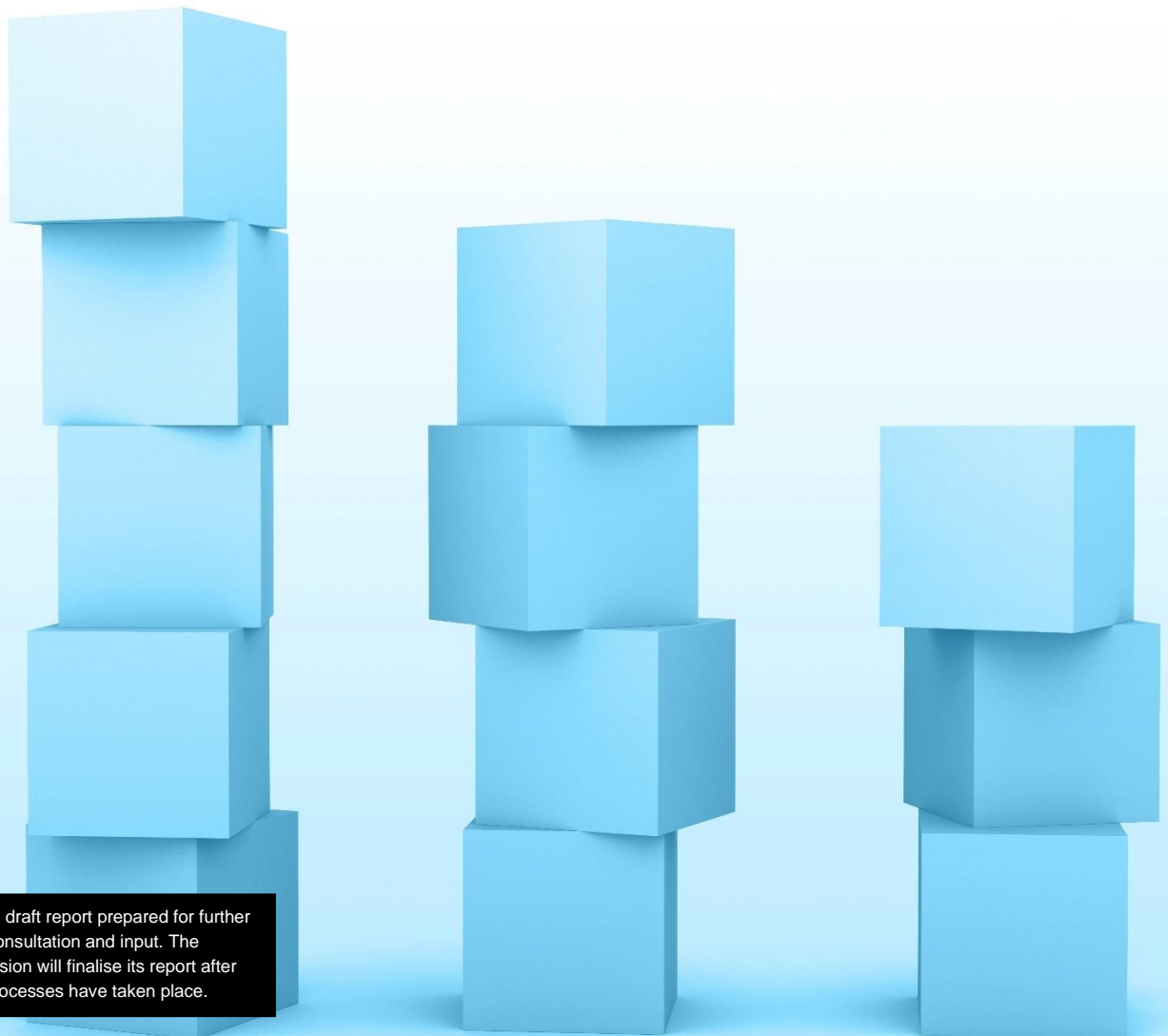




A path to universal early childhood education and care

Draft report



This is a draft report prepared for further public consultation and input. The Commission will finalise its report after these processes have taken place.

The Productivity Commission acknowledges the Traditional Owners of Country throughout Australia and their continuing connection to land, waters and community. We pay our respects to their Cultures, Country and Elders past and present.

The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

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Opportunity for comment

The Commission thanks all participants for their contribution to the inquiry and now seeks additional input for the final report.

You are invited to examine this draft report and comment on it by written submission/brief comment to the Productivity Commission, preferably in electronic format, by mid-February 2024.

Further information on how to provide a submission/brief comment is included on the inquiry website:

www.pc.gov.au/inquiries/current/childhood/make-submission

The Commission will prepare the final report after further submissions have been received and it will hold further discussions with participants. Public hearings will be held in late February 2024. Further details on registering for hearings and making submissions can be found on the inquiry website.

Commissioners

For the purposes of this inquiry and draft report, in accordance with section 40 of the *Productivity Commission Act 1998* the powers of the Productivity Commission have been exercised by:

Lisa Gropp	Commissioner
Martin Stokie	Commissioner
Deborah Brennan	Associate Commissioner

Terms of reference

Review of early childhood education and care

I, Jim Chalmers, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission (the Commission) undertake an inquiry into the early childhood education and care (ECEC) sector in Australia.

Background

The Australian Government recognises that ECEC is an essential part of Australia's education system and is integral to Australia's economic prosperity as a powerful lever for increasing workforce participation. The Government is committed to identifying solutions that will chart the course for universal, affordable ECEC – in the great tradition of universal Medicare and universal superannuation.

Participation in quality ECEC has important developmental, social, and educational benefits for Australian children. It can assist with positive early childhood development and provides a foundation for our children's future well-being and success.

Cost and availability continue to be barriers to accessing ECEC, and for parents and carers achieving their preferred level of workforce participation. The Government believes more accessible ECEC is one of the most powerful initiatives it can pursue for increasing workforce participation, particularly for women.

Governments make significant investments in ECEC which must be targeted, complementary and cohesive to maximise the educational and economic benefit in the most efficient way possible.

Findings from the Australian Competition and Consumer Commission Child Care Price Inquiry will inform and support this Inquiry.

In addition, the Government has committed to developing a Commonwealth whole-of-government Early Years Strategy, focused on the wellbeing, education and development of Australia's children. Further, National Cabinet has asked Education and Early Years Ministers to develop a long-term vision for ECEC.

Scope of the inquiry

The Commission will undertake an inquiry into the ECEC sector in Australia. The Commission should make recommendations that will support affordable, accessible, equitable and high-quality ECEC that reduces barriers to workforce participation and supports children's learning and development, including considering a universal 90 per cent child care subsidy rate. In doing so, the Commission should consider options that improve or support:

- affordability of, and access to, quality ECEC services that meet the needs of families and children
- developmental and educational outcomes for Australian children, including preparation for school
- economic growth, including through enabling workforce participation, particularly for women, and contributing to productivity
- outcomes for children and families experiencing vulnerability and/or disadvantage, First Nations children and families, and children and families experiencing disability
- the efficiency and effectiveness of government investment in the sector.

Without limiting the matters on which the Commission may report, in making recommendations the Commission should consider:

- impacts on demand, supply, and fee growth.
- interactions with existing and planned Commonwealth, state and territory ECEC policy settings and funding, including recent commitments by the New South Wales and Victorian governments to expand access to 30 hours of preschool for children in the year before full time school and support more 3-year-old children to participate in preschool, and any commitments in response to the South Australian Royal Commission into Early Childhood Education and Care.
- interactions with other incentives and disincentives to join or increase participation in the workforce.
- ECEC sector workforce requirements and the capacity to meet these requirements within current Commonwealth, state and territory initiatives.
- required regulatory settings, including to manage compliance and integrity risks for Commonwealth programs.
- impact on access to quality ECEC, including by remoteness and access to flexible (non-standard hours) services.
- whether different settings are required based on the location of services or family circumstances.
- the operation and adequacy of the market, including types of care and the roles of for-profit and not-for-profit providers, and the appropriate role for government.
- activity requirements and other ECEC policy settings, including to reduce system complexity and debt for families.
- impacts on the economy, including workforce participation, productivity and budgetary implications.
- a pathway for implementation.

The Commission should have regard to any findings from the Australian Competition and Consumer Commission's Price Inquiry into child care prices, as well as any other relevant government reviews of ECEC programs.

Process

The Commission should undertake a broad public consultation process, including by holding hearings, inviting public submissions and releasing a draft report to the public.

The Commission should consult with state and territory governments and the ECEC sector where required. The Commission should also consult with the Closing the Gap Early Childhood Care and Development Policy Partnership on matters relating to First Nations children, families, and services.

The Commission will commence this Inquiry on 1 March 2023 and provide a final report to the Government by 30 June 2024.

The Hon Jim Chalmers MP
Treasurer

[Received 9 February 2023]

Disclosure of interests

The Productivity Commission Act 1998 specifies that where Commissioners have or acquire interests, pecuniary or otherwise, that could conflict with the proper performance of their functions they must disclose those interests. The Commissioners working on this report have no interests requiring disclosure.

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This report uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Social Services (DSS) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the Commission and should not be attributed to either DSS or the Melbourne Institute.

This report also uses confidentialised administrative data provided by the Australian Government Department of Education, Services Australia, the Australian Children’s Education & Care Quality Authority (ACECQA) and state and territory governments. The Commission thanks participants who have provided data to the inquiry to date.

Executive summary

Key points

- * **Early childhood education and care (ECEC) services play a major role in the lives of young children and their families. Nearly half of one-year-olds attend some form of ECEC, and about 90% of four-year-olds are enrolled in ECEC. For many children, attending ECEC can have positive effects on their achievements at school and later in life. But children experiencing disadvantage and vulnerability – who are likely to benefit most from ECEC services – are less likely to attend.**
- * **A universal ECEC system means making quality services accessible to all children and families. Achieving it will require tackling availability, affordability and inclusion gaps.**
- * **Up to 30 hours or three days a week of quality ECEC should be available to all children aged 0–5 years.**
 - Supply will respond in many areas to deliver this benchmark. But in persistent ‘thin’ markets or communities with complex needs, the Australian Government should provide additional funding to support the establishment of appropriate services and, where necessary, ensure their ongoing viability through block funding.
- * **Expanding the availability of ECEC will require governments to prioritise the workforce challenges facing the sector. The pay and conditions offered to the ECEC workforce – which are critical for recruitment and retention – may be improved through processes arising out of recent changes to the Fair Work Act. But more work is required to improve career and qualification pathways within and into ECEC professions.**
 - ECEC educators who are studying to become teachers should be offered accelerated pathways and greater flexibility to complete their qualifications while working.
 - Early childhood teachers who hold degree-level qualifications approved by the Australian Children’s Education & Care Quality Authority should be eligible for teacher registration in all states and territories.
- * **Affordability should not be a barrier to ECEC access. Lower income families spend a higher proportion of their income on ECEC compared with those who are better off. The Australian Government should raise the maximum rate of the Child Care Subsidy (CCS) to 100% of the hourly rate cap for families on incomes up to \$80,000 – about 30% of all families with young children.**
 - The CCS activity test should be relaxed so that it is not a barrier for any family wishing to access up to 30 hours or three days a week of ECEC services.
 - Preliminary modelling shows that increasing the top subsidy rate to 100% for lower income families and relaxing the activity test will lead to an estimated 3.4% increase in total hours worked (equivalent to 20,700 full-time employees) by single parents and mothers (or secondary income earners) in couple families with young children. Total hours of formal ECEC used are estimated to rise by about 12%, with about two-thirds of the increase attributed to families who were not previously using ECEC. The total cost of this policy is estimated to be about \$2.5 billion per year, equivalent to a 20% increase in the total estimated CCS outlay for 2023-24.
- * **ECEC services should be inclusive of all children, including those with disability and those from diverse cultural backgrounds. But current government supports fail to reach many children who require them. The Australian Government should significantly increase funding for the Inclusion Support Program and streamline the requirements of the program to expand its reach.**

- * Aboriginal and Torres Strait Islander children are under-represented in ECEC services because mainstream providers are not always available and affordable, or they may not offer culturally safe environments. Aboriginal Community Controlled Organisations (ACCOs) can struggle to source adequate funding to deliver tailored programs that meet community priorities.**

 - ACCOs require a sustainable funding model, which recognises their knowledges and expertise to deliver the ECEC priorities of their communities.
 - The cultural capability of all ECEC services should be improved through publicly funded professional development for staff and better support for services.
- * ECEC services should be flexible and responsive to the needs of families. Governments should remove impediments to the provision of flexible services, such as wrap-around care in dedicated preschools, and improve incentives for services to operate during non-standard hours. The Australian Government should fund supports for families experiencing significant barriers to access, such as lack of transport.**
- * Quality is paramount to achieving the benefits of ECEC – but the regulatory system that is part of the National Quality Framework is not always resourced to deliver timely assessments of service quality or take sufficient action to tackle persistently poor quality.**

 - The operation of state and territory regulatory authorities should be independently reviewed, and where necessary, the Australian Government should fund an increase in resourcing to enable regulatory authorities to deliver timely quality assessments and support continuous quality improvement.
- * Australian, state and territory governments should sign a new National Partnership Agreement on Early Childhood Education and Care, which would outline their respective roles and responsibilities as stewards of the system, as well as the objectives all governments seek to achieve in ECEC.**

 - The Australian Government should retain its responsibility for funding, including subsidies for families and direct support to establish services in areas of low supply. State and territory governments should retain their responsibility for preschool.
 - State and territory governments should be responsible for ensuring the provision of outside school hours care in government primary schools, with ongoing financial support from the Australian Government.
- * A new independent Early Childhood Education and Care Commission should be created to support, advise and monitor governments' progress towards universal access to ECEC.**

 - The Commission should evaluate the effects that policy changes have on children, families, educators, teachers and service providers – to ensure that services offer inclusive, quality ECEC in all communities.
 - The Early Childhood Education and Care Commission should implement a comprehensive research agenda to address some of the significant knowledge gaps around the factors that affect ECEC quality and their implications for children.
- * The reform agenda outlined in this report sets out a pathway to a universal system of ECEC. Delivering it will require careful implementation and sequencing. Addressing workforce issues will be fundamental to achieving universal availability.**

Other broader funding options canvassed in this report could be considered once the suite of proposed reforms have been implemented.

Executive summary

Early childhood education and care (ECEC) services are places where children play, form relationships, use their imagination and learn. For many young children and their families, ECEC is a part of everyday life. Nearly half of one-year-olds attend some form of ECEC, and about 90% of four-year-olds are enrolled in ECEC. For many children – especially those experiencing disadvantage and vulnerability – attending ECEC can have positive effects on their achievements at school and later in life. But children who would likely benefit the most from ECEC are attending less than average or not at all.

ECEC is critical to the wellbeing of families. Many families rely on ECEC services, or on a combination of formal and informal care, to participate in the labour force, access study and training opportunities, or volunteer. Over the years, governments have introduced many policies to support ECEC, in recognition of the vital importance of the early years (as articulated in the Alice Springs (Mparntwe) Education Declaration) as well as the role of ECEC in enabling labour force participation, particularly for women.

As a result of these policies and the expansion of largely for-profit provision, the number of ECEC services has increased over the decade to 2023 by 25% to 18,500 services; the number of places available to children has risen by nearly 50% over the same period, to more than one million places. Further expansion is expected with recent subsidy increases and state and territory governments' plans to expand their preschool offering. But ECEC availability varies across the country – some areas have many services, while others have very few. A higher proportion of services meet or exceed the National Quality Standard than ever before, but services in disadvantaged communities are often of poorer quality.

Without diminishing the importance of female labour force participation, this inquiry centres children in ECEC policy – understanding what aspects of ECEC make a difference to children, how services can be inclusive for all children, and how governments can ensure that their investments in ECEC support better outcomes for children. Families are a critical influence on children; parents and guardians will ultimately decide if and how much ECEC children attend. Policies to improve the accessibility and affordability of ECEC are about supporting children's development and family choices.

There are many reasons why children who stand to benefit significantly from ECEC attendance are missing out: there may be insufficient services in their local area; where services exist, they may have substantial waiting lists or limited places due to workforce constraints, or out-of-pocket fees may be unaffordable; services may not be inclusive or culturally safe for children to attend. Aboriginal and Torres Strait Islander children are more likely than their peers to miss out on ECEC.

The terms of reference for this inquiry require the Commission to consider a 'universal' ECEC system. Reflecting on those children who are unable to access ECEC, the Commission considers a universal system would enable all children to access services that support their development by addressing current availability gaps. In the Commission's assessment, such a system would enable all children to access three days, up to 30 hours, a week of affordable, high quality ECEC regardless of their parents' activity status. This would also continue to support mothers' (or secondary income earners' within a couple) choices about paid or unpaid work, study or volunteering. Children and families who require additional hours would continue to be able to access them.

Universal access will require further expansion of services, with a commensurate increase in the availability of a qualified, appropriately remunerated and supported educator and teacher workforce. Universal, however, does not mean uniform. In a universal system, some form of ECEC would be available to all children regardless of where they live, but the mode of provision could differ depending on location and the needs of children. Nor does universal access mean compulsory, full-time or fully subsidised access.

Achieving universal access will take time. As a priority, governments should address affordability and availability gaps for those least able to afford ECEC or who can only access few, if any, services. Governments should also improve support for services to ensure a system that is inclusive, flexible and well-coordinated. The draft recommendations in this report span:

- availability – considering ways to make services available in areas of low supply, while ensuring that services offered exceed or at least meet quality standards. Governments are already investing in boosting the supply of ECEC but need to do more to ensure universal access. The regulatory system needs sufficient resources to monitor and enhance quality across ECEC services
- affordability – addressing concerns about inequities and lack of flexibility in the current subsidy structure, relaxing the activity test embedded in the Child Care Subsidy (CCS) to support universal access to ECEC, and increasing subsidy rates to low income families, so that ECEC is free or very low cost for those eligible
- inclusivity – ensuring that services are truly inclusive for all children. The programs intended to support inclusion reach only a fraction of the children who need them, and this needs to be addressed
- flexibility – supporting services to be more responsive to the needs of families, including investigating ways to reduce the proportion of hours that families (and taxpayers) are required to pay for even if children do not attend; removing restrictions around the provision of extended care in preschool; and ensuring that primary schools enable the provision of outside school hours care, wherever this is necessary.

The Commission estimates that relaxing the activity test for all families and increasing subsidy rates for low income families will lead to an increase of 12% in the hours of ECEC children attend, with about two-thirds of the increase in hours attributed to families who were not previously using ECEC. These reforms are also estimated to lead to a 3.4% increase in total hours worked (equivalent to 20,700 full-time employees) by single parents and secondary earners in couple families with young children. The total cost of the policy is estimated to be about \$2.5 billion per year, about a 20% increase in the estimated CCS outlay for 2023-24.

Universal access to ECEC cannot be achieved without addressing the critical demand and need for educators, early childhood teachers, centre directors and other ECEC workers. Concerns about pay, conditions, career opportunities and qualification pathways for the ECEC workforce have been a major concern for the sector for many years. Processes to address pay and conditions in the sector are underway as a result of recent changes to the *Fair Work Act 2009* (Cth). In addition, ensuring career and qualification pathways needs are addressed must be a priority before other changes in the sector can be realised.

Achieving universal access to ECEC will require staged and coordinated implementation of reforms to maintain quality and avoid bottlenecks that exacerbate unmet demand. The planned expansion of preschool in a number of states and territories will also affect universal access and further increase the demand for staff.

Expanding access to ECEC and preschool would be well served by governments entering into a new National Partnership Agreement for Early Childhood Education and Care. This would help coordinate efforts towards better stewardship, governance and consistency of ECEC services. The implementation of this Agreement should be overseen by a new ECEC Commission, which would play a pivotal role in developing priorities for investment and planning so that expanded ECEC focuses on areas of greatest need and is achieved at a sustainable pace. The proposed ECEC Commission could also monitor and evaluate the costs and benefits of reforms implemented. Evaluations – and a clearly articulated research agenda – would inform further policies to deliver affordable ECEC.

As progress is made towards universal ECEC by addressing the immediate policy priorities, governments could consider the merits of undertaking comprehensive funding reform, such as offering a flat rate subsidy to all families or funding ECEC in the same way schools are funded. Some implications of these approaches are explored in this report. For example, preliminary modelling shows that moving to a 90% subsidy rate for all families would increase total hours of work by single parents and secondary earners in couple families

with young children by 2.8% (or the equivalent of 17,000 full-time workers). Hours of ECEC are estimated to increase by 7.4% and fiscal costs would rise by \$4.1 billion a year (or about one third). Income tax collections would grow by \$480 million.

The main beneficiaries from a 90% subsidy rate would be higher income families, as many low income families already receive subsidies at 90% or higher rates. The Commission will conduct further modelling and analysis of alternative funding options for the inquiry's final report.

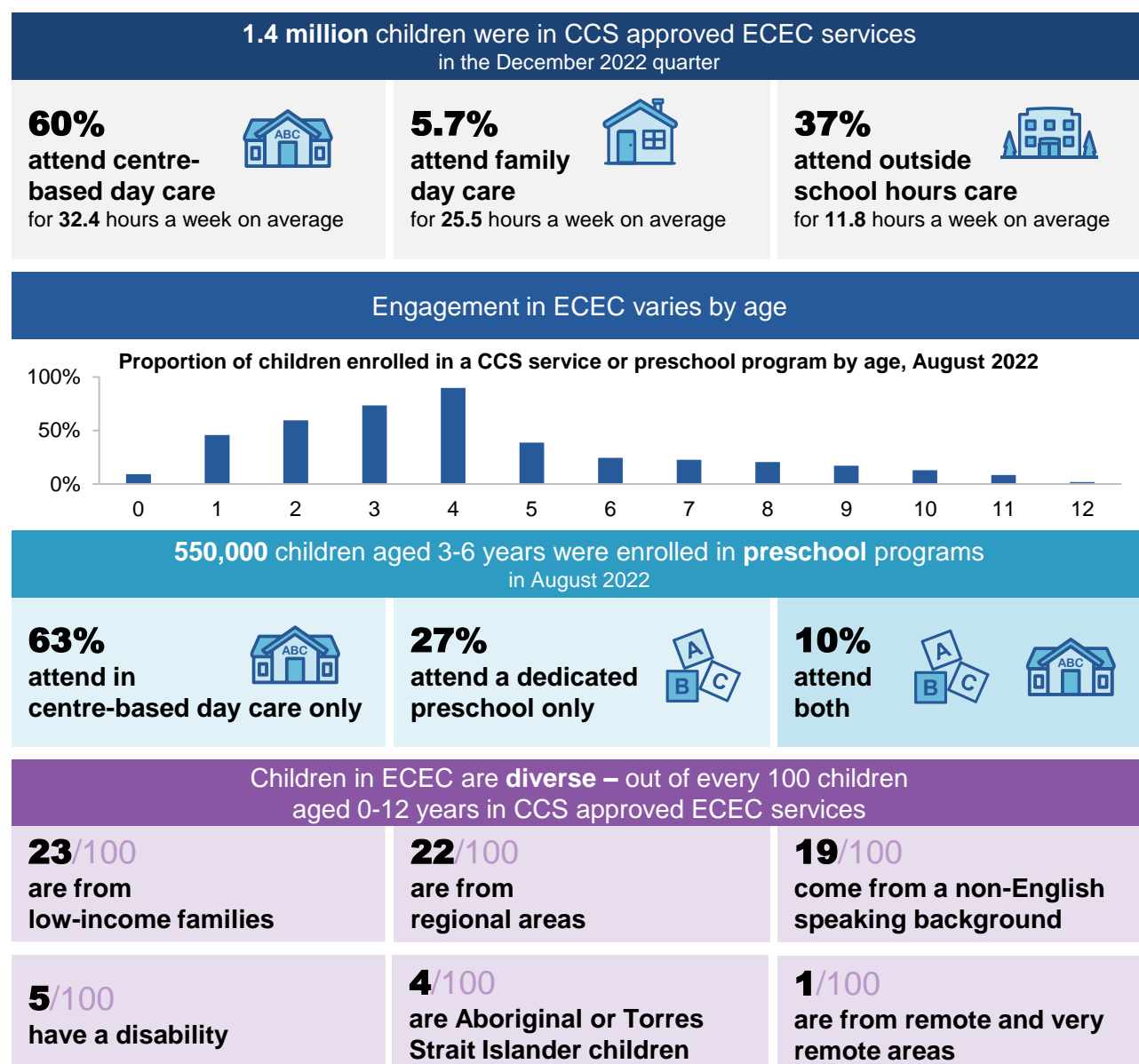
The Commission invites feedback from sector participants and the broader community on the policy options included in this draft report. We are also undertaking separate processes to hear directly from children about what they value in ECEC services and what changes they would like to see. Their views, alongside submissions and public hearings, will inform the Commission's final report, which will be handed to the Australian Government in June 2024.

A path to universal early childhood education and care

1. ECEC services support many children and parents, but some families find them difficult to access

Many children attend early childhood education and care services – whether in centre-based day care, preschool, family day care, outside school hours care or other types of services (figure 1). Families rely on ECEC services, or on a combination of formal and informal care, in order to balance caring for children with other activities, including paid work, studying, training or volunteering. ECEC is also an entry point that enables families to access many other support services, from maternal and child health services to food banks.

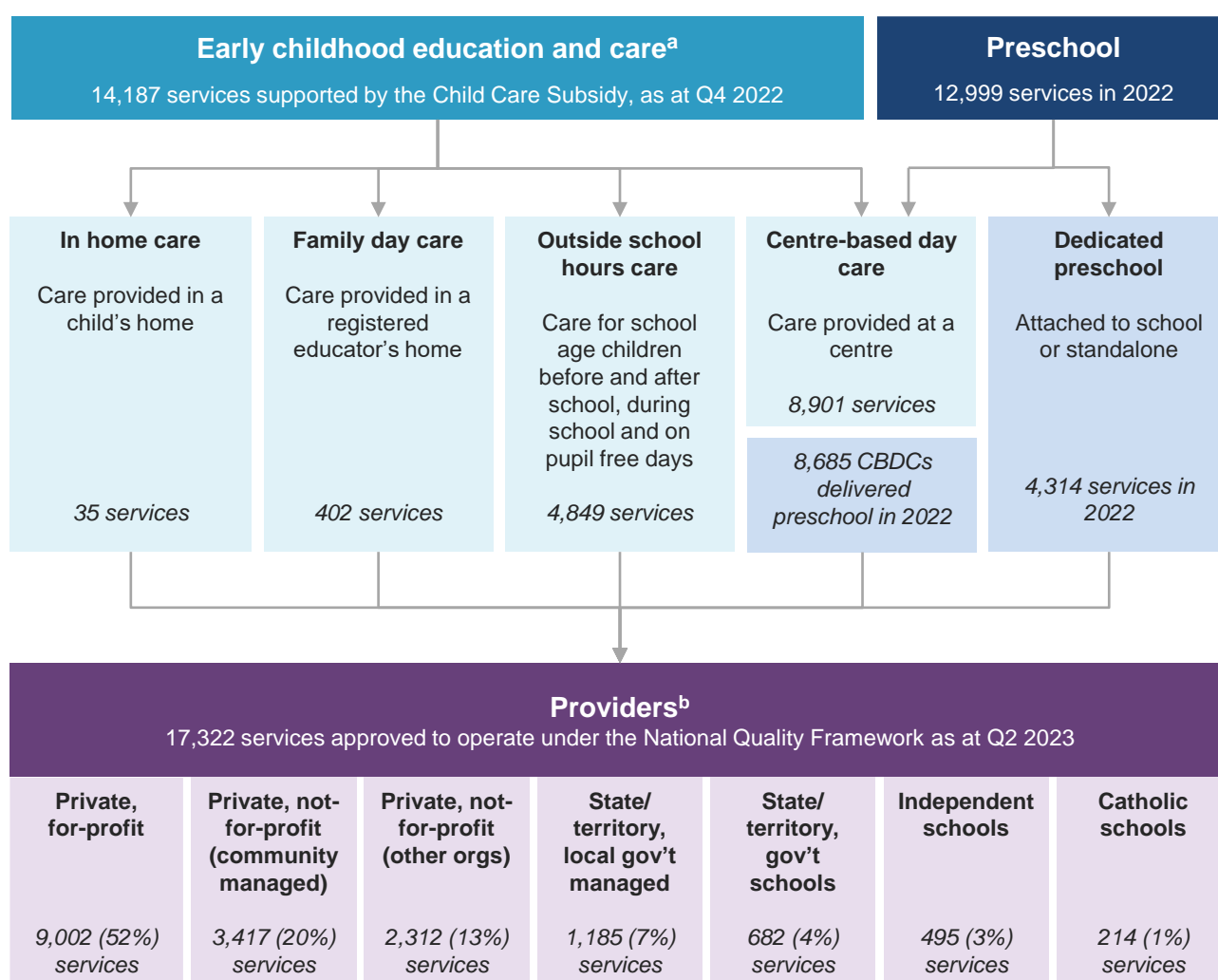
Figure 1 – More than 1.4 million children attend ECEC services



The experiences of children and their families in accessing ECEC vary substantially, reflecting the evolution of the ECEC sector and the policies that affect it. Most four-year-old children, for example, attend a ‘preschool program’ – but depending on where they live, they may do so in centre-based day care, which may be run by a private provider and operate for 12 hours a day, 48 weeks of the year. Or they may attend a dedicated program in a standalone service or on school grounds, which is open during school terms and is limited in its hours of operation. One in ten children aged 3–6 years will attend both types of programs – and many more will experience both formal and informal care, which is usually provided primarily by grandparents.

Over the past decade, ECEC services have expanded rapidly although growth has not been uniform across the country. In December 2022, there were over 18,500 ECEC services (including 8,900 centre-based day care services) and 13,000 preschool programs (in dedicated preschools and centre-based day care) operating across Australia (figure 2). The number of ECEC services grew by about 25% between 2013 and 2023, as large for-profit operators responded to increased demand and opened new services, particularly in major cities and inner regional areas (figure 3). The number of approved places that can be offered to children grew even more rapidly, by nearly 50% in the decade to 2023.

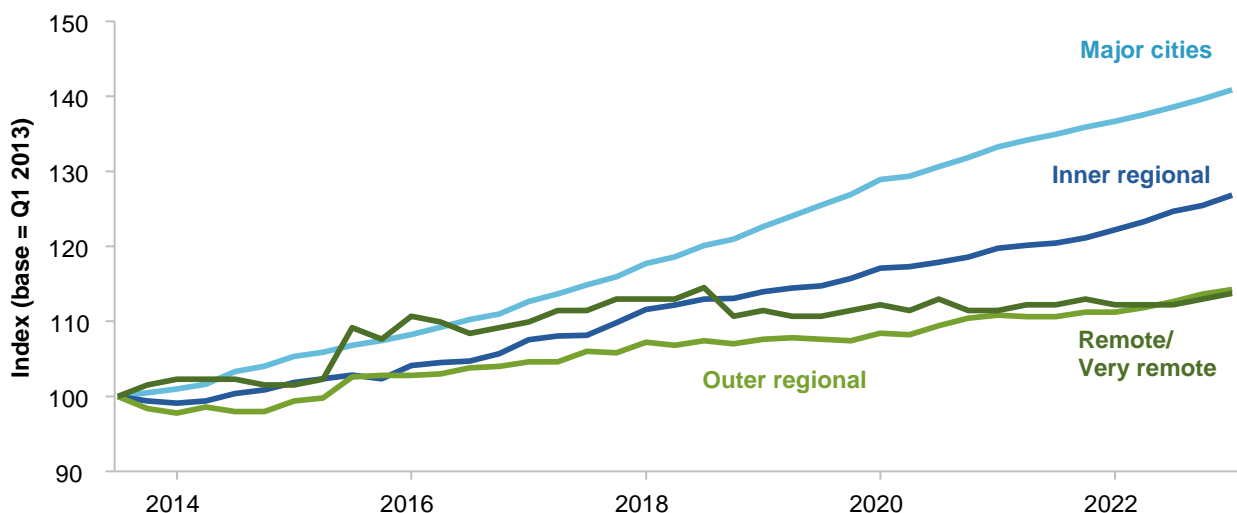
Figure 2 – ECEC services and providers are diverse



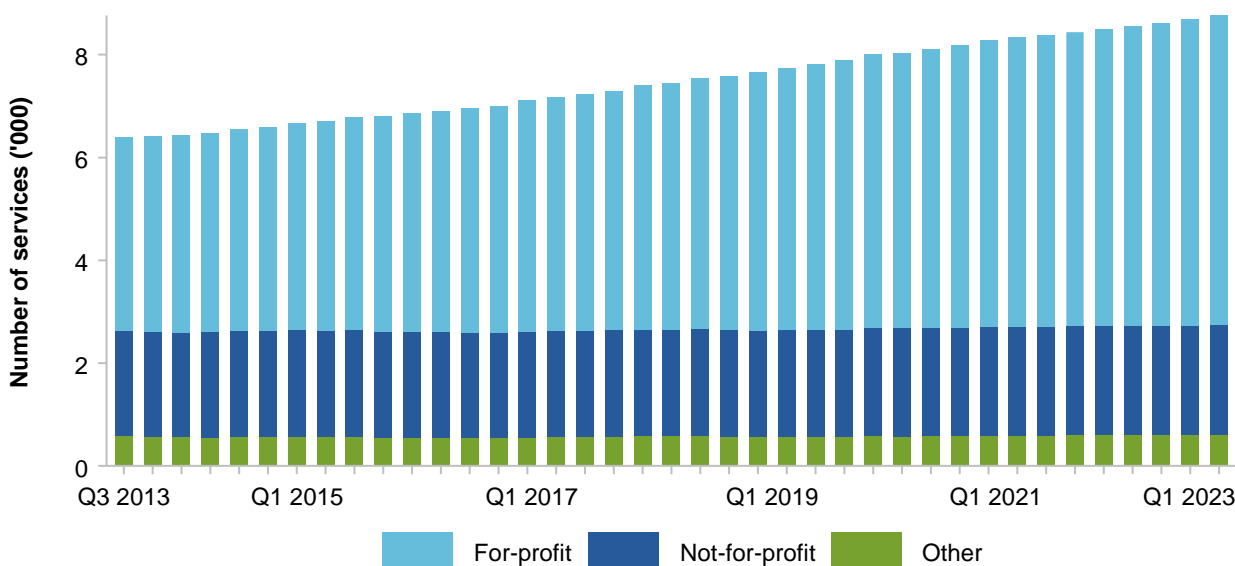
a. State and territory funded ECEC services are excluded (166 services in 2022). **b.** The majority of providers operate one service. The difference between the 18,501 services enumerated in the top panel and the 17,322 enumerated in the bottom panel is due to the services not captured in the ACECQA data (including most WA dedicated preschools, all Tasmanian dedicated preschools and all in-home care services).

Figure 3 – Supply of CBDC has grown particularly rapidly in urban areas and through for-profit provision^{a,b}

a) Index for the number of services by remoteness, Q3 2013–Q1 2023



b) Number of services by provider type, Q3 2013–Q1 2023



a. The index can be interpreted as the percentage change in the number of services since the base year (2013).

b. Government, catholic and independent schools, and other unclassified provider types are included as ‘other’.

Over time, the sector has become more concentrated, with the largest 1% of providers managing 35% of services. However, most providers are small businesses, operating only one service. For-profit providers account for about half the market, and almost 70% of centre-based day care (CBDC). For-profit provision is also the most common model for outside school hours care (OSHC).

Not-for-profit providers range from preschools that are managed by volunteer committees to the largest operator in the market, Goodstart Early Learning, which is owned by a consortium of community sector organisations. The number of not-for-profit providers has remained largely unchanged and their share of ECEC services has declined over the past decade (figure 3); sector participants argue that this is due to

limited access to capital to enable expansion. Some not-for-profit providers choose to keep fees low, reinvest surplus funds into existing services or pay higher wages to staff rather than expand.

In some jurisdictions, the state government is the largest provider of dedicated preschool. Access to preschool (either in dedicated settings or through CBDC) is set to grow significantly, as New South Wales and Victoria have begun a substantial expansion of their preschool offering, Queensland, South Australia and the Australian Capital Territory are investing in preschool, and Tasmania and the Northern Territory are considering changes to preschool provision, with the view to expand existing offerings.

Participation in ECEC can make a marked lifelong difference to children

Many children have positive experiences in ECEC. The challenge, however, is that the effects of attending ECEC services can be difficult to measure, as any benefits will be observed over many years, even decades later. ECEC is a critical but only one important factor influencing lifelong learning and success.

There is a vast international literature that considers the impact of ECEC on children. The complex and interrelated factors that shape children's development make it difficult to isolate the effects of a single factor such as participation in ECEC. Some of the seminal studies of intensive interventions showing high net social payoffs were conducted decades ago in the US and involved children experiencing significant disadvantage. Extrapolating from such studies to Australia is not always feasible or advisable.

Nonetheless, there is more recent evidence from Australia and overseas that shows that most ECEC programs (in CBDC or preschool) have positive effects on children's early academic, cognitive, or non-cognitive skills. Such benefits are more likely for preschool attendance and for older children. These benefits can last well into adulthood – a smaller number of studies find that an expansion of ECEC can have a positive effect on adult outcomes, such as income, completing school, getting a job and avoiding contact with the justice system. The extent to which – and whether – an ECEC program promotes better outcomes for children will depend on the quality of that program (although available measures of ECEC quality are imperfect).

Children experiencing disadvantage tend to experience greater improvements in educational outcomes as a result of attending quality ECEC. Most studies in Australia and overseas find that ECEC benefits for children – and in some cases, their families – are greater when parental income or education is lower. Disadvantage can affect children's development in their early years and their opportunities later in life; quality ECEC can ameliorate some of these effects.

Not all children attend ECEC services – because of family choice or a lack of suitable, affordable services

After increasing slowly over the past decade, ECEC attendance rates (excluding dedicated preschool) of children aged 0–5 years reached 57% in 2021. Of those who do not attend, many are very young and are cared for by their families at home, supported by policies such as paid parental leave and Parenting Payment. Among older children, one in four 3-year-olds and one in ten 4-year-olds are not enrolled in any ECEC.

In some cases, older children do not attend ECEC (CBDC or preschool) because of their parents' personal choices and preference to care for their own children or use informal care. In other cases, a lack of suitable options limit or discourage families from enrolling their children in ECEC services. These children are more likely to live in regional or remote areas, where ECEC availability can be patchy at best. There are also many families who find that services are unaffordable or cannot cater to their children's needs. Children with additional needs can experience exclusion and a lack appropriate support in ECEC.

The ECEC system can be confusing for families to navigate, with multiple funding sources, programs and governments involved. For some families, this difficulty is compounded by a range of factors, including low English proficiency, lack of digital access or access to government services and fear or mistrust in governments. Aboriginal and Torres Strait Islander and culturally and linguistically diverse children and families can also encounter difficulties in finding services that offer culturally safe ECEC.

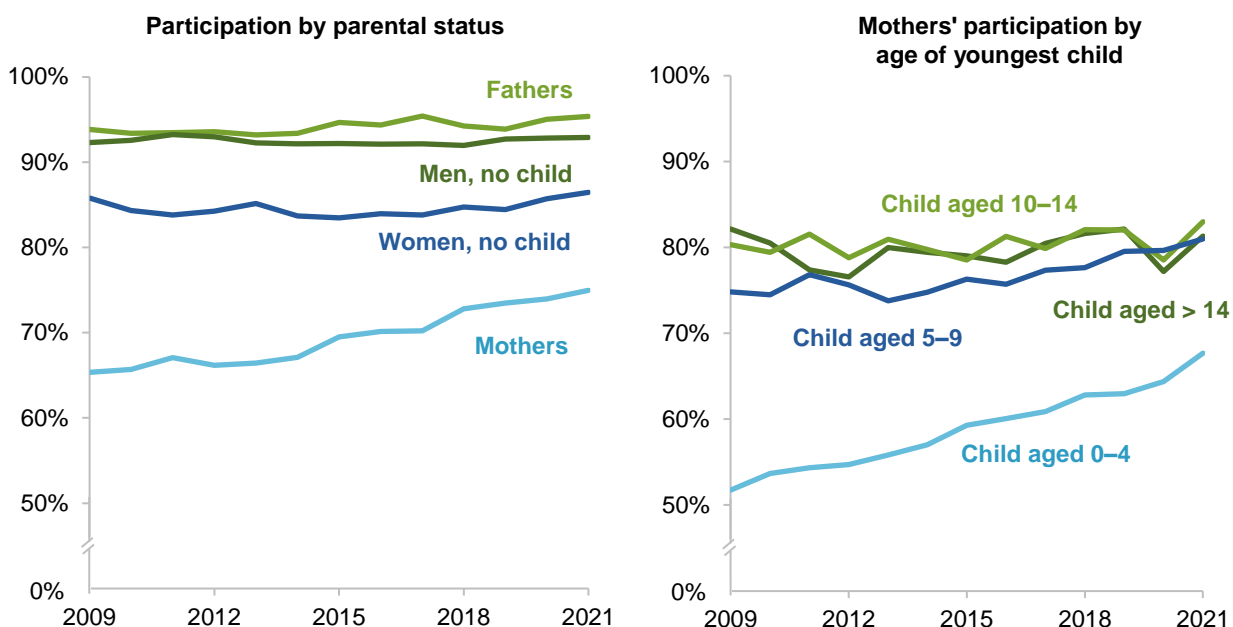
ECEC enables families to balance caring for children with other activities

Alongside the benefits it can offer children, ECEC enables families to make choices about their preferred balance of caring for children and spending time working, volunteering, training or studying. This can contribute to greater wellbeing for parents and families; working increases family income, which in turn is beneficial for children and parents.

ECEC enables mothers in particular to maintain a connection to the labour force when children are very young, and allows for increasing hours of work as children grow. This has positive effects on their lifetime earnings and enables them to use and continue to develop their skills (which can offer benefits to the broader community as well as individuals). The labour force participation rate of mothers increased from 65% to 75% between 2009 and 2021, mostly due to an increase in the participation of mothers with children aged 0–4 years, while participation rates seem to have plateaued for mothers of older children. The participation rate of fathers was consistently high (over 90%) and higher than for men without children (figure 4).

Figure 4 – Mothers with younger children have lower labour force participation rates than mothers with older children, but the gap is narrowing^a

Participation rates, 2009–2021



a. Participation rates are for persons aged 25–54 years, with or without a dependent child aged under 15 years.

About one in three families with children under five use informal care, primarily provided by grandparents (and one in five families use both formal and informal care). Grandparents typically provide fewer than 10 hours of care per week, but about 6% of children are cared for by grandparents for 30 hours or more.

Providing care to grandchildren may affect the labour force participation decisions of grandparents, who are increasingly likely to be juggling work and care responsibilities – just like younger generations.

There may be scope for further increases in the labour force participation of parents for whom ECEC access and affordability are a barrier to work. In 2020-21, about 4% of fathers (95,000 people) and nearly 20% of mothers (507,000 people) stated that they would like to find a job or work more hours. About 15% of these parents (about 85,000) – predominantly mothers – nominated ECEC-related reasons as their main barriers to work. A further 190,000 parents did not want to work or work more hours but pointed to ECEC-related issues as their main barrier for labour force participation. Affordability was the most frequently cited concern, but parents tended to report multiple ECEC-related barriers, such as a lack of availability and flexibility.

Recent increases in ECEC subsidies will have improved affordability for some of these parents, and some might have sought work as a result. Some will also face non-ECEC barriers to their labour force participation – for example, a lack of jobs available, offering suitable hours, or matching their skills and experience. Some might also be deterred by the high effective marginal tax rates that they would face as their transfer payments would be withdrawn and income tax payments would rise with higher earned income.

Ignoring these caveats, assuming all parents would choose to work if ECEC-related barriers were removed, and making assumptions about their desired hours, the equivalent of an additional 118,000 workers could be added to labour supply. This is an upper bound estimate; estimates that take the caveats into account are reported later in the paper.

2. Governments spend billions on ECEC – with little coordination

Governments play a major role in the ECEC system – as policy makers, funders and regulators (figure 5). Overall, governments spend nearly \$13 billion each year on ECEC, including subsidies, grants and service delivery. The policy landscape is complex, and contains multiple laws, regulations and programs.

The Australian Government is responsible for most of the funding to the sector, amounting to \$10.3 billion in 2021-22, through the Child Care Subsidy (CCS, box 2), and a host of much smaller programs focusing on children with additional needs and capital investment. Eligibility for Australian Government funding differs by the type of ECEC service; dedicated preschools are not eligible to administer the Child Care Subsidy and families sending their children to dedicated preschool do not receive the subsidy for any preschool fees.





























State and territory governments fund the delivery of preschool in dedicated services and contribute to the funding of CBDC services that cater for children in the year before full-time school. In 2021-22, state and territory governments spent \$2.2 billion on preschool services. Unlike the CCS, which depends on family income and parents' activity, preschool funding is provided directly to eligible services (similarly to school funding). State funding is set to increase substantially in coming years, with New South Wales and Victoria committing over \$9 billion in the next decade to enable ECEC expansion, primarily through preschool.

This division of responsibility is a product of history. Since 1972, the Australian Government has been subsidising ECEC fees for families to support their labour force participation. State and territory governments, on the other hand, fund preschool as part of their education budgets; some have also been delivering preschool as part of their school system for many years.

Governments collaborate in setting some aspects of ECEC policy. Since 2008, governments have signed national agreements that have introduced universal access to 600 hours of preschool for children in the year before full-time school. Nearly 90% of eligible children are enrolled in a preschool program, but only 70% attend

for the full 600 hours. Under the current Preschool Reform Agreement, the Australian Government contributes about \$500 million of the annual cost of preschool, and all governments have agreed to implement better data collection, including a preschool outcome measure, to assess the effects of attendance on child development. At the moment, it is not possible to compare the effects of the different models of funding and delivery on children’s educational outcomes and draw conclusions about their efficiency and effectiveness.

Figure 5 – Governments are involved in all aspects of ECEC

	 Centre-based day care	 Family day care	 Preschool	 Outside school hours care
Policy settings	 Australian Government	 Australian Government	  Australian Government and state and territory governments	  Australian Government and state and territory governments
Funding	   Mostly demand-side subsidies from the Australian Government, small contributions from state and territory governments and out-of-pocket fees	   Mostly demand-side subsidies from the Australian Government, small contributions from state and territory governments and out-of-pocket fees	   Mainly supply-side funding from the state and territory governments, with Australian Government contributions and low out-of-pocket fees	  Mostly demand-side subsidies from the Australian Government and out-of-pocket fees
Regulation	  State and territory governments (using a national framework) and local government	  State and territory governments (using a national framework) and local government	  State and territory governments (using a national framework or state requirements) and local government	 State and territory governments (using a national framework alongside state requirements)

Overall, there is little coordination in the setting of ECEC policy, and a multitude of different programs with overlapping objectives have emerged over the years. Integrated services (that combine ECEC with other services) are a case in point. Such services can make a real difference, in particular for Aboriginal and Torres Strait Islander children and families. There are a range of integrated models in operation, such as Aboriginal Child and Family Centres, Early Years Places in Queensland and the Child and Family Learning Centres in Tasmania. Some of these are funded by state and territory governments, while the Australian Government invests in integrated services through the Connected Beginnings program for Aboriginal and Torres Strait Islander children and families. But some services juggle multiple funding streams to continue operating and their integration function – a key support for children and families – is often unfunded.

Governments make limited investment in the establishment of new ECEC services. The Australian Government allocates about \$140 million each year to the Community Child Care Fund (CCCF); in the past, it offered support for capital investment to not-for-profit ECEC services. Over the years, state and territory governments

have invested in preschools and integrated services (some of which offer ECEC), and more recently Victoria and New South Wales announced plans to support ECEC services being constructed in areas of need.

In recognition of their evolving role in ECEC, the Australian, state and territory governments are developing a joint national vision for Early Childhood Education and Care. A draft of the vision positions governments as 'stewards of the system' – a different role to the one they have carried out so far.

The ECEC regulatory system can do more to support quality and inform families' choices

Apart from funding and policy setting, governments' other major role in ECEC is regulation. While the regulation of most ECEC services is the responsibility of state and territory governments, the regulatory standards are included in the National Quality Framework, which is overseen by a national body – the Australian Children's Education and Care Quality Authority (box 1).

Box 1 – The National Quality Framework

The National Quality Framework for Early Childhood Education and Care (NQF) is a framework of agencies, laws, regulations and standards, which provide a national approach to the regulation and quality assessment of ECEC services. The introduction of the NQF in 2012 was a major change, as regulation previously varied by jurisdiction. Requirements such as those relating to the safety of a service's physical environment were often duplicated in state/territory licensing and Australian Government quality assurance processes.

The National Law and National Regulations, which are part of the NQF, set out:

- approval processes for the operation of education and care services (although eligible services must also be approved under Family Assistance Law to enable families to receive the Child Care Subsidy)
- the assessment and rating system
- staff qualifications and staff-to-child ratios requirements for ECEC services
- compliance, monitoring and enforcement powers
- the functions and powers of the education ministers, the Australian Children's Education and Care Quality Authority (ACECQA) and the regulatory authorities in each jurisdiction.

ACECQA is an independent national authority that oversees the administration of the NQF, but the assessment and rating of services against the quality standards is carried out by state regulators. Services are rated against seven quality areas that comprise the National Quality Standard (NQS): educational program and practice; children's health and safety; physical environment; staffing arrangements; relationships with children; collaborative partnerships with families and communities; and governance and leadership.

The NQF covers most centre-based day care (CBDC), family day care (FDC), outside school hours care (OSHC) services and preschool (or kindergarten) services. Excluded from the NQF are preschools (kindergartens) that are part of the school system in Tasmania and Western Australia and other small groups of services providing ECEC in specific circumstances.

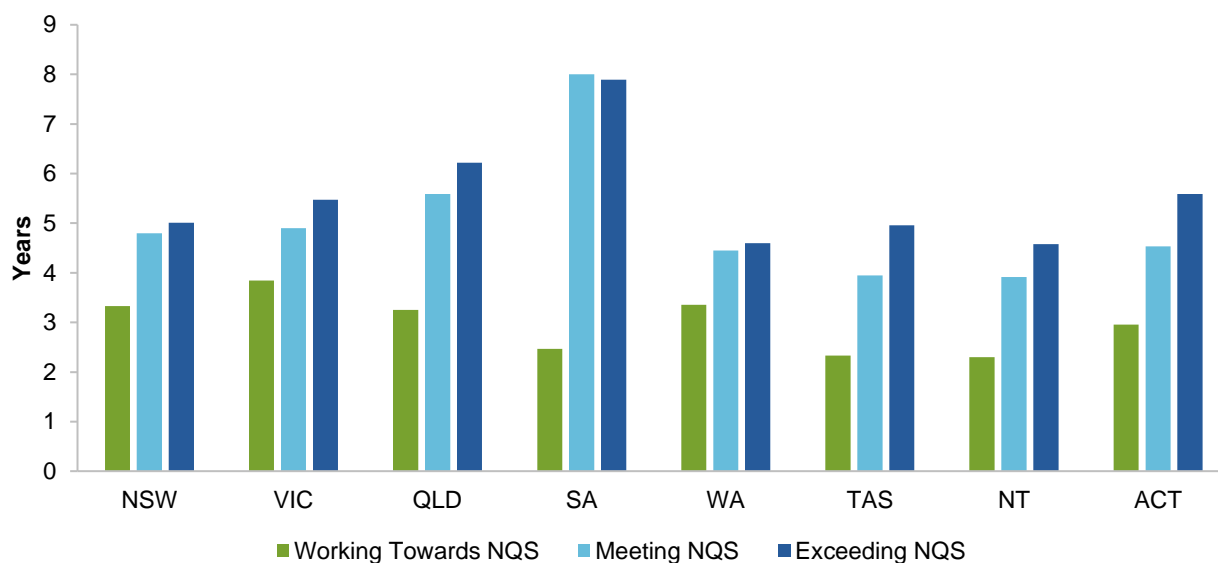
Since the implementation of the National Quality Framework, the ECEC quality standard in Australia seems comparable, if not superior, to many of the interventions found in the international research to support improved outcomes for children. Quality ratings have improved over time; one year after assessment and

rating under the NQF commenced in 2012, only 56% of rated services met the National Quality Standard (NQS). This figure reached 90% in 2023. But quality is not uniform across the sector. For example, services run by not-for-profit providers, governments and schools have better NQS ratings, with 34% exceeding the standard, compared with 13% of services run by for-profit providers. This may reflect the differing operating models or cost structures of services, with some not-for-profit services using surplus funds to offer higher staff wages, which may affect the quality of ECEC offered.

Sector participants – including the regulators themselves – have raised concerns about the way the quality regulation system operates, and in particular the lack of timely quality assessments. For those services assessed as ‘Meeting the NQS’, which comprise the bulk of the sector, more than four years pass between assessments (figure 6). This means that some children may start attending ECEC and eventually move on to school without the quality of the service they attend being confirmed by a regulator. This raises questions about the integrity of the information available to parents and policy makers and the extent to which it provides an accurate reflection of quality.

Figure 6 – A long time between visits

Average years between ratings, by state and territory and previous rating



Service providers can apply for temporary or permanent waivers if they are unable to comply with the NQS requirements for staff qualifications and/or physical amenity. About 12% of services hold such waivers. A further 10% of services are assessed to be ‘Working Towards the NQS’ (in both cases, these are more likely to be for-profit providers) – though most services that are working towards the NQS meet or exceed the standard in their subsequent assessment. The extent to which regulators support such services to improve their quality is unclear.

Families put a significant emphasis on quality as a characteristic of ECEC and the ratings published by regulators can help them be better informed about the services they choose for their children. But survey data shows that nearly half of families are not aware of the NQF – more than a decade after it was introduced. And those who are aware seldom use the ratings to make choices about ECEC, preferring instead to rely on reputation and recommendations from family and friends.

ECEC services must also comply with state and local regulations, which sometimes can result in unreasonable outcomes. The Commission has heard anecdotal evidence about applications to approve FDC

services being rejected by councils because the educators' homes, where the service is provided, did not have commercial kitchens or dedicated parking areas.

Governments collect vast amounts of data – but there are still many gaps in knowledge

There is a lot of data collected in ECEC – through the administration of the CCS, preschool and other government programs, surveys with broad coverage, such as the Australian Early Development Census, and information submitted by service providers to regulators.

Despite these substantial collections, there are many important questions unable to be answered. For example, how many hours of preschool education children receive when they are attending CDBC in the year before full-time school is not known, and the measures being developed as part of the Preschool Reform Agreement will not be able to fully address this gap. Not enough is known about the ECEC experiences that make a difference to children, including, for example, the influence of staff qualifications or ratios on children's outcomes. Governments have not set a clear agenda for research into ECEC to address these and other knowledge gaps.

The data that is collected or generated by governments is not always used to improve decision making. For example, quality ratings are not considered when providers request regulatory approvals to expand and open a new service. As highlighted by the South Australian Royal Commission into Early Childhood Education and Care, data collected by the Australian Government is not routinely shared with states and territories.

3. Does the ECEC sector deliver the outcomes that matter to children and families?

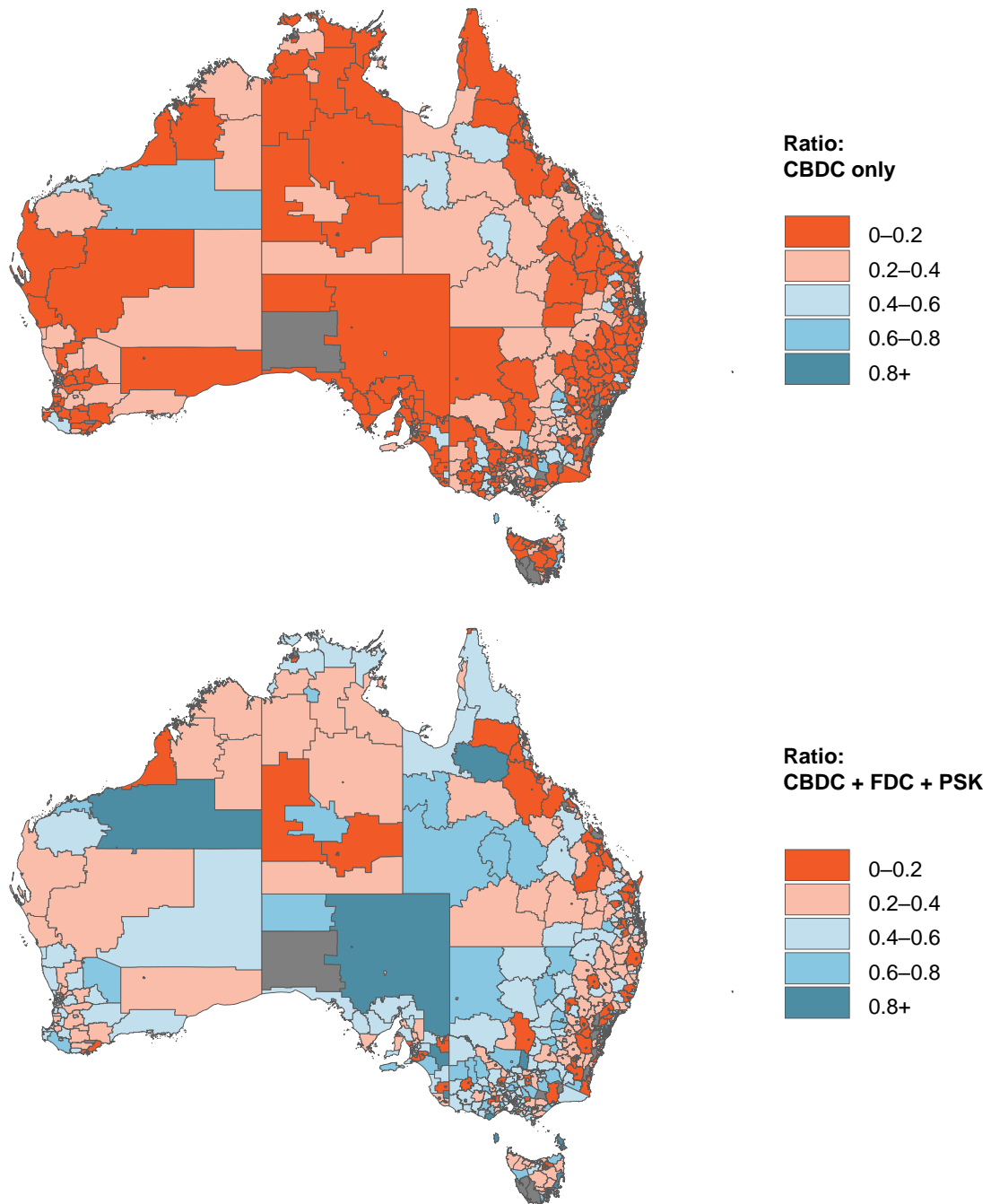
Over time, the proportion of children attending ECEC has increased, as more families have chosen to use formal care and more services have opened. But merely expanding ECEC does not necessarily deliver the outcomes that are important to children and families. The Commission has focused on four aspects of ECEC to assess the extent to which the ECEC system – including government policies – meets the needs and the expectations of the community. These include:

- **availability** – the ability of families to find a quality ECEC service in a reasonably convenient location
- **affordability** – the extent to which government subsidies reduce out-of-pocket expenses to families and support ECEC access, in particular for families experiencing disadvantage
- **inclusivity** – whether the needs of all children are accommodated in ECEC, including through the operation of government programs intended to support inclusion
- **flexibility** – the degree to which services respond to families' needs.

The availability of quality ECEC can depend on where children live

As a result of the uneven patterns of expansion in the ECEC sector, availability of services varies markedly in different parts of the country (figure 7).

Figure 7 – ECEC availability varies widely across Australia^{a,b}
Ratio of number of approved ECEC places to population of children aged 0–5 years



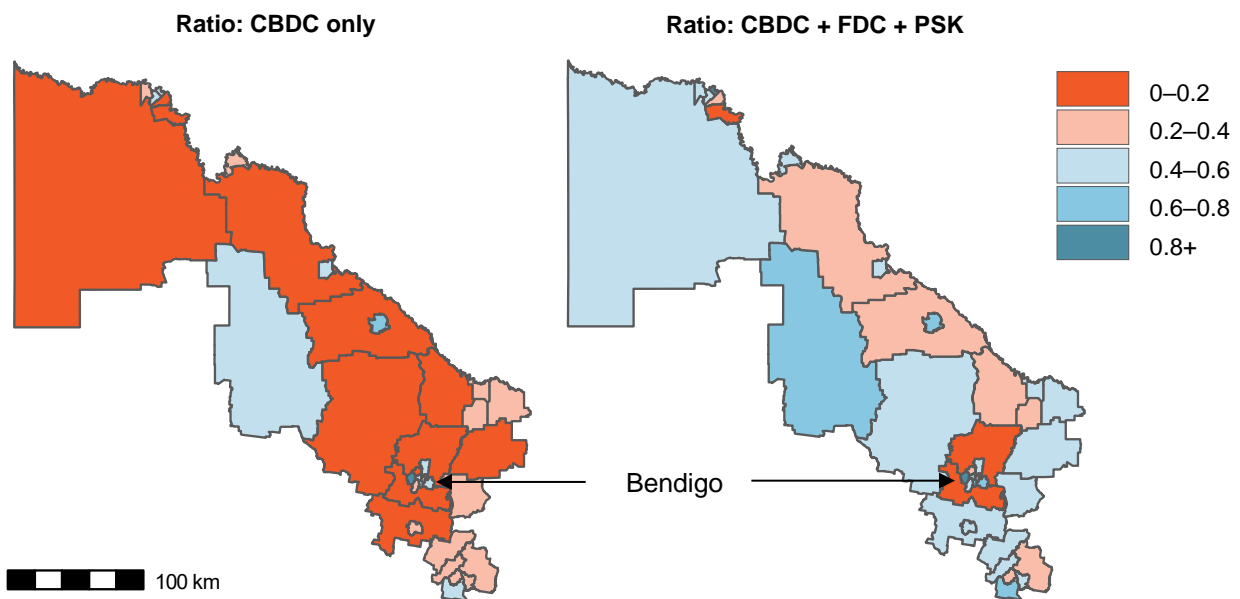
a. CBDC – centre-based day care; FDC – family day care; PSK – dedicated preschool. **b.** The first map shows the ratio of the number of CBDC approved places to the population of children aged 0–5 years. The second map shows the number of CBDC, family day care and dedicated preschool places to the population of children aged 0–5 years. Grey areas have no child population. These are typically national parks.

Even in markets where many services have been established, not all families find services that they consider suitable to their needs, either in terms of the days available, service quality or cultural safety. Places available for children may still be limited due to long waiting lists or workforce constraints, but there is limited data to assess the extent to which these issues restrict supply. In a survey of services by the Australian Childcare Alliance (ACA) undertaken in February 2023, more than two-thirds of respondents indicated that they were capping enrolment numbers, which was estimated to amount to over 16,000 unavailable ECEC places. In a second survey, undertaken in May 2023, more than half of services indicated that they were capping enrolments.

In regional and remote Australia, there are many communities with limited or no local services. The number of approved places in ECEC services can be substantially smaller than the number of young children. For example, inquiry participants have noted poor ECEC access in the Loddon Mallee region in Victoria. The Commission found that in the Loddon Mallee region, there are three children aged 0–5 years for every CBDC place. Availability worsens with distance from the regional centre (figure 8).

Figure 8 – Access to CBDC is poor in the Loddon Mallee region, but FDC and preschool improves access^a

Number of places per child in the Loddon Mallee region for CBDC only and CBDC, FDC and standalone preschool

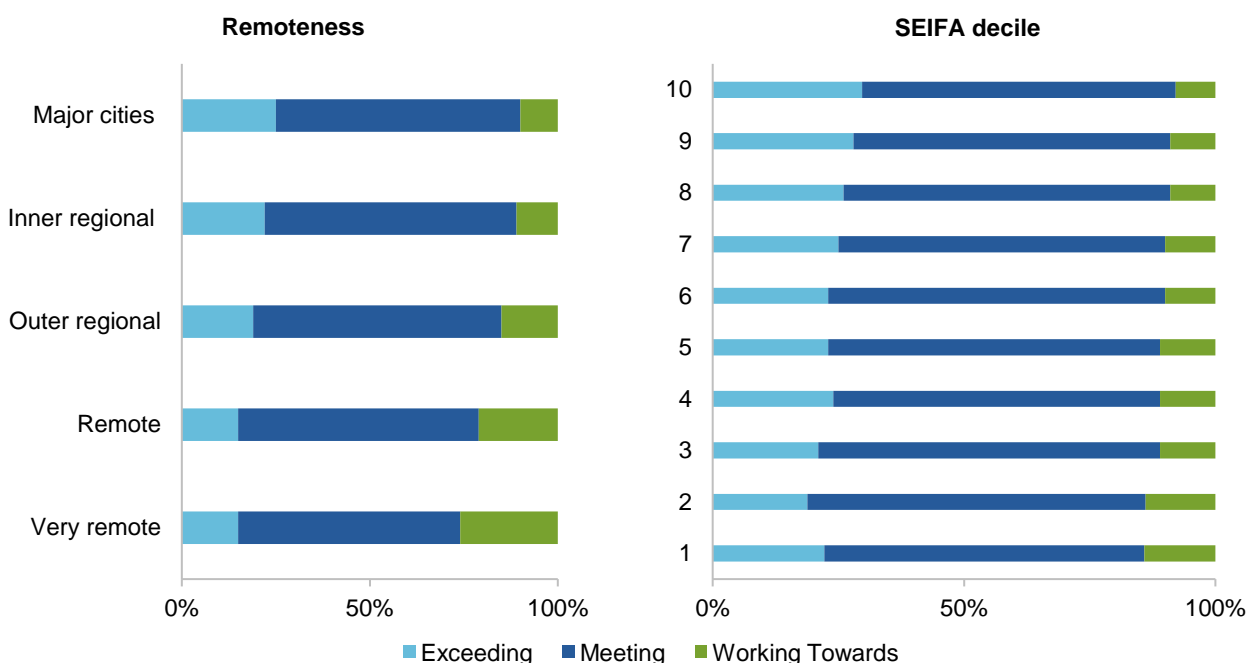


a. Loddon Mallee region is defined as in Regional Development Australia Loddon Mallee, sub. 15, attachment 1, p. 12.

In areas where services do operate, children experiencing disadvantage are more likely to experience ECEC of poorer quality. Services operating in remote parts of Australia and in areas where socio-economic disadvantage is common are *less likely* to meet the quality standards (figure 9). These are the services attended by children who are most likely to benefit from quality ECEC.

Figure 9 – Services in more remote and lower socio-economic areas are less likely to meet the NQS^a

Overall quality ratings of assessed services by remoteness and SEIFA decile, July 2023



a. Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged and 10 being the most advantaged).

Many factors affect the level of ECEC supply. There are some communities where supply may be low but so is the demand for ECEC, due to demographic trends or cultural preferences. In most cases, however, the high costs of providing ECEC, coupled with families' unwillingness or inability to pay high prices, would deter providers from setting up a service in a particular community. This can be the case, for example, in regional areas, where the challenges of attracting and retaining staff may be particularly significant, or in areas where many families experience disadvantage and would not be able to meet activity test requirements or afford out-of-pocket fees.

Governments have different ways of addressing supply issues. For example, community groups have access to grants – albeit small in total – that assist with the cost of setting up services. Such grants are also available to service providers looking to expand into areas experiencing supply shortages through the Australian Government's Community Child Care Fund (CCCF). The CCCF runs alongside the CCS where the subsidy to families would be insufficient to sustain a service, but the overall amount of funding available is limited and eligibility conditions can be overly restrictive. State governments have also stepped in, to fund the establishment – and in some cases, the operations – of ECEC services in areas where supply was insufficient.

In addition to grant programs, governments support different models of ECEC in 'thin markets', where demand is insufficient to sustain a service. In remote and very remote regions, families can apply for In Home Care, where the CCS subsidises the employment of an educator who works in the child's home. In some remote Aboriginal and Torres Strait Islander communities, governments fund Aboriginal Community Controlled Organisations (ACCOs) to offer ECEC, as well as a range of additional services to children and families. Mobile services, including preschool and playgroups, support children in some regional areas. And in many regional areas, FDC providers, which are funded through the CCS, can offer flexible solutions to their communities. Despite these options, there are many communities where there is insufficient availability of ECEC. While governments may choose to invest in some locations, there is little coordination of this effort

and in some cases, communities need to have a capacity to apply for funding and establish their own service, a process which may take years.

