit early childhood providers tax deductible in the same way as donations by parents or other to non-government school building funds are tax deductible. The review acknowledges that this type of measure would be marginal in its effect but that it could make a difference for some services.

The Not-for-profit Sector Tax Concession Working Group report to Treasury in May 2013 also recommended broadening access to deductible gift recipient status.

Goodstart recommends the scope for gift deductibility be widened to include all endorsed charitable institutions and charitable funds providing early childhood education and care.

⁵⁴ "Contribution of the Non-Profit Sector" Productivity Commission Research Report 2010/02

⁵⁵ https://www.det.nsw.edu.au/media/downloads/about-us/statistics-and-research/public-reviews-and-enquiries/review-of-nsw-government-funding-for-early-childhood-education/review_nsw_gov_funding_ece.pdf

8. Other Recommendations

Goodstart also offers the following responses to other key Productivity Commission recommendations. Goodstart has not responded to all recommendations, given the complex nature of the key recommendations and the limited time available to consider the Draft Report. This does not necessarily mean we do not have a view on matters not mentioned in our submission. We would be happy to provide any further advice to the Commission on other specific issues in order to inform the final report.

DRAFT RECOMMENDATION 7.10

State and territory governments should, as a matter of priority, harmonise background checks for ECEC staff and volunteers by either:

- advancing a nationally consistent approach to jurisdiction-based ‘working with children checks’ as proposed in the National Framework for Protecting Australia’s Children, including mutual recognition of these checks between jurisdictions, or
- implementing a single, nationally recognised ‘working with children check’.

Goodstart supports the PC recommendation.

DRAFT RECOMMENDATION 7.11

Governments should remove those food safety requirements in the National Regulations that overlap with existing state and territory requirements.

State and territory governments, in conjunction with Food Standards Australia New Zealand, should explore the possible exemption of childcare services from Standard 3.3.1 of the Australian food safety standards, as in New South Wales.

Goodstart supports the PC recommendation to exempt child care services from Standard 3.3.1, however a distinction should be made between higher risk (eg hot foods) vs serving fruit / morning / afternoon tea given very young children are vulnerable to food contamination.

DRAFT RECOMMENDATION 7.12

Local governments should

- use planning and zoning policies to support the co-location of ECEC services with community facilities, especially schools
- use outcomes based regulations to allow services flexibility in the way they comply with planning rules, such as in relation to parking
- not regulate the design or quality of any aspect of building interiors or children’s outdoor areas within the service property, where such regulation duplicates or extends the requirements of the National Regulations or other standards such as the Building Code of Australia
- not impose regulations that interfere with the operation of the ECEC market, such as by restricting the maximum number of permitted childcare places in a service

- provide clear guidelines for the assessment of development proposals in relation to ECEC services, and update these guidelines regularly.

State planning departments should, as in Victoria, develop flexible standard planning provisions that can be applied across local governments to ensure some level of consistency; and scrutinise amendments to local planning schemes that might seek the introduction of different standards to guard against potentially costly requirements being imposed.

Goodstart supports the PC recommendation streamlining processes and removing duplication.

DRAFT RECOMMENDATION 8.4

The Australian Government should remove caps on the number of occasional care places.

Goodstart supports the PC recommendation removing cap noting appropriate regulation is required to ensure services meet quality standards.

DRAFT RECOMMENDATION 8.1

The Australian Government should ensure that the requirement (currently contained within the Child Care Benefit (Eligibility of Child Care Services for Approval and Continued Approval) Determination 2000) for most children attending an outside school hours care service to be of school age, is removed and not carried over into any new legislation.

Goodstart does not support the PC recommendation to remove the requirement for most children attending OSHC to be school aged. If the focus is on relaxing regulations for older children, then eligibility must ensure the services are age appropriate and not catering to mostly children under school age. The proposed recommendation could allow unsuitable ECEC services to be delivered through OSHC.

DRAFT RECOMMENDATION 11.1

Governments should ensure, through regulatory oversight and regular audits by the Australian Skills Quality Authority, that Registered Training Organisations maintain consistently high quality standards in their delivery of ECEC-related training.

Goodstart supports the PC recommendation noting that we are investing in the Goodstart Training College to deliver high quality qualifications to the sector.

