
3 Government involvement in the early childhood development sector

Key points

- Governments intervene in the early childhood development (ECD) sector as policy makers, funders, providers and regulators. Their objectives include productivity, equity and the efficient supply of services to enhance community wellbeing.
- Policy objectives have changed over time. The recent reform initiatives of the Council of Australian Governments — summarised in the National Quality Agenda (NQA) and the National Partnership Agreement on Early Childhood Education (NPA ECE) — reflect a greater emphasis on the educational development of young children.
- The NQA comprises a learning framework for early childhood settings and national quality standards. The NPA ECE aims to deliver universal access to 15 hours of preschool per week by 2013 for children in the year before formal schooling.
- The reforms have substantial implications for early childhood education and care (ECEC) workers. The NQA requires services to employ more people who are better qualified from 2012. The NPA ECE will further increase demand for university-qualified early childhood teachers.
- Implementing the reforms will require substantial funding, and is likely to result in fee increases for many ECEC users. Governments should consider reprioritising existing funding arrangements, to ensure disadvantaged children do not miss out on the benefits of the ECEC reforms as a result of higher fees.
- Fee increases are also likely to cause a decline in labour force participation, as parents may withdraw their children from ECEC services and reduce working hours.
- Existing and projected labour market pressures will make it difficult for the NQA and the NPA ECE goals to be achieved within the specified timeframes. The sector suffers from difficulty attracting and retaining employees. Existing workforce strategies that focus on the availability and affordability of training may be inadequate to stimulate supply sufficiently to meet demand.
- Under the NQA, regulators will assess the quality of ECEC services. To assist parents to assess services, ECEC regulators should publish all relevant information regarding service quality, including service waivers.
- Services managed by committees of volunteer parents, and their staff, may face difficulties under the NQA. Governments should ensure that professional management support is readily available to assist with management and leadership.
- Governments should aim to minimise the regulatory impacts of the reforms. Regulators will require adequate resourcing to train staff in the new arrangements.

3.1 Government roles in the early childhood development sector

Across the economy, governments intervene to ensure efficient supply of goods and services that contribute to community wellbeing. Their actions can take many forms, and in the early childhood development (ECD) sector, this has resulted in a multitude of policy interventions, across all levels of government (table 3.1).

Table 3.1 **The role of governments in the early childhood development sector**

	<i>Early childhood education and care</i>	<i>Child health</i>	<i>Family support</i>
Australian Government	<ul style="list-style-type: none"> • Regulation • Policy setting • Most funding 	<ul style="list-style-type: none"> • Some policy setting • Some funding 	<ul style="list-style-type: none"> • Policy setting • Some funding
State and territory governments	<ul style="list-style-type: none"> • Regulation • Some policy setting • Some funding • Some provision 	<ul style="list-style-type: none"> • Policy setting • Most funding • Provision 	<ul style="list-style-type: none"> • Policy setting • Some funding • Provision
Local governments	<ul style="list-style-type: none"> • Provision • Some funding 	<ul style="list-style-type: none"> • Provision • Some funding 	<ul style="list-style-type: none"> • Some provision • Some funding

Historically, the Australian Government has controlled funding arrangements, while state and territory governments were both regulators and providers, and local governments provided specific services that were required by their communities. This mode of operation has not changed substantially in the child health and family support parts of the sector. In early childhood education and care (ECEC), however, the Australian Government has frequently changed the funding structure as its policy objectives have changed, while state and territory governments have also adjusted their regulatory requirements to reflect the needs of their local market. The result has been a complex web of policies and regulations (appendix F).

In more recent times, the Council of Australian Governments (COAG) has stepped into the policy arena, with the aim to create a nationally consistent policy framework for ECD services. In 2009, it endorsed the National Early Childhood Development Strategy (COAG 2009c), which includes reform initiatives that affect all aspects of the ECD sector.

3.2 Government objectives in the early childhood development sector

Current intervention in the ECD sector aims to enhance the wellbeing of children, their families and their communities. Research has shown that ECD services not only benefit children, but can also have positive effects for the economy as a whole by raising its stock of human capital, enhancing current and future productivity and mitigating disadvantage (box 3.1) (see appendix C for a discussion of research findings).

Wellbeing can be defined and measured using a number of frameworks that focus on individual and community engagement and connectedness (PC 2010a). Within these frameworks, the goals of ECD policy can be broadly categorised into:

- workforce and productivity objectives
- equity and quality considerations
- the efficient provision of services that contribute to community wellbeing.

Workforce and productivity objectives

Workforce objectives require governments to consider both present and future productivity. The ECD sector, and primarily ECEC services, supports the workforce participation of parents with young children, particularly mothers. As such, it makes a substantial contribution to economic activity. Australia has a unique pattern of female workforce participation, which tends to decline for women aged 30–34 years, who are more likely to have children (OECD 2010).¹ Upon their return to work, many women have part-time jobs. While there are many reasons behind these trends, the provision of ECEC services of adequate quantity and quality may contribute to raising the workforce participation of women (OECD 2006).

Research has shown that investment in the early years can have positive effects on future productivity. ECEC programs for children from disadvantaged backgrounds have been linked with higher productivity and lower welfare needs later in life. However, there is limited research to show that universal programs lead to similar benefits (appendix C).

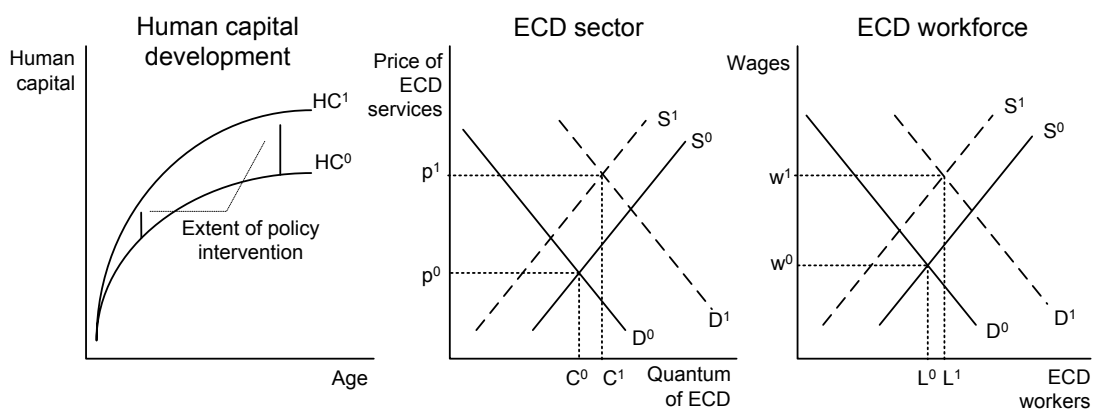
¹ In most OECD countries, workforce participation tends to increase slowly over time, before declining for workers aged over 50. This pattern is similar for men and women. The exceptions are Australia, Japan and South Korea, where workforce participation falls for women aged 30–34 years. Australia exhibits the sharpest decline, followed by a very gradual recovery (OECD 2010).

Box 3.1 Illustrating government intervention in the ECD sector

The COAG ECEC reforms aim to enhance children’s development, which is expected to have positive effects for the children themselves and, over time, the human capital stock of the community. Human capital theories maintain that the most rapid acquisition of skills occurs early in life, and an investment in the early years supports human capital development later on (chapter 1).

Human capital development is illustrated below on the left, where the policy objective is to move to the higher trajectory. When children are younger, the extent of this policy intervention is more limited, whereas enhancing human capital at later ages requires a more extensive policy intervention. This theory prompts the investment in ECD.

Stylised diagrammatic illustration of the ECD sector



To achieve this objective, COAG has decided to raise the quantum of ECD services consumed (child hours) and their quality. To enhance quality, the COAG reforms require an increase in the ratio of ECEC staff to children and mandate that all educators hold formal qualifications. This raises costs for services (represented as a shift upwards in the supply curve in the middle figure). The rise in costs will tend to reduce the quantity demanded unless demand is sensitive to quality, in which case the demand curve shifts to the right in response to quality improvement.

