

# the benefits of early childhood education and care

Funding after COVID-19

May 2020



The Front Project is an independent national enterprise working to improve quality and create positive change in Australia's early childhood education system.

We work with government, business and the early childhood education and care sector to improve outcomes for children and increase the short and long-term gains for Australia.

We find innovative solutions that create impact in all parts of the early childhood system so that all children, especially those experiencing disadvantage, have opportunities thrive.

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## **RECOMMENDATION SNAPSHOT**

### Balancing aspiration and pragmatism to achieve impact

The Front Project recommends a reform direction that consists of a feasible plan that works for the ECEC sector and all that rely on it. It will support economic recovery from COVID-19 by assisting parents to return to work and providing children with the education and care they need to prepare for school, lifelong learning and a prosperous future.

### Implementing The Front Project's recommendation

### Immediate term - until October 2020 (or until the Federal Budget)

Maintain free or low-cost access to ECEC for all children to provide a stable environment enabling services to respond to increases in demand as parents return to work.

### From October 2020

Amend the Child Care Subsidy (CCS) to be more responsive and flexible to changing demand patterns, improve access and affordability and prioritise support for vulnerable children. The Federal and State Governments should also work towards universal, teacher-led preschool in the two years before school.

### From 2022

Continue improvements to affordability and include two years of universal preschool. Integrate with community support services for families.



## OVERVIEW

### The purpose of this paper

This paper assesses how to best accelerate economic recovery while ensuring children's wellbeing and education as we begin to move out of COVID-19 and into the future.

The value of a strong early childhood education and care (ECEC) sector has become more evident than ever as Australia experiences the impacts of COVID-19. Businesses and employers have relied on the ECEC sector to continue providing services to working parents, so that essential industries can continue, jobs can remain, and the economy can keep turning. Parents and carers have relied on their local centres to enable them to continue working or to find work in uncertain conditions, as well as to provide stable care and education for their children.

However, the impact of COVID-19 has exacerbated problems in the structure and operation of the ECEC sector, which, if unaddressed, could create challenges for parents and carers returning to work to kickstart our economy, and risk a knowledge and skills gap through children missing out on learning and development.

This paper recommends reforms to achieve sustainable improvements for our ECEC system and avoid these scenarios.

### What informed our recommendations

We assessed five possible funding directions against essential criteria, balancing aspiration and pragmatics, to show how different options can deliver the multiple benefits of ECEC to children, working parents and our broader society. These directions were assessed using a combination of two important measures:

- balancing key areas that are essential for successful reform; and
- evaluating the likelihood of achieving the outcomes we want to see.

The analysis is grounded in the evidence on what makes a difference for children, and draws on our rigorous and frequent consultation with people who connect with the many different parts of the ECEC system. Our collaborative network includes representatives from government, business, philanthropy, peak bodies, academia and the ECEC sector.

### Importance of a strong ECEC sector after COVID-19

Effective, affordable and accessible ECEC is central for:

- A functional economy delivering a 2:1 return on investment
- Enabling families to balance work and caring responsibilities seeing more parents in jobs and working more hours
- Supporting children's learning and development providing the foundation for the cognitive and social and emotional skills that children need to thrive throughout their lives.

COVID-19 is causing governments to directly experience how critical ECEC is in delivering these outcomes for Australia. However, in this moment when more people are understanding the critical value of ECEC, government budgets are under extreme pressure. This paper provides a funding recommendation to strengthen our ECEC system and address known issues that have been exacerbated by COVID-19, with particular consideration for affordability, implementation and realising the benefits that ECEC can deliver for Australia's children, workforce and economy.