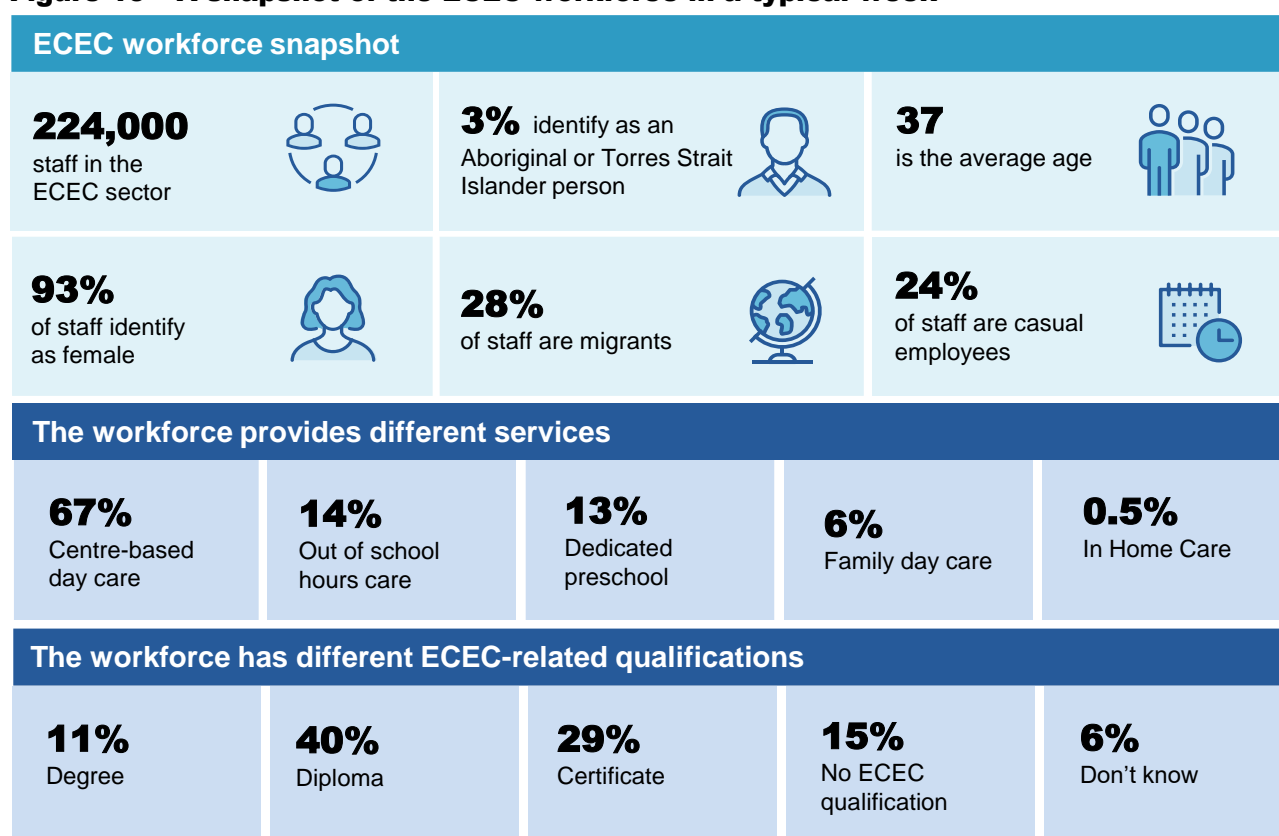
Workforce challenges constrain the availability of ECEC

Many inquiry participants described the lack of staff as the biggest challenge facing the sector, some referring to it as a 'workforce crisis'. Issues pertaining to the workforce have been affecting the sector for many years but were exacerbated during the COVID-19 pandemic; and more recently, ECEC services have been delaying expansion plans, closing rooms and limiting enrolments as they are unable to find qualified staff.

The ECEC sector employs staff with a variety of skills, experiences and qualifications, but the two most significant occupations are early childhood teachers (ECTs) and educators (figure 10):

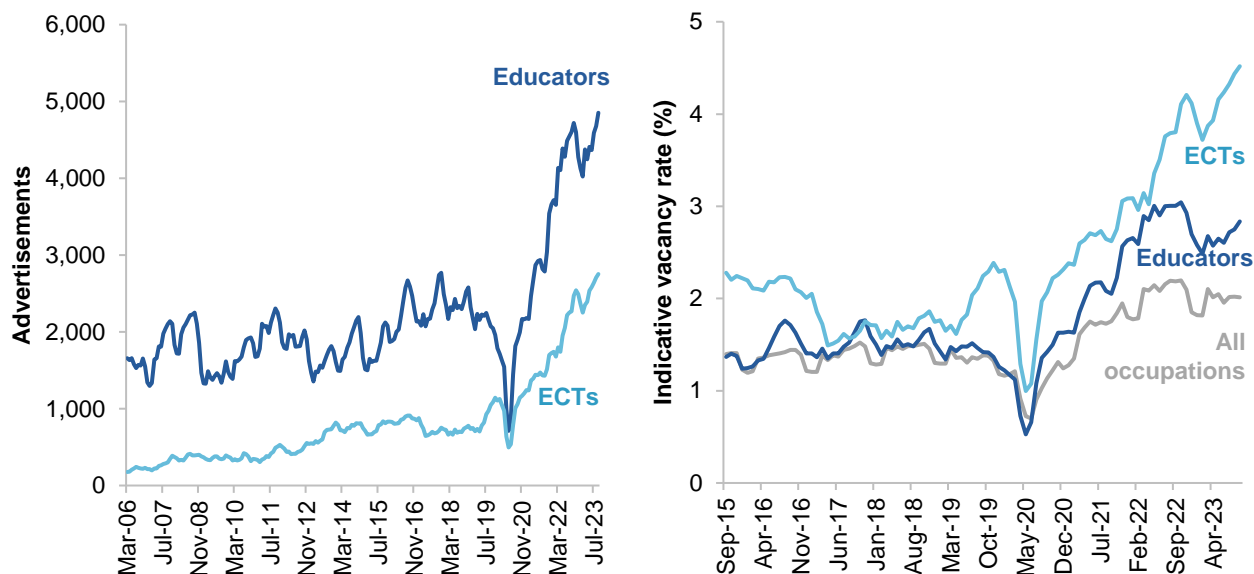
- ECTs are typically degree-qualified, with key roles including: planning program activities; leading and supporting children's learning development; and coaching, mentoring and supervising other staff
- educators are typically certificate III/IV or diploma-qualified, with key roles including: providing education and care to children and (under the supervision of ECTs) assisting with developing and delivering educational programs.

Figure 10 – A snapshot of the ECEC workforce in a typical week



Vacancies for ECEC positions are at record highs and vacancy rates are above those of the wider workforce (figure 11). While vacancy rates change in response to economic conditions, as well as the demand for workers in similar industries, demand for educators and ECTs is set to remain strong, particularly as preschool offerings expand and with the recent changes to CCS under the Cheaper Child Care reforms (box 2).

Figure 11 – Vacancies in the sector have climbed^{a,b}
Advertised vacancies and indicative vacancy rates



a. 'Educators' is based on the ANZSCO occupation group 'child carers' and includes nannies. b. Vacancies are on a 3-month moving average basis and is not trended or seasonally adjusted. The indicative vacancy rate is the number of vacancies for each occupation divided by the sum of the number of people working in the occupation and the number of vacancies, then multiplied by 100.

The outlook for future workforce growth is mixed. Data on VET enrolments show that there has been an uptick in enrolments in Certificate III ECEC qualifications since 2018, although enrolments in diploma qualifications have been falling over the same period, and the number of completions of both diploma and Certificate III level qualifications has remained relatively flat. Data on enrolments and completions for university-level early childhood teaching courses points to a relatively significant increase in enrolments in early childhood teaching courses between 2012 and 2021, predominantly due to enrolments in postgraduate courses. Completion rates, however, have been declining. In 2006, 67% of domestic students who commenced an early childhood teaching degree had completed it in within 6 years, but in 2016, this was down to just 48%.

Structural and cyclical economic factors are contributing to services' difficulties in finding and retaining staff. Demand for staff across some industries, particularly those that provide care and human services, has been increasing after the sharp drop during the COVID-19 pandemic. But many inquiry participants have pointed to the relatively low pay and unattractive working conditions offered by the sector as a major factor that impedes the attraction and retention of staff. For educators, lower skilled, lower stress jobs offer similar – or sometimes higher – wages.

As educators we study to get qualified. We have a very important role educating and caring for children under 5 years which according to studies this is the most important 5 years of early childhood. We have to document, analyse and reflect, we are confidants, counsellors and support people for not just our children but our families too, we go over and beyond teaching and involving children and families in experiences. We make reports to professional services ... Often advising for speech pathologists, psychologists, hearing tests, delays in children that clearly need professional assistance So why are we not recognised for what we do?? We teach every day in the most important years of a child's life. Why can I earn more money making coffee? Why are we not supported for doing these important roles and documenting such important services?? (Brief comment no. 76)

ECTs working in ECEC settings and teachers working in schools often hold equivalent degrees – but Australia-wide, median wages for ECTs working in ECEC settings are about 20% lower than those of primary school teachers. These disparities appear to be biting – there is evidence to suggest up to two-thirds of graduates of early childhood education degrees choose employment in primary schools. The expansion of preschool in many jurisdictions is set to increase demand for ECTs in dedicated preschools. This will put further pressure on CBDCs, which are already struggling to comply with the NQF-mandated qualification and staff ratio requirements.

Despite government subsidies, cost can be a barrier to ECEC access for low income families

Many families – particularly low income families – find cost a barrier to ECEC use. The CCS (box 2) is intended to lower ECEC costs and has a significant effect on what families pay – the average fee for CBDC is \$124 a day while the average out-of-pocket expense is \$46.

Nonetheless, OECD data suggests that Australian families where both parents are working and earning 67% of the average wage, who have two children attending ECEC full-time, would have net out-of-pocket ECEC expenses of 17% of income. This compares with 11% of income on average for similar families across the OECD. While this comparison relates to a specific set of family circumstances (and pre-dates the introduction of the Cheaper Child Care reforms), it does illustrate the situation some families face in relation to ECEC affordability.

ACCC analysis has shown that average fees charged by CBDC, FDC and OSHC providers increased by about 20% between September 2018 to December 2022, rising faster than inflation and wages. However, as a result of the CCS, out-of-pocket expenses rose at a much slower rate than ECEC fees between 2018 and 2022, increasing by 7% for families using CBDC services and 15.8% for households using FDC. In real terms, the average out-of-pocket expense decreased for CBDC and OSHC, and remained stable for FDC services. In other words, families were spending less on ECEC in real terms in 2022 than they did four years earlier, and government subsidies seem to have achieved their goal of reducing expenses.

However, the CCS does not appear to be well targeted to lower income families, who spend more on ECEC than other families as a share of their income (figure 12). Some lower income families are eligible for the Additional Child Care Subsidy (ACCS), which offers higher subsidy rates and longer hours of subsidised care. Only about 40,450 children (3% of the children using ECEC) were eligible for the ACCS in December 2022.

Box 2 – The Child Care Subsidy

The Child Care Subsidy (CCS) assists families with their out-of-pocket ECEC costs. Families using CBDC, FDC, OSHC or in home care are eligible for the CCS, which is usually paid directly to their chosen service, so that families are only charged an out-of-pocket gap fee. The amount of CCS payable depends on:

- the number of subsidised hours of care the family is eligible for, which is determined by the number of hours the parent or guardian is engaged in recognised activities – working, training, study and volunteering (the ‘activity test’). In a couple family, the number of subsidised hours will be determined based on the eligibility of the parent or guardian with the lower activity level
- the percentage of subsidy payable per hour, which depends on family income and the number of children in care. From 10 July 2023, under the Cheaper Child Care reform, families with an income up to

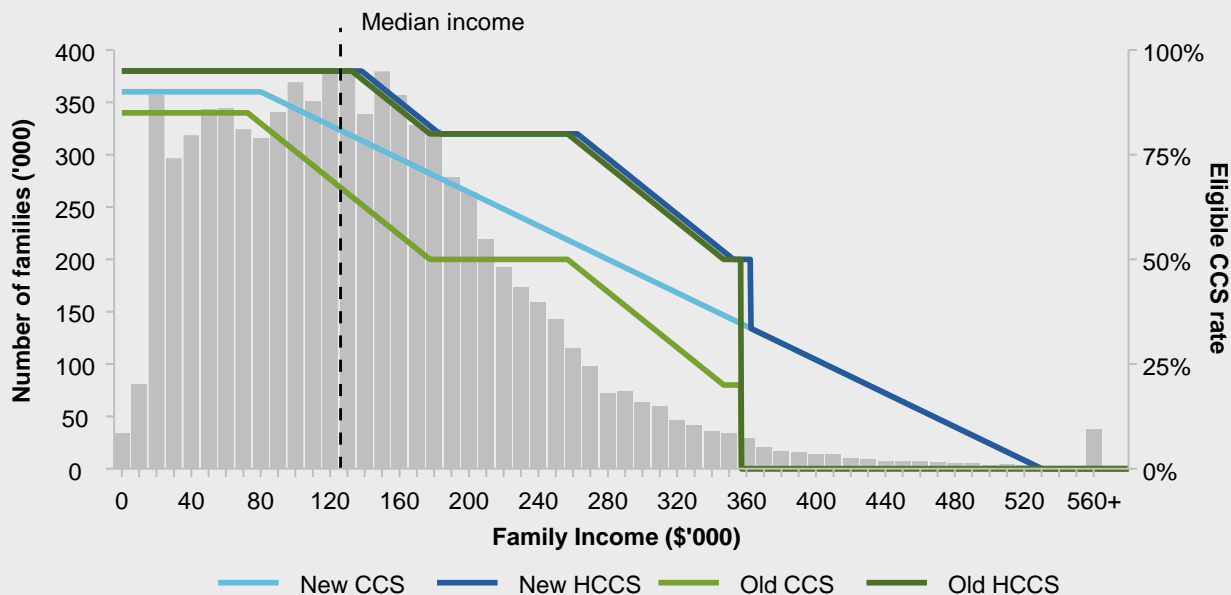
Box 2 – The Child Care Subsidy

\$80,000 are eligible for a 90% CCS rate, with the CCS rate tapering by 1% for every \$5,000 a family earns above \$80,000. Families with multiple children in care are eligible for a higher rate of subsidy.

Activity hours per fortnight	Hours of subsidised care per fortnight
<8	24 hours if earning \$80,000 or below; 0 hours if earning more than \$80,000
8–16	36 hours
16–48	72 hours
>48	100 hours

The subsidy paid is calculated as a percentage of the hourly fee, up to an hourly cap set by the Australian Government. According to the ACCC, *on average*, hourly fees charged by providers are close to or below the cap. However, 22% of CBDC services and 45% of FDC services charge fees that are above the cap. Any fees that services choose to charge beyond the hourly cap are unsubsidised.

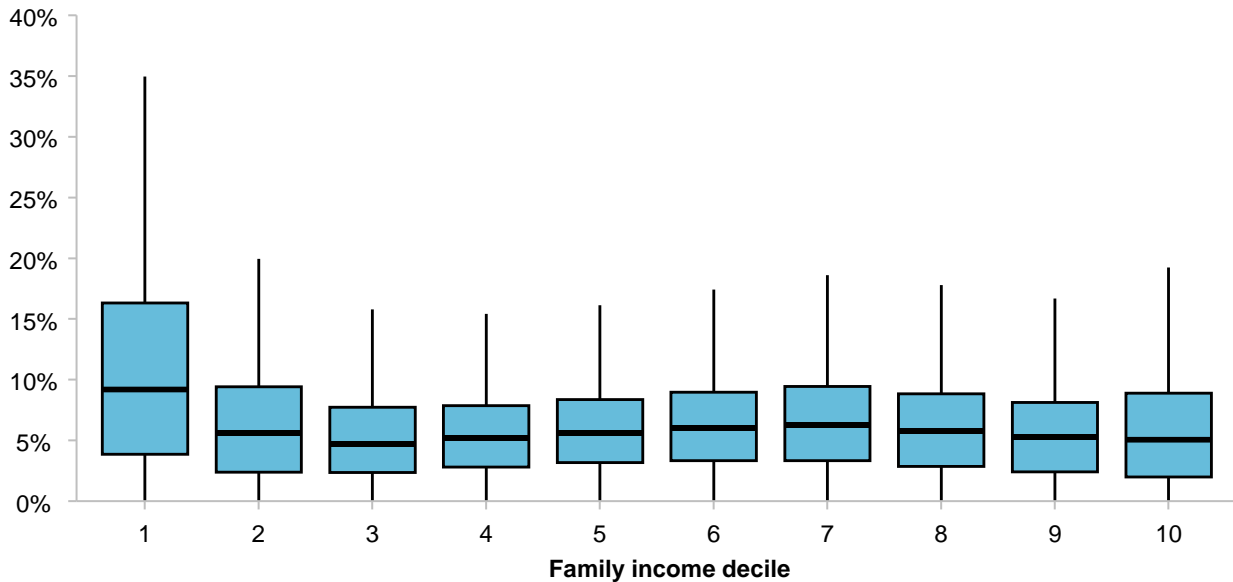
From 10 July 2023, about 70% of families receive a subsidy rate of at least 70%^a



a. CCS – Child Care Subsidy; HCCS – Higher Child Care Subsidy

Figure 12 – Lower income families spend a larger share of their disposable income on ECEC^{a,b}

Out-of-pocket expenses as a share of family after-tax income, by family income decile, fortnight to 27 Nov 2022



a. Subsidies for the out-of-pocket expense calculation are calculated as the CCS plus the ACCS. The out-of-pocket expense accounts for fees that might be paid above the hourly rate cap. After tax household income is calculated by applying tax rates to customer and partner reported incomes. Excludes In Home Care services. **b.** These box and whisker plots show the median (black horizontal line), two hinges at the 25th and 75th percentiles (top and bottom box edges), and two whiskers extending to the values no further than 1.5 times the interquartile range from the hinges. Outliers are omitted.

The activity test restricts access to subsidised ECEC hours for some of the most vulnerable families

The CCS includes an activity test – as parents increase their activity (including work, study or volunteering), the number of subsidised care hours also increases (box 2). Some groups are eligible for exemptions from the activity test and are guaranteed a certain number of hours of subsidised care a fortnight, including families earning below \$80,000 per year (24 hours), families whose children are attending a preschool program in the year before full-time schooling (36 hours), and Aboriginal and Torres Strait Islander families (36 hours).

As a result of the restrictions imposed by the activity test – in conjunction with session lengths determined by ECEC providers – families can be required to pay for a significant number of unsubsidised hours. A secondary earner in a family might be working four short days (20 hours) a week, which would make the family eligible for 72 hours of subsidised care a fortnight (36 hours per week). But if they enrol their child for four days in a service that bills for 10 hour sessions, as many services do, the family will have to pay for four unsubsidised hours a week.

Overall, about 2% of hours in ECEC services are unsubsidised. But families eligible for fewer subsidised hours are much more likely to accrue unsubsidised hours (figure 13) and some of these families are on particularly low incomes, leading to substantial ECEC bills, and in some cases, debts to service providers (figure 14).

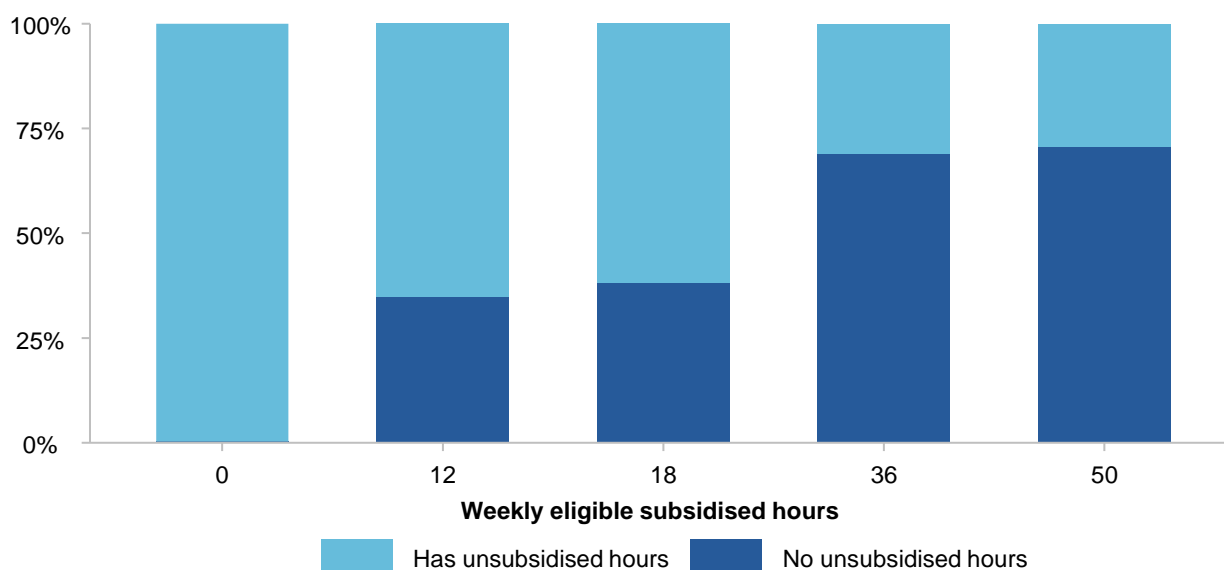
Many inquiry participants pointed out that the activity test can discourage ECEC use, particularly for families experiencing vulnerability or disadvantage. Families may misunderstand the activity test requirements or may be concerned about a potential CCS debt if they misreport their activity hours. As a result, these families may choose not to send their children to ECEC. A survey conducted as part of the Child Care Package

Evaluation (which examined the effects of changes to the subsidy regime introduced in 2018) found that half of the parents surveyed reported being worried that they would end up with a debt if they did not get their activity details right. This evaluation also noted that services and stakeholders expressed concern about parents’ understanding of the activity test, especially for those engaged in casual work or undertaking non-paid work activity that would meet the activity test.

The activity test was introduced to encourage labour force participation. Inquiry participants told us that the activity test cemented a view among some families experiencing disadvantage that that ‘ECEC is only for people who have jobs’, keeping them away from services. The test was tightened in 2018 to reduce the number of subsidised hours lower income families could access without needing to meet the activity test. The Child Care Package Evaluation, undertaken after this tightening, showed that it is not clear that labour force participation goals have been achieved. Changes in employment and other activities were small and not necessarily attributable to the activity test.

Figure 13 – A large proportion of families with 12–18 eligible subsidised hours a week accrue some unsubsidised hours each year^a

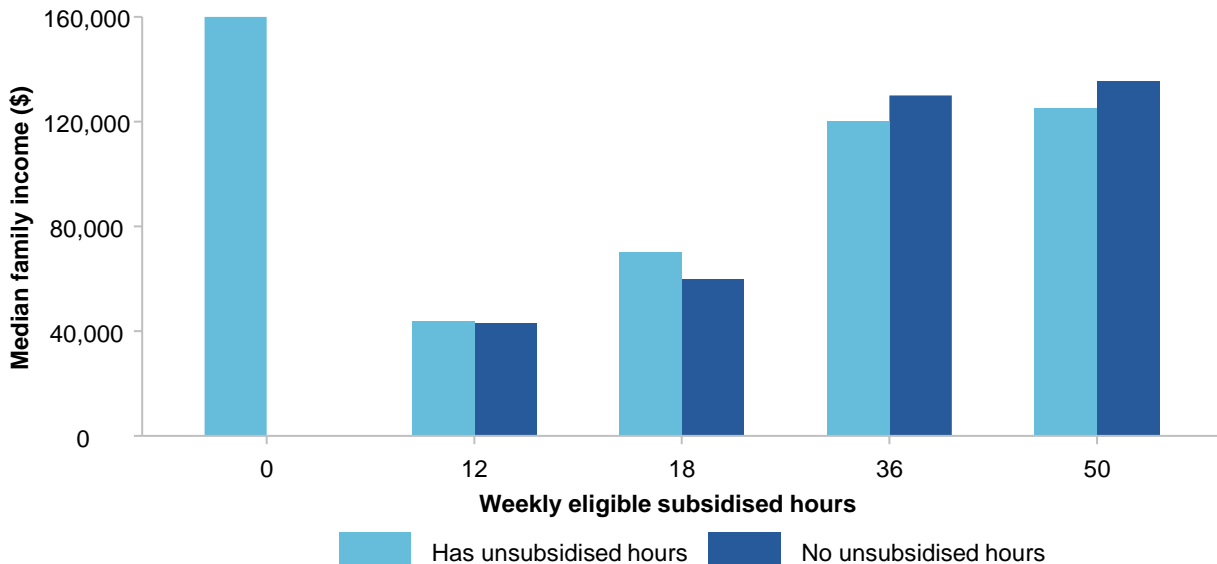
Percentage of families accruing unsubsidised hours by eligible subsidised weekly hours, 2021-22



a. Based on families who accessed CCS-approved services in 2021-22. A family’s maximum subsidised hours can change through the year. Weekly eligible subsidised hours for a family are based on half of the family’s median fortnightly eligible subsidised hours, as reported in weekly-level data for the financial year. Weekly hours are used, rather than fortnightly hours as defined in CCS policy, to allow a simpler comparison with data provided at the weekly level, but could overstate unsubsidised hours if families use substantially different hours of ECEC across each week of a fortnight.

Figure 14 – Families with 12–18 eligible subsidised weekly hours tend to have lower incomes^{a,b,c}

Median family income by eligible subsidised weekly hours and whether accrued unsubsidised hours, 2021-22



a. Based on families who accessed CCS-approved services in 2021-22. A family’s maximum subsidised hours can change through the year. Weekly eligible subsidised hours for a family are based on half of the family’s median fortnightly eligible subsidised hours, as reported in weekly-level data for the financial year. Weekly hours are used, rather than fortnightly hours as defined in CCS policy, to allow a simpler comparison with data provided at the weekly level, but could overstate unsubsidised hours if families use substantially different hours of ECEC across each week of a fortnight. **b.** Median family income for each group is the median of incomes across families, where the income for each family is the median of their reported incomes in the financial year. **c.** Families with a median of no eligible subsidised hours and no unsubsidised hours represent less than 0.01% of families and are excluded from this figure.

Overall, while the CCS succeeds in lowering out-of-pocket ECEC expenses for many, its settings are overly complex and this complexity does not result in greater efficiency and effectiveness. Families find it difficult to understand their entitlements, which in some cases leads families on low incomes to pay for unsubsidised hours or to not use ECEC. Furthermore, these complex settings do not encourage greater labour force participation or keep a lid on government expenditure.

ECEC access is impeded by inclusion challenges and a lack of flexible solutions

Even where services exist and families are able to meet the out-of-pocket expenses, services may not be able to cater for the needs of children and their families.

Inquiry participants have told the Commission that children with disability, developmental delay or other specific needs are often excluded from ECEC services. The Association for Children with Disability (sub. 78, p. 5) noted that:

many families report they haven’t been able to access the early learning services they need due to gatekeeping. Families report the use of a range of tactics to prevent or discourage their child from enrolling or attending a service. Tactics can range from making it clear their child is not welcome, telling families the service can’t support their child’s needs or don’t have the funding to support their

child, or limiting the hours a child is able to attend ... Families also spoke about difficulties accessing outside school hours care, which added further barriers to workforce participation.

Some services are unable to support Aboriginal and Torres Strait Islander children in a culturally safe way. Similar concerns were raised by families from cultural and linguistically diverse (CALD) backgrounds. A NSW Productivity Commission survey found that a lack of access to culturally appropriate care was a barrier to ECEC attendance.

A lack of flexible ECEC options (where the operating hours are incompatible with families' work schedules or preferences and/or services cannot accommodate flexibility in required days) is also a major barrier to access. Some families require non-standard hours ECEC, shorter session lengths or access on a casual basis but may struggle to find a service that meets these needs. Many dedicated preschools are only available during school terms, and for a limited number of hours each week – which means families need to vary their working hours, use a combination of services, or rely on informal care.

4. Charting the way to 'universal' ECEC reform

There is clear rationale for ECEC reform, and the overarching policy architecture could be improved to deliver better outcomes for children and families. The ongoing challenge for policymakers is to support the ECEC sector in ways that increase net public benefit – including benefits to the children attending, their parents and carers and the broader community (box 3). There is no clear answer on an 'optimal' rate of attendance or model of ECEC delivery that would ensure children and families get the most benefit out of ECEC. Attending ECEC is a family decision, that takes into account many factors, including views on early education and the roles of mothers and fathers, the preferred balance between caring for young children and other activities, the cost of ECEC and how suitable services are to family circumstances.

Box 3 – Assessing the community-wide costs and benefits of ECEC subsidies

There are many costs and benefits arising from subsidised ECEC.

On the benefits side, increasing ECEC subsidies is likely to enable more parents and grandparents to work or undertake other activities during the time they now spend providing care. This increases families' income, as well as national income and may increase taxation income to some extent. There may be other social benefits from increasing labour force participation, including maintaining or promoting attachment to the labour force, increasing gender equality, making more effective use of people's skills and education, and disrupting intergenerational disadvantage. Such benefits could be important but are difficult to quantify. Productivity impacts of increased labour force participation will depend on the specific skills and jobs of those people who start work or increase their working hours.

Children can also benefit from ECEC attendance but potentially enduring life-long impacts are difficult to quantify. While research shows that ECEC attendance is beneficial, these positive outcomes may take years to be realised. The influence of ECEC on children's outcomes also depends on their family circumstances (including parents' income and work choices).

Children experiencing disadvantage are likely to benefit more from increased ECEC access. If policies to facilitate greater ECEC access (including through higher subsidies) prioritise the children most likely to benefit, it is likely that overall benefits will outweigh the costs created by higher subsidies.

Box 3 – Assessing the community-wide costs and benefits of ECEC subsidies

On the cost side, ECEC subsidies must be paid for by taxation – from higher or new taxes or diverting tax income from other government programs. Additional taxation redistributes income from those paying taxes to those who receive subsidies but higher taxes also create additional economic costs by reducing taxed activities. These can be significant: the marginal excess burden of the income tax system has been estimated to be about 30%. If additional taxes are not raised, the funds required for ECEC subsidies have to be redirected from other government programs, whose budgets will be cut. In this case, the cost will be the benefits forgone from cutting those programs.

Increased labour force participation increases income but people who work more hours give up other activities that they value (representing an opportunity cost). Notwithstanding possible benefits, this reduces the net economic gain from additional hours worked. The resource costs of providing additional ECEC must also be accounted for.

Against this backdrop, the terms of reference direct us to consider a universal ECEC system, but do not define what that means. Inquiry participants have suggested different ways to think about universality, from ECEC that starts at birth for all children to ‘proportionate’ universality, comprising a baseline level of provision for all but with higher levels of support for some, for example, children from age three or those experiencing disadvantage.

In some respects, the ECEC system is already universal. Policy supports access to preschool for all children in the year before full-time school. All families (except those on temporary protection visas) are eligible for CCS. Almost all services are regulated under a universal quality framework. In other words, there is a solid foundation in the ECEC sector from which to explore the concept of universality.

In designing the inquiry’s draft recommendations, we consider a universal system is one that focuses on the needs of children, and enables all children to access services that would support their development – while also considering the preferences and needs of their families. An ECEC system that enables universal access is consistent with the draft national vision for ECEC that National Cabinet is considering.

Universal, however, should not mean uniform. In the Commission’s view, some form of ECEC would be available to all children regardless of where they live, but the mode of provision could differ depending on location and the needs of children. Nor does universal access have to mean compulsory, full time or fully subsidised access. However, affordability and quality of services would have to be considered to avoid scenarios in which expanding services to address availability gaps leads to lower quality or higher costs, which turn families away or diminish benefits for children.

A policy that aims to deliver universal access would have to respond to the needs of children and their families. There is little benefit for working parents in an ECEC entitlement that does not correspond with the most common hours of work. Similarly, a system cannot be considered universal if it is low quality, not inclusive or not culturally safe. Universal access would require government stewardship to ensure services are available where needed, and that they are age- and culture-appropriate – not ‘one size fits all’.

In effect, addressing availability and affordability gaps, as well as ensuring that the system is inclusive, flexible and well-coordinated, is likely to achieve the policy goal of ‘universal ECEC’. Therefore, in line with the key aspects of ECEC assessed above, the recommendations in this draft report span:

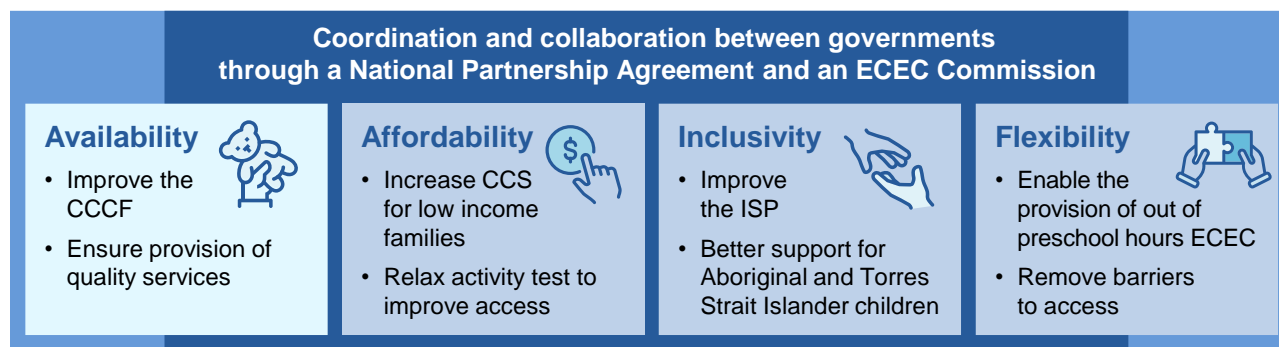
- availability – considering ways to make services available in areas of low supply, while ensuring that all services offered meet quality standards
- affordability – addressing concerns about inequities and lack of flexibility in the current subsidy structure
- inclusivity – ensuring that services are truly inclusive for all children
- flexibility – supporting services to operate in ways that are responsive to the needs of families.

These domains are closely interlinked. For example, changing the structure of subsidies in ways that increase government support for low income families should encourage providers to offer more places in disadvantaged communities.

The balance between supporting availability and affordability will become clearer over time and governments should implement reforms in stages (discussed further below) to give the market time to respond and adjust.

In each of these domains, governments have put in place policies to improve the way the ECEC sector operates. These policies need to be augmented – by improving the way they operate and, in some cases, increasing their budgets – but they create a foundation that can support universal access to quality ECEC. Government actions across these domains should also be better coordinated, which is likely to require jurisdictions to develop a National Partnership Agreement on ECEC and give consideration to the establishment of a dedicated ECEC Commission.

Ensuring availability for three days (up to 30 hours) of ECEC a week for all children



A key question for this inquiry is how to increase availability in places where the market-based model has resulted in undersupply – and also consider what level of availability is sufficient to constitute ‘universal access’ and support net community benefits. This is a complex question, given that there is no clear answer in the academic research as to the intensity of attendance that can maximise the benefits of ECEC for children.

Many inquiry participants have advocated for an entitlement of up to 30 hours or three days of ECEC a week at no or low cost for all children, with additional days for children experiencing vulnerability and disadvantage. This number of hours aligns with some states’ plans for the delivery of preschool to children in the year before they start school. The South Australia Royal Commission into Early Childhood Education and Care called for 30 hours of preschool per week to be available in the two years before school to 1,000 children who are identified as being at greatest risk of developmental vulnerability – with the view to expanding eligibility over time.

About two-thirds of children who already attend ECEC services do so for up to three days a week, which most likely reflects their parents' working hours. This is not surprising – many families also use some informal care (because ECEC is too costly or inflexible or because of the desire for children to be cared for by family), some parents have a preference for part-time work to allow them to also care for their children and others may find that the incentives inherent in the tax and transfer system, alongside ECEC fees, mean that the additional income beyond three working days per week tends to be small for a secondary income earner.

Ensuring that all children aged 0–5 years have access to some form of affordable ECEC for three days a week (up to 30 hours) strikes a balance between the preferences of families and the incentives they face, and the benefits for children from ECEC participation. This is not to say that families should not be able to choose the number of days that is most appropriate for their child or their labour force participation choices. Places will need to be available for families who choose to use more than three days, so that they will not have to change current attendance patterns. But a policy setting of at least three days sets a benchmark that governments can consider as a long-term policy goal for universal access to ECEC – ensuring that each child can access three days of quality, age-appropriate ECEC. The specific services available will take different forms depending on their location. Major urban centres already have many CBDC services in operation, but in regional and remote areas an expansion of family day care or mobile services might be more in line with local needs. Such a shift will also rely on expanding the ECEC workforce.

Lifting availability will require some additional investment

To consider the challenges involved in moving towards universal access to ECEC, the Commission has assessed the extent to which ECEC places are currently available for children aged 0–5 years. Our analysis considers 1,091 geographic areas (or local markets) and calculates ratios of:

- potential supply – the total number of places that CBDC, FDC and dedicated preschool services are *approved* to offer children aged 0–5 years
- potential demand – the population of children aged 0–5 years within each local market.

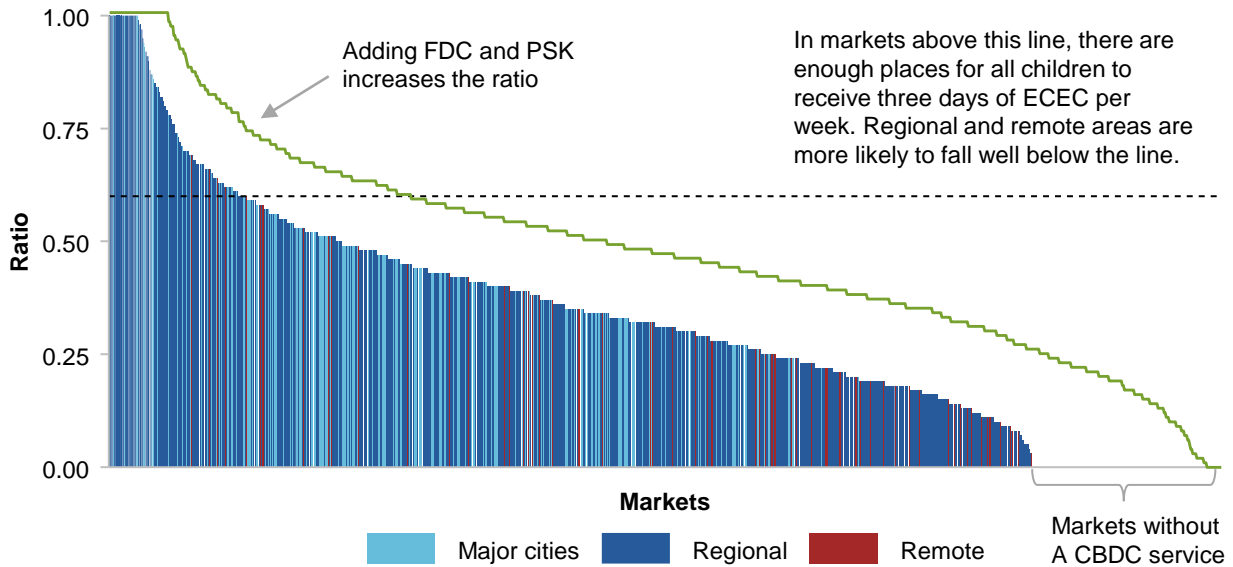
A ratio of 0.5 for example, or 0.5 approved places per child, means an area has 100 approved places for every 200 children aged 0–5 years. In other words, the area would have enough approved places for each local child to attend for half the week. A ratio of 0.6 means enough places for all children to attend three days a week.

Many communities do not have enough ECEC to support three days a week for all children (figure 15). And availability of places outside of dedicated preschools (which primarily support children aged 4–5 years and sometimes 3-year-olds, and then for only part of the week and 40 weeks of the year) is worse in regional and remote areas (figure 16).

The analysis does not reflect available places, which are likely to be limited by difficulties in finding educators and teachers. Nor does it reflect the fact that some families enrol their children for fewer than three days (for example, those with younger children), or use only informal or parental care.

While governments invest in improving ECEC availability in different ways, there is no clear accountability for addressing supply gaps – let alone achieving universal access. A policy aim of an entitlement to three days a week for all children aged 0–5 years would require substantial expansion in services, and better coordination of governments' efforts.

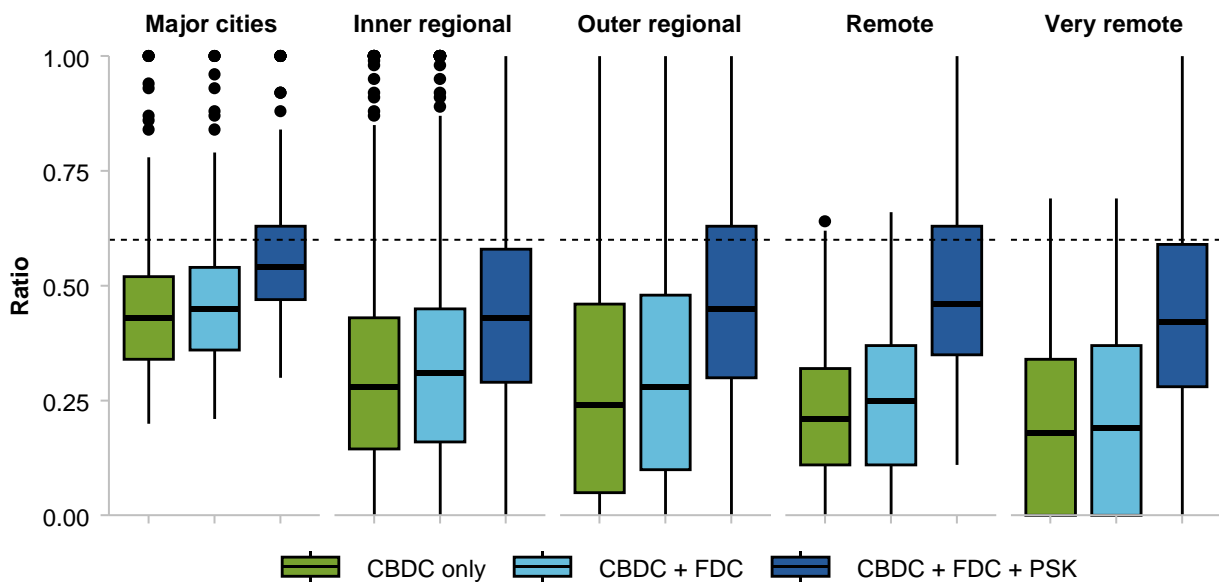
Figure 15 – The ratio of approved places to children varies widely across markets^{a,b}
Distribution of ratios CBDC, FDC and dedicated preschools places by geographic area



a. Ratio is calculated as the number of approved places per child in a local area. The number of approved places is as at Q4 2022 and population is as at the 2021 ABS Census. The ratio has been restricted to 1. The 54 local areas with a ratio greater than 1 have been accorded a ratio of 1. b. When adding FDC and dedicated preschools to the ratio the order of the markets changes. The green line only depicts the new distribution.

Figure 16 – Preschool markedly improves availability of ECEC in regional and remote areas^{a,b,c,d}

Distribution of availability ratios for different regions and types of services



a. 'Boxes' capture the middle 50% of ratios for communities within a geographic area. The line across a box represents the median ratio in the distribution – ratios fall below this value in 50% of areas. The 'whiskers', or vertical lines, capture 1.5 times the interquartile range above and below the box. Observations beyond this are outliers represented as dots. b. The ratio has been restricted to 1. The 54 local areas with a ratio greater than 1 have been accorded a ratio of 1. c. The horizontal dashed line represents a ratio of 0.6, the benchmark where every child in a local area would have access to three days of ECEC a week. d. The boxes for 'CBDC only' and 'CBDC + FDC' in very remote areas touches the horizontal axis due to a large number of areas with no CBDC or FDC services.

Governments will need to underwrite expanded supply

Governments can affect the supply of ECEC in different ways, either by changing the incentives faced by providers, to encourage them to set up new services, or by intervening more directly in the market. Policy changes that relax the activity test and improve affordability for lower income families (discussed below) will likely see more providers setting up services, particularly in disadvantaged areas, as families seek to increase their participation in ECEC. In short, we would expect future investment in regions where there are children and not just in areas convenient for working parents who satisfy the activity test.

Some ‘thin’ markets will persist, however, and further government support will be necessary. Some support is already offered through the Australian Government’s Community Child Care Fund (CCCF). The CCCF provides grant funding, totalling about \$140 million a year, and is intended to reduce barriers to accessing ECEC. Funding can support service provision, upskilling staff and offering transport to children. Like many grant programs, CCCF funding is time limited – meaning that services need to consider other sources of funding (mainly the CCS) and plan their transition to an ongoing source of income.

Given the gap in many areas between current provision and the number of places needed to support an entitlement of up to three days of ECEC a week for all 0–5 year olds, the Australian Government will need to change the way the CCCF operates and substantially increase the amount of grant funding. Any expansion of the CCCF will also need to take into account state initiatives that are expanding access to preschool and their effect on overall ECEC availability.

Grants available through the CCCF should recognise the needs of different communities. In some cases, community representatives will be able to establish ECEC services that fit local needs and an advisory program could facilitate their access to existing funding programs. Some of these communities will require access to capital investment, to establish suitable premises, but will then be able to sustain operation through family fees, the CCS and preschool funding. Others will need ongoing support to cover the costs of operating services once established.

Some communities will not have local representatives to manage the development of ECEC capacity and will need more support. In these communities, the Australian Government should tender out the building and operation of services.

A recommendation of this draft report is the establishment of an independent ECEC Commission, which will provide advice to governments and monitor progress towards universal access (discussed in more detail below). Once established, the Commission would be able to coordinate investments and provide advice on the type of assistance necessary. It would also be able to identify communities where services will require block (or flexible grant) funding to enable the establishment of an integrated service or a service dedicated to Aboriginal and Torres Strait Islander children. And it would be able to monitor trends in the availability of ECEC and advise governments on their investment priorities and the outcomes that the CCCF funding is achieving for children and families.

Improving quality while expanding access

Over a decade since the introduction of the NQF, 10% of services are working towards the agreed quality standards. While this number has declined over time as services gained a better understanding of the standards and adapted to their requirements, in July 2023, 79 services had not met the NQS for 10 or more years. And 9% of services had not been rated at all, mostly because they are new, but some have been in operation for a number of years.

Some services face structural challenges that would be difficult to overcome without a comprehensive government response. For example, one in three services in remote Western Australia operate under a

staffing waiver given the significant challenges they face in attracting and retaining suitably qualified staff. In other cases, however, services may find aspects of the standards difficult to implement. There are more than 40 standards in the NQS, and if a service is found to be working towards in one of them – their overall rating would be ‘Working Towards the NQS’.

The state and territory authorities that oversee the ECEC regulations operate in different ways with various levels of resourcing, giving rise to significant differences in the timeliness of assessment. This casts doubts over the integrity of the data on ECEC quality and creates situations where even services that are working towards the NQS can go years without regulatory assessments. State and territory authorities also take different approaches to supporting quality improvement – some have the resourcing and capacity to be proactive, and support services to improve their ratings, but this is not always the case. An independent review should examine the resourcing available to regulatory authorities; they should be resourced sufficiently to enable assessments in a timely manner and work with services to lift quality.

An effective quality regulation system will be particularly important as the ECEC sector expands to enable universal access. Examples from overseas show the risk of rapid ECEC expansion without appropriate regulation. In Quebec, for example, a program to offer ECEC to all families at a flat low fee, led to a substantial increase in ECEC availability but many of the services were of poor quality – which led to detrimental outcomes for many children. The expansion of access to ECEC will only yield net community benefit if the services offered are of high quality, with close monitoring and support from regulatory authorities. As a first step, ECEC providers should have to demonstrate that they are meeting or exceeding the NQS before being able to expand their operations.

Some CCS-approved services are not covered by the NQF and are regulated separately by state and territory governments or the Australian Government. These arrangements should be reviewed to ensure they meet the needs of children. In expanding access to ECEC, the Australian Government should ensure there are appropriate mechanisms to ensure the quality of non-NQF regulated services receiving direct Australian Government funding. For Aboriginal and Torres Strait Islander services out-of-scope of the NQF, governments should undertake a process of joint decision-making with Aboriginal and Torres Strait Islander services, communities, and peak bodies to design an appropriate regulatory framework.

The ECEC workforce is fundamental to any changes in availability

Progressing towards universal access to ECEC hinges on the availability of skilled staff: educators who can work in CBDC, FDC, OSHC or in home care (IHC), early childhood teachers (ECTs), directors and other members of the ECEC workforce. The sector is already facing substantial challenges in recruiting and retaining staff to respond to current demand – and these challenges have been present for many years. The expected expansion of preschool, as well as further increases in availability to enable universal access, will increase workforce pressures significantly.

Some of the concerns raised about pay and conditions in the sector are likely to be addressed in coming months through processes arising out of recent changes to the Fair Work Act, including approval from the Fair Work Commission for a significant number of employers in the sector to commence supported multi-employer bargaining (box 4). But without additional government subsidy, higher wages would increase costs for providers and fees for parents. The Australian Government recently funded a wage increase for aged care workers. There will be considerable pressure on governments to fund any increase to limit the impact on fees and out-of-pocket expenses.

Box 4 – Industrial relations processes that will affect wages for the ECEC workforce

It is likely the pay of many in the sector will increase in the future as a result of recent changes to the Fair Work Act. In particular, three developments are highly consequential for the sector. These are:

- changes to facilitate multi-employer bargaining. Unions in the sector were the first to lodge an application to engage in (supported) multi-employer bargaining (covering 62 employers and 12,000 employees) and in September, authorisation to commence bargaining was granted by the Fair Work Commission. New ‘rope in’ provisions may mean any agreement struck through this process is likely to reach far beyond those involved in the initial bargaining
- a review by the Fair Work Commission to ‘identify occupations and industries in which there is gender pay inequality and potential undervaluation of work and qualifications’. The outcomes from this review are expected to feed into future award wage reviews
- changes to arrangements regarding equal remuneration orders, including clarification that the Fair Work Commission does not require evidence of a reliable male comparator industry in order to find that work has been undervalued on the basis of gender. An inability to establish a valid male comparator was a major contributor to previous applications for equal remuneration orders for the ECEC sector being dismissed by the Fair Work Commission.

Higher wages and better conditions are likely to reduce attrition rates and attract more staff to ECEC – but other constraints on workforce supply remain. Staff must also hold specific qualifications, and the number of people commencing and completing qualifications is lower than is likely needed to satisfy demand. While migration may help to address some of this gap, changes to key policy settings means it will be harder for the sector to draw on migrants, and further highlights the importance of ensuring there is a strong and stable pipeline of educators and teachers being trained locally.

To address workforce challenges, governments should also improve career pathways in ECEC as well as training pathways and supports available to the ECEC workforce. Better mentoring would be particularly important for new ECTs, whether they work in dedicated preschools or CBDC. Unlike school teachers, ECTs are often required to shoulder great responsibility early in their careers and with few formal structures in place to support them. ECTs who hold a degree-level qualification approved by ACECQA should be eligible for teacher registration in all states and territories.

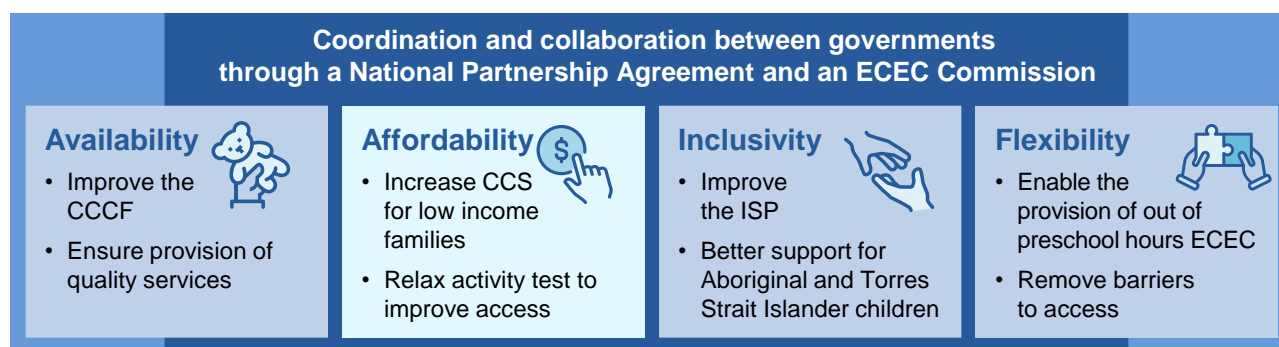
Barriers to obtaining initial or further qualifications can be removed through accelerated degrees, better recognition of prior learning, considering greater use of in-situ teaching and support for students to undertake practicums while working. There are benefits in encouraging more supported entry pathways for some cohorts of workers who may face additional barriers when engaging with the VET or higher education system. This is particularly the case for Aboriginal and Torres Strait Islander people, who bring a wealth of cultural knowledge to ECEC. Cultural safety, flexible learning options and practical supports are important in encouraging more Aboriginal and Torres Strait Islander people to gain a qualification and work in ECEC.

For educators and teachers already working in the sector, there is merit in a degree of public support for ongoing coaching and professional development – recognising the costs it imposes on the individual educator and the service they work at and the benefits that are shared between the educator, the service and the community. This is especially the case if professional development is targeted at areas where there is clear community benefit in improving workforce capability, such as trauma-informed practice, meeting the cultural and educational priorities of Aboriginal and Torres Strait Islander children and families, building better linkages between services and communities and expanding the inclusion of children with disability.

There are also trials of programs that give ECEC educators the skills to deliver early intervention for children who are at developmental risk, but these are not consistently offered. As the sector considers the need to support children in non-clinical settings and help families to access and implement early intervention strategies, there will be an increasing need for professional development.

These issues are well known and have been the topic of multiple government processes (most recently, Jobs and Skills Australia commenced a study of the ECEC workforce). Governments have produced a workforce strategy for the ECEC sector that seeks to ensure the future workforce needs of the sector are met. Some features of the strategy are commendable, but it has no clear and measurable objective that it is trying to achieve or any clarity around funding for the actions included in the strategy. Governments largely continue to pursue their workforce goals independently, seeking to staff additional preschool services, without considering the overall needs of the sector. A coordinated approach to workforce planning, including clear objectives and monitoring, could be one of the responsibilities of a future ECEC Commission.

Addressing affordability barriers to ECEC access



Many changes could be made to subsidy arrangements to improve affordability for families. The Commission has considered a suite of options. Most build on each other, providing higher levels of support at each step (table 1). The first option relaxes the activity test and the second couples that change with a lift in the subsidy rate for lower income families (those earning up to \$80,000 a year) to 100% of the hourly fee, up to the hourly rate cap. Subsequent options add highly subsidised ECEC for all other families (those earning more than \$80,000 a year) to the policy mix. These changes will primarily affect families with children aged 0–5 years, and the preliminary modelling focuses on this cohort.

In line with the terms of reference request to consider a universal 90% subsidy, a policy option where the only change to current settings is an increase in the CCS rate to 90% of the hourly fee, up to the hourly rate cap, for all families (option six) is also modelled.

The Commission has undertaken preliminary work to estimate the changes in labour force participation, demand for ECEC and net costs to government that might stem from each option (box 5). As levels of support to families rise, so too do each of these outcomes (figure 17).

While all these options come at a cost to taxpayers, some changes are necessary to enable universal access and address shortcomings in the CCS.

Implementing option two – relaxing the activity test and lifting subsidies for lower income families – would target the increase in support to the children and families who would benefit the most. Alongside improving availability (including an entitlement of up to 30 hours or three days of ECEC per week), inclusion and flexibility, such changes to the CCS would enable universal access to ECEC.

Table 1 – Modelled Child Care Subsidy policy options

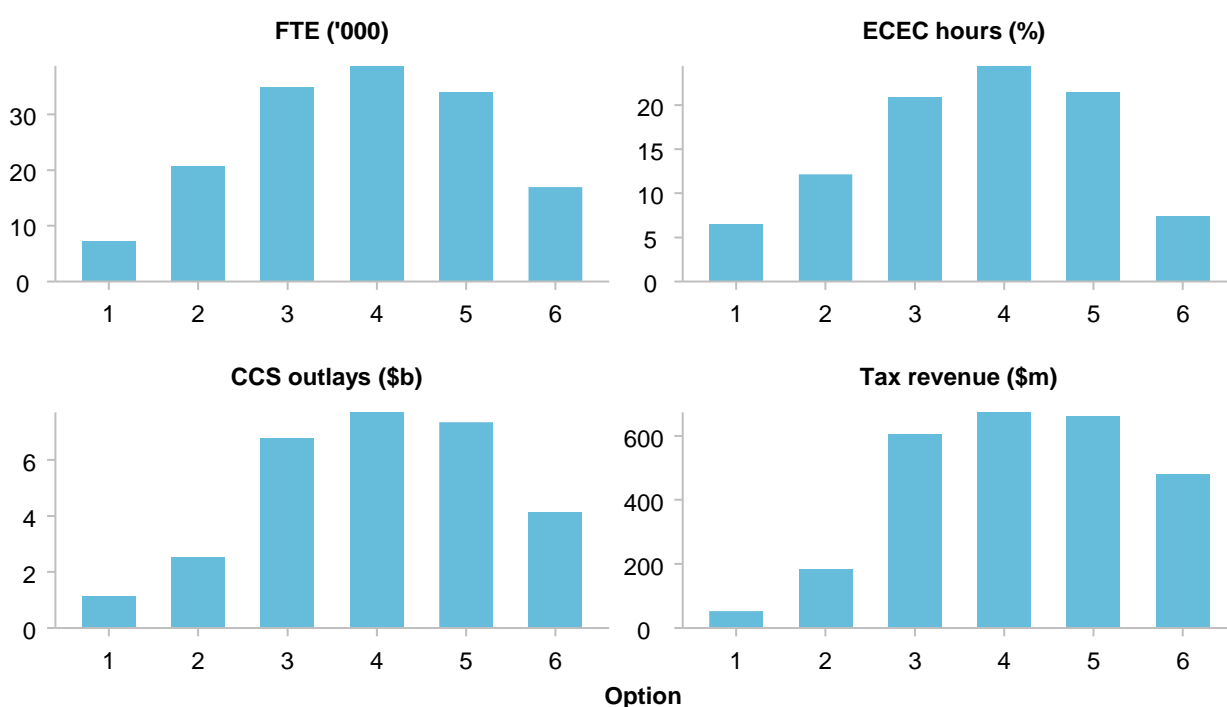
Option	CCS rate	Higher CCS rate	Activity test	CCS hourly rate cap
1: Relax the activity test for all families and retain income testing	No change – based on current income test for all days of ECEC	No change	None for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
2: Relax the activity test for all families, and increase subsidy for low income families	100% for families with incomes under \$80,000 No change for other families	100% for families with incomes under \$80,000 No change for other families	For all families, none for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
3: 90% subsidy for three days for all families, relax the activity test, and increase subsidy for low income families	100% for families with incomes under \$80,000 For other families, 90% for three days of ECEC (72 hours per fortnight) and current income test for days four and five	100% for families with incomes under \$80,000 For other families, at least 90%, and highest rates above 90% remain as they are for three days, and current income test for days four and five	For all families, none for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
4: 90% subsidy for all, remove the activity test, and increase subsidy for low income families	100% for families with incomes under \$80,000 For other families, 90% with no income test	100% for families with incomes under \$80,000 For other families, at least 90%, and highest rates above 90% remain as they are	None	No change
5: Free ECEC for low income families, flat fee ECEC expense per day of \$10 for other families, no income test or activity test	None – free for families with incomes under \$80,000, and flat fee for other families	None	None	None
6: 90% subsidy for all	90% for all families	No change	No change	No change

Higher levels of support (options three, four and five) would generate a somewhat stronger labour market response from parents but come at a much higher additional cost to taxpayers. A disproportionate share of the increased government support (35% under option three, for example) would go to the families whose incomes are in the top 20% of the income distribution (those earning about \$200,000 and above) and there would be more children from higher income families increasing their participation in ECEC relative to option

two. As described above, children experiencing disadvantage tend to experience greater improvements in educational outcomes as a result of attending quality ECEC, so increasing participation in ECEC for children from higher income families may have more muted longer term benefits relative to the increase in costs.

The Commission recommends that the Australian Government implements the two policy changes underpinning option two, discussed in more detail below, as this will most likely deliver benefits to Australian children, families and the broader community that exceed the economic costs of policy change.

Figure 17 – Changing CCS settings results in an increase in ECEC use – but comes at a cost^a
Results of preliminary modelling of different options for changes to the CCS



a. Results based on preliminary modelling of changes to the CCS, as outlined in table 1. Box 5 details the method and assumptions behind these results.

A modified activity test would enable more families experiencing disadvantage to access ECEC

Under existing CCS settings, families’ eligibility for subsidised care depends on their level of activity (box 2). This limits access to ECEC, in particular for families experiencing disadvantage, but evidence suggests it does not lead to substantially greater labour force participation.

Modifying the activity test, such that all families can access at least three days (up to 30 hours) of subsidised ECEC a week, would relax the requirement that ties children’s participation in ECEC to their parents’ activity. It would also mean that fewer families are charged for unsubsidised hours and more families are able to access subsidised ECEC.

Activity testing should remain for families who wish to use more than 30 hours of ECEC per week. Although three days of care has earlier been characterised as 30 hours, in practice 30 hours could be spread across more or fewer than three days depending on daily session lengths. The Commission will further consider the levels of activity that should be required for subsidised hours above this level.

Relaxing the activity test allows more families to use more subsidised ECEC and supports labour force participation. The preliminary modelling finds that this change leads to an estimated 1.2% increase in total hours worked by single parents and secondary workers in couple families with young children – the equivalent of 7,300 full-time employees. A larger increase of 6.5% is estimated in the total hours of formal ECEC attended by children. Most of this increase in hours is estimated to come from families who were not using ECEC prior to the policy change. There is a slight increase in estimated ECEC hours by families who were already using ECEC, who experience a fall in out-of-pocket expenses due to having fewer unsubsidised hours.

Beyond increasing subsidised hours, modifying the activity test would have benefits that are not captured by the modelling. It would reduce some of the administrative complexity of the CCS, making it easier for families to understand their eligibility for subsidised ECEC. This is particularly important for families with variable patterns of work (such as people in casual jobs). The policy change would also lessen families' concerns about incurring CCS debt if their hours of activity change and give people who are looking for work greater certainty in their access to a number of hours of subsidised ECEC while they are searching for a job. Increased attendance at ECEC will also improve educational outcomes for children, particularly those from families experiencing disadvantage who are more often affected by the activity test.

At the same time, activity testing for parents seeking more than 30 hours of ECEC would retain some of the labour force participation incentives that underpin the activity test, by offering a larger number of subsidised hours to families with higher activity levels, including time spent working.

Overall, the increase in costs to government associated with this policy change are estimated to amount to \$1.1 billion per year, or about 9% of the estimated CCS outlay for 2023-24. Lower income families benefit most from the change; families within the lowest 20% of the income distribution account for about half of the increased costs to government. Relaxing the activity test will also affect higher income families who are not eligible for subsidised hours under current arrangements because they do not meet the activity test. About one fifth of the estimated increase in total hours of care is taken up by children from families who do not currently meet the activity test. However, because these families have higher incomes, and therefore lower subsidy rates, the costs to government of their increase in ECEC participation are relatively low.

A range of costs and benefits are involved in increasing ECEC subsidies (box 3). To a small extent, the increased costs to government will be offset through a rise in tax revenue as parents work more. Income tax revenues from increased labour force participation are estimated to be about \$53 million per year. Associated falls in transfer payments were not estimated as part of the preliminary modelling but are also expected to occur because income testing means that families' entitlements to transfer payments taper down as their incomes increase.

Making ECEC free or low cost for low income families encourages new enrolments

As noted above, the CCS results in relatively high out-of-pocket expenses for the lowest income families. Out-of-pocket expenses equal to 10% of income can represent a larger financial burden for a family earning \$80,000 per year for example, than one with an income of \$200,000 per year. In other words, ECEC is relatively more expensive for those who can least afford it. This is likely contributing to lower participation rates in ECEC for lower income families.

An increase in the top subsidy rate to 100% of the hourly rate cap for lower income families will reduce their out-of-pocket expenses and mean these families face very low out-of-pocket expenses; in some cases, where charged hourly rates are below or equal to the hourly rate cap, ECEC use will be free. In implementing this policy change, all families who hold a Health Care Card should automatically receive the 100% subsidy rate, reducing administrative complexity.

The experience of the COVID-19 pandemic – when ECEC was free for all families – showed that a reduction in out-of-pocket expenses and in administrative complexity is likely to encourage more families experiencing disadvantage to enrol their children in ECEC. Similar to the changes in the activity test, this is likely to support better educational outcomes for children, and may also have benefits for their families, as using ECEC may enable them to find work or link them to additional support services.

Preliminary modelling suggests that increasing the top subsidy rate to 100% for lower income families in addition to relaxing the activity test will lead to an estimated 3.4% increase in total hours worked (equivalent to 20,700 full-time employees) by single parents and secondary workers in couple families with young children. Hours of formal ECEC are estimated to rise by about 12%, with about two-thirds of the increase attributed to families who were not previously using ECEC. The fiscal cost of relaxing the activity test and lifting the CCS rate for lower income families is estimated to be about \$2.5 billion per year or a 20% increase in the estimated CCS outlay for 2023-24, partly offset by increased income tax collections of \$180 million. If eligibility for a subsidy rate of 100% applied to family income of up to \$80,000 per year, this change would affect about 30% of all families with young children.

Under the current CCS system, affordability for families becomes more challenging when fee rises outstrip increases in the hourly rate cap. Resetting of the hourly rate cap to better reflect efficient costs of provision and a change in indexation approach to prevent the cap rising more slowly than average provider costs (and, therefore, fees) will help to sustain affordability.

In reducing out-of-pocket expenses for some families, the higher subsidy rate could also reduce their sensitivity to fee increases. Some providers might take the opportunity to raise fees more rapidly than they might otherwise have done, particularly in areas where many lower income families live (or where there are few higher income families who may change services if fee rises are excessive). The Australian Government should monitor changes in fees and out-of-pocket expenses on a regular basis to identify areas where movements are out-of-step with the sector norm. Increases that vary markedly from the norm should prompt closer investigation, and a regulatory response should be considered if they are not reasonable. To inform judgements about what reasonable increases might look like, the Australian Government should commission a detailed investigation of costs and profits across the sector every three years, along the lines of the work that the Australian Competition and Consumer Commission has been undertaking. This work will also signal if the hourly rate cap needs to be reset.

Other options for CCS reform

Lifting subsidies for all families to at least 90% of the fee, up to the hourly rate cap for three days of ECEC per week in addition to relaxing the activity test and a higher subsidy for lower income families (option three), is estimated to increase total hours worked by single parents and secondary earners in couple families with young children by 5.7% – the equivalent of 34,900 full-time workers. Total hours of formal ECEC are estimated to rise by 21% and government outlays on the CCS by \$6.8 billion per year, or 53%. Income tax collections are estimated to increase by \$600 million per year.

Further extending the 90% subsidy regime to five days, along with complete removal of the activity test (option four), is estimated to increase total hours worked by 6.3% (or 38,700 full-time equivalent workers), hours of ECEC by 24% and CCS outlays by \$7.7 billion per year, or 61%. Income tax collections are estimated to increase by \$670 million per year.

The fifth option considered, a flat daily fee, is used in parts of Canada and has the advantage of giving families certainty over ECEC expenses. The option modelled of a daily flat fee of no more than \$10 is estimated to increase total work hours by 5.5% (34,100 full-time equivalent workers) and total ECEC hours

by 21%. CCS outlays are estimated to increase by \$7.3 billion per year, or 58%, and income tax collections by \$660 million.

If the only policy change were to extend a CCS rate of 90% to all families (option six), it is estimated that total hours of work by single parents and secondary workers in couple families with young children would rise by 2.8% (or the equivalent of 17,000 full-time workers). Hours of ECEC are estimated to increase by 7.4% and fiscal costs would rise by \$4.1 billion a year (or about one third), partly offset by higher income tax collections of \$480 million.

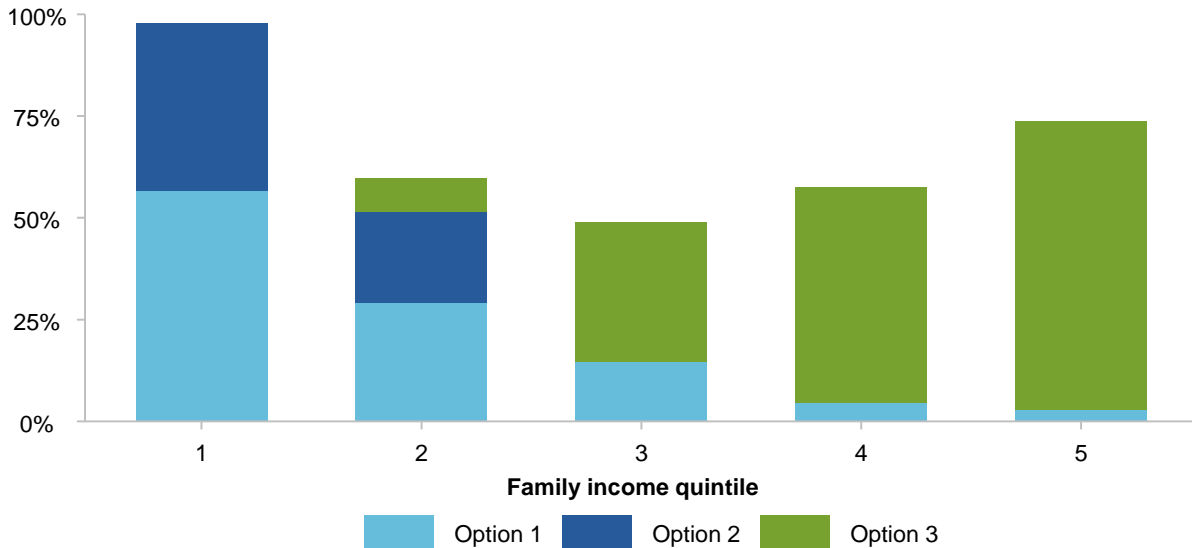
The estimates presented here of the increases in labour force participation that might flow from significantly reducing ECEC-related barriers are considerably lower than the upper bound estimates presented earlier in the paper from analysis of families' stated preferences for work. This reflects the effects of the caveats mentioned in the context of those earlier estimates. Many factors in addition to ECEC cost and availability affect parents' decisions around work. The use of evidence on parents' likely changes in labour force participation in the face of ECEC policy shifts in this section explains the lower estimates presented here.