DRAFT RECOMMENDATION 5.4

Early intervention programs to address the development needs of children from disadvantaged backgrounds should be underpinned by research. Their impact on the development outcomes of the children attending should be subject to ongoing monitoring and evaluation, including through the use of longitudinal studies.

Goodstart supports the PC recommendation.

DRAFT RECOMMENDATION 13.2

The Australian Government should establish a program to link information for each child from the National ECEC Collection to information from the Child Care Management System, the Australian Early Development Index, and NAPLAN testing results to establish a longitudinal database.

Subject to appropriate data protection methods, this information should be made available for research, policy analysis and policy development purposes. The ability of researchers to access unit record information should be permitted subject to stringent privacy and data protection requirements.

The Australian Government agency, which is the custodian of the Child Care Management System, should provide a de-confidentialised extract from the database each year that interested parties can use for research and planning purposes.

Goodstart supports the PC recommendation.

DRAFT RECOMMENDATION 13.3

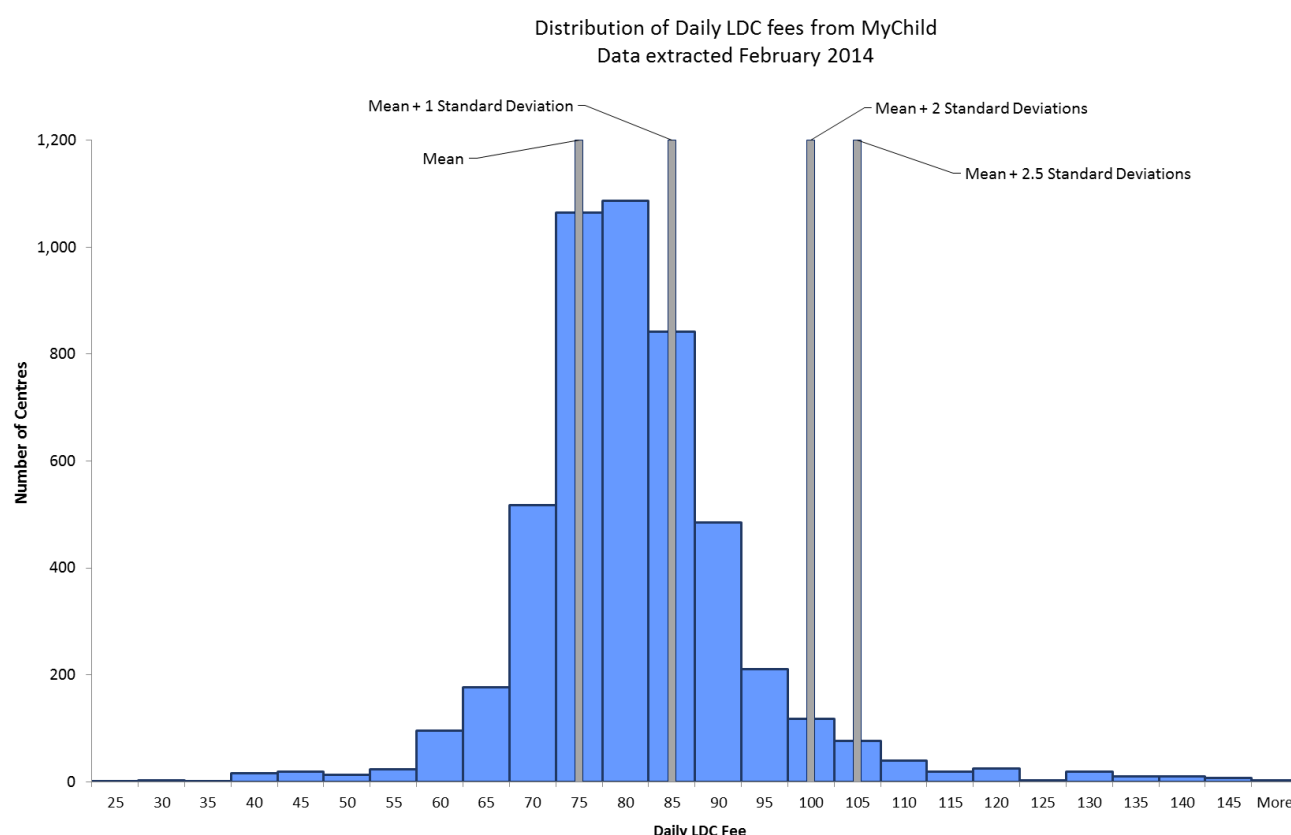
The Australian Government should review the operation of the new ECEC funding system and regulatory requirements after they have been implemented. In particular:

