Thrive by Five Early Childhood Guarantee Bill 2024 – Exposure Draft

Goodstart Submission

May 2024

We're for children, not profit.

ABOUT GOODSTART

Goodstart is a not-for-profit social enterprise and Australia's largest provider of early childhood education and care (ECEC). We have over 660 centres located across every state and territory, educating 63,600 children from 53,700 families and employ over 15,000 educators, teachers and other staff.

Our purpose is to ensure all Australia's children have the learning, development and wellbeing outcomes they need for school and life. As a charitable social enterprise, we run our services for purpose, not-for-profit, investing in programs to improve outcomes for children instead of paying dividends to shareholders.

Goodstart has been a supporter of the Thrive by Five campaign since it was launched in 2020, calling for all children to have access to affordable high quality ECEC. We congratulate the campaign on the significant impact it has had in raising awareness in early learning issues. We are excited by the possibilities of where the current big policy debates about early learning with Commonwealth and State Governments may lead.

We commend the Minderoo Foundation and its co-chair Nicola Forest for their support for Thrive by Five and for their commitment to building a better future for Australia's children. We look forward to continuing to work with Minderoo on this important goal.

THE THRIVE BY FIVE EARLY CHILDHOOD GUARANTEE BILL

Goodstart and Thrive by Five share the view that Australia needs to build an universal ECEC system that is high quality, affordable, accessible and inclusive. While Goodstart's focus has been on ECEC, Thrive by Five's remit covers early childhood development (ECD) generally. The draft bill reflects this broader interest in ECD. We recognise that broader health, social and economic supports for families are vitally important, and also note that Thrive by Five's successes in raising awareness on ECEC issues.

Goodstart supports calls for a guaranteed entitlement of all children to early learning, and setting up a national commission as the system steward to lead the transition to a universal ECEC system.

However, we feel the draft Bill is premature in setting out 'how' to achieve these goals, and has not had the benefit of being informed by the significant Productivity Commission Review or input from the sector about how feasible the proposals would be in practice.

We would recommend that the draft bill be withdrawn and revised after the Productivity Commission's final report is delivered.

Unfortunately, we are concerned that progressing the Bill in its current form could disrupt the positive momentum afforded by the imminent Productivity Commission report, and its likely recommendation of an historic three day entitlement for all children. On this basis, we suggest the Bill should be withdrawn and revisited after the Productivity Commission's final report is delivered, and once questions about 'how' the key elements of the Bill might work are answered, to deliver the best possible outcomes for children, families and tax payers.

Specific areas of concern that we respectfully suggest need to be addressed include:

1. Universal entitlement: The universal entitlement to ECEC proposed in the Bill does not reflect the more comprehensive entitlement outlined in the Starting Better Guarantee, and the description in the Bill is overly simplistic which raises questions such as how access to additional days might be accessed. Further work is required to consider how the proposal would work in practice for families, and how to mitigate unintended incentives and consequences.
2. Supply-side funding: There is inadequate detail about how a $10 a day set fee supply-side funding system could work in practice and how risks to quality and supply could be managed in the highly fragmented mixed market for ECEC. We respectfully note that analysis by the Productivity Commission

draft report and the ACCC did not provide support for such a change. Analysis has indicated that such a system is likely to be complex, regressive and costly to implement for limited benefit so it would be prudent to exercise caution before recommending such a move.

While we appreciate that this draft bill's release is part of an ongoing campaign, in the interests of supporting a thorough consideration of the issues, we wish to place on the record the reasons why we do not support the bill in its current form, while supporting its broad intent.

1. The Productivity Commission is about to deliver its final report and the Bill should be informed by the findings from this significant inquiry process.

The Government has committed to an unprecedented reform process with the inquiry stage now nearing completion – an extensive ACCC inquiry into cost drivers, which is informing the PC which has been charged with providing a path to a universal ECEC system. Goodstart views on creating a universal ECEC system with a universal entitlement and stewarded by a national ECEC commission are outlined in our two detailed submissions to the Productivity Commission inquiry into ECEC. In our view, it makes sense to hold off finalizing a draft bill, and seeking commitments to it until the Productivity Commission has completed its work and reported. That way the Bill can be informed by the 2 years of deep policy work and significant sector and community consultation undertaken by the PC and the ACCC.