If the only reform implemented was either a 90% subsidy rate or a flat fee (without change to the activity test or further increases to the subsidy rate for lower income families), the main beneficiaries would be higher income families. This is because lower income families are already eligible for a 90% subsidy rate for their allowed hours under the activity test, and would have similar out-of-pocket expenses under the option of a flat fee. In the absence of any other policy changes, moving to a 90% subsidy rate for all families would have no benefit for lower income families. Nearly 60% of the estimated increase in government outlays of \$4.1 billion a year would accrue to the 20% of families on the highest incomes (those earning \$200,000 and above per year) and nearly 30% to the second highest 20% (those earning between about \$150,000 and \$200,000 per year).

Combining a 90% subsidy rate or flat fee system with more targeted assistance aimed at lower income families and relaxation or removal of the activity test (options three, four and five), would enable the benefits to be more evenly spread across different income groups.

Under option three, the families whose incomes are in the bottom 20% of the income distribution and those whose incomes are in the top 20% of the income distribution (the lowest and highest income quintiles) experience the largest estimated falls in out-of-pocket expenses (figure 18). The highest income families would benefit considerably more from the rise in CCS expenditure, accounting for 35% of the increase compared with 23% for the lowest income families, because they use a larger number of hours of ECEC (figure 19). The estimated percentage increase in hours worked is highest for the lowest income parents under this option, as they have more scope to increase their work hours than the highest income families (figure 20).

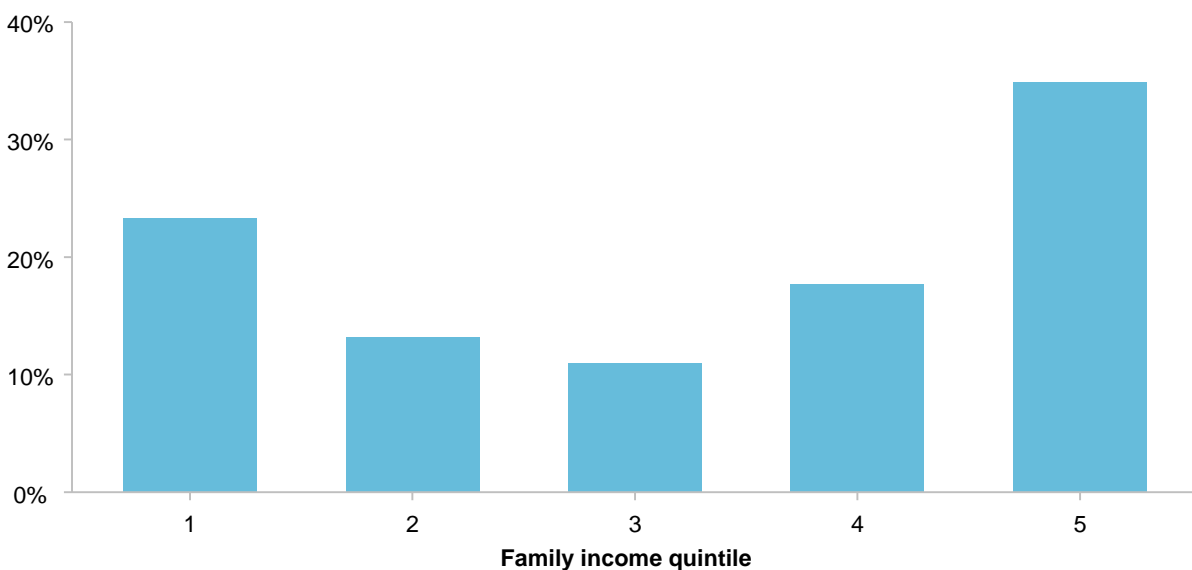
Figure 18 – A 90% subsidy would benefit higher income families most while lower income families benefit from relaxing the activity test and targeted subsidies^{a,b}
Incremental fall in weekly out-of-pocket ECEC costs based on baseline ECEC usage, under modelling of policy options one to three (%)



a. This policy change involves removing the first three tiers of the activity test (option one), raising subsidies for lower income families to 100% (added as part of option two), setting the subsidy for all other families at 90% for up to 72 hours of ECEC per fortnight for the first child and up to 95% for subsequent children, and the current subsidy regime for any hours over 72 per fortnight (added as part of option three). **b.** Family incomes are up to about \$60,000 for the first quintile, \$100,000 for the second quintile, \$150,000 for the third quintile, \$200,000 for the fourth quintile and over about \$200,000 for the fifth quintile.

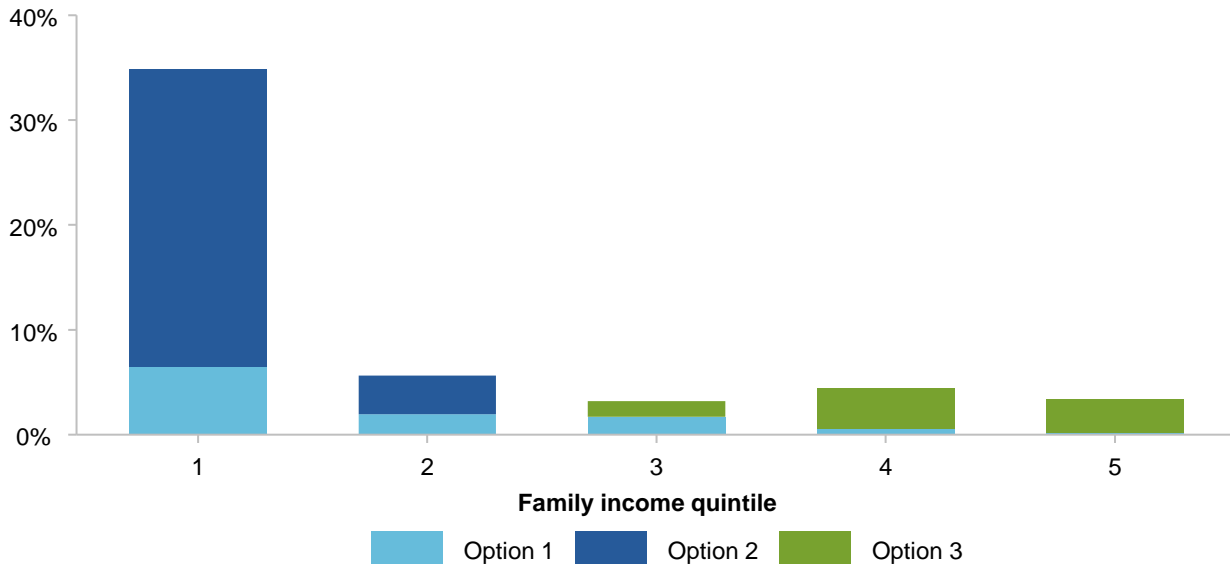
Figure 19 – High income families would receive the largest share of increased CCS expenditure under option three^{a,b}

Share of increased CCS expenditure attributed to families by income quintile (%)



a. This policy change (option three) involves removing the first three tiers of the activity test (option one), raising subsidies for lower income families to 100%, setting the subsidy for all other families at 90% for up to 72 hours of ECEC per fortnight for the first child and up to 95% for subsequent children, and the current subsidy regime for any hours over 72 per fortnight. **b.** Family incomes are up to about \$60,000 for the first quintile, \$100,000 for the second quintile, \$150,000 for the third quintile, \$200,000 for the fourth quintile and over about \$200,000 for the fifth quintile.

Figure 20 – Parents in the lowest income quintile would have the largest increase in their hours of work as a result of relaxing the activity test and targeted subsidies^{a,b,c}
Incremental increase in hours worked under modelling of options one to three (%)



a. This policy change involves removing the first three tiers of the activity test (option one), raising subsidies for lower income families to 100% (added as part of option two), setting the subsidy for all other families at 90% for up to 72 hours of ECEC per fortnight for the first child and up to 95% for subsequent children, and the current subsidy regime for any hours over 72 per fortnight (added as part of option three). **b.** Incremental results in this chart are adjusted to sum to the overall change in hours worked for option three. Unadjusted results may not sum to the total for option three because of probabilities that were applied to determine which families begin working, that can lead to different families entering work under different modelling simulations. **c.** Family incomes are up to about \$60,000 for the first quintile, \$100,000 for the second quintile, \$150,000 for the third quintile, \$200,000 for the fourth quintile and over about \$200,000 for the fifth quintile.

Overall, increasing the CCS rate to a universal 90% or introducing a flat fee for ECEC is likely to disproportionately assist high income families, who already spend a lower proportion of their income on out-of-pocket ECEC expenses when compared to families in the lowest income decile. These options are costly but do not lead to significant increases in labour force participation, address the inequity created by the current CCS settings, nor support greater ECEC access for children and families experiencing disadvantage. As noted above, these policy goals would be more effectively achieved through relaxing the activity test and increasing the subsidy rate for lower income families. These two changes should therefore be a priority for policy action.

Box 5 – Preliminary modelling of changes to the CCS

The Commission has undertaken preliminary modelling of changes to the CCS to estimate the effects of potential policy changes on labour supply, ECEC demand and fiscal costs. This involved estimating changes in out-of-pocket expenses that would arise from policy changes, for families with children aged 0–5 years in the ABS 2019-20 Survey of Income and Housing data. Then elasticities were applied to estimate how families might respond by changing hours of work and hours of ECEC. It is assumed that those who are not working or not using ECEC make decisions about work and ECEC in an increment of three days, while those who are already working or using ECEC consider the change in out-of-pocket expenses over up to two days if they are using one day of ECEC, and one day if they are using two to four days of ECEC.

Elasticities were drawn from Gong and Breunig (2017, p 32), which estimated that a 1% fall in out-of-pocket expenses increases:

- hours of ECEC by 0.203% and ECEC participation by 0.125%
- hours of work by 0.081% and labour force participation by 0.055%.

These elasticities indicate that families' decisions about hours of ECEC are more responsive than hours of work to changes in out-of-pocket expenses. This is because some families who are already working replace informal care with formal ECEC after ECEC becomes cheaper. And some families use ECEC for reasons other than work (such as for study, volunteering, housework or social activities). Further, hours of ECEC are typically lower than hours of work, which means that the same hours increase can appear as a larger percentage increase for hours of ECEC due to its lower base.

Fiscal costs were estimated by applying proportional increases in aggregate CCS outlays, as estimated using the survey data, to CCS outlays estimated by the Department of Education for 2023-24. These costs were adjusted based on the Productivity Commission's analysis of the Department's administrative data, to account for the observation that assumptions made using the survey data tended to overstate the number of unsubsidised hours of care that families have under the activity test.

The results are sensitive to a range of assumptions, such as the elasticities used and the number of extra days of work and care over which families consider their change in out-of-pocket expenses. A wide range of elasticities have been estimated and used in the literature – a doubling of elasticities implies a response in hours of ECEC or hours of work that is double the size for every 1% fall in ECEC expenses.

The model has a number of limitations. It is assumed that increases in ECEC demand and in labour supply are fully accommodated by the ECEC and labour markets, without any changes in ECEC fees or wages. The model is also not able to take into account broader benefits – such as benefits of reducing system complexity, educational benefits to children, benefits that easier access to ECEC may have in searching for a job, and longer term benefits of increased labour force participation including on skill development, productivity and reduced reliance on welfare payments.

While this technique improves on some past analysis of CCS policy changes that only examine the effects of some components of the CCS regime, or that are estimated for much broader groups of families, more sophisticated modelling options exist. The Commission's final report will include updated estimates of the effects of CCS policy changes by using a behavioural microsimulation model. This models individual families' decisions to choose work and care hours through preferences that are unique to the family's characteristics, rather than by applying broad-based elasticities.

Reducing administrative complexity can make ECEC subsidies more accessible

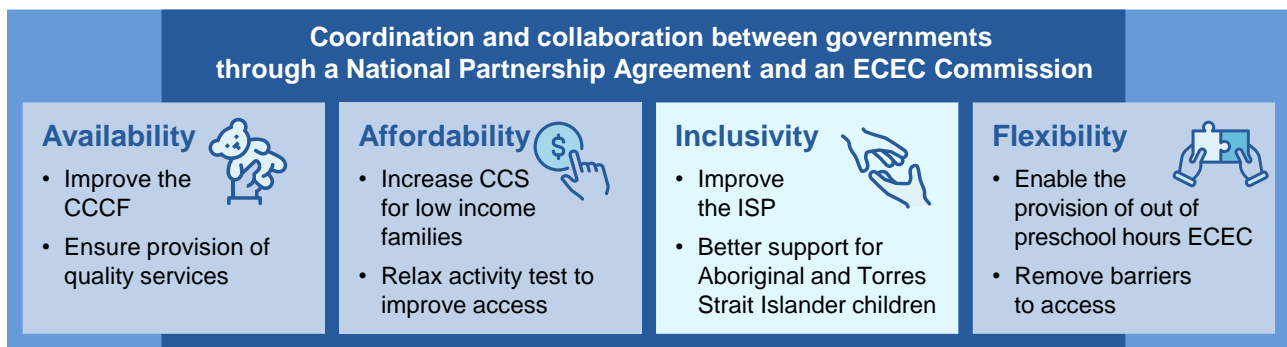
Applying for ECEC subsidies is complex. Surveys show that about half of families found the application process challenging, noting issues such as clunky initial enrolment processes and difficulty understanding the CCS. Major ECEC providers such as Goodstart Early Learning employ staff dedicated to supporting families applying for the CCS. Applications for additional payments or programs, such as the ACCS and the ISP, may impose further burden on families.

There are steps the Australian Government should take to simplify access to ECEC subsidies, as well as recognise the sometimes complicated and unexpected circumstances that families may face. These include:

- extending the interval of time before services, on behalf of families, are required to reapply for the ACCS (Child Wellbeing) to a minimum of 26 weeks (currently, it is up to 13 weeks)
- maintaining a child's eligibility for subsidised ECEC when their guardian changes, whether it be permanently or temporarily, for example through family separation or when a parent dies. For Aboriginal and Torres Strait Islander children, informal kinship carers should be recognised carers under the ACCS (Grandparent).

Improving the information available to families would assist them to understand their CCS eligibility. This could be achieved by ensuring that all information provided on government websites about CCS eligibility is up to date, easy to find and easy to understand, for example, by improving the functionality of the CCS calculator on the Starting Blocks website. For families who may find it challenging to access ECEC, support in navigating the system can be helpful to make the ECEC sector more inclusive – discussed further below.

Supporting an inclusive ECEC sector



Children in ECEC come from families with different incomes and different educational backgrounds; some are from non-English speaking homes while for others English is their first language; each child develops in a unique way, and some may have a disability or developmental delay.

ECEC services must accommodate children and create environments where they all thrive. Community controlled organisations, such as Aboriginal Community Controlled Health Organisations and Aboriginal Community Controlled Organisations (ACCOs) can help promote access to culturally safe ECEC that reflects the priorities of Aboriginal and Torres Strait Islander families and offer better outcomes for Aboriginal and Torres Strait Islander people. Submissions have called for greater investment in community controlled organisations, including a new funding model, which reflects the integrated and tailored services ACCOs provide, the limited economies of scale, rural and remote servicing, the priorities of Aboriginal and Torres Strait Islander families, and support for the Aboriginal and Torres Strait Islander workforce.

The Early Childhood Care and Development Policy Partnership (ECPP), established as part of the commitment of Australian governments to the National Agreement on Closing the Gap, provides a forum

where Aboriginal and Torres Strait Islander representatives work in partnership with governments to improve early childhood care and development outcomes. The ECPP has commissioned a research project to develop funding model options for ACCO-delivered ECEC, including integrated early years services, and the Commission will consider this in its final report.

Cultural safety should also be a priority across the system as Aboriginal and Torres Strait children and children from CALD backgrounds also attend mainstream ECEC services. It is challenging to assess the extent to which individual services create culturally safe environments. But inquiry participants have raised concerns that cultural competence and safety is not adequately reflected in the NQF. These issues should be considered by the Australian Government, in conjunction with Aboriginal and Torres Strait Islander community organisations.

Improvements to the Inclusion Support Program are critical to enable children with additional needs to attend ECEC

ECEC services (aside from preschools) are not covered by the Disability Standards for Education 2005, which clarify the obligations of providers to ensure that students with disability can access and participate in education on the same basis as students without disability. As a matter of priority, the Standards should be amended to include ECEC, as has been recommended by numerous past reviews.

There are limited funding options for services seeking to improve inclusion, including of children with disability and those from diverse backgrounds. The most prominent funding mechanism is the Inclusion Support Program (ISP), which provides funding and other supports (such as an equipment library) for ECEC services that are approved for the CCS. The Australian Government provided a budget of \$133 million in 2020-21 to the ISP. More than 17,600 children were supported by the ISP in 2021-22, and demand has been increasing rapidly. In addition to the ISP, state governments also offer small programs intended to support inclusion.

Only 1% of children in ECEC services (excluding dedicated preschools and In Home Care) are supported by funding from the ISP¹ – which is meant to assist services to remove barriers to inclusion. According to the national approved learning frameworks, inclusion involves taking into account all children’s ‘social, cultural and linguistic diversity (including learning styles, abilities, disabilities, gender, family circumstances and geographic location) in curriculum decision making processes’. It is difficult to see how a program with such limited reach can achieve this intended outcome.

In practice, ISP is largely limited to supporting children with disability. Families and service providers have told the Commission about lengthy application processes; in some cases, children start school before their ISP application is decided. Funding from the ISP can be used to employ an additional educator, but the service may not always be approved to employ the educator for the full hours the child attends.

Several changes to the ISP will improve the ability of services to support children.

- Increasing the current hourly subsidy rate for additional educators up to the median wage of a Certificate III qualified educator and ensuring it is indexed to the Wage Price Index.
- Removing limits on the weekly hours the additional educator subsidies can be approved for and ensuring they align with a child’s enrolled hours.
- Allowing other human-services staff and inclusion professionals, such as allied health, or other relevant professionals to be employed as an additional educator, where appropriate.

¹ This figure represents children for whom a service was in receipt of ISP funding – it does not capture children who may have been assisted by ISP but for whom a payment was not made.

- Expanding the ability of services to provide evidence a child has additional needs other than disability when seeking to access the longer-term additional educator subsidy or the Family Day Care Top Up.
- Assessing the application processes to receive funding, with a view to reducing the administrative burden on services.

These changes will require greater resourcing for the ISP across the board. Inclusion agencies and the Inclusion Development Fund Manager play a central role in the delivery of the ISP but feedback from inquiry participants suggests they are struggling to deal with a backlog of applications and that agencies may only have limited contact with some services. Increasing the resourcing levels of inclusion agencies and the fund manager can allow them to better support inclusion.

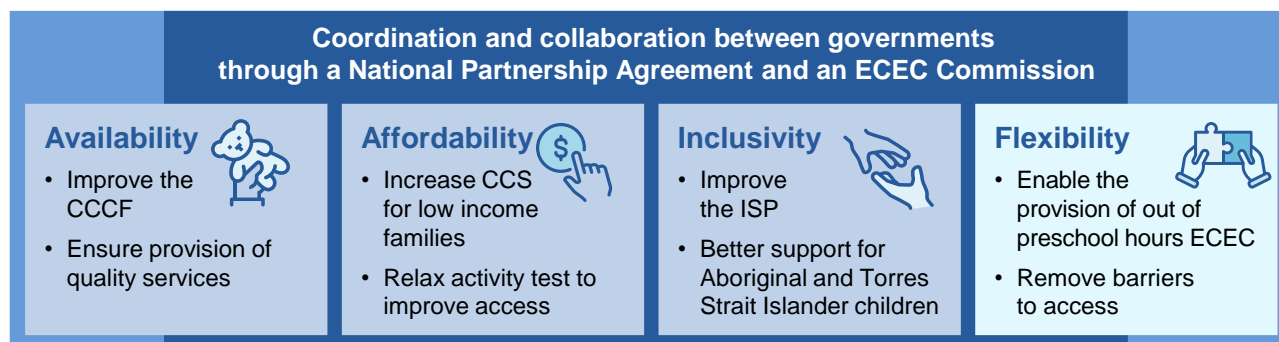
Many ECEC teachers and educators have skills and experiences that enable them to identify developmental concerns and can refer children and families to suitable services. There are also trials of programs that give ECEC educators the skills to deliver early intervention for children who are at developmental risk. But these are not consistently offered, and the Australian Government should implement a better approach to professional development that focuses on inclusion support.

ECEC services interact not only with disability services; they have connections with schools, social services such as family support, health services, including maternal and child health services and allied health, and many others. These connections reflect the multitude of services all families interact with, as well as the role of ECEC services in bringing together their community. Some of these connections are organic – such as when preschools operate on school sites, and school staff play a part in the delivery of school programs. Others are managed through policy interventions, such as the policies of some states and territories that mandate exchanges of information between ECEC and schools as children start their formal education.

But in many cases, connections with services outside of the education sector – what the South Australia Royal Commission into ECEC referred to as ‘the glue’ – are ad hoc and unfunded. The Royal Commission considered the state government should fund these connections and enable their creation, recognising that these can look different depending on community need. As part of its role in assessing access to ECEC in different communities, the ECEC Commission could also explore the connections between existing services, before considering the most suitable ways to address these gaps.

One way to improve connections is establishing integrated services. These can take many forms, ranging from partnerships between services to fully integrated hubs offering a range of services to children and families. Some inquiry participants have suggested ECEC services should be part of a broader, integrated early childhood development system. There are a range of integrated models across Australia, including government and community funded services, but these services are funded in different ways and some do not include ECEC. Others, such as those for Aboriginal and Torres Strait Islander children, may have to manage multiple funding streams. An ECEC Commission should be responsible for advising governments on the communities in which integrated services involving ECEC are needed.

Flexible ECEC services that align with the needs of families



Despite the many types of service that comprise the ECEC sector, its main mode of operation remains relatively inflexible. CBDC offers limited flexibility in session lengths while dedicated preschools have restricted hours and weeks of operation, creating significant challenges for families. OSHC services only operate in some primary schools and are not usually available for preschool children. For some families, the difficulty of accessing ECEC can be compounded by a range of factors. For example, one inquiry participant noted the need for birth certificates can be a barrier for some families.

To facilitate universal access to ECEC, governments need to remove any real or perceived barriers to access and make the ECEC sector more flexible and responsive to family needs. This is likely to require some policy and regulatory changes, as well as modest additional funding.

Overcoming practical barriers to access and supporting flexible entry points

Many inquiry participants described the practical barriers that families experience when trying to access ECEC for their children.

Factors impacting access to ECEC services include families' ability to provide transportation to and from kinder, provide adequate food for their child while at kinder, an ability to navigate the sometimes complex education system.

It is also our experience that for families experiencing disadvantage, ECEC is often a low priority as many are also faced with challenges relating to mental ill health and financial stressors including housing and food insecurity, which are taking up priority in their lives. (Meli, sub. 139, p. 7).

While it is outside the scope of this inquiry to address the broader causes of disadvantage, there are ways to address some of the barriers faced by families experiencing disadvantage. For example, the CCCF offers grant funding to enable services to offer transport assistance, but the eligibility for these grants is restricted. Transport assistance may also be just one area that ECEC services may need to address; research undertaken for the South Australian Royal Commission showed that one in five services offer a foodbank and nearly one in ten offer families assistance from social workers and child and family practitioners. The Australian Government could establish a modest pool of flexible funding which services can apply to use when families face substantial barriers to access that cannot be addressed through other government services.

Flexible options to access ECEC are important, in particular for families experiencing disadvantage or social exclusion. For example, playgroups are funded separately to ECEC and sit outside the formal ECEC system, but also play a valuable role in supporting families and children in their early years. These services allow parents or carers to participate in activities with their children and can be run by families themselves or a trained facilitator.

Occasional care offers flexible support to families – but changes to funding structures appear to have led to a significant reduction in services. Neighbourhood Houses Victoria (sub. 124, p. 3) explained that neighbourhood houses offer occasional care:

to enable vulnerable women acquiring foundational skills to improve inclusion and participation, and in many cases to advance to more vocational training. In many cases, women who need it most would not be able to access these services due to care responsibilities. This is particularly true for women with language or technology barriers.

In addition, many neighbourhood houses have used sessional care as a way of supporting women in cases of domestic and family violence or family breakdown. Sessional places allow women to attend court dates, meet with social workers or parole supervisors or undertake family mediation.

An ECEC Commission should have responsibility for advising on the need for occasional care services and where to target investment. Where the Commission identifies a need, funding should be available through a redesigned CCCF. As they only cater to a small number of children, the amount of funding required is unlikely to be large in comparison to overall government expenditure on ECEC. Neighbourhood Houses Victoria estimated that in Victoria, \$5 million a year would be required to sustain sufficient services.

Some families may require access to ECEC during non-standard hours to support their workforce participation, but access is limited. This appears to be the result of high costs of provision and, in some cases, regulatory restrictions on operating hours. Addressing the barriers, including through a higher hourly rate cap for non-standard hours for eligible families, could help.

Some families may need additional support, including outreach or system navigation. There are successful examples of this approach: the Victorian Government funds 22 local councils to employ a CALD outreach worker to address barriers to preschool access, while in Queensland, the Institute for Urban Indigenous Health (IUIH) runs a Deadly Kindies Program, funded by the state government, which encourages families to complete a health check at a IUIH clinic and enrol in preschool. IUIH staff follow up with families to support preschool attendance. In New South Wales, a research project supported by the state government has shown that ECEC attendance among children experiencing disadvantage improved when ECEC educators had better tools to support families to maintain their children's enrolment, coupled with access to flexible funding to address specific barriers to access in local communities. These models could be explored on a more systematic basis, whether through ECEC services themselves, community organisations or local councils or through a central point such as the inclusion agencies funded under the ISP – provided their resourcing increases.

Making preschool hours more family friendly

While CBDC is usually open for 10 to 12 hours a day, to allow families flexibility around their drop off and pick up times, dedicated preschool hours generally do not align with a work week. In dedicated preschools, programs are usually delivered as 15 hours per week over 40 weeks – which does not align with most families' working hours.

Preschools established and run by state governments as part of their education systems operate in a similar way to schools, as do many community kindergartens. But while schools have recognised to some extent that their hours of operations do not align with parents' needs – giving rise to the creation of OSHC – 'extended hours' or 'wrap-around care' models are rare in dedicated preschools.

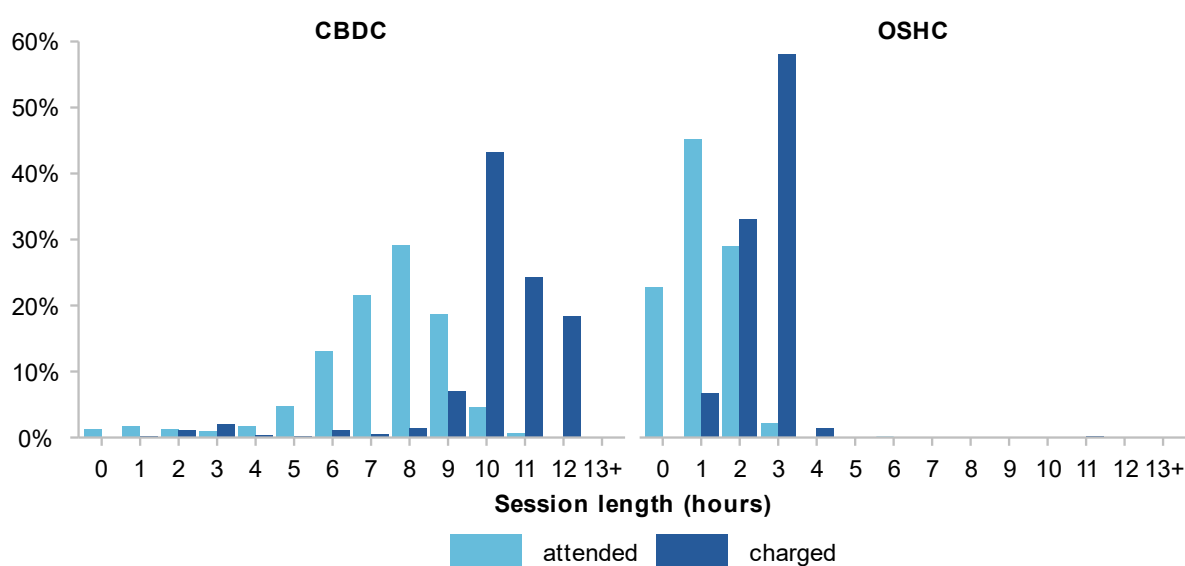
Even when there is demand from families for longer hours, Family Assistance Law makes it difficult to access the CCS for 'extended hours' services on dedicated preschool sites. Changing the Family Assistance Law will enable dedicated preschools to provide outside preschool hours care (either directly or through outsourcing to an approved provider). Given that in all jurisdictions, except Western Australia and Tasmania,

dedicated preschools are covered by the NQF, direct provision should not affect the quality of service. Should the Western Australian and Tasmanian governments wish to seek CCS-approval to directly offer additional ‘non-preschool’ hours in their dedicated preschools, the Australian Government should seek commitments these additional hours would be regulated in a way that is consistent with the NQF.

Creating incentives for session lengths that better match children’s attendance

One of the challenges in the current system is the difference between the hours children attend ECEC – and the hours that families pay for (figure 21).

Figure 21 – Session lengths charged and attended, by service type, 2022^{a,b}



a. Session lengths rounded down to the nearest hour. Based on a select week ending 20 November 2022. b. Excludes sessions where a child did not attend, or where there is insufficient information available to determine attendance.

Service providers have the ability to vary session lengths to suit the needs of individual children and families. For example, the Child Care Provider Handbook, published by the Australian Government, states:

Child care providers should consider changes that deliver flexible, cost-effective care and learning services for families. For example, providers could choose to offer parents receiving 36 hours of subsidy under the preschool category six sessions of six hours or four sessions of nine hours per fortnight. (p. 66)

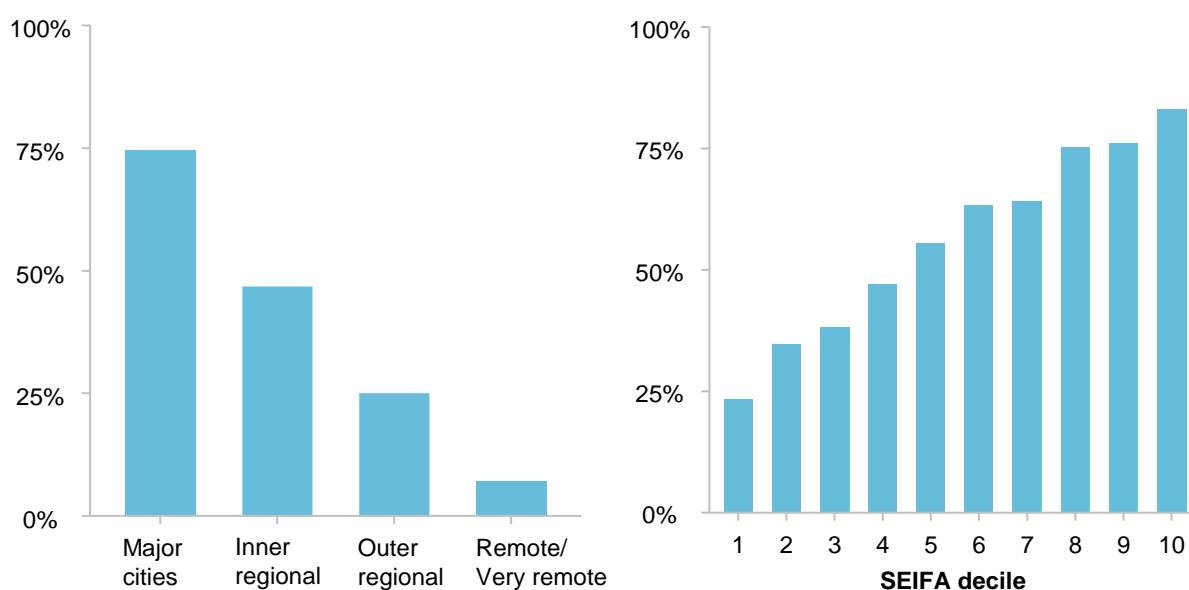
Some providers offer multiple session lengths, but most sessions in CBDC are charged for at least 10 hours and many families pay for hours they do not use. While some parents might value the flexibility and convenience provided by longer sessions, others may not. Unused charged hours also impose costs on taxpayers, as the CCS is paid based on the length of the session, not the hours attended. It is reasonable for providers to charge higher hourly fees for shorter session lengths, reflecting the need to cover fixed costs, or in some cases to impose a minimum session length to enable them to plan their staff rostering. But the gap between session lengths and hours of attendance is substantial. The Commission is considering ways to encourage services to offer greater flexibility of session lengths to better align with family needs.

Increasing the availability of OSHC can help many families

OSHC services offer greater flexibility for families with older children to make choices about balancing work and care for children. However, the availability of OSHC is far from universal – only half of primary schools have an OSHC service on site (figure 22).

Figure 22 – OSHC is more likely to be provided at schools located in major cities or high-SES areas^{a,b,c}

Proportion of schools for which there is an OSHC service by remoteness and SEIFA, 2023



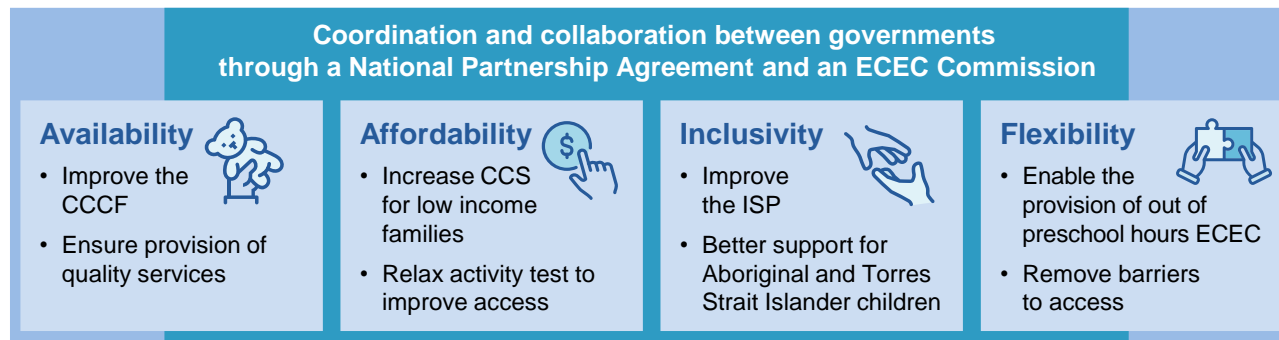
a. Schools are not directly linked to an OSHC service, as linkage keys in each dataset are not provided. Supplementary analysis, using reported latitude and longitude of schools and OSHC services to try and match schools to OSHC services, found about 13% of OSHC services do not have a school site within 500 meters of its geolocation. **b.** Analysis is restricted to primary, combined and special–secondary schools are excluded. **c.** Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged and 10 being the most advantaged).

In some cases, this is because there is insufficient demand for OSHC, if the school is small or where there is a significant increase in the number of parents working from home following the changes observed in the labour market during and after the COVID-19 pandemic. But in other cases, demand may exist but school principals or boards may be reluctant to facilitate the establishment of a service, given the regulatory requirements. Delivery models for OSHC differ between jurisdictions, but in all cases there is no requirement for schools to consider and respond to the need for OSHC in their community.

To address this, and enable greater flexibility for parents with school-aged children, state and territory governments should task education departments with assessing the need for OSHC in each government primary school and developing solutions where a service should be established.

Although catering to an older age group of children, OSHC services are regulated in a similar way to services for younger children. There are instances where this may lead to children being treated differently in OSHC to how they would be treated in school, such as being prohibited from using a school playground while at OSHC. And while the national approved learning framework for school-age care highlights the role of leisure in OSHC, it is not reflected in the quality standards. There may be scope for a review of the NQF requirements for OSHC, which could consider whether a tailored set of requirements is needed for OSHC and whether further guidance is required for services and assessing officers.

New coordination mechanisms to achieve better outcomes and universal access to ECEC



Achieving universal access to quality ECEC that is affordable, inclusive and flexible is a major challenge that will require governments to work together. Current ECEC policy settings comprise many regulations, programs and initiatives, often introduced with little coordination and evaluation of outcomes. But governments have succeeded in the past in negotiating and implementing the NQF and universal access to preschool, and they can build on these past successes.

Governments have multiple levers they use to influence ECEC – funding, regulation, policy and at the state and territory level, direct service provision – but the way these operate can have shortcomings. The funding system does not create incentives for services to cater to the needs of all children and has led to substantial gaps in availability. Aspects of the regulatory system are inconsistent between jurisdictions and there is no effective mechanism to support quality improvement. Additional policies and programs often create overlap and lack coordination. And state and territory proposed preschool changes have direct implications for CBDCs and the ECEC sector more broadly.

As governments consider the shift towards universal access to three days (up to 30 hours) per week of ECEC, it is appropriate to ask whether existing regulatory and funding systems are fit-for-purpose. Overall, the Commission considers that universal access to ECEC can be achieved through improvements to existing systems and policy settings. More comprehensive change risks imposing high costs without obvious additional community benefits at this point in time.

The components of ECEC funding should be improved

Over time, a mix of funding instruments has emerged to support the broad objectives of ECEC – improving child outcomes and labour force participation. Many funding initiatives target different aspects of the system, including affordability, accessibility, quality, and inclusion. These fall into three categories:

- a broad baseline funding instrument, primarily targeted at affordability and accessibility goals. The CCS falls into this category, offering means-tested subsidies to families, as does the preschool funding provided by state governments, which allocate a set amount of funding per child for eligible services
- an additional component or series of programs, primarily aimed at reducing barriers to ECEC that are higher for some families due to location, disadvantage, or for children who have additional needs. Examples of such programs include the ISP, which supports the inclusion of children, and the CCCF, which provides funding to increase the supply of ECEC in eligible communities
- highly targeted interventions for children who would significantly benefit from access to high quality ECEC. This could also include integrated services, including those delivered by ACCOs and those funded through the CCCF.

Each of these components can be improved – and when taken together, establish an architecture that can be used to achieve universal access to ECEC.

- The CCS can be improved, through modifications to the activity test and the subsidy rate, to support low income families to enrol their children in ECEC. Supply-side funding can continue to facilitate universal access to preschool. Alongside improving affordability, this is also expected to create incentives for providers to establish ECEC services in areas of low supply.
- Both the ISP and the CCCF need to receive larger, more flexible funding allocations. The CCCF can be used more proactively by the Australian Government to address availability gaps, which mostly affect families experiencing disadvantage. The ISP offers an opportunity to better deliver inclusion goals.
- In some cases, children and families can benefit from integrated or intensive services. Where there is an identified need for integrated services, a coordinated approach between governments, combined with cost-based funding, can enable the establishment of more integrated services.

Some inquiry participants have suggested that ECEC funding should shift to a new model. Options raised included a model that combines the CCS with a direct payment to service providers; supply-side, needs-based funding, with loadings where costs of service provision vary by cohort; funding services based on enrolment or attendance patterns; or a model that includes service provision by government. Such models have the benefit of simplicity for families. However, they also bring challenges, including that, with less scope for means testing, taxpayers must take on more of the funding task, along with the potential for significant funding gaps if the amounts allocated fall short of the costs of delivering a quality ECEC service.

Broad based changes to ECEC subsidies that in effect remove the scope for price competition – such as introducing a flat fee for all families – would strengthen the case for a predominantly supply-side funding model. The Commission will conduct further modelling and analysis of these subsidy options for its final report. However, such options would impose substantial costs on the community and there are other pressing priorities for reform that can achieve better access to ECEC, particularly for children and families experiencing disadvantage, at a lower cost.

A new national agreement to improve policy coordination and implementation

Meaningful coordination and collaboration between jurisdictions and levels of government is missing from the current ECEC policy landscape. At the end of 2025, the current Preschool Reform Agreement will expire – and the negotiations for the next agreement create an opportunity to shift the governance arrangements for ECEC. From 2026, the scope of this agreement should be broadened, so that it is replaced by National Partnership Agreement for Early Childhood Education and Care (NPA ECEC).

The NPA should adopt the national vision for ECEC as its foundation. The vision, which is being developed by education and early years ministers for consideration by National Cabinet, recognises the benefits of ECEC for children and families and is based on principles of equity, affordability, quality and accessibility.

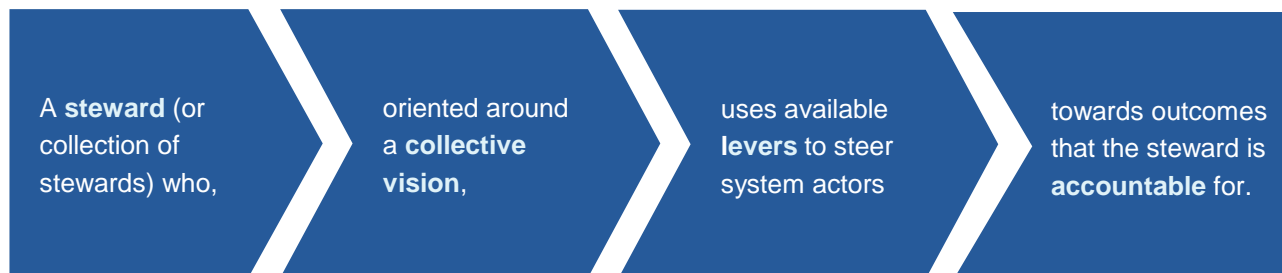
The NPA ECEC should also clarify the roles and responsibilities of governments, with the Australian Government remaining as the main funder through subsidies to families, and state and territory governments retaining responsibility for preschool, transition support and enabling the provision of OSHC. Governments could consider greater cooperation in the funding of inclusion programs and integrated services.

The NPA ECEC should also create two new mechanisms of policy development and evaluation: a system stewardship model and an ECEC Commission.

System stewardship – a missing part of the policy puzzle

A stewardship model – where the Australian, state and territory governments better coordinate their roles in the ECEC system and share accountability for sector outcomes – can address some of the challenges observed in the market, support a more cohesive policy response, and steer the sector towards universal access (figure 23).

Figure 23 – A model of effective stewardship



The way governments intervene in ECEC already applies some elements of stewardship, such as national agreements, minimum quality standards, and the ongoing development of a national vision for ECEC. However, more should be done to improve coordination and accountability in the ECEC system to achieve a more effective model of stewardship.

The Australian, state and territory governments should continue to act as the system’s stewards as they hold the key policy, regulatory and funding levers. After agreeing on a collective vision for the sector, stewards should establish a plan that divides and coordinates individual responsibilities within the system. A new National Partnership Agreement presents an opportunity to articulate the respective policy and funding levers that each steward plans to use and which outcomes these levers are responding to.

Ongoing mechanisms for coordination will also be required. While there is some ability for the stewards to collaborate through existing forums, such as the Education Ministers Meeting, it is unlikely that such forums have the capacity to consider all matters to the extent that a true stewardship model requires. System stewards are likely to benefit from having a dedicated body to guide decision making and support a consistent and coordinated policy response across the system.

A proposed ECEC Commission underpins the creation of a stewardship model

The topics that governments, as ECEC system stewards, must tackle will require a central point of coordination and monitoring. While government departments have the authority and capacity to implement ECEC policies, they are also affected by political and other external processes that influence how decisions are made. There is also no dedicated body that monitors the system’s performance against its objectives and this reduces the extent to which these departments can be held to account for outcomes. In this environment, a new independent authority could have the capacity to champion longer term, national objectives, as well as strengthen accountability for the stewards, without being subject to the same external influences.

An ECEC Commission should be established to fulfill two main functions. The first would be to support the Australian, state and territory governments to better coordinate and deliver ECEC policies, by providing information and advice. The second would be to provide a mechanism to hold the system stewards publicly accountable for achieving the objectives of ECEC policy. An ECEC Commission would publish regular

reports on performance against the commitments made under the NPA ECEC, as well as on the performance of the sector more broadly. In practice, it could report across a range of areas:

- **Universal access and planning:** monitoring the ECEC market to identify availability gaps and highlight where investment is required. This could extend to advising on what service delivery models may be most appropriate in different communities by consulting with local governments and other organisations, and identifying where there is a need for more tailored solutions, such as integrated services. This may be particularly relevant for remote areas where the number of potential ECEC users is small, the infrastructure and workforce needed to deliver a service do not exist, and incentives from the current funding model are inadequate to encourage the establishment of a service.
- **Reform commitments made under the NPA and other reform initiatives:** tracking and reporting on progress against key milestones, such as the preschool outcomes measure and the National Children's Education and Care Workforce Strategy. The ECEC Commission could also provide advice on where priorities may need to be adjusted.
- **Other reform initiatives and potential for national consistency:** reporting and providing advice on where overlapping policies could be rectified through nationally consistent arrangements across a range of domains, including but not limited to inclusion support, workforce, regulatory approaches and OSHC contracting.

The ECEC Commission would require high quality data to execute its advisory and reporting functions effectively. This would require the authority to collect data from the Australian, state and territory governments, as well as mechanisms to safely store and share data between jurisdictions.

Progress towards universal ECEC will require gradual and careful implementation

Change has been the reality of the ECEC sector for many decades. The CCS was rolled out in 2018, redefining the way services are funded, while the sector is currently contending with substantial expansions of preschool. Implementing these changes and observing their effects takes a long time – further reform must be staged, to allow educators and service providers to respond and adapt.

The ECEC Commission can play a pivotal role in developing priorities for investment and planning reform implementation so that expansion of ECEC starts in the areas of greatest need and is done at a sustainable pace. It will monitor and evaluate the costs and benefits of reforms implemented. Evaluations should inform the next steps taken to achieve universal access to ECEC.

Where policies are implemented without appropriate preparation and planning, they are unlikely to fully deliver on their expected benefits and worse, they could contribute to adverse outcomes and crowding out of those children who need access to ECEC the most. Some in the ECEC sector have reflected on the implications of announcements regarding 'free preschool', which raise parents' expectations but only act to increase service waiting lists. Similar cautionary lessons emerge from ECEC reform in Quebec and Ireland.

In designing the implementation of reform, policy makers need to recognise that all parts of the ECEC sector are interrelated, and making adjustment to one aspect of policy will have wide ranging repercussions. As outlined above, changes to the CCS will enable shifts in demand – and providers are likely to respond by opening more services. But at the same time, some state and territory governments have committed to expanding preschool provision. These policies will have further consequences for the sector, some of which are unclear.

Without greater numbers of ECTs and educators, any increase in ECEC will not be possible. The ECEC workforce – both the people who work in services and those who are expected to enter the sector over coming years – should be the first priority for reform. This includes recognising the value of the work done by ECTs and educators in ECEC, including through better pay and conditions (which, without government

funding, will increase costs to families and may affect ECEC use), and improving the approach to qualification pathways that would enable more people to work in the sector. While this should be the immediate priority, the results of policy reform in this area will only be evident in the medium term.

The subsequent tranche of reforms should include:

- gradual introduction of CCS changes, starting with changes to the activity test and increasing the subsidy rate for low income families, and ongoing evaluation of the effects this has on ECEC supply and fees (including ensuring that higher subsidies to low income families are not used by some operators as an opportunity to increase fees)
- an independent review of regulatory authorities, to support more timely quality assessments and
- allocating greater funding to an ECEC research agenda, which should focus on understanding the effects on ECEC on children's outcomes and the factors affecting service quality in the Australian policy context. In particular, greater emphasis should be given to understanding the models of ECEC policy, funding and service delivery that best recognise the experiences of Aboriginal and Torres Strait Islander children and families.

From 2025, governments should focus on negotiating the NPA ECEC, including establishing the ECEC Commission. Once established, the ECEC Commission should start planning the transition towards universal access to ECEC, including considering changes to the CCCF, such as the quantum of funding, the areas where funding is required and the types of services that will address community needs. In addition, the Australian Government should allocate greater funding amounts to the ISP, to enable the inclusion of all children in ECEC. This should take account of any changes emerging from the review of the National Disability Insurance Scheme (NDIS).

As the sector progresses towards universal access, governments should evaluate and recalibrate their investment programs, to ensure they deliver greater access for those children and families who are currently missing out. They could also give consideration to different funding models, including supply-side funding or higher subsidy rates, as the changes in the system may affect their relative costs and benefits.

This draft report presents a pathway to reform, recognising that achieving change on such scale is likely to take years – and the benefits to children and families will emerge from each step along the way.

5. Next steps for the inquiry

This draft report presents the Commission's assessment of the state of the ECEC sector and charts a pathway towards universal access. In addition to the Commission's work, there are many processes that will affect the future of the sector.

- National Cabinet is due to consider the draft vision for ECEC in late 2023. The Australian Government is developing an Early Years Strategy, with the aim of improving coordination between Commonwealth programs, funding and frameworks affecting young children and their families.
- The Early Childhood Care and Development Policy Partnership established under the Closing the Gap Agreement continues its work to improve ECEC outcomes for Aboriginal and Torres Strait Islander children.
- The Australian Competition and Consumer Commission is due to finalise its childcare inquiry by December 2023. Similarly, the NSW Independent Pricing and Regulatory Tribunal is due to complete its report on ECEC affordability, accessibility and consumer choice by the end of 2023.
- The Review to Inform a Better and Fairer Education System was completed in October 2023 and the Review of Australia's Higher Education System is expected to be finalised by December 2023. Both reviews were conducted by independent panels appointed by the Australian Government. In addition, the Department of Education has commissioned reviews of the ISP, IHC services and the CCCF restricted grant.

- The review of the National Disability Insurance Scheme, which had a significant focus on the early years, submitted its report to government in October 2023.
- Processes under the Fair Work Act (box 4) will have substantial consequences for the sector. Jobs and Skills Australia has recently begun a study of ECEC workforce needs, which is expected to be finalised in the first half of 2024.
- Many other policies and strategies will affect the ECEC sector, including the National Strategy for the Care and Support Economy, the National Strategy to Achieve Gender Equality and the White Paper on Jobs and Opportunities.

The Commission will consider the outcomes of these reviews as it prepares its final report, to be submitted to the Australian Government in June 2024. The Commission welcomes feedback on the draft recommendations included in this report, with submissions requested by 14 February 2024. The inquiry will hold public hearings in February and March 2024, with locations and times to be advised on its website (www.pc.gov.au).

Summary of draft recommendations

Problems	Draft recommendations (DR number)	Benefits to children and families
Affordability and availability gaps need to be addressed to achieve universal access		
<ul style="list-style-type: none"> • Children most likely to benefit from ECEC attendance are missing out • ECEC is less affordable for low income families • Activity test limits access for low income families • Poorer availability in regional and remote areas • Complex subsidy arrangements are a barrier to access for some families 	<ul style="list-style-type: none"> • Give all children an entitlement to up to 30 hours or 3 days a week of subsidised care without an activity requirement (DR 6.2) • Lift subsidy to 100% of the hourly rate cap if annual family income up to \$80,000 (DR 6.2) • Provide additional support for persistently thin markets (DR 5.1) • Improve information about CCS for families (DR 6.3 – 6.6) 	<ul style="list-style-type: none"> • Significant improvements in access • Life-time benefits of quality ECEC, particularly for children experiencing disadvantage
Availability can only improve if workforce challenges are resolved		
<ul style="list-style-type: none"> • ECEC workforce attraction and retention needs to be a priority • Low qualification completion rates and barriers to upskilling • Inadequate professional development opportunities • Additional barriers and inadequate recognition of cultural knowledge for Aboriginal and Torres Strait Islander people 	<ul style="list-style-type: none"> • Fair Work Act processes addressing pay and conditions (DF 3.1) • Reduce barriers to upskilling (DR 3.1) • Support innovative delivery of teaching qualifications (DR 3.2) • Improve registration arrangements for early childhood teachers (DR 3.3) • Lift support and mentoring for new early childhood teachers (DR 3.4) • Improve pathways and support for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications (DR 3.5) • Provide greater support for professional development (DR 3.6) • Improved ECEC Workforce Strategy (DR 3.7) 	<ul style="list-style-type: none"> • Improved ECEC availability • A higher quality experience for children • Better support for Aboriginal and Torres Strait Islander children
A universal ECEC system has to be inclusive of all children		
<ul style="list-style-type: none"> • Disability Standards for Education do not apply to all ECEC services • Only a small proportion of children with inclusion needs receive support • Subsidy design and rules for additional educators are restrictive 	<ul style="list-style-type: none"> • Amend the Disability Standards for Education (DR 2.2) • Amend eligibility requirements for inclusion funding (DR 2.3) • Review and amend additional educator subsidies (DR 2.4) • Reduce administrative burden of ISP applications (DR 2.5) • Improve coordination of inclusion funding (DR 2.6) 	<ul style="list-style-type: none"> • More inclusive services for children with disability • Improved access and experiences for children with additional needs

Problems	Draft recommendations (DR number)	Benefits to children and families
ECEC services do not consistently respond to family needs		
<ul style="list-style-type: none"> • Some families need additional support to access ECEC • Limited access to ECEC services during non-standard hours • Families do not use a significant amount of the ECEC they pay for 	<ul style="list-style-type: none"> • Ensure integrated services are available where needed (DR 7.1) • Support connections between ECEC and child and family services (DR 7.2) • Introduce a higher hourly rate cap for non-standard hours (DR 7.3) • Examine planning restrictions related to operating hours (DR 7.4) • Ensure occasional care is available where needed (DR 7.5) 	<ul style="list-style-type: none"> • Improved access to ECEC • Services that better meet families' needs
<ul style="list-style-type: none"> • OSHC services are not available at all primary schools where there is demand from families • Dedicated preschool hours do not match the needs of working families 	<ul style="list-style-type: none"> • Ensure OSHC is available where required (DR 9.1) • Support out of preschool hours ECEC (DR 7.6) 	<ul style="list-style-type: none"> • Greater support for labour force participation
Quality is paramount to achieving the benefits of ECEC		
<ul style="list-style-type: none"> • Timeframe between service assessments is too long • Families lack current information on service quality 	<ul style="list-style-type: none"> • Improve regulatory authorities' performance reporting (DR 8.1) • Review how services are assessed against NQF (DR 8.2) • Ensure regulatory authorities are adequately resourced (DR 8.3) • Incentivise quality provision in new ECEC services (DR 8.4) 	<ul style="list-style-type: none"> • More consistent and higher service quality • Better information on service quality
New coordination mechanisms will support universal access		
<ul style="list-style-type: none"> • Lack of clarity in roles and responsibilities between levels of governments • Inadequate policy and funding coordination 	<ul style="list-style-type: none"> • Form a National Partnership Agreement for ECEC (DR 9.1) • Establish an independent ECEC Commission (DR 9.2) 	<ul style="list-style-type: none"> • Better coordinate planning and evaluation of progress towards universal ECEC • Less complexity for families (and services)

Recommendations, findings and information requests

Recommendations and findings

ECEC is positive for many children but those who would benefit most are least likely to attend



Draft finding: Many Australian children attend ECEC services

Early childhood education and care (ECEC) services play a major role in the lives of young children and their families. Nearly half of one-year-olds attend some form of ECEC and participation rises until children start school. About 90% of four-year-olds are enrolled in ECEC and, once in primary school, about 14% of children aged 5–12 years spend time each week in outside school hours care. [Draft finding 2.1]



Draft finding: Evidence shows children benefit from attending high-quality ECEC

Most credibly evaluated early childhood education and care programs have been found to benefit children. These benefits, while difficult to quantify, can be substantial, and often extend beyond short-term effects on learning and development in early childhood to a wide array of outcomes, including educational attainment, labour market success, and physical and mental health. Benefits seem stronger for children experiencing vulnerability or disadvantage, although they can extend much more broadly. [Draft finding 1.1]



Draft finding: Children who would benefit most from ECEC are less likely to attend

Children experiencing disadvantage and vulnerability – who are likely to benefit most from ECEC services – are less likely to attend than their more advantaged peers. [Draft finding 2.2]

All children should have an ECEC entitlement



Draft finding: All children aged 0–5 years should be able to attend up to 30 hours or three days of quality ECEC a week for 48 weeks per year

Up to 30 hours or three days a week of quality ECEC should be available to all children aged 0–5 years whose families choose to use ECEC. Meeting this benchmark, along with improved affordability, inclusion and flexibility, would enable universal access to ECEC. **[Draft finding 5.1]**

Availability gaps will have to be tackled to achieve universal access



Draft finding: Expansion of for-profit providers has been the main contributor to increased supply of ECEC

ECEC provision grew by 50% to 1.1 million places over the decade to March 2023, with much of the growth accounted for by for-profit centre-based day care. **[Draft finding 5.2]**



Draft finding: ECEC availability varies markedly around the country

ECEC availability tends to be poorer in regional and remote areas and in communities experiencing higher levels of socio-economic disadvantage. It is unclear whether this reflects a lack of local demand for ECEC, viability concerns that cause providers to decide against establishing services or both.

Only 8% of children aged 0–5 live in communities with sufficient centre-based day care places to support access to 30 hours or three days of ECEC a week.

Provision of preschool places by state and territory governments improves the broader picture for availability. However, these places only increase availability for some children aged three and over, and dedicated preschools often have more limited days of operation and / or shorter session lengths than centre-based day care. **[Draft finding 5.3]**



Draft finding: Recent changes to the CCS and ongoing demand from parents will further support increases in supply in some regions; but in other areas, more support will be needed

Many regional and remote areas are ‘thin markets’ – where the costs of delivering services are higher than families are able or willing to pay and non-government providers have limited incentive to establish services.

If the activity test were relaxed and affordability improved for lower-income families (draft recommendation 6.2), demand for ECEC will increase in some areas to the point where services are viable without further government support and supply will expand through market dynamics. Lower socio-economic areas with larger populations (including on the urban fringe), likely have this characteristic.

In other markets, prospective providers may still be reluctant to invest, perhaps due to higher costs and the challenges of recruiting and retaining educators and teachers. Supply-side funding programs will be needed to boost provision to achieve an entitlement to up to 30 hours or three days a week of quality ECEC for all children aged 0–5 years whose families choose to use ECEC. **[Draft finding 5.4]**



Draft finding: Family day care can be an effective solution to addressing thin markets

Family day care can be part of the solution to ensuring that families have access to ECEC in markets where there might be low and / or variable demand. Integrity concerns have been raised in the past and this has limited expansion of family day care in recent years. The Commission notes the Australian Government Department of Education is working to support the use of family day care while satisfying probity and integrity expectations. **[Draft finding 5.5]**



Draft recommendation: Support universal access in persistently thin markets via supply-side funding

To ensure that up to 30 hours or three days a week of quality ECEC is available for all children aged 0–5 years whose families wish for them to participate, the Australian Government should provide additional support in markets where it is clear that ECEC providers are unlikely to invest, even with the changes recommended in this inquiry.

This support could take the form of:

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

The Australian Government could use a process of competitive tendering to provide services in markets where community representatives do not apply for grants.

Centre-based day care, family day care and mobile care should all be considered for funding to help address the varying needs of thin markets.

An advisory program should be established that works with community representatives and enables them to get the support they need. [Draft recommendation 5.1]

Availability can only improve if workforce challenges are resolved



Draft finding: Expected wage increases may relieve recruitment and retention challenges

The pay and conditions offered to the ECEC workforce – long at the heart of recruitment and retention challenges – may be addressed through processes arising out of recent changes to the *Fair Work Act 2009* (Cth), including approval from the Fair Work Commission for a significant number of employers in the sector to commence supported multi-employer bargaining.

Any increase in wages will need to be funded by families or governments, or a combination of both. It is a decision for governments whether funding a wage increase for ECEC workers is a priority use of public funds. [Draft finding 3.1]

**Draft finding: Accelerated qualifications will help lift early childhood teacher numbers**

With demand for early childhood teachers (ECTs) set to remain high, accelerated pathways that allow diploma-qualified educators to obtain an early childhood teaching qualification in a reduced time frame will have an important role to play in growing the pool of ECTs.

Such programs address some of the more significant barriers that diploma-qualified educators face when upskilling their qualifications by ensuring that their prior qualifications translate into reduced study time, and by reducing the financial and time commitments that educators face in order to undertake further study. [**Draft finding 3.2**]

**Draft finding: Completion rates for early childhood teaching qualifications have fallen**

Completion rates for domestic students who commenced early childhood teaching qualifications in the mid-2010s are much lower than those for students who enrolled a decade earlier. Only 48% of domestic students who started an early childhood teaching degree in 2016 had graduated by the end of 2022.

It is likely that educators seeking to upskill constitute a reasonable proportion of those who do not complete their studies. This points to the value of wrap-around supports to assist aspiring educators who are studying to become early childhood teachers. [**Draft finding 3.3**]

**Draft finding: Unpaid professional experience requirements are a barrier to upskilling**

The requirement to undertake supervised professional experience as part of teaching qualifications presents a significant barrier to some educators upskilling to become early childhood teachers, especially where this professional experience is unpaid. Many cannot afford to go without income while completing placements, and placements that involve travelling long distances and staying away from home create additional challenges for educators from remote and regional areas. [**Draft finding 3.4**]



Draft recommendation: Reduce barriers to educator upskilling

To improve pathways for educators seeking to upskill to become early childhood teachers (ECTs), the Australian and state and territory governments should:

- work with universities and the ECEC sector to develop and promote accelerated degree programs for upskilling diploma-qualified educators to ECTs
- expand wrap-around supports to educators who are undertaking university-level qualifications to become ECTs. Supports could include assistance to navigate enrolment processes, assistance to build academic skills, and regular mentoring. These initiatives should be underpinned by robust monitoring and evaluation
- provide financial support to ECEC services so they can provide a reasonable amount of paid leave to educators for them to complete supervised professional experience requirements associated with completing early childhood teaching qualifications.

In addition:

- when providing information on teaching courses to potential students, universities should publish an indication of how prior ECEC qualifications will be recognised. This could take the form of a median or average amount of credit that students with ECEC qualifications have received in the past
- the Australian Children's Education and Care Quality Authority (ACECQA) should examine the supervised professional experience that is required in order for an early childhood teaching qualification to be approved for the purposes of the National Quality Framework, with a view of extending the ability of students to fulfil such requirements in their existing workplaces. [**Draft recommendation 3.1**]



Draft finding: Innovative pathways could lift enrolments in early childhood teaching qualifications

The conventional approach to training early childhood teachers suits a wide range of students. But innovative approaches that provide alternative pathways to qualification might work better for others. Risks in trialling new approaches can discourage universities from experimenting. [**Draft finding 3.5**]



Draft recommendation: Support innovative delivery of teaching qualifications

Governments should provide modest financial incentives to universities to facilitate trials of innovative approaches for providing Initial Teacher Education to early childhood teachers.

The Australian Children's Education and Care Quality Authority (ACECQA) should work with governments and universities to develop pathways for early childhood teaching qualifications that are awarded through innovative teaching approaches to be recognised under the National Quality Framework. [**Draft recommendation 3.2**]

**Draft finding: Inter-jurisdictional differences in teacher registration impose unnecessary workforce barriers**

Teacher registration offers considerable benefits for early childhood teachers (ECTs) in the form of professional recognition, development opportunities and access to networks of peers and mentors.

Inconsistent teacher registration requirements for ECTs across jurisdictions are problematic. They limit the work opportunities for ECTs who move across jurisdictions, to the detriment of their careers, and reduce the number of ECTs that are available to services to employ. **[Draft Finding 3.6]**

**Draft recommendation: Improve registration arrangements for early childhood teachers**

State and territory governments should amend their teacher registration arrangements so that:

- early childhood teachers (ECTs) working in National Quality Framework-approved ECEC settings can be registered with the teacher registration body in their jurisdiction
- any ECT-level qualification that has been approved by the Australian Children's Education and Care Quality Authority (ACECQA) for recognition under the National Quality Framework should be automatically recognised as meeting qualification requirements associated with teacher registration.

In undertaking these actions, state and territory governments should also:

- review their teacher registration arrangements to ensure that there are accessible pathways for ECTs with an ACECQA-approved qualification to teach in primary school (including after they undertake additional study focussing on teaching in primary school settings)
- review their arrangements concerning highly accomplished and lead teachers (HALT) certification (in relevant jurisdictions) and act on opportunities to make it more accessible for ECTs. As part of reviewing these arrangements, governments should issue guidance on the eligibility of ECTs for HALT certification, the process through which ECTs can seek HALT certification (including in non-government operated ECEC settings), and the implications for ECTs if certification is achieved. **[Draft recommendation 3.3]**

**Draft recommendation: Lift support and mentoring for new early childhood teachers**

State and territory governments should develop structured mentoring and support programs for new early childhood teachers if they do not already have these in place. In developing these programs, state and territory governments should reflect the findings of the research underway by the Australian Education Research Organisation (AERO) on the effectiveness of existing support programs.

Jurisdictions that already operate programs to support and mentor new ECTs should review their programs to incorporate the findings from AERO's research once this is finalised. **[Draft recommendation 3.4]**



Draft recommendation: Improve pathways and support for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications

In collaboration with Aboriginal and Torres Strait Islander people, communities and organisations, governments should trial and evaluate new pathways for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications so they can participate in the ECEC workforce in greater numbers.

A central aim of these new pathways should be to better recognise the cultural knowledge and experience many Aboriginal and Torres Strait Islander people have when it comes to educating and caring for children.

In designing these pathways, governments should consider:

- using different approaches – such as culturally appropriate interviews – to better understand the prior knowledge, learning and experience of Aboriginal and Torres Strait Islander people, and to inform decisions about the extent that this can be recognised in the form of course credit (or other ways of recognising prior learning)
- using teaching assessment models that – while still ensuring rigour – might be more accessible or culturally appropriate for Aboriginal and Torres Strait Islander students, such as teaching in local languages or making greater use of observational assessments
- providing tailored, small group or one-on-one supports to Aboriginal and Torres Strait Islander students. **[Draft recommendation 3.5]**



Draft finding: The ECEC workforce faces barriers to professional development

Take-up of professional development opportunities by the ECEC workforce is relatively widespread. But the workforce still faces several significant barriers to accessing professional development, including difficulty getting time off work and the cost of professional development activities. Costs to employers of backfilling positions while staff undertake professional development can also be an impediment. Some governments have begun to provide support to overcome these barriers. **[Draft finding 3.7]**

**Draft recommendation: Contribute to professional development for the ECEC workforce**

The Australian and state and territory governments should provide support for the ECEC workforce to undertake professional development activities. This should take the form of a contribution towards the cost of professional development.

Government contributions to professional development should be targeted toward activities that will improve the quality and inclusivity of ECEC practices, including activities that build staff capability to:

- remain up to date with the latest pedagogical research and how to apply this in their teaching
- understand and apply the National Quality Standard and the national approved learning frameworks
- deliver more inclusive ECEC, including for children with disability, developmental delay or additional needs, children who have experienced trauma and Aboriginal and Torres Strait Islander children, particularly those attending in mainstream settings
- work with families – including families in complex or challenging situations – to engage with and participate in ECEC. **[Draft recommendation 3.6]**

**Draft recommendation: Improve the ECEC Workforce Strategy**

To maximise the value of the National Children’s Education and Care Workforce Strategy (*Shaping our Future*), the Australian, state and territory governments should:

- articulate a clear objective for the strategy against which its effectiveness can be measured
- include projections of the number of educators and teachers the sector is expected to require (over different timeframes) in the strategy
- clarify how each action in the strategy will be resourced
- commit to individually producing annual updates about how the actions, initiatives and reforms they are undertaking are contributing to the strategy’s implementation. These updates should be published alongside the broader assessment of progress in implementing the Strategy published by the Australian Children’s Education and Care Quality Authority (ACECQA). **[Draft recommendation 3.7]**

Affordability and complexity should not be barriers to ECEC access**Draft finding: ECEC is less affordable for lower income families**

The Child Care Subsidy lowers out-of-pocket expenses for families, but those on lower incomes spend a higher proportion of their income on ECEC compared with those who are better off. The families whose incomes are in the lowest 10% of the income distribution pay out-of-pocket expenses equal to about 9% of their income on average. In contrast, families whose incomes are in the highest 10% of the income distribution pay about 5% on average. **[Draft finding 6.1]**



Draft finding: CCS changes would reduce affordability barriers for lower income families

Many changes could be made to subsidy arrangements to improve affordability for families. The Commission has considered a suite of options to identify their effects on labour force participation, demand for ECEC and net costs to government, and their effectiveness in achieving universal access to ECEC.

Relaxing the activity test for all families and lifting subsidies for lower income families would target support to children and families who would benefit the most. Alongside improving availability, inclusion and flexibility, these changes to the Child Care Subsidy (CCS) would enable universal access to ECEC.

Preliminary modelling shows that relaxing the activity test for all families to allow at least three days of subsidised ECEC per week, and lifting the CCS rate to 100% for families with children aged 0–5 years who have incomes up to \$80,000, would increase:

- total hours of ECEC demanded by 12%
- hours of work by single parents and secondary earners in couple families with young children by 3.4% (or the equivalent of 20,700 full-time workers)
- Australian Government outlays on the CCS by 20% or \$2.5 billion per year.

Over half of the resulting increase in CCS expenditure would benefit families whose income is in the lowest 20% of the income distribution. **[Draft finding 6.3]**



Draft finding: Broad-based CCS changes would make ECEC more affordable for all families but come at a substantial cost to taxpayers

Broad-based changes to the Child Care Subsidy (CCS) would reduce out-of-pocket expenses for all families and support larger increases in labour force participation – but come at a substantial cost to taxpayers.