- within 2 years of introducing subsidies based on deemed cost of care, the accuracy of the deemed costs and appropriateness of the selected indexation approach should be examined and the existence of any adverse unintended outcomes should be identified and resolved
- within 3 years of extending the coverage of the National Quality Framework (including to current block funded services and to nannies), ACECQA should prepare a report identifying any legislative, regulatory or procedural difficulties arising from the wider coverage of the National Quality Framework
- within 5 years of implementing the new ECEC funding system and regulatory requirements, the Australian Government should undertake a public review of the effectiveness of the revised arrangements.

Goodstart recommends that a preliminary review of unintended consequences of the deemed cost model must be conducted to report within 12 months so any issues can be swiftly identified and resolved. Goodstart recommends that a single comprehensive Commonwealth Government review schedule is developed for the ECEC sector.

APPENDIX: A

MyChild distribution analysis for LDC centres to set a benchmark price



Summary Information

Mean	78.7
Median	77.5
Mode	75
Standard Deviation	11.9
Range	124
Minimum	25
Maximum	149
Count	4875

Centres were classified as LDC providers and had updated their fees in the MyChild system within the last 12 months when the MyChild data was extracted in February 2014. There were 4,947 services that met these criteria. Of these centres, 72 services were excluded as their daily fees were in ranges and not an average number, or were not provided. As a result, 4,875 services were used for the distribution analysis.

We considered 4,875 services to conduct a distribution analysis from MyChild. We identified a range from \$25 per day to \$149 per day. We know there are services that charge more than this—NATSEM

recently identified that some services charge up to \$170 per day. Our analysis also suggests that some of the very-low-fee centres (eg, \$35 and \$25) are community-based organisations that offer subsidised child and family services. A more rigorous analysis based on the department's administrative data could remove these outliers but for demonstration purposes we have left them in.

Applying 2.5 standard deviations from the mean the benchmark would be \$108.43. It would be reasonable to suggest that services charging more than this are outliers, possibly in high-cost markets (eg, due to very high rent), or are offering premium services.

The issue of high-cost markets, particularly nursery places and services in Greater Capital City Areas, could be addressed through variations in the benchmark price by considering distributions for these specific markets.

The Productivity Commission could model the administration data and assess the prices of all services that are meeting or exceeding the NQS to ensure the 'deemed cost' adequately funds quality. This approach would ensure affordability for the vast majority of families using services that meet the NQS while keeping a cap on expenditure for premium services.

Ultimately services are all competing in localised markets and local competition would restrict fee growth beyond what was reasonable to cover costs.

Linking the subsidies to a benchmark price that was updated annually based on fee data would be administratively simple would ensure that subsidy levels maintained their value over time.

Methodology:

Centres were classified as LDC providers and had updated their fees in the MyChild system within the last 12 months when the MyChild data was extracted in February 2014. There were 4,947 services that met these criteria. Of these centres, 72 services were excluded as their daily fees were in ranges of values (ie, not an average number), or were not provided. As a result, 4,875 services were used for the distribution analysis.

There are five centres that charge lower than \$36 (one at \$25.00, two at \$30.00, one at \$35, and one at \$35.50). They were left in for the purposes of this analysis.

All four are in NSW:

- *two are vacation care programs (one at \$30, and one at \$35)*
- *two look like community care organisations (one at \$25, and one at 35.5) (<http://www.kogarahcommunity.org.au/> and <http://www.firstchance.org.au/about/>).*
- *one is a not-for-profit designed for early child intervention and is a family-centred approach (<http://www.firstchance.org.au/about/>). They offer \$30 per day.*

Appendix B

Analysis of the impacts of the proposed activity test on Goodstart network

Change in Occupancy:

In FY2014, the average licensed occupancy of a centre within the Goodstart network was 78 per cent. As per the Productivity Commission's expectation that there would be a 66 per cent reduction in the attendances of children entitled to 24 hours CCB, this is estimated to reduce the average licensed occupancy of a centre within the Goodstart network to 75 per cent. Of course, this 3 per cent drop would be felt more in some centres than in others. Fifty-four centres with a SEIFA rating between 1–4 had an estimated drop in their licensed occupancy of between 6 and 10 per cent (21 per cent of all centres with a SEIFA 1–4 at Goodstart).