### Value of ECEC for economic recovery after COVID-19

Governments are relying on Australians to return to work in strong numbers as COVID-19 restrictions ease to rejuvenate our economy. ECEC is particularly important during this stage as it delivers on multiple policy objectives that are critical to achieve economic recovery, including:

- Increasing labour supply and flexibility by enabling parental workforce participation
- Enabling a human capital investment that builds the core skills necessary for educational success
- Reducing disadvantage gaps and the long-term social, health and economic costs associated with children not getting the right start in life
- Ensuring children's wellbeing and readiness to transition to school is not neglected during a critical stage of their development.

### Setting Australia up for the future

ECEC delivers benefits to children, families, the economy and society – in the short, medium and long term. There are key decisions being made now about how to fund ECEC in a way that will enable it to support the sector's immediate needs in the aftermath and recovery from COVID-19, and to drive a more productive, resilient and innovative economy into the future.

This is a real opportunity to deliver a higher quality, more efficient system that unlocks greater workforce participation and supports the financial security of Australian families, while giving children access to critical learning and development that sets them up for lifelong heath, wellness and success.

## **REFORM OBJECTIVES**

### Outcomes and priorities for ECEC

Any reforms to ECEC need to prioritise three key outcomes.

### More parents of young children participate in the workforce

Helping more parents to work would see our national labour supply, productivity and flexibility increase into the future.

ECEC must assist families to maintain employment, increase hours and have the flexibility to take up more opportunities to work. This is especially important for the growing cohort of families experiencing insecure, casual or episodic employment in the recovery from COVID-19. Families should not experience financial stress from the cost of ECEC for their children.

### More children receive higher quality ECEC

Quality ECEC builds children's social and emotional skills and develops their brains. Every child who participates has a better opportunity of leading a happy, healthy and successful life. The sector should be set up to provide high quality ECEC efficiently and effectively, delivered by a skilled and capable workforce supported by professional pay and conditions.

Reforms should see more children getting the foundational skills they need to thrive at school, the confidence and love of learning that underpins educational success, and the skills needed to transition into the workforce. We should maximise this key window for building the skills that our future workforce needs to adapt to new conditions and remain competitive – this has always been important and the demand for these skills is now accelerated.

### Disadvantaged children receive adequate support

More children, including children who are at-risk or experiencing vulnerabilities, should have ongoing opportunities to access ECEC services that support their safety, health, wellbeing and learning.

Reforms should reduce the attainment gap between advantaged and disadvantaged children and prevent the downstream costs of children not getting a good start in life. These costs include the current \$15.2bn in high intensity and crisis services for young children and the lifetime costs of poor health, mental health, disengagement from education, and less cohesive communities.

### Delivering what the system needs

In order to reap the full potential benefits of our investment in early childhood education, Australia's ECEC system needs key reforms to drive efficiency, quality and readiness. Regardless of how the system is funded into the future, the following reforms should be prioritised.

• Investing in attracting and retaining the ECEC workforce

Including improving pay and conditions, recruiting and retaining teachers and educators, and investing in the leadership and capability of the workforce.

- Enabling and incentivising quality Including investing in the workforce and more effectively using levers to drive quality improvement.
- Funding mechanism design Including embedding a needs-based funding approach, particularly for preschool, and considering options to improve funding stability, consistency and administration.
- **Government actively managing planning and supply of services** Including efficiency reforms to manage occupancy, ensure sufficient places for all children, ensure the sector's capacity to deliver two years of preschool, and address the scale of provision.
- Strengthening accountability and demonstrating impact Including collecting more and better data and strengthening resources for teachers and educators to support children to progress.

## FUNDING ASSESSMENTS

### How to realise the benefits of ECEC

We assessed five funding directions against essential criteria, balancing aspiration and pragmatics, to show how different options can deliver the multiple benefits of ECEC to children, working parents and our broader society.

### **About the Directions**

There are five broad funding directions outlined: from an immediate return to the previous Child Care Subsidy system through to continuing the temporary 'free childcare' offer for all children. These directions are not necessarily mutually exclusive and there is flexibility within each of them.