The policy also aims to increase the quantity of services available through initiatives such as universal access to preschool. This can be represented as an increase in the demand for ECD services in the middle figure. Overall, in this example, the reforms are expected to lead to more ECD services being provided at higher prices.

These policies will have a considerable effect on the ECD labour market (right hand figure). The higher staff-to-child ratios in ECEC and increased service provision will raise demand for workers. At the same time, workers will be required to have higher qualifications and will demand higher wages to compensate them for the cost of training. The supply curve will reflect the increase in costs. The result in this highly stylised case shows an increase in the number of employees and also a substantial increase in wages. Higher wages will contribute to the rising cost of ECD services.

For a mathematical model quantifying the effects of the reforms, see appendix E.

Equity considerations

In an economic sense, equity refers to resource allocation in accordance with need. There are several aspects of equity that governments can consider when designing their ECD policy: equity within society, within the workforce and among ECD service users and consumers.

Within society, equity considerations lead governments to intervene in the ECD sector in order to support the development of children in need. COAG has moved to promote equity among children in its National Early Childhood Development Strategy.

The aim [of the National Early Childhood Development Strategy] is to improve outcomes for all children and importantly, reduce inequalities in outcomes between groups of children. This is especially important for some Indigenous children who, on average, have significantly poorer outcomes than non-Indigenous children. (COAG 2009c, p. 4)

A number of policy initiatives have recognised the importance of the early years in offering all children an equal opportunity for education and social participation. For example, the Closing the Gap initiatives aim to improve early childhood health and education and reduce the disparity between Indigenous and non-Indigenous children (COAG 2008). Many other policies have similar goals.

Subsidising ECEC services has been suggested as one policy that can increase equity within the workforce. Despite substantial change in recent decades, workforce outcomes still differ between men and women in terms of participation, wages, job quality and stability. This differential has often been linked to parental responsibilities, which still fall primarily to women (OECD 2006).

Potential users face challenges when they require ECD services. The ECD market may not be equitable if those in need are unable to access the services they require. For example, some types of service may not be offered in rural and remote areas, information about services may not be disseminated effectively, services for children with special needs may not be available, and some services may be out of the financial reach of particular families. All of these factors can make it difficult for some families to access the most appropriate services, and may necessitate government involvement.

Community wellbeing and expectations

Governments tend to regulate the supply of services that affect community wellbeing. Where the market does not supply these services in an efficient way,

governments intervene to ensure the community's needs are met. As a result, they are often funded and provided by governments.

The funding and provision of child health and family support services is dominated by governments, and their status as contributors to community wellbeing is entrenched. Academic researchers and some policy makers increasingly view ECEC services in a similar way, as they are seen as contributing towards children's education and their life outcomes (OECD 2006). In designing the ECEC reforms, governments have accepted that children in ECEC services should have teachers with the same level of qualifications as primary school students. This is already occurring in some jurisdictions, where teachers in primary and preschool settings receive similar pay and conditions, while a large disparity is observed in others (chapter 5).

Recognising the benefits of ECEC

Community perceptions of ECEC have changed in recent years. The proportion of parents who choose to use ECEC services (not including preschool) because they believe these are beneficial for the child has grown from 16 to 39 per cent between 1993 and 2008 (ABS 1994, 2009c). Within the community, there is an increasing acceptance of ECEC and an expectation that these services will be delivered by government. Survey participants believe governments are best placed to deliver ECEC services, and further believe that where subsidies are offered, these should be used to support parents' workforce participation (Meagher 2007).²

Overcoming information barriers

From the perspective of the families using ECD services, government intervention is important to overcome information asymmetries. As with many other human services professions, users rely on licenses and government-regulated qualifications to ascertain whether individuals are capable of offering an appropriate service. This is particularly important in ECEC, as the parents are not present when the service is provided and therefore have difficulty in assessing its quality. Regulators assess ECEC services to ensure they comply with licensing conditions, including staff-to-child ratios and physical requirements (such as adequate space and safety considerations). In addition, state regulations require staff to be assessed as 'fit and

² Survey results were similar for gender groups, households with and without children and those with and without a university education (Meagher 2007).

proper' and to hold current police checks as well as any relevant early childhood qualifications (see, for example, DoE Tasmania 2009).

3.3 New policy agendas

The ECD sector as a whole, and in particular ECEC services and their staff, has been gearing towards substantial changes introduced by COAG.³ The new policies focus on four key areas:

- quality of education and care
- universal access to early childhood education
- Indigenous early childhood development
- workforce initiatives.

Quality of education and care

The National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care (NQA) was adopted by COAG in 2009. It introduced the first nationally consistent regulatory framework for ECEC, including quality standards and the curriculum to be used.

The NQA agreement covers long day care (LDC), family day care (FDC), preschools and outside school hours care (OSHC) services. However, it will not apply to some types of services, including occasional care, in-home care, playgroups, Multifunctional Aboriginal Children's Services (MACS) and mobile services. There is currently no official strategy for the inclusion of these services in the NQA. The implications of this policy for occasional care are discussed in chapter 5. Indigenous services are discussed in chapter 14.

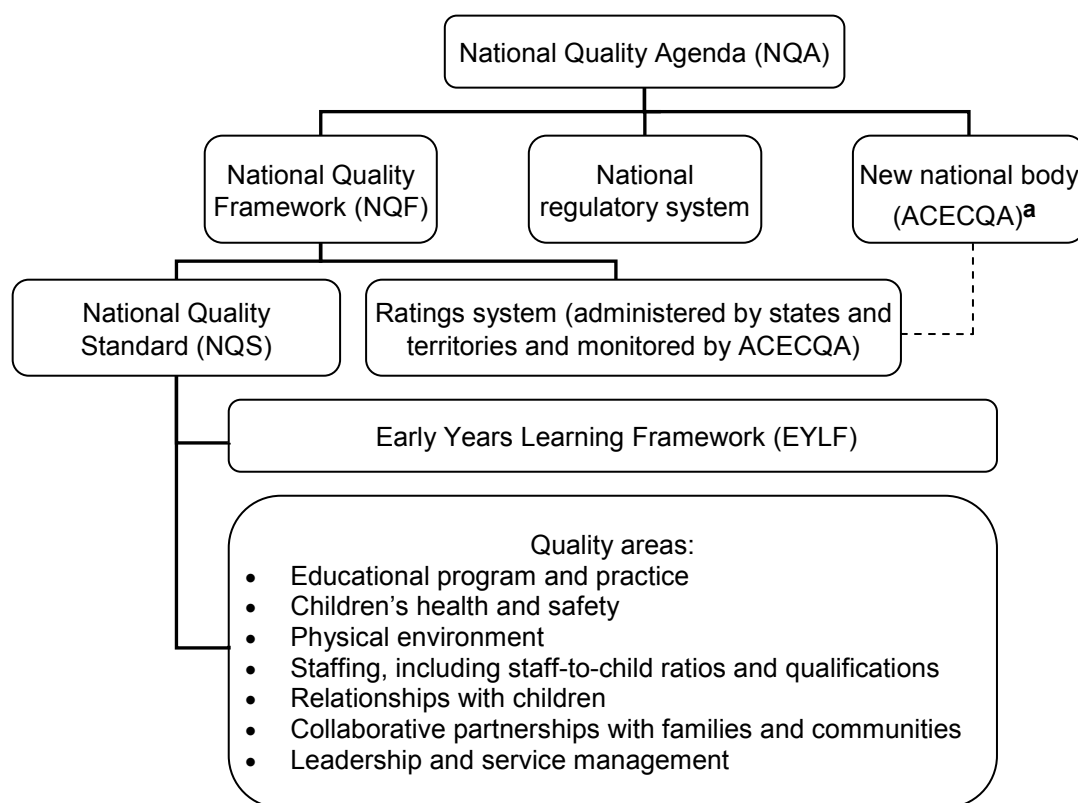
From 2012, the NQA will introduce a new regulatory system for ECEC (figure 3.1). Currently, each state and territory licenses services separately. Services can (and in most cases, do) participate in a national quality assurance scheme in order to receive

³ A number of national policies affect the child health and family support parts of the ECD sector. Examples include the National Partnership Agreement on Preventive Health, the National Partnership Agreement on Essential Vaccines, and the changes to the Australian Government's Family Support Program. As these policies have a limited effect on the workforce, this section focuses on ECEC. For more on child health and family support policies, see chapters 12 and 13, and appendix F.

government funding. Though the quality assurance scheme does not currently apply to preschools, they will be required to comply with the NQA.