For example, if in addition to relaxing the activity test and increasing the CCS rate for lower income families, the Australian Government were to extend a subsidy rate of 90% of the fee, up to the hourly rate cap, to all families for three days of ECEC a week, it is estimated that this would increase:

- total hours of ECEC demanded by 21%
- hours of work by single parents and secondary earners in couple families with young children by 5.7% (or the equivalent of 34,900 full-time workers)
- Australian Government outlays on the CCS by 53% or \$6.8 billion per year.

Preliminary modelling results show that policy options extending the 90% subsidy rate to all ECEC users or introducing a flat fee of \$10 a day have similar implications for labour force participation, demand for ECEC and net costs to government.

These options are more costly than a policy option that includes relaxing the activity test and increasing subsidy rates for lower income families. In addition, a disproportionate share of the increased government support would go to high income families – rather than to those experiencing disadvantage, who are most likely to benefit from greater access to ECEC. **[Draft finding 6.4]**



Draft finding: Lower income families would not benefit if the only change to the CCS were a 90% subsidy rate for all families

In line with the request in the terms of reference to consider a universal 90% subsidy, the Commission has assessed the potential effects of a policy option where the only change to current settings is that the Child Care Subsidy (CCS) rate increases to 90% of the hourly fee, up to the hourly rate cap, for all families.

It is estimated that this policy change would increase:

- total hours of ECEC demanded by 7.4%
- hours of work by single parents and secondary earners in couple families with young children by 2.8% (or the equivalent of 17,000 full-time workers)
- Australian Government outlays on the CCS by 33% or \$4.1 billion per year.

The policy change would have no benefit for low-income families, who are already eligible for a 90% subsidy rate. Nearly 60% of the increase in government outlays would accrue to the 20% of families on the highest incomes (those earning \$200,000 and above) and nearly 30% to the second highest 20% (those earning between about \$150,000 and \$200,000). **[Draft finding 6.5]**



Draft recommendation: Modify the Child Care Subsidy to improve affordability and access

The Australian Government should modify the Child Care Subsidy to allow:

- all families to access up to 30 hours or three days of subsidised care per week without an activity requirement
- families with annual income at or below \$80,000 should be eligible for a subsidy rate of 100% of the fee, up to the hourly rate cap.

In addition, the Australian Government should review the hourly rate cap associated with the Child Care Subsidy, and set a new cap based on the average efficient costs of providing early childhood education and care services. This should include consideration of a higher hourly rate cap for non-standard hours (draft recommendation 7.3). The hourly rate cap should be reviewed every three years to ensure it continues to reflect costs (in conjunction with other work mentioned in draft recommendation 6.1). In between these reviews, the hourly rate cap should be indexed at a rate that best reflects changes in the costs of provision such as wage indices or CPI. **[Draft recommendation 6.2]**



Draft recommendation: Monitor rises in fees and out-of-pocket expenses

The Australian Government should monitor changes in fees and out-of-pocket expenses on a regular basis to identify services where movements are out of step with sector norms. Increases that vary markedly should prompt closer investigation, and a regulatory response should be considered if they are not reasonable. To inform judgements about what reasonable increases might look like, the Australian Government should commission a detailed investigation of costs and profits across the sector every three years, along the lines of the work that the Australian Competition and Consumer Commission has been undertaking. This work would also signal if the hourly rate cap needed to be reset. **[Draft recommendation 6.1]**



Draft finding: Complex ECEC subsidy arrangements can be a barrier to access for some families

The information available to families when they are working out their Child Care Subsidy entitlement can be confusing and create substantial uncertainty as to their entitlements. Navigating this complexity can be much more difficult for those with low levels of English and / or computer literacy. For some families, this level of complexity creates a substantial barrier to ECEC access, and in some cases, means they choose not to access ECEC. **[Draft finding 6.2]**



Draft recommendation: Make information about CCS eligibility easy to find and understand

The Australian Government should explore options to make information provided on government websites about CCS eligibility easy to find and easy to understand by families. **[Draft recommendation 6.3]**



Draft recommendation: Improve the CCS calculator on the Starting Blocks website

The Australian Government should improve the functionality of the Child Care Subsidy calculator on the Starting Blocks website so that families can estimate their Child Care Subsidy eligibility under different scenarios (such as different working hours or income levels).

The Australian Government should investigate the best way to improve awareness of the availability of the CCS calculator on the Starting Blocks website. **[Draft recommendation 6.4]**

**Draft recommendation: Prompt families to update their details with Services Australia**

The Australian Government should use Single Touch Payroll information from the Australian Tax Office to prompt families to update their activity and income level details with Services Australia. [**Draft recommendation 6.5**]

**Draft recommendation: Provide better information to families about CCS withholding rates**

The Australian Government should provide clear and easy to find information to families about the Child Care Subsidy withholding rate during the Child Care Subsidy application process and when families update their details with Services Australia. [**Draft recommendation 6.6**]

A universal ECEC system has to be inclusive of all children**Draft recommendation: Amend the Disability Standards for Education**

The Australian Government should amend the *Disability Standards for Education 2005* (Cth) to include all services within the early childhood education and care sector. [**Draft recommendation 2.2**]

**Draft finding: Increased inclusion support funding will be needed for universal access**

Increased funding will be required for the Inclusion Support Program to ensure children with additional needs are adequately supported and included in ECEC. At a minimum, funding should be sufficient to:

- enable Inclusion Agencies and the Inclusion Development Fund Manager to respond to all applications in a timely manner
- enable Inclusion Agencies to provide adequate support and advice to services
- ensure services can manage the increased demand likely to result from adoption of the Commission's recommendations. [**Draft finding 2.5**]



Draft finding: Eligibility requirements for inclusion funding create barriers to access

Services must provide evidence that a child has high ongoing support needs to access the Inclusion Development Fund Subsidy for an Additional Educator or the Family Day Care Top Up. Different professionals can provide this evidence, in a range of forms, including other than a formal diagnosis. But this may not be sufficiently clear to services and families.

Evidence that a child has additional needs other than disability is not accepted in all circumstances, which precludes some children from receiving support. **[Draft finding 2.6]**



Draft recommendation: Amend eligibility requirements for inclusion funding

The Australian Government Department of Education should work with Inclusion Agencies to communicate documentary requirements for receipt of Inclusion Support Program funding more clearly to services, including the eligibility of children without a formal diagnosis.

Evidence a child has additional needs other than disability should be accepted in all circumstances for services seeking to access the Inclusion Development Fund Subsidy for an Additional Educator and the Family Day Care Top Up.

Increasing the funding allocated to the ISP (draft finding 2.5) will ensure children have adequate support, regardless of a diagnosis. **[Draft recommendation 2.3]**



Draft finding: Subsidy design and rules for additional educators are restrictive

Eligible services can apply for a subsidy to hire an additional educator to support the inclusion of children with additional needs through the Inclusion Development Fund Subsidy for an Additional Educator or Immediate/Time-Limited support. But there are several shortcomings with the subsidy design:

- the subsidy rate has not increased since 2016 and does not cover the costs of employing an additional educator
- subsidies can only be claimed for a limited number of hours per week (for example, 25 hours in centre-based day care) irrespective of the number of hours that children who require support are enrolled
- additional educators must meet National Quality Framework qualification requirements – meaning services cannot employ people with relevant experience and expertise in adjacent sectors, such as allied health, unless they also meet National Quality Framework qualification requirements. **[Draft finding 2.7]**

**Draft recommendation: Review and amend additional educator subsidies**

The Australian Government should amend the Inclusion Development Fund Subsidy for an Additional Educator and Immediate/Time-Limited support, including:

- increasing the current hourly subsidy rate so that it subsidises 100% of an additional educator's wage, up to the median hourly wage of a certificate III qualified educator and ensuring it is indexed to the Wage Price Index
- removing limits on the weekly hours the subsidies can be approved for and ensuring they align with the child's enrolled hours
- allowing other human-services qualified staff and inclusion professionals, such as allied health or other relevant professionals to be employed as an additional educator, where the Inclusion Agency agrees this would be appropriate. **[Draft recommendation 2.4]**

**Draft recommendation: Reduce administrative burden of Inclusion Support Program applications**

The Australian Government should assess the application process required for the Inclusion Development Fund with a view to reducing the administrative burden on services. This should include considering whether requirements to seek reapproval when there are changes to the care environment could be relaxed and if further upgrades to the Inclusion Support Portal are required beyond those currently being implemented. **[Draft recommendation 2.5]**

**Draft recommendation: Improve coordination of inclusion funding between governments**

Australian, state and territory governments should better coordinate inclusion funding to reduce complexity for services and families.

In the short-term, the Australian Government Department of Education and relevant state and territory departments of education should work together to streamline application requirements, to reduce the need for services to apply for funding multiple times.

In the long-term, governments should clarify responsibilities for inclusion funding as part of a National Partnership Agreement on ECEC. **[Draft recommendation 2.6]**

ECEC is critical to the wellbeing of many families



Draft finding: Low-income families are less likely to use ECEC

Many families rely on ECEC services, or on a combination of formal and informal care, to participate in the labour force, access study and training or volunteer. ECEC is also a vital link to broader support services.

Families who do not participate in ECEC typically have lower incomes and are more likely to be unemployed or not in the labour force, have a lower level of education and to be receiving income support than those who do participate. They also tend to have more traditional beliefs about gender roles and live in low socio-economic communities.

Families are less likely to use ECEC if they have a parent at home to care for children – whether this is due to their preferences or barriers that prevent them from accessing ECEC is difficult to disentangle. Some families may want to use ECEC but find it too expensive or inaccessible; others may have concerns over the quality of care. [Draft finding 4.1]



Draft finding: Mothers' participation in the labour force has increased markedly

The labour force participation rate of mothers (with a child aged under 15) increased from 67% to 75% over the decade to 2021 – mostly due to an increase in the participation of mothers with a child aged 0–4 years.

Full-time employment among mothers is on the rise, but the part-time employment rate of Australian mothers is still higher than most OECD countries. High rates of part-time work are a feature of the Australian labour market and evidence suggests that preferences are a significant factor in mothers' decisions to work part time. [Draft finding 4.2]



Draft finding: ECEC is not the main barrier for most women who want a job or more hours

Parents' stated preferences when it comes to whether, and how much, they work suggest there is limited scope to increase the participation of fathers in the labour market but some scope for mothers. Most fathers are already employed full time, whereas about one in five mothers with a child aged under 15 years (or 507,000 women) stated they would like a job or to work more hours.

About 85,000 parents who wanted a job or to work more hours nominated ECEC as their main barrier. A further 190,000 parents did not want a job or to work more hours but reported ECEC barriers as their main reason for this position. If barriers were reduced, parents might be able to work their desired hours. Affordability is the most frequently cited ECEC-related barrier, but parents typically nominated others as well including availability and flexibility. [Draft finding 4.3]

**Draft finding: Removing ECEC-related barriers could see an increase in labour supply equivalent to up to 118,000 full-time workers**

If all reported ECEC-related barriers were removed, it is estimated that the equivalent of an additional 44,000 full-time workers among those wanting a job or more hours could be added to the labour supply. These would mostly be mothers from lower income households, those with younger children (aged 0–4 years), those who are more likely to have not completed high school and those who are single parents.

If parents who reported *not wanting* a job or to work more hours and for whom ECEC-related barriers are the main reason for this status are included in the estimate, then the equivalent of 118,000 full-time workers could be added to labour supply.

These figures are upper bounds – the analysis assumes that all ECEC-related issues are solved (including availability) and that any non-ECEC barriers are not sufficient to prevent these parents' engagement in the labour force. **[Draft finding 4.4]**

**Draft finding: High effective marginal tax rates are largely due to the tax and transfer system**

Effective marginal tax rates (EMTRs) are high for many mothers, creating a financial disincentive to work more than part-time hours. However, this is mainly due to the tax and transfer system rather than out-of-pocket ECEC expenses. The contribution of ECEC expenses to high EMTRs has likely been reduced further by the introduction of the 2022 Higher Child Care Subsidy and 2023 Cheaper Child Care reform. **[Draft finding 4.5]**

ECEC services should be flexible and responsive to the needs of families**Draft finding: ECEC services cater to many children and families, but some families need additional support**

While the current system caters for many families, others may require or prefer different approaches to meet their needs or address barriers to access, and some may require additional support beyond ECEC.

Integrated services can support children and families experiencing vulnerability or requiring services beyond ECEC. Initiatives that create the 'connection function' that links ECEC services with other child and family services, such as health and family supports, can also overcome the siloing of services, providing more effective support to families. **[Draft finding 7.1]**



Draft recommendation: Ensure integrated services are available where needed

An ECEC Commission (draft recommendation 9.2) should be responsible for advising governments on the need for integrated early years services involving ECEC and the communities in which they are needed. **[Draft recommendation 7.1]**



Draft recommendation: Support connections between ECEC and child and family services

As part of its role in assessing access to ECEC, an ECEC Commission (draft recommendation 9.2) should be responsible for examining connections between ECEC and other child and family services and identifying the most suitable way to address any gaps. **[Draft recommendation 7.2]**



Draft finding: Playgroups are a valuable part of the early years system

While outside of the formal ECEC system, playgroups play a valuable role in supporting families and children in their early years. An ECEC Commission (draft recommendation 9.2) should consider a community's preference for a playgroup when assessing ECEC availability. **[Draft finding 7.2]**



Draft finding: Additional costs of providing ECEC during non-standard hours are not reflected in the hourly rate cap

Access to Child Care Subsidy approved services during non-standard hours is limited. Services incur additional costs, such as penalty rates, to provide ECEC during these times but these costs are not reflected in the hourly rate cap. **[Draft finding 7.4]**

**Draft recommendation: Introduce a higher hourly rate cap for non-standard hours**

The Australian Government should raise the hourly rate cap for ECEC delivered during non-standard hours. In designing the higher rate cap, the Australian Government should ensure:

- families are required to provide evidence that both parents work non-standard hours to access the higher rate cap
- the higher rate cap is only available during non-standard hours, with the definition adopted in the *Children's Services Award* (weekdays before 6.00am and after 6.30pm and weekends) offering a useful anchor point (but is not available if services offer care for a short period either side of standard hours)
- the higher rate cap is applied to all service types, although different rates should be set for each service type to reflect differences between them in costs of provision.

The higher rate cap should be set based on the costs of providing early childhood education and care during non-standard hours and subject to regular review and indexation as outlined in draft recommendation 6.2. [**Draft recommendation 7.3**]

**Draft recommendation: Examine planning restrictions related to operating hours**

State, territory and local governments should examine their planning regulations to ensure they do not unnecessarily restrict the ability of services to provide ECEC during non-standard hours. [**Draft recommendation 7.4**]

**Draft finding: Families do not use a significant amount of the ECEC that they pay for**

In centre-based day care, services most commonly charge a daily fee for a full-day session (such as 10 or 12 hours) although some may offer shorter or part-day sessions. Children's attendance patterns often do not align with hours charged for, meaning families and taxpayers pay for ECEC that is unused. Across a year, children only attend about 60% of the hours for which their families are charged.

This inflexibility can lead to families being charged for unsubsidised hours. It may also create 'air pockets' in the system. Over 10% of children who attended CBDC in 2021-22 did so for an average of less than six hours a day in at least half of the weeks they attended. This suggests there is unused capacity in the system that may be able to be used by other families. [**Draft finding 7.5**]



Draft recommendation: Ensure occasional care is available where needed

An ECEC Commission (draft recommendation 9.2) should be responsible for advising on the need for additional investments in occasional care and the communities in which these services are needed. Where additional investments are required, funding should be available through a more flexible Community Child Care Fund. **[Draft recommendation 7.5]**



Draft finding: Dedicated preschools have difficulty providing additional subsidised hours of ECEC

The 15 hours per week of preschool provided under the Preschool Reform Agreement do not align with a standard work week. For families accessing dedicated preschools, this may mean they need to supplement preschool hours with additional ECEC to support their labour force participation.

Dedicated preschools are not prohibited from offering additional hours of ECEC, or from facilitating access to a separate outside preschool hours service either on or off site. But provisions in Family Assistance Law make it hard for these types of activities to attract the Child Care Subsidy. **[Draft finding 7.6]**



Draft recommendation: Support out of preschool hours ECEC

To support greater access to outside preschool hours ECEC, the Australian Government should amend Family Assistance Law to:

- allow dedicated preschools to claim the Child Care Subsidy (CCS) for additional ‘non-preschool’ hours by creating a separate ‘wrap-around preschool’ care type that would:
 - not be subject to minimum operating periods or restrictions that it must not predominantly provide a preschool program in the year before full-time school
 - attract the CCS for hours of ECEC delivered beyond jurisdiction-specific standard preschool hours, with services required to report on the length of the preschool session delivered
- make it easier for providers to establish a CCS-eligible ‘outside preschool hours’ service, by creating a separate ‘outside preschool hours’ care type that would cater primarily to preschool aged children and would not be subject to the minimum 48-week operating period. **[Draft recommendation 7.6]**

Many Aboriginal and Torres Strait Islander families prefer Aboriginal Community Controlled Organisations



Draft finding: It is unclear if the National Quality Framework adequately promotes cultural safety and capability

Cultural safety is critical to Aboriginal and Torres Strait Islander families and children.

While Aboriginal Community Controlled Organisations may often be the first preference of Aboriginal and Torres Strait Islander children and families when accessing ECEC, there is also a need to ensure mainstream ECEC services are inclusive of Aboriginal and Torres Strait Islander children and families.

The National Quality Framework sets expectations around inclusion and cultural responsiveness. Revised versions of the national approved learning frameworks, released in 2023, include a strengthened focus on Aboriginal and Torres Strait Islander perspectives. It is unclear whether further changes to the National Quality Framework are needed to promote cultural safety and capability. **[Draft finding 2.4]**



Draft finding: ACCOs are well placed to provide early years and family services – but face funding challenges

Aboriginal Community Controlled Organisations (ACCOs) provide culturally safe ECEC to Aboriginal and Torres Strait Islander children – but often face funding challenges and uncertainty.

Under Priority Reform 2 of the National Agreement on Closing the Gap, governments have committed to building Aboriginal and Torres Strait Islander community-controlled sectors, including in early childhood care and development. The Early Childhood Care and Development Policy Partnership, established as part of the Closing the Gap commitments, provides a forum for governments and Aboriginal and Torres Strait Islander people to develop new funding frameworks to support the work of ACCOs. **[Draft finding 7.3]**

Quality is paramount to achieving the benefits of ECEC



Draft recommendation: State and territory regulatory authorities should improve their performance reporting

To improve the transparency of the ECEC regulatory system, all regulatory authorities should publish an annual report detailing progress against key objectives, including metrics on the number of assessments performed, average time between assessments, funding and other monitoring, compliance and enforcement activities. [**Draft recommendation 8.1**].



Draft finding: The timeframe between service assessments is too long

The time between ECEC quality assessments undertaken by state regulatory authorities is unacceptably long. This increases the risk of poor quality service provision and undermines the relevance and value of quality ratings. [**Draft finding 8.1**]



Draft recommendation: Ensure regulatory authorities are adequately resourced

The operations of the state and territory regulatory authorities that administer the National Quality Framework should be independently reviewed. This review should examine the timeliness of assessments, and whether additional funding is required to enable authorities to improve timeliness.

Based on the outcomes of this review, the Australian Government should ensure additional funding is provided to state and territory regulatory authorities, to provide updated assessments within agreed timeframes. [**Draft recommendation 8.3**]



Draft recommendation: Incentivise quality provision in new ECEC services

State and territory regulatory authorities should be required to consider the performance of a provider's existing services when making decisions on an application to approve new services from that provider, and prioritise new service approvals from higher rated providers over those with lower existing service ratings. [**Draft recommendation 8.4**]



Draft finding: Families tend not to use information about service ratings

Families are usually unaware of or do not value ratings against the National Quality Standard when choosing between ECEC services, preferring other indicators of quality. Families would benefit from more detailed, accessible information on service ratings. **[Draft finding 8.2]**



Draft recommendation: A new review of the National Quality Framework

Australian, state and territory governments should, through the Education Ministers Meeting, commission ACECQA to review the National Quality Framework, with a specific focus on the way in which services are assessed against the National Quality Standard, and if assessments could be made more accurate, consistent and efficient.

NQF reviews should be conducted on a regular basis to enable regulators to incorporate feedback from ECEC providers as well as new findings from research on links between ECEC quality and children's outcomes. **[Draft recommendation 8.2]**



Draft recommendation: Ensure appropriate quality regulation for services outside the scope of the National Quality Framework

The Australian Government should ensure that any future funding models or agreements for services receiving direct Australian Government ECEC funding that are out-of-scope of the National Quality Framework include mechanisms to ensure and monitor the quality of these services.

An ECEC Commission (draft recommendation 9.2) should be tasked with reviewing regulatory arrangements for out-of-scope services receiving direct Australian Government ECEC funding to ensure they meet the needs of children. As part of this work, the ECEC Commission, with Australian, state and territory governments should undertake a process of joint decision-making with Aboriginal and Torres Strait Islander services, communities and peaks to determine the appropriate way to regulate the quality of Aboriginal and Torres Strait Islander services out-of-scope of the National Quality Framework. **[Draft recommendation 2.1]**



Draft finding: It is unclear whether the National Quality Framework is fit-for-purpose for outside school hours care

Under the National Quality Framework (NQF), outside school hours care (OSHC) services are regulated in a similar way to services for children under school age. But children in OSHC are likely to have different needs.

Despite the fact that children attending an OSHC service usually also attend the school at which that service is located, the Commission has heard of instances where the school environment may not meet the requirements of the NQF.

It is hard to determine whether the issues raised by inquiry participants relate to the standards in the NQF, the inappropriate application of those standards to an OSHC context or both.

Moreover, while the national approved learning framework for school-aged care reflects the importance of leisure, this is not reflected in the National Quality Standard. [**Draft finding 2.3**]

New coordination mechanisms will support universal access



Draft finding: A one-size-fits-all funding model would not be efficient or effective

A one-size-fits-all approach to ECEC funding would not be an efficient or effective model to support the objectives of access, affordability, inclusion and flexibility. A mixed approach comprising mainstream funding to support affordability and accessibility for all families, and additional expenditure targeted to enabling participation among those with higher needs, could efficiently and effectively underpin a universal system. [**Draft finding 9.1**]



Draft finding: Improving components of the funding model would support universal access

The architecture of the current ECEC funding model provides a baseline mechanism to support families to access ECEC, with additional, targeted interventions to address cost barriers, provide additional support for inclusion needs and to establish services in regional and remote markets.

Reforms to improve the efficiency and effectiveness of the Child Care Subsidy, Additional Child Care Subsidy, Inclusion Support Program and Community Child Care Fund would represent a significant improvement on the current funding model and contribute to achieving universal access.

These reforms should be complemented through a more coordinated approach between the Australian, state and territory governments to co-fund preschool, address availability gaps and support the establishment of integrated services where there is a need. [**Draft finding 9.2**]

**Draft finding: System stewardship is a missing part of the policy puzzle**

Overlapping roles and responsibilities between different levels of government create a range of coordination challenges for sector participants. Funding and policy coordination can be addressed through a stewardship model. There would be benefit in clarifying roles and responsibilities through the national vision for ECEC and any future partnership agreement between governments. **[Draft finding 9.3]**

**Draft finding: States and territories are better placed to oversee and ensure availability of OSHC**

There is a strong case for state and territory governments to take responsibility for ensuring the provision of outside school hours care (OSHC) in government schools to address availability gaps, promote more consistent charging and contracting practices within jurisdictions, and improve linkages between schools and the OSHC providers operating on site. **[Draft finding 9.4]**

**Draft recommendation: Improve policy coordination and implementation**

The Australian, state and territory governments should form a new National Partnership Agreement (NPA) for Early Childhood Education and Care (ECEC) by 2026.

The NPA should articulate the national vision for ECEC and clarify roles and responsibilities between all governments.

- The Australian Government should remain responsible for early childhood policies in the years before preschool and for associated funding responsibilities and for the funding of outside school hours care through the CCS.
- State and territory governments should remain responsible for preschool, school readiness and take on the responsibility of ensuring the delivery of outside school hours care in government schools.
- Governments should build upon the Preschool Reform Agreement to ensure funding supports the desired outcomes, regardless of the preschool delivery model adopted in each jurisdiction.

The NPA can also help to establish a more formal stewardship approach, underpinned by an ECEC Commission (draft recommendation 9.2). **[Draft recommendation 9.1]**



Draft recommendation: Establish an ECEC Commission

A stewardship model – where the Australian, state and territory governments better coordinate their roles in the ECEC system and share accountability for sector outcomes – should be implemented to address some of the challenges observed in the market, coordinate a more cohesive policy response and steer the sector towards universal access. This should be underpinned by an ECEC Commission, jointly established by the Australian, state and territory governments as part of a new National Partnership Agreement (draft recommendation 9.1). The ECEC Commission should have two main functions:

- support the Australian, state and territory governments to better coordinate and deliver ECEC policies, by providing information and advice
- provide a mechanism to hold the system stewards publicly accountable for achieving the objectives of ECEC policy.

The ECEC Commission will require high quality data to execute its advisory and reporting functions effectively. It should have the authority to collect data from the Australian, state and territory governments, as well as mechanisms to safely store and share data between jurisdictions. **[Draft recommendation 9.2]**



Draft finding: There is more to learn about how ECEC programs can best improve children's outcomes

The literature on early childhood education and care programs presents some lessons about how programs and systems to improve children's outcomes might be designed, but there is also much that is not known.

- The benefits from ECEC programs can be greatest for children experiencing disadvantage or vulnerability, while extending more broadly. Services that are accessible to children from a wide range of backgrounds may, as well as reaching more children, be more conducive for the learning and development of each child who does attend.
- Benefits have been produced by programs with a wide range of features, including those with different operating models, starting ages and number of weekly hours attended. Realising the potential of ECEC for childhood development requires a better understanding of how program features affect children's outcomes.
- Factors that contribute to the quality of ECEC services can be difficult to disentangle using available measures of process or structural quality. Predictions of how children's outcomes will be affected by efforts to improve these measures, including regulated features of services such as staffing requirements, are highly uncertain.

While the ECEC Commission may be best placed to oversee a research agenda, many actions would need to be taken before one is established. The Australian Education Research Organisation could commence the process of developing and overseeing the implementation of a research agenda in the short term. **[Draft finding 1.2]**

Information requests



Suitability of the National Quality Framework for Outside School Hours Care

The Commission seeks further information about the suitability of the National Quality Framework (NQF) for outside school hours care (OSHC) services.

- Is the NQF suitable for an OSHC context and for school-aged children? If not, why?
- If not, would further guidance to services and assessing officers on how NQF requirements should apply in an OSHC setting be sufficient to address concerns? Or are modifications to the NQF required to account for the needs of school-aged children? **[Information request 2.1]**



Cultural safety in ECEC services

The Commission seeks information on cultural safety in ECEC services for Aboriginal and Torres Strait Islander and culturally and linguistically diverse families and children.

- What factors most effectively promote the provision of culturally safe ECEC?
- Should there be changes to the National Quality Framework to promote cultural safety and capability, beyond the updated learning frameworks? Would a national cultural competency framework help improve the cultural safety of ECEC services for Aboriginal and Torres Strait Islander families and children?
- Does the structure of the Inclusion Support Program adequately prioritise and allow provision of culturally safe ECEC in mainstream services? If not, what are the issues and how could these be addressed?
- Would professional development in cultural capability (draft recommendation 3.6) be adequate to promote inclusion in ECEC services, or are there other components required? **[Information request 2.2]**



Functioning of the Inclusion Support Program in family day care

The Commission is seeking feedback on whether the Inclusion Support Program provides effective support to family day care services. Is the Family Day Care Top Up adequate? **[Information request 2.3]**



Transition to school statements

The Commission is seeking information on the extent to which transition to school statements are used, their adequacy and whether they contribute to more effective transitions. **[Information request 2.4]**



ECEC-related vocational education and training

The Commission is seeking information on the quality of ECEC-related vocational education and training (VET). In particular, the Commission would welcome views on:

- the impact of recent and ongoing reform – both to VET ECEC qualifications and the VET sector more broadly – on the quality of qualifications and the job readiness of ECEC graduates
- whether there are widespread problems with the quality of VET ECEC courses, and if so, what these problems are, why they exist and what should be done to address them. **[Information request 3.1]**



Effectiveness of traineeship arrangements

The Commission is seeking information on the effectiveness of traineeships as a career pathway in ECEC, for trainees as well as ECEC providers.

The Commission would also welcome views on opportunities to improve traineeship arrangements. **[Information request 3.2]**



Falling completion rates for early childhood teaching qualifications

The Commission is seeking views on the factors that have led to a decline in completion rates of early childhood teaching qualifications. **[Information request 3.3]**



Low rates of expansion among not-for-profit providers

The Commission is seeking information about possible reasons why not-for-profit providers have not expanded to meet the growing demand for ECEC. What, if any, barriers and limitations do they face? **[Information request 5.1]**

Planning processes and availability of ECEC

The Commission is seeking views on the effects of planning processes on the availability of ECEC.

Are delays, inconsistency or complexity in the development assessment process, or unwarranted rejections of applications for development approval for ECEC centres, posing a barrier to availability? Where are planning systems working well to support the availability of ECEC services, and how could these efforts be built on or expanded? **[Information request 5.2]**

Potential modifications to the activity test

The Commission is seeking views on the costs and benefits of options to modify the Child Care Subsidy activity test. Draft recommendation 6.2 would relax the activity test to allow all families to access up to 30 hours of subsidised care a week (60 hours per fortnight) regardless of activity, providing a step towards universal access. Options for the levels of activity that should be required for hours above 60 hours of subsidised care per fortnight could include:

- retaining the current activity test for hours of care over 60 hours per fortnight. This would allow 60 subsidised hours for all families, up to 72 hours of subsidised hours for families with 16 to 48 activity hours per fortnight, and up to 100 hours of subsidised care for those with more than 48 activity hours
- simplifying the number of activity test tiers further by allowing 60 subsidised hours for all families and up to 100 subsidised hours for those with more than 48 activity hours
- simplifying the number of activity test tiers by allowing 72 subsidised hours for all families and up to 100 subsidised hours for those with more than 48 activity hours.

The introduction of a modified activity test could also be phased, for example, starting with lower income families, in order to allow time for supply to respond to increased demand and to evaluate the effects of the change before relaxing the activity test more widely. The Commission is seeking views on the costs and benefits of a phased introduction, and which cohorts of families would benefit most from being able to access a relaxed activity test earlier. **[Information request 6.1]**

Child Care Subsidy taper rates

The Commission is seeking views on how Child Care Subsidy taper rates could be designed if the top rate of subsidy was increased to 100% of the hourly rate cap, as proposed in draft recommendation 6.2. This includes options to adjust taper rates for the Higher Child Care Subsidy, available to families with multiple children aged five or younger in ECEC who are eligible for a subsidy. **[Information request 6.2]**



Level and indexation of the hourly rate cap

The Commission is seeking information on how the level and indexation of the Child Care Subsidy's hourly rate cap could be adjusted to better reflect costs of provision over time, including a higher hourly rate cap for non-standard hours, as proposed in draft recommendations 6.2 and 7.3. **[Information request 6.3]**



Potential expansions: CCS to families with restricted residency; Assistance for Isolated Children Distance Education Allowance to preschoolers in isolated areas

The Commission is seeking views on the costs, benefits and practicalities of:

- expanding CCS eligibility to include families who have restricted residency in Australia such as temporary protection visa holders
- expanding the Assistance for Isolated Children Distance Education Allowance to include children receiving a preschool education in geographically isolated areas. **[Information request 6.4]**



Potential measures to reduce CCS administrative complexity

The Commission is seeking views on the costs and benefits of potential measures to reduce Child Care Subsidy (CCS) administrative complexity. These may include:

- streamlining the Higher Child Care Subsidy rate to be more aligned with the CCS rate over time
- allowing families who are already eligible for income support payments or a Health Care Card to be automatically eligible for CCS, and aligning processes that are similar across CCS and other payments
- extending the initial length of eligibility for Additional Child Care Subsidy (Child Wellbeing) from six weeks to 26 weeks and subsequent lengths of eligibility to between 26 and 52 weeks
- extending the length of eligibility for Additional Child Care Subsidy (Child Wellbeing) for those children on a long-term protection order, in formal foster care or in a formal kinship arrangement, while their circumstances remain unchanged
- extending Additional Child Care Subsidy (Grandparent) to recognise informal kinship carer arrangements
- maintaining a child's eligibility for CCS for a period of eight weeks when there is a change of guardian. **[Information request 6.5]**



Scope for broader funding reform

The Commission welcomes views on the implications of broader funding reform in ECEC for children, families, service providers and governments, including the benefits and costs of expanding the use of supply-side funding mechanisms. **[Information request 9.1]**



The CCCF as a vehicle to address practical barriers to ECEC access

The Commission is seeking information on the appropriateness and responsiveness of the Community Child Care Fund (CCCF) to address practical barriers to ECEC access (such as transport) that families may face.

- Do CCCF grants adequately and effectively respond to the various practical barriers (such as transport or food provision) that families face in accessing ECEC?
 - Is the current frequency (that is, grant rounds every 2–3 years) and funding amount available to services for community-level supports sufficient? If CCCF is not accessed for this purpose, are services receiving funding for this elsewhere?
- If the current CCCF does not adequately and effectively respond to these needs, what funding changes are needed? Options could include:
 - a more flexible approach through CCCF, with an open pool of funds that could be applied for as needed and available to all services, provided they demonstrated community need in their application
 - an expansion of the Inclusion Support Program, where funding could be provided through Innovative Solutions. **[Information request 7.1]**



'System navigator' roles in the ECEC sector

The Commission is seeking views from inquiry participants on 'system navigator' roles in the ECEC sector.

- Are current initiatives to support families experiencing additional barriers to navigating the ECEC system sufficient? Do they require additional information or support to perform this role?
- Is there a need for national investment in system navigator roles?
 - If so, who would be best placed to perform these roles? Examples could include Inclusion Agencies or contracted delivery by a range of ECEC services, community organisations, local councils or ACCOs.
 - How could this be delivered across different groups of families (for example, regional or remote, Aboriginal and Torres Strait Islander and culturally and linguistically diverse families), including ensuring delivery in a culturally sensitive manner? **[Information request 7.2]**



Barriers and potential solutions to providing more flexible sessions of ECEC

The Commission is seeking information on barriers and potential solutions to providing shorter sessions of ECEC that more closely mirror attendance patterns and are less expensive than full-day sessions, particularly in centre-based day care. Suggestions for ways that unused hours ('air pockets' in the system) might be made available to families who want access to ECEC on an occasional basis are also sought. **[Information request 7.3]**



Availability of occasional care

The Commission is seeking information about the availability of ECEC on an occasional basis. What barriers, if any, do services face in providing this type of care? How might these be resolved? Are families' needs for this type of care going unmet? **[Information request 7.4]**



Provision of service ratings information for families

The Commission is seeking information on how service ratings information could be made more useful and more accessible to families. For example:

- requiring services to display ratings information on their website
- changing how ratings information is communicated:
 - to specify which element/s of the National Quality Standard a service did not meet
 - to make clearer what is meant by a rating of Working Towards
- requiring services to inform:
 - prospective families of their current National Quality Standard rating
 - current families of a new National Quality Standard rating.

Would these changes be desirable, and how would they best be implemented? Are there other options that should be considered? **[Information request 8.1]**



Regulatory actions against serial underperformers

The Commission is seeking views about the most appropriate regulatory actions for serial underperformers, while considering the effects on families and children from more severe measures (such as service closure). Would this be best addressed by additional powers for regulatory authorities, or by regulators making more use of existing powers? **[Information request 8.2]**



Support for services to meet the NQS

The Commission is seeking information and evidence about the extent to which services need more support to meet the NQS, and the types of support required. For example, would the Quality Support Program offered in New South Wales provide the type of support needed by services in other states to meet the NQS? **[Information request 8.3]**



An ECEC Commission

The Commission is seeking views on:

- how the proposed ECEC Commission should be structured
- what the scope of its functions should be
- whether it should include the national regulator, the Australian Children's Education and Care Quality Authority (ACECQA). **[Information request 9.2]**

Draft supplementary papers

1. Children's outcomes

Key points

- * The first five years are a critical time in a child's life. Emotional, social, cognitive, and language development occurs at a faster rate in this period than in any other.
- * Early childhood education and care (ECEC) can support children to flourish during this 'window of opportunity', complementing the role of families and of other early childhood development policies and services.
- * ECEC can prepare children for school and improve their outcomes across many areas, including in adolescence and adulthood. Various programs have enabled children to:
 - be more likely to complete secondary schooling and tertiary education
 - perform better in the labour market, with higher earnings and employment
 - experience better physical and mental health outcomes.
- * Children experiencing vulnerability or disadvantage can have the most to gain from ECEC, reducing social disparities and disrupting intergenerational cycles of disadvantage.
- * The extent of the benefits that ECEC provides to children will hinge on the quality of the service and the characteristics of the home environment.
- * There is a need for further research, including on the effects of service type, the amount of time children are in ECEC and staffing arrangements in services, for children of different ages.

This paper focuses on the effects of early childhood education and care (ECEC) experiences on children's outcomes. The role of ECEC in contributing to children's education and development is strongly supported by almost all inquiry participants, including providers, governments and researchers (for example, Goodstart Early Learning, sub. 125, pp. 90–95; NSW Government, sub. 158, p. 12; Queensland University of Technology School of Early Childhood and Inclusive Education, sub. 52, pp. 2–4).

Section 1 discusses the importance of the first five years of a child's life. Section 2 examines the evidence on how past ECEC programs have affected children's outcomes, and how this informs current policy choices. Section 3 considers the 'active ingredients' in successful ECEC programs. Section 4 discusses how a research agenda could inform the future evolution of ECEC policy and improve its ability to support childhood development.

1.1 The science of early childhood development

In the first few years of a child's life, their emotional, social, cognitive and language skills develop rapidly, with neural connections forming at a fast pace (Center on the Developing Child 2007). By age six, a child's total brain volume reaches 95% of its peak (Giedd et al. 2015).

Early childhood development does not occur at the same rate for all children, however. Differences can manifest during the early years and, afterwards, become stubborn to shift (Chaparro et al. 2020, p. 1).

The relationship between [socio-economic status (SES)] and average gray-matter volume is weak in the first year of life, but large SES-based gaps emerge between ages 1 and 3 as average gray-matter volume becomes strongly and positively correlated with SES (Hanson et al., 2013). By age 5, reading and math achievement is strongly correlated with family income (Heckman, 2006; Reardon, 2011; Figlio et al., 2014). Gaps in cognitive skills existing at that point persist throughout childhood without further widening and have strong relationships with adult productivity and life success (Cunha et al., 2006; Council of Economic Advisers, 2016b).

But the extent of these disparities is not inevitable. Sensitive or critical periods in the development of brain circuitry, where plasticity is elevated, can be a 'window of opportunity' for interventions promoting healthy brain development as early experiences shape the brain architecture on which future skill development depends (Boyce et al. 2021; Knudsen et al. 2006; Noble 2021).

Early childhood education and care can take advantage of this 'window of opportunity', with relationships between children and warm and supportive caregivers being crucial for developmental pathways. And while a child's parents play a central role in their development, children can benefit from secure relationships with multiple caregivers, whether or not these caregivers are part of their family (National Scientific Council on the Developing Child 2004).

Neuroscientists have pointed to the significance of ECEC given the rapid development of language, self-regulation, and emotional competencies in early childhood, and the potential of ECEC to mitigate the effects of early adverse experiences (Sinclair-Harding et al. 2018).

The potential of ECEC may be even greater for children experiencing vulnerability or disadvantage. Childhood development can be impaired when parents face additional challenges in providing a supportive and stimulating home environment, or there is exposure to toxic stress, poverty, or other adverse circumstances (Boyce et al. 2021; Noble 2021). When a child's home environment is less supportive of their development, the relative quality of ECEC will be higher, and they may have more to gain.

Still, while neuroscience and developmental psychology can demonstrate the significance of the early years, determining how to best set children up for healthy development requires an understanding of the effects that ECEC programs have had in practice.

1.2 Many ECEC programs have improved children's outcomes

Evidence on ECEC must be considered carefully

An extensive body of research has attempted to identify how ECEC programs have affected children's outcomes. This is challenging to achieve given the complex set of factors influencing families' ECEC choices including their resources, preferences and perceptions of their child's developmental needs. Most studies

have simply compared children who did and did not attend ECEC while attempting to adjust for relevant differences between these two groups. But this approach will not isolate the effects of the ECEC services if any of these differences was not measured but relates to children's outcomes.

There have been a small number of randomised controlled trials (RCTs) that randomly determined which children attended ECEC programs, but these are mostly limited to quite specific contexts. The most prominent evidence put forward in discussions of the effects of ECEC is often characterised by an inability to isolate the role of ECEC or reflects a context of limited relevance to mainstream services in Australia, if not both (box 1.1).

Box 1.1 – Methodological challenges in using research on ECEC to guide policy

The challenges in weighing up the empirical evidence on ECEC to inform particular policy decisions are well recognised (see, for example, Bray and Gray, sub. 14, pp. 28-30; Borland, sub. 94, pp. 1-7). Broadly, these involve determining whether a study was able to credibly identify the effects of the specific intervention it considered (internal validity), and, for a particular context, the relevance of that intervention, the cohort who received it, and the context in which it was delivered (external validity).

Internal validity

A group of children who access ECEC services may achieve different outcomes to a group of children who do not. Whether this provides evidence for an effect of those service depends on the characteristics of these two groups, and why only some accessed ECEC. If differences in participation are driven by factors relating to the child or their family, comparisons can provide misleading results. For example, if children from a more socio-economically advantaged background are more likely to attend than children experiencing disadvantage, differences in outcomes for those who attend will be due, at least in part, to their background.

The most common approach to this issue has been to control for whichever factors are included in the researcher's dataset and seem as though they may be a confounder, such as the education level or employment status of a child's parents (for example, this approach comprises the vast majority of papers cited in reviews such as Melhuish et al. 2015). This can reduce 'statistical bias', the average difference between the answer produced by a statistical method and the true answer. But if there is any relevant factor that does not appear in the data, or is imperfectly captured by it, this bias will not be eliminated.

It seems unlikely that all relevant factors can ever be captured. For example, even among parents who seem identical in every other (measured) respect, those who read to their children more are more likely to send them to ECEC (Azpitarte et al. 2019). Unless an observational study has data on this, it will conflate the effect of ECEC with the effect of this aspect of parental support. And even if it is included, or on its own has only a modest effect, other factors such as the quality of interactions between parents and children are impossible to perfectly measure, could plausibly correlate with ECEC enrolment decisions, and would be expected to independently affect children's outcomes.

Statistical bias matters in practice. Observational studies can be far more likely to provide a misleading indication of a statistically significant effect, produce an apparent effect that is much larger or smaller than the true effect, or produce an apparent effect that is in the opposite direction to the true effect (see, for example, Duncan et al. 2004).

The simplest approach to this issue is to randomly assign children to attend or not attend ECEC. Although these RCTs will not always be internally valid (for example, if some children drop out of the

Box 1.1 – Methodological challenges in using research on ECEC to guide policy

study for reasons relating to the outcomes they would have achieved and the group to which they were assigned), this methodology is arguably the most likely to isolate the effects of a program. Due to cost and ethical concerns RCTs are rare, and too few have been conducted to create a strong evidence base on the effects of mainstream ECEC programs. Still, ‘natural experiments’ can in some circumstances provide similarly high levels of internal validity, as discussed below.

External validity

Even if an analysis credibly identifies the effect of a specific intervention, that intervention may be of questionable relevance to a particular policy decision. ECEC services and programs differ in terms of objectives, service models, pedagogy, educator qualifications and ratios of educators to children, among many other factors. And the children who are examined by different studies will vary in terms of factors including their age, level of disadvantage and the care arrangements they would have participated in if they did not attend ECEC.

Perhaps the most prominent evidence on ECEC comes from the Perry Preschool Program and the Abecedarian Project. While evaluations were plausibly able to isolate the effects of these programs for their particular cohorts, these programs were very narrowly targeted. Perry recruited 123 children in Ypsilanti, Michigan, in 1962, all with IQs below 85. Abecedarian, beginning in 1972 in Chapel Hill, North Carolina, recruited 111 children with a high score on a parental risk index based on factors such as poverty, low IQ, and being known to local social services agencies (Conti et al. 2016). These programs are also generally considered to have been very high quality. The benefits they conferred on their cohorts were extremely large, but analyses of programs that were more recent, of more typical quality levels, and served a more mainstream cohort have typically found the benefits of these programs were a fraction of those generated by Perry and Abecedarian.

While findings from individual studies are often framed as universal truths, the relevance of a particular finding about an ECEC program for a specific policy question will depend on the similarity of the interventions and the cohorts between the two contexts, which must be carefully considered.

The Commission has focused on evidence that used research designs with the potential to isolate the effects of the interventions they studied. This evidence includes RCTs, but mostly draws on research from a variety of disciplines that has analysed ‘natural experiments’, where despite ECEC participation not being determined by explicit randomisation, the details of some policy create differences in ECEC participation that may be as good as random, and unrelated to relevant child or family characteristics.

For example, if oversubscribed ECEC services determine the children to whom a place is offered through a lottery, some children will attend while others will not simply due to chance. Or if children are only eligible to attend preschool if they are born after a certain date, two children born one day apart may be identical in every respect, except that only one is eligible for an additional year of preschool. And if one jurisdiction expands access to ECEC while similar jurisdictions do not, some children will participate in ECEC only

because they happen to live in that jurisdiction. Many studies using techniques that take advantage of similar scenarios can credibly estimate the effects of particular ECEC programs.¹

The majority of this research studied interventions that took place in other countries.² The relevance of international evidence hinges on its ability to collectively establish effects that would also be felt in Australia, which is by no means guaranteed. That an ECEC program in one country had a particular effect does not prove that the same effect would be produced by a different program in Australia. But if similar effects are demonstrated by programs with different features in a number of similar countries, then it is more likely that such effects would also be generated here. As argued by one economist:

One study, done for a different country, that comes to a particular conclusion, could be appropriately viewed as not highly relevant for Australia, due to differences such as the type of program or institutional features. However, multiple studies done for a variety of different countries, which come to similar conclusions, and where those studies cover a variety of types of programs and populations, could justifiably be argued to be identifying systematic findings, that do then become relevant. (Borland, sub. 94, p. 5)

How likely this standard is to be met, and the level of confidence we can have that a particular benefit will be realised, varies by outcome.

¹ Many others do not, as the assumptions required for these approaches to work are strong. For example, if primary school test scores improve at a faster rate in a jurisdiction that expands access to ECEC, this could not be solely attributed to ECEC if that jurisdiction also improved the quality of its primary school teaching, or changed its assessment processes. The nature of these analyses also means that the effects they identify are sometimes of narrower relevance. For example, if an age cutoff applies, being born one day earlier may make a child eligible for an ECEC program. But a study may only be able to estimate the effect of eligibility for that program, rather than participation in it. And the children who are enrolled as soon as they are eligible may differ from those who are not. The relevance of the effect that a particular study would identify if all its assumptions held, and the likelihood that its assumptions do, in fact, hold, must be carefully considered.

² The Commission has generally limited its focus to evidence from advanced economies. One meta-analysis has suggested that ECEC interventions in low- and middle-income countries have produced similar effects to those in high-income countries (Holla et al. 2021). While similarity in estimated effect sizes between these groups of countries could provide an indication of external validity between ECEC interventions, the meta-analysis groups programs expanding access to ECEC with those aiming to improve its quality, and includes estimates of effects from *eligibility* for some programs as well as estimated effects of *participation* in others. Similarities in estimated effects between countries of different income levels could be due to differences in the characteristics of interventions and how they were evaluated, rather than similarities in the effects that the same intervention would have between contexts.

The range of potential benefits is wide

Findings from rigorous evidence show that ECEC programs can have a range of positive effects (table 1.1).

Table 1.1 – ECEC programs have produced benefits across a wide range of outcomes

Outcome	What has been found?	How strong is the evidence?
Early cognitive skills, test scores, school readiness	An improvement over various developmental and cognitive domains in early childhood.	There is extensive, often credible and fairly consistent evidence of improvements – although some programs seem to have produced null or adverse effects.
Educational attainment	Reductions in grade repetition, increases in high school graduation, and increases in university attendance.	A reasonable number of credible studies have found benefits to educational attainment. Findings mostly come from targeted and/or older programs.
Labour market outcomes	A persistent increase in employment and earnings.	Almost all the studies that estimated effects on educational attainment also consider labour market outcomes and find benefits for at least some children.
Physical and mental health	Improved mental and physical health outcomes that can persist well into adulthood.	A reasonable number of credible studies have found benefits to various health outcomes. Findings mostly come from older programs.
Contact with the justice system	Fewer offences committed and less contact with the criminal justice system.	Evidence is strong where it exists, but relatively rare. It is mostly limited to targeted programs.
Social connection	Improvements in sociability, ability to make friends in childhood, and relationships during adulthood.	Very few studies have measured these outcomes, and their results cannot be easily compared.
Equity	Greater benefits for children experiencing disadvantage.	Most studies find benefits of ECEC are greater when parental income or education is lower.

Skills developed in early childhood

The vast majority of studies on the effects of ECEC examine some measure of cognitive skills or development during young ages, such as school readiness, school test scores, or more direct measures. Most of the time, these outcomes are improved by ECEC attendance – although there are exceptions (box 1.2). However, effects on similar measures in later years are often smaller or not found. A narrowing of benefits may be overstated by the nature of these comparisons,³ but this cannot explain all the difference (Andersen et al. 2022; Cascio and Staiger 2012).

This ‘fade out’ does not preclude benefits on other outcomes later in life. Some interventions had initial cognitive benefits narrow and eventually disappear over time as children attended school, but still improved children’s educational attainment, health, earnings, and contact with the criminal justice system in adulthood

³ Effects on outcomes at different ages are often compared after they are converted into the equivalent number of standard deviations (a measure of variation). If, for example, the effects of preschool on school test scores are 0.5 of a standard deviation in kindergarten but only 0.33 of a standard deviation in year 3, this may be viewed as ‘fade out’. However, gaps in achievement tend to increase as children age. The effect in both years could be an increase of 5 points on each test if the standard deviation of children’s scores on the tests increases from 10 in kindergarten to 15 in year 3. (Of course, the practical significance of increasing test scores by 5 points may differ between tests and ages.)

(Chetty et al. 2011; Deming 2009; Heckman et al. 2013). Other ECEC programs did not appear to reliably improve cognitive ability or test scores, but nonetheless improved educational attainment and earnings (Gray-Lobe et al. 2023; Havnes and Mogstad 2015). A growing literature examines the mechanisms through which these long-term benefits are realised, and suggests they relate to non-cognitive skills more than the cognitive skill measures that are most commonly examined in ECEC research.

Effects on non-cognitive skills can persist even when effects on cognitive skills do not (Chetty et al. 2011; Cornelissen and Dustmann 2019). And the benefits of one ECEC program for non-cognitive skills were found to be more powerful predictors of longer-term benefits to educational and labour market outcomes than benefits to cognitive skills (Silliman and Mäkinen 2022). The mechanism through which ECEC improves long-term outcomes is still an open question, and 'non-cognitive skills' includes many possible channels. But at the very least, identifiable effects on school readiness, cognitive skills, and test scores are not necessary for ECEC to improve the outcomes of children who participate – even if these benefits can only be observed later in life.

Box 1.2 – Where may some ECEC programs have failed, and why?

Some ECEC programs and policies have attracted significant attention for their apparent negative effects on children's outcomes.

Quebec

In 1997, the Canadian province of Quebec capped parental fees for many ECEC services at \$5 CAD per day. This led to a significant expansion in the usage of ECEC – between 1997 and 2008, participation in centre-based care increased from almost 20% to almost 60% in Quebec, while the rest of Canada only saw an increase from about 10% to almost 20% (Haeck et al. 2015). However, as the children affected by the policy grew up, evidence began to suggest that their development was impaired by this expansion.

Studies have taken different approaches in evaluating this reform, and have produced different results. A series of papers compared the trend in outcomes for children in Quebec to the trend in outcomes for children in other provinces, which did not implement similar reforms. This found adverse effects of Quebec's reform on the outcomes of children across Quebec, on average (most recently, Baker et al. 2019). This comparison of outcomes between children in different provinces captures multiple factors. As well as the effect of ECEC for children who only attended due to the reform (at the quality levels experienced in Quebec during this period), it also captures the effect of any reduction in service quality that the reform may have caused for children who would have attended regardless.

Other work has found the effect of ECEC in Quebec for children who only attended due to the expansion was negative, while the average effect of ECEC across all children in Quebec during this time was positive (Kottelenberg and Lehrer 2013). These methods consider the effects of ECEC in Quebec at a point in time, and do not capture any effects of the reform on quality. Accordingly, these results could be consistent if the specific details of the reform and its implementation led to a reduction in the quality of Quebec's ECEC services, while still leaving them of sufficient quality to benefit most children.

The reform relaxed some components of quality regulation, and even then, many providers failed to comply with standards. In 2001, 42% of for-profit centres did not respect the ratio of two of every three educators being qualified. For 25% of these centres, not even one in three educators was qualified (Lefebvre et al. 2008). The expansion of ECEC took place very rapidly, with little time for providers and

Box 1.2 – Where may some ECEC programs have failed, and why?

the workforce to prepare. And the expansion was overwhelmingly driven by for-profit providers, which in Quebec had a significantly lower rated quality than not-for-profit providers (Fortin 2017).

Quebec's experience may be an example of the failure of a specific ECEC policy – a very rapid move to near-zero cost, without adequate quality safeguards – but not necessarily a failure of ECEC itself.

Tennessee Voluntary Prekindergarten Program (TVPK)

In 2005, the US state of Tennessee launched a preschool program targeted at 3- and 4-year-old children experiencing disadvantage. In 2009, an evaluation began to examine children applying to 79 schools, which, when oversubscribed, randomly selected the children who were offered a place (Vanderbilt University nd). Comparing children who were offered a place to those who were not suggests that eligibility for TVPK reduced school test scores in third and sixth grade, and worsened disciplinary outcomes (Durkin et al. 2022).

It is less clear than in the case of Quebec why this program had adverse effects, particularly as many other preschool programs offered by US states have been found to benefit children. Some have called the findings into question, arguing that there was significant attrition from the sample, which differed between treatment and control groups, and seemed to have led to differences between these groups (Bartik 2014; Meloy et al. 2019). But while this is true for some outcomes collected through sampling and could bias findings using these measures, this concern does not apply to effects on other outcomes where administrative data from schools were instead used. Effects on these measures were also adverse, despite treatment and control groups seeming equivalent (Durkin et al. 2022).

Other have attributed potential adverse effects to low quality – for example, as 85% of classrooms received a score of 'less than good quality' on a measure of process quality (Lowenberg and Sklar 2022). But although scores on that process quality measure were poor in absolute terms, this is true of almost all ECEC programs, and TVPK classrooms scored better than those in some programs that have been credibly found to benefit children (Felfe et al. 2015; Tietze et al. 1996; Vermeer et al. 2016).

Similarly, some have noted that Tennessee's program only met five of ten structural quality benchmarks from the National Institute for Early Education Research (Meloy et al. 2019). But this rating was given years after the period considered by these evaluations. At the time the children in the sample participated in TVPK, its rating on the then-current scorecard from the same institute was 9/10, above that of multiple US state preschool programs that have been credibly found to benefit children (Cascio 2023).

There are other potential explanations. About a third of children who did not attend TVPK instead attended another form of ECEC (Lipsey et al. 2018). If the quality of these other forms of ECEC were higher than that of TVPK, this could contribute to an adverse effect of becoming eligible to participate in TVPK (although TVPK would still not have been beneficial relative to home-based care, unless a quality difference between TVPK and other ECEC programs for this third of the sample was large enough to outweigh benefits for the remaining two thirds). Also, despite performing better than some other states on measures of process and structural quality, TVPK was delivered at low cost – and program expenditure, even conditional on some quality measures, can predict more positive effects (Bartik 2014; Currie and Neidell 2007). And TVPK was targeted at children experiencing disadvantage, with targeted programs sometimes found to be less beneficial than universal programs (section 1.3).

Educational attainment

Educational attainment can be both valuable in itself, and lead to other benefits. Many ECEC programs have been found to increase years of schooling, high school graduation or completion of tertiary education. Some studies have examined highly specific cohorts such as those in the Perry Preschool Program or Abecedarian Project (García et al. 2020, 2021), or interventions that took place far in the past (Haimovich Paz 2015; Herbst 2017; Rossin-Slater and Wüst 2020). However, others considered less targeted (Deming 2009; Gray-Lobe et al. 2023) or universal programs (Bingley et al. 2018; Dumas and Lefranc 2010; Gruber et al. 2023; Havnes and Mogstad 2015; Silliman and Mäkinen 2022) that were implemented more recently, and still found substantial benefits.

Benefits to educational attainment were likely contributed to by better behaviour at school, with some evidence of lasting reductions in disciplinary outcomes such as suspensions and detentions (Gray-Lobe et al. 2023; Williams 2019). Some studies have also found ECEC to lower the likelihood of school year repetition (Barnett and Jung 2021; Ladd et al. 2014). One analysis quantified the cost savings to government of the reduction in school year repetition resulting from the Spanish expansion of preschool to 3-year-olds, finding that these alone offset about 10% of program costs (van Huizen et al. 2019).

Labour market outcomes

Many studies have identified beneficial effects on labour market outcomes, such as employment and earnings. Some only consider a highly specific cohort, but find very large benefits (García et al. 2020, 2021). Others have found more modest (although still meaningful) increases, but consider programs that were delivered long ago (Haimovich Paz 2015; Herbst 2017; Rossin-Slater and Wüst 2020). Still, more recent ECEC programs, some targeted (Deming 2009), and some universal (Bingley et al. 2018; Dumas and Lefranc 2010; Gruber et al. 2023; Havnes and Mogstad 2015; Silliman and Mäkinen 2022) have been found to increase earnings. These benefits are typically the greatest for children experiencing disadvantage, although benefits often extend to those of moderate or higher socio-economic status.

Measuring the effect of an ECEC program on earnings requires waiting until the children who attended a program are in adulthood. This makes it impossible to directly estimate earnings effects of very recent programs. Still, some papers have taken estimates of the effects of early test scores on later earnings, and used these in attempts to predict future effects on earnings based on observed test score effects.

These papers often use these estimates to calculate benefit-to-cost ratios, which, despite not considering potential benefits to non-earnings outcomes, are still generally quite high (Bartik et al. 2012; Bartik and Hershbein 2018; Cascio 2023; Kline and Walters 2015). In one of these studies, the estimated benefit-to-cost ratio of universal preschool for 4-year-olds was higher than the benefit-to-cost ratio of kindergarten for 5-year-olds, with almost identical test score benefits but lower costs (Cascio 2023). One paper was able to consider labour force participation benefits to parents alongside benefits to children, and found an even higher benefit-to-cost ratio (van Huizen et al. 2019). Still, there are challenges in attempting to predict effects on long-term outcomes based on effects on short-term outcomes.⁴

⁴ Most of these papers estimate the relationship between effects on early test scores and effects on later earnings based on Chetty et al. (2011). This estimate is at the conservative end of the range of relationships found in high-quality research (Kline and Walters 2015). But the relationship identified in one study may not extend to any other context – particularly because in the paper on which most of these analyses rely, effects seemed to be driven by non-cognitive skills, while extrapolation relies on estimated relationships with cognitive skills (specifically, test scores). If the ratio of

Physical and mental health

Some targeted ECEC programs have improved various health outcomes. The strongest results, from the Perry Preschool Program and the Abecedarian Project, are also the least generalisable (Conti et al. 2016; García et al. 2021). But the Head Start program (which, while also a targeted US preschool program, covered a somewhat broader cohort) has been found to have improved self-reported health (Deming 2009). And the introduction of a Danish targeted preschool program for 3-year-olds in the mid-20th century improved long-term mortality, making the children who were able to access it more likely to survive beyond age 65 (Rossin-Slater and Wüst 2020).

Universal programs have also produced benefits to health outcomes. An English early childhood intervention reduced hospitalisations between the ages of 11 and 15, including for mental health issues (Cattan et al. 2021). But while ECEC services were the largest component of that program, health effects were almost certainly driven at least in part by other aspects, including ante- and post-natal support. In Sweden, an expansion of access to ECEC reduced mental ill-health diagnoses both while and after children attended, and may have reduced healthcare costs during early childhood – despite a potential increase in use of preventive healthcare, which would be expected to increase healthcare costs in the short term, while reducing them in the long term (van den Berg and Siflinger 2020). The children who attended ECEC due to an expansion of access in Norway, after reaching middle age, used more preventive healthcare services if pregnant, and were less likely to receive specialist healthcare services for psychiatric issues, injuries or social problems (Breivik et al. 2020).⁵ An expansion of centre-based day care (CBDC) for children under the age of three in Germany reduced doctor visits and diagnoses of behavioural and emotional disorders, and, for children experiencing disadvantage, obesity (Barschkett 2022). And the Spanish expansion of three-year-old preschool reduced rates of asthma, with weaker evidence of reductions in diagnoses of mental health disorders and use of prescription medication (Bosque-Mercader 2022).⁶

Contact with the justice system

Effects on contact with the justice system are usually found to be strong when they are measured, but these outcomes are only measured infrequently. The Perry Preschool Program and the Abecedarian Project have both been found to reduce offending by very significant margins (García et al. 2020, 2021), but significant caveats around their relevance to Australia apply. Less targeted or universal preschool programs in the US have also been found to reduce criminal convictions (Anders et al. 2023; Gray-Lobe et al. 2023; Smith 2015).

There is less evidence outside of the US. An analysis of two Finnish reforms that affected ECEC use suggested that accessing ECEC services reduced youth criminal convictions (Gruber et al. 2023). And an expansion of universal preschool in Japan reduced juvenile arrests, particularly for violent crime, and teenage pregnancy – despite the very low baseline rates of these outcomes (Ando et al. 2023).

benefits to cognitive and non-cognitive skills differs when the intervention is an ECEC program, rather than a higher-quality kindergarten classroom, these predicted effects could be misleading. Still, the direction in which the results would be inaccurate is unclear, and using estimates of the same relationship from other studies would produce similar or more optimistic results. And if there are non-earnings benefits to children, benefit-to-cost ratios would be higher.

⁵ A reduction in use of health services could indicate a decreased willingness or ability to seek medical help or an improvement in underlying health. Some aspects of these results suggest that they were driven by the latter. This includes the increase in use of preventive healthcare while pregnant, and that the reduction in visits for specialist psychiatric care seemed to be driven by fewer visits among those who used these services, rather than a reduced likelihood of ever using them.

⁶ An increase in hospital visits – mostly by pregnant women – was also found. While worse health during pregnancy could have contributed to this increase, this explanation could not be distinguished from increases in fertility or, as found by Breivik et al. (2020), increases in health-seeking behaviour.

Social connection

Some analyses have found benefits to various measures of social connection, or factors that could be expected to improve it. For example, starting preschool a year earlier in Germany seemed to improve children's ability to make friends during childhood (Schlotter 2011), and cause a long-term increase in sociability (Bach et al. 2019) – a strong predictor of happiness (Anglim et al. 2020).

Expansions of ECEC have also been found to reduce the likelihood of being single (Havnes and Mogstad 2011), reduce divorce rates (García et al. 2022), and seem to increase marriage rates (Silliman and Mäkinen 2022). To the extent that these findings reflect an improvement in relationship quality, this could be highly significant for wellbeing (Waldinger and Schulz 2023).

Equity

Given that the children who are currently missing out on ECEC are more likely to be those experiencing vulnerability or disadvantage (paper 2), an expansion of access to ECEC is likely to increase participation by these children to a greater extent, reducing social disparities.

This effect will be magnified if the benefits of ECEC are larger for these children. Most credible studies have found that the benefits of ECEC are greater for children whose parents have lower education or income levels (section 1.3).

Benefits extend beyond the individual child

The above discussion has focused on the individual benefits to the child who attends an ECEC service, but the social benefits can be far broader.

When children are better prepared for school and less likely to engage in disruptive behaviour, their classmates can benefit. By fostering a school environment that is more conducive to learning and development, there can be substantial benefits to other children, regardless of whether they accessed ECEC themselves (Ladd et al. 2014; List et al. 2023; Williams 2019).

Many of the benefits to children will also provide a fiscal return to government that would offset some of the costs of increasing access to ECEC. If labour market, health, and criminal justice outcomes are improved, this will result in higher tax revenues and reduced expenditure on government support payments and health and justice systems.

As noted above, effects of ECEC can persist for decades. They can also be intergenerational. When the children who attend ECEC services grow up and have children of their own, benefits can be passed down. Some programs have been found to improve the educational, labour market, health, and justice system outcomes of the children of the original participants (Barr and Gibbs 2022; García et al. 2021; Rossin-Slater and Wüst 2020).

And of course, ECEC can be of great benefit to parents (paper 4).

- Expansions of access to ECEC can improve parental wellbeing and reduce parental stress (Schmitz 2020; Yamaguchi et al. 2018).
- Despite leading to parents spending less time in the presence of their children, ECEC can improve the quality of that time, leading parents to spend longer on activities such as reading to their children or doing art projects with them (Cascio and Schanzenbach 2013; Chaparro et al. 2020; Gelber and Isen 2013).
- ECEC allows parents to engage with work or study, increasing the amount of resources that they can invest in their children, and building human capital from which their children can benefit (Black et al. 2014; Suhonen and Karhunen 2019).

Put simply, 'allowing parents to parent less can allow them to parent better' (Chaparro et al. 2020, p. 23).

The Australian evidence

Thus far, discussion has considered the effects of programs across a wide range of contexts and includes, but is not limited to, evidence from Australia. Some Australian studies have been able to use techniques that credibly identify the effects of ECEC programs or their characteristics (for example, Chor et al. 2016; Rankin et al. 2022; Tseng et al. 2022). But most use observational designs and must assume that all relevant factors influencing families' choices about ECEC or ability to participate in it are perfectly captured in their data – an assumption that is difficult to justify (box 1.1).

Further, detailed data sources typically pre-date the implementation of the National Quality Framework (NQF, paper 2). The NQF strengthened requirements in most states, including on educator qualifications and educator-to-child ratios, and implemented assessments against the National Quality Standards, which were met by about 90% of services in 2023, but less than 60% of services in 2013 (ACECQA 2023a). Most Australian studies on ECEC and children's outcomes use the Longitudinal Study of Australian Children, which began in 2003, and may consider services at substantially different quality levels to those today.

With these caveats in mind, when adjusting for some components of family and child characteristics, children who attended ECEC prior to the NQF have often been found to achieve outcomes that are better or the same as similar-seeming children who did not attend.

For preschool, associations are generally positive (Biddle and Seth-Purdie 2013; Warren and Haisken-DeNew 2013; Yamauchi and Leigh 2011). And, at least for Queensland in the late 2000s, preschool has been credibly found to have positive short-term effects on school readiness and some test score and behavioural outcomes (Chor et al. 2016).

Results for CBDC attendance are mixed. Some studies have found positive associations for outcomes such as test scores or behavioural outcomes, that mostly became null or negative when using methods that can better account for child and family characteristics (Biddle and Seth-Purdie 2013; Bowes et al. 2009; Claessens and Garrett 2014; Goldfeld et al. 2016; Kalb et al. 2014; Yamauchi and Leigh 2011).⁷

Associations with the number of hours of CBDC that children attended are more likely to be adverse, particularly for behavioural outcomes (Biddle and Seth-Purdie 2013; Coley et al. 2015; Gialamas et al. 2014; Yamauchi and Leigh 2011). But there is strong evidence that these methodologies can find adverse associations simply due to their inadequate ability to account for selection into ECEC, and more rigorous evidence tends not to find adverse effects (section 1.3).

Some research has focused on the effects of ECEC on the developmental outcomes of Aboriginal and Torres Strait Islander children in mainstream ECEC settings. Findings are similar to the studies discussed above, and similarly related to the methodology employed, with positive associations between ECEC attendance and children's outcomes that may have been driven by factors affecting ECEC participation (Azpitarte et al. 2019; Biddle and Arcos Holzinger 2015; Falster et al. 2020). Some ECEC programs that were offered specifically to Aboriginal and Torres Strait Islander children have also been associated with positive outcomes across a range of settings, including preschool and CBDC services, and literacy programs delivered from these services (Elek et al. 2020, 2022).

The methods most commonly used in the Australian literature may not have been able to isolate the effects of ECEC. The period of time considered by most papers also saw substantial changes to the quality of services. These factors suggest a degree of caution as to what we can learn from the literature. Gaining

⁷ Bowes et al. (2009) considers children who either attended centre-based day care or family day care.

greater confidence requires more recent data sources that researchers can use, and, critically, ways of analysing this data that can ensure that associations between ECEC use and children's outcomes are not being affected by other factors.

What the evidence can (and can't) tell us

Given the difficulties in ensuring that research findings have isolated the effects of the ECEC programs that they considered, and that these programs took place in a sufficiently similar context, the effects on children's outcomes that would be brought about by an expansion of access to early childhood education and care in Australia cannot be predicted with a high degree of confidence.

Nonetheless, some lessons can be drawn from the significant number of credible analyses that have been conducted across a wide range of contexts.