Summary of Effects on Goodstart Business:

The Productivity Commission forecasted reduction would result in an estimated 85 Goodstart centres becoming financially unviable. Most of these centres are in low-SEIFA communities. It is uncertain that parents would be able to secure sufficient hours of employment to meet the new work test, particularly if they aren't already working. Of these 85 centres, 55 (64 per cent) operate in low-SEIFA communities (SEIFA 1–4), with a further 28 centres (27 per cent) being in SEIFA 5–6 communities. The remaining seven centres operate in higher SEIFA communities (SEIFA 7–10).

Possible Impact:

It is difficult to consider the possible impact as families' responses and market responses are unknown. We note the Productivity Commission has also acknowledged the complexity associated with modelling the impacts for this group.

What we believe the analysis above demonstrates is that a significant number of centres would be at risk of being unviable. Across the Goodstart network, closing these financially unviable centres would result in a reduction up to 1.7 million licensed places across the year. Low-SEIFA communities alone would lose over 1 million of these places. Up to 500,000 licensed places would be removed from SEIFA 5–6 communities with around 150,000 being in higher SEIFA areas.

Financial impact:

The estimated loss of these 85 centres with the reduction in attendances in FY2014 would be up to \$5.1 million dollars.

Although we understand the intention of the DCP is to ensure access to ECEC in remote Indigenous communities and migrant communities, if the viability of services in low-SEIFA areas was compromised this program would need to be significantly expanded to ensure vulnerable low-income children could still access early learning and to ensure working families in these communities can still access ECEC.

Goodstart centres in low-SEIFA areas would require up to \$3.2 million per year to continue to provide the current number of childcare places. Up to \$1.8 million would additionally be required to fund the centres in a SEIFA between 5–6.

With a softening labour market, Goodstart believes the Productivity Commission's estimated drop in attendances (66 per cent reduction) for children who will not meet the new work test is conservative.

APPENDIX C

Impact of quality early learning on children aged birth to 3 years: some research references

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APPENDIX D

Differences between a Certificate III and Diploma qualifications

CERTIFICATE III UNITS	DIPLOMA UNITS	
18 units Part time—1 year Nominal hours: 810	28 units Part time—2 years Nominal hours: 1,670	Differentiation of correlating units within Certificate III
Work within a relevant legal and ethical framework	<i>Same</i>	These units sit within both Certificate III and Diploma programs
Develop cultural competence	<i>Same</i>	
Ensure the health and safety of children	<i>Same</i>	
Provide care for children	<i>Same</i>	
Promote and provide healthy food and drinks	<i>Same</i>	
Provide care for babies and toddlers	<i>Same</i>	
Develop positive and respectful relationships with children	<i>Same</i>	
Use an approved learning framework to guide practice	<i>Same</i>	
Identify and respond to children and young people at risk	<i>Same</i>	
Provide an emergency first aid response in an education and care setting	<i>Same</i>	
Work effectively with Aboriginal and/or Torres Strait Islander people	<i>Same</i>	

CERTIFICATE III UNITS	DIPLOMA UNITS	
Participate in work health and safety	Maintain work health and safety	The Diploma-qualified educator has the skills and knowledge required to implement and monitor work health and safety (WHS) policies, procedures and work practices as part of a small work team. The Diploma unit applies to workers who have a key role in maintaining WHS in an organisation, including duty of care for other workers. At a Certificate III level, the educator is working under direct supervision or with some individual responsibility, following policies and procedures.
Support the holistic development of children in early childhood	Foster the holistic development and wellbeing of the child in early childhood	The Diploma-qualified educator has the knowledge and skills to foster and enhance the holistic development and wellbeing of children from birth to 6 years of age, whereas at the Certificate III level, the educator is able to recognise and support the interrelationship of areas of development, at a basic level.
Use information about children to inform practice	Analyse information to inform learning	The Diploma unit contains the skills and knowledge required to gather and analyse information about children's learning in order to inform practice, whereas Certificate III-qualified educators have the knowledge and skills to observe and understand children's learning and development at a basic level enabling them to 'contribute' to program planning.
Provide experiences to support children's play and learning	Design and implement the curriculum to foster children's learning and development	<p>Diploma-qualified educators would have the ability to gather rich information about each child and groupings of children. The Diploma-qualified educator would be able to analyse and understand children's learning, development and wellbeing.</p> <p>A Certificate III-qualified educator is able to assist in creating environments to support children's play and learning.</p>
Support children to connect with their world	Embed sustainable practices in service operations	Certificate III-qualified educators would gain skills and knowledge required to support and encourage children's connection with their environment. In addition to these skills, Diploma-qualified educators gain the skills and knowledge required to educate children in contributing to their world, and embed sustainable practice into the service operations.