Under the NQA, jurisdictions will assess services against the National Quality Standard (NQS), and rate each service as part of their licensing process. Jurisdictions will be able to award services ratings between ‘significant improvement required’ and ‘exceeding national quality standard’ (ACECQA 2011). Services that receive a quality rating of ‘exceeding national quality standard’ from their local regulator will be able to apply separately to the new Australian Children’s Education and Care Quality Authority (ACECQA) in order to receive an ‘excellent’ rating (ACECQA 2011).

Figure 3.1 National Quality Agenda for Early Childhood Education and Care



^a Australian Children’s Education and Care Quality Authority.

Source: COAG (2009f).

Services will be required to display the quality ratings they receive. Though ACECQA will publish quality ratings, there is no requirement for regulators to provide this information to the public (ACECQA 2011). Research has shown that making this type of information widely available contributes to an improvement in the quality of care (Witte and Queralt 2004) and this measure has been increasingly

incorporated in quality rating systems adopted by regulators overseas (Zaslow et al. 2010).

RECOMMENDATION 3.1

To assist parents' decision making with respect to their choice of early childhood education and care (ECEC) services for their children, governments should require ECEC regulators to publish all relevant information on service quality. Published information should be comprehensive, comparable across services, clearly explained and easy to access.

The NQS forms a key part of the National Quality Framework (NQF), along with the Early Years Learning Framework (EYLF). The EYLF is intended to guide services and staff in developing early childhood programs and supporting children's learning from birth (COAG 2009a). A similar framework for school-aged care was launched in 2011 (DEEWR 2011n).

Some of the most substantial changes introduced by the NQA include national staff-to-child ratios and staff qualification requirements. In most cases, the state and territory licensing requirements are lower than the NQA requirements in relation to these factors.

Under the NQA, the following staff-to-child ratios will apply in all jurisdictions.

- By 2012, preschools and LDC services will be required to maintain a staff-to-child ratio of 1:4 for children under 24 months.
- By 2016, the ratio for children aged 25–35 months will be 1:5 and for children aged 36 months to school age, 1:11.
- By 2014, FDC educators will be able to care for up to 7 children, of whom no more than four can be under school age.
- There are no specified ratios for OSHC.

All LDC, FDC and preschool staff will be required to hold or be working towards a formal qualification in ECEC by 2014.

- In LDC services and preschools, at least 50 per cent of staff will require at least a diploma, and all others will need a minimum of a certificate III.
- All FDC educators will also require a certificate III as a minimum, and coordination unit staff will be required to hold at least a diploma.

In addition, by 2014, all LDC services and preschools will need to employ an early childhood teacher. For services with fewer than 25 children, a teacher need only be employed on a part-time basis. Larger services, caring for over 60 children, will need two teachers by 2020 (COAG 2009f).

Universal access to early childhood education

The NQA promotes the integration of education and care. The National Partnership Agreement on Early Childhood Education (NPA ECE) further emphasises the provision of preschool education. According to the NPA ECE, signed in 2008, every child will have access to 15 hours of preschool per week in the year before formal schooling by 2013. The preschool program must be delivered by a 4-year university-qualified early childhood teacher. All jurisdictions are required to report on their progress towards this policy goal under bilateral agreements with the Australian Government (COAG 2009d).

Indigenous early childhood development

The NPA ECE places particular importance on the preschool enrolment of Indigenous children (COAG 2009d). Ensuring all Indigenous 4-year-olds have access to early childhood education by 2013 is one of the objectives under the National Indigenous Reform Agreement (Closing the Gap). Other early childhood objectives in this agreement include reducing infant mortality rates and improving literacy and numeracy levels among Indigenous students (COAG 2008).

There are a number of additional policies contributing towards the Closing the Gap objectives. The National Partnership Agreement for Indigenous Early Childhood Development provides for the establishment of 38 Children and Family Centres, which will deliver integrated ECD services in areas with high Indigenous populations and disadvantage. It also aims to improve child health services for Indigenous families (COAG 2009b). Many other policies also aim to support Indigenous children.

For further detail on Indigenous issues, see chapter 14.

Workforce initiatives

The NQA and the NPA ECE are supported by a number of workforce initiatives. The Australian Government has allocated \$53.9 million to create an additional 1500 university places for early childhood teachers by 2011 (DEEWR nda). Under a \$12.4 million program, recent graduates can receive assistance from the Australian Government towards paying the cost of their degree if they work in rural and remote areas, Indigenous communities, and other areas of need (DEEWR ndd).

In 2009, COAG endorsed the National Partnership Agreement on TAFE Fee Waivers for Child Care Qualifications. Under the agreement, students undertaking a

diploma or advanced diploma course in children's services are exempt from paying compulsory fees. The waiver is available to any student, regardless of where they will work after graduation. It will remain in place until the end of 2014 (COAG 2009g), and the total cost is expected to reach \$115 million (DEEWR ndj). The Productivity Places Program supports staff who are gaining or upgrading qualifications and will operate until 2012 (COAG 2009e). Workers from rural and remote regions can receive funding to access recognition of prior learning assessments to attain ECEC qualifications (DEEWR 2011e). State and territory governments have also put in place a number of policies and funding initiatives to support the ECD workforce (chapter 11).

In the NQA, COAG declared that it will consider an Early Years Development Workforce Strategy in 2010 (COAG 2009f). This strategy is yet to be made public (chapter 11).

3.4 Challenges for the new policy agendas

Governments' ability to achieve their objectives in the ECD sector rely on the availability of workers with appropriate qualifications in sufficient numbers. To entice sufficient additional and existing workers to obtain the requisite qualifications and enter or remain in the ECEC workforce, wages will need to rise. The Commission has conducted detailed modelling to illustrate potential workforce impacts of the COAG reforms. The modelling suggests that the number of ECEC workers will be almost 15 per cent higher than it would have been in the absence of the reforms. Reflecting the increased demand for ECEC workers, and in particular, increased demand for workers with higher qualifications, wages for many workers are likely to be more than 10 per cent higher than they would otherwise have been, though the size of such increases and flow-on effects will vary across jurisdictions and services depending on their current arrangements (appendix E). As with all modelling, the Commission acknowledges that participants in this study may have differing views on the assumptions used. The Commission has dealt with this by conducting sensitivity analysis and considers its results to be robust.

Suppliers of ECEC services (among them, governments) face a complex labour market. According to study participants, many services repeatedly experience staff shortages and difficulties in recruiting and retaining employees (Community Child Care Co-operative, sub. 53). These may be due to a number of reasons — the nature of ECEC work and the wages on offer are mentioned most often (see for example, NCAC, sub. 11). In addition, the quality of some of the qualifications attained by ECEC staff is inconsistent, and universities face a shortage of academics to train sufficient numbers of teachers (Victorian Government, sub. 87).

The National Partnership Agreements have given substantial consideration to the challenges that will have to be overcome in order to implement the ECD agenda. Some policies acknowledge the fact that implementation may take longer than expected. For example, the NPA ECE states that:

Reasonable transitional arrangements — including potentially beyond 2013 — are needed to implement the commitment to preschool program delivery by four year university qualified early childhood teachers. (COAG 2009d, p. 6)

Jurisdictions face different challenges, depending on their current regulatory framework. The inconsistencies between jurisdictions are substantial, and while many will have to adjust their staffing requirements, the adjustment required can be quite different. For example, New South Wales is the only jurisdiction that currently requires LDC services to employ degree-qualified teachers — services in all other jurisdictions will be required to employ teachers from 2014 (some services employ them voluntarily, but these are still the minority).

Transitional arrangements have been put in place by many jurisdictions, and some have already begun lowering their staff-to-child ratios. The national regulations for the implementation of the NQA (ACECQA 2011) also include transitional arrangements and a small number of temporary exemptions for specific services to allow for the gradual introduction of the new standards (chapter 5).