Draft finding 1.1

Evidence shows children benefit from attending high-quality ECEC

Most credibly evaluated early childhood education and care programs have been found to benefit children. These benefits, while difficult to quantify, can be substantial, and often extend beyond short-term effects on learning and development in early childhood to a wide array of outcomes, including educational attainment, labour market success, and physical and mental health. Benefits seem stronger for children experiencing vulnerability or disadvantage, although they can extend much more broadly.

1.3 Searching for the 'active ingredients' of successful ECEC programs

The previous section has focused on evaluations of ECEC programs without detailed exploration of the exact features of those programs, how these features could lead to differences in effects, or how this may inform the design of ECEC system. This section discusses some of these questions.

Quality matters, but what is quality?

The differing levels of success of various ECEC programs or services is often attributed to their quality. Many inquiry participants have rightly emphasised the importance of ECEC being high quality (for example, Centre for Research in Early Childhood Education, sub. 21, pp. 5-7; Early Learning Association Australia, sub. 48, pp. 23-25; Centre for Policy Development, sub. 156, pp. 21-24). However, it is difficult to precisely determine the extent to which each possible component of quality actually matters for children's outcomes. Broadly, attempts to gauge quality can be divided into examinations of the interactions that children experience while in ECEC, or the structural features of ECEC programs.

Process quality

The effects that ECEC has on a child's development depend on the quality of their interactions with educators, with other children and with their physical environment – referred to as 'process quality'. Some

metrics have been developed in attempts to measure process quality, including the Classroom Assessment Scoring System (CLASS) and the Early Childhood Environment Rating Scale (ECERS).⁸

While children who participate in ECEC settings with better results on these metrics generally achieve better outcomes (Perlman et al. 2016; Suchodoletz et al. 2023; Ulferts et al. 2019), this does not necessarily mean that their superior outcomes were caused by higher measured process quality. Any correlations could be due to children who were independently more likely to do well being more likely to be enrolled in higher-quality settings, for example because parents of a higher SES were in a better position to access these settings.

The usefulness of such measures for policy and practice hinges on the extent to which they are aligned with the characteristics of interactions that truly improve children's outcomes. Some evidence suggests that this alignment might not be as close as might be considered desirable.

In one study, children's learning was found not to differ meaningfully as they moved between settings with different process quality ratings as measured by CLASS (Rankin et al. 2022).⁹ Some professional development and coaching interventions have led to significantly higher CLASS ratings, without making a difference for children's learning outcomes (Pianta et al. 2017; Yoshikawa et al. 2015). The reverse can also be true, with one intervention improving learning outcomes without significantly affecting CLASS ratings (Francis and Barnett 2019).¹⁰ And the implementation of one particular curriculum led to significant improvements in ECERS ratings but not any improvements in learning outcomes (Jenkins et al. 2018).

This has led some to argue that despite process quality itself being crucial, available measures of process quality may not be particularly useful tools in attempting to improve children's learning and development outcomes (Burchinal 2018; Duncan et al. 2022). In general, services with higher process quality ratings may be of higher quality, and some interventions that improve process quality measures may also improve children's outcomes. But this will not always be the case, limiting the usefulness of these measures for policy.

Structural quality

Another way of attempting to determine the quality of a service is by measuring aspects of its structural features, such as educator qualifications, educator-to-child ratios, or its physical environment.

Educators play a critical role in supporting children's learning and development in ECEC services, whether ensuring a safe and supportive environment, encouraging positive interactions between children, or interacting with children directly. Their ability to do this depends, among other factors, on who these educators are, how many children each of them is responsible for, and how they are supported. Given this, governments typically impose requirements on the ratios of educators to children, and the qualifications that they must hold.

These staffing requirements can increase the quality of the education and care that children receive. They also impose additional costs and make it more challenging to find a sufficiently large workforce to allow broad access to ECEC. The optimal levels of these requirements will be determined by their relative costs and benefits.

⁸ ECERS is sometimes considered a measure of global quality, as it measures some features of structural quality alongside its process quality components. It has revised (ECERS-R) and extended (ECERS-E) versions.

⁹ An effect of the emotional support subscale of CLASS on a measure of language outcomes was found. However, this was of a very small magnitude and barely statistically significant, with no adjustment made for the testing of multiple hypotheses.

¹⁰ In fact, CLASS scores were lower in settings affected by the intervention, although this difference was not statistically significant.

Qualification requirements

There are positive correlations between settings with better-qualified educators and some of the measures of process quality discussed above (Manning et al. 2017). However, this could be affected by other differences between these settings and is subject to the limitations of process quality measures. Fewer studies examine correlations with children's outcomes, but positive associations are found by some of those that do (for example, Sylva et al. 2004), although not by others (e.g., Early et al. 2007). In Australia, children who were taught by educators with a qualification that was above certificate-level achieved better outcomes, although this association was similar whether this qualification was at the degree or diploma level (Warren and Haisken-DeNew 2013).¹¹ Still, these approaches cannot rule out that differences in outcomes are caused by unobserved differences between children in settings of different quality, which could include unmeasured aspects of socio-economic advantage or parental behaviour that would independently lead children to perform better.

Indeed, there is some direct evidence that these apparent positive associations can be driven by the differences between the families that access settings of lower and higher quality. When comparing children in the same family who attended different settings, associations between educator qualifications and children's outcomes can disappear (Blau 1999). Access to an additional term of ECEC had no greater of an effect in services where a higher proportion of educators held a bachelor's degree (Blanden et al. 2022). And when children randomly gained access to services, their outcomes were no better if these services happened to have better qualified educators – which has been found for both Head Start and Danish CBDC (Currie and Neidell 2007; Drange and Rønning 2017; Walters 2015). Still, a program that provided a free vocational qualification to family day care educators in Colombia improved children's cognitive and psychosocial development and some health outcomes (Bernal 2015).

It is likely that educator qualifications will matter along some margins, for example in the Colombian program where educators went from having no qualifications whatsoever to having completed a year-length qualification. Having one highly qualified educator who can inform programming may have different effects to increasing the share of highly qualified educators. And effects of qualifications will depend, in part, on the quality of education and training systems. But the Commission has found little evidence of increases to the share of educators who hold a qualification (or whose qualification is at a higher level) that has improved children's outcomes.

Even if there were effects from being taught by a better-qualified educator, this would not necessarily indicate the extent to which stricter qualification requirements would improve children's outcomes. Any such effect could (as well as being a direct result of an educator's training) be contributed to or explained by any pre-existing differences in ability that allowed better-qualified educators to attain a higher qualification level, but also independently allowed them to better support children's development.

Educator-to-child ratios

Evidence of benefits from higher educator-to-child ratios is similarly scarce, at least within the range of ratios permitted in developed countries. Individual studies on correlations between educator-to-child ratios and children's outcomes are mixed, with some finding positive correlations and others finding none, despite the potential for higher-SES families to select into higher quality settings (Melhuish et al. 2015). A meta-analysis

¹¹ Those taught by diploma-qualified educators performed slightly better than those taught by a degree-qualified educator, although this difference is very small relative to the level of noise in the results. This study is also often cited as evidence that outcomes are superior in those taught by educators whose qualification is specific to early childhood. But learning outcomes were more positively associated with being taught by an educator whose qualification was *not* in early childhood education and care. Claims to the contrary are based on a lack of statistical significance of the association between non-ECEC qualifications and learning outcomes, but a lack of statistical significance cannot be taken as evidence of smaller effects – particularly if the apparent association is, in fact, larger.

and systematic review of correlational studies that directly examined ratios did not find evidence that they were associated with children's outcomes (Perlman et al. 2017). And a meta-analysis comparing different ECEC programs that happened to have different ratios did not find that programs with higher ratios consistently achieved more positive effects (Bowne et al. 2017).¹²

Studies that can account for the potential selection of children with different characteristics into settings of different quality typically fail to find benefits to lower ratios. One study did find a reduction in preschool classroom size (which increased ratios from 1:10 to 1:7.5) improved learning outcomes, although effects were small, particularly given this could increase per-child costs by about a third (Francis and Barnett 2019).¹³

But an increase of ratios from averages of about 1:9 to about 1:6 in a randomised controlled trial did not significantly improve children's learning outcomes (Ruopp et al. 1979). A program that introduced teacher aides to CBDC classrooms for 1.5- to 5-year-old children did not improve their cognitive or socio-emotional skills, despite increasing costs by about 30% (Andrew et al. 2019). Multiple quasi-experimental studies have also found a lack of an effect of attending an ECEC setting with higher ratios (Blau 1999; Currie and Neidell 2007; Walters 2015) and a systematic review and meta-analysis of causal studies did not find evidence of effects from increasing ratios (Dalgaard et al. 2022).

These studies only consider variation in ratios within certain ranges, and it would be very surprising if moving from ratios of, for example, 1:20 to 1:5 made no difference. The lack of a statistically significant effect does not imply that there were no effects whatsoever, with many studies lacking the power to detect modest effects.

Analyses of particular programs can also be limited in their ability to provide lessons for policy. Even to the extent that lower ratios are beneficial *for a given quality of educator*, a system-wide reduction in ratios would require a significant increase in the number of educators, which could reduce their average quality (Jepsen and Rivkin 2009). Where there are barriers to attracting sufficient high-quality, well-qualified staff (paper 3), there can also be a trade-off between strict staffing requirements and the accessibility of ECEC services.

Implications for policy

There is not a sufficient evidence base to determine optimal educator-to-child ratios and qualification requirements. There are few credible studies, effects are difficult to isolate due to interactions with other features of services, and they will differ by context, including the education and training systems from which educators receive their qualifications. The evidence that does exist does not provide a strong case for strengthening the current requirements prescribed by the NQF.

But although there is not strong evidence that there would be benefits from strengthening these staffing requirements, the literature is not capable of ruling out risks from reducing them. A marginal change to

¹² The paper argues that their results suggest benefits to increases in ratios when above the threshold of 1:7.5, and no effect below this threshold. However, this is a product of a choice to divide their sample into programs with ratios below 1:7.5, and above *or equal to* 1:7.5, as there is a cluster of programs with ratios of exactly 7.5 that have unusually poor effects. Better accounting for nonlinearities in this data but assuming that other relevant features of the programs were successfully controlled for would lead to the conclusion that the effect of ratios is u-shaped, for example with ratios of 1:5 leading to extremely large benefits, ratios of 1:7.5 not leading to any benefits, but ratios of 1:10 and below leading to quite large benefits. A more natural interpretation may be that there were other differences between the programs with different ratios in this sample that were causing the differences in effect sizes.

¹³ This was achieved through a reduction in class size from 20 to 15 children. Relationships between ratios and group size (as well as structural quality features more broadly) make isolating the effects of any individual feature difficult. Some studies have found evidence suggesting that reductions to group size could have been beneficial, while increases in ratios were not (for example, Ruopp et al. 1979).

staffing requirements may lead to costs that are modest relative to total costs of delivery, so benefits that are quite small and difficult to statistically detect could still be sufficient to outweigh the direct financial costs of these staffing requirements. And where providers choose to go beyond the minimum requirements, it can be harder to determine their effects.¹⁴

Other factors

Other educator characteristics, or policies affecting educators may also influence how ECEC affects children's outcomes. Children have been found to benefit from attending centres with a higher share of male educators (Drange and Rønning 2017; Gørtz et al. 2018). Children may also benefit from continuity of care, with more consistent contact with the same settings or educators, although it is challenging to isolate the effect of this from the factors causing children to move across settings, such as parental separation (Horm et al. 2018).

Some evidence has also suggested that an increase to educator pay improved a measure of process quality, potentially because a reduction in turnover made more experienced and qualified educators less likely to exit the sector, or because this reduction in turnover increased continuity of care (Herbst and Brown 2023). Still, other research has not found that children achieve better outcomes when their educators receive higher pay, although the methods used would not capture effects on turnover (Currie and Neidell 2007).

The Commission has not undertaken detailed analysis of research on other components of structural quality. These include the curriculum used by a service, with these set out by the Early Years Learning Framework, and the physical environment of services, which is regulated under the National Quality Framework, given the broad support for these expressed by inquiry participants.

Each child will be affected by ECEC in a unique way

The previous section found that measures of the process or structural quality of ECEC programs are limited in their ability to predict how these programs will affect children's outcomes. But even if two programs have identical quality levels, they may still have quite different effects if they service different cohorts of children. This section considers how the benefits of ECEC may vary for children from different backgrounds, and of different ages.

Benefits are strongest for children experiencing disadvantage, but can be broader

One of the most prominent findings from the literature, found quite consistently across contexts and methodologies, is that the benefits of ECEC are generally the greatest for children experiencing vulnerability or disadvantage. As discussed earlier, where parents may lack the resources to provide as supportive and stimulating a home environment, the quality of ECEC relative to this home environment may be higher.

It is less clear what effect ECEC will have for higher-SES cohorts. It is challenging to reach conclusions about this: many of the most credible studies only identify effects of becoming eligible for programs while actual take-up may differ by group; different studies use measurements of different components of or proxies

¹⁴ For example, despite the more stringent ratio and qualification requirements in NSW, in 2022 CBDC fees were 2.7% higher than the national average (PC 2023a), and at least for CBDC delivered by large providers, staffing costs were still lower than in most states (ACCC 2023b). Some analysis has suggested that the costs of these additional requirements are higher than the benefits that they are likely to confer (NSW PC 2022). However, the findings of this modelling are dependent on its assumptions. These include that no ECEC provider will go beyond the minimum standards, which leads to a much higher estimated additional cost of 9.1%. As well as the costs of reduced labour force participation, the approach also counts higher fees for parents as a cost, while not counting the higher earnings of educators as a benefit. Other approaches to the challenges inherent to this type of analysis could produce very different results.

for SES; and it takes a far higher sample size to reliably detect differences in effects between groups than it does to estimate an overall effect.¹⁵

That said, most studies find that meaningful benefits can extend across most, if not the entire spectrum of advantage. Some studies have found effects that seem similar (Blanden et al. 2022; Dumas and Lefranc 2010; Gruber et al. 2023; Kuehnle and Oberfichtner 2017), or even potentially greater for more advantaged children (Bingley et al. 2018; Gray-Lobe et al. 2023; Hustedt et al. 2021; Montrosse-Moorhead et al. 2019). But the most common finding is that effects are larger for more disadvantaged children, while still seeming significant for children of moderate or high SES.¹⁶ Still, other studies have found benefits to children experiencing disadvantage but no strong evidence of effects for other children (Cascio and Schanzenbach 2013; Felfe and Lalive 2018; Felfe and Zierow 2018; Kottelenberg and Lehrer 2013; Smith 2015), or benefits to children experiencing disadvantage and some indication of adverse effects for more advantaged children (Corazzini et al. 2021; Cornelissen et al. 2018; Fort et al. 2020; Leuven et al. 2010; Silliman and Mäkinen 2022), although these potential adverse effects are often not statistically significant.

Of course, experiences of childhood disadvantage vary by context, and the proportion of children who experience the level of disadvantage in the cohort of a particular study may differ from the proportion of children who experience a similar level of disadvantage in Australia today. Education levels (and, in particular, maternal education levels) are higher in Australia than in most developed countries (OECD 2019). Income levels are also higher, including when adjusting for inequality (UNDP 2023). And both these aspects of SES have generally improved within Australia over time. To the extent that a greater proportion of Australian parents are better resourced to provide a high-quality home environment than in the contexts examined by much of the literature, the average benefits identified by these studies may be higher than what might be expected in Australia. Still, many of the studies mentioned above do find meaningful benefits for children in moderate- and high-SES families.

ECEC can produce benefits at all ages, but evidence is stronger for older children

The effects of ECEC might differ according to the age of the child who receives the service. Certainly, different pedagogies will be appropriate at different ages, and regulatory settings change across ages. Still, effects of ECEC on school readiness and early academic or cognitive outcomes by age seem surprisingly similar, at least between the ages of three and five. And while the high-quality evidence on the effects of ECEC disproportionately considers children in this age range, some programs have produced significant and lasting benefits for younger children.

A meta-analysis of many natural experiments found that programs with similar characteristics enrolling children above and below the age of 3 had similar effects on children's outcomes (van Huizen and Plantenga 2018). A separate meta-analysis of 67 US programs similarly found a lack of a consistent effect of starting age (Li et al. 2020), although it considered studies of a lower methodological quality. It did suggest that programs that targeted children under the age of 3 had larger effects, although any apparent effect of

¹⁵ Even if a study has a sufficiently large sample size (given the effect size and level of variation in outcomes) to reliably estimate an overall effect, it will need a sample size that is 16 times higher to reliably estimate an effect that differs between two halves of that sample by an amount equalling half the size of the overall effect (Gelman et al. 2020). In most individual studies to report on differences in effects by group, these differences cannot be distinguished from noise, although this could average out when considering a sufficiently large number of studies.

¹⁶ Bartik et al. 2012; Bartik and Hershbein 2018; van den Berg and Siflinger 2020; Berlinski et al. 2009; Blanden et al. 2016; Cattan et al. 2021; Corazzini et al. 2021; Datta Gupta and Simonsen 2016; Drange and Havnes 2019; Drange and Rønning 2017; Felfe et al. 2015; Gibbs 2014; Havnes and Mogstad 2015; Ladd et al. 2014; Watts et al. 2023; Yamaguchi et al. 2018; Zachrisson et al. 2023. In some of these studies, differences in effects for different groups follow different patterns across various outcome measures.

starting age in this study could be driven by other differences between the programs that were aimed at younger and older children.

Some credible studies examining the provision of ECEC to children below the age of 3 have found benefits to cognitive skills. Attending CBDC between the ages of 1 and 2 has been found across a variety of contexts to significantly improve language development, and in separate studies showed benefits to test scores at ages 7 and 10 (Berger et al. 2021; Drange and Havnes 2019; Yamaguchi et al. 2018; Zachrisson et al. 2023). Other research has failed to find benefits to academic test scores (Carta and Rizzica 2018; Kuehnle and Oberfichtner 2017). And an adverse effect on cognitive ability has been found for one intervention and cohort (Fort et al. 2020).¹⁷

There is sometimes concern over the behavioural effects of ECEC for very young children, but this is generally unsupported by the most credible evidence. These concerns are largely derived from correlations between early attendance of ECEC and behavioural issues, but this seems to be a product of selection into ECEC, rather than any effect of ECEC itself (Dearing and Zachrisson 2017). Spurious adverse associations would be produced by observational studies if ECEC did not worsen behavioural outcomes, but pre-existing behavioural issues led children to enter ECEC earlier (perhaps because their parents struggled to care for them, or hoped that ECEC would help alleviate these issues). One study found direct evidence of this, while also suggesting that children's behavioural outcomes improved the longer they attended ECEC (Yazejian et al. 2015).

Causal studies that are able to account for selection into ECEC generally do not suggest persistent adverse behavioural effects, with one study finding a reduction in aggression, and others finding short-term adverse effects that can disappear quickly (Berger et al. 2021; Dearing et al. 2015; Yamaguchi et al. 2018). An analysis of seven programs across five countries did not find evidence that any of these programs worsened behavioural outcomes, including for programs that started to measure these outcomes in the first or second year of a child's life (Rey-Guerra et al. 2023). And some ECEC programs have been found to have led to improvements in measures of mental health diagnoses or treatment later in life, including those involving ECEC attendance at a young age (section 1.2).

The services children attend, and how they operate, can influence outcomes

The outcomes that ECEC produces will be influenced by the type of service that children attend, and how these services are operated. (This includes quality regulation, with the NQF discussed in paper 2, and the effectiveness of its implementation discussed in paper 8.)

Children do not generally seem to be at risk of 'too much' ECEC

Children can spend quite different amounts of time in ECEC, depending on availability, parental choice and the nature of the programs in which they are enrolled. A greater number of weekly hours could be beneficial, increasing exposure to an environment conducive to childhood development. However, this would also result in children spending longer outside the home environment. This has led to concerns that a high number of weekly hours in ECEC could be detrimental.

¹⁷ Differences in findings could be due to the cohort for whom effects are estimated in each study. The null findings both come from studies which estimate effects for children whose parents enrol them in ECEC as soon as they are eligible. The one study to find adverse effects used a methodology that was only able to identify effects for children of affluent and highly educated parents, and even then, the adverse effects seemed limited to the most advantaged children in the generally quite advantaged sample.

To the extent that these concerns are founded in empirical evidence, they largely originate in studies that compare children who attend for different numbers of hours, while adjusting for some observed differences between those who attend more and less. However, there are almost certainly other factors that are related to both usage of ECEC, and children's outcomes that will confound these associations. Specifically, if parents send children with pre-existing behavioural issues to ECEC more often in order to take advantage of developmental benefits, or because it may be harder to care for the children themselves, this approach would falsely attribute an increased likelihood of future behavioural issues to the increased hours of ECEC (Dearing and Zachrisson 2017).

It is harder to find evidence of potential harms of higher intensities in studies that can more credibly isolate the effects of this intensity. The previously mentioned study of seven ECEC programs across five countries also did not provide evidence of adverse behavioural effects from attending any of these programs for a greater number of hours (Rey-Guerra et al. 2023). And rigorous studies typically find benefits to academic outcomes from attending full-day, rather than half-day ECEC services, for example when children are randomly allocated to programs with different intensities (Atteberry et al. 2019; Bartik et al. 2012; Cannon et al. 2006; Felfe and Zierow 2018; Friesen et al. 2022; Gibbs 2014; Robin et al. 2006; Walters 2015). Adjusting for some other program characteristics, full-time programs seemed more likely to benefit children than part-time programs (van Huizen and Plantenga 2018).

Further, some of the programs that have been found by credible research to be the most beneficial have been highly intensive. The Abecedarian Project offered over nine hours a day of ECEC for 50 weeks a year, from the ages of zero to five (García et al. 2020). The Spanish expansion of preschool to 3-year-olds offered ECEC from 9:00am to 5:00pm, five days a week (van Huizen et al. 2019). In Japan during the period considered by a study examining the effect of attending ECEC before age 2.5, 90% of children spent at least 7 hours in ECEC a day and 90% attended at least 5 days a week (Yamaguchi et al. 2018). Each of these interventions led to significant improvements on multiple outcomes, and while it was not clear that the level of intensity of provision was necessary for these benefits, it certainly was consistent with them.

This is not to say that high intensities are optimal – even if there are additional benefits to longer hours, as some studies have found, these might not be large enough to justify the costs. And of course, low-quality ECEC is likely to be even more detrimental if children are exposed to it for longer. More research is needed to suggest optimal hours of attendance, and how these may vary by child. But given that in some cases higher intensities can lead to additional benefits, and that many highly intensive programs have been successful, there is not a strong case to be made that a high number of weekly hours in ECEC is a cause for concern.

Differences between service types may affect children's outcomes

There are multiple, distinct models of ECEC provision in Australia, including:

- centre-based day care, which is provided in dedicated facilities that offer education and care for children below school age (usually aged 0–5), and usually operate five days a week, for at least several hours a day
- preschools, which primarily operate during school term and usually only for a limited number of hours each day. Preschools programs are structured, play-based learning programs, delivered by a degree qualified teacher, aimed primarily at children in the year before they commence full-time schooling and can also be offered in CBDC
- family day care (FDC), which is provided in the educator's home
- outside school hours care (OSHC), comprising before and after school hours care and vacation care.

Each may affect children's development differently, but evidence on this is scarce. For some service types, such as OSHC, there is an almost complete lack of research on effects on children's outcomes.¹⁸ Even where studies can compare differences in effects by service type, variation in models for each service type between jurisdictions and over time make it unclear if findings would be relevant for Australia today.

It is plausible that CBDC and preschool could have different effects on children's outcomes, given potential differences in pedagogy, group sizes, educator-to-child ratios and access to an early childhood teacher. Some Australian evidence has pointed in the direction of children in preschool performing better than those in CBDC (Biddle and Seth-Purdie 2013; Yamauchi and Leigh 2011). However, these studies had a limited ability to account for the reasons why children attended different types of services, and used data that pre-dates the NQF – which is likely to have improved the quality of CBDC, while being less relevant for preschool delivered by state governments.

The international evidence has not identified clear differences between the effects of CBDC and preschool. In the studies examined by the Commission, the two models seem to lead to similarly consistent effects of broadly comparable magnitudes.

While family day care has a quite different model to both CBDC and preschool, it is difficult to determine which would be more beneficial, at least for most children (of course, each child will respond differently to these environments, and there will be no model that is best for all children). One study compared the effects of CBDC on language development between two groups of children, one seeming as though they would have otherwise received FDC, with the other group having parental care as their apparent alternative. These results seemed to suggest that FDC was beneficial for language development, but that CBDC, on average, conferred larger benefits (Berger et al. 2021). More direct evidence has found that, in one context, attending CBDC rather than FDC increased test scores and enrolment into academic-track high schools (Datta Gupta and Simonsen 2016).

Differences in service models between jurisdictions make these findings hard to extrapolate to Australia. In France and Denmark, where the studies mentioned above took place, ratios for young children in FDC were 1:3 and 1:5 respectively, similar to the 1:4 ratio requirement in Australia. However, neither country requires FDC educators to hold ECEC qualifications, as Australia now does,¹⁹ and there are also differences in the features of CBDC between these countries.

Although the service model of ECEC is likely to have effects on children's outcomes, limitations in the quantity and quality of the evidence base do not allow clear conclusions to be drawn on the circumstances in which a particular model is ideal.

(When) should programs be targeted or universal?

Internationally, many ECEC programs have been targeted at children experiencing vulnerability or disadvantage, whether through prioritisation in enrolment or in service location, or through limiting access to certain services based on measures such as family income. Many other programs are universal, and open to all children (noting that here we focus on a narrow conception of universality, where program rules do not explicitly limit access, and set aside issues of whether services are genuinely accessible to all children).

There can be advantages to targeting in some situations. Resources are allocated only to those who will benefit the most, limiting provision can make it more feasible to find a sufficient workforce, and services can

¹⁸ At least for typical services, although some research has examined additional programs delivered through OSHC (for example, Milton, sub. 168).

¹⁹ A requirement for new FDC educators to hold an approved Certificate III level (or higher) qualification took effect in July 2023, although existing educators at an FDC service will have until July 2024 to complete their qualification, or longer if there is reasonable justification (ACECQA 2023b).

be tailored to the specific needs of a particular cohort. However, universal programs can bring their own advantages (Fox and Geddes 2016).

- As discussed earlier, many ECEC programs have been found to benefit children across the spectrum of SES. And children from any family background, who live in any area can be developmentally vulnerable (SA Government 2023) – some of the children who may have most to gain from ECEC might not be eligible for targeted programs.
- Children experiencing disadvantage can sometimes be more likely to attend ECEC when programs are *not* targeted towards them, potentially because the basis for targeting (such as a low family income) can change quickly, stigma from targeted programs is avoided, it is less administratively burdensome to gain access, or because universal programs can establish norms of participation (Barnett 2010; Gambaro et al. 2014).
- Given the importance of peer effects for learning, children’s development may be best promoted in environments with a broader mix of social backgrounds, rather than one where children experiencing disadvantage are concentrated in the same settings (Gormley 2017).
- Broad-based community involvement may lead to a greater sustainability and quality of programs, as more – and more politically connected – families have an incentive to advocate for their effective operation. However, some evidence has suggested that any effect of this may be minimal (Barnett 2010; Greenstein 2022).

Whether these factors lead, in practice, to better outcomes for children is difficult to test empirically. But universal preschool programs in the United States seem to be much more beneficial than targeted programs, a finding that cannot be clearly explained by any other observed features of these programs (Cascio 2023). For most children, inclusion in universal services, with appropriate supports where necessary, could be advantageous in promoting their early learning and development.

That said, many of the most successful ECEC programs have been highly targeted, for example by providing trauma-informed care to a cohort of children who were at a higher risk of abuse or neglect (Tseng et al. 2022). Models of tailored support will be preferable in some situations (paper 2).

ECEC market structures can affect service quality

Whether, or in what proportion ECEC is provided by governments, not-for-profit organisations, or for-profit organisations varies between jurisdictions. This could have implications for the quality of services and, ultimately, children’s outcomes. Some evidence has suggested that otherwise similar-seeming ECEC programs were more likely to improve children’s outcomes if they were delivered publicly, rather than through a market of for-profit and not-for-profit services (Corazzini et al. 2021; van Huizen and Plantenga 2018).

In Australia, only about 7% of Child Care Subsidy approved services are managed by state, territory, and local governments, with about 8% run by schools, 33% by not-for-profit providers, and 52% by for-profit providers (ACECQA 2023a).²⁰ A market system can lead to greater levels of competition than when government is the sole provider of services, and in markets for many products, competition creates an incentive to offer a high-quality product to increase an organisation’s customer base, and the prices that they are willing to pay (PC 2017, p. 98).

For this to ensure high quality in ECEC services, providers would have to compete on perceived quality, and these perceptions would have to be accurate. But there are limits to the information that can be provided by available measures of quality.

²⁰ Preschools are not eligible for the Child Care Subsidy unless they operate for at least 48 weeks a year. This means these figures generally do not include dedicated preschool, which comprises a significant proportion of services of ECEC services for older children, and is more likely to be delivered by state governments.

- ECEC services receive a rating against the National Quality Standard, and these ratings are publicly available. However, of all the indicators of quality included by ACECQA in surveys of families, these are rated as the least important. Almost half of families were unaware of the rating of the service they used or intended to use, and many of those who were aware did not consider these ratings to be helpful. A lack of understanding and concerns about the accuracy or recency of National Quality Standard ratings may be limiting their use (paper 8).
- Families often visit services, or rely on recommendations from other families who currently access those services. But quality is difficult to directly observe, particularly when limited to pick-up and drop-off times, or a scheduled visit when the service is aware a potential customer is watching. Parents' ratings of the quality of educators have been found to be no higher for educators who are better at improving their children's outcomes (Araujo et al. 2019). And one reform that improved the quality of interactions between educators and children led to *lower* ratings on Yelp, as parents responded to the higher fees this reform also caused, while not obviously noticing the quality improvement (Herbst and Brown 2023).

Even if parents do discover a service is low quality, they may lack an alternative, with waiting lists that are often years long and a lack of alternative providers within their local area (ACCC 2023a, p. 55) – and switching providers would require families to send their child to an unfamiliar setting. While parents do place a high weight on quality, potentially due to a limited ability to determine and base decisions on quality they also report giving as much or more weight to factors such as location, availability, and cost when choosing a service (ACCC 2023a, p. 55; ACECQA 2022, p. 48).

Where competition cannot guarantee quality in a marketised system, the incentives of different provider types become more significant. When a lower quality service can be offered without a risk to demand for that service, providers will only invest in quality if they are forced to or have a non-commercial desire to do so. While this certainly does not prevent some for-profit providers from making substantial investments in quality, organisations often respond to incentives, and for-profit ECEC providers often have a clear commercial incentive to underinvest in quality. Potentially as a result of this, measures of process quality, structural quality and quality as assessed by regulators are generally higher in not-for-profit services, both internationally (e.g., Baker et al. 2019; Blanden et al. 2016) and in Australia (ACECQA 2023a; Char et al. 2023; Harrison et al. 2023).

But while this may lead to an advantage for not-for-profit providers in terms of service quality, there are other considerations in designing an ECEC system. Quality regulation can increase the likelihood that a baseline level of quality is met by all providers. And recent expansions in the number of ECEC services have largely been driven by for-profit providers, rather than not-for-profit providers (paper 5). Any potential quality implications of ownership status may need to be traded off against service availability.

Other policy settings matter for the outcomes ECEC will produce

Broader social systems and policy settings can affect children's experiences and development upon entry to ECEC, and whether the capabilities children develop through ECEC are built on and strengthened. This includes policies around parental leave, pre-natal and early childhood health interventions, government support payments, child protection and many other areas.

Of particular importance is the quality of later educational experiences. The benefits of high-quality ECEC are amplified when combined with other reforms that improve the quality of the schools system. For example, children did not significantly benefit from the US Head Start preschool program if they went on to attend schools that had their funding cut, while the benefits of Head Start for children who attended better-funded schools included much higher high school graduation rates and wages, and much lower adult poverty and

contact with the justice system (Johnson and Jackson 2019).²¹ And the potential for ECEC to increase the proportion of school leavers prepared for tertiary education will not be fully realised if policy settings limit access to tertiary education, or do not sufficiently improve its quality.

ECEC will be complemented by improvements to school and tertiary education systems. The Commission has put forward recommendations in these areas (PC 2022, 2023b), and review processes prior to the next National Schools Reform Agreement and as part of the Universities Accord will be completed by the end of 2023. As well as being beneficial in their own right, high-quality and accessible school and tertiary education systems will be necessary to harness the full potential of early childhood education and care.

There is much we don't know about when and for whom ECEC is most beneficial

This section has covered: methods of attempting to measure quality in ECEC and their limits; potential differences in the effects of ECEC for children of different ages and from different socio-economic backgrounds; and how the effects of ECEC may differ for systems or services that operate in different ways.

The ability to meaningfully answer these questions is limited by the complex nature of decisions around ECEC as determined by families' resources, preferences, and perceptions of the developmental needs of their children, and significant differences in children and services between jurisdictions. Nonetheless, the literature does present some lessons for ECEC, as well as areas for further exploration as part of a research agenda (section 1.4).

While the Commission will continue to consult on our reading of the evidence, many important questions are unlikely to be able to be answered without further research and, critically, data, coordination, and policy that is designed to facilitate evaluation.

1.4 A research agenda for ECEC

There is much that we know about how early childhood education and care affects children's outcomes. The Commission has found that most credibly evaluated ECEC programs have been found to benefit children, that the range of potential benefits is broad, and that children experiencing vulnerability or disadvantage have the most to gain.

But while the degree of consistency with which programs have been found to be beneficial across different contexts provides more confidence that an expansion of access to ECEC in Australia would support children's development, many of the rigorous techniques that have been used elsewhere have not been applied here, including due to data availability and differences in policy design.

There is a lot of data collected in ECEC – through the administration of the Child Care Subsidy, preschool and other government programs, surveys with broad coverage, such as the Australian Early Development Census, and information submitted by service providers to regulators. But there has been a lack of data that is recent, accessible, linked and able to be used to effectively address knowledge gaps. Governments are working towards implementing a preschool outcomes measure, but data will not be available for a number of years.

²¹ Many studies with similar findings compare similar-seeming children who attended schools of different quality, but this is not the most credible evidence, as there could be some unobserved factor that led some students to attend better schools that may have independently caused them to achieve better outcomes. However, Johnson and Jackson (2019) use variation in both Head Start attendance and school funding levels that comes from natural experiments and seems to be as good as random.

It is particularly challenging to go beyond estimating the effects that ECEC programs have had, to understanding why they have had these effects, how ECEC systems should best be designed to support learning and development and how children in different circumstances can benefit most from ECEC. Fully realising the potential of ECEC to improve children's lives requires credible evaluation of policy changes, as well as other research to guide the future evolution of ECEC system design, policy and practice – and set up families to make better-informed decisions on if, when, how much, and what type of ECEC would be best for their children. This requires a coordinated response to ensure that research is directed towards the most significant questions, data is available and policy design allows for credible evaluation.

Priorities for research to support childhood development

There are some areas that should be a priority for a future research agenda where, despite their significance, there is considerable uncertainty over their effects on children's development.

- Each day that their child attends ECEC, families make choices about the length of that attendance, and government policies and provider decisions set the constraints within which these choices are made. But the quality of information to guide these decisions is limited.
- If educator-to-child ratios and qualification requirements are set at too low a level, ECEC will not optimally support childhood development. If they are set at too high a level, financial costs and workforce constraints will mean that some children will not be able to access ECEC at all. Better information on the effects of staffing requirements could inform these trade-offs.
- Children in Australia attend different models of ECEC, including CBDC, preschool, FDC, and OSHC. These types of services may support children's development in different ways, and children may vary in how well they are served by each of them, but there is limited evidence on this.

Other areas relating to the effects of ECEC on children's outcomes should also be included, such as training and professional development for educators, implications of provider type and the relationship between National Quality Standard ratings and children's outcomes. Research on understanding the different delivery models of ECEC policy, funding and service delivery that best recognise the experiences of Aboriginal and Torres Strait Islander children and families should also be conducted.

While these topics relate to children's outcomes more directly, other areas of ECEC policy should also be part of a research agenda, including on service availability, accessibility and inclusivity, measures to attract, support and retain the ECEC workforce and how ECEC supports labour force participation.

A steward should support the research agenda

The capacity for research to answer these questions can be limited by data gaps or inaccessibility, difficulties accessing funding and policy design that does not build in evaluation mechanisms. There can also be a lack of coordination between researchers, policymakers and practitioners. Researchers may have limited visibility over which issues are being considered and what the most important questions to answer may be. Policymakers and practitioners may not understand what they need to do to allow researchers to provide answers to these questions.

Paper 9 argues that an ECEC Commission should be established to monitor and evaluate government policies as they progress towards universal ECEC, and provide advice about investment priorities. The role of this Commission would encompass supporting the development of a knowledge base to guide ECEC policy and practice, working with researchers and policymakers to identify priorities, address gaps in the availability (and existence) of data and coordinate and fund research.

While the ECEC Commission may be best placed to oversee the development of a research agenda, many actions would need to be taken before it is established. The Australian Education Research Organisation could commence the process of developing and overseeing the implementation of a research agenda.

A move towards the establishment of a universal ECEC system will only make it more critical to facilitate research to help maximise the potential of ECEC to support children to flourish. Collaboration with researchers, policymakers and practitioners, data availability and accessibility, consideration of evaluation during policy design and mechanisms to disseminate findings will all be required. In preparing the final report of this inquiry, the Commission will consider views on a research agenda for ECEC and the structure, objectives and functions of the body that would oversee it.



Draft finding 1.2

There is more to learn about how ECEC programs can best improve children's outcomes

The literature on early childhood education and care programs presents some lessons about how programs and systems to improve children's outcomes might be designed, but there is also much that is not known.

- The benefits from ECEC programs can be greatest for children experiencing disadvantage or vulnerability, while extending more broadly. Services that are accessible to children from a wide range of backgrounds may, as well as reaching more children, be more conducive for the learning and development of each child who does attend.
- Benefits have been produced by programs with a wide range of features, including those with different operating models, starting ages and number of weekly hours attended. Realising the potential of ECEC for childhood development requires a better understanding of how program features affect children's outcomes.
- Factors that contribute to the quality of ECEC services can be difficult to disentangle using available measures of process or structural quality. Predictions of how children's outcomes will be affected by efforts to improve these measures, including regulated features of services such as staffing requirements, are highly uncertain.

While the ECEC Commission may be best placed to oversee a research agenda, many actions would need to be taken before one is established. The Australian Education Research Organisation could commence the process of developing and overseeing the implementation of a research agenda in the short term.

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2. How do ECEC services support children?

Key points

- * **The children attending early childhood education and care (ECEC) are diverse and have a range of needs. Ensuring ECEC services appropriately cater to these needs is an integral part of ensuring a high-quality system.**
- * **ECEC delivered in accordance with the National Quality Framework (NQF) should be sufficient to meet the needs of most children.**
 - The NQF imposes ratio and qualification requirements that were raised by inquiry participants as affecting the supply of ECEC. The literature does not provide a strong case for raising requirements but cannot rule out risks from lowering them.
 - Some services are not covered by the NQF but receive direct funding from the Australian Government. The standards for these services should be reviewed and the Australian Government should ensure any future funding model for these services has appropriate mechanisms to ensure their quality.
 - The NQF regulates outside school hours care services in a similar way to services for younger children but it is unclear if this is appropriate.
- * **Some children require support to ensure their inclusion in a mainstream setting. But some of these children still experience exclusion or environments that are not culturally safe.**
 - The NQF and anti-discrimination legislation require ECEC services to be inclusive. But most ECEC services are excluded from the *Disability Standards for Education 2005* and it is unclear if the NQF adequately promotes cultural safety or capability.
 - The Inclusion Support Program, funded by the Australian Government, could better support children with additional needs. Changes to additional educator subsidies, eligibility, and application processes would improve the supports available to children and services.
 - There are examples of poor coordination between governments on inclusion funding, which may lead to gaps, overlaps and confusion for services and families.
- * **For children requiring or using other services, such as allied health, ECEC services can help identify and connect them. The Productivity Commission will address findings from the recent review of the National Disability Insurance Scheme and any implications for the ECEC sector in its final report.**
- * **A smaller cohort of children may benefit from services tailored to their specific needs. Place-based approaches are one way these children could be supported.**

This paper considers how well Australian services deliver early childhood education and care (ECEC) that responds to children's needs, given the diversity of the children who attend ECEC and the diversity of Australian children more broadly.

The paper begins by considering the characteristics of children attending and not attending ECEC and sets out a framework for responding to their needs (section 2.1). It then considers the performance of the National Quality Framework (NQF) (section 2.2), inclusion programs (section 2.3), connections to services (section 2.4) and tailored supports (section 2.5) in meeting these needs.

2.1 Thinking about the needs of children in ECEC

The children who attend ECEC are diverse, but some cohorts are under-represented

Paper 1 established the important role ECEC can play in supporting children's developmental and educational outcomes. Nearly half of one-year-olds attend some form of ECEC and participation rises until children commence school (figure 2.1). About 90% of four-year-olds are enrolled in ECEC and, once in primary school, about 14% of children aged 5–12 spend time each week in outside school hours care (Productivity Commission estimates, based on ABS 2023a, 2023b and DoE administrative data (unpublished)).¹

There is substantial diversity among children who attend ECEC in terms of their age, setting attended, backgrounds and associated needs, and other characteristics (figure 2.1). Ensuring ECEC services and policy appropriately respond to this diversity is a key part of ensuring children experience positive outcomes from ECEC.

The majority of children in Australia thrive in their early years, but many children across the community experience developmental vulnerability. The three-yearly Australian Early Childhood Development Census (AEDC), which assesses children's development in their first year of school, shows some cohorts are more likely to be developmentally vulnerable, including:

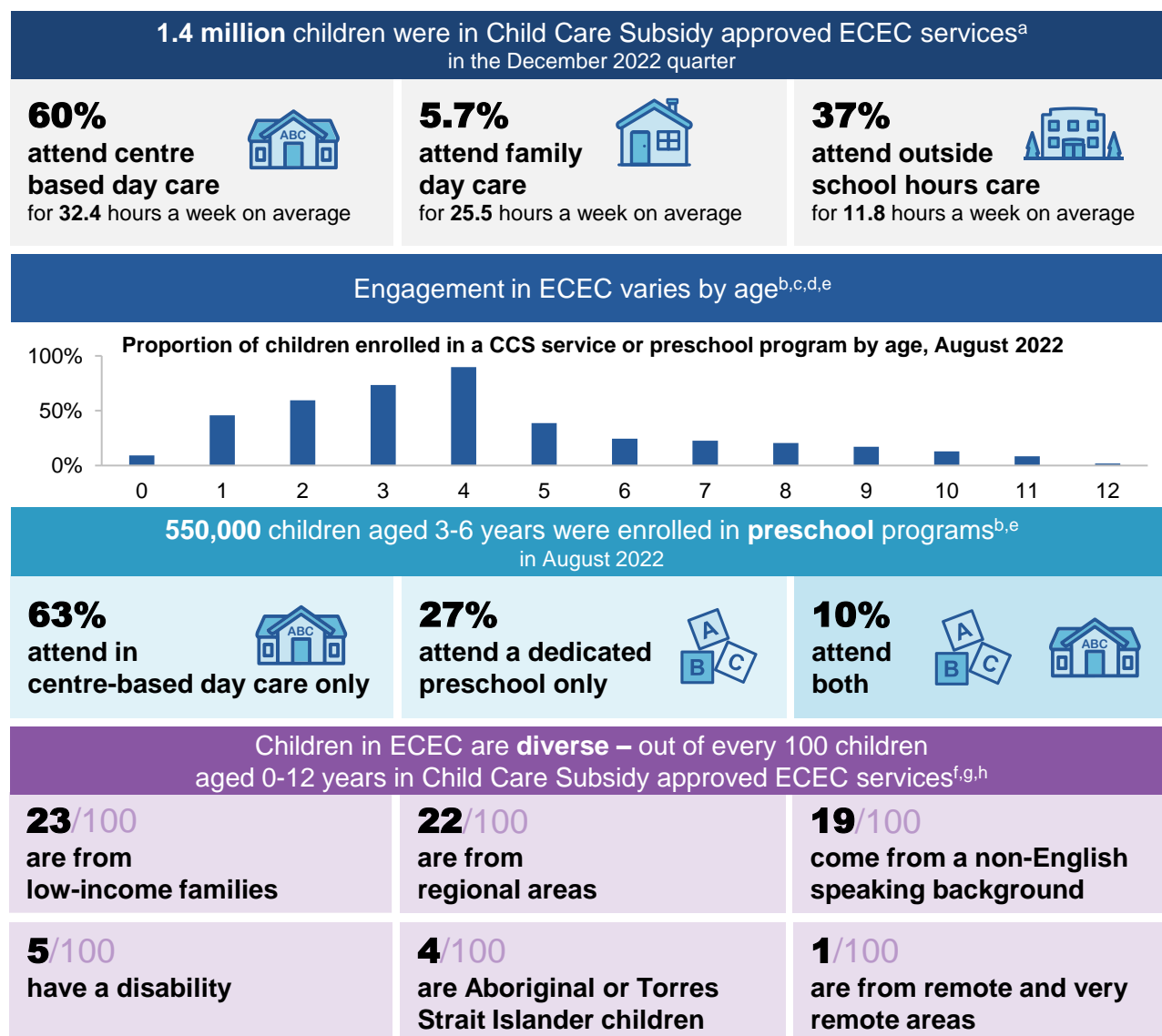
- Aboriginal and Torres Strait Islander children
- children with a language background other than English
- children from regional and remote areas
- children from low socio-economic areas² (DESE 2022, pp. 29–40).

While included in the census, AEDC results are not reported for children with chronic medical, physical or intellectual disabilities that require special assistance, based on medical diagnosis.

¹ The reference period used to calculate the number of children enrolled varied but was generally a period in August 2022. For Australian Government data, it was 1–7 August 2022. For state and territory data, it was generally a period in August 2022. For the NT, it included part of June and July 2022 and in the ACT it included part of July 2022. Data on the overall population of children was at June 2022.

² Children residing in an area with a Socio-Economic Indexes for Areas – Index for Relative Socio-economic Disadvantage quintile of 1.

Figure 2.1 – The children who attend ECEC are diverse
Characteristics of children attending ECEC



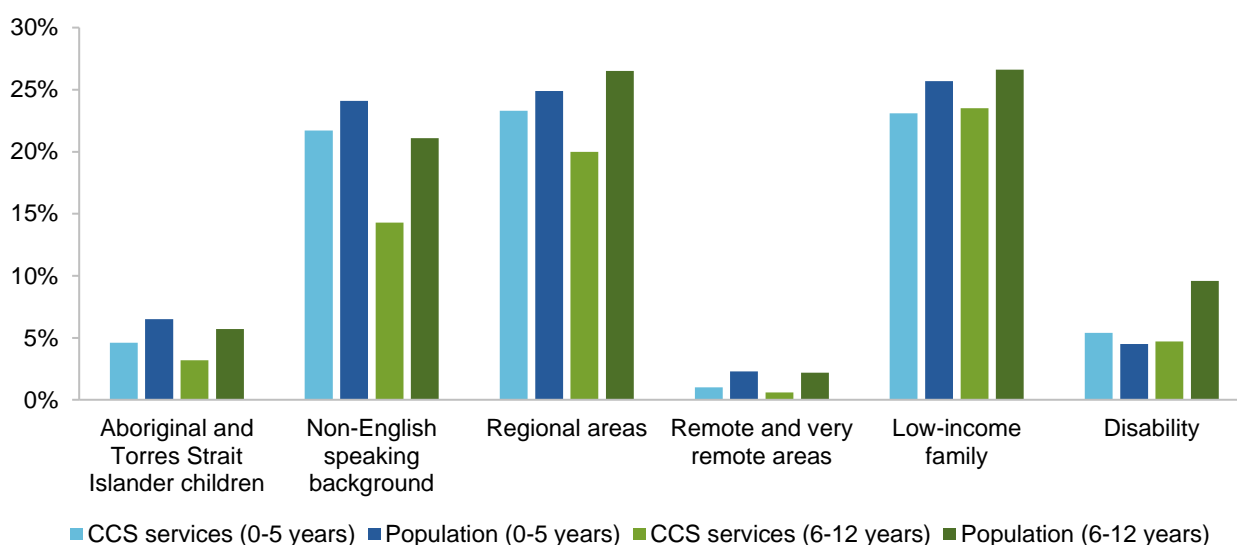
a. Includes children whose family lodged a claim for CCS and have a Customer Reference Number. 2,090 children attended In Home Care in the December 2022 quarter. The sum of percentages exceeds 100% as children can attend multiple CCS service types. **b.** The reference period used to calculate the number of children enrolled varied but was generally a period in August 2022. For Australian Government data, it was 1–7 August 2022. For state and territory data, it was generally a period in August 2022. For the NT, it included part of June and July 2022 and in the ACT it included part of July 2022. **c.** Data on the overall population of children was at June 2022. **d.** For enrolment by age, there may be some double counting of children aged 3-6 years enrolled in both a preschool program (including centre-based day care) and family day care, outside school hours care or In Home Care. **e.** Children in centre-based day care of the appropriate age are assumed to be enrolled in a preschool program. **f.** Data on children from regional and remote areas, low-income families and Aboriginal and Torres Strait Islander children is at the March 2022 quarter. Data on children with disability and from non-English speaking backgrounds is at 2021; these children may be counted more than once if attending more than one approved service in the reference period. **g.** Children can use ECEC in multiple regions, and may be counted in more than one region. **h.** Data on Aboriginal and Torres Strait Islander children and children with disability is based on identification by the service.

Source: DoE (2023a), Productivity Commission estimates, based on ABS (2022) *Preschool Education 2022*, *TableBuilder*, accessed 15 August 2023, ABS (March 2023) 'Estimated Resident Population by Single Year of Age, Australia', *National, state and territory population*, accessed 10 September 2023, DoE administrative data (unpublished), SCRGSP (2023).

Children from these cohorts as well as children with disability are often less likely to be enrolled in or attend ECEC (figures 2.2 and 2.3).³ They are typically under-represented both among children attending Child Care Subsidy (CCS) approved services and those enrolled in preschool in the year before-full time school.

Figure 2.2 – Children from some cohorts are under-represented in CCS approved services^{a,b,c,d}

Representation of select cohorts among children attending CCS approved services, compared to their representation in the community

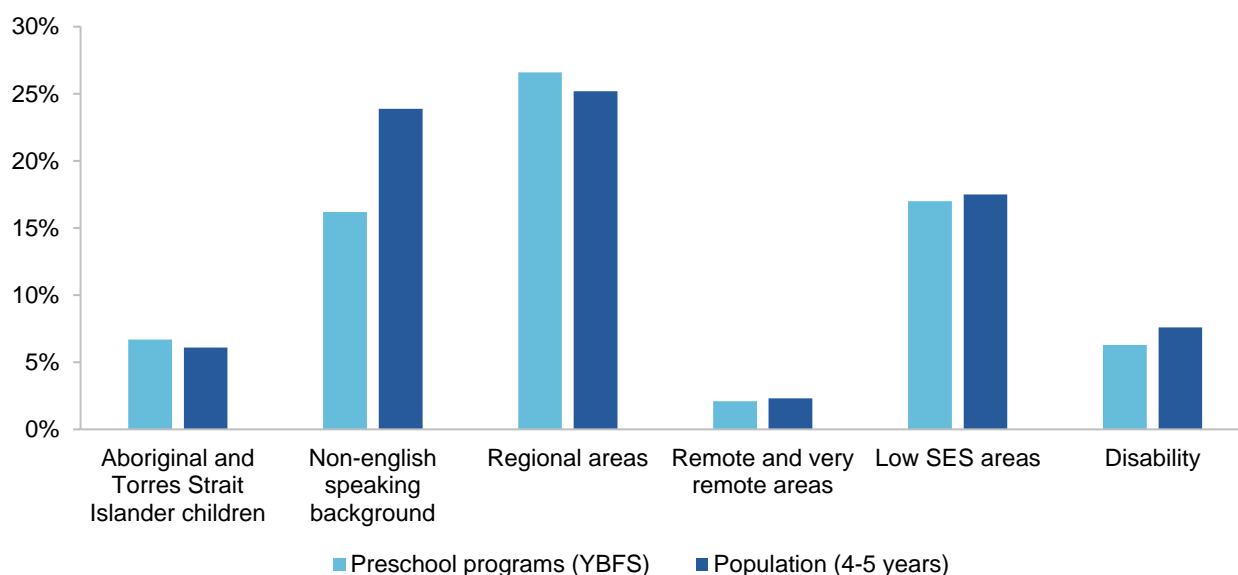


a. For representation in CCS services: data on Aboriginal and Torres Strait Islander children, children from regional, remote and very remote areas and low-income families is at the March quarter 2022; data on children from non-English speaking background and with disability is from 2021. For representation of children in community: data on Aboriginal and Torres Strait Islander children is at 30 June 2022; data on children from regional, remote and very remote areas is at 30 June 2021; data on children from non-English speaking backgrounds is at 2021; children from low income families is at 2019-20; and children with disability is at 2018. **b.** Children with disability and those from non-English speaking backgrounds may be counted more than once if attending more than one approved service during the reference period. As a result, participation could be over-reported **c.** Children can use ECEC in multiple regions and may be counted in more than one region. **d.** Data on Aboriginal and Torres Strait Islander children and children with disability is based on identification from the service.

Source: SCRGSP (2023).

³ For CCS services, data is reported based on the income of the family, rather than the socio-economic status of their area.

Figure 2.3 – Some cohorts are also under-represented in preschool^{a,b,c,d}
Representation of select cohorts enrolled in preschool in the year before full-time school (YBFS), compared with their representation among children aged 4 to 5 years



a. Data are incomplete. Data is not available on children from non-English speaking backgrounds in Western Australia and the Northern Territory. **b.** The ages of the year before full-time school cohort varies by state and territory and does not completely align with all children aged 4 to 5 years. **c.** For representation in preschool programs: data on Aboriginal and Torres Strait Islander children, children from regional, remote and very remote and low socio-economic areas is from 2022 and represents children in the state-specific year before full-time school; data on children from non-English speaking background and with disability is from 2022 and represents children aged 4 years plus children aged 5 years who were not repeaters. **d.** For representation in the community: data on Aboriginal and Torres Strait Islander children is at 30 June 2022; data on children from regional, remote and very remote and low socio-economic areas is at 30 June 2021; data on children from non-English speaking backgrounds is from 2021; data on children with disability is from 2018.

Source: SCRGSP (2023).

But these cohorts are not necessarily under-represented across every age group or service type. For example, in 2021, children with disability aged 0–5 years were over-represented among children attending CCS approved services, and in 2022, Aboriginal and Torres Strait Islander children and children from regional areas were over-represented in enrolments in preschool programs in the year before full-time school.

Data issues likely affect measurement of some of these outcomes. For example, identification of children with disability is reliant on identification from services, which may not align with the definition used for data on the prevalence of disability in the community more broadly. And while some cohorts of children may be over-represented in preschool enrolments, this does not necessarily guarantee they are attending for the full 600 hours per year provided under universal access arrangements.

The cohorts who are under-represented in ECEC are among those often identified as being more likely to experience disadvantage or vulnerability (though it should not be assumed all children from these cohorts are disadvantaged or vulnerable) (AIHW 2020, p. 8). And it is children experiencing disadvantage or vulnerability who are likely to experience the greatest benefit from attending ECEC (paper 1).

The reasons for lower levels of engagement among these cohorts are explored in paper 7.



Draft finding 2.1
Many Australian children attend ECEC services

Early childhood education and care (ECEC) services play a major role in the lives of young children and their families. Nearly half of one-year-olds attend some form of ECEC and participation rises until children start school. About 90% of four-year-olds are enrolled in ECEC and, once in primary school, about 14% of children aged 5–12 years spend time each week in outside school hours care.



Draft finding 2.2
Children who would benefit most from ECEC are less likely to attend

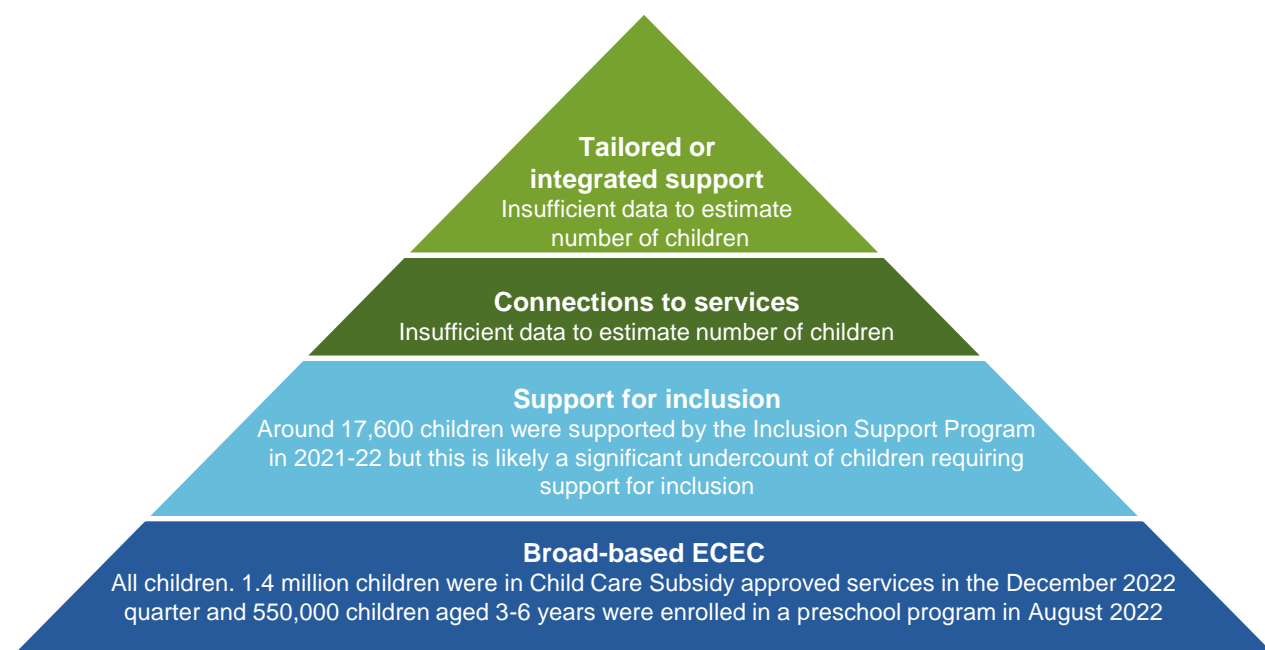
Children experiencing disadvantage and vulnerability – who are likely to benefit most from ECEC services – are less likely to attend than their more advantaged peers.

A framework for responding to the needs of children

In considering responses to the diversity of children’s needs, this paper conceptualises ECEC service delivery in four layers (figure 2.4). Each is discussed in the following sections.

- **Broad-based ECEC (section 2.2):** ECEC services that meet the requirements of the NQF should be sufficient to meet the needs of most children.
- **Support for inclusion in ECEC settings (section 2.3):** for some children, additional support may be required to support their inclusion in a mainstream ECEC setting and ensure they receive ECEC in accordance with the NQF.
- **Connections to other services (section 2.4):** for children with needs beyond ECEC, services can help identify and connect them with other services (such as allied health, schools or other ECEC providers).
- **Tailored support or integrated services (section 2.5):** a smaller cohort of children with specific needs or experiencing high levels of vulnerability may benefit from place-based, tailored or integrated support.

This model acknowledges that all ECEC services have a responsibility to be inclusive and responsive to the needs of children. However, it recognises that in some circumstances children and their families may prefer or benefit from services tailored to their specific needs. Children may move between these tiers over the course of their time in ECEC. Nonetheless, such a framework is helpful in thinking about how services and policy should respond to children’s needs.

Figure 2.4 – A conceptual model of ECEC service delivery^{a,b,c,d}

a. The number of children supported by the Inclusion Support Program (ISP) represents children from whom a service was in receipt of ISP funding – it does not capture children who may have been assist by the ISP for whom a payment was not made (DoE, personal communication, 3 November 2023). **b.** Children may attend both a CCS approved service and a preschool program. Some may also attend a preschool program within a CCS approved centre-based day care service. **c.** The reference period used to calculate the number of children enrolled in preschool programs varied but was generally a period in August 2022. For Australian Government data, it was 1–7 August 2022. For state and territory data, it was generally a period in August 2022. For the NT, it included part of June and July 2022 and in the ACT it included part of July 2022. **d.** The number of children in CCS approved services represents children whose family lodged a claim for CCS and have a Customer Reference Number.

Source: Aly (2023); DoE (2023a); Productivity Commission estimates based on ABS (2022) *Preschool Education 2022*, *TableBuilder*, accessed 15 August 2023.

2.2 Services that meet the NQF should be sufficient to meet the needs of most children

The quality of ECEC children receive is a key determinant of the benefits they experience from ECEC (paper 1).

The NQF, introduced in 2012, is the main way governments regulate the quality of ECEC. The NQF sets out a regulatory system for most long day care (LDC),⁴ family day care (FDC), preschool and outside school hours care (OSHC) services (appendix C).

The NQF consists of the:

- National Law and National Regulations, which set out the minimum standards and requirements that providers must meet, including minimum qualification and ratio requirements
- National Quality Standard (NQS), which set out seven quality areas that are important to children's outcomes

⁴ The NQF categorises service types differently to the classification system used for the CCS, which has been adopted throughout this inquiry. Long day care services refer to centre-based services providing all-day care to children. Some CCS approved centre-based day care services also offer shorter sessions or occasional care.

- assessment and quality rating process, through which services are assessed and rated against the NQS
- national approved learning frameworks, upon which services are required to base their educational programs (appendix C).

For the majority of children, ECEC delivered in accordance with the NQF should be sufficient to meet their needs.

Inquiry participants were generally supportive of the NQF and highlighted its importance in ensuring a high-quality sector (for example, The Creche & Kindergarten Association, sub. 155, p. 14; Goodstart Early Learning, sub. 125, p. 16; KU Children's Services, sub. 83, p. 6; Family Day Care Australia, sub. 66, p. 6; SDN Children's Services, sub. 63; p. 5).

While many were supportive, inquiry participants raised a range of issues related to the NQF, including educator ratio and qualification requirements, the scope of services covered by the NQF, requirements for OSHC and the cultural suitability of the NQF (for example, Regional Development Australia Kimberley, sub. 1, p. 6; Berry Cottage Childcare and Pre-school, sub. 41, p. 2; Early Learning and Care Council of Australia, sub. 153, p. 12; Outside School Hours Council of Australia, sub. 82, p. 2; SNAICC, sub. 133, pp. 16–17), which are discussed in this paper. Concerns raised regarding the administrative burden for services, inconsistency between states and territories, inadequate incentives for services to improve and inadequate funding to states and territories for implementation are discussed in paper 8.

Two major reviews of the NQF have been completed to date, with the first commencing in 2014 and the second in 2019. In response to the 2019 review, a range of changes were agreed, with the majority coming into effect from mid-2023. In addition, updated versions of the national approved learning frameworks were released in early 2023. The original versions will remain in operation alongside the updated versions until early 2024.

Given this review activity, the Productivity Commission has focussed on key issues raised by inquiry participants. This section considers:

- the performance of services against the NQF
- ratio and qualification requirements
- the scope of services covered by the NQF
- whether the NQF appropriately reflects the operating environment in OSHC.

The performance of the regulatory system, including the assessment and rating of services against the NQS, is covered separately in paper 8.

Most services meet or exceed the NQS but some are still below standard

Most Australian ECEC services meet the quality standard as set out in the NQF. An outline of the ratings and assessment process is detailed in appendix C.

While NQF quality ratings are the best available data set to examine quality in Australia's ECEC sector, caution should be used when interpreting this data (box 2.1). Issues include long times between reassessments of services, the fact that quality can change between assessments and the fact that the NQF has been revised over time and some services have only been assessed against previous versions.

Box 2.1 – Reliability of National Quality Framework quality ratings

A range of factors should be taken into consideration when interpreting National Quality Framework (NQF) ratings data.

- **There can be a long time between reassessments of services and ratings can change between assessments.** For those services that had received at least two assessments, the average time between assessments was just over four-and-a-half years (as at 1 July 2023).
- **Some services have only been assessed against previous versions of the National Quality Standard (NQS).** Updates to the NQS were made in 2018, but as at 1 July 2023 11.9% of services have only been assessed against the 2012 version.
- **Not all NQF approved services have been assessed.** As at 1 July 2023, 9.0% of approved services had not been assessed.
- **Some services are excluded from the NQF.** For example, exclusions include preschools that are part of the school system in Western Australia and Tasmania, In Home Care services and some services funded by the Community Child Care Fund Restricted grant (appendix C).
- **Services are assessed as Working Towards the NQS if one or more of the 40 elements is not met.** As at 1 April 2023, 11.1% of services assessed as Working Towards had not met one element only, and a further 13.8% had not met two elements only.

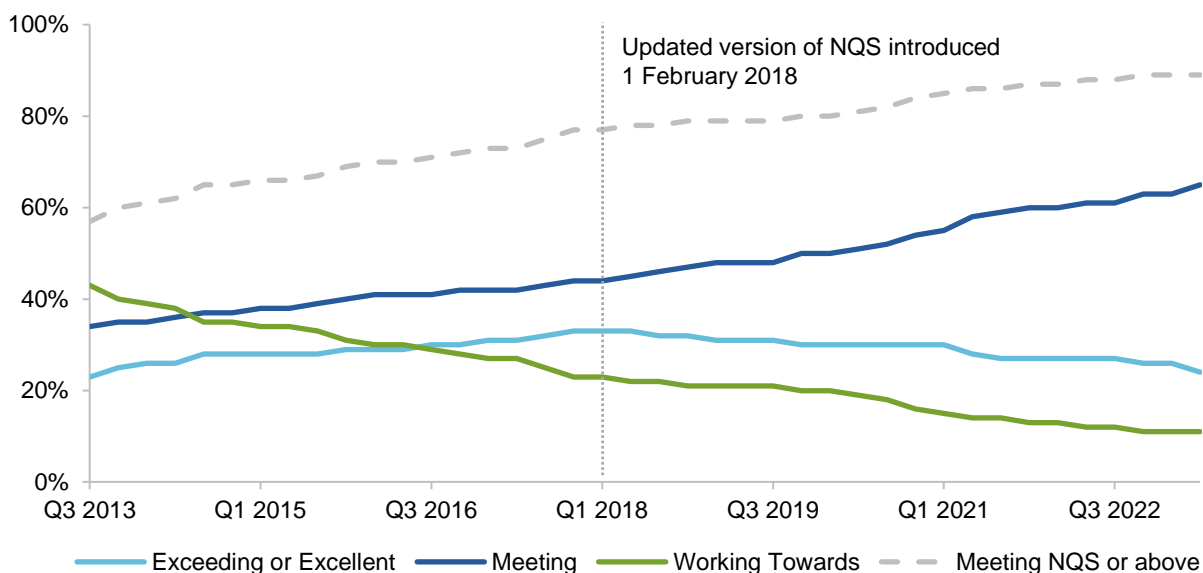
Source: Productivity Commission estimates based on ACECQA (2023e, 2023f).

Since the introduction of the NQF, there has been a general increase in quality ratings across the ECEC sector (figure 2.5). As at 1 July 2023, 89.1% of assessed services had a rating of Meeting the NQS or higher (Productivity Commission estimates, based on ACECQA 2023f). This improvement has been driven by an increase in the proportion of services assessed as Meeting the NQS. The proportion of services rated as Exceeding the NQS or above has declined since 2018 but this most likely reflects changes made in 2018 to the NQS and the assessment criteria to receive an Exceeding rating.

As at 1 July 2023, 10.9% (1,715) of assessed services were Working Towards the NQS (Productivity Commission estimates, based on ACECQA 2023f).

Figure 2.5 – Quality ratings have improved over time^{a,b,c,d}

Quality ratings of assessed services, as a proportion of all assessed services, 2013–2023



a. Subject to data caveats outlined in box 2.1. **b.** Data covers the period from quarter 3 2013 to quarter 2 2023. **c.** Data captures services that had received at least one assessment by the end of the relevant quarter, regardless of whether the assessment and rating was conducted during that quarter. **d.** Very small proportions of services are assessed as Significant Improvement Required. These have not been depicted graphically but have been included in the total number of assessed services for the purposes of calculating the proportion of services achieving the respective quality ratings depicted above.