Goodstart looks forward to working with Thrive by Five and our other sectoral partners and Governments, in responding to that report, in building the architecture of a universal ECEC system.

2. The proposed Thrive by Five guarantee is too simplistic and does not reflect the more comprehensive entitlement outlined in the Starting Better Guarantee.

While we appreciate that the bill is a campaign tactic, we are concerned that seeking to obtain 'commitments' from key sector leaders and politicians to the bill risks misplacing momentum that could be better focused. It's important that there is adequate detail about how elements of the guarantee would work in practice. As the nation's largest not-for-profit provider of early education, operating in every state and territory, it's our view that this bill's campaign asks do not sufficiently connect with the 'how' of delivery and have the potential to create long term structural risks to delivering on the guarantee.

The bill (section 4(a)) sets as its first objective 'establishing the Thrive by Five Guarantee'. The 'Guarantee' is laid out in Schedule 1 and has three elements:

1) 52 weeks of paid parental leave shared between partners
2) Up to 25 child health development checks and
3) 30 hours of quality ECEC for children aged 0-5 that is free for low income families and has a 'fixed fee of $10 a day per child' for other children.

The Guarantee is loosely based on the Starting Better Guarantee proposed by the Centre for Policy Development (Nov 2021), but drops some important detail while adding other. Goodstart welcomed the Starting Better Guarantee report, and much preferred the original version to the reframed shorter version in this bill. Importantly, the CPD report had a detailed report on implementation where the key roles of mapping out a national strategy for ECD was allocated rightly to a Taskforce of Governments under COAG (now National Cabinet), with a National Commission established to have a specific focus on ECEC funding.

This distinction is important in determining what needs to be 'guaranteed' in Federal legislation or in a National Agreement between the States, and the best governance arrangements to achieve that. Given the Commonwealth is the primary funder of ECEC, the minimum guarantee for ECEC needs to be enshrined in legislation – indeed it already implicitly is at an inadequate level in the CCS legislation.[1] The 'guarantee' of

[1] The current CCS 'safety net' entitlement is 24 hours per fortnight for families with incomes <$80,000

Government funded paid parental leave is also already set in Commonwealth legislation, phasing up to 26 weeks by 2026[2]. Other elements of the guarantee will need to be set in State legislation, such as child development checks and the quality regulation of ECEC, which could reflect commitments made in a National Agreement.

Goodstart is concerned that the draft of the Thrive by Five Guarantee inadequately defines the 'guarantee' for ECEC. The CPD report, for example, proposed: "three days (up to 30 hours) of free or low-cost high-quality early childhood education and care per week as soon as families want it, with additional days for those who need it at minimal cost." The SA Royal Commission report (recommendations 25 & 26) and the Draft PC report both recognised that some highly vulnerable children should have access to more days of ECEC (PC p 386, 405-6, draft finding 9.2 p. 499). The Draft PC Report's draft finding 5.1 also noted that access, affordability, inclusion and flexibility were also key components of meeting the guarantee of 30 hours or three days.

Goodstart would recommend that any legislation establishing a universal entitlement to ECEC needs to explicitly state what that entitlement is, and also include reference to an extended entitlement of up to 5 days if a child needs it, and approaches for families who may need longer. The current bill does not provide sufficient detail on these matters.

3. A $10 a day set fee full supply-side funding system would be complex, regressive and costly for limited benefit.

Goodstart cannot support a Bill that recommends full supply-side funding without comprehensive consideration of the costs and risks. We note that this recommendation is being made ahead of the final Productivity Commission report, and that the draft Productivity Commission Report did not find adequate evidence to support such a radical shift. In our view it would be prudent to consider their final report in informing the draft Bill.

Our submission to the Productivity Commission draft report outlines the significant risks, costs and regulatory impact of a fully supply-side funding model but a summary of our key concerns is provided below.

COSTS

It's very expensive, relative to other options that would achieve similar universal accessibility outcomes

A $10 a day set fee system would be very expensive, relative to other options. Modelling conducted by the Productivity Commission indicates it would cost $7.3 billion per year, if introduced with other proposals such as free ECEC for low-income families and a 3-day universal entitlement. (The PC modelled the cost of its preferred option – 100% CCS for low incomes, reform of activity test – at $2.5 billion per annum.) This modelling does not include the high establishment and ongoing costs of delivering a supply-side model, which are substantially higher than current CCS administration costs, such as the establishment of independent pricing authority, establishing central enrolment processes, lifting sector data and reporting capability and funding contract negotiation, etc.