Although the NQA goals have clear timeframes, the implementation may require an additional period of adjustment. The current National Childcare Accreditation Council (NCAC) is expected to cease operating in 2012, and its quality accreditation role will be transferred to state licensing authorities. Over 16 000 services will have to be reassessed against the NQS (COAG 2009h) and COAG has stated that ‘it may take up to 3 years from 1 July 2010 for all services to be assessed’ (COAG 2009f, p. 43). However, the regulations are not yet finalised, so preparation is difficult. While services are awaiting reassessment, they will be able to continue operating under existing licensing arrangements.

Service and temporary waivers

To facilitate the sector’s transition to the NQA, the national regulations include provisions for temporary and permanent service waivers. The waivers allow services to continue operating if they cannot fully comply with the NQS, including the staffing requirements it contains. Temporary waivers are issued for 12 months, and can be extended for a further 12 months, while service waivers provide ongoing exemptions. Services that are given a temporary waiver will receive the basic quality rating. Services with a permanent waiver will be considered to comply with

the NQS, and will be able to receive a higher rating (COAG 2010). The proportion of services receiving temporary waivers will be monitored during the NQA implementation process (COAG 2009f).

Waiver systems already operate across all jurisdictions, allowing services to employ staff in qualified positions even if they do not hold the specified qualifications (Government of South Australia, sub. 66). Across the ECEC sector, about 10 per cent of services currently hold exemptions from regulatory staffing requirements (Productivity Commission estimates based on unpublished DEEWR data). For example, in New South Wales, the Early Childhood Teacher Interim Policy allows services to employ staff with other qualifications who are enrolled or intend to enrol in an early childhood teaching course, instead of qualified teachers. The exemption is given for one year, and can be extended. Services must show they have attempted to recruit teachers and offered appropriate pay and conditions, but did not receive suitable applications (DoCS 2008).

Waiver policies may be linked to poorer service quality. The New South Wales policy was first enacted in 2002, and a review in 2004 found that it reduced the quality of care provided to children (SPRC 2004). Following the review, a more restrictive policy was introduced. In 2007, research indicated that the policy continued to have detrimental effects on quality and its implementation was not consistent across the state (Purcal and Fisher 2007).

Demand for waivers under the NQA is likely to increase, as all ECEC staff will be required to hold qualifications. Currently, over 25 per cent of staff are unqualified (Productivity Commission estimates based on unpublished DEEWR data). As a result, in the absence of systemic change, many more services will be unable to recruit the required staff and will require waivers.

The NQA is supported by workforce initiatives; however, these may not be sufficient to attract the required number of qualified staff to the sector. These initiatives focus on the availability and affordability of training. Existing and potential ECEC workers will need to weigh up the cost of training, as well as the pay and conditions offered by services, when making their employment decisions (chapter 11). If pay and conditions are not competitive, and do not provide a strong incentive to gain the required qualifications, ECEC services will continue to encounter shortages of qualified staff — and require increasing numbers of waivers.

The structure of the waiver system is yet to be finalised, as the regulations are still in draft form. Services will be required to display some information regarding any relevant waivers, but it is not clear how waivers will be monitored by regulatory bodies and how easy it will be for parents to access the information.

The Commission sees value in as much information as possible being made available to parents and carers, and as such, considers that where waivers apply, the nature of those waivers should be made publicly available by regulatory authorities.

RECOMMENDATION 3.2

ECEC regulators should publish the number of service waivers granted, to whom they have been granted, and whether they are permanent or temporary.

Effective regulation

Study participants voiced concern regarding the regulatory burden that ECEC services currently face and its effect on service delivery:

Mostly, providing a service and managing a service [ie: Addressing regulatory burden] is an impossible balancing act. The smaller an organisation, the more difficult the balancing act, lowering job satisfaction. (Mobile Children's Services Association of NSW, sub. 38, p. 16, emphasis in original)

This section discusses the regulatory changes as they are perceived to affect the quality of ECEC services and the workforce more generally.

The effect of regulation on ECEC quality

Reducing regulatory burden is one of the goals of the NQA. Most ECEC services currently face a dual licensing and accreditation structure, which the NQA will replace with a single licensing process (COAG 2009f). Each jurisdiction will be required to appoint a lead regulatory authority that will administer the NQA (COAG 2010). In some cases, this is seen as lowering the regulatory burden that ECEC services face (see for example, Department for Communities (WA), sub. 59; Victorian Government, sub. 87).

However, some study participants believe that the NQA will increase the regulatory burden for ECEC services and affect service quality:

While recognising the removal of some duplication of state and federal regulation through the development of the National Quality Framework, the changes are not anticipated to have any measurable reduction in the regulatory requirements on Early Childhood Development workers in services ... Changes to the Early Childhood Development staffing arrangements under the new national regulatory framework will mean more qualified Early Childhood Development workers are necessary to comply with existing and new ratios ... This will increase the regulatory burden for services that need to apply for temporary staffing waivers to comply with new qualification requirements ... The completion and continual review by services who participate in the National Quality Assessment and Rating process of a Quality Improvement Plan

(QIP) will add to the current regulatory burden of services. (GoodStart Childcare, sub. 34. pp. 4–5)

The regulatory burden impacts significantly on the face to face time that staff have to engage with peers and families at the service. It is foreseeable that under current arrangements this will impact negatively on the ability of staff to engage in professional discussions with colleagues, attend contemporary professional development and enjoy building positive relationships with children and families. It must be noted that all of these factors are also key indicators of the quality of a service. (KPV, sub. 72, p. 11)

At this stage, the NQS regulations are still being finalised, making it difficult for services and regulators to prepare for the new environment they will operate in from 2012. The entire ECEC workforce as well as regulators will be on a steep learning curve, and it is expected that the level of stress will be high in the industry. To alleviate these pressures, it is essential that clear guidance about what is required is made available as soon as possible, and that any new requirements are designed to allow for minimal regulatory burden.

RECOMMENDATION 3.3

ECEC regulators should provide for ongoing consultation with stakeholders and timely dissemination of best practice. Governments should ensure that ECEC regulators establish effective ongoing evaluative processes so that regulatory burdens are identified and minimised.

Volunteer committees may struggle to provide support to the workforce

Over 5400 ECEC services (including 2000 preschools and over 1500 LDC centres) are managed by their community, either by not-for-profit organisations or committees of volunteer parents (SCRGSP 2011a). Volunteer committees operate LDC centres in all jurisdictions, and preschools in Victoria, New South Wales and Queensland.

While many services that are managed by volunteer committees operate successfully, some smaller services may encounter difficulties in coping with the regulatory complexity of the ECEC sector. This level of complexity is increasing for preschools, which will have to undergo quality accreditation for the first time under the NQA.

Study participants supported the view that in some cases, volunteer-run services — and preschools in particular — may struggle to provide staff with the support they require (Community Connections Solutions Australia, sub. 75; KU Children's Services, sub. 26). The new licensing requirements are likely to exacerbate the situation.

Many staff report working in professional isolation and report challenges in working with voluntary committees of management which result in their employer changing on an annual basis. There is a tremendous burden on committees of management to operate what is a small business on a voluntary basis, with many committees reporting that they spend between thirty to fifty hours per week at their service dealing with employee related issues, fundraising, enrolments, fee collection, marketing and other governance issues.

Given the extraordinary responsibility and professional management experience required of a voluntary committee, it is difficult, if not impossible, to expect these volunteers, that may have no educational background, to lead pedagogical change in an early childhood setting. *It is impossible to see how this would be considered acceptable in any other educational system.* (KPV, sub. 72, p. 9, emphasis added)

Given that much of the NQA is intended to improve the pedagogical leadership and management of a service, the role of non-expert volunteer management committees needs to be given more consideration. ECEC staff will require leadership and support to enable them to gain the most from the new policies, particularly in the transition period, given the paradigm shift in the way programs are planned and delivered, and in how a service is now expected to be managed. Especially in small, stand-alone services, where staff can be quite isolated, appropriate support is vital.