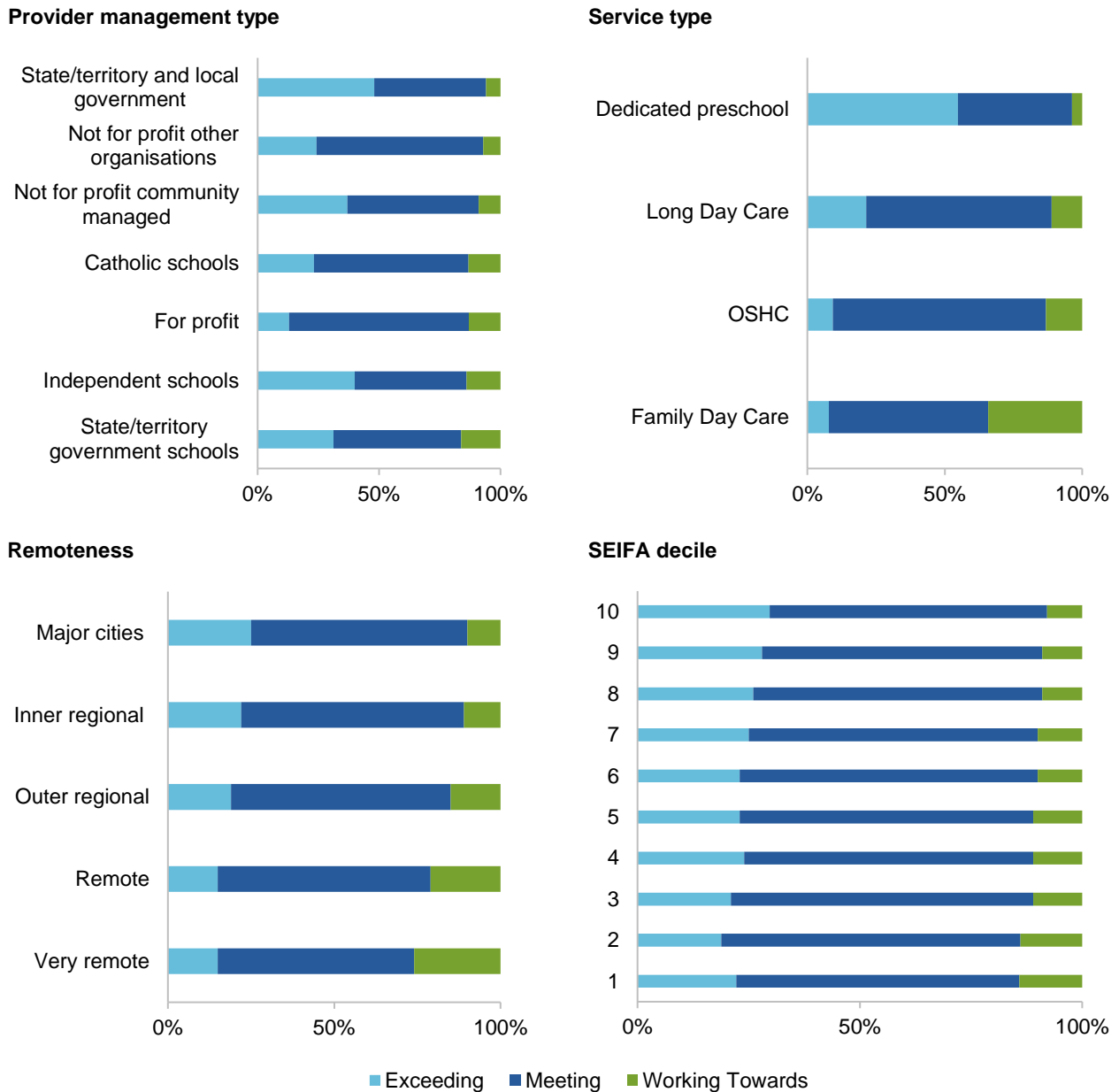
Source: Productivity Commission estimates based on ACECQA (2023d).

There is also variability in individual quality ratings, which are lower in some locations, service types and provider types (figure 2.6). Care should be taken in drawing inferences from this variation, given the data limitations discussed in box 2.1. In addition, these differences do not imply causality and may reflect the differing operating models or cost structures of services.

Despite these limitations, these results present a picture of substantial variation in the quality of ECEC that children receive across Australia. And they show that children experiencing disadvantage are more likely to experience ECEC of poorer quality. Services operating in remote parts of Australia and in areas where socio-economic disadvantage is common are *less likely* to have a rating of Meeting the NQS or above. These are the services attended by children who are most likely to benefit from quality ECEC.

Policy responses to address this variation are discussed in paper 8.

Figure 2.6 – There is variability in quality ratings among service types and locations^{a,b,c,d}
Quality ratings by select characteristics of services, 1 July 2023



a. Subject to data caveats outlined in box 2.1. **b.** Data captures services that had received at least one assessment by the end of the relevant quarter, regardless of whether the assessment and rating was conducted during that quarter. **c.** SEIFA deciles are based on the Socio-Economic Index for Areas – Index of Relative Socio-Economic Advantage and Disadvantage. Decile 1 represents the most disadvantaged areas and Decile 10 the most advantaged. **d.** Very small proportions of services are assessed as Excellent or Significant Improvement Required. These have not been depicted graphically but have been included in the total number of assessed services for the purposes of calculating the proportion of services achieving the respective quality ratings depicted above.

Source: ACECQA (2023c).

Are staff ratios and qualification requirements appropriate?

The NQF imposes ratio and qualification requirements

The NQF imposes educator-to-child ratios and qualification requirements, including:

- for LDC and preschool services, the engagement of up to two full-time equivalent early childhood teachers, depending on the number of children attending⁵ (ACECQA 2023h)
- for LDC, preschool and FDC services, ensuring educators hold at least a certificate III level qualification, with 50% of educators in LDC and preschool required to hold a diploma level qualification (educators may be actively working towards their qualification in preschool and LDC services)⁶ (ACECQA 2023h, 2023i)
- maintaining the required educator-to-child ratio, which ranges from 1:4 to 1:15, depending on the age of the children attending, the setting and the state or territory (ACECQA 2017).

The NQF does not prescribe qualification requirements in OSHC (ACECQA 2023j). Many states and territories maintain their own requirements, which vary considerably.

The Australian Children's Education and Care Quality Authority (ACECQA) is reviewing the NQF staffing and qualification regulations, to inform options for consideration by Education Ministers in December 2023 (ACECQA 2023g).

Ratio and qualification requirements were commonly raised by participants

Staff ratios and qualification requirements were regularly raised by inquiry participants. Several participants emphasised the important role staffing ratios and qualification requirements play in supporting quality ECEC and children's outcomes (Goodstart Early Learning, sub. 125, p. 44; SDN Children's Services, sub. 63, p. 5; Albury Preschool, sub. 43, p. 1; ACECQA, sub. 6, p. 6). Some inquiry participants advocated for higher qualification or ratio requirements on the basis that this would further improve children's outcomes (The Creche & Kindergarten Association, sub. 155, p. 17–18; Lady Gowrie Child Centre Inc (Adelaide), sub. 25, p. 4).

However, a number of inquiry participants raised concerns about the impact of ratio and qualification requirements, particularly in the context of workforce challenges. Regional Development Australia Kimberley submitted that qualification requirements were a contributing factor to workforce shortages and argued the requirements should take into account regional considerations (sub. 1, p. 6). And one inquiry participant suggested the increased qualification requirements introduced over the last 10–12 years have not resulted in quality ECEC (One Tree Community Services, sub. 121, p. 8).

Other submissions emphasised the inconsistency in staffing requirements across jurisdictions, particularly in OSHC (The Y Australia, sub. 127, p. 13, Community Child Care Association, sub. 111, p. 13, Outside Schools Hours Council of Australia, sub. 82, p. 5; Ogrizek, sub. 4, p. 3; Berry Cottage Childcare and Pre-school, sub. 141, p. 2; Network of Community Activities, sub. 171, p. 3). One OSHC provider organisation noted the additional regulatory burden this inconsistency places on services (Outside School Hours Council of Australia, sub. 82, p. 5).

⁵ Services with fewer than 25 children attending are permitted to access an early childhood teacher, which may be through an information communication technology solution.

⁶ In FDC, changes from July 2023 removed the ability of educators to be working towards their qualification. Existing educators have up to 12 months to complete their qualifications (aside from educators in South Australia, where this requirement already applied).

The evidence for change is not compelling

As a principle, ratio and qualification requirements should aim to ensure that children receive ECEC of the quality required to support their developmental and educational outcomes. But ratio and qualification requirements should also not impose unnecessary costs on families, services or governments. Nor should they place unnecessary restrictions on the supply of educators or of ECEC. In other words, the benefits must outweigh the costs.

Quantifying these costs and benefits is challenging, given the uncertainty involved. Paper 1 examined the evidence base on the effect of ratio and qualification requirements on children's outcomes and found insufficient evidence to determine optimal requirements. It did not find a compelling case in the literature for raising requirements under the NQF, but noted the literature is not capable of ruling out risks from reducing them.

An analysis submitted by Bray and Gray (sub. 14, pp. 45–46; 57–62) suggested Australia's ratio requirements for centre-based services⁷ are not significantly out of step with those in other comparable countries. For children aged under two years, Australia's ratio requirements are higher than some comparable countries, although not the highest. For children aged two years, Australian requirements are broadly in line with others and for children aged three years, they are lower. And for children aged four and five years, Australia's ratio requirements tend to be higher.

In the absence of compelling evidence, the Commission cannot recommend significant changes to staffing requirements.

However, there remains a need to ensure the system is sufficiently flexible to accommodate the varying contexts and circumstances services operate within. For example, it may be reasonable to allow a service to operate below minimum qualification requirements where an inability to find staff would result in the service closing and children being unable to attend. To this end, the current waiver system provides a degree of flexibility to services to operate below certain requirements, where they are able to demonstrate there is no risk to the safety of children.

While the Commission acknowledges concerns from some participants about the impact of staffing requirements in regional areas, it does not consider there should be a different standard for regional providers. Doing so would risk entrenching inequities between regions and children. These circumstances would be more appropriately accommodated through the waiver system.

The Commission also acknowledges concerns from inquiry participants about the inconsistency in qualification requirements in OSHC and notes that ACECQA's staffing requirements review is considering these requirements, with the aim of considering whether there could be greater consistency.

Most services are covered by the NQF but some are excluded

While the majority of ECEC services are covered by the NQF, as noted above, some services are excluded.

During its establishment, governments envisaged the NQF would eventually encompass all ECEC service types (COAG 2009, p. 3). Given the diversity of the sector, the largest service types (in numbers of children) were incorporated first. Expanding the scope of the NQF to some out-of-scope services was considered in the 2014 and 2019 NQF reviews (ESA 2017, pp. 52–53, 2019, pp. 12–13, 2020, p. 23). However, no changes resulted from either review.

Preschools that are part of the school system in Western Australia (WA) and Tasmania sit outside the NQF. But commitments by the respective state governments to regulate using an approach consistent with the

⁷ Under the NQF, centre-based services include LDC, OSHC and preschool.

NQS are likely to be sufficient (State of Tasmania and Commonwealth of Australia 2023; State of Western Australia and Commonwealth of Australia 2023). Other excluded services do not operate in a similar way to NQF regulated services. For example, excluded services include personal arrangements (such as grandparents and nannies), and care provided on an ad hoc basis where the parent is readily available (such as a creche at a gym). Excluding services such as these from the NQF is appropriate.

However, a number of out-of-scope services are CCS approved. Among others, these include In Home Care (IHC) services, some former Budget Based Funded (BBF) services, some former Indigenous Advancement Strategy (IAS) services, and occasional care services. A number of these services receive supplementary funding through the Community Child Care Fund Restricted grant (CCCF-R).

It is reasonable to expect these services be covered by some form of quality regulation or assurance.

Services approved for CCS should be subject to some form of quality regulation

As a starting point, it might seem appropriate for all CCS approved services to be covered by the NQF.

But the NQF may not be fit-for-purpose for out-of-scope services, many of which operate in different contexts to other services covered by the NQF. For example, it is not necessarily reasonable to expect IHC services to meet physical environment requirements under the NQF when IHC is delivered in a child's home.

SNAICC's submission raised concerns about the lack of a nationally consistent regulatory standard for Aboriginal and Torres Strait Islander services that fall outside of the NQF. However, it also noted:

efforts must be made to examine the requirements of the NQF in partnership with the Aboriginal and Torres Strait Islander sector and consideration must also be given to service types and contexts, specifically those services funded under the CCCF-R, for which the NQF may not be an appropriate regulatory framework. Consideration should be given to developing a unique framework and standards which apply to Aboriginal and Torres Strait Islander ECEC services (sub. 133, p. 16).

Incorporating out-of-scope services into the NQF is likely to involve transition costs and may impose additional burden on services operating below NQF requirements. For example, services not meeting NQF staffing requirements may need to improve educator-to-child ratios or educator qualifications.

Given these considerations, the Commission is of the view that services approved for the CCS should be subject to some form of quality assurance or regulation, although this may not be the NQF.

Out-of-scope services approved for CCS are already subject to some regulatory oversight

Under section 45 of the Child Care Subsidy Minister's Rules 2017 (CCS Minister's Rules), to be approved for the purposes of CCS, services not in scope of the NQF must either:

- hold a state or territory regulatory approval to operate
- be a former BBF or former IAS service
- be an IHC service (DoE, pers. comm., 8 November 2023).

All of these services are subject to some form of regulatory oversight, either through state and territory regulation, or by the Commonwealth through the CCS Minister's Rules. Where a service is out of scope of the NQF and is not regulated by states and territories or under the CCS Minister's Rules, it is ineligible to receive CCS (DoE, pers. comm., 8 November 2023).

State and territory regulation

State and territory governments regulate some out-of-scope services. For example, New South Wales regulates occasional care, mobile services⁸ and Multipurpose Aboriginal Children's Services (a former BBF service type) under the *Children (Education and Care Services) Supplementary Provisions Act 2011 (NSW)* and *Children (Education and Care Services) Supplementary Provisions Regulation 2019 (NSW)* (NSW Department of Education 2023f).

However, the types of services regulated by states and territories are inconsistent. For example, IHC services are regulated by the Tasmanian and South Australian governments, but no other state or territory government regulates IHC (DoE, sub. 90, p. 11). The Queensland Government does not regulate mobile services (Queensland Government 2023).

This means that where a service is not regulated by a state and territory and is not otherwise covered by the Minister's Rules (for example, a Queensland mobile services that was not formerly a BBF or IAS service), it is not eligible for CCS approval.

CCS Minister's Rules

Former BBF and IAS services not regulated by states and territories and all IHC services must meet quality requirements under the CCS Minister's Rules to maintain CCS approval (DoE, pers. comm., 8 November 2023). The rules include requirements relating to providing an education program, supervision, safety, first aid, managing and reporting serious incidents and insurance.

IHC services must also meet conditions set out in the IHC guidelines, including qualification requirements, and former BBF and former IAS services are required to have a Quality Improvement Plan assessing their strengths and weakness against the NQS (DoE 2022b, p. 15, 2022c, pp. 14; 28).

Ensuring fit-for-purpose regulation for out-of-scope services: a way forward

While all CCS services out-of-scope of the NQF are currently subject to some form of regulatory oversight, the Commission's recommendations to expand access to ECEC for all children are likely to expand the number of non-NQF regulated services. In some instances, this will likely require investments in services that are not currently subject to some form of quality regulation, such as some mobile services. In the design of any future funding model or agreements for these services, the Australian Government should ensure there are appropriate mechanisms to ensure the quality of these services.

More broadly, given the range of arrangements for regulating out-of-scope services, the Commission considers there to be a case for reviewing these arrangements to ensure they meet the needs of children attending. A future ECEC Commission should have responsibility for this work.

As part of this work, the ECEC Commission, with Australian, state and territory governments, should undertake a process of joint decision-making with Aboriginal and Torres Strait Islander services, communities and peaks on how Aboriginal and Torres Strait Islander services that are out-of-scope of the NQF should be regulated. This should include considering whether to include these services in the NQF or another framework.

⁸ Mobile services are excluded from the NQF. All mobile services currently approved for the CCS are former BBF services (DoE, pers. comm., 6 November 2023).



Draft recommendation 2.1

Ensure appropriate quality regulation for services outside the scope of the National Quality Framework

The Australian Government should ensure that any future funding models or agreements for services receiving direct Australian Government ECEC funding that are out-of-scope of the National Quality Framework include mechanisms to ensure and monitor the quality of these services.

An ECEC Commission (draft recommendation 9.2) should be tasked with reviewing regulatory arrangements for out-of-scope services receiving direct Australian Government ECEC funding to ensure they meet the needs of children. As part of this work, the ECEC Commission, with Australian, state and territory governments should undertake a process of joint decision-making with Aboriginal and Torres Strait Islander services, communities and peaks to determine the appropriate way to regulate the quality of Aboriginal and Torres Strait Islander services out-of-scope of the National Quality Framework.

OSHC is regulated in a similar way to services for children below school age

When the NQF was established, it was intended to create consistent quality standards for ECEC services, regardless of setting (COAG 2009, pp. 56; 99; 154). But consistency with services for children below school age may not be appropriate for OSHC, given children attending are predominantly of school age.

Under the NQF, OSHC is classed as a centre-based service, along with LDC and preschool. As a result, the majority of requirements for LDC and preschool services apply to OSHC, with some exceptions and modifications made for services providing ECEC for children over preschool age (ESA 2019, p. 24). Among others, the differences include less strict ratio requirements in most states and territories, exemptions or modifications to some physical environment requirements and a separate learning framework that recognises the role of leisure in school-age care. (As noted above, the NQF does not prescribe national qualification requirements for OSHC, though most states and territories impose their own requirements.)

In addition, following the 2019 NQF review, most states and territories now only require program level documentation on the educational program delivered to children over preschool age, rather than the individual child level documentation required for children under school age (ACECQA 2023a).

Children in OSHC are older and likely to have different needs

Children in OSHC are older, are more independent and are likely to have different needs to children under school age. They are also likely attending formal schooling.

Children see OSHC as a place for play, making friends and doing activities such as craft and sports (Simoncini, Cartmel and Young 2015, p. 124). Similarly, two small research projects with children aged 9–12 years in OSHC suggested these children value having friends of a similar age and activities that are enjoyable and consistent with their level of development (Hurst 2013, p. 47, 2015, p. 12).

Many OSHC services are provided on school sites. Yet the Commission has heard of instances where the school environment may not meet the requirements of the NQF. For example, one inquiry participant described how children may be prohibited from using a school playground while at OSHC (Outside School Hours Council of Australia, sub. 82, pp. 2–3). The SA Royal Commission into Early Childhood Education and Care heard of examples where adherence to the NQF meant children needed to be accompanied to the

toilet at OSHC, when they would be able to leave class and go to the toilet by themselves during school hours (SA Government 2023a, p. 200).

There do not appear to be widespread issues meeting the NQF in the OSHC sector

Inquiry participants noted that some OSHC services may face challenges meeting physical environment requirements under the NQF (National Outside School Hours Services Alliance, sub. 103, p. 2; Community Child Care Association, sub. 111, p. 19). For example, in a consultation report submitted by the NSW Small Business Commissioner, OSHC services reported receiving lower quality ratings due to factors outside their control such as limited or poor-quality toilet facilities (sub. 128, attachment 1, p. 17).

Similarly, consultations undertaken as part of the 2019 NQF Review highlighted that the NQF assessment and rating process was an issue for OSHC services, with feedback suggesting a tailored approach was necessary (ESA 2022, p. 189). But consultation participants also highlighted the importance of maintaining professionalism of the sector, and not all respondents felt major changes to the NQF were necessary.

There is limited evidence before the Commission to suggest there are widespread issues in the OSHC sector with complying with the NQF. As at 1 July 2023, 87% of OSHC services were Meeting the NQS or above (Productivity Commission estimates, based on ACECQA 2023f), suggesting the NQF is not an insurmountable hurdle for services to pass. However, OSHC services tend to receive slightly lower ratings than LDC services and significantly lower ratings than preschool services.

It is unclear if the NQF is appropriate for OSHC

There is insufficient evidence before the Commission to determine whether the issues detailed above arise from the standards in the NQF itself or the inappropriate application of those standards to an OSHC context (or both).

For example, one requirement under the NQF relates to ensuring children are adequately supervised. While the Guide to the NQF provides guidance on how this requirement applies for different ages of children, it is ultimately a matter of interpretation. One inquiry participant noted assessment officers have greater experience and knowledge in LDC settings rather than OSHC (Outside Schools Hours Council of Australia, sub. 82, p. 3). This suggests some of the issues may not necessarily arise from the standard in the NQF itself, but rather the way it is applied and assessed.

Equally, it is reasonable to assume children in OSHC will have different needs to children below school age. For example, while the role of leisure in OSHC is reflected in the national approved learning framework for school-age care and in the Guide to the NQF, it is not reflected in the quality standard.

In response to feedback from the 2019 NQF review, governments agreed to review and consider changes to the assessment and rating methodology for OSHC services (2019 NQF Review 2023).

The Commission is seeking further information from inquiry participants on the suitability of the NQF for an OSHC context and whether further actions are needed to ensure appropriate quality regulation arrangements.



Draft finding 2.3

It is unclear whether the National Quality Framework is fit-for-purpose for outside school hours care

Under the National Quality Framework (NQF), outside school hours care (OSHC) services are regulated in a similar way to services for children under school age. But children in OSHC are likely to have different needs.

Despite the fact that children attending an OSHC service usually also attend the school at which that service is located, the Commission has heard of instances where the school environment may not meet the requirements of the NQF.

It is hard to determine whether the issues raised by inquiry participants relate to the standards in the NQF, the inappropriate application of those standards to an OSHC context or both.

Moreover, while the national approved learning framework for school-aged care reflects the importance of leisure, this is not reflected in the National Quality Standard.



Information request 2.1

The Commission seeks further information about the suitability of the National Quality Framework (NQF) for outside school hours care (OSHC) services.

- Is the NQF suitable for an OSHC context and for school-aged children? If not, why?
- If not, would further guidance to services and assessing officers on how NQF requirements should apply in an OSHC setting be sufficient to address concerns? Or are modifications to the NQF required to account for the needs of school-aged children?

2.3 Some children require additional support to participate in ECEC services

While the NQF provides a foundation to ensure all children receive quality ECEC, some children may require additional support or adjustments to participate fully.

To achieve this, additional programs and funding may be required to ensure inclusive access and participation for some children in mainstream settings. Examples include the Inclusion Support Program (ISP) and state and territory initiatives that aim to improve inclusion and the cultural safety and responsiveness of services.

This section first outlines what is meant by inclusion and the cohorts who may have additional needs in ECEC. It then considers:

- requirements for ECEC services to provide an inclusive service
- the cultural safety and responsiveness of ECEC services
- the ISP.

Defining inclusion and looking more closely at children with additional needs

Inclusion in an ECEC context can be defined in many ways. Early Childhood Australia offers a useful definition, outlining that inclusion involves every child having access to, participating meaningfully in, and experiencing positive outcomes from ECEC (Early Childhood Australia nd).

Inclusion and equal access are enshrined in the United Nations Declaration on the Rights of Indigenous Peoples,⁹ the United Nations Convention on the Rights of Persons with Disabilities,¹⁰ and the United Nations Convention on the Rights of the Child.¹¹ These conventions recognise the importance of equal access and participation of children with disability and/or from Indigenous backgrounds.

While there is no national definition of children who may have additional needs in ECEC, the ISP Guidelines note this may include children who:

- have a disability or developmental delay
- are presenting with challenging behaviours
- have a serious medical or health condition, including mental health
- are presenting with trauma-related behaviours (DoE 2023b, p. 6).

The guidelines also recognise specific considerations, such as cultural support, may be required to ensure that some children are able to participate fully in ECEC services, including:

- Aboriginal and Torres Strait Islander children
- children from culturally and linguistically diverse (CALD) backgrounds
- children from refugee or humanitarian backgrounds (DoE 2023b, p. 6).

For the children mentioned above, this paper adopts the term ‘children with additional needs’. It does not assume all children in the identified groups are inherently vulnerable or disadvantaged, although some may be in vulnerable situations. For example, not all children with disability have high support needs and the support required will vary significantly based on the child’s circumstances. Children may have multiple additional needs, meaning an intersectional approach is required.

While it is not possible to articulate all of these experiences or cover all of these cohorts in this paper, the discussion below illustrates some of the factors that may need to be considered, drawing from the experiences of inquiry participants.

⁹ Article 14(2): Indigenous individuals, particularly children, have the right to all levels and forms of education of the State without discrimination.

¹⁰ Article 24(1): States Parties recognize the right of persons with disabilities to education. With a view to realizing this right without discrimination and on the basis of equal opportunity, States Parties shall ensure an inclusive education system at all levels and lifelong learning directed to ... enabling persons with disabilities to participate effectively in a free society.

¹¹ Article 23(3): Recognizing the special needs of a disabled child, assistance extended in accordance with paragraph 2 of the present article shall be provided free of charge, whenever possible, taking into account the financial resources of the parents or others caring for the child, and shall be designed to ensure that the disabled child has effective access to and receives education, training, health care services, rehabilitation services, preparation for employment and recreation opportunities in a manner conducive to the child’s achieving the fullest possible social integration and individual development, including his or her cultural and spiritual development.

Some children with disability, developmental delay or challenging behaviour experience exclusion

While some services are adept at supporting children with disability, developmental delay or challenging behaviour, others may struggle to meet children's needs. As a result, children may be refused enrolment, provided with inadequate support, or asked to leave. Goodstart Early Learning noted that:

children living with disability, developmental delay and other inclusion support needs often face exclusion from mainstream ECEC services because the service cannot meet their needs. These needs can range from requiring an additional educator to ensure children can safely participate, requiring adjustments to the program or physical environment, or requiring specialist support such as peg-feeding or intensive medical management. (sub. 125, p. 56)

Several participants reported gatekeeping, requests from services for partial attendance, suspensions, expulsions and other exclusionary practices (for example, The Parenthood, sub. 122, p. 6; Family Advocacy, sub. 118, p. 4; Association for Children with a Disability, sub. 78, p. 5).

In addition, some inquiry participants highlighted an increase in children presenting with behavioural, emotional, wellbeing or other additional support needs post COVID-19 and noted this was translating into increased requirements for inclusion support (Big Fat Smile, sub. 120, pp. 2–3, Australian Childcare Alliance, sub. 150, p. 45; Waverley Council, sub. 132, p. 4; Outside School Hours Council of Australia, sub. 82, p. 3).

Others suggested ECEC services could play a larger role in delivering early intervention to children with disability or developmental delay. For example, The Bryan Foundation argued an appropriately trained and supported ECEC workforce could deliver therapeutic responses to children, drawing on the example of a pre-emptive intervention developed by the Telethon Kids Institute for infants with autism (sub. 123, pp. 8–9).

Children with experiences of trauma may experience challenges remaining connected to ECEC

Some children may experience circumstances that result in lasting trauma. Although responses to these circumstances are led by other services, ECEC services have a role in supporting these children to access and participate in ECEC.

However, Life Without Barriers submitted that:

in our experience, some children [in out of home care] are not fully supported to remain connected to early learning; being subjected to suspensions, time limitations, and exclusions. (sub. 24, p. 2)

A lack of culturally safe services can affect Aboriginal and Torres Strait Islander children and families

Aboriginal and Torres Strait Islander children have experienced dispossession and exclusion from their cultural knowledge, education systems and practice. While recognising that 'a majority of Aboriginal and Torres Strait Islander children are thriving', some may face ongoing 'challenges that stem from colonisation and its effects, including discrimination, poverty, systemic removal, intergenerational trauma, dislocation from land and culture, and community disempowerment' (SNAICC and Early Childhood Australia 2019, p. 3).

The National Aboriginal Community Controlled Health Organisation noted:

it is important to recognise that mainstream care and education systems have often excluded and been culturally unsafe for Aboriginal and Torres Strait Islander people. It is evident that the Australian care and education system was at no time designed for Aboriginal and Torres Strait Islander students. (sub. 151, p. 6)

Submissions have noted that for Aboriginal and Torres Strait Islander families and children, cultural safety is critical (The Child Development Education and Care Research Group, sub. 19, p. 6; National Aboriginal Community Controlled Health Organisation, sub. 151, p. 6). A report from the Australian Institute of Health and Welfare underlined that:

early learning programs that do not reflect the culture and knowledge of the Indigenous community are not seen as culturally safe and tend not to be used by families in that community. (Harrison et al. 2012, p. 2)

The national approved learning frameworks define cultural safety as the 'recognition, respect and protection of the inherent rights, cultures and traditions of a particular culture' (DoE 2022a, p. 65, 2022d, p. 65). They note that in a culturally safe environment there is no assault, challenge or denial of identity and that cultural safety is about shared respect, meaning, knowledge and experience of learning together with dignity and truly listening (DoE 2022a, p. 65, 2022d, p. 65).

For Aboriginal and Torres Strait Islander families, the National Agreement on Closing the Gap uses the following definition.

Cultural safety is about overcoming the power imbalances of places, people and policies that occur between the majority non-Indigenous position and the minority Aboriginal and Torres Strait Islander person so that there is no assault, challenge or denial of the Aboriginal and Torres Strait Islander person's identity, of who they are and what they need. Cultural safety is met through actions from the majority position which recognise, respect, and nurture the unique cultural identity of Aboriginal and Torres Strait Islander people. Only the Aboriginal and Torres Strait Islander person who is recipient of a service or interaction can determine whether it is culturally safe. (section 12)

Culturally inclusive practice is also important for culturally and linguistically diverse children and families

Children and families from CALD backgrounds may experience a range of barriers to ECEC, including language barriers and a lack of culturally responsive services or cultural safety (SSI, sub. 16, p. 3; Meli, sub. 139, p. 8).

They may also have diverse perspectives on ECEC. The Salvation Army noted:

our services have also identified a significant gap in ECEC service providers' understanding of diverse cultures' approaches and beliefs related to caring for and educating children, parenting, health and wellbeing. We urge all governments to act on the need for greater cultural education across the ECEC system to ensure culturally inclusive service provision. (sub. 56, p. 14)

The WA Government highlighted that for children from CALD background, especially those who are recent arrivals to Australia or do not speak English as their first language, ECEC can contribute to positive settlement outcomes (sub. 162, p. 10).

Inclusion is embedded in the requirements of ECEC services

The NQF establishes expectations of services around inclusion

For services regulated by the National Law and National Regulations, the NQF sets expectations around inclusion and cultural responsiveness. 'Equity, inclusion and diversity' and 'Aboriginal and Torres Strait Islander cultures are valued' are two of the five principles underpinning the NQF (ACECQA 2023b, p. 10), and are woven throughout the NQS and the approved learning frameworks (box 2.2).

Box 2.2 – Inclusion and cultural responsiveness in the National Quality Framework

Inclusion and respecting children's family, culture and other identities and languages is woven through the National Quality Framework (NQF). For example, the framework:

- uses the terms 'each child', 'every child' and 'all children' to promote inclusion
- recognises all children as confident and capable learners with the capacity and right to succeed regardless of diverse circumstances, including strengths, cultural background and abilities
- requires educators to hold high expectations for the learning and development of all children, recognising that every child has an individual learning path and will progress in different ways.

National Quality Standard

- Quality Area 1 requires services to provide children with programs that contribute to each child's learning and development and is based on their current knowledge, strengths, ideas, culture, abilities and interests.
- Quality Area 3 promotes the creation of inclusive physical environments, including ensuring spaces are adapted to support every child's participation.
- Quality Area 5 requires educators to maintain respectful and equitable relationships with children, including supporting children to feel secure, confident and included and maintaining their dignity and rights.
- Quality Area 6 requires services to respect the expertise, cultures, values and beliefs of families and ensure they are included in decision-making about their child's learning and wellbeing. It also requires services to form effective partnerships to support children's access, inclusion and participation.

Approved learning frameworks

NQF regulated services are required to deliver an educational program based on an approved learning framework. The two national frameworks comprise a vision, supported by eight principles, seven practices and five outcomes.^a

Key principles include:

- **Partnerships**, including with children, families, other professionals and communities
- **Respect for diversity**, which recognises children are born belonging to a culture
- **Aboriginal and Torres Strait Islander perspectives**, which recognises providing opportunities for Aboriginal and Torres Strait Islander children to see themselves, their identities and cultures reflected in their environment is important for growing a strong identity
- **Equity, inclusion and high expectations**, which recognises all children have a right to participate in inclusive early childhood settings.

Box 2.2 – Inclusion and cultural responsiveness in the National Quality Framework

Key practices include:

- **Responsiveness to children** (for children under school age), including responding in ways that best suit each child's strengths, capabilities and curiosity
- **Collaboration with children** (for children over school age), including building on children's strengths, skills and knowledge and responding to their expertise, cultural traditions and ways of knowing and the multiple languages spoken by some
- **Cultural responsiveness**, including embedding Aboriginal and Torres Strait Islander perspectives in the curriculum and respecting and working collaboratively with culturally and linguistically diverse children and families.

a. A Victorian-specific framework, the Victorian Early Years Learning and Development Framework, is also approved under the NQF.

Source: ACECQA (2022, p. 1, 2023b, pp. 94–95); DoE (2022a, pp. 14–17; 21; 23–24, 2022d, pp. 14–17; 21; 24–25).

There are also legislative requirements against discrimination

ECEC educators and services are obligated to follow Commonwealth and state or territory legislation regarding discrimination and exclusion.

The **Disability Discrimination Act 1992 (Cth)** (DDA) makes it unlawful for people and organisations in all sectors, including ECEC services, to discriminate against a person based on their disability. This includes making reasonable adjustments to enable a person with disability to access and participate in a service on the same basis as others.

The **Disability Standards for Education 2005 (Cth)** (DSE) are subordinate to the DDA and clarify the obligations of education providers (including preschools), in areas of enrolment, participation, curriculum, assessment, student support services, physical environment, and others, under the DDA (box 2.3). However, they do not create new obligations.

The **Racial Discrimination Act 1975 (Cth)** makes it unlawful to discriminate against a person on the basis of their race, colour, descent, national origin, or ethnic origin.

Each state and territory also has several anti-discrimination laws that supplement federal legislation.

Box 2.3 – The Disability Standards for Education 2005 (Cth)

The *Disability Standards for Education 2005* (Cth) (DSE) are subordinate legislation to the *Disability Discrimination Act 1992* (Cth) (DDA). The DSE clarify the obligations of education providers under the DDA.

The DSE provide detail about an education provider's obligation to make reasonable adjustments to assist students with disability to participate in education on the same basis as their peers. There is no obligation to make an unreasonable adjustment. Education providers must consult with students and their family members or carers about reasonable adjustments.

The DSE outline education providers' obligations to ensure students children can participate in education on the same basis as students without disability, in relation to:

- **enrolment** – the provider must take reasonable steps to ensure the prospective student is able to seek admission or apply for enrolment
- **participation** – the provider must take reasonable steps to ensure the student is able to participate in the courses of programs provided by the educational institution and use the facilities and services provided by it
- **curriculum** – the provider must take reasonable steps to ensure that the course or program is designed in a way that a student with disability is able to participate in the learning experiences of the course or program and any relevant supplementary course or program
- **student support services** – the provider must take reasonable steps to:
 - ensure that the student is able to use support services by students of the institution in general
 - ensure a specialised support service is available, where it is necessary for the student to be able to participate in activities for which they are enrolled and the service is of the kind provided by the education provider
 - facilitate the provision of a specialist support services, where it is necessary for the student to be able to participate in activities in which they are enrolled and the service is not of the kind provided by the education provider
- the elimination of harassment and victimisation.

Source: *Disability Standards for Education 2005* (Cth); DESE (2020), p. 11

But 'child-care' is excluded from the Disability Standards for Education

In the context of ECEC, 'preschools' are covered by the DSE. However, 'child-care providers' are explicitly excluded from the standards.¹²

Successive reviews of the DSE commencing in 2010, 2015 and 2020 recommended the standards apply to other ECEC providers, with the 2015 and 2020 reviews noting the exclusion of 'child-care providers' appears anomalous (Australian Government Department of Education, Employment and Workplace Relations 2012; DESE 2020; Urbis 2015). A similar recommendation was included in the Australian Institute of Family Studies (AIFS) evaluation of the ISP (Bray et al. 2021, p. 169).

¹² *Disability Standards for Education 2005* (Cth), s.1.5(a)

The 2020 DSE review noted that the distinction made between preschool and other ECEC services in the DSE is imprecise and does not reflect the diversity of service types and programs offered by ECEC providers. It noted that these arrangements:

create the mistaken impression that the rights of children with disability in relation to education in a child care setting are somehow different to those in a preschool/kindergarten setting. While extending the Standards to incorporate child care would not, in itself, alter or increase the existing rights of children with disability or obligations of ECEC providers, the current exclusion of child care from the Standards contributes to a poor understanding of rights and obligations in an ECEC context (DESE 2020, p. 61)

The intent of the DSE is to clarify the obligations of services under the DDA. If other ECEC services understand their obligations under the DDA and families effectively engage these protections, there may be less of a case to include those services in the DSE. However, the 2020 DSE review found there was limited awareness of the DDA within the ECEC sector and that complaints processes were difficult for families to navigate (DESE 2020, p. 12). The review heard families had limited complaint options, and that a fear of retribution sometimes acted as a significant disincentive to making a complaint (DESE 2020, p. 17)

While ACECQA has developed information packages to help services understand their obligations under the DDA (Aly and Rishworth 2023), there remains a case for including all ECEC services within the scope of the DSE. This should be progressed as a matter of priority.

In implementing these changes, the Australian Government Department of Education should work with ACECQA to ensure services are provided appropriate information and support to meet their obligations. The department should continue to monitor the effectiveness of current supports, including the ISP, and make any changes required to support services to meet their obligations.



Draft recommendation 2.2 **Amend the Disability Standards for Education**

The Australian Government should amend the *Disability Standards for Education 2005* (Cth) to include all services within the early childhood education and care sector.

Improving cultural safety and responsiveness is key to inclusion

For a large number of children, inclusive ECEC services are those that offer culturally safe environments that respect the diverse cultures of children and families. As discussed above, this is particularly important to Aboriginal and Torres Strait Islander children and families.

While Aboriginal Community Controlled Organisations (ACCOs) may often be the first preference of Aboriginal and Torres Strait Islander children and families (paper 7), there is also a need to ensure mainstream ECEC services are inclusive for Aboriginal and Torres Strait Islander children and families. And as access to ECEC expands, more children from diverse backgrounds are likely to attend services. The capacity of ECEC to cater to these children will be a critical part of increasing accessibility.

For mainstream services, the NQF is intended to provide a foundation to ensure culturally safe and responsive ECEC, while the ISP allows services to seek advice and funding for others supports to improve their cultural responsiveness and safety.

SNAICC submitted the NQF does not adequately promote or reflect the significance of culture to Aboriginal and Torres Strait Islander children and families (sub. 133, p. 16). It noted that:

while NQS Quality Area 5 (promoting relationships with children that promote children's sense of security and belonging) and Quality Area 6 (promoting collaborative partnerships with families and communities where the expertise, culture, values and beliefs of families are respected) highlight critical elements of quality ECEC, there are currently no specific provisions in the NQF and NQS regarding how these standards will be implemented or assessed, including on cultural competence and safety. Moreover, under the NQF, there is no explicit requirement for ECEC services to embed culture into their curriculum, raising critical questions regarding the suitability, cultural safety, and inclusivity of 'mainstream' ECEC services for Aboriginal and Torres Strait Islander children and families. (sub. 133, pp. 16–17)

To address these concerns, SNAICC recommended the development of a 'cultural competence framework' to support the implementation and assessment of the NQF and ensure Aboriginal and Torres Strait Islander cultures and ways of knowing, doing and being are integrated into the curriculum (sub. 133, p. 17).

The Commission notes revised versions of the national approved learning frameworks were released in 2023, with the updated versions including a strengthened focus on Aboriginal and Torres Strait Islander perspectives. In addition, the NSW Government is developing the Cultural Safety Framework for the ECEC sector in NSW (NSW Department of Education 2023c). The Commission notes revised versions of the national approved learning frameworks were released in 2023, with the updated versions including a strengthened focus on Aboriginal and Torres Strait Islander perspectives. In addition, the NSW Government is developing the Cultural Safety Framework for the ECEC sector in New South Wales (NSW Department of Education 2023c).

The Commission is seeking information from inquiry participants on whether there should be further changes to the NQF to promote cultural safety and capability, beyond the updated learning frameworks. It also seeks views from inquiry participants on whether a national cultural competency framework would help improve the cultural safety of ECEC services.

The ISP supports ECEC services to better include children in 'mainstream' settings, including Aboriginal and Torres Strait Islander children. Under the ISP, services can apply for funding through Innovative Solutions Support to build their capability and capacity, such as accessing cultural advice and mentoring or community engagement (DoE 2023b, pp. 31–32). Services can also access advice on inclusive practice from Inclusion Agencies. The ISP is discussed further below.

As outlined in paper 3, the Commission considers there is a clear case for strengthening inclusion-related professional development, including in cultural capability. The Commission is seeking further information from inquiry participants on cultural safety in ECEC services and whether further action is required beyond professional development and the existing ISP structure.

**Draft finding 2.4****It is unclear if the National Quality Framework adequately promotes cultural safety and capability**

Cultural safety is critical to Aboriginal and Torres Strait Islander families and children.

While Aboriginal Community Controlled Organisations may often be the first preference of Aboriginal and Torres Strait Islander children and families when accessing ECEC, there is also a need to ensure mainstream ECEC services are inclusive of Aboriginal and Torres Strait Islander children and families.

The National Quality Framework sets expectations around inclusion and cultural responsiveness. Revised versions of the national approved learning frameworks, released in 2023, include a strengthened focus on Aboriginal and Torres Strait Islander perspectives. It is unclear whether further changes to the National Quality Framework are needed to promote cultural safety and capability.

**Information request 2.2**

The Commission seeks information on cultural safety in ECEC services for Aboriginal and Torres Strait Islander and culturally and linguistically diverse families and children.

- What factors most effectively promote the provision of culturally safe ECEC?
- Should there be changes to the National Quality Framework to promote cultural safety and capability, beyond the updated learning frameworks? Would a national cultural competency framework help improve the cultural safety of ECEC services for Aboriginal and Torres Strait Islander families and children?
- Does the structure of the Inclusion Support Program adequately prioritise and allow provision of culturally safe ECEC in mainstream services? If not, what are the issues and how could these be addressed?
- Would professional development in cultural capability (draft recommendation 3.6) be adequate to promote inclusion in ECEC services, or are there other components required?

The Inclusion Support Program could be improved

The ISP is an Australian Government initiative that supports mainstream ECEC services to better include children with additional needs (box 2.4). The program was introduced in 2016 as part of the Child Care Package, building off previous iterations of the program. While previous iterations of the program have had a historic focus on children with disability, the program also supports services to include a range of children, including those from diverse cultural backgrounds. More than 17,600 children were supported by the ISP in 2021-22 (Aly 2023).¹³

The ISP was recently subject to a review (ISP review), which identified 21 short- to medium-term opportunities and five long-term opportunities to better support the inclusion of children.

¹³ Represents children for whom a service was in receipt of ISP funding – it does not capture children who may have been assisted by the ISP but for whom a payment was not made (DoE, personal communication, 3 November 2023).

The Commission has not undertaken an in-depth review of the ISP but has focussed on three key issues, including:

- the adequacy of program funding
- support for children and services, including eligibility rules, the additional educator subsidies, the administrative burden on services applying for funding, and the FDC Top Up
- interactions with state and territory inclusion programs.

Box 2.4 – The Inclusion Support Program involves multiple components

The Inclusion Support Program (ISP) is available to most Child Care Subsidy (CCS) approved services, including centre-based day care (CBDC), outside school hours care (OSHC) and family day care (FDC) services. In Home Care, specialist and other non-CCS approved services are ineligible. Children must also be eligible for the CCS to receive support under the ISP.

The program consists of several components, with service eligibility varying by component.

- Inclusion Agencies (IA) work with services to identify and address barriers to inclusion. This may include assisting with:
 - site visits and advice to services
 - access to a Specialist Equipment Library, where services can loan specialist equipment (such as portable ramps, hoists) to facilitate the inclusion of a child with additional needs
 - Strategic Inclusion Plans (SIPs), an assessment and planning tool which services must complete to access the Inclusion Development Fund or Specialist Equipment Library and is reviewed at least every 12 months
 - reviewing or endorsing applications for support under the Inclusion Development Fund.
- The Inclusion Development Fund (IDF) provides funding to address barriers to inclusion that cannot be resolved through support from an IA or the Specialist Equipment library. It has four streams.
 - Immediate/Time-Limited Support provides a subsidy to CBDC and OSHC services to employ a short-term additional educator to address immediate inclusion barriers.
 - IDF Subsidy for an Additional Educator provides funding to CBDC and OSHC services to employ a longer-term additional educator to support children with high ongoing support needs (although additional educators do not provide 1:1 support).
 - The FDC Top Up helps FDC services cover the loss of income where including a child with additional needs results in the service being unable to enrol the maximum number of children permitted under the NQF.
 - Innovative Solutions Support provides flexible funding to CBDC and OSHC services and other organisations for innovative solutions, such as bilingual or cultural training and support, specialist inclusion training, advice from specialists and community engagement.
- The Inclusion Development Funding Manager is a contracted organisation responsible for managing the IDF and approving most applications for funding.

Source: DoE (2023b)

ISP funding appears inadequate

Publicly available data on the ISP is limited. The Australian Government provided a budget of \$133 million in 2020-21 to the ISP (Bray et al. 2021, p. 9). As at June 2023, demand had grown by 58% over the previous four years, with more than 17,600 children supported by the program in 2021-22 (Aly 2023).¹⁴

The Commission has heard anecdotally that Inclusion Agencies (IAs) and the Inclusion Development Fund Manager (IDFM) have struggled to keep up with this demand. For example, one participant noted IAs are struggling to deal with a backlog of applications (Australian Childcare Alliance, sub. 150, p. 73), while another noted services can wait months for applications to be approved (Early Learning Association Australia, sub. 48, p. 8). Similarly, another participant noted the usefulness of information provided by Inclusion Professionals (who work in IAs) varies, with some providing useful strategies, but others having limited contact (Special Teaching and Research, sub. 87, p. 5).

These views align with findings from the ISP review, which identified resourcing limitations for both the IDFM and IAs. The review noted services reported delays in support and a decreased level of engagement from IAs with services (Deloitte Access Economics 2023, pp. 111–112).

The Australian Government has recently provided an additional \$21.2 million to the ISP to respond to this increased demand (Aly 2023). There is insufficient evidence before the Commission to establish whether this additional funding is sufficient given the current level of demand.

But the proportion of children for whom services receive funding appears disproportionately small. In 2021-22, 1% of children receiving the CCS were supported by ISP funding (excluding IHC) (Productivity Commission estimates, based on Aly 2023 and DoE administrative data (unpublished)). In comparison, 5.2% of children in CCS approved services had a disability in 2021 (SCRGSP 2023).¹⁵ This would suggest the program may not reach all children requiring inclusion support in ECEC, particularly as inclusion needs extend beyond children with disability.

The Commission's recommendations to expand the availability of ECEC are likely to increase demand for the ISP and the workload of IAs and the IDFM. Further resourcing will be required for the program to implement these recommendations and ensure children with additional needs are adequately supported in ECEC.

Funding allocations for the ISP should also take into account any changes resulting from the recent review of the National Disability Insurance Scheme (NDIS).

¹⁴ Represents children for whom a service was in receipt of ISP funding – it does not capture children who may have been assisted by the ISP but for whom a payment was not made (DoE, personal communication, 3 November 2023).

¹⁵ Children aged 0-12 years.



Draft finding 2.5

Increased inclusion support funding will be needed for universal access

Increased funding will be required for the Inclusion Support Program to ensure children with additional needs are adequately supported and included in ECEC. At a minimum, funding should be sufficient to:

- enable Inclusion Agencies and the Inclusion Development Fund Manager to respond to all applications in a timely manner
- enable Inclusion Agencies to provide adequate support and advice to services
- ensure services can manage the increased demand likely to result from adoption of the Commission's recommendations.

Changes could allow services to better support children

Eligibility rules restrict some children from receiving support

For services to receive the Inclusion Development Fund (IDF) Subsidy for an Additional Educator or FDC Top Up, documentary evidence that a child has ongoing high support needs must be provided. This may include evidence of:

- diagnosed disability or developmental delay
- current and ongoing assessment for disability
- in certain circumstances, other additional needs – for example children aged under six years in centre-based day care (CBDC) (DoE, personal communication, 3 November 2023).

Services obtain this evidence from families, and then provide it in the application for funding. Families can source this evidence from a range of professionals, in a variety of forms (box 2.5).

Box 2.5 – Documentary evidence under the Inclusion Support Program

A range of professionals can provide documentary evidence for an Inclusion Development Fund application, including (but not limited to):

- registered psychologists
- allied health professionals, social workers and family counsellors
- qualified medical practitioners
- registered nurses or nurse practitioners, including Maternal and Child Health nurses.

Documentary evidence may include, but it not limited to:

- the child's health care card stating the disability code, or evidence that the child is a NDIS participant
- diagnosis by a qualified medical/health practitioner or registered psychologist
- a report or supporting documentation signed by an allied health professional, registered nurse or nurse practitioner, Maternal and Child Health nurses, social worker/family counsellor of the current and ongoing assessment of a child
- an appointment letter or referral for an assessment by a qualified medical/health practitioner or registered psychologist

Box 2.5 – Documentary evidence under the Inclusion Support Program

- supporting documentation, such as a diagnostic report, signed by a qualified medical/health practitioner, registered psychologist or social worker
- documentation stating a child's eligibility for Child Disability Allowance or parent or carer eligibility for Carers Allowance with respect to the child.

Source: DoE (2023b, p. 21)

In addition, the IDF has an annual capped funding allocation. Where demand exceeds available funding, children with a diagnosed disability or awaiting a diagnosis are prioritised (DoE 2023b, p. 16).

A range of inquiry participants submitted that requirements for diagnosis were a barrier to accessing the ISP (for example, Australian Childcare Alliance, sub. 150, p. 12; Special Teaching and Research, sub. 87, p. 5; The Salvation Army, sub. 56, p. 15). The City of Sydney submitted:

Inclusion Support Funding heavily relies on a diagnosis which can be problematic and exclude children who may be experiencing behavioural and emotional challenges that may not be easily diagnosed or do not have a diagnosis. It also excludes and does not consider the range of challenges faced by Aboriginal and Torres Strait Islander children or children of families who are seeking asylum or are refugees. (sub. 65, p. 12)

As noted, services and families are able to provide evidence other than a diagnosis to access the ISP. At a minimum, these requirements should be more clearly communicated to services and families.

There is also a case for aligning eligibility requirements. As noted, in certain circumstances evidence that the child has other additional needs is accepted. But this does not apply in all circumstances, which precludes some children with additional needs other than disability from receiving support. This should be addressed.

**Draft finding 2.6****Eligibility requirements for inclusion funding create barriers to access**

Services must provide evidence that a child has high ongoing support needs to access the Inclusion Development Fund Subsidy for an Additional Educator or the Family Day Care Top Up. Different professionals can provide this evidence, in a range of forms, including other than a formal diagnosis. But this may not be sufficiently clear to services and families.

Evidence that the child has additional needs other than disability is not accepted in all circumstances, which precludes some children from receiving support.



Draft recommendation 2.3 Amend eligibility requirements for inclusion funding

The Australian Government Department of Education should work with Inclusion Agencies to communicate documentary requirements for receipt of Inclusion Support Program funding more clearly to services, including the eligibility of children without a formal diagnosis.

Evidence a child has additional needs other than disability should be accepted in all circumstances for services seeking to access the Inclusion Development Fund Subsidy for an Additional Educator and the Family Day Care Top Up.

Increasing the funding allocated to the Inclusion Support Program (draft finding 2.5) will ensure children have adequate support, regardless of a diagnosis.

The subsidy design and rules for additional educators are restrictive

Under the ISP, eligible services can apply for a subsidy to hire an additional educator on a short-term (Immediate/Time-Limited) or long-term (IDF Subsidy for an Additional Educator) basis to support the inclusion of children with additional needs (box 2.4).

However, there are several shortcomings in the design of the additional educator subsidies, which limit the support provided to services and children.

The subsidy rate of \$23 per hour has not increased since 2016, with inquiry participants noting this does not cover the actual costs of employing an additional educator (Australian Childcare Alliance, sub. 150, p. 46; SDN Children's services, sub. 63, p. 7; Early Childhood Australia, sub. 154, p. 52). For example, a survey of services conducted as part of the AIFS evaluation of the ISP suggested the mean cost to hire an additional educator was \$29-30 per hour (Bray et al. 2021, p. 95).¹⁶ And the lowest award wage for a full-time educator upon commencement, with no qualification, is currently \$23.11 per hour (Fair Work Commission 2010). This rises to \$26.18 per hour for a full-time certificate III qualified educator upon commencement and does not account for superannuation or any relevant casual loading (Fair Work Commission 2010).

There is a clear case for raising the current subsidy rate to align more closely with the costs of employing an additional educator. If rates remain low, services will likely face a disincentive to enrol children with additional needs who require the assistance of an additional educator. While it is challenging to set a rate that will suit all circumstances, the Commission considers the median wage for a certificate III educator to be appropriate. This should be indexed to the Wage Price Index. Services that pay additional educators wages that are below this rate should only receive a subsidy of 100% of the actual wage paid.

There are limits on the number of hours per week the additional educator subsidies can be claimed for. These limits vary depending on the service type and the number of children the additional educator is supporting, but for a single child in CBDC is 25 hours per week. In contrast, the average weekly hours for a child in CBDC was 32.4 hours in the December 2022 quarter (DoE 2023a).

Inquiry participants noted that this means the subsidy is not always available for the child's full attended hours (Goodstart Early Learning, sub. 125, p. 60; Early Learning Association Australia, sub. 48, p. 8; The Y Australia, sub. 127, p. 11, Australian Childcare Alliance, sub. 150, p. 45). One participant described

¹⁶ Excluded rates of \$15 per hour or less and \$60 per hour or more. Survey conducted between December 2020 and February 2021.

how families can sometimes be told that their child can only attend for the hours the additional educator is available (Association for Children with a Disability, sub. 78, p. 4).

There is no clear reason why a child should only have access to an additional educator for some of their attended hours, as children's needs for inclusion support do not change once the cap has been reached. These hours should be matched to a child's enrolled hours to ensure services are not out-of-pocket where a child is unwell or otherwise absent with short notice.

Additional educators are required to meet NQF qualification requirements – meaning services cannot employ people with relevant experience and expertise in adjacent sectors, unless they also meet NQF requirements. The ISP review recommended considering expanding the subsidy to include other inclusion professionals in some circumstances, such as bicultural workers, community workers and other relevant professionals (Deloitte Access Economics 2023, p. 113). This would require changes to the NQF.

The Commission considers there is merit in expanding the range of professionals who can work as additional educators. Workers from surrounding human-services sector, such as those in disability, aged, or youth care, may have transferrable and specific skills that may be beneficial in the role of an additional educator. Expanding the criteria of an additional educator may benefit the immediate availability of an additional educator and benefit children who require additional support. To ensure children's needs are met, a list of approved qualifications should be developed and Inclusion Agencies should be required to agree that employing another relevant inclusion professional would be appropriate before a service is approved for the subsidy. Additional educators should still be required to comply with working with children checks and any other relevant measures designed to ensure the safety of children.

The above issues likely contribute to the experiences of gatekeeping reported by some families and reduce the support available for children with additional needs. They should be addressed as a matter of priority.



Draft finding 2.7

Subsidy design and rules for additional educators are restrictive

Eligible services can apply for a subsidy to hire an additional educator to support the inclusion of children with additional needs through the Inclusion Development Fund Subsidy for an Additional Educator or Immediate/Time-Limited support. But there are several shortcomings with the subsidy design:

- the subsidy rate has not increased since 2016 and does not cover the costs of employing an additional educator
- subsidies can only be claimed for a limited number of hours per week (for example, 25 hours in centre-based day care) irrespective of the number of hours that children who require support are enrolled
- additional educators must meet National Quality Framework qualification requirements – meaning services cannot employ people with relevant experience and expertise in adjacent sectors, such as allied health, unless they also meet National Quality Framework qualification requirements.



Draft recommendation 2.4 Review and amend additional educator subsidies

The Australian Government should amend the Inclusion Development Fund Subsidy for an Additional Educator and Immediate/Time-Limited support, including:

- increasing the current hourly subsidy rate so that it subsidises 100% of an additional educator's wage, up to the median hourly wage of a certificate III qualified educator and ensuring it is indexed to the Wage Price Index
- removing limits on the weekly hours the subsidies can be approved for and ensuring they align with the child's enrolled hours
- allowing other human-services qualified staff and inclusion professionals, such as allied health or other relevant professionals to be employed as an additional educator, where the Inclusion Agency agrees this would be appropriate.

Services find applying for funding unduly burdensome

To access funding under the IDF, services are required to complete an application and a Strategic Inclusion Plan (SIP), both of which are managed through the Inclusion Support Portal. For the IDF Subsidy for an Additional Educator and the FDC Top Up, documentary evidence is also required, which must be sourced from families.

Inquiry participants raised a range of concerns about the administrative burden associated with applying for funding under the ISP and delays in receiving support. These included:

- difficulty using the Inclusion Support Portal,¹⁷ which one participant noted dissuades some services from submitting applications (Australian Childcare Alliance, sub. 150, p. 45)
- concerns about the burden or complexity of the application process (Australian Childcare Alliance, sub. 150, pp. 45–47; Outside School Hours Council of Australia, sub. 82, p. 3; National Outside School Hours Services Alliance, sub. 103, p. 4; Sandgate Kids Early Education, sub. 51, p. 2)
- for the IDF Subsidy for an Additional Educator, requirements to review the SIP and seek reapproval when there are changes to the care environment, such as a child changing rooms (Goodstart Early Learning, sub. 125, p. 58; Australian Childcare Alliance, sub. 150, p. 74)
- the timeliness of support, with one participant noting services can wait months for applications to be approved (Early Learning Association Australia, sub. 48, p. 8; The Parenthood, sub. 122, p. 6).

These views broadly align with findings from the ISP review, which noted services reported delays in receiving support and found the application process for additional educators burdensome (Deloitte Access Economics 2023, pp. xvii; 78–79; 111). The review also highlighted nearly all stakeholders consulted identified the Inclusion Support Portal as one of the largest barriers to accessing the program (Deloitte Access Economics 2023, p. 98).

Additional resourcing for the ISP may enable improvements in turnaround times. To further streamline application processes, the Australian Government Department of Education should consider relaxing requirements for reapprovals when there are changes to the care environment. The Commission notes the Department of Education and Services Australia are working on enhancements to the Inclusion Support (IS) Portal, delivered over a series of releases to June 2024 (DoE, personal communication, 31 October 2023).

¹⁷ The Inclusion Support Portal is the online platform services use to interact with ISP. It is used to develop, manage and review SIPs and to apply for funding from the IDF.

The department should continue to monitor the impact of these changes and whether further adjustments are necessary.

Given the potential disincentives to services applying for funding, there is a case for reviewing application requirements under the ISP.



Draft recommendation 2.5

Reduce administrative burden of Inclusion Support Program applications

The Australian Government should assess the application process required for the Inclusion Development Fund with a view to reducing the administrative burden on services. This should include considering whether requirements to seek reapproval when there are changes to the care environment could be relaxed and if further upgrades to the Inclusion Support Portal are required beyond those currently being implemented.

Support for family day care services

The IDF offers 'top-up' payments to FDC services, where enrolling children with high support needs means a service is unable to enrol the maximum number of children permitted under the NQF (DoE 2023b, p. 29).

However, usage is low, with the 2021 AIFS evaluation of the ISP noting only 25–35 subsidies were provided annually (Bray et al. 2021, p. 101). Case studies and survey responses from the evaluation highlighted the FDC Top Up often falls short of providing the resources needed to care for children with high support needs, imposes administrative burdens on services and may require asking existing children to leave (Bray et al. 2021, p. 101).

This aligns with the findings of the ISP review, which expressed concerns about the adequacy of the top-up and the training and resources available to FDC educators. It noted:

several educators also raised concerns around the level of confidence and capability of the current FDC workforce, noting that inadvertent gatekeeping of children from FDC services may often be a result of fear of being unable to meet the needs of a child in a single-educator residence. (Deloitte Access Economics 2023, p. 109)

To address these concerns, the ISP review recommended considering alternative funding arrangements and resources to increase FDC educators' capacity and capability (Deloitte Access Economics 2023, p. 109).

The Commission is seeking feedback on whether the top-up is adequate, or what alternative support to FDC services could involve.



Information request 2.3

The Commission is seeking feedback on whether the Inclusion Support Program provides effective support to family day care services. Is the Family Day Care Top Up adequate?

There are examples of poor coordination between governments on inclusion funding

In addition to the ISP, several states and territories fund or deliver programs to support inclusion (box 2.6). These are largely focussed on supporting children in a preschool program, consistent with states and territories' responsibility for preschool delivery.

There is diversity in the range of programs offered. In some respects, this is appropriate, given the varying mechanisms through which states deliver preschool and intervene in ECEC markets. However, it also means children receive different support based on the type of service they attend.

Box 2.6 – Examples of state and territory inclusion programs

States and territories also fund programs to support inclusion, predominantly targeted at services delivering preschool programs. Examples are provided below.

Victoria

- The **Kindergarten Inclusion Support program** provides support for funded preschool services to enable greater inclusion of children with disability, developmental delay or complex medical needs. Support includes specialist training and consultancy for educators and additional staffing support.
- **School Readiness Funding** provides needs-based funding to services delivering state-funded three- and four-year-old kindergarten programs. Services receive funding based on the profile of children enrolled and can choose from a menu of supports to meet the needs of children.
- The **Early Childhood Language Program** allows participating preschools to employ a language teacher to deliver part of their four-year-old kindergarten program in another language.

Queensland

- The **Kindergarten Inclusion Support Scheme** supports preschool services to provide inclusive programs that reflect needs, including those of children with a disability.
- The **Kindy Uplift Program** enables selected preschool services, including community kindergartens and long day care services, to respond to the educational and developmental needs of kindergarten children. It funds programs, resources, supports and professional development.

New South Wales

- The **Disability and Inclusion Program** provides funding and support to enable the participation of children with disability or additional needs in not-for-profit community preschools.
- The **Ninganah No More** program provides grants to early childhood education service providers and recognised Aboriginal and Torres Strait Islander organisations to teach Aboriginal languages in not-for-profit long day care services and mobile or centre-based community preschools in select regions.

South Australia

- **Intervac funding** is available for approved outside school hours care services to subsidise an additional educator to support children with additional needs. The funding provides short-term assistance while services apply for the Inclusion Support Program (ISP). Services become ineligible for Intervac funding once eligible for the ISP.

Box 2.6 – Examples of state and territory inclusion programs

- The **Inclusive Education Support** program provides funding for students with disability to receive additional support from their school or preschool.

Source: NSW Department of Education (2023d, 2023e); Queensland Government (2018, 2021); SA Department for Education (2022; 2022); Victorian Government (2023a, 2023b, 2023c)

In some cases, this may mean there are two programs available to a child and service, who then have to manage interactions between the two and make multiple applications or complete multiple pieces of paperwork. For example, the Association for Children with a Disability expressed concerns about interactions between the Victorian Kindergarten Inclusion Support program and the Australian Government ISP (sub. 78, p. 4). It noted that:

families spoke about the additional burden of having to cobble together applications ... Where families did apply for Kindergarten Inclusion Support and did not receive enough funding for an additional assistant for the full 15-hour program, poor interaction with the Inclusion Support Program at a systems level often meant there were gaps in support purely based on whether the Commonwealth or State was the primary funder of that portion of the program (e.g. sessional kinder or long day care component). (sub. 78, p. 4)

Similarly, the ISP review noted eligibility for the ISP may render a service ineligible for state and territory funding in some circumstances, leading to uncertainty for services over which program they should use (Deloitte Access Economics 2023, p. 92).

In addition, the ACT Government raised concerns that the Australian Government ISP is not available for state or territory funded ECEC programs that do not attract the CCS (sub. 27, p. 4). It noted this means:

... for programs like the ACT's targeted delivery of quality early childhood education for children experiencing vulnerability or disadvantage, these priority children cannot receive equitable support alongside their peers in ECEC settings. (sub. 27, p. 4).

These issues point to a system where there is blurred responsibility for inclusion funding, in some instances leading to overlapping programs or gaps for services and families. In part, this reflects the broader complexities of funding and delivery arrangements for preschool programs delivered in CBDCs.

As a guiding principle, governments should be responsible for ensuring the services they fund or deliver are inclusive.

In the short term, the Australian Government Department of Education and the relevant state and territory government departments of education should work together to streamline application requirements, where there are multiple programs available to the one service.

In the longer term, Australian, state and territory governments should clarify responsibilities for inclusion funding as part of a National Partnership Agreement on ECEC (paper 9).



Draft recommendation 2.6

Improve coordination of inclusion funding between governments

Australian, state and territory governments should better coordinate inclusion funding to reduce complexity for services and families.

In the short-term, the Australian Government Department of Education and relevant state and territory departments of education should work together to streamline application requirements, to reduce the need for services to apply for funding multiple times.

In the long-term, governments should clarify responsibilities for inclusion funding as part of a National Partnership Agreement on ECEC.

2.4 ECEC can help connect children to other services

ECEC services can help identify and connect children who require support from other services

For children (and families) who may have need beyond ECEC, ECEC services can play a role in connecting them to other services.

At a minimum, ECEC services can play a role in identifying children who may require additional support from other services. ECEC staff may be well positioned to identify developmental delays or additional support needs, given the extended time they spend with children and their ability to observe how children are developing in comparison to their peers. By extension, this also means staff and services may be well positioned to identify children who are at risk of abuse or neglect. While child protection legislation varies in each state and territory, educators and/or ECEC staff are generally mandatory reporters (AIFS 2023).

Where children are identified as requiring additional support, ECEC services can also assist families by connecting them to other services. However, identification and referral requires staff to have both appropriate knowledge and adequate time and resources. But there is evidence some services are currently facilitating connections and referrals. For example, work undertaken for the SA Royal Commission suggested that almost all LDC services in SA identified needs and offered direct supports or referrals where they could (SA Government 2023b, p. 35).

Several inquiry participants expressed an expectation that ECEC services play this role, with some suggesting ECEC should be the backbone of a child development system (for example, The Bryan Foundation, sub. 123, p. 8; Brotherhood of St. Laurence, sub. 96, p. 6; Royal Far West, sub. 41, p. 7; Centre for Policy Development, sub. 156, p. 47).

Paper 7 recommends an ECEC Commission (draft recommendation 9.2) be responsible for examining the connections between ECEC and other child and family services. Training and professional development of the workforce is discussed in paper 3.

The interface between ECEC and the NDIS needs to be considered

Inquiry participants and the ISP review both highlighted concerns about the interface between ECEC services, the ISP and the NDIS.

The NDIS Early Connections Program and NDIS Scheme support children who may have a developmental delay or disability. There is a growing number of children receiving NDIS early intervention and scheme support. As at 30 June 2023, there were 99,395 children younger than seven with an NDIS plan (16.3% of all participants), with a further 14,556 accessing early connections (NDIA 2023, pp. 11, 15; Productivity Commission estimates, based on NDIA 2023).

Submissions have highlighted poor interactions between ECEC and the NDIS, including rigidities in applying NDIS funding in an ECEC setting, disconnections between the NDIS and ECEC systems and instances of children being unable to use their NDIS package in conjunction with the ISP (Centre for Excellence in Child and Family Welfare, sub. 59, p. 2; G8 Education, sub. 68, p. 10; SDN Children's Services, sub. 63, p. 9).

Others described how the introduction of the NDIS has resulted in a lack of investment in mainstream services and impacted the ability of ECEC services to support children and families (Brotherhood of St. Laurence, sub. 96, p. 6; Early Childhood Australia, sub. 154, p. 52; Community Connections Solutions Australia, sub. 105, p. 11).

Children with disabilities, including those with NDIS funding, can have allied health professionals deliver therapies in early childhood settings. The New South Wales Independent Pricing and Regulatory Tribunal (NSW IPART) review of ECEC heard from services that while this offers more choice for families, it can be disruptive and places a coordination burden on staff (NSW IPART 2023, p. 56). In its interim report, the review found there was scope to improve allied health service provision within early childhood services to minimise disruption, reduce burdens and increase efficiency, and achieve better collaboration between ECEC staff and therapists (NSW IPART 2023, pp. 56–58).

Stakeholder consultations conducted as part of the 2023 ISP review also highlighted that the introduction of the NDIS and its emphasis on personalised support for children with disabilities has created obstacles in effectively communicating the intent of the ISP to families. The review noted the ISP, primarily aimed at fostering inclusive practices across services, is at odds with the individualised approach taken by the NDIS (Deloitte Access Economics 2023, p. 70).

The NDIS was recently reviewed. In June 2023, the review released a report on what it had heard in consultations. A common theme was that the education system needed to be more inclusive. The report noted:

there is not enough focus on supporting children and families in their everyday environments – in the home, in early childhood education and services, and in the community. The increasing reliance on therapy delivered in clinical settings has got in the way of children living ordinary and inclusive childhoods. (NDIS Review 2023, p. 13)

The NDIS review was required to provide a final report to Disability Reform Ministers by October 2023. The Commission will consider any implications from the NDIS review in its final report.

ECEC services can support transitions to schools and between settings

All children make a transition between ECEC and school. In addition, some children will experience day-to-day transitions between ECEC settings (such as preschool and CBDC) or between OSHC and school. ECEC services can help support these transitions by facilitating information sharing and supporting continuity of learning.

The importance of transitions and continuity of learning is recognised in the NQF and the approved learning frameworks. Under Quality Area 6 of the NQS, services are required to support continuity of learning and transitions for each child by sharing information and clarifying responsibilities (ACECQA 2023b, p. 95). Continuity of learning and transition is included as a practice in the national learning framework for children aged birth to five, while continuity and transitions is a practice in the national learning framework for school-aged children (DoE 2022a, pp. 24–25, 2022d, pp. 25–26).

In addition, several states and territories have established transition to school statements, which are completed by a child's educator prior to them commencing school (table 2.1). Some states have made completion of these statements compulsory for some services or in some circumstances.