The draft bill proposal would cost in the order of an additional $5 billion a year according to the PC. The Draft PC report in rejecting a fixed fee model argued that reforms with the largest benefits relative to the cost should be prioritized (p 403):

> *"Overall, increasing the CCS rate to a universal 90% or introducing a flat fee for ECEC is likely to disproportionately assist high-income families, who already spend a lower proportion of their income on out-of-pocket ECEC expenses when compared to families in the lowest income decile. These options are costly but do not lead to significant increases in labour force participation, address the inequity*

[2] Around 62% of employers offer paid parental leave schemes typically around 12 weeks.

created by the current CCS settings, nor support greater ECEC access for children and families experiencing disadvantage. These policy goals would be more effectively achieved through relaxing the activity test and increasing the subsidy rate for lower-income families."

The areas that make the biggest difference to children like quality and inclusion are likely to miss out and are not addressed in the Bill

If Government revenue was unlimited, Government could afford to do all of the things needed to deliver universal ECEC and make it free or near free for everyone, while also ensure equity and inclusion for all children. But in a time of fiscal constraint, Government is unlikely to write a blank cheque for ECEC and that raises the ongoing risk that children with additional needs will continue to miss out.

Goodstart has argued consistently that Government investment should be prioritized to the things that matter most and that will deliver the best return on investment for the community and tax payers; namely – fixing wages for educators, abolishing the activity test to give all children access to at least three days of ECEC, fixing inclusion support and quality, addressing access in thin markets , and removing cost as a barrier to access to ECEC for low income earners. When all of that is achieved and funded in legislation, then we would argue we can afford to look at moving from a means-tested subsidy to free, near free or set-fee ECEC. Making ECEC free or near free for higher income families then should be a longer term priority, after the more urgent quality, access and inclusion priorities have been adequately addressed.

Set fee systems are highly regressive as the bulk of the increased investment benefits high income earners, which experience suggests may be at the expense of inclusion, access and quality for lower income families

Of the additional $5 billion per year to move from a means-tested CCS to $10 a day system, half would go to high income earners. Under $10/day, low income families would receive around a $3 a day benefit while a family on $500,000 p.a. would benefit gets $130+ a day.

Australia's tax transfer system is targeted with income testing, directing limited public finances to families that need it most. Moving from an income contingent subsidy to a flat fee would increase the costs to Government for limited return on investment in terms of improving access to ECEC or workforce participation, compared to the less costly reform of making ECEC free for low income families.

Who gets the benefit of $10 a day – gain per day - average fee $135 a day (centre based day care)

Income (p.a.)	Current out of pocket after CCS ($/day)	Gain/loss under $10 a day
>$80k – 1st child in care	$13.50	+$3.50
$100k	$18.90	+$8.90
$150k	$32.40	+$22.40
$200k	$45.90	+$35.90
$350k	$86.40	+$76.40
$500k	$126.90	+$116.90
>$135k – 2nd child in care	$6.75	-$3.25
$80k child in FDC[1]	$9.45	-$0.55

([1]Average fee in family day care was $95.45 in September 2023)

A key criticism of the CCS is that reporting of income and activity to Services Australia is too complex families. Technology, such as Single Touch Payroll, could help the CCS income reporting requirements for families, as noted in the PC draft report. Suggestions to have a 'tiered' fixed fee based on income (even 'free' below $80k) re-introduces the complained of complexity back into a set fee system.

RISKS

Establishing a supply-side funding system would take longer to implement and would be highly disruptive for little benefit

The Bill goes much further than the CPD or Draft PC report in defining 'affordable' ECEC as a set fee of $10 a day. Tying a universal entitlement to ECEC to a funding system with a fixed fee generates risks to children, families, the ECEC sector and taxpayers. A fixed fee would require shifting from the current demand based ECEC funding model to supply side funding. A reform that major would take many years to deliver, with no guarantee that children, families and educators would be better off than under a reformed demand based funding model, based on the experience of other Australian and international supply-side models.