To provide professional support and reduce the administrative burden, volunteer-run preschools can use shared management or administration services. In Victoria, about half of volunteer-run preschools use cluster management, where an external organisation provides administration services, including licensing and employment of staff, to a number of preschools (DEECD 2009d). In Queensland, preschools can only receive funding from the state government if they join a central governing body, which manages funding arrangements as well as providing administrative and professional support (Queensland Government, sub. DR360).

In many cases, the use of shared management services has been found to have benefits for both staff employed at the preschools and the parents involved in the management committees, as this allows them more time to focus on their community building role (KPMG 2007). Services using shared services are likely to be better placed to cope with the implementation of the NQA, as they receive more professional support.

RECOMMENDATION 3.4

Where voluntary committees currently manage ECEC services, governments should ensure that professional management support (such as shared management services) is readily available to assist with management and leadership.

Additional requirements for regulatory bodies

The implementation of the NQA will place additional strain on the state and territory regulatory authorities that are responsible for licensing ECEC services. Under the NQA, the licensing process will also include quality assurance and ratings. This is a substantial change for state and territory regulators, which are now focused on the operational aspects of ECEC services and are not required to determine quality ratings. For example, in Victoria, current state monitoring procedures for preschools were found to be ineffective in determining overall service quality (Victorian Auditor-General 2011).

The new licensing processes will examine the educational program and the quality of interactions between ECEC staff and children, issues that are not currently covered by state and territory regulation. The assessment is intended to be based on observations, as well as reviewing documents and policies.

Licensing staff will require additional training to apply the new assessment tools consistently. ACECQA, the new national body, has been tasked with issuing guidance for state and territory regulators that will promote ‘consistency, effectiveness and efficiency in the operation of the regulatory system’ (COAG 2009f, p. A-4).

Some study participants have suggested that licensing staff will need to hold qualifications in children’s services, such as teaching degrees, in order to carry out quality assessments (Early Childhood Australia (NSW Branch), sub. DR190; Network of Community Activities, sub. DR359). The ACT Government, however, argued that its current regulators are well placed to conduct quality assessments based on existing institutional arrangements (sub. DR338).

Existing shortages of qualified early childhood professionals will make it difficult to recruit additional licensing staff, if mandatory qualifications were required. This will increase labour market pressures at a time when the COAG reforms are already creating a substantial increase in demand. While requiring licensing staff to hold qualifications in children’s services may be beneficial in the long term, this issue could be better considered in future reviews of ECEC policy.

In its Regulation Impact Statement, COAG has recognised that the NQA will impose costs on state regulators. In 2012 alone, jurisdictions are expected to face an increase of nearly 40 per cent in expenditure on ECEC regulation, which will rise from \$34.6 million to \$48.2 million. These cost increases relate both to a greater number of services that need to be assessed and the more extensive licensing process required. According to COAG, a small increase in labour costs is expected due to training requirements; however, no increase in the number of staff is

expected despite the higher number of services and the increase in the time spent assessing each ECEC service in some jurisdictions (COAG 2009h).

The Australian Government will fund some of these costs under the NQA. Its total contribution of \$61.3 million until 2014 is also intended to cover the cost of establishing ACECQA. As a result, jurisdictions may need to meet any increases in costs over the transition period. The new regulatory system will require a substantial period of time to operate effectively and consistently across all jurisdictions.

RECOMMENDATION 3.5

In implementing the National Quality Standard, governments should ensure adequate resourcing for regulators to enable appropriate training of their staff in the new regulatory arrangements and their effective implementation.

Some jurisdictions have a split regulatory system for ECEC services (appendix F), and the proposed national regulations for the NQA allow this to continue. Jurisdictions can have multiple regulatory authorities, although one will be designated as the ‘lead’ authority (COAG 2010).

In its review of ECEC policies in different countries, the OECD pointed out that ‘separate state auspices (for preschool education) ... can inhibit effective co-ordination’ (2006, p. 52). In some cases, appointing a lead authority may result in regulatory duplication:

Currently the Department of Education Services (DES) has responsibility for the regulation of standards within Independent and Catholic schools, while the [Department of Education (DoE)] has oversight of public school standards regulations. With the introduction of the National Quality Standard, this arrangement may change to a single regulatory body (potentially DES) with responsibility for standards regulation for the public and non-government school sectors. This could place additional demands on teachers within public school kindergartens, since they will be required to comply with DoE and DES regulations. (Western Australia Department of Education, sub. 44, p. 11)

A market for quality

Implicit in the NQA is the expectation that since ECEC services operate in a highly competitive market, families will continue to demand improved quality, and this will result in providers working towards higher quality ratings.

The OECD has stated that ‘the belief that quality improvement can be left to market competition is naïve’ (2006, p. 126), and highlighted the importance of regulation and public investment in promoting a high-quality ECEC system.

The market for quality in ECEC faces a number of hurdles. First, parents may not have the ability to demand higher quality if supply of ECEC places is limited (Brennan 2007). In the current ECEC market in some regions of Australia, parents are not able to access their preferred type of care, while demand continues to rise due to higher birth rates and female labour force participation (Southern Cross University and Early Childhood Australia (NSW), North Coast Branch, sub. 16).

The drive for quality may be more closely linked to regulation rather than demand pressures. NCAC's quality trend reports show that between December 2006 and June 2010, quality ratings for LDC declined as demand increased. During the same time, FDC and OSHC achieved substantial increases in quality after coming under more intensive regulatory scrutiny (NCAC 2010a; 2010b; 2010c).⁴

Second, families face hurdles to obtaining and assessing information on ECEC services. Parents usually have difficulties in judging the quality of services, and tend to give them a better assessment than trained professionals (Brennan 2007). Although NCAC rates service providers on various quality measures, this information is not published and parents may only view the ratings by visiting the specific service in which they are interested (PC 2009a). The NQA regulation provides for the publication of quality ratings by service providers; however, the assessment process may take some time to complete and there is no requirement for the regulatory bodies to publish the results.

Finally, if labour market pressures do not allow services to comply with NQA standards, improved quality will be difficult to achieve.

FINDING 3.1

Market pressures alone are unlikely to lead to the provision of quality early childhood development (ECD) services. An appropriate regulatory system aimed at quality improvement and assurance is required.

3.5 Funding the new policy agendas

The implementation of the ECD policy agenda will require substantial funding. The Australian Government will spend \$20 billion on ECEC over the coming four years, primarily through parent subsidies (DEEWR, sub. DR301). Under the NPA ECE, the Australian Government has committed nearly \$1 billion in funding universal

⁴ Despite these trends, the average quality ratings received by LDC centres remain higher than those reported for FDC and OSHC (NCAC 2010a; 2010b; 2010c).

access to preschool (COAG 2009d). The NQA includes provisions for Commonwealth funding totalling \$61.3 million, which will be distributed to the states and territories to assist with their transition to the new regulatory system (COAG 2009f).

Study participants stated that the funding allocated to jurisdictions may not be sufficient to implement the new policies. For example, councils in Victoria believe that the funding included in the NPA ECE needs to increase substantially (to \$606 million, compared with around \$211 million allocated to Victoria by the Australian Government in the NPA) to create sufficient preschool places and maintain affordable fees (Municipal Association of Victoria, sub. 68). While a recent review of the NPA ECE concluded that funding was adequate, it also warned that the implementation of universal access to preschool may impede the provision of services to vulnerable children and families, as well as children who are yet to reach preschool age (MCEECDYA 2011).

Other study participants, particularly in remote and Indigenous communities, have voiced the need for additional funding to ensure the benefits of ECD policies can be realised.

FINDING 3.2

Though the implementation of the universal aspects of the ECD policy agenda will be costly overall, the targeting of relatively small amounts of additional funding to certain aspects of the ECD workforce would deliver substantial additional benefits to the community.