The analysis is grounded in the evidence on what makes a difference for children, and draws on our consultation with leaders in business, the ECEC sector and academia. The analysis is intended as a discussion starter for the sector and governments.

### **Assessment scales**

Our assessments take into consideration what level of impact each direction would have on four areas that need to be carefully balanced for successful reform. Each of these factors need to be carefully balanced to achieve the intended outcomes. The scales consider:

- Opportunities for parents to work
- Children's education and care
- Cost to taxpayers
- Readiness to implement.

When determining a way forward, it is essential to understand how each potential funding direction delivers across these areas, in combination.

### **Evaluation criteria**

There are four key assessment criteria, reflecting the multiple goals and priorities of ECEC.

- Accelerate economic recovery and enable a vibrant economic future Minimise budget impact, support workforce participation, reduce workforce disincentives.
- Clear benefits for parents and families Benefit families, is easy to understand and simple to navigate – popular with parents.

### • A healthy and viable ECEC sector

Addresses policy and technical issues impacting the stability and effectiveness of the ECEC sector, implementation feasibility

• Improves children's learning, development and wellbeing Increases access for children, addresses equity issues, sufficient high quality.

> Now is the time to secure a fit-for-purpose model, while building the foundations for a highly effective, high-impact system.

### The Front Project recommendation: Achievable impact

The Front Project's recommended pathway forward is a combination of funding directions assessed in this paper. It aims to strike a balance between aspiration and pragmatics, reflecting the best opportunity to deliver on the key objectives of ECEC – parents in the workforce, children accessing early learning and support for disadvantaged children – in the context of recovering from COVID-19. It sets out immediate, transition and longer term pathways.

### Implementation details

### Immediate - to October 2020

### Challenge

The Child Care Subsidy (CCS) system is not fit-for-purpose to recover from an economic shock of this magnitude. Returning to this model has significant risks, including increasing financial stress for families, restricting workforce participation and disrupting children's access to ECEC.

### Recommendation

- Continue free or low-cost access to ECEC for all children and families.
- Utilise a funding model that provides adequate and stable funding for providers and enables services to respond to increases in demand as parents return to work.
- Develop a new funding model that is fit-for-purpose for economic recovery from 2021.

### Transition - from October 2020

### Challenge

This model will need to be an affordable adaptation of the current system that builds the foundations for a more effective long-term direction. It should enable parents to return to work as economic activity increases; improve accessibility, affordability and quality of ECEC; reduce administrative barriers for families, services and government; and ensure children have ongoing access to early learning.

#### Recommendation

- Increase affordability and accessibility: Reduce out-of-pocket costs for families by increasing the subsidy rates under the CCS, covering 95 per cent of the hourly cap for low-income households and tapering gradually. Given the economic climate, this should not include activity requirements. This would allow parents to respond to opportunities to work while their children have stable access to ECEC.
- **Support for vulnerable children**: Continue free and simple access for priority cohorts (for example, families with health care cards or from households experiencing family violence, mental health, homelessness, etc).
- **Two years of preschool**: Start working towards universal, teacher-led preschool in the two years before school. There should be free or low-cost provision of 15 hours for most children and 30 hours for vulnerable children, supported by a needs-based funding model. It would be delivered in a range of settings to meet the needs of different families and communities. Given this will take time to implement, the first stage would focus on free access in the year before school and building the teacher workforce.
- **Improve capacity for delivery**: Commence work on reforms to drive efficiency, quality and readiness for universal preschool. This would include more actively managing planning and supply, building on the strengths of the National Quality Framework and

investing in the attraction and retention of the early childhood workforce. The latter would require improved pay and conditions and recruiting and training teachers and educators.

### Medium to long-term - from 2022

Design a future system that further improves affordability and includes at least two years of universal preschool.

Building on the foundations of the transition stage, this system would have a strengthened capacity to support a resilient and growing workforce, as well as enable all children to access ECEC. It would be integrated with paid-parental leave, and maternal child health and services that support broader wellbeing for Australian families.