However, some inquiry participants raised concerns related to transitions to school. For example, one participant suggested schools should be more proactive in engaging with ECEC services and that current transition to school processes should be reviewed (Lady Gowrie Child Centre Inc (Adelaide), sub. 25, p. 7). And another raised concerns about the inadequacy of transition to school statements and the added workload they placed on educators:

transition to school strategies need to go beyond the current reliance on ECE [early childhood education] to provide a developmental summary to schools that invariably does not result in continuity of learning for children. Given the added workload placed on ECE, a review should be undertaken of the current transition to school statements mandated in various jurisdictions and how they are used in by schools ... There needs to be a consistent transition process that is well supported and funded to promote professional collaboration between prior to school and school settings that includes children and families in the process. (KU Children's services, sub. 83, p. 6)

Similarly, other inquiry participants highlighted poor communication between OSHC providers and schools (Community Child Care Association, sub. 111, p. 16; National Outside School Hours Services Alliance, sub. 103, p. 3).

There is limited information available to the Commission on the adequacy of transition to school processes and transition to school statements. The NSW Centre for Education Statistics evaluated the NSW Transition to School Statement in 2015. It found that while it was impossible to determine whether the statement had made an additional impact on improving transitions to school, it was valued among the stakeholders who used it (NSW Centre for Education Statistics and Evaluation 2015, p. 15). The Commission is seeking further information from inquiry participants on the extent to which these statements are used, their adequacy and whether they contribute to more effective transitions.

Separately, the Commission recommends states and territories should be responsible for ensuring the delivery of OSHC in government schools (paper 9). This change should help improve coordination between OSHC services and schools, as they would both fall under the responsibility of one level of government.

Table 2.1 – Several states and territories have transition to school statements^a
Summary of transition to school statements in states and territories

	Name	Details	Requirements to complete
NSW	Transition to School Statement	Completed by a child's educator and summarises the child's strengths, interests and approaches to learning.	Compulsory for services receiving preschool funding under the Start Strong program.
Vic	Transition Learning and Development Statement	Comprises sections completed by a child's educator, the child and the child's family. Families are given an opportunity to opt out before the statement is shared with the school. Funding of \$9 per child is provided to contribute towards releasing ECTs to complete the statement.	Kindergarten funding conditions require that every child transitioning to school has a statement.
QLD	Kindergarten Transition Statements	Kindergarten teachers complete and provide a snapshot of the child's knowledge, skills and dispositions for learning.	Only compulsory for children attending a Queensland government approved kindergarten program for at least 15 hours a week.
SA	No information available publicly.		
WA	No information available publicly.		
TAS	No information available publicly.		
NT	Early childhood transitioning to school – child transition statement	Teachers and educators are responsible for completing a statement for each child in their preschool or Families as First Teachers program.	No information available publicly.
ACT	Continuity and Transitioning Statement	The statement is for children transitioning from ECEC services to four-year old preschool rather than the first year of full-time school and captures educator, child and family reflections.	No information available publicly.

a. Based on publicly available information. State and territory governments may have internal school procedures, particularly where preschool is delivered through schools.

Source: ACT Education Directorate (nd), NSW Department of Education (2023a, 2023b, 2023g), NT Department of Education (2023), Queensland Curriculum and Assessment Authority (2021, 2023), Victorian Government (2023d)



Information request 2.4

The Commission is seeking information on the extent to which transition to school statements are used, their adequacy and whether they contribute to more effective transitions.

2.5 For some children, a more tailored approach should be considered

A small cohort of children may have specific needs in ECEC or be experiencing a high level of vulnerability that warrants more tailored support designed to meet their needs.

Although mainstream services should be as inclusive as possible, they may not always be adequate or appropriate for the child. Where available, a family may choose an ECEC service that specifically caters to their child's needs. For example, a family may choose an Aboriginal Community Controlled Organisation (ACCO) service. Or the child's circumstances may warrant support through the In Home Care program, which provides ECEC in a child's home where alternative options are unavailable due to families working non-standard or variable hours, being geographically isolated or experiencing complex or challenging needs. ACCOs are considered separately in paper 7.

Place-based, integrated or targeted programs can also play a role in supporting children, where they or their families have specific needs. Done well, place-based initiatives have the benefit of ensuring solutions meet the needs of the local community. The Australian Government funds place-based ECEC initiatives through the Connected Beginnings program, which provides grants to integrate local services to support Aboriginal and Torres Strait Islander children and families. The role of integrated services is considered in paper 7.

Recent Australian research into a targeted, intensive ECEC program for children experiencing significant disadvantage has shown considerable benefits to children attending (box 2.7). While further trials are underway (Aly and Stitt 2022), depending on the results, this type of program could also be considered in a place-based context where it meets the needs of the community.

Box 2.7 – Research on an intensive early childhood education and care model

Australian research into an intensive early childhood education and care (ECEC) model has shown the potential impact of tailored ECEC programs for children experiencing significant disadvantage.

To be eligible for participation, children had to be aged between 0–3 years, have two or more risk factors, be currently engaged with family services or child protection services, and have early education as part of the child's care plan. Among others, risk factors included having teenage parents, parental substance abuse, parental mental health difficulties, and the presence of family violence. Children who participated in the program were offered 50 weeks of care and education per year (five hours per day, five days per week) for three years.

Key features of the program included high staff–child ratios (1:3 for children under three years and 1:6 for children over three years), qualified and experienced teachers and educators, and an infant mental health consultant and family support practitioner as members of staff. The program also used a primary educator model, where each child was allocated a primary educator when enrolled, and applied a relationship-based curriculum, informed by trauma and attachment theories and early learning theories.

A randomised control trial was undertaken alongside the program. It found the program led to benefits for children's cognitive development, social and emotional development and behaviour.

Source: Tseng et al. (2017, 2022)

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3. The ECEC workforce

Key points

- * **About 224,000 people work in the early childhood education and care (ECEC) sector in a typical week. The workforce has grown markedly over the past decade.**
- * **Workforce constraints and recruitment difficulties are impacting on the sector, to the point that ECEC access for some families is affected. Constraints appear to be most severe for early childhood teachers (ECTs) and in regional and remote areas.**
 - Workforce challenges have been particularly pronounced since the COVID-19 pandemic, but may moderate to an extent as more capacity returns to the labour market.
 - That said, challenges are exacerbated by a range of structural factors – such as poor access to career pathways and barriers accessing qualifications – that constrain the longer-term supply of workers in key ECEC occupations.
- * **The ECEC sector is relatively low paid. A range of factors may be contributing to this. Families are limited in what they can or are prepared to pay for ECEC services (which is one reason why the sector is heavily subsidised), and this can limit the extent to which providers are able to fund wage increases by charging higher fees. Barriers to enterprise bargaining and perceptions about the value of work undertaken in the sector may also be factors.**
 - Recent changes to the industrial relations system – including the expansion of multi-employer bargaining – are highly consequential for the sector and can be expected to lead to wage increases for ECEC staff.
 - A key unknown is how any wage increases will be funded. If wage increases are funded through higher fees, some families will not be able or willing to pay higher prices and may reduce (or possibly stop) their use of ECEC. If governments fund wage increases, this will further increase the public cost of the system, which ultimately will need to be funded through increased taxation or reduced expenditure elsewhere. It is ultimately a decision for governments whether funding a wage increase for ECEC workers is a priority use of public funds and if it is, the approach they take to deliver this funding.
 - While the changes to the industrial relations environment may go some way to address concerns about pay and conditions in the sector, it is possible that disparities between educators and teachers in different parts of the sector may remain. Further analysis and assessment may need to be undertaken to identify whether these disparities discourage ECEC workers from remaining in the sector – or encourage them to work in one sub-part of the sector over another.

- * **With demand for ECTs set to remain high for the foreseeable future, governments should reduce the barriers that can impede diploma-qualified educators upskilling to become ECTs. Governments should:**
 - work with universities and the ECEC sector to develop and promote accelerated early childhood teaching degrees for educators that duly recognise their prior training and experience
 - provide educators with wrap around supports while they are undertaking early childhood teaching degrees. Such supports could include assistance to navigate university enrolment processes, assistance to build academic literacy skills and regular mentoring
 - provide financial support to ECEC services so they can provide a reasonable amount of paid leave to educators to complete supervised professional experience required as part of early childhood teaching qualifications.
- * **Completion rates for early childhood teaching qualifications have been falling. While the conventional approach to training ECTs suits a wide range of students, governments should provide modest financial incentives to universities to trial innovative approaches to providing initial teacher education for ECTs.**
- * **Teacher registration offers considerable benefits for ECTs, but inconsistent registration requirements across jurisdictions are problematic. State and territory governments should amend their teacher registration requirements so that:**
 - ECTs working in ECEC settings that are approved under the National Quality Framework can be registered with the teacher registration body in their jurisdiction
 - any ECT-level qualification that has been approved by the Australian Children's Education and Care Quality Authority (ACECQA) for recognition under the National Quality Framework should be automatically recognised as meeting qualification requirements associated with teacher registration.
- * **Aboriginal and Torres Strait Islander educators and teachers are a vital part of the ECEC workforce. In addition to comprising an important share of the ECEC workforce, Aboriginal and Torres Strait Islander educators and teachers bring their own cultural experiences, perspectives, knowledges, languages and ways of teaching and learning to the sector. But many Aboriginal and Torres Strait Islander people can find it difficult to access training to obtain the ECEC qualifications needed to work in the sector.**
 - In collaboration with Aboriginal and Torres Strait Islander people, communities and organisations, governments should trial tailored pathways for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications that better recognise their existing cultural knowledge and experience.
- * **While the take-up of professional development opportunities by the ECEC workforce is relatively widespread, staff in the sector still face significant barriers accessing professional development. To overcome some of these barriers, the Australian and state and territory governments should contribute towards the cost of professional development for the ECEC workforce.**
- * **Migrants make up a relatively large part of the ECEC workforce, comprising 28% in 2021. Almost half are on a skilled or student visa, while 35% are on a family or humanitarian visa. Recent changes to skilled and student visas to strengthen Australia's migration pipeline will likely make it more difficult for the ECEC sector to recruit migrants.**
- * **There is scope to improve the effectiveness of the National Children's Education and Care Workforce Strategy (*Shaping our Future*) including by better articulating the strategy's objective and clarifying how actions under the strategy will be resourced. Governments should also commit to producing individual annual updates that outline how their actions and reforms are contributing to the strategy's implementation.**

The early childhood education and care (ECEC) workforce has profound impacts on the accessibility and quality of ECEC services. The size and spread of the workforce are key factors that influence how many families have access to ECEC services, while the experience, skills and qualifications of the workforce are factors that can influence the quality and safety of the education and care provided. Further, providing ECEC is labour-intensive – labour costs make up nearly 70% of the total cost of providing centre-based day care (CBDC) services and nearly 80% of costs of providing outside school hours care (OSHC) services (ACCC 2023, p. 10) – meaning that changes in the supply, demand and conditions of ECEC workers have the potential to significantly affect providers’ costs, fees, and ultimately the affordability of ECEC services for families.

Unless there are sufficient workers to deliver quality ECEC, any attempts to make the sector more accessible or to introduce greater universality will ultimately fail. As the Centre for Policy Development said:

workforce is *the* critical enabler for the operation and reform of the system. (sub. 156, p. 38, emphasis in original)

This paper examines the ECEC workforce. It first provides a breakdown of who works in ECEC and examines some key trends in the ECEC workforce (section 3.1), before examining the role of government in developing the ECEC workforce (section 3.2). The paper next examines the extent to which there are enough ECEC workers – both now and into the future – to deliver on the policy goals that governments seek to achieve through the sector (section 3.3). The paper then looks at key levers that governments can use to influence the size and composition of the ECEC workforce, namely:

- pay and conditions (section 3.4)
- qualification and career pathways (section 3.5)
- professional development arrangements (section 3.6)
- migration arrangements (section 3.7).

In section 3.8, the Productivity Commission examines opportunities to improve the existing National Children’s Education and Care Workforce Strategy (*Shaping our Future*) to guide governments’ actions to grow and develop the ECEC workforce.

This paper should be read in conjunction with the Commission’s draft report and the other information papers that complement it (particularly paper 2, which examines the appropriateness of staff-to-child ratios and qualification requirements in the context of the broader National Quality Framework (NQF)).

3.1 Who works in early childhood education and care?

The ECEC sector employs staff with a wide variety of skills, experiences and qualifications, but most people who work in the sector are either early childhood teachers (ECTs) or educators (box 3.1).

In 2021, a census of ECEC providers (the ECEC Workforce Census) found that the sector employed about 224,000 people during a typical week (although issues with how the data is collected may mean the true number is slightly higher or lower). This figure does not include people working in vacation care (which the Commission has excluded to limit double counting given that the census of vacation care providers was undertaken at a different time to other providers). However, vacation care workers are an important part of the ECEC workforce – they provide safe and stimulating environments for children during school holidays and allow their parents to continue to work during this time.

Box 3.1 – Key occupations in the ECEC sector

Staff working in the early childhood education and care (ECEC) sector cover a range of occupations, including:

- *early childhood teachers (ECTs)*, who hold an early childhood teaching qualification that has been approved by the Australian Children’s Education and Care Quality Authority (ACECQA). Such qualifications are typically bachelor’s-level or higher. Among other roles, ECTs often: design, plan and implement educational programs including approved learning frameworks; lead and support the learning and development of children; provide pedagogical leadership; and coach, mentor and supervise staff. ECTs work predominately in centre-based day care and preschool settings.
- *educators*, who, depending on the ECEC setting they work in, are often required to hold an ACECQA-approved certificate III or diploma-level Vocational Education and Training (VET) qualification. Among other roles, educators: support children’s learning and development, including contributing to the educational program and practice; assist with delivering approved learning frameworks; and support the daily routines of children. Educators work across all ECEC settings, including centre-based day care, family day care, outside school hours care and In Home Care
- *family day care co-ordinators*, who have diploma-level qualifications and provide leadership and support for family day care educators
- *service directors and managers*, who are responsible for the overall planning, staff, administration, marketing, resourcing and compliance activities of ECEC services
- *other occupations*, such as cooks, cleaners and allied health professionals, who may work in – or provide their services in – ECEC settings.

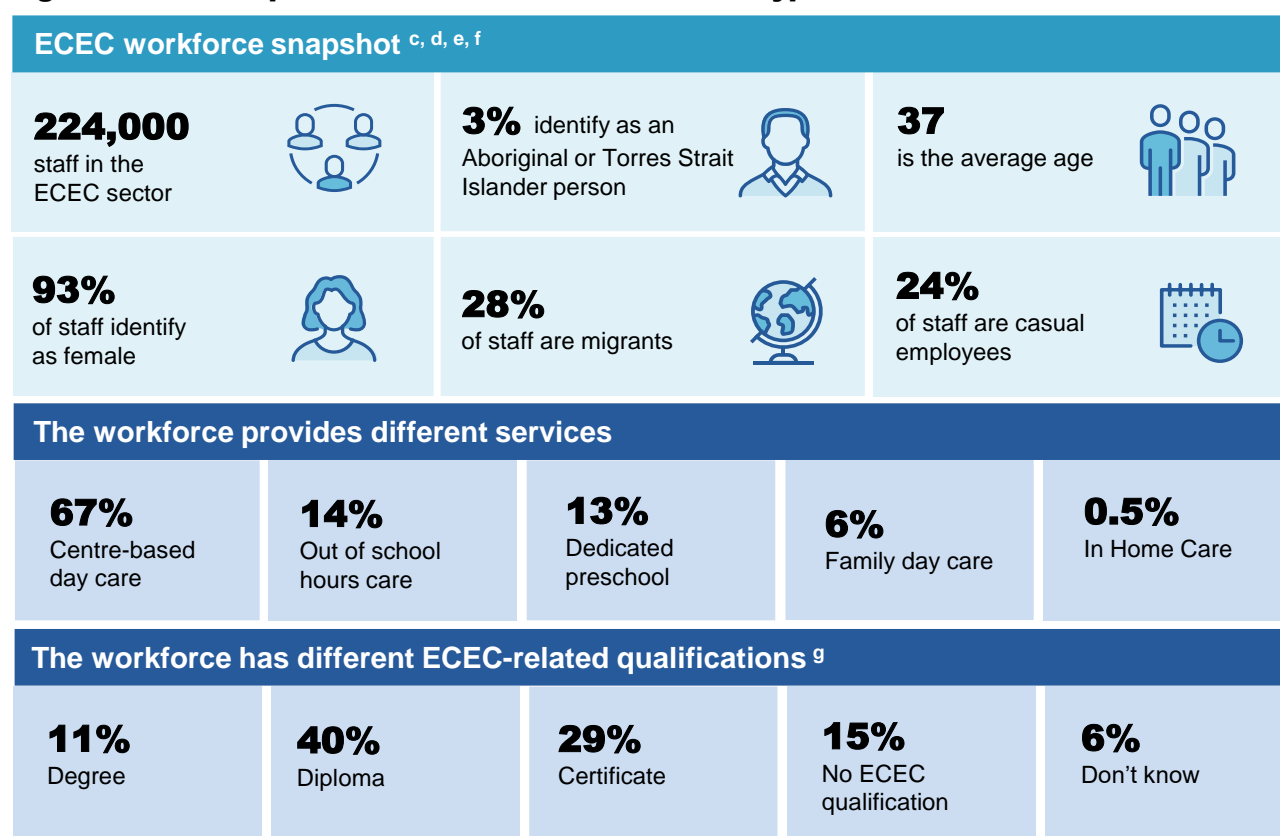
Some organisations that publish data on the ECEC workforce, including the Australian Bureau of Statistics and Jobs and Skills Australia, tend to do so on the basis of the Australian and New Zealand Standard Classification of Occupations (ANZSCO). When looking at this data, the Commission has focussed on two occupations within the ANZSCO – ‘child carers’ and ‘early childhood (pre-primary) teachers’.

- ‘Child carers’ (ANZSCO code 4211) are identified as providing care and supervision for children in residential homes and non-residential childcare centres. This covers four more specific occupations: child care workers, family day care workers, out of school hours workers and nannies. Given that the number of nannies is likely to be small relative to these other occupations – and given the tasks undertaken and qualifications required by ‘child carers’ set out in the ANZSCO – the Commission considers that the ‘child carers’ occupation used in the ANZSCO is a very close representation of the occupation of educators (which is the preferred term of both the Commission and the sector).
- ‘Early childhood (pre-primary school) teachers’ (ANZSCO code 2411) are identified as teaching the basics of numeracy, literacy, music, art and literature to early childhood (pre-primary) students and promoting students’ social, emotional, intellectual and physical development, and are typically degree-qualified.

Source: ABS (2022); ACECQA (2023e, 2023f); ECA (2021).

The majority of the ECEC workforce worked in CBDC (figure 3.1). The workforce is overwhelmingly female – across the sector, about 92% of the workforce are women. However, in some service types, this share is much higher – for example, 96% of family day care workers and CBDC workers are women. This points to ECEC occupations being some of the most feminised in Australia.¹

Figure 3.1 – A snapshot of the ECEC workforce in a typical week^{a,b}



a. Dedicated preschool workforce data for all jurisdictions is included. Data for all jurisdictions except for South Australia and Western Australia is from the 2021 National Workforce Census, where preschool participation in the Census was optional and 59% of in-scope preschools participated. Western Australia and South Australia reported preschool workforce statistics separately. **b.** Vacation care staff data is excluded because this data was collected in a separate reference week and duplication with other ECEC service types is likely. **c.** Aboriginal and Torres Strait Islander status was stated for 75% of workers in the 2021 National Workforce Census, and there are additional observations that could be preschool staff responses. **d.** Preschools only report age brackets and not the exact ages of their workers, so it is assumed that staff are uniformly distributed across these brackets. Age data for preschools in South Australia and Western Australia are excluded because age is not reported for all staff. **e.** Gender data for preschools in South Australia and Western Australia are excluded because gender is not reported for all staff. **f.** The number of migrants is likely understated because the Australian Census and Migrant Integrated Database does not have data for migrants that arrived prior to 1 January 2000. **g.** Qualifications exclude preschools because of different categorisation and missing data.

Source: Productivity Commission estimates based on ABS (*Tablebuilder, Census of Population and Housing, 2021; Microdata, Australian Census and Migrant Integrated Database, 2021; Microdata, Australian Census and Temporary Entrant Integrated Database, 2021*); SRC (2022).

¹ Of the (over 1,200) occupations that recorded 100 or more workers in the 2021 Census of Population and Housing, family day care workers ranked 4th highest in terms of the share of the occupation that are women, while educators (recorded as 'child care workers') ranked 13th, child care managers ranked 31st and out of school hours care workers ranked 130th (Productivity Commission estimates based on ABS (*Tablebuilder, Census of Population and Housing, 2021*)).

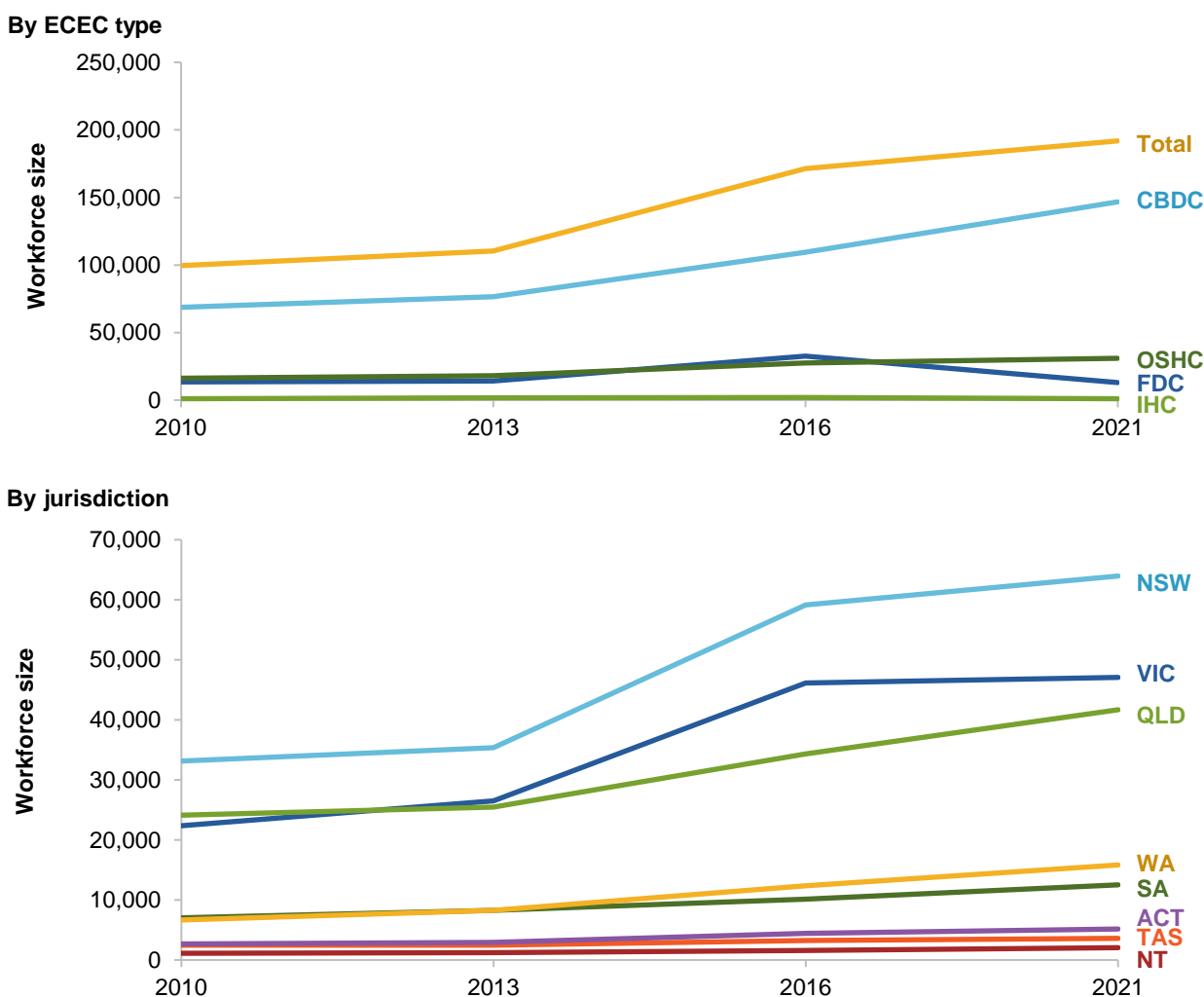
Key trends in the size and composition of the ECEC workforce

The workforce grew substantially in the decade to 2021

There has been significant growth in the ECEC workforce over time – the ECEC Workforce Census indicates that the number of workers employed in ECEC increased by over 90% between 2010 and 2021 (figure 3.2). This growth has largely been driven by workers in CBDC, with lower, but still significant, growth occurring in the outside school hours care (OSHC) workforce as well. The number of people working in family day care (FDC) has fallen – this reflects a reduction in FDC services due to changes in policy and regulation and the use of more stringent measures by governments to ensure the integrity of FDC providers (SRC 2022, p. 6).

The ECEC workforce has grown in all states and territories since 2010.

Figure 3.2 – The ECEC workforce has grown significantly over time^a
Size of ECEC workforce by service type and jurisdiction, 2010–2021



a. Data represents a weighted estimate of workers in all approved childcare services as at a reference week. Data does not include people working in dedicated preschools due to data limitations or people working in vacation care to limit double counting with the OSHC workforce. Data may include some double counting of staff with more than one employer.

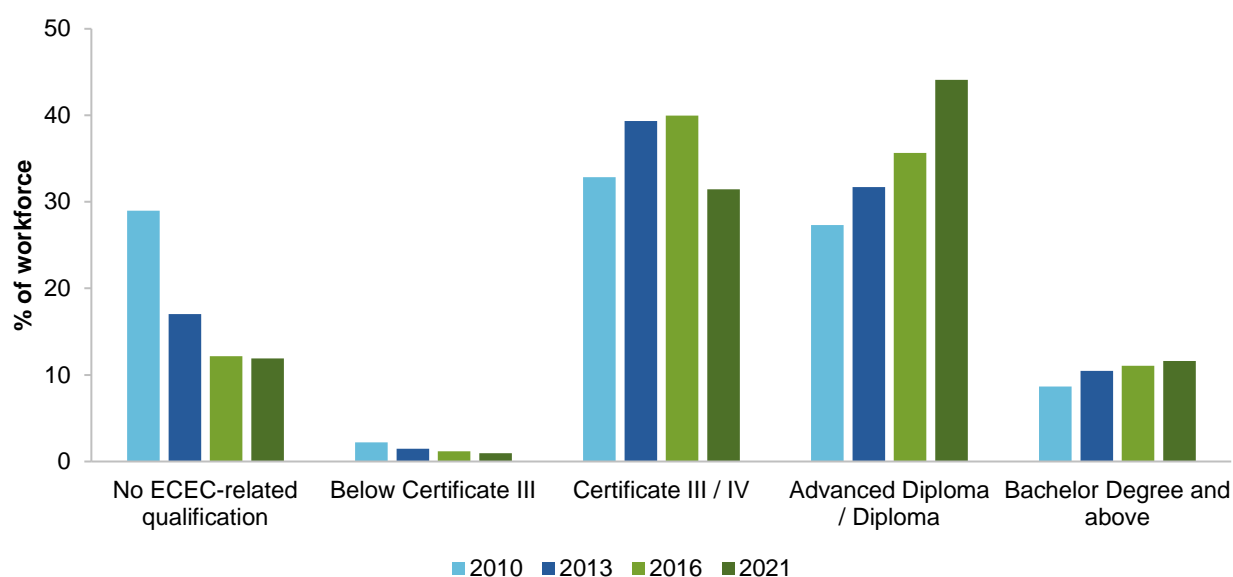
Source: SRC (2011, 2014, 2017, 2022).

More workers have qualifications and more have higher qualifications than in 2010

The share of workers holding an ECEC-related qualification has also grown significantly, from about 70% in 2010 to just under 90% in 2021. Further, the level of qualification held by ECEC staff generally increased over this period – ECEC staff were somewhat more likely to hold a bachelor’s-level qualification, and significantly more likely to hold a diploma-level qualification, in 2021 compared with 2010 (figure 3.3). The introduction of the NQF in 2012, which generally lifted the minimum qualification requirements for staff working in the sector, is likely to have contributed to this increase (ACECQA 2017).

Figure 3.3 – The share of the ECEC workforce holding a qualification has increased since 2010^a

Share of the ECEC workforce by highest ECEC-related qualification, 2010–2021



a. Workforce data represents a weighted estimate of workers in all approved childcare services as at a reference week. Data does not include people working in dedicated preschools due to data limitations or people working in vacation care to limit double counting with the OSHC workforce. Data may include some double counting of staff with more than one employer.

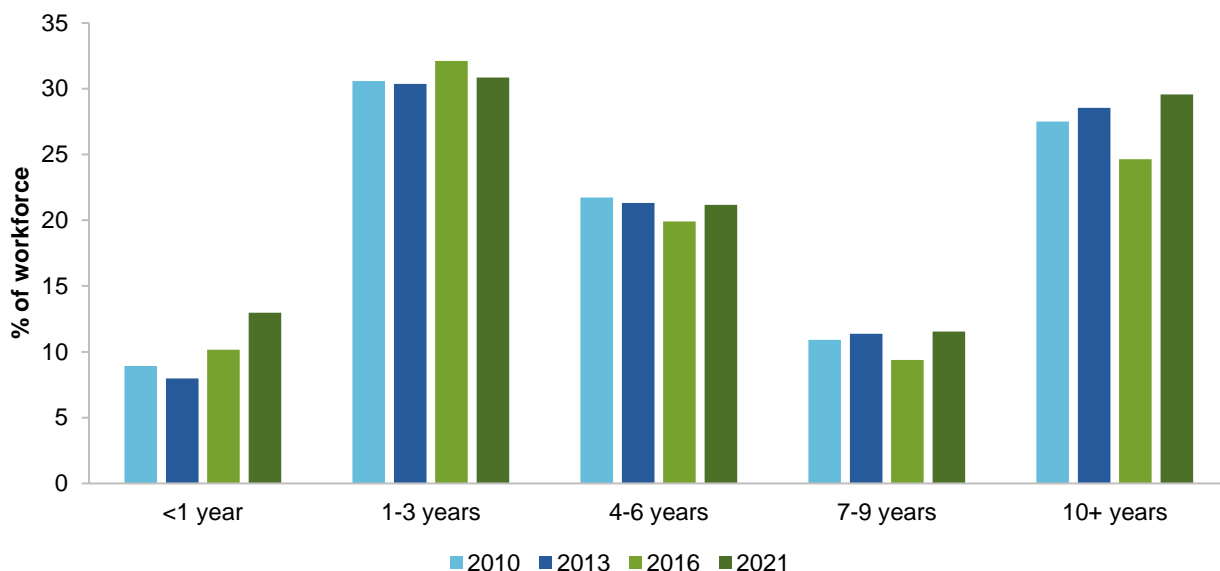
Source: SRC (2011, 2014, 2017, 2022).

Workforce experience was broadly unchanged between 2010 and 2021

Notwithstanding a slight increase in the share of the workforce who have been in the sector for less than a year – which is consistent with the substantial growth in the number of ECEC workers over time – there has not been a significant change in the number of years ECEC workers have spent in the sector since 2010 (figure 3.4).

Figure 3.4 –The number of years ECEC workers have spent in the sector has not changed significantly since 2010^a

Years of experience in the ECEC sector for ECEC workers, 2010–2021



a. Workforce data represents a weighted estimate of workers in all approved childcare services as at a reference week. Data does not include people working in dedicated preschools due to data limitations or people working in vacation care to limit double counting with the OSHC workforce. Data may include some double counting of staff with more than one employer.

Source: SRC (2011, 2014, 2017, 2022).

A large share of the inflows of workers to the sector comes from outside the labour force – and a large share of those leaving exit the labour force entirely

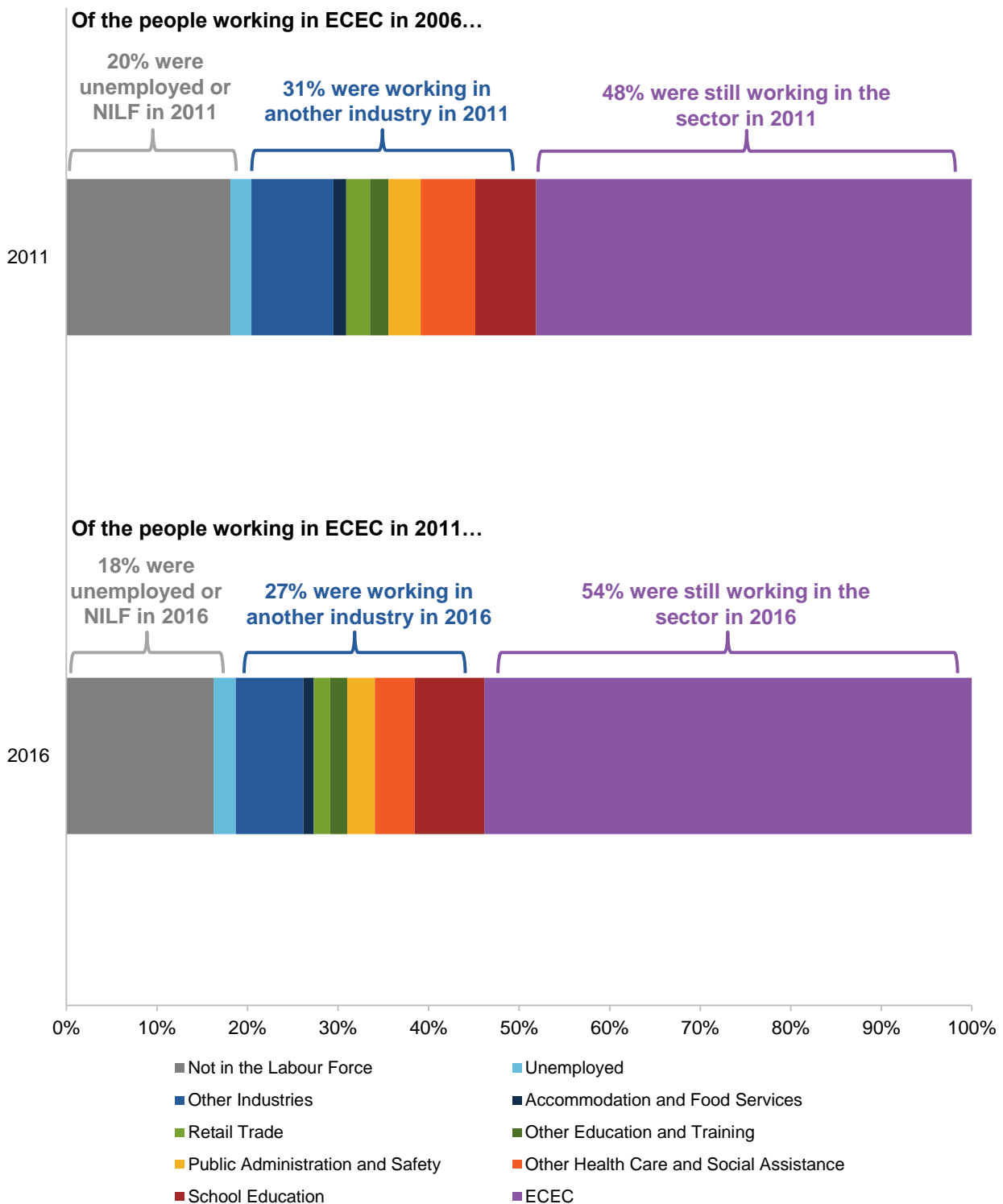
Using the Australian Census Longitudinal Dataset, the Commission has examined inflows and outflows of workers to and from the ECEC sector. At the moment, only two data points are available – flows between 2006 and 2011, and flows between 2011 and 2016. The addition of 2021 Census data to the Dataset (expected to occur in early 2024) will enable a more up-to-date analysis of the inflows and outflows of workers in the sector.

The data available suggests that the rate that workers exit the sector – while reasonably high – may have decreased slightly between 2011 and 2016. About 54% of workers in the sector in 2011 were still working in the sector in 2016. In comparison, only about 48% of workers in the sector in 2006 were still in the sector in 2011.

Across both time periods, a significant share of workers who left the sector left the labour force entirely (between 16-18% of workers who left the sector). Those who continued to work after leaving the sector shifted to a wide range of other industries, with the largest share moving to the schools system (about 7-8% of all workers who left the sector) (figure 3.5).

Looking at inflows, workers commonly entered the sector from outside the labour force (about 40% between both 2006–2011 and 2011–2016), although a significant share also entered from unemployment, and from the retail trade, and accommodation and food services industries (figure 3.6).

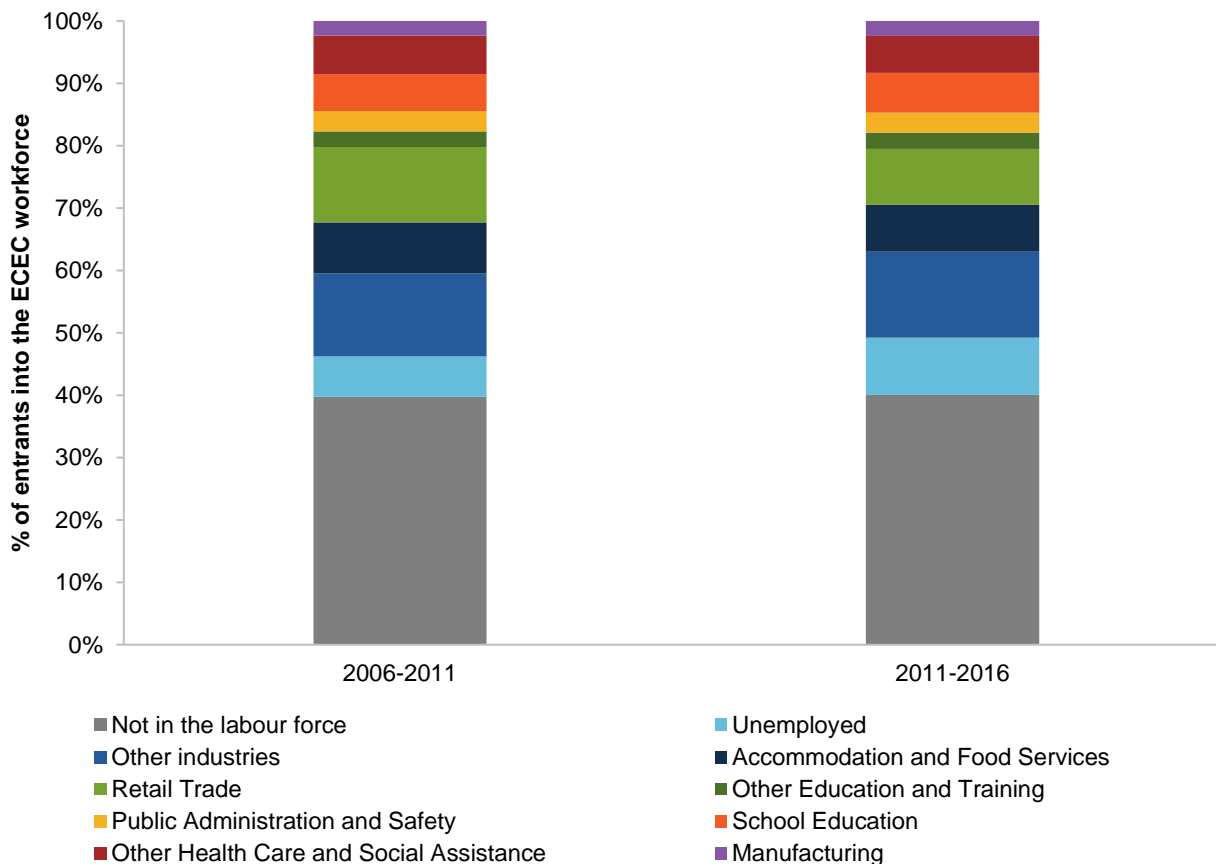
Figure 3.5 – A smaller share of the workforce exited the sector in the five years to 2016 than in the five years to 2011^a



a. There are insufficient data to retrieve estimates for every industry across every labour force status. All estimates that were retrieved have relative standard errors of 200% and should be interpreted with caution.

Source: Productivity Commission estimates based on ABS (*Australian Census Longitudinal Dataset (ACLD)*).

Figure 3.6 – Workers entering the sector come from a wide range of other industries^a
Entrants into the ECEC workforce, by industry of previous employment



a. There are insufficient data to retrieve estimates for every industry across every labour force status. All estimates that were retrieved have relative standard errors of 200% and should be interpreted with caution.

Source: Productivity Commission estimates based on ABS (*Australian Census Longitudinal Dataset (ACLD)*).

3.2 Why are governments involved in ECEC labour markets?

Governments are involved in labour markets for a range of reasons, irrespective of the particular sector or industry they operate in. For example, governments:

- set the industrial relations framework through which employers and employees interact, with the aim of addressing power imbalances and to set minimum standards that all employees are entitled to. Governments also regulate workplace safety for similar reasons
- subsidise – and in some cases, deliver – many qualifications and training courses, in part because there are public benefits from these that mean they may be underprovided or not taken up as much as they should be if they were left to the private sector alone to provide. Governments also regulate training quality with the aim of ensuring that students can be confident that they are receiving training that is of a good standard and employers can be confident that graduates are competent in their field

- establish the rules and procedures by which migrants can come to Australia to work, with the aim of ensuring that both migrants and local workers are treated fairly, maintaining the integrity of Australia's border control system, and maximising the economic and social benefits the community receives from migration
- undertake data collection on – and ongoing monitoring of – the workforce, so to have the information needed to be an effective steward of labour markets and for the management of the economy more broadly.

These reasons for government involvement all apply to the ECEC labour market. But there are some other reasons why governments have a role (and an interest) in specifically developing the ECEC workforce, namely:

- the ECEC sector, and those who work in it, help to deliver important economic and social outcomes around childhood development and workforce participation. If there are too few workers in the sector – or those who work in the sector do not have the necessary skills and experience – then these outcomes will not be realised to their fullest extent
- governments directly influence ECEC workforce outcomes through their policy approaches for the sector and by how they fund and regulate services. And governments may also provide ECEC services and directly employ ECEC workers (as is often the case with state and territory managed preschools for example).

These reasons point to a rationale and a need for governments to play a more active role in developing the workforce for the ECEC sector than they might have for many other sectors or industries in the economy.

The ECEC workforce helps to deliver important economic and social outcomes

The Commission's survey of the research on the effects of ECEC on children's development highlights credible evidence that uptake of ECEC has positive impacts across a range of domains, from school readiness to longer-term outcomes such as educational attainment, employment and health (paper 1).

Similarly, as discussed in paper 4, a well-functioning ECEC sector supports families to make choices about caring for children and participating in the labour market. For many parents – mainly mothers – access to ECEC is a prerequisite for undertaking paid work. ECEC can also enable families to engage in other activities they value, such as studying or volunteering. ECEC, therefore, has the potential to be something of a 'multiplier sector' – that is, if accessible and well-functioning, ECEC can help to increase workforce supply to other sectors of the economy. Conversely, poor access to ECEC, including because there are too few ECEC workers available to staff services, can exacerbate labour market pressures – a point made by inquiry participants, including the Regional Education Commissioner (sub. 102, p. 2), Early Childhood Australia (sub. 154, p. 60) and the Northern Territory Government, which said:

the limited ECEC workforce is also reducing the capacity of services ... and is particularly problematic in the NT townships of Alice Springs and Katherine. This in turn is inhibiting workforce participation in these communities, including the ability for professionals who provide other essential services such as policing, health, social services and education to return to work after having children. (sub. 157, attachment, p. 12)

While the Northern Territory Government's comment points to the role the ECEC workforce can play in unlocking workforce supply in regional areas, it plays a similar role in urban areas too.

If government objectives relating to child development and labour force participation (or other valuable activities) are to be fully realised, sufficient ECEC workers must be available. And that workforce must have the skills and experience needed to deliver quality ECEC. This link between the size and composition of the ECEC workforce and the goals that governments seek to achieve through the sector is another reason why governments have a policy interest in developing the ECEC workforce.

As the major funders and regulators of the ECEC sector, government decisions directly influence workforce outcomes

Governments are also a major funder of the sector. As staff costs make up – by far – the largest component of the costs of providing ECEC services, funding provided by governments to the sector can have a major influence on workers' rates of pay, and the resources available for training and professional development.

The ECEC sector is also heavily regulated by governments and some regulations – such as minimum qualification requirements and educator-to-child ratios – directly impact on the size and composition of the ECEC workforce. The underlying rationale for these regulations is to ensure that the services provided meet a minimum standard of safety and quality. But as well as setting standards, governments have a role in ensuring those standards are met. Part of this involves monitoring and compliance actions to address instances where workforce regulations are not met. However, given the wider role of governments in the sector and the important policy goals that ECEC seeks to achieve, this also includes developing and supporting the ECEC workforce.

Finally, governments also directly provide some ECEC services – most notably, state and territory managed preschools. This means that governments have an interest in developing the ECEC workforce to ensure the services they provide are well-staffed and effective.

The different roles that governments play in the sector – including as funder, regulator and employer – mean that governments often face a complex set of incentives, including with respect to the ECEC workforce, that do not always perfectly align. For example, government initiatives to expand access to government operated preschool may increase the share of ECEC staff that governments directly employ, but this has the potential to draw workers away from other providers in the sector (that the government funds and supports), reducing their capacity to provide quality ECEC to families.

3.3 Workforce constraints are affecting ECEC accessibility

This section draws on the lived experience of those in the sector, and data on vacancies and waivers, to examine the extent to which there are workforce constraints in the sector that are impeding families' access to ECEC, and – if there are – what the implications of these might be.

What this section does not do is assess whether there is a *technical* shortage of ECEC workers (box 3.2). Such an assessment requires evidence of hiring difficulties or high vacancy rates remaining in the sector *after* employers have raised wages for a sustained period of time in an attempt to attract more workers.

Box 3.2 – What is a workforce shortage?

There are a range of definitions for what constitutes a workforce shortage. One interpretation is provided by Jobs and Skills Australia.

An occupation is considered to be in shortage when employers are unable to fill or have considerable difficulty filling vacancies for an occupation or cannot meet significant specialised skill needs within that occupation, at current levels of remuneration and conditions of employment, and in reasonably accessible locations.

In 2023, using this definition, Jobs and Skills Australia assessed both educators (defined as the ANZSCO group ‘child care workers’) and early childhood teachers as being subject to national shortages.

However, this definition is problematic because it presumes that supply should meet demand at the prevailing wage. As the Commission has previously said:

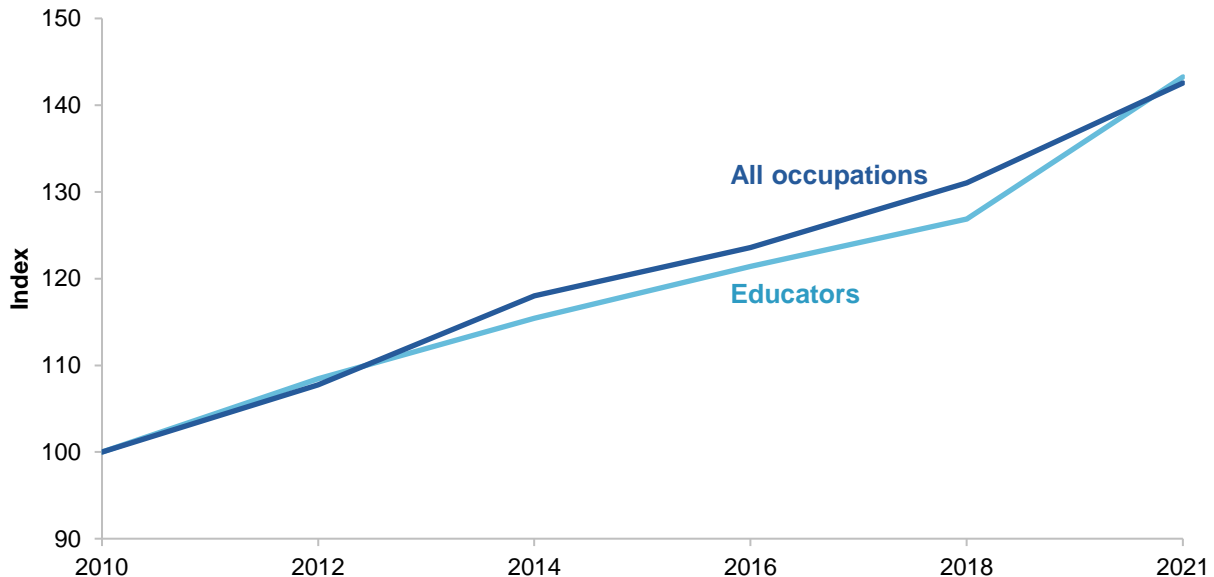
Shortages should be identified where employers have difficulties in hiring even after significant wage increases rather than ‘at current levels’.

As such, in order for a sector to be facing a shortage, there must be evidence of both increased wages, and recruitment difficulties remaining after these increases.

Source: Jobs and Skills Australia (2023a, 2023b); PC (2022a).

The data available to inform such an assessment is somewhat limited. The Australian Bureau of Statistics (ABS) does collect data on the hourly wages of educators – and this shows that while the wages of educators have increased since 2010, the rate of growth has been in line with that across all occupations. This suggests that while educators’ pay has risen in absolute terms, their pay relative to other occupations has remained reasonably constant (figure 3.7). However, this data is somewhat dated (the most recent data is for 2021) and the data is not granular enough to examine trends in the pay of other key ECEC occupations – namely ECTs. These data limitations mean that the Commission has not been able to make an informed assessment about the extent the sector is currently facing a technical workforce shortage.

Figure 3.7 – Educators’ hourly wages have grown in line with the broader workforce^a
Index of average hourly total cash earnings, 2010=100



a. 'Educators' is based on the ANZSCO occupation group 'child carers' and includes nannies.

Source: Productivity Commission estimates based on ABS (*Employee Earnings and Hours, Australia, various years*).

Many inquiry participants indicated that they were facing workforce constraints and recruitment difficulties

There was a very widely held view among inquiry participants that workforce constraints and challenges recruiting and retaining staff have been impacting on the sector’s capacity to provide education and care to children and families (box 3.3). Many participants went as far as saying that the sector is facing a workforce crisis. For example, Thrive by Five – Minderoo said:

across Australia, the ECEC workforce is in crisis, with high turnover, staff shortages and stress being reported by teachers and educators. (sub. 70, p. 17)

And the Salvation Army said:

The ECEC workforce is in crisis – characterised by staff shortages, high turnover and stress. This is of grave concern when the wellbeing and education of children in ECEC is linked with the qualification and wellbeing of the ECEC workforce. (sub. 56, p. 23)

The experiences of inquiry participants suggest that the impacts of workforce constraints are pervasive. Participants identified challenges recruiting and retaining both educators and ECTs, and both large and small providers reported being impacted. Nor were concerns about securing enough staff restricted to just CBDC services. OSHC organisations also submitted that they were being impacted. For example, the Outside School Hours Council of Australia said:

like many sectors across Australia, the OSHC sector is also experiencing critical staff shortages now. While staff shortages existed in advance of Covid-19, they have now become acute and unworkable. (sub. 82, p. 8)

Box 3.3 – Submissions and comments from inquiry participants on workforce constraints and recruitment challenges

Sandgate Kids Early Education:

In several instances, Sandgate Kids have been unable to appoint appropriate qualified people to permanent positions, and they have been left vacant for a period due to staff shortages or have been backfilled by casual educators working towards a qualification. (sub. 51, p. 5)

National Catholic Education Commission:

The education and care sector is extremely challenged in relation to the attraction and retention of experienced, passionate and qualified staff. (sub. 69, p. 5)

Australian Government Department of Education:

Evidence suggests that the ECEC workforce is experiencing long term, persistent challenges, including supply and retention, which have been further exacerbated by the impacts of the COVID-19 pandemic. (sub. 90, p. 42)

WA Government:

Workforce shortages are a major constraint to current availability of ECEC places, especially in regional and remote areas. Measures to increase access to quality ECEC services cannot be effective without a sustainable, trained workforce to deliver these services. (sub. 162, p. 11)

Early Childhood Australia:

One of the most critical issues facing the ECEC sector is a significant workforce shortage and continued recruitment challenges. These issues have a direct impact on implementation of a universal approach. (sub. 154, p. 60)

The Australian Childcare Alliance:

ECEC services are taking steps to recruit and train new educators into their services, however, so are majority of services. Consequently, there is exceptionally high demand for prospective ECEC staff new to the sector and attracting already qualified and experienced ECEC staff into services ... The overarching issue is the supply of qualified and experienced Early Childhood Educators and Early Childhood Teachers across Australia. (sub. 150, p. 38-40)

Brief comment 123:

Staffing shortages pose a significant challenge for operators in centre-based services. The demand for qualified early childhood educators often exceeds the available supply, making it difficult to recruit and retain skilled professionals. This shortage not only increases workloads for existing staff but also compromises the quality of care provided, affecting the holistic development of children. Ensuring an adequate number of qualified professionals is crucial for maintaining a safe and nurturing environment.

And while the Commission heard that challenges are an issue in metropolitan areas, several inquiry participants noted that services in regional and remote areas have found it especially difficult to attract and retain staff (for example, National Catholic Education Commission, sub. 69, p. 5; Australian Government Department of Education; sub. 90, p. 40; Meli, sub. 139, p. 2; Early Childhood Australia, sub. 134, p. 60).

Participants were forthcoming about how these constraints were affecting their capacity to provide ECEC for children and families.

Some inquiry participants said that workforce constraints meant that they were unable to offer places to families on their waiting list (for example, Phillip Island Early Learning Centre, sub. 5, p. 1). Others reported that services were capping enrolments or closing rooms because they were unable to secure enough staff to run at full capacity (for example, Regional Development Australia, Kimberly, sub. 1, p. 2; The Parenthood, sub. 122, p. 5). In a survey of services undertaken in February 2023 by the Australian Childcare Alliance (ACA), more than two-thirds of respondents indicated that they were capping enrolment numbers, which was estimated to amount to over 16,000 forgone ECEC places. In a second survey, undertaken in May 2023, more than half of respondents indicated that they were capping enrolments (ACA 2023b).

Some inquiry participants – mainly from regional communities – pointed to some services needing to close because of a lack of staff. For example, Binarrri-binyja yarrowoo Aboriginal Corporation reported that the OSHC service in Kununurra has closed due to ‘staffing challenges’ (sub. 85, p. 7). And as another example, Graham Costin reported that the kindergarten service in Apollo Bay has ‘too often been forced to close at short notice due to staff shortages’ (sub. 26, p. 1). Family Day Care Australia also reported the closure of several FDC services – across a range of states and territories – which has coincided with a significant decline of educators working in the sector (Family Day Care Australia, sub. 66, pp. 4–5).

Closures like these – even if temporary – are likely to cause significant disruption to the children and families affected, and are particularly impactful in regional or remote areas where there are relatively few alternative ECEC options available.

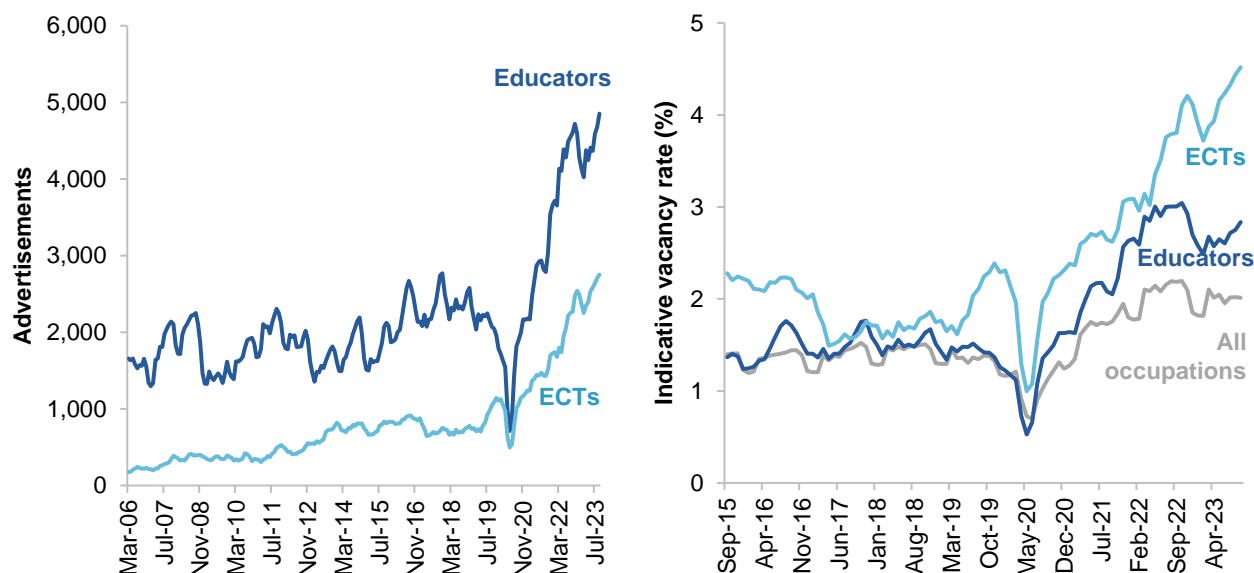
Workforce challenges also impact on workers in the sector, who may feel pressured or obligated to pick up more hours or responsibilities than they would prefer. Some of these potential impacts were pointed to by Thrive Group Tasmania.

Low staff numbers lead to extra expenditure on wages as the remaining staff work overtime to meet the service’s needs ... staff burn out from working too much overtime, but don’t feel able to take time off because of community pressure and the knowledge that if they are away the service may need to close. (sub. 81, p. 1)

Vacancy data points to recruitment challenges

As well as drawing on the lived experience of those in the sector, another way to form conclusions about the presence and size of workforce constraints is to examine vacancy data. Such data is collected by Jobs and Skills Australia through their Internet Vacancy Index, which provides a month-by-month count of online job vacancies since 2006 by ANZSCO occupation (box 3.1 above).

Vacancies for educators and ECTs are at record highs, mainly as a result of a large uptick in vacancies since the COVID-19 pandemic (figure 3.8, left hand panel). The Commission has also calculated indicative vacancy rates for educators and ECTs using Jobs and Skills Australia’s internet vacancy data and estimates of occupational employment over time (figure 3.8, right hand panel). Vacancy rates compare total vacancies with the number of jobs in a sector and are a better indicator of the difficulty of attracting staff. Vacancy rates for both educators and ECTs have grown sharply post-pandemic, and sit well above the rates for all occupations. Vacancy rates for ECTs are higher than those for educators.

Figure 3.8 – Vacancies in the sector have climbed post-pandemic^{a,b}**Advertised vacancies and indicative vacancy rates**

a. 'Educators' is based on the ANZSCO occupation group 'child carers' and includes nannies. **b.** Vacancies are on a 3-month moving average basis and are not trended or seasonally adjusted. The indicative vacancy rate is the number of vacancies for each occupation divided by the sum of the number of people working in the occupation and the number of vacancies, then multiplied by 100.

Source: Productivity Commission Estimates based on Jobs and Skills Australia (*IVI index and NERO model* - data downloaded on 26 October 2023).

Analysis by the ACCC found that vacancies for centre-based day care staff (measured as a ratio to staff headcount) are highest in remote and very remote locations, further suggesting it is these areas where workforce challenges are most pronounced (figure 3.9).

Inquiry participants put forward a range of possible reasons that might have contributed to the relatively steep increases in vacancies and vacancy rates since the COVID-19 pandemic. These included, but were not limited to:

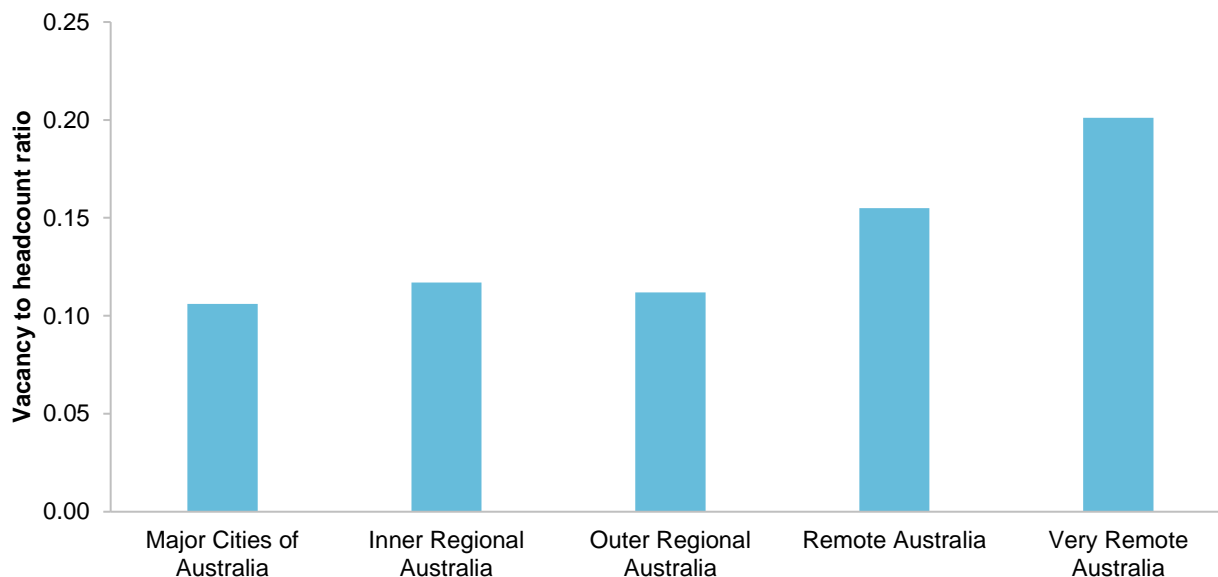
- an increase in stress, fatigue and burnout as a result of the pandemic, which is contributing to staff leaving the sector (NSW Small Business Commissioner, sub. 128, attachment 1, p. 20; Outside School Hours Council of Australia, sub. 82, p. 8; Work and Family Policy Roundtable, sub. 138, p. 11)
- the effects of vaccine mandates, which resulted in staff leaving the sector and impacted on services' ability to recruit new staff (Australian Childcare Alliance, sub. 150, p. 84; NSW Small Business Commissioner, sub. 128, attachment 1, p. 20)
- disruptions to Australia's migration program, which made it more difficult for the sector to source staff from overseas (Australian Childcare Alliance, sub. 150, p. 84).

More broadly, as discussed below, many inquiry participants highlighted a disparity between the value placed on the sector during the COVID-19 pandemic – when many services (and particularly CBDC services) remained open when other industries shut down – and the recognition received by the sector, including in the form of pay and conditions.

Others suggested that the generally tight labour market – which has been characterised by strong demand for workers and relatively low rates of unemployment since the pandemic – has contributed to the increase in vacancies and vacancy rates.

Figure 3.9 – Vacancies are higher in remote and very remote areas

Vacancy to staff headcount ratio for centre-based day care, by remoteness, 2022



Source: ACCC (2023, p. 75).

Waiver data also suggests many services are struggling to meet their workforce requirements

Data collected by the Australian Children’s Education and Care Authority (ACECQA) suggests that the share of services with a staff waiver in place has increased significantly over the past decade – rising from about 3% in the third quarter of 2013 to about 10% in the second quarter of 2023 (figure 3.10). This provides another indication that workforce constraints are having a greater impact on the sector now than they have had in the past.

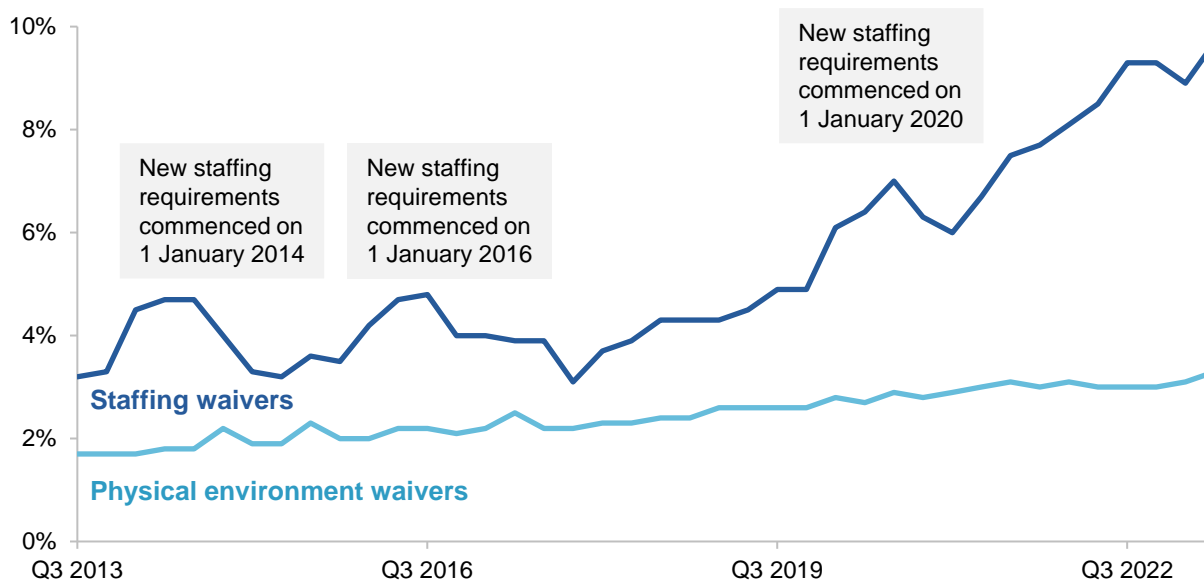
It is also useful to examine the types of services receiving exemptions at a particular point in time, and the requirements that they are being exempted from to provide insight into the regulations that services are having the most difficulty meeting. To do this, the Commission looked at all staffing waivers in force in February 2023. At this time, waivers were overwhelmingly held by long day care services (about 92%), with most of the remainder granted to preschools/kindergartens and OSHC services (just under 4% each).

Most waivers exempted services from requirements for ECTs (figure 3.11). This suggests that services were having the most trouble meeting these requirements and provides further evidence of services having difficulty recruiting and retaining ECTs in the current labour market. Almost all these exemptions were granted to long day care services, and very few were granted to preschools (which compete with long day care to secure teachers) suggesting that long day care services are having much more difficulty meeting teacher requirements.

A smaller number of waivers were related to general educator qualification requirements – these were split between long day care services (55%), OSHC services (32%) and preschools (13%) – suggesting that some services across all these service types were struggling to meet these requirements.

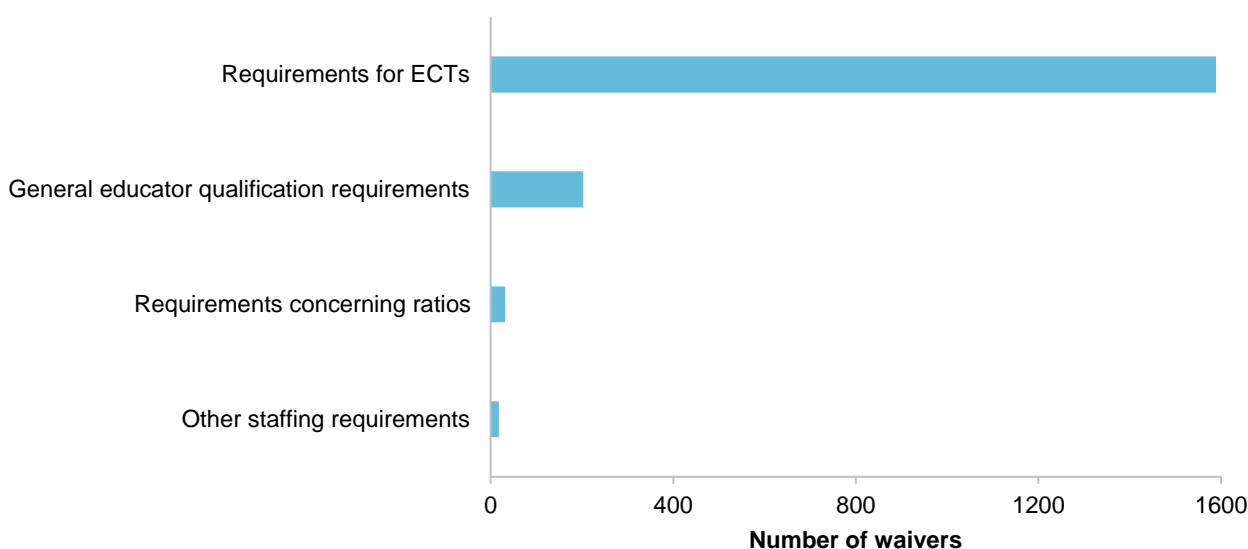
Figure 3.10 – The share of services with staffing waivers has increased significantly since 2013

Proportion of services with a waiver, by quarter, by category, 2013–2023



Source: ACECQA (2022).

Figure 3.11 – Most staffing waivers are granted for requirements associated with ECTs^a
Number of waivers in force as of 15 February 2023, by exemption area, all service types



a. The Commission has classified the following regulations of the Education and Care Services National Regulations as containing requirements related to ECTs: Regulation 130; Regulation 131; Regulation 132; Regulation 133; Regulation 134 and Regulation 272. The Commission has classified the following regulations as containing general educator qualification requirements: Regulation 126; Regulation 127; Regulation 128; and Regulation 321(2). The Commission has classified the following Regulations as containing requirements concerning ratios: Regulation 123; Regulation 123A; and Regulation 124. The Commission has classified the following regulations as containing other staffing requirements: Regulation 72A; Regulation 120; and Regulation 136. Missing observations have been excluded.