ECEC fees will rise — but subsidies may not keep pace

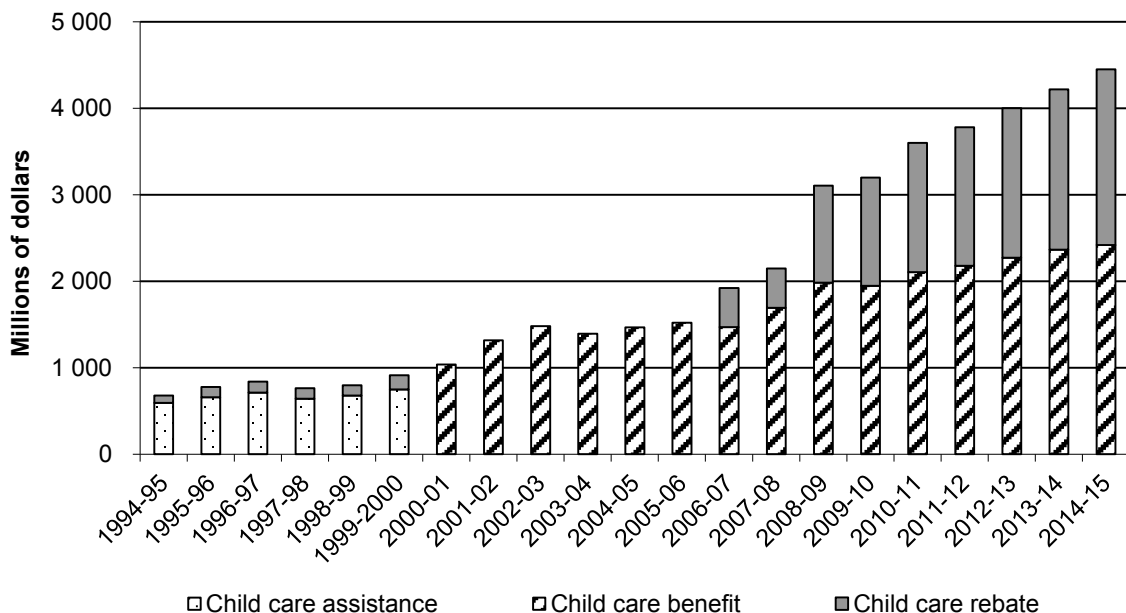
ECEC fees are expected to increase in response to the cost of implementing the NQA (COAG 2009h). Estimates of the extent of the increases vary. Commission modelling suggests that under current cost-sharing arrangements, out-of-pocket fees for LDC services could be more than 15 per cent higher than they would have been without the reforms, and about 5 per cent higher for FDC, though such increases will vary across jurisdictions and services, depending on current staffing and wage arrangements (appendix E).

Increased fees may see low- and middle-income families withdraw their children from ECEC services. The extent of this response will be ameliorated by government subsidies (figure 3.2).

Families using ECEC are generally eligible for the child care benefit (CCB) and the child care rebate (CCR). Only the CCB is means tested, while the CCR is available regardless of income, but requires parents to be working or studying.

The CCB is usually used by parents to reduce fees. It is calculated as the product of the number of hours of ECEC used, a standard hourly rate of assistance and an eligibility percentage, based on family income and composition. The CCR refunds 50 per cent of out-of-pocket ECEC costs up to \$7500 a year.⁵ Disadvantaged families can receive additional subsidies, which may cover almost the entire cost of care (appendix F).

Figure 3.2 **Historical and projected Australian Government expenditure on childcare subsidies^a**



^a The structure and value of the subsidies has changed a number of times during this period. Between 1994-95 and 1999-2000, parents received fee relief (child care assistance) and a cash rebate. These were amalgamated into the child care benefit in 2000-01. Its value increased in 2007-08. The child care rebate was re-introduced as a tax rebate in 2005-06, and its value increased substantially in 2008-09. It was converted to a cash rebate in 2009.

Sources: DEEWR (2011e); FaCSIA (2007).

As the number of eligible families has been increasing, and the value of the subsidies (particularly the CCR) has also risen, the Australian Government has been spending more on childcare subsidies. The government is anticipating a further

⁵ To be eligible for the CCB, parents need to use an approved or registered child care provider. Those using approved providers are also eligible for the CCR (appendix F).

significant increase in its expenditure. In 2010-11, childcare subsidies reached \$3.6 billion, and by 2014-15, they will be over \$4.4 billion — an increase of 23.6 per cent. Over the same period, the number of families receiving subsidies will grow by 4.8 per cent. Most of the increase comes from expenditure on the CCR, which is forecast to rise by over 35 per cent (DEEWR 2011e). This suggests that most of the growth in subsidies will be due to fee increases, as the CCR is directly linked to out-of-pocket expenses of parents.

As ECEC fees are expected to rise as a result of the NQA, the structure of childcare subsidies will result in families paying at least 50 per cent of the expected increase. The extent to which the fee increases will affect families depends on a large number of variables, such as the type of care used, the hours of care, family income and family composition. In some cases, parents may have to cover the entire increase in fees.

The underlying design of the CCB — a combination of a pre-determined dollar amount of support per hour of care and an income-based eligibility percentage — has not changed since the introduction of childcare subsidies in 1984. In most years, the CCB standard hourly rate has been indexed to the consumer price index.⁶ However, the cost of ECEC has risen at a faster rate, particularly since 2000, partly due to a rise in labour costs as the number of staff increased (ABS 2010c; 2011). The CCB standard hourly rate is currently \$3.78 (Commonwealth of Australia 2011), lower than the median cost of care, which was \$5.70 per hour in 2010 (SCRGSP 2011a).

This affects ECEC affordability, as out-of-pocket costs rise faster than subsidies. The issue of affordability is also a concern for ECEC services, and influences the wages offered to staff. Gowrie SA commented that:

There is little capacity for [long day care] centres to offer above award wages and conditions that attract and retain staff without detrimentally affecting affordability for families. The current suite of childcare funding arrangements limits the establishment and maintenance of high quality services. (sub. DR105, p. 2)

ECEC affordability may deteriorate further as fees rise. The value of the CCB will not change as it is based on the standard hourly rate, rather than the actual costs paid by parents, and the CCR will only refund half of the additional costs.

⁶ The exceptions are 1997 and 1998, when indexation was paused, and 2007, when the rate was increased by over 10 per cent as part of a funding package for ECEC (APH 2002; Treasury 2007).

Low-income families will be at a relative disadvantage as the fee increases under the NQA will be subsidised only by the CCR. As a result, the proportion of income they spend on ECEC will increase by a larger margin, compared with families on higher incomes. In some cases, the increase in costs may push ECEC fees beyond their reach. Appropriate funding from governments may be required to maintain ECEC access for disadvantaged children, who benefit most from attending these services (appendix C).

Changing the funding structure to improve targeting

Under the current funding system, extending additional support to low-income families may be challenging. Though the CCB is means-tested, it is based on the amount of care used rather than the actual cost of care. Hence, as fees rise, the real value the CCB offers to families will decline. The CCR, which will adjust faster to price increases as it is based on actual costs, is offered to all ECEC users. This will provide greater assistance to high-income families.

The Review of Australia's Future Tax System (commonly referred to as the Henry Review) (Commonwealth of Australia 2009) suggested an alternative to the current funding system that would reduce inequities between ECEC users. It recommended a number of substantial changes to the structure of assistance.

- The CCB and CCR should be combined into one payment, which will be calculated as a percentage of ECEC fees (in effect, discontinuing the calculation that is based on the standard hourly rate).
- Child care assistance should be means tested based on family income. However, a base rate of assistance will be provided to all secondary income earners and sole parent families. The review suggests setting the base rate of assistance at 35 per cent of out-of-pocket costs.
- Low-income families should receive a higher level of assistance, of up to 90 per cent of out-of-pocket costs. In some instances it would be necessary to cover the full costs of childcare for at-risk or vulnerable children.
- An annual cap on assistance should be retained, but indexed. Most assistance should be on an ongoing basis; however, the review suggests a portion of assistance should be delivered as a quarterly payment.
- Access to the base rate of assistance would be available to parents who participate in work, education or training. The hours subsidised for parents who do not meet the participation test should be the same as the number of hours of universal access to preschool (15 hours by 2013).

Modelling has shown that implementing the review's suggestions increases assistance to low-income families, while reducing payments to families on high incomes (Duncan et al. 2010). These changes may be particularly important given the expected fee increases as a result of the NQA. Currently, families earning higher wages spend less on ECEC as a proportion of income, and they will also be less affected by the fee increase resulting from the NQA (table 3.2).