### **Evaluation of the transition recommendations**

#### Accelerate economic recovery and enable a vibrant economic future

$\checkmark$	Assists families to return to work	
~	Reduces disincentives to return to work or to increase hours	
~	Prioritises investment where it can have the greatest impact	
~	Cost is moderate	

### Clear benefits for parents and families

$\checkmark$	Increases affordability across the board and benefits all children 0-5	× Some complexity to communicate clearly
$\checkmark$	Easier access for at-risk families	
~	Easier access for families in insecure work because no activity test means they can maintain enrolment	
~	Supports families in insecure/casual work to take up job opportunities	

### A healthy and viable ECEC sector

<ul> <li>✓</li> </ul>	Would drive demand for places for 3 year old enrolments and maintain current 4 year old enrolments	×	Some difficulty for families to navigate as eligibility remains complex and dependent on family circumstances
<ul> <li>✓</li> </ul>	Would drive demand for teachers and educators, and increase employment pipelines	x x	Some difficulty to communicate clearly A cost for some families, which may be difficult at this time
$\checkmark$	Requires capital build, promoting stimulus		
~	Strengthens all parts of the sector		

### Improves children's learning, development and wellbeing

Significantly improves access for children
 Significantly improves access for vulnerable children

### Assessment scale – The Front Project Funding recommendation



### Direction 1: Return to the previous system

This Direction considers a return to the Child Care Subsidy system as it operated prior to COVID-19.

### **Evaluation**

This carries significant risks. There would be a steep cost increase for families and major viability issues for the sector, including closure of services, that would reduce access for children.

<ul> <li>Systems and process already in place</li> <li>Spending already in budget</li> </ul>	<ul> <li>Threatens sector viability – combination of reduced demand and reduced availability of places</li> </ul>
	<ul> <li>Parents may not be available to take up work opportunities immediately because children have been withdrawn due to cost</li> </ul>
	<ul> <li>Families not able to meet activity test in current COVID-19 context</li> </ul>
	<ul> <li>Would see parents spending on childcare instead of in the broader economy and increased financial stress for households</li> </ul>
	<ul> <li>Economic changes are so profound that an activity test is not feasible – especially in hard hit industries with heavy casual employment like tourism, hospitality, etc.</li> </ul>

### Clear benefits for parents and families

	Most families have some understanding of this model	×	Can be high-cost for many families, leading many children to be with withdrawn – significant cost increase from free model
$\checkmark$	This was working for some families		
		×	Complex to navigate, especially for families whose income/entitlement has changed or who are new to the system
		×	Unaffordable for many but particularly those hit hardest by COVID-19
		×	Families in insecure/casual work locked out because of activity test
		×	Will require many people to engage with Centrelink causing a burden for families and challenges estimating income and services

### A healthy and viable ECEC sector

	Services already know how to administer and have established systems	x	Likely to lose 1/3 of sector due to viability issues – difficulty operating at capacity
<ul><li>✓</li></ul>	Was working for some services	x	Limited ability to adapt to second and third waves of COVID-19
		x	Reduction in demand leads to job losses in the sector, which currently employs 160,000 people
		x	Continues uncertainty of funding amounts as rates of access/demand are difficult to predict

### Improves children's learning, development and wellbeing

<ul> <li>Children's access to early learning disrupted as they are pulled out due to cost – losing learning, losing relationships, increasing trauma/stress of COVID-19</li> </ul>
<ul> <li>Vulnerable children have reduced access – cohort who will benefit most from consistent access to early learning</li> </ul>
<ul> <li>Families experiencing financial stress bad for children</li> </ul>

### Assessment scale – return to the previous system



### Direction 2: Adapt and modify

This Direction includes critical modifications to the previous Child Care Subsidy system to make it more fit-for-purpose in the current context. Key changes are improvements to the Additional Child Care Subsidy for vulnerable children and jobseekers, removing the activity test and introducing new taper rates for the subsidy to improve affordability across the board.