Source: Productivity Commission estimates based on ACECQA administrative data (unpublished).

Taken in sum, evidence suggests workforce constraints are biting

Looking at the suite of evidence – including the lived experience of inquiry participants, vacancy data and data on waivers – it is apparent that the ECEC sector is experiencing considerable workforce challenges, to the point families' access to ECEC is being impeded. Constraints for ECTs, in particular, appear to be most severe, but are present for educators as well. And while there are challenges in metropolitan areas, regional and remote areas seem particularly affected.

The upshot of these constraints is that ECEC is less accessible than it otherwise would be if there were more ECEC workers available. This means that many families are unable to access ECEC – or are unable to access as much ECEC as they would like – to the detriment of children's developmental outcomes and the workforce participation opportunities of their parents.

It is likely that cyclical factors are driving part – and potentially a relatively large part – of these constraints. The uptick in vacancies and vacancy rates for ECTs and educators since the pandemic has coincided with a historically low unemployment rate across the economy and major disruptions to Australia's migration program. And it is not just the ECEC sector that has been impacted – since mid-2022, vacancies across the economy as a whole have remained at near record highs, and as recently as the first quarter of 2023, many businesses have reported labour as a constraint on their output (Viney et al. 2023). It is therefore likely that some of the workforce challenges facing the sector will moderate to an extent when more capacity returns to the broader labour market.

However, there is also evidence to suggest there are structural factors at play. While workforce constraints may be particularly impactful now given the generally tight labour markets across the economy, challenges have persisted for some time. For example, the Commission heard evidence of shortages affecting the sector as far back as 2011 (PC 2011), and in its previous inquiry into the sector in 2014, noted that it was presented 'with substantial evidence ... of widespread staff shortages in the ECEC sector, particularly in long day care' (PC 2014, p. 327). This suggests that there are some enduring factors contributing to there being too few ECEC workers to meet demand.

The mismatch between the demand for and supply of ECEC staff is likely to continue

Looking ahead, demand for ECTs and educators looks to remain strong.

The Australian Government's Centre for Population projects that there will be about 200,000 more children aged 12 years and under in 2032-33 than in 2021-22 – an increase of about 5% (Centre for Population 2022). And in addition to *more* children potentially needing ECEC services, governments have implemented reforms that aim to increase the *amount* of subsidised ECEC children and families can access. This includes initiatives being undertaken by several state and territory governments to reduce fees or expand preschool hours for four-year-old children and expand preschool access to three-year-old children (appendix E).

These reforms are expected to lead to increased demand for ECEC services, and consequently, increased demand for ECEC staff (the reforms may also lead to a change in the *distribution* of ECEC staff across the sector if they result in an increased proportion of staff working in government-run preschool services – which generally offer relatively attractive pay and conditions – and a smaller proportion in other settings, such as for-profit and not-for-profit CBDCs). This increased demand will be further elevated by the recommendations made by the Commission, which, if adopted, can also be expected to lead to increases in families' demand for ECEC services and consequently demand for ECEC staff.

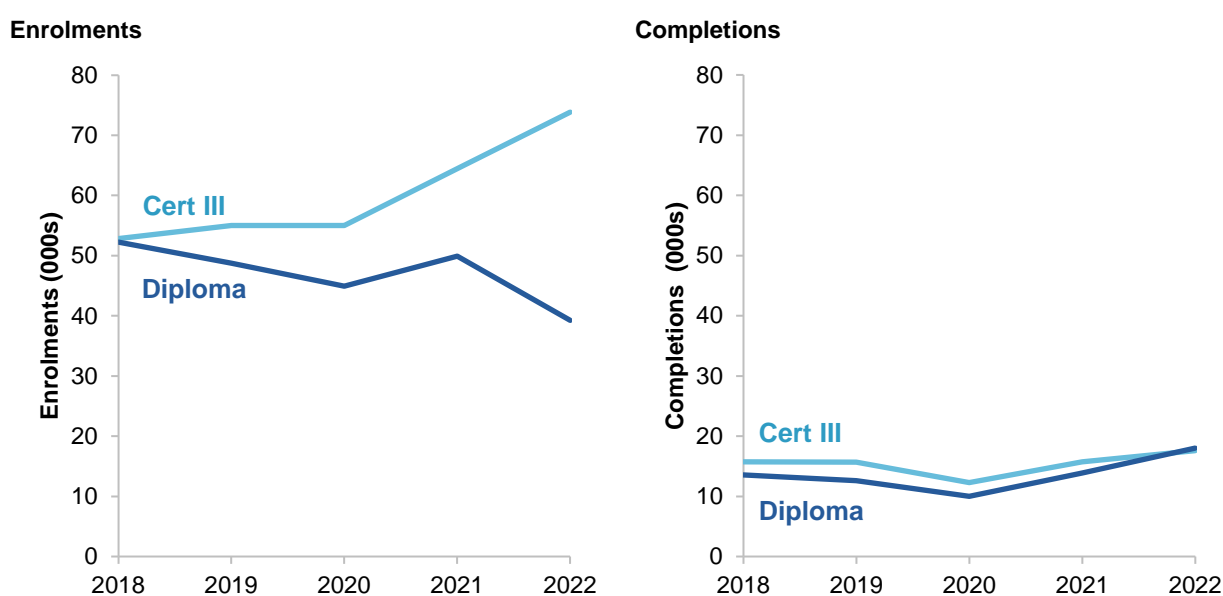
But the metrics available on the future supply of educators and ECTs point to a mixed picture on likely future workforce growth.

Data on Vocational Education and Training (VET) enrolments show that there has been an uptick in enrolments in certificate III ECEC qualifications since 2018, although enrolments in diploma qualifications have been falling over the same period and the number of completions of both diploma and certificate III qualifications has remained relatively flat (figure 3.12).

Data on enrolments and completions for university-level early childhood teaching courses points to a relatively significant increase in enrolments – predominately driven by enrolments in postgraduate courses. Completions have also increased, but at a much lower rate (figure 3.13). While not pictured, enrolments in primary school-level teaching courses (which are commonly identified as an alternative teaching option to working in ECEC) were relatively steady from 2012 to 2021 (at about 30,000 enrolments each year), but the number of completions fell over this period.

Figure 3.12 – While enrolments in certificate IIIs have increased, enrolments in diplomas have declined and completions have been flat ...

Number of enrolments and completions in VET ECEC courses, 2018–2022^a

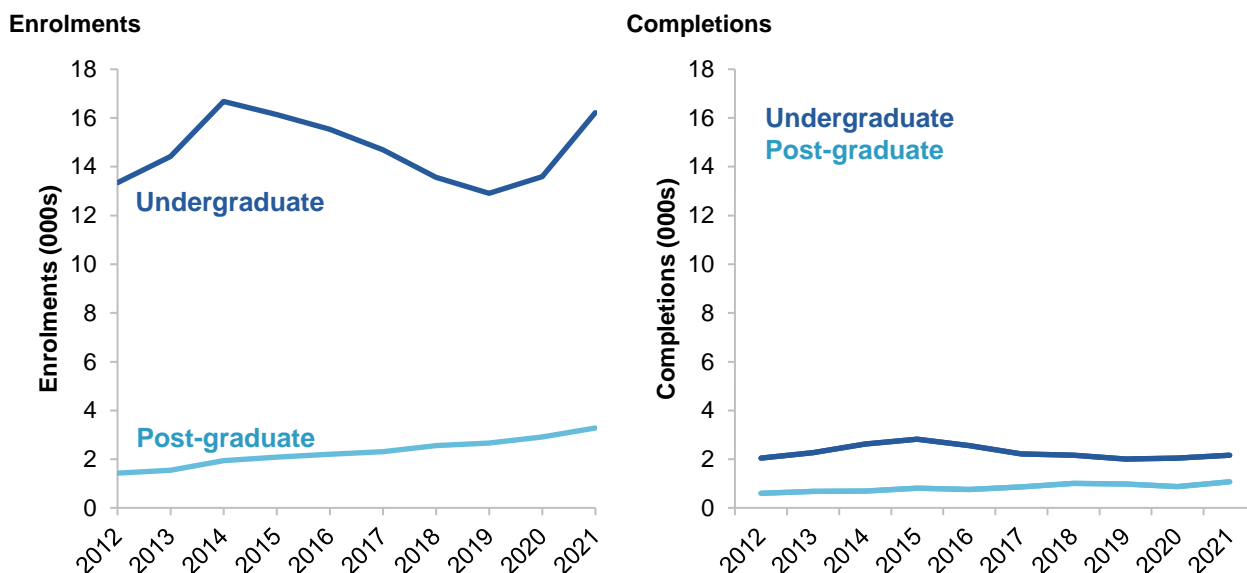


a. The courses captured in this figure are Certificate III in Early Childhood Education and Care (course codes CHC30113 and CHC30121) and Diploma of Early Childhood Education and Care (course codes CHC50113 and CHC50121).

Source: NCVET (2023).

Figure 3.13 – ... and while enrolments in early childhood teaching programs have increased significantly, completions have increased at a lower rate^{a,b}

Enrolments and completions in Early Childhood teaching courses, 2012–2021



a. Classification of courses is determined by individual higher education institutions based on the Australian Standard Classification of Education. ACECQA has noted that “[as] a general rule birth to five and birth to eight focussed programs are classified as “early childhood” while birth to 12 programs are typically, however not exclusively, classified as “primary” (ACECQA 2019b, p. 25) b. An ‘enrolment’ exists when a person has been admitted to a course and is at a higher education institution at the census date, and the person is entitled to continue with their studies and has not formally indicated before the census date that they have withdrawn (DoE 2023e). A ‘completion’ is the successful completion of all the academic requirements of a course (DoE 2023e).

Source: Productivity Commission estimates based on DoE data (unpublished).

This points to mismatches between the demand for and supply of ECEC staff likely continuing. Such mismatches risk frustrating future efforts by governments to make ECEC more accessible – ultimately, any initiatives to make ECEC more affordable for families or to make more places available will not be effective if there are too few qualified staff to meet this extra demand.

How should governments respond to these workforce challenges?

In recognition of the public benefits that arise from families’ access to ECEC (in the form of improved developmental outcomes for children and greater scope for workforce participation by parents), and the substantial influence governments’ funding and regulation of the sector can have on demand for ECEC staff, governments have an interest in helping to alleviate any workforce constraints that threaten to restrict families’ access to ECEC – particularly when such constraints are widespread or persistent.

The need for governments to play a role developing the ECEC workforce is heightened where and when there are significant step changes in the demand for ECEC services because of government initiatives to improve the accessibility or affordability of ECEC. The expansion of preschool programs that is underway in several jurisdictions – and is proposed in others – is an example of such a step change. If adopted, the proposed reforms to introduce greater universality into the ECEC system that are outlined in this report will be another.

In addition to assisting with growing and developing the ECEC workforce in response to any major changes in government policy, governments also have a responsibility to identify and address any structural or systemic factors that may unnecessarily hold back workforce growth. The fact that workforce constraints

have been present for some time suggests that such factors are present in the ECEC sector (these are discussed below). Addressing these structural factors should be a focus for government action.

However, in undertaking action, governments need to be mindful that any attempts to build the ECEC workforce can also impose costs on the community. One way costs may manifest is when governments spend resources on initiatives to grow the ECEC workforce that could be spent elsewhere. But more subtly, costs can also arise when government actions to grow the ECEC workforce entice workers to come to the sector from other parts of the economy where they may be needed more. The risk of these costs is particularly heightened in times when there is limited spare capacity in the labour market – something that is the case at the moment. If these costs are large (relative to the benefits of having more ECEC workers), they can impose a net cost on the community.

Governments must be alert to these potential costs, and in undertaking any actions to build the ECEC workforce, seek to minimise them by ensuring that their interventions are:

- timely – that is, interventions are started when they are needed and stopped once the need for them has passed
- well targeted and proportionate to the problems, challenges or barriers that they seek to address
- underpinned by effective monitoring and evaluation processes to ensure any resources are prudently and productively used, to guard against unintended or perverse consequences, and to understand how interventions can be improved.

The Commission has drawn on these principles when assessing how governments should exercise their policy levers to help develop an ECEC workforce that is well placed to meet the demands that will be placed on the sector in the future and when making recommendations on how the actions of governments can be improved.

Implementation of the National Children’s Education and Care Workforce Strategy should continue, but there are opportunities for actions to be expanded, supplemented or expedited

The Commission acknowledges that governments and sector participants have already charted a series of actions to develop the ECEC workforce through the National Children’s Education and Care Workforce Strategy (*Shaping our Future*) (box 3.4).

The Commission also notes the buy-in that the strategy has from many in the sector. Several inquiry participants emphasised the importance of implementing the strategy to the Commission (for example: Albury Pre-school, sub. 43, p. 3; Corowa Pre-school, sub. 44, p. 2; G8 education, sub. 68, p. 3; Howlong Preschool, sub. 77, p. 2; Community Early Learning Australia sub. 92, p. 6; and Community Child Care Association sub. 111, p. 6).

The Commission’s broad view is that governments’ implementation of the strategy should continue, with oversight and reporting arrangements shifted to the proposed ECEC Commission (paper 9).

Box 3.4 – The National Children’s Education and Care Workforce Strategy (*Shaping our Future*)

In late 2019, Australian Education Ministers endorsed the development of a 10-year national workforce strategy as a joint partnership between all governments, the children’s education and care sector and other stakeholders. ACECQA was responsible for coordinating the development of this strategy.

In September 2021, the National Children’s Education and Care Workforce Strategy (*Shaping our Future*) was released. The overarching vision of the strategy is that ‘the children’s education and care sector has a sustainable, high-quality workforce of teachers and educators that is highly respected and valued by the broader community.’ The strategy identifies 21 actions to be undertaken across six focus areas (professional recognition; attraction and retention; leadership and capability; wellbeing; qualifications and career pathways; and data and evidence). The strategy provides a rationale for each action and provides a brief overview of what needs to be done.

An Implementation and Evaluation Plan for the strategy was released in August 2022. It provides a high-level overview of how the actions identified in the strategy will be undertaken and how progress will be tracked. It also outlines some basic governance arrangements, including that progress updates will be provided to Education Ministers on a regular basis to inform implementation and future priorities. Actions in the strategy are to be subject to biennial review (with the first of these reviews due in December 2023) and amended as appropriate, particularly in response to emerging priorities.

Since being developed, 17 of the 21 actions have been ‘accelerated’ (Australian Government Department of Education, pers. com., 27 October 2023). Progress on many of the actions is expected to be discussed at a Biennial Workforce Forum, to be convened in November 2023.

Source: ESA (2021, 2022b).

That said, the Commission did hear concerns from some participants that the actions of the strategy lacked ambition, or were potentially insufficient to address the workforce challenges presently affecting the sector. For example, the Australian Research Alliance for Children and Youth said:

the 2021 strategy, *Shaping our Future* ... was developed when the workforce issues were less pressing than they are now ... and was not backed with significant new funding commitments from the Commonwealth to the States to support the workforce. (sub. 107, p. 9)

The recommendations outlined in this paper – in effect – represent opportunities for the actions of the strategy to be expanded, supplemented or expedited. And the Commission also considers that there is scope to improve the strategy’s usefulness and influence as a tool to guide governments’ actions to grow and develop the ECEC workforce into the future (which is explored in section 3.8).

3.4 Pay and conditions to support the ECEC workforce

The ECEC workforce is low paid

Many inquiry participants cited prevailing pay and conditions as one of the most significant factors (and for some, the most significant factor) contributing to the workforce constraints faced by the sector. Many commented that rates of pay are not in line with the professional nature of the work undertaken by the

workforce, nor the central role that ECEC workers play in educating children. The Brotherhood of St Laurence, for example, submitted that:

current levels of pay do not reflect the importance of early childhood development, the high levels of responsibility that early childhood workers assume, and the value they contribute to society. (sub. 96, p. 11)

While a brief comment provided to the Commission said:

early years educators have complex roles and shoulder great responsibility. They look after the many needs of children and families and are expected to do it all with a smile. The peak body ACECQA sets the benchmark for education standards that must be complied with and it is the most highly regulated sector. All this and workforce shortages put even more pressure on teachers and educators who are paid little and feel undervalued. They deserve better for the important work they do for without them no one else can work and most importantly, the first five years are crucial to brain development. (brief comment 27)

Academic research suggests that many ECEC workers feel that their wages do not reflect the professional nature of their work (Irvine et al. 2013, p. 5; McDonald et al. 2018, p. 657), or that their work is undervalued by the community, including through the COVID-19 pandemic, when services generally remained open when other industries shut down (McFarland et al. 2022, pp. 183–184; Murray et al. 2022, p. 140). Inquiry participants also pointed to a disparity between how the sector is valued in terms of pay and the responsibility placed on it during lockdowns. For example, Lady Gowrie Child Centre Inc (Adelaide) said:

it was effectively demonstrated during the pandemic just how vital ECEC services are to the Australian economy. ECEC leaders and educators continued to work throughout the entire pandemic while other businesses closed down or moved to work from home arrangements to protect staff from infection. The ECEC sector more keenly felt undervalued and underpaid leading to the current workforce crisis (sub. 25, p. 13).

While another inquiry participant said:

it is disappointing that during the recent pandemic Early Childhood Educators were expected to become essential workers. This was described as keeping the economy ticking over. This was while receiving extremely poor wages and conditions – and no increase in sick leave ... (brief comment 126)

The Commission also heard that pay in the sector was so low that it left some workers in a precarious financial position – something which has also been identified in a range of studies and surveys (box 3.5).

The Commission also regularly heard that staff in the sector could earn similar rates of pay working in other parts of the economy, and often without the qualification requirements and workload associated with working in ECEC.

For ECTs, participants noted that the ECEC sector struggles to offer wages and conditions that are commensurate with those provided in the schools sector. Byron Bay Preschool – for example – said:

experienced qualified teachers move to roles in primary schools where they can be better compensated for their work. Bright enthusiastic students that have a desire to work with young children study degrees for primary and secondary teaching instead of early childhood, as the recognition and pay they receive is significantly higher. These issues directly relate to a lack of qualified experienced teachers needed to support children during the most critical stage in their development (sub. 18, p 2).

While the Academy of Social Sciences in Australia submitted:

a key challenge is that comparatively lower pay and less favourable conditions contribute to attrition of qualified educators and teachers to other sectors, notably the school sector. The issue of pay parity has an enormous impact on career choices (sub. 116, p. 6).

Box 3.5 – Studies into the financial position of ECEC workers

Several studies have examined the financial position of early childhood education and care (ECEC) workers. For example:

- Drawing on interviews with educators, McDonald et al. (2018, pp. 657–658) found that some ECEC workers relied on income from other sources – for example from partners, ex-partners or parents – while others took on second jobs in order to sustain working in the sector.
- In a survey of ECEC workers undertaken by the United Workers Union as part of a broader campaign to improve wages and conditions in the sector, two-thirds of respondents indicated that they were ‘always’ worried about their financial situation and over 80% said they would find it difficult to cover a \$400 emergency expense (United Workers Union 2021, p. 12).
- Superannuation fund HESTA reported that nearly 20% of its members who worked in ECEC made a claim on their superannuation under the temporary rules allowing for early release during the pandemic. HESTA noted that the average claim was just over \$10,000, and that the median balance of ECEC members fell by nearly half when early releases were allowed (HESTA 2021, p. 11).

In aggregate, there is a significant pay differential between the earnings of ECTs and the earnings of primary and secondary school teachers. Estimated median earnings are about \$320 (or just under 20%) less per week for ECTs compared with primary school teachers, which equates to about \$16,500 per annum (figure 3.14). Median hourly earnings are estimated to be \$45 for ECTs, compared with \$54 for primary school teachers (Australian Government 2021c, 2021a). And pay is only one factor that can drive ECEC staff to seek employment in schools. For example, the Commission heard that teachers who work in schools are typically entitled to more leave, have more structured career progression, and have better access to mentoring and peer support than most ECTs working in the ECEC sector.

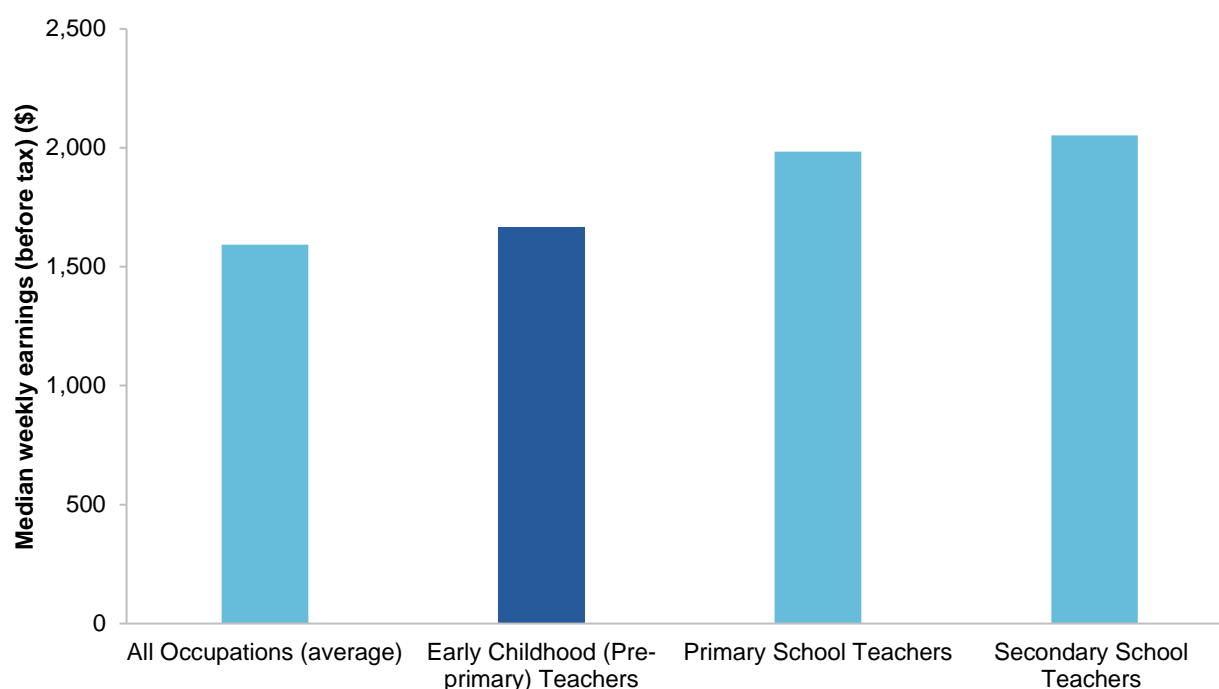
Given how teaching degrees are structured, the choice between working in ECEC or in primary schools is a real one for many teaching graduates. Many universities offer teaching programs designed to provide students with the content they need to enable them to teach children aged 0–8 or 0–12 years (as opposed to more specialised pre-primary early education degrees, which focus on teaching children aged 0–5). These degrees that cater to teaching broader age groups enable students to have a choice about which sector – schools or ECEC – they work in.

And there is evidence to suggest that many early education teaching graduates do elect to work in primary schools instead of the ECEC sector. Drawing on surveys of graduates, ACECQA reported that between 2015 and 2017, between one-half and two-thirds of graduates of ‘early education’ degrees ended up working in primary schools (ACECQA suggested this high number was likely driven by students who had completed courses covering the 0–8 age range primarily choosing to work in the schools sector instead of ECEC

(ACECQA 2019b, p. 27)).² Drawing on their own experience, Dr Susie Raymond, Professor Anne-Marie Morgan and Professor Shane Dawson from the University of South Australia submitted that more than two-thirds of students completing their 0–8 teaching degree program choose to undertake their final placement (which is often an indicator of future employment intentions) in primary schools (sub. 39, p. 5).

Figure 3.14 – Median weekly earnings for ECTs are significantly lower than primary and secondary school teachers

Median weekly total cash earnings for full-time non-managerial employees of teaching occupations, 2021



Source: Australian Government (2021b).

The tendency for many graduates to aim for careers in the schools sector over the ECEC sector is likely to continue while differences in pay and conditions between the sectors remain so stark.

In addition to there being significant pay differences *between* what ECTs can earn in the schools sector and the ECEC sector, there can also be considerable pay differentials for ECTs *within* the ECEC sector itself, depending on the jurisdiction and setting that they work in. For example, in some jurisdictions, ECTs working in government-run preschools receive pay and conditions that match teachers working in schools, while those working in CBDC settings are often paid less. In 2020, a review of preschool funding arrangements found:

a two-tiered system of ECT compensation exists in Australia. Some ECTs enjoy pay, leave and condition parity with school teachers in some states and settings, while ECTs in many CBDCs are being paid close to minimum award wages ... The Review heard from many CBDC providers that expressed the financial challenges of providing ECTs with comparable pay and conditions to

² ACECQA also noted that whether a degree is classified as an ‘early childhood’ teaching degree or a ‘primary’ teaching degree for the purposes of reporting is ultimately determined by universities, and therefore there is some variation in how degrees are treated. That said, as a general rule, ACECQA noted that birth to 5 and birth to 8 focussed programs are classified as ‘early childhood’ teaching degrees while birth to 12 programs are typically, however not exclusively, classified as ‘primary’ teaching degrees.

school-based or government run preschools and difficulties in recruitment and retention. (Nous Group 2020, p. 58)

The pay and conditions of ECTs – and the extent they vary within the sector – can be influenced by the degree to which governments directly provide preschool services. The Commission has heard that jurisdictions with a higher level of government preschool provision are likely to have more ECTs on pay and conditions that are similar to school teachers. And how governments fund (non-public) preschool services can also have an effect. For example, the Victorian Government provides higher per child funding to preschool (kindergarten) services that have certain enterprise agreements in place.³ Almost all sessional kindergartens qualify for the higher subsidy, but many CBDC services do not. As a result, this funding can help eligible services to pay higher wages to their ECTs (closer to what they could earn in schools), but at the same time, also works to exacerbate wage differences between ECEC services that are eligible for the additional funding and those that are not (while also incentivising services to enter into an agreement to access the additional funding).

This variation in what ECTs earn suggests that there is a hierarchy around where ECTs prefer to work, with schools and government run preschools often the first choice, and CBDCs – particularly those that pay relatively low wages – a less preferred option. This means that in times where demand for ECTs is high – as is the case now – it is the lowest paying CBDCs that will struggle to attract and retain staff the most (a phenomenon that is likely to continue while large pay differentials across the sector remain). And even in times where the supply of ECTs broadly matches demand, this disparity in conditions may lead to the most qualified, experienced or capable teachers gravitating to roles in the ECEC settings that feature better pay and conditions, potentially exacerbating uneven levels of quality across the sector.

For the ECEC workforce more broadly, inquiry participants submitted that pay rates could be below or commensurate with those for some occupations in the hospitality, retail, and aged and disability care sectors (for example, Outside School Hours Council of Australia, sub. 82, p. 5, Community Early Learning Australia, sub. 92, p. 12, United Workers Union, sub. 147, p. 3). This view is supported by data on the hourly median earnings of occupations, provided by the National Skills Commission (figure 3.15).

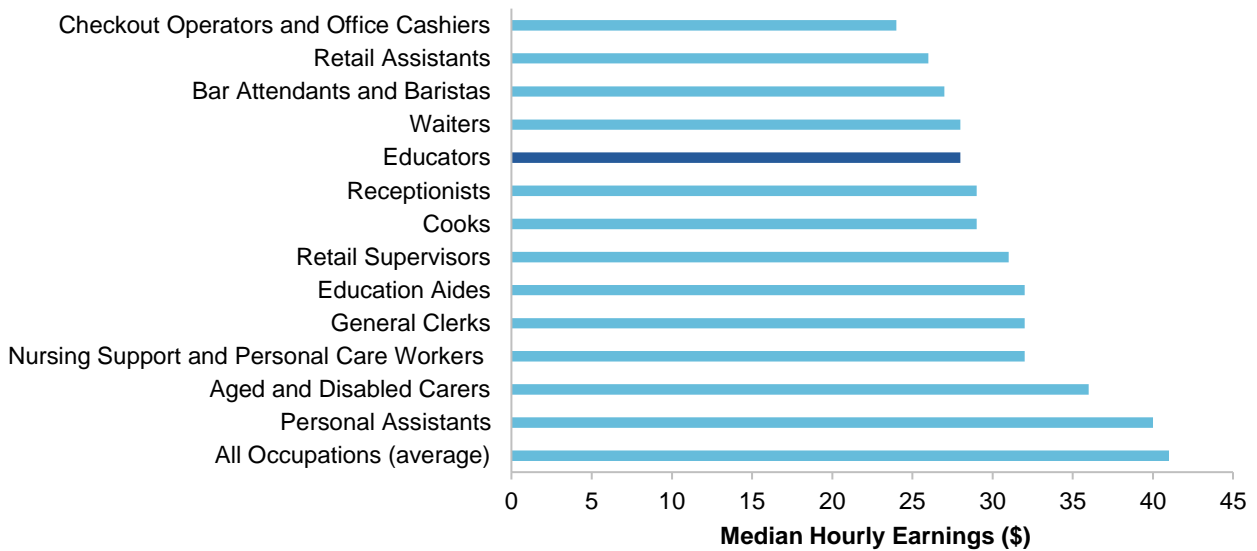
And (as is the case with ECTs) the pay and conditions of educators varies within the sector, with government-operated services often the most attractive settings for educators to work in. This points to an ongoing challenge that many providers in the sector face when attracting and retaining staff – not only do they have to compete with employers outside the sector for staff, but they also have to compete with the top paying employers within the sector as well.

Comparing *actual* total weekly cash earnings (which captures pay for actual hours worked, even if part-time) across all occupations shows that both educators and ECTs are situated towards the lower end of the earnings distribution. In May 2021, the average weekly total cash earnings of educators were just above the lowest decile when ranked against all other occupations for which there is data. The earnings of ECTs were higher, but still below the median earnings of all occupations (figure 3.16).

³ These eligible agreements are the Victorian Early Childhood Teachers' and Educators' Agreement (VECTA), the Early Education Employees Agreement (EEEE) or another agreement that is equivalent to these. Services operating under an eligible agreement receive a per child contribution of \$4130, compared to \$3831 if they do not have an eligible agreement in place (both rates are higher for services operating in rural areas), along with other sources of funding (Victorian Government 2023d).

Figure 3.15 – Hourly earnings for educators are similar or less than some retail, office-based and care occupations^a

Median hourly earnings of selected occupations

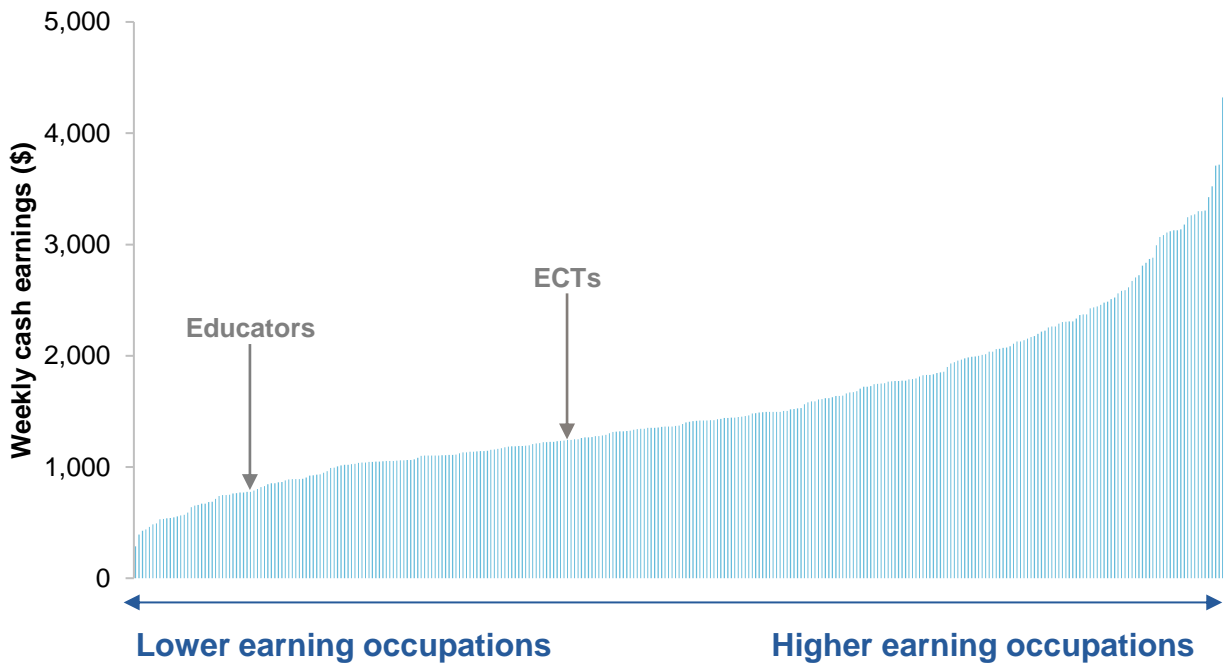


a. 'Educators' is based on the ANZSCO occupation group 'child carers' and includes nannies.

Source: Australian Government (2021b).

Figure 3.16 – The earnings of educators and ECTs are lower than other occupations^a

Average weekly total cash earnings, all occupations (in ascending order), May 2021



a. Excludes occupations with missing values or those with relative standard errors above 25%. 'Educators' is based on the ANZSCO occupation group 'child carers' and includes nannies.

Source: Productivity Commission estimates based on ABS (*Employee Earnings and Hours, Australia, 2021, table 1*).

A range of factors is likely to be contributing to the sector's relatively low pay

Several factors have been identified as constraining wage growth in the ECEC sector, even in the wake of high demand and workforce constraints.

One factor that is often cited is the high reliance on awards to set the pay and conditions of employees (box 3.6). Data from the 2021 ECEC Workforce Census indicates more than half of employees were paid at award rates, and being paid at award rates was common across all qualification levels (although this is slightly less so for workers with a bachelor's degree or above) (figure 3.17).

But awards set minimum pay and conditions (not an upper bound), and there is evidence to suggest there has been an increase in the use of above award rates across services recently, as they face competition to secure staff. Based on the services that provided information on their costs and staffing arrangements to its Childcare Inquiry, the ACCC found that about 95% of staff working for large not-for-profit CBDC providers and about 64% of staff working for large for-profit CBDC services were paid above the award rate in 2022. The ACCC also found that about 75% of staff working for small and medium not-for-profit CBDC providers, and about 46% of staff working in small and medium for-profit CBDC providers, were paid above the award wage (ACCC 2023, pp. 55–57).⁴ These estimates of the share of workers being paid above the award rate are much higher than the estimates presented in the 2021 ECEC Workforce Census.

Box 3.6 – Awards in the ECEC sector

Two awards are particularly relevant for the Early Childhood Education and Care sector.

- The *Children's Services Award 2010* [MA000120], which covers child care workers, room leaders, directors and support workers (among others) who work in the 'children's services and early childhood education' industry. This includes people working in childcare centres^a, out of school hours care, vacation care, in home care, and preschools and kindergartens. It does not cover qualified preschool and early childhood teachers (Fair Work Ombudsman nda).
- The *Education Services (Teachers) Award* [MA000077], which covers qualified teachers (among others) in the school education industry or the children's services and early childhood education industry (Fair Work Ombudsman ndb).

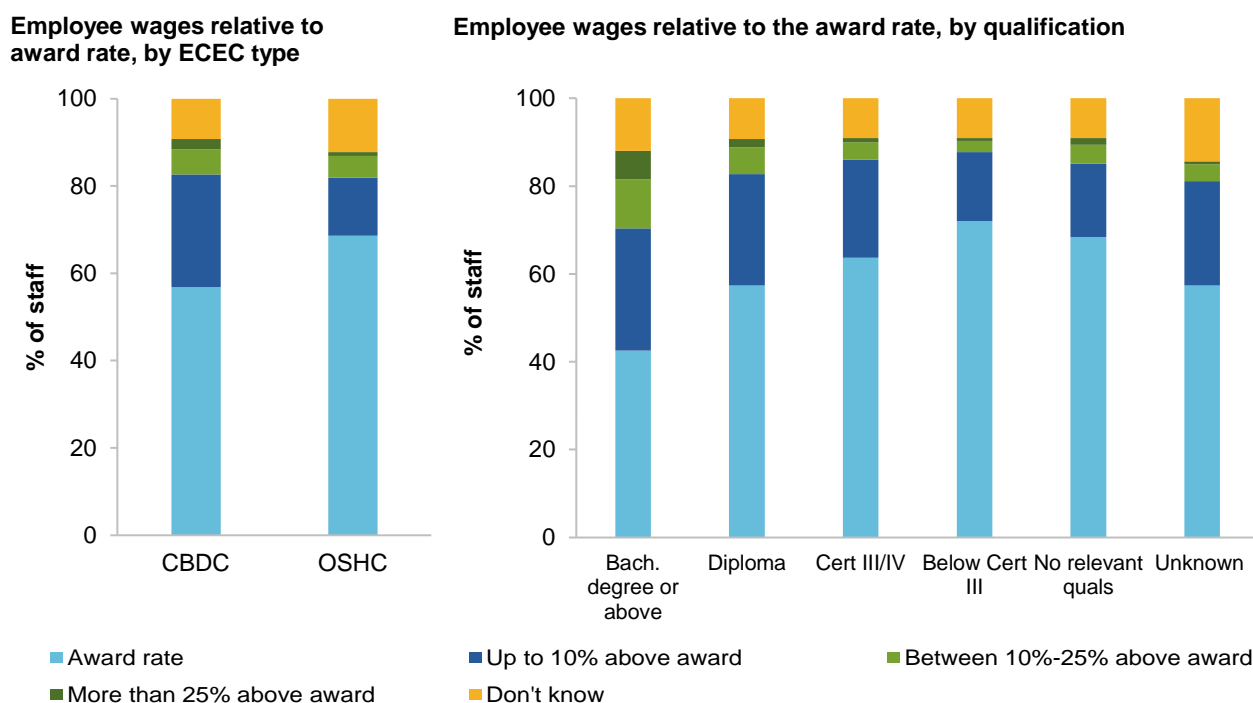
Some employees working in the sector may also be covered by the Local Government Industry Award [MA000112] (Fair Work Ombudsman ndc).

The minimum pay and conditions set out in these awards have been subject to periodic review, including as part of the (now defunct) requirement for the Fair Work Commission to review awards every four years, and through the Fair Work Commission's Annual Wage Review (with the 2022-23 Review raising minimum award rates by 5.75%) (Fair Work Commission 2023c).

a. The terms 'child care workers' and 'childcare centres' represent the terminology used in the award.

⁴ The ACCC categorised 'large providers' as operating 40 or more services, 'medium providers' operating 5-39 services and 'small providers' as operating 1-4 services (ACCC 2023, pp. 5–6).

Figure 3.17 – More than half of employees were paid at the award rate in 2021^a
Pay rates of ECEC paid contact staff relative to relevant award rates, 2021



a. Excludes staff working in family day care and In Home Care, where a large proportion of staff work as independent contractors, meaning award rates would not apply. A high proportion of responses for these categories were also for 'don't know'. Excludes vacation care to limit overlap with outside school hours care. Excludes staff working in dedicated preschools.

Source: Productivity Commission based on DoE data (unpublished).

Available data suggests the use of enterprise agreements in the sector is relatively low. Enterprise agreements must build on award pay and conditions and as such, offer more generous terms than those required under the award. It has been estimated that only about 13% of employers (covering about 16% of employees) have an enterprise agreement in place. In contrast, more than one-in-three employees economy-wide were covered under a collective agreement in 2021. However, there is some variation across the sector— for example, nearly one-third of not-for-profit providers have an enterprise agreement in place, compared to just 3% of for-profit providers (Deloitte Access Economics, 2023, unpublished).

Some inquiry participants suggested the relatively low access to enterprise bargaining is one structural factor contributing to the low pay of workers in the sector (for example: Community Early Learning Australia, sub. 92, p. 11, Community Child Care Association, sub. 111, p. 11, United Workers Union, sub. 147, p. 5).

A commonly cited reason for the low take up of enterprise bargaining is that the fragmented nature of the sector – characterised by a relatively large number of small providers – means that many providers likely lack the capacity or the incentive to engage in enterprise bargaining or implement performance-based pay arrangements (which can be costly or time consuming to negotiate) (McDonald et al. 2018, p. 650; PC 2014, p. 324).

Another reason that is often put forward for low wages in the sector is the market-based nature of ECEC provision, which means services face some incentive to compete on price – particularly when seeking to attract new customers – and to ensure their prices are comparable to their nearby competitors (ACCC 2023, pp. 98–99; McDonald et al. 2018, p. 650; PC 2014, p. 324). This may make individual services hesitant to fund pay increases for their staff through higher out-of-pocket expenses for families, particularly as

enrolments are a critical determinant of service viability. Price constraints are likely to be more binding in areas where families have lower capacity to pay more for ECEC.

This is compounded by the fact that wages are by far the largest cost component of operating an ECEC service, so there can be little scope for providers to fund pay increases by reducing costs elsewhere. However, there is also variation across the sector on how much revenue providers spend on staff costs. For example, the ACCC found that labour-related costs made up more than three-quarters of all costs faced by large not-for-profit CBDC providers, but under two-thirds of costs for large for-profit CBDC providers (with the ACCC suggesting that cost advantages elsewhere – such as lower land, finance and administration costs – potentially provided not-for-profit providers with greater capacity to invest in staff *vis a vis* for-profit providers) (ACCC 2023, pp. 54–55).

Another possible contributor to low wages in the sector relates to service priorities. Even when services may have scope to offer higher wages to their staff, they may allocate resources towards other activities that they consider to be a higher priority, such as ensuring care is affordable for local families or expansion, instead of improving the pay and conditions of their workforce.

Participants also suggested that the nature of work in ECEC is underappreciated and undervalued by much of the community, and that this was another reason for the sector's low pay. Some have attributed this view to the fact that the ECEC workforce is overwhelmingly female. For example, the Centre for Research in Early Childhood Education said that:

historically, work in the ECE sector has been undervalued, largely due to the feminised nature of the ECE occupations [and] associated gender-biased assumptions in wage setting, combined with the entrenched gender wage gap in the Australian labour market ... (sub. 21, p. 17)

The Diversity Council of Australia pointed to gender norms also contributing to this perception.

The ECEC sector is experiencing significant staffing shortages, driven largely by low wages and poor working conditions. This is because traditional gender norms surrounding caring, with childcare being seen as 'women's work', leads to the undervaluation of paid caring roles and low award wages in the childcare sector. (sub. 71, p. 7)

While the United Workers Union presented a similar point.

Despite regulatory standards that mandate a high level of skill in early childhood education and care work, ECEC remains labour that is economically and socially undervalued because of its historical association with unpaid 'women's work'. (sub. 147, p. 5)

All the factors mentioned above are plausible reasons for why ECEC wages are low relative to other industries and occupations. However, it is difficult to definitively identify which of these factors – or combination of them – has the most significant effect. It is also worth noting that – notwithstanding these factors – some services are willing and able to pay above (and sometimes well above) award rates, which suggests that not all providers face these constraints to the same extent.

Recent changes to the industrial relations environment are highly consequential for the sector

In December 2022, the *Fair Work Legislation (Secure Jobs, Better Pay) Act 2022* (Cth) received Royal Assent. The Act brought a suite of changes to Australia's industrial relations system. These included (but were not limited to):

- changing the objectives of the *Fair Work Act 2009* (Cth) to include promoting job security and gender equality
- prohibiting pay secrecy

- establishing expert panels within the Fair Work Commission to focus on pay equity in the care and community sector
- changes to promote increased access to multi-employer bargaining
- limiting the length of fixed-term contracts
- changes to the objectives of modern awards and minimum wages to include the need for gender equality
- changes to the requirements for equal remuneration orders (Fair Work Ombudsman 2023b, 2023a).

In the second reading of the Bill to introduce these changes, the Minister for Employment and Workplace Relations pointed to gender equality being a major focus.

Some of the most undervalued workers in our country are workers in female-dominated industries. Many are the very workers who put their health and safety on the line to guide us through the shutdown period of the pandemic. Workers in health care, aged care, disability support, early childhood education and care, the community sector and other care and service sectors. Work in these industries is undervalued because of unfair and discriminatory assumptions about the value of the work and the skill required to do the job. This undervaluation is one of the biggest causes of the gender pay gap and our reforms take a number of key steps to address it. (Burke 2022)

Several of the reforms introduced through the Act have the potential to have a major impact on how the pay and conditions of ECEC employees are set – namely, changes to promote multi-employer bargaining, potential changes to award wages in sectors where female-dominated workforces have historically been underpaid, and changes to the circumstances where an equal remuneration order can be made.

Changes to promote multi-employer bargaining are highly significant for the sector, and an authorisation to start supported bargaining has been granted

The most immediate way the changes to the Fair Work Act could impact on the wages and conditions of ECEC employees is likely through changes to multi-employer bargaining arrangements and, in particular, changes to what was previously known as the ‘low-paid’ bargaining stream. These changes include changing the name of the stream to the ‘supported’ bargaining stream, removing some restrictions, and broadening the test to be considered by the Fair Work Commission when determining if multi-employer bargaining can take place (Pallot et al. 2022; Ryan et al. 2022) (box 3.7).

In introducing these changes, the Minister identified ECEC as one sector that stands to be affected.

The bill will rename and remove barriers to access the existing low-paid bargaining stream, with the intention of closing the gender pay gap and improving wages and conditions in sectors such as community services, cleaning, and early childhood education and care, which have not been able to successfully bargain at the enterprise level. (Burke 2022)

Box 3.7 – What is the supported bargaining stream?

The supported bargaining stream is one way multi-employer agreements can be struck under the Fair Work Act.

The supported bargaining stream is designed to assist and encourage employees and employers to bargain who may find it difficult to do so at a single enterprise level. It replaced the previous ‘low-paid’ bargaining arrangements set out in the Act.

Box 3.7 – What is the supported bargaining stream?

Supported bargaining must be authorised by the Fair Work Commission. The Fair Work Commission must provide this authorisation if an application has been made to undertake supported bargaining and the Fair Work Commission is satisfied that it is appropriate for the employers and employees that will be covered by the agreement to bargain together. In making this decision, the Fair Work Commission will take into account:

- *pay and conditions* – what the prevailing pay and conditions in the relevant industry or sector are, including whether low rates of pay are prevalent
- *common interests* – whether the employers have clearly identifiable common interests, such as a geographic location, the nature of the enterprises and the existing terms and conditions of employment, or being substantially funded by government
- *bargaining representation* – whether the likely number of bargaining representatives will be manageable
- *other matters* that the Fair Work Commission considers appropriate.

The Fair Work Commission must also be satisfied that at least some of the employees are represented by a union. Further, authorisation cannot occur if an employee specified in an application is covered by a single-enterprise agreement that has not passed its nominal expiry date.

Once an application is authorised, supported bargaining can commence. In some cases, third parties may be directed to attend bargaining conferences if the Fair Work Commission 'is satisfied that the party exercises such a degree of control over the terms and conditions of the employees who will be covered by the agreement that their participation is necessary for the agreement to be made'.

It is possible for additional employers and employees to be included in an agreement reached as a result of supported bargaining even after the agreement is made. This can be done by agreement between the additional employers and employees. But it can also be done without employer agreement, if a majority of additional employees wish to be covered and if the Fair Work Commission determines that this is appropriate, taking into account the views of the employer, the views of unions covered by the agreement, and other factors.

In addition to the supported bargaining stream, there are two additional streams through which multi-employer bargaining can take place.

- The *single interest employer* stream, which allows two or more employers (that are certain franchisees or with common interests) to be covered by the same agreement. Bargaining under this stream also requires authorisation from the Fair Work Commission. The main difference between the supported and single interest employer bargaining streams is that the Fair Work Commission has additional powers to assist parties in the supported bargaining stream to come to an agreement (including third-party arbitration).
- The *cooperative agreement* stream, which allows employers who have agreed to bargain together – and have not been included in a supported bargaining or single interest bargaining authorisation – to make an agreement.

Source: Fair Work Commission (2023f, 2023h, 2023g, 2023a, 2023b); PC (2022b, p. 123).

On 6 June 2023, three unions⁵ representing workers in the ECEC sector applied to the Fair Work Commission for a supported bargaining authorisation (Fair Work Commission 2023d). In the application – which is confined to CBDC – the unions sought to engage in supported bargaining with a group of 62 employers, with all but one represented by either the Australian Childcare Alliance, the Community Childcare Association or Community Early Learning Australia (all of which support the application (ACA 2023a; Fair Work Commission 2023j)). G8 Education is also listed in the application and is represented by itself (Fair Work Commission 2023j). It has been estimated that over 12,000 employees (across all states and territories) are covered by the application (Lucas 2023). On 27 September 2023, the Fair Work Commission authorised the application, allowing supporting bargaining to commence (Fair Work Commission 2023e, 2023i).

This authorisation is the first of its kind, meaning there is little precedent to draw upon to inform how the process might play out and how long before any agreement is reached. Despite this uncertainty, it is speculated that the Australian Government, as a key funder of the sector, will be directed to participate in the negotiations (Roberts 2023). In their submission to this inquiry, the United Workers Union pointed to a need for the Australian Government to commit to ‘sitting at the table’ during bargaining (sub. 147, p. 7).

It is clear that if an agreement is struck (and approved by the Fair Work Commission), it has the potential to be very consequential for the sector. The number of employees covered in the application is significant. And the ‘flow on’ effects of an agreement have the potential to impact a much bigger number of workers and services in the sector – either by placing a degree of competitive pressure on other employers to increase their wages, or more directly, through additional employers being added to the agreement because the majority of their employees wish to be covered. This latter scenario requires the Fair Work Commission to decide that including additional employers and employees is appropriate (and at the moment, there is little guidance on – and no case law to inform – how the Fair Work Commission might approach this judgment).

A review of modern awards to address ‘gender undervaluation’ is also underway

When handing down the 2022-23 Award Wage Review, the Fair Work Commission also indicated that the changes to the Fair Work Act necessitated a change in approach to addressing wages in sectors where female-dominated workforces have historically been underpaid (also referred to as gender-based undervaluation of work). This included less reliance on applications from external parties to initiate examinations of the matter.

We consider that as a result of the amendments ... any issues of unequal remuneration for work of equal or comparable value or gender undervaluation relating to modern award minimum wage rates can no longer be left to be dealt with on an application-by-application basis outside the framework of the Review process. Such issues, insofar that they may be identified, should now be dealt with in the Review process or in other Commission-initiated proceedings between Reviews. (Fair Work Commission 2023c, p. 51, paragraph 120)

The Fair Work Commission went on to state that it is undertaking a ‘research project to identify occupations and industries in which there is gender pay inequality and potential undervaluation of work and qualifications’ and that this project would inform future Award Wage Reviews (Fair Work Commission 2023c, p. 59, paragraph 137). The project has two stages.

- The first stage will involve identifying occupations and industries in which gender-based occupational segregation is prevalent. This will include identifying the modern awards that cover these occupations and

⁵ These unions are the United Workers Union, the Australian Education Union – Victorian Branch, and the Independent Education Union of Australia.

industries, and the extent that these occupations and industries are award reliant. This stage is expected to be completed in late 2023.

- The second stage will report on the extent to which the industries, occupations and classifications identified in the first stage 'have associated indicia that suggest that they may be subject to gender undervaluation.' (Fair Work Commission 2023c, p. 59, paragraphs 137-138)

The Fair Work Commission indicated that – once this project has been finalised – proceedings will be initiated to 'consider and, if necessary, address the outcomes of the research project', potentially as part of the 2023-24 Annual Wage Review (Fair Work Commission 2023c, pp. 59, paragraph 139).

While this review is ongoing and it is uncertain what its outcomes will be, it too has the potential to be highly consequential for the sector if it is found that gender undervaluation in work is occurring for ECEC industries and occupations and remedial action is needed. As previously mentioned, the sector has generally been reliant on award rates to set pay and conditions, so any increase in award rates to address gender undervaluation could impact on a large proportion of employees and employers in the sector. And even some workers on enterprise agreements may be affected if their pay rates are pegged to those outlined in awards or if increases in award rates increase competitive pressure for wage rises in the sector more broadly.

There have also been changes to the requirements for equal remuneration orders, which are relevant for the sector

A third significant change relates to equal remuneration order arrangements. This includes a clarification that the Fair Work Commission does not require evidence of a reliable male comparator in order to find that work has been undervalued on the basis of gender (DEWR 2022, p. 1). Difficulty identifying a valid male comparator was a contributor to previous applications for equal remuneration orders for the ECEC sector being dismissed by the Fair Work Commission, so the clarification that a reliable male comparator is not required may significantly improve the prospects of any future application succeeding (box 3.8). Further, the Fair Work Commission is now empowered to make an order off its own initiative, instead of necessarily waiting until an application for an order is made (Fair Work Ombudsman 2023a).

Box 3.8 – Past equal remuneration order applications for the ECEC sector

Under Part 2-7 of the Fair Work Act, the Fair Work Commission has the power to make an Equal Remuneration order ‘to ensure that there is equal remuneration for men and women workers for work of equal or comparable value’. The particulars of such orders, including the circumstances where such an order can be made, have changed over time.

Unions – representing employees of the early childhood education and care (ECEC) sector – have twice lodged applications for an Equal Remuneration Order. These applications were made under different arrangements to those in force today.

In 2013, United Voice (the then union representing ECEC educators) and the Australian Education Union (Victoria Branch) submitted an application for an equal remuneration order relating to employees working in long day care centres and preschools, and who were covered under one of three different awards. In a Decision addressing preliminary issues relating to the application, it was established that a ‘comparative exercise’ was required between the group of employers who would be covered by the order and an identified comparator group. Under this exercise, the two groups were required to: perform work of equal or comparable value; must be of the opposite gender; and must be unequally remunerated.

For the purposes of establishing a comparison group against which the case for an order could be assessed, the application contended that the diploma- and certificate III-levels of the *Children Services Award* applied to work that was of equal or comparable value to that performed under certain classifications in the *Manufacturing and Associated Industries and Occupations Award*. In 2018, the Fair Work Commission dismissed the application – in part because the Commission rejected the proposition put forward that the manufacturing sector provided a valid comparator industry (Fair Work Commission 2018; Martin-Guzman 2018).

Also in 2013, the Independent Education Union of Australia lodged an application for an equal remuneration order relating to early childhood teachers employed in long day care centres and preschools and who were covered under the *Educational Services (Teachers) Award*. A separate application was made by the Union to increase the minimum wages for teachers covered by the Award on work value grounds (which essentially argued that there had been significant changes in the work value of teachers – including early childhood teachers – that were not taken into account in the setting of minimum award wage rates). Rulings on both applications were handed down in 2021. The application for an equal remuneration order was dismissed on the grounds that the comparator occupations – male teachers employed in primary schools in New South Wales and male professional engineers – did not meet the necessary requirements to permit an order. But the Fair Work Commission did find that the work value of teachers had changed and, consequently, that the minimum wage rates set under the Award should increase. It was reported that this decision resulted in pay rises of up to 10% for some early childhood teachers (Fair Work Commission 2021; Matthews 2021).

While these processes are likely to result in a pay increase for the sector, there are still key unknowns

It is likely that the changes to the industrial relations environment will lead to some level of wage increase for ECEC workers. The changes are significant in nature and sufficiently far reaching to impact a large proportion of ECEC employers and employees.

Given these changes, and the resulting multi-employer bargaining application and review of modern awards, the industrial relations system is the appropriate avenue through which the level of wages for ECEC employees should be considered. It means that the wages and conditions of the ECEC workforce can be considered in the context of the pay and conditions of workers in other occupations (including in occupations that may 'compete' with ECEC for workers), and take into account developments in the labour market (and the economy) as a whole. It also means that the pay and conditions of ECEC workers are considered through statutorily defined processes that are generally open to all workers facing similar circumstances. Alternative approaches, such as governments committing to a sector-specific pay increase independent of any industrial relations processes and funding this through bespoke funding instruments, are less desirable.

That said, there are some unknowns. As flagged above, the changes to the industrial relations environment are relatively new and the ECEC sector will be the test case for how they are applied. Even if wages were to increase as a result of these changes – be this through a multi-employer agreement or other avenues – it is unclear how substantial any increase might be. Unions have argued for a 25% pay increase (Lucas 2023, United Workers Union, sub. 147, p. 7). Others have pointed to a 15% wage increase, in line with recent increases to several awards relating to aged care (for example, Bermagui Preschool, sub. 49, p. 4, Children First Alliance, sub. 140, p. 9; Emma Cross and Dr Matthew Sinclair (Curtin University), sub. 175, p. 2). The size of any pay increase arising from these new arrangements (and their timing) will likely not be known for some time.

Another source of uncertainty is the extent to which wage increases will induce an increase in the number of workers entering – or remaining in – the sector, particularly when the broader labour market is tight. It is possible that, at least in the short term and depending on developments in the labour markets of other sectors, the effects of a wage increase on the supply of ECEC workers could be relatively small.

While not directly comparable, the National Skills Commission previously modelled the impacts of a 10% wage increase for key occupations in the care workforce (not including ECEC) relative to other sectors.⁶ This was estimated to have a significant effect on the supply of workers in the longer term (it was estimated that, under the increase, there would be about 418,000 FTEs in the care sector in 30 years' time, compared with about 320,000 FTEs under the baseline scenario), but the effect in the first few years was relatively small (National Skills Commission 2021, pp. 347–349). A similar pattern might be expected in the wake of any wage increases in the ECEC sector – that is, muted impacts on labour supply in the short term, as factors such as qualification requirements restrict the ability of new workers to move into the sector immediately. This is not to say that there will be no short-term impacts however – some workers with existing qualifications might seek to rejoin the sector, and services may find it easier to retain workers because more existing staff elect to stay in the sector because of higher wage rates.

As another indicative example, modelling by the Commonwealth Treasury to estimate the impact of a 25% wage increase in the aged care sector found that labour in the sector increased by 5-10% in the long run (compared to a scenario without this increase), but the economy-wide labour supply remained the same,

⁶ These occupations were: aged and disabled carers, nursing support and personal care workers, and welfare support workers. The wage increase modelled was a permanent 10% increase relative to other occupations. The impacts are smaller if this 10% increase in relative wages is not held constant (for example, if other sectors also increased their wages to attract and retain staff).

meaning most of this increase was caused by workers shifting to the aged care sector from other sectors or industries of the economy (Commonwealth of Australia 2022a, p. 5).

A wage increase would need to be funded by families, governments or a combination of both

Another key unknown is how any increase in wages would be funded. The two largest funders of the sector are governments and families. It is possible that some providers might be able to fund at least part of any wage increase by reducing costs elsewhere, or by reducing profits or surpluses. But cuts could affect quality, while lower profits or surpluses could have repercussions for service viability and expansion. Moreover, the fact that wage costs make up most of provider costs, and that the ACCC found profits in the sector are 'highly variable' (ACCC 2023, p. 17), suggests that the scope for many providers to fund wage increases without raising prices is probably limited.

With likely limited scope for many services to absorb permanently higher costs, wage increases would need to be funded predominately by higher prices for families, a greater fiscal contribution from governments or a combination of both. There are significant impacts that need to be considered, irrespective of whether it is families or taxpayers who primarily fund a wage increase.

A downside of substantially funding wage increases through higher prices for families is that this would lead to a contraction in demand for ECEC services – some families would not be willing or able to pay higher prices and would either remove their children from ECEC or reduce the number of hours of ECEC they use. This, in turn, deprives some families of the benefits that arise from ECEC and runs counter to policy intentions to build greater accessibility into the system. While these demand impacts could be moderated to some extent if price rises were very tightly targeted at families who were the least price sensitive – most likely high income households – they are unlikely to be eliminated entirely (and making ECEC more expensive for higher-income households would also undo some of the impact of the Australian Government's Cheaper Childcare reforms, which extended eligibility for the Child Care Subsidy further down the income spectrum).

Many inquiry participants called for wage increases to be funded from government budgets as opposed to higher fees for families. Some pointed to the Australian Government's decision to effectively fund a wage increase for certain aged care staff as an example of where similar action has already been undertaken (box 3.9).

But taxpayer funding for wage increases has costs too. This includes an opportunity cost – the funding that governments spend on supporting a wage increase could be spent on other goods or services and will increase the demands placed on taxpayers to fund the system each year. But there is the potential for other costs too – for example, if governments raise taxes to fund this increased expenditure, this can be expected to lead to reduced labour force participation (or economic activity more broadly).

Ultimately, it is a policy decision for governments about whether funding a wage increase for ECEC workers is a priority use of public funds. But in making this decision, governments need to carefully weigh up the benefits that arise from a higher paid ECEC workforce (that is funded from government – and not family – contributions) – including the benefits that it may have on ECEC access if it leads to more workers entering or remaining in the sector – and the costs that this imposes on government budgets and the economy more broadly.

Box 3.9 – Government funding for wage increases in the aged care industry

In late-2020 and mid-2021, three unions lodged applications with the Fair Work Commission to vary three awards to increase the wages paid to aged care sector workers. These applications followed a recommendation from the Aged Care Royal Commission relating to increasing award wages.

Employee organisations entitled to represent the industrial interests of aged care employees covered by the Aged Care Award 2010, the Social, Community, Home Care and Disability Services Industry Award 2010 and the Nurses Award 2010 should collaborate with the Australian Government and employers and apply to vary wage rates in those awards to:

- reflect the work value of aged care employees in accordance with section 158 of the Fair Work Act 2009 (Cth), and/or
- seek to ensure equal remuneration for men and women workers for work of equal or comparable value in accordance with section 302 of the Fair Work Act 2009 (Cth).

At the centre of the applications was a contention that an increase to award wages was ‘justified by work value reasons’. The applicant unions sought a 25% increase in the award wages for all employees covered by the three awards in question.

In a submission to the Fair Work Commission, the Australian Government expressed its support for an award wage increase for aged care workers and stated that ‘[the] Commonwealth will provide funding to support any increases to award wages made by the Commission in this matter and that will help deliver a higher standard of care for older Australians.’

In November 2022, the Fair Work Commission handed down an ‘interim decision’ in favour of providing an increase in award wages of 15% for direct care classifications in the three awards. The increase took effect from 30 June 2023. Through a future stage of the process, a decision will also be made on whether further wage adjustments are justified (both for those affected and not affected by the wage increases set out in the interim decision).

In the 2023-24 Federal Budget, the Australian Government ‘invested \$11.3 billion over four years to fund the Fair Work Commission’s interim decision for a 15% pay increase’, implemented through a mix of increased subsidies and grant funding. The Government has indicated that it expects all providers to pass on the additional funding in higher wages to relevant employees, even if they are already paying above the award, and providers will be required to report expenditure on direct labour costs as part of their quarterly financial reporting.

Source: Butler (2023); Commonwealth of Australia (2022b); DHAC (2023); Fair Work Commission (2022); Sutton et al. (2023).

Another key question that governments face relates to how they should implement a wage increase were they to do so. There are several options, each with advantages and disadvantages.

One option is directly subsidising wages. This is done, for example, in British Columbia, where the provincial government provides a CAD\$4 an hour ‘wage enhancement’ for educators (appendix B). This approach has the advantage of ensuring that any government support for wage increases directly results in higher wages for ECEC staff. However, such an approach also has downsides (particularly if it is overly prescriptive about how wage increases should be delivered and to whom) and, once implemented, it can be difficult to unwind when labour market conditions change. Further, governments may face consistent lobbying or pressure to

increase the subsidy from providers, workers and unions, leading to higher expenditures than anticipated. (In the case of British Columbia, the wage enhancement was initially introduced at CAD\$1 an hour in 2018 but has since been increased three times to its current CAD\$4 rate (BC Gov News 2018, 2022)).

A second option is to provide additional funding to services that meet set requirements about the wages they pay their employees. Governments could, for example, provide a payment to a service if a certain share of their employees are paid above award rates. New Zealand operates a scheme along these lines, where services that commit to paying their teachers at least a predetermined rate can receive additional funding from the New Zealand Government (New Zealand Ministry of Education Te Tāhuhu o te Mātauranga 2023). This approach too, can help to ensure that there is a clear relationship between government support for wage increases and the wages that staff receive, and can minimise the ‘leakage’ of public funding to providers who do not commit to paying higher wages. However, such an approach is complex – it imposes compliance costs on services to demonstrate that they have met the necessary conditions to receive the additional funding, and imposes costs on governments to administer and enforce.

A third option is to increase resourcing for the sector as a whole – for example by raising hourly rate caps – to give services more capacity to pay higher wages to their staff. This approach is less administratively complex than other approaches and provides the greatest flexibility to services to allocate these extra resources to where they best meet their needs.

However, the risk is that with this flexibility, providers may use this extra funding for purposes other than raising staff wages. This risk is minimised, however, when all employers in the sector are required to pay higher wages, as would happen if there is an increase in award rates. It would also happen if a multi-employer agreement were reached that covered a significant majority of services, either of their own volition or because they were incorporated under ‘rope in’ provisions. And competitive pressure would work to minimise this risk too – where there is significant competition for ECEC staff (as there is now), it will be increasingly difficult for providers to attract and retain staff if they elect not to pay higher wages when other services do.

One consequence of funding wage increases through a higher hourly rate cap is that – absent any other changes to the Child Care Subsidy – some families will be required to fund part of the increase. This is because a family’s hourly subsidy is set as a proportion of the hourly rate cap (or the fee that they are charged if this is lower than the cap). As the rate cap increased to fund the wage rise, so too would out-of-pocket expenses for families entitled to less than 100% of the cap (as is the case for most families) if their service raised fees.⁷



Draft finding 3.1

Expected wage increases may relieve recruitment and retention challenges

The pay and conditions offered to the ECEC workforce – long at the heart of recruitment and retention challenges – may be addressed through processes arising out of recent changes to the *Fair Work Act 2009* (Cth), including approval from the Fair Work Commission for a significant number of employers in the sector to commence supported multi-employer bargaining.

Any increase in wages will need to be funded by families or governments, or a combination of both. It is a decision for governments whether funding a wage increase for ECEC workers is a priority use of public funds.

⁷ For example, consider a family receiving a subsidy of 80% of the hourly rate cap who is attending a service with hourly fees equal to the cap. If the cap was initially \$10, the family would have out-of-pocket expenses of \$2 per hour. If the cap was increased to \$11, and the service increased fees to that level, the family’s out-of-pocket expenses would rise to \$2.20 an hour.

3.5 Qualification and career pathways to support the ECEC workforce

Educator qualifications

Educators are generally required to hold VET-level qualifications

To work in a centre-based or FDC service that provides ECEC to children who are preschool age or under, educators need to hold (or in some cases, at least be working towards) a qualification that has been approved by ACECQA. Requirements vary by ECEC type and sometimes by jurisdiction (appendix C), but broadly speaking:

- in centre-based services with children under preschool age (which include long day care services and preschools and kindergartens in most states and territories), at least 50% of educators must hold an approved diploma-level qualification or higher and all other educators must hold an approved certificate III qualification. Services also need to have access to an ECT (with the nature of this access varying depending on the number of children in attendance) (ACECQA 2023e)
- in FDC, educators must hold an approved certificate III qualification or higher, and FDC coordinators must have an approved diploma-level qualification (ACECQA 2023f).

In OSHC, there are varying jurisdiction-specific requirements, with some jurisdictions not setting mandatory minimum qualifications for educators at all (ACECQA 2023b).

ACECQA maintains a list of certificate III- and diploma-level qualifications that have been approved for the NQF (as well as a list of approved OSHC qualifications in jurisdictions that have requirements) (ACECQA 2023b). Most significantly (in terms of 2022 enrolments), the list includes:

- a Certificate III in Early Childhood Education and Care (CHC30121) provided by any Australian Registered Training Organisation (RTO). In 2022, there were over 35,000 enrolments in this program
- a Diploma of Early Childhood Education and Care (CHC50121) provided by any Australian RTO. In 2022, there were about 9,000 enrolments in this program (NCVER 2023).⁸

Both these courses consist of competencies and skill sets that are specified in a national training package and are a form of nationally recognised training, meaning these courses must be delivered by a (regulated) RTO.

These courses are relatively new – only taking effect in 2021. They replaced the existing ECEC certificate III and diploma qualifications and included changes to the core and elective units ‘to reflect sector requirements’ (Australian Government 2023e, 2023d). And significantly, for the Diploma of Early Childhood Education and Care, students are now required to hold a Certificate III in Early Childhood Education and Care in order to undertake the qualification. This requirement was introduced to improve the quality of qualifications in the sector.

The CHC30121 Certificate III in Early Childhood Education and Care has been made an entry requirement for the CHC50121 Diploma of Early Childhood Education and Care to address the sector’s concerns with the inconsistency in quality and consistency of graduates and concerns with unduly short courses. The Certificate III provides the foundations deemed necessary by the sector for ongoing personal development and career success which have been reportedly lacking with a qualification structure with direct entry to the Diploma qualification (SkillsIQ 2022, p. 32).

⁸ In 2022, there were also about 30,000 enrolments in the previous iteration of this diploma program (CHC50113).

Many governments have a range of initiatives in place to assist people to gain the necessary qualifications to work as an educator in the sector, including access to free or very low cost certificate- and diploma-level courses (including through the Fee-Free TAFE program (Australian Government 2023a)) and scholarship programs (for example, the NSW Government offers scholarships of up to \$5,000 to assist ECEC educators studying a relevant diploma in ECEC or School Age Education and Care, and \$3,000 for students studying a certificate III in ECEC or OSHC) (