CERTIFICATE III UNITS	DIPLOMA UNITS	
<i>Not included in Certificate III</i>	Nurture creativity in children	Promote creativity and to allow children to communicate their understanding of their world and construct knowledge through a range of mediums
<i>Not included in Certificate III</i>	Facilitate compliance in an education and care services	Analyse the service's compliance under the applicable legislative and regulatory requirements, including the National Quality Standards, develop strategies and facilitate improvement as outlined within the service's quality improvement plan.
<i>Not included in Certificate III</i>	Establish and implement plans for developing cooperative behaviour	Identify challenging behaviours to enable early intervention, and conduct thorough analyses of external factors contributing to these behaviours. Develop plans and strategies to support these children. Guide Certificate-qualified educators in their practices to support the child.
<i>Not included in Certificate III</i>	Implement strategies for the inclusion of all children	Support children with diverse needs including children with disabilities. Develop learning and care programs that support children to be successful learners and receive quality care meeting their additional rights.
<i>Not included in Certificate III</i>	Promote children's agency	Diploma-qualified educators would have the knowledge and skills required to promote and encourage children's agency.
<i>Not included in Certificate III</i>	Establish and maintain a safe and healthy environment for children	The Diploma-qualified educator requires the higher level knowledge and skills enabling coordination of processes, evaluation of situations, monitoring, and coordination of responses and processes.
<i>Not included in Certificate III</i>	Work in partnership with families to provide appropriate education and care for children	Develop positive and respectful collaborative relationships between the service and families, and ensure the service is working in partnership with the family to provide the best possible education and care for the child.

Behind Goodstart

Goodstart was created by a partnership of organisations who saw the potential of early learning to transform Australia. They wanted to address one of the key sources of many future problems—poor early childhood experiences.

From alcoholism to drug abuse and homelessness, many adult conditions can be traced to early childhood experiences.

It made perfect sense for these groups to pool their energy and invest in early learning to fix the root cause of so many social problems.



The Benevolent Society is Australia's first charity—an independent, non-religious, non-profit organisation with nearly 200 years' experience of driving positive social change. It makes a difference every day by helping people to break down the barriers that prevent them from participating fully in society. Its goal is to improve quality of life for all Australians by building connected, inclusive communities where everyone feels they belong.



Social Ventures Australia (SVA) was established in 2002 as an independent non-profit organisation. SVA invests in social change by helping increase the impact and build the sustainability of those in the social sector.

SVA's investments are focused on high-potential organisations that are fostering solutions to some of the most pressing challenges facing our community. It provides funding and strategic support to carefully selected non-profit partners, as well as offering consulting services to the social sector more broadly.



The Brotherhood of St Laurence began during the Great Depression, as the vision and creation of Father Gerard Tucker, a man who combined his Christian faith with a fierce determination to end social injustice.

Based in Melbourne, but with a national profile, the Brotherhood continues to work for an Australia free of poverty.

The organisation undertakes research, develop and deliver services, and engage in advocacy. The Brotherhood's aim is to address unmet needs in innovative ways and translate learning from research and services into new policies, new programs and practices that can be implemented by government and others.



Mission Australia is a Christian community service organisation that has been transforming the lives of Australians in need for more than 150 years.

Today its 550 community and employment services assist more than 300,000 people nationwide by providing a hand up, a way forward and hope for the future.

The organisation strengthens families, empowers youth, strives to solve homelessness and provides employment solutions. Working with government, corporate Australia, churches and the wider community, Mission Australia aims to create a fairer Australia for all.