Depending on policy design, the implementation of the Henry review recommendations is likely to lower government expenditure on childcare subsidies. At the same time, it is also likely improve the targeting of assistance, ensuring families on lower wages spend a smaller proportion of income on ECEC. The Brotherhood of St Laurence expressed its support for the implementation of the Henry review recommendations, in order to ensure that low-income families are not adversely affected by the implementation of the NQA (sub. 32).

While the Australian Government has responded to some recommendations of the Henry review, there are no current plans to change the structure of child care subsidies.

RECOMMENDATION 3.6

Cost increases across the ECEC sector are expected as a result of the Council of Australian Governments (COAG) ECEC reforms. To ensure these cost increases do not reduce access to ECEC services by low-income families, governments should consider alternative structures for childcare subsidies that improve the targeting of childcare assistance.

Table 3.2 Family expenditure on ECEC and the effect of subsidies

<i>Annual family income</i>	<i>Current expenditure on ECEC after CCB and CCR^{a,b}</i>	<i>Expenditure on ECEC post-NQA, after CCB and CCR^{b,c}</i>	<i>Current expenditure on ECEC after the proposed Henry subsidy^{a,d}</i>	<i>Expenditure on ECEC post-NQA, after the proposed Henry subsidy^{c,d}</i>
\$	Per cent of income	Per cent of income	Per cent of income	Per cent of income
Couple family with one child in part-time care^e				
39 785 ^f	2.4	2.9	1.8	1.9
81 000 ^g	2.5	2.7	3.6	3.8
140 000 ^h	2.5	2.6	3.3	3.4
Couple family with two children in part-time care^e				
39 785 ^f	4.2	5.1	3.5	3.7
81 000 ^g	4.1	4.5	4.7	4.9
140 000 ^h	4.9	5.1	6.5	6.9

^a The current cost of care was calculated based on the average hours of attendance in long-day care and the median cost of care as reported in the Report on Government Services (SCRGSP 2011a). ^b The CCB and CCR calculations were based on the process outlined in the Family Assistance Guide (Commonwealth of Australia 2011). ^c The future cost of care adds the effect of the NQA implementation, as quantified by COAG (2009h), to the current cost of care. ^d The value of the proposed subsidy was calculated as suggested in the Review of Australia's Future Tax System (the Henry review) (Commonwealth of Australia 2009). The maximum assistance rate of 90 per cent was applied to the income designated as the lower income threshold under the CCB (\$39 785 per annum). For the middle income, the CCB percentage, which determines the proportion of the standard hourly fee received by the household, was used to calculate the value of the subsidy. The minimum assistance rate of 35 per cent was applied to the higher income. ^e Part-time care refers to 25.7 hours per week, the average attendance as reported in the Report on Government Services (SCRGSP 2011a). ^f The lower income threshold under the CCB, which entitles families to receive the full subsidy rate. ^g The annual income of a family with one median wage earner and one minimum wage earner. ^h The annual income of a family with one high wage earner and one average wage earner.

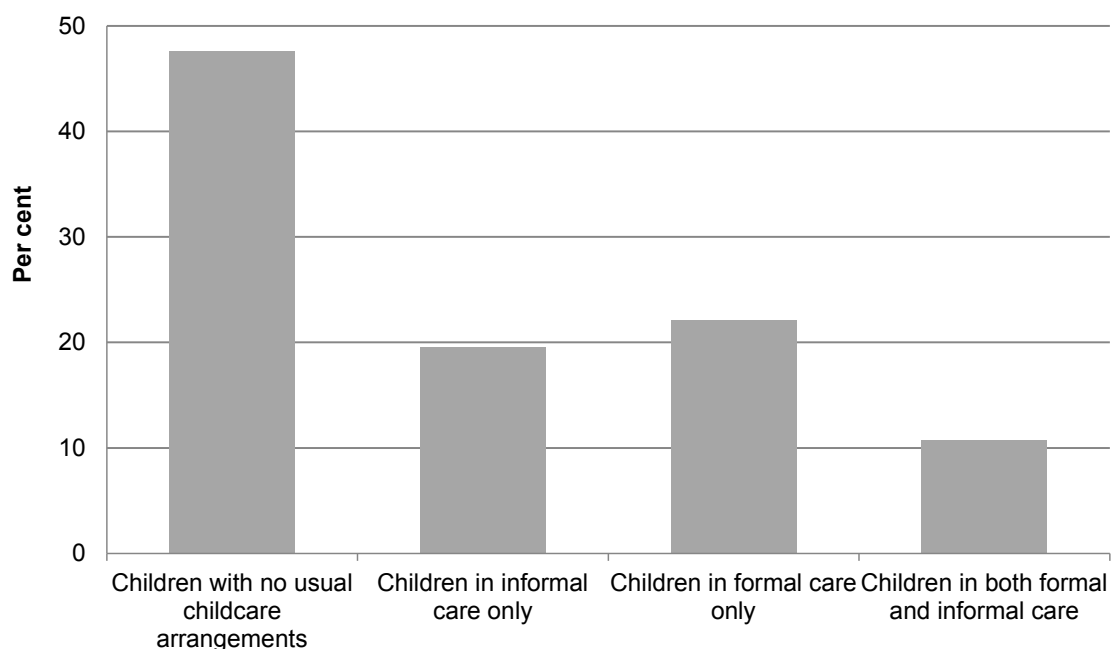
Source: Productivity Commission calculations based on Commonwealth of Australia (2009, 2011); COAG (2009h); SCRGSP (2011a).

Fee increases may lead to lower labour force participation

Increases in ECEC fees will influence the labour market participation decisions of all families. Some parents may reduce their labour supply, while others may remain out of the workforce for longer. This section identifies potential effects on the labour market; however, it does not evaluate their overall costs and benefits to the community.

Currently, parents (usually mothers) withdraw from the labour force to provide care for young children, use formal care that is provided by ECEC services, informal care by family or friends, or a combination of these while they work (figure 3.3).

Figure 3.3 Participation in ECEC for children under five years, 2008-09



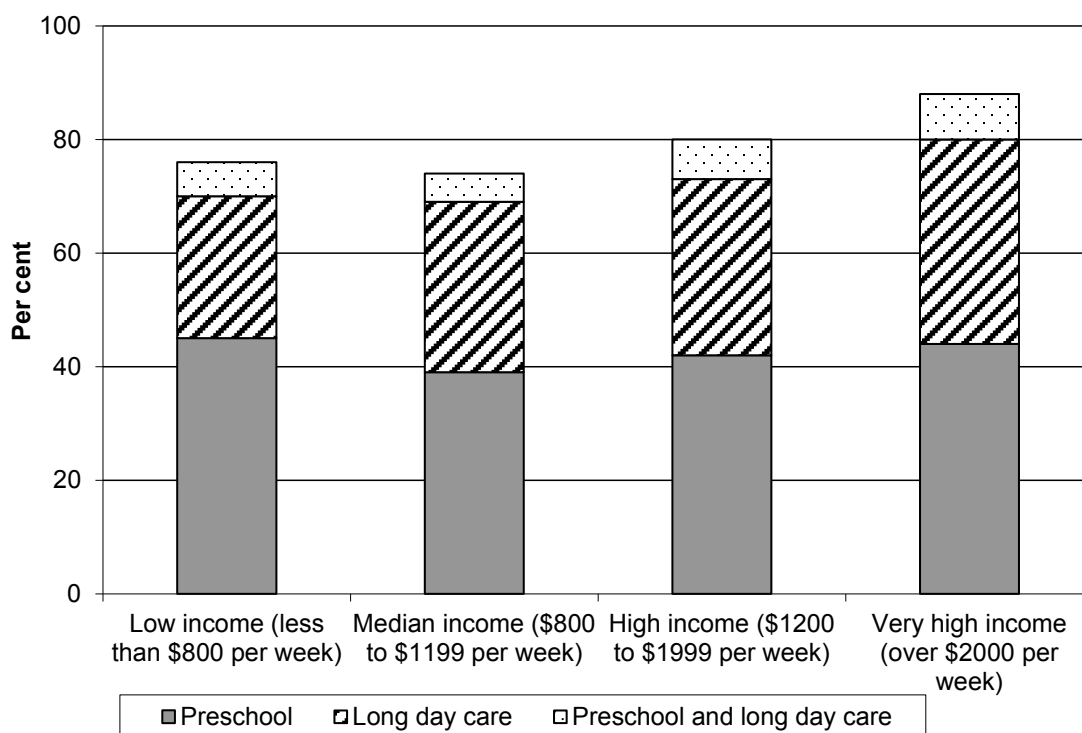
Source: ABS (2009c).