To deliver this would require a significant upheaval in ECEC funding arrangements that could see many low income families being worse off and that may also make many smaller high quality not-for-profit providers become unviable. It should be removed from the bill and instead the campaign should call on the sector and Government to work together to develop funding system reforms that best deliver universal ECEC in the most efficient and effective way and the shortest possible time frame.

It's not as simple as $10 a day for everyone

Many families in Australia are already paying less than $10 a day for ECEC and would be worse off under a $10 a day set fee. An analysis of ECEC in NSW found 40% of families already have fees of less than $10 a day, reflecting the targeted Commonwealth and State subsidies in that state. Before advocating for a $10 a day system, proponents need to explain what happens to the families potentially worse off.

The solution may be 'up to $10 a day' or sliding scales and targeted exceptions but this reduces the simplicity of the scheme by retaining means testing and the associated administrative and compliance costs to government.

Noting the risk of stepped co-contributions, the simplicity of the messaging is further confused by different co-contributions for different settings, e.g. OSHC, family day care or vacation care, or for different days, e.g. $10/day for 3 days and more for 4th or 5th days.

Supply side funded systems result in lower quality and discourage innovation and choice

With funding typically based on an 'efficient cost' of delivery, supply side systems take away from the sector the opportunity to innovate and differentiate their offering. The 'efficient cost' will effectively set wages and conditions for educators and preclude staffing above set minimum benchmarks for quality or inclusion needs that many providers, particularly in the NFP sector do to meet their communities needs. In 2013, the PC commented that a shift to supply-side funding "would likely reduce variety in service provision, and thus the choice available" to families.[3]

Setting and maintaining an efficient price is a huge risk for Government and the sector

A supply side-funded system requires setting an 'efficient cost' for funding of ECEC services. There remain serious unanswered questions with significant consequences for families and the ECEC services they value such as: How would an efficient price be set? Who would set it? How would it both cover the cost of high quality provision and manage risks of gaming the system? How might Government guarantee that funding will be sufficient to deliver quality services over time? How long will it take to build the regulatory system and IT infrastructure needed to underpin it? How would small community based services engage with the system? What happens to demand and supply during an extended period of disruption? What about the impact on innovation in delivery and parental choice? These questions need detailed consideration that allow the variety of voices in the system to be heard before being proposed in legislation.

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[3] Productivity Commission (2014) p. 566-7 citing (Grun 2008)

Conclusion

Goodstart recognises that the demand-based Child Care Subsidy needs reform to underpin a universal ECEC system. The CCS in its current form is too complex, the activity test too harsh, affordability still a challenge for too many families and fee constraint measures have been inadequate for reigning in excessive fee increase by some providers. These issues need to be fixed and we, and others in the sector have shared with the PC how these matters could be addressed. We eagerly await the final PC report.

We also recognise that elements of the funding system are better managed through supply-side funding, such as inclusion funding and access in 'unserved' markets. But a demand-based subsidy also has advantages that should not be set aside without detailed consideration of the pros and cons and considering alternatives. These include the certainty of a legislation-based entitlement, the rapid expansion of supply to meet demand, the ability to efficiently target subsidy based on income and the allowance by innovation by providers to meet their families' needs. Ultimately these are complex issues that need detailed consideration.

When the PC final report has fully assessed the pros and cons of funding system reform, the sector as a whole can come together with Government and other interested parties to develop a new funding system that encompasses the very best of demand and supply side funding, within an overarching system stewardship approach, that delivers what Australia needs to achieve a universal ECEC system by the most efficient and least disruptive pathway. Sequencing is also important - what happens when, how quickly and what funding is available. The cost of a $10 a day system is so large it risks crowding out investments for what we would regards as more important priorities, including improving access children and families who need ECEC most, investing in the ECEC workforce, improving quality and inclusion and ensuring access in unserved markets. In a constrained fiscal environment, there is rarely enough money to do everything that needs to be done.

In conclusion, Goodstart re-iterates its support for a universal ECEC system that is accessible, affordable, quality and inclusive for all children. We commend Thrive by Five for its recognition that this needs to be embedded in high level national commitments expressed in legislation and overseen by a powerful new Commission. However, this bill as it stands falls short of what is needed to achieve these aspirations.

We would recommend that the draft bill be withdrawn and revisited after the PC's final report is released.