### **Evaluation**

This approach can be actioned quickly and will boost affordability and access for families, helping parents to work while enabling access for children. However, it doesn't address the underlying design issues that caused the sector to be vulnerable during COVID-19. There is little in-built flexibility to respond to a second wave of COVID-19, and it is likely that cost will remain a barrier to access and employment for many families.

### Accelerate economic recovery and enable a vibrant economic future

<ul> <li>✓</li> </ul>	Marginal additional cost to improve ACCS and remove activity test	<ul> <li>Moderate cost for more generous taper rates</li> </ul>
~	More parents return to work because it reduces workforce disincentives	
<ul> <li>✓</li> </ul>	Some reduction in long-term health and social costs of entrenched disadvantage	

### Clear benefits for parents and families

$\checkmark$	Taper increases affordability across the board	×	Difficult for families to understand and navigate
<ul> <li>✓</li> </ul>	Easier access for at-risk families	×	Difficult to communicate clearly
<ul> <li>✓</li> </ul>	Easier access for families in insecure work because no activity test means they can maintain enrolment	×	Many families will still have out-of-pocket costs, which may be difficult at this time

### A healthy and viable ECEC sector

$\checkmark$	Could be implemented relatively quickly as largely builds on existing system Some minor legislative changes would be	×	Does not use opportunity for significant reform – would not address underlying instability and inadequacy of funding	
	needed	x	Limited capacity to respond to a second	
~	Likely to maintain some level of demand/occupancy		wave of COVID-19	
~	More services would be likely to remain viable			
<b>√</b>	Could maintain close to current levels of employment within the sector			

### Improves children's learning, development and wellbeing

<ul> <li>Vulnerable and at-risk children would have greater access</li> <li>Children would be less likely to be withdrawn due to family employment conditions – maintaining stability and relationships</li> </ul>	<ul> <li>Without reforms to lift quality we are not fully capitalising on the long-term potential or opportunity to significantly reduce downstream costs of disadvantage</li> </ul>
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### Assessment scale – adapt and modify



### **Direction 3: Preschool reforms**

This Direction extends free teacher-led preschool/kindergarten to all children in the year before school (this is currently only available for some families). It includes increasing access to 30 hours of preschool a week for children who are at risk of poor outcomes, and begins work to extend free or low-cost preschool for 15 hours to all children in the two years before school.

### **Evaluation**

A major increase in access and affordability of early childhood education in the critical two years before school would provide significant support for families to increase work hours in these years, and would deliver short- and long-term economic benefits. However, preschool reforms alone will not support families with younger children to return to work and would be unlikely to ensure the ECEC sector remains viable. There is not currently the early childhood teacher workforce or pre-school places to enable the immediate introduction of two years of preschool, so this reform needs to be phased in over time.

### Accelerate economic recovery and enable a vibrant economic future

$\checkmark$	Supports return to work and quick take-up of jobs for parents of 3 and 4 year olds.	x	Does not help parents of 0-2 year olds or 3- 4 year olds attending more than 15 hours
~	Big investment in future economic prosperity – maximising the 2:1 return.	×	Cost is moderate-high
~	Leverages/extends social norms around returning to work at preschool age, so parents likely re-enter the workforce earlier		
~	Reduce workforce disincentives for parents of preschoolers		

### Clear benefits for parents and families

$\checkmark$	Significant benefits to parents of 3 and 4 year olds – at the age when more parents return to work or increase hours Would significantly reduce costs for parents for this age bracket (more benefit to states without school-based preschool)	x x	Does not benefit parents of 0-2 year olds Less benefit to parents in States where preschool is already free
✓ ✓	Builds on already-strong community awareness and support for preschool – recognised as education Easy to communicate		

### A healthy and viable ECEC sector

$\checkmark$	Would drive demand for places for 3 year olds and maintain current 4 year old enrolment (for 15 hours)	x	Would need to be scaled up over time – could do one year now and build towards two
~	Would drive demand for teachers and educators and increase employment pipelines	×	May not be enough to maintain full viability of the whole ECEC system
~	Would require capital build – good option for stimulus		

### Improves children's learning, development and wellbeing

$\checkmark$	Significant impact on children – lifting school achievement, employment pathways, lifetime earnings and health and wellbeing	x	Doesn't increase access for 0-2 year olds
✓	Significantly increase access for vulnerable children		

### Assessment scale – preschool reforms



### Direction 4: Two days of ECEC

This Direction enables all children (0-5) to access two days of free ECEC, with means-tested fees for any additional hours.

### **Evaluation**

This would increase affordability for families and access for children, helping parents return to work or increase work hours.

#### Accelerate economic recovery and enable a vibrant economic future

<ul> <li>✓</li> </ul>	Would ensure parents were ready to take up work opportunities because children could be transitioning into early learning as soon as parents are ready	×	Would significantly impact budget
<ul> <li>✓</li> </ul>	May reduce the disincentive for working more hours because affordability is improved across the board		
~	Increased affordability would mean more flexibility for parents		

### Clear benefits for parents and families

<ul> <li>Popular and easy to communicate</li> <li>Would significantly reduce out-of-pocket</li> </ul>	<ul> <li>Parents working 3-5 days would experience out-of-pocket costs</li> </ul>
<ul> <li>Would significantly reduce out-of-pocket costs</li> <li>Would benefit all parents of 0-5 year olds</li> </ul>	<ul> <li>Some complexity would remain for families about what they are entitled due to the interaction between free and means-tested components</li> </ul>

### A healthy and viable ECEC sector

and educators and increase employment pipelines in the sector	<ul> <li>Would drive significant demand for teachers and educators and increase employment</li> </ul>	<ul> <li>Requires more substantive change to the existing funding model and mechanism, and would need longer lead-time to design and implement</li> </ul>
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#### Improves children's learning, development and wellbeing

<ul> <li>Would increase access for all children – more accessible and more children likely to attend</li> </ul>	<ul> <li>Need to first grow capacity of ECEC workforce</li> </ul>
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### Assessment scale – ECEC reforms



### Direction 5: Universal free ECEC

This Direction provides ECEC to all children with no out-of-pocket costs for families.

### **Evaluation**

While this direction would have significant affordability and access benefits for families, it is extremely costly for government and is unlikely to be feasible in the current environment. Additional reforms are also needed to build readiness in the ECEC sector.

### Accelerate economic recovery and enable a vibrant economic future

<ul> <li>Likely to significantly increase workforce participation</li> </ul>	<ul> <li>× Very large budget impact</li> <li>× Not means-tested, which may raise equity</li> </ul>
✓ Would reduce workforce disincentives	concerns
✓ Would unlock female workforce participation	

### Clear benefits for parents and families

$\checkmark$	Popular and easy to communicate
$\checkmark$	Reduces complexity and is easy to navigate
$\checkmark$	Benefits all parents of 0-5 year olds
<ul> <li>✓</li> </ul>	Delivers greater flexibility for families to access amount of early learning that meets their needs

### A healthy and viable ECEC sector

$\checkmark$	Would ensure sector viability and drive growth in the market More centres would need to be built – driving the building/trades market Would drive demand for teachers and educators and increase employment	x x	Sector not currently prepared for significant increase in children's attendance – key underpinning reforms are needed to boost capacity and readiness for high quality If payment rates are not sufficient it could drive low quality and harmful provision
	pipelines		
~	Potentially easier for sector and government to administer		

### Improves children's learning, development and wellbeing

<ul> <li>Increase access for all children</li> </ul>	x	Some risk for children through increased
		participation in low quality care

### Assessment scale – universal free ECEC