The largest group of children (48 per cent of children aged 0–5 years) are those in parental care only. As cost is one consideration in the decision to use ECEC, the expected increase in fees is likely to deter some parents considering placing their children in an ECEC service in order to re-enter the workforce.

Similarly, as formal ECEC fees increase, children in informal care (20 per cent of children aged 0–5 years) are more likely to continue being cared for by grandparents and other family members or friends. Children who are cared for in a combination of formal and informal care (11 per cent of children aged 0–5 years) may experience longer hours in informal care, which will limit the labour supply of their carers. Overall, the NQA may lead to an increase in the demand for informal care.

The response to fee increases among ECEC users will vary by income (chapter 2). Currently, demand for ECEC is higher among families with low and high incomes, and lower among middle income earners (figure 3.4).

Figure 3.4 Participation in ECEC by weekly family income, 2008-09^a



^a Includes couple families with children aged 3–6 years who attend either preschool or long day care. For one-parent families, participation rates do not vary considerably by income, averaging about 72 per cent overall. One-parent families are more likely to send their children to long day care as their income rises, and less likely to enrol them in preschool.

Source: ABS (2009c).

One explanation for this pattern of participation is the structure of government subsidies. Families on low incomes can benefit from higher levels of childcare subsidies, which in some cases can cover the entire cost of ECEC. These families may be able to participate in programs such as JET assistance, which requires them to pay only 10 cents per hour of care, may use non-mainstream ECEC services, which are fully funded by government, or may be eligible for state subsidies when enrolling their children in preschool (appendix F). This high level of subsidisation supports a higher level of demand for ECEC.

As family income begins to rise, most government assistance is gradually withdrawn. This applies both to childcare subsidies and other benefits, and can have negative implications for families' decisions in regards to their workforce participation (box 3.2).

In the case of childcare subsidies, median-income families are likely to be eligible for a substantial proportion of the CCB and the CCR. Overall, however,

out-of-pocket ECEC expenditure rises rapidly, and the result is lower participation in ECEC. Demand for ECEC increases again for families on higher incomes.

As ECEC fees rise due to the NQA:

- the effect on families who receive nearly full subsidisation of their ECEC usage is likely to be minimal. The Australian Government will continue to provide substantial subsidies to these families, which will support their continued participation
- families on low to median incomes are likely to reduce their labour force participation and rely more heavily on parental care (NSW Children's Services Forum, sub. 23). Research has shown that ECEC demand from mothers whose income is below the median wage is more sensitive to price increases than those on a higher income (Gong and Breunig 2011)
- families on high incomes are less likely to change their demand for ECEC, absorbing the higher cost. These families will have to forego substantial income if they withdraw from the labour force, which will further encourage them to use ECEC services despite increased costs.

Families' response to an increase in ECEC fees will also depend on the ages of their children. For families with babies and very young children, who are already far less likely to use ECEC, the increased availability of paid parental leave, coupled with increases in ECEC fees, is likely to mean one parent (most often the mother) will spend more time away from the workforce. This, however, is potentially beneficial to family wellbeing (PC 2009b).

Box 3.2 Is it worth working?

Families decide how much to work (or how much work to look for) based on their household budget constraints — comparing the expected income from work, plus government benefits, to expected expenditure, including income tax and the cost of early childhood education and care (ECEC) for young children.

For many families, there are two main types of government benefits to be considered: family tax benefit (FTB) part A and part B, which directly increase household income, and childcare subsidies, which lower the cost of ECEC. These benefits are means tested (except for the child care rebate). Therefore, as families generate more wages, their benefits are reduced, and in some cases, they are no longer eligible to receive assistance. Hence, families ask themselves if the expected increase in wages will outweigh the reduction in benefits and higher costs; in other words, is it worth working?

The following scenarios show that working generally pays off, though the gains can be limited. The example used is based on a family with one primary income earner and two children. The gain for the secondary income earner increasing their working days from three to four is \$78.32 per week – or a 5 per cent increase in net income.

Household budget considerations (\$ per week)^a

<i>Days worked by secondary income earner</i>	<i>Combined family wage^b</i>	<i>Family Tax Benefit (A and B) received^c</i>	<i>Income tax paid^d</i>	<i>Net ECEC cost^e</i>	<i>Net income</i>	<i>Difference</i>
0	1 334.60	161.32	303.00	–	1 192.92	–
1	1 547.47	126.71	305.00	11.74	1 357.44	164.52
2	1 760.33	84.14	343.00	34.90	1 466.57	109.13
3	1 973.20	51.76	380.00	61.92	1 583.03	116.46
4	2 189.00	–	447.00	80.65	1 661.35	78.32
5	2 422.71	–	526.00	114.31	1 782.40	121.06

^a Based on a couple family with two children under 13 years, one of whom attends long day care. The primary income earner works full time. ^b Wage data were sourced from the 2009 wave of Household, Income and Labour Dynamics in Australia (HILDA) survey. The primary income earner was assumed to have the higher mean wages, while the secondary income earner had lower wages. ^c Based on the rates of assistance that applied in 2009. ^d Based on the rates of taxation that applied in 2009. ^e Based on the ECEC costs and usage reported by families in the 2009 HILDA survey. On average, families used long day care for 25.6 hours each week. Costs are the out-of-pocket fees paid by the household, after the 2009 rates of the child care benefit and the child care rebate have been applied. – Nil.

Source: Productivity Commission calculations based on the HILDA survey and Commonwealth of Australia (2011).

Changes to family tax policies and increases in the cost of ECEC will affect the household budget. The HILDA data reflect the family tax policies of 2009; however, since then indexation was paused on some components of the family tax benefit as well as the child care rebate (Commonwealth of Australia 2011). This results in a lower effective rate of assistance. Although income tax rates have also declined, the net income of some families will be lower. Overall, this makes working less profitable, which is likely to translate into lower labour force participation across the economy.

Families with slightly older children will have the option of withdrawing from LDC centres and enrolling in preschool programs, which typically charge lower fees and will be more widely available following the introduction of the NPA ECE. As preschool programs will only be offered for 15 hours a week, whereas LDC centres operate for much longer hours, this shift may also reduce workforce participation by parents as their children attend ECEC for shorter periods of time.

Overall, the ECEC fee increases may lead to a decline in labour market participation. Children in parental care and informal care will be more likely to remain within their current arrangements and this will further entrench low levels of labour supply among mothers of young children. Working mothers earning relatively low wages may also prefer to work fewer hours and care for children at home. Research found that a 1 per cent increase in the price of ECEC will result in a 0.1 per cent reduction in the hours worked by women whose wages are below the median, and a 0.08 per cent decline for women on higher wages (Gong and Breunig 2011).⁷

These trends have been observed in the past, as female labour market participation declined in response to lower ECEC affordability. In 1998, the Senate considered the implications of the decision to withdraw operational assistance to community-managed LDC centres, which resulted in higher fees. The inquiry suggested that as fees rise, lower labour market participation may lower tax revenue while increasing the need for family payments (Senate Community Affairs References Committee 1998).

FINDING 3.3

The anticipated increase in ECEC fees borne by parents (under existing funding arrangements) is likely to reduce demand for some ECEC services. Some parents may choose not to return to the workforce or to work shorter hours in order to care for children at home, thus reducing workforce participation.

⁷ Other studies have come to similar conclusions, though the link between childcare costs and labour supply has been found to be weaker. According to Doiron and Kalb (2005), a 10 per cent increase in the price of child care will lead to an average decline of 0.7 per cent in the number of hours worked by women. This increases to 0.8 per cent for women whose wage is below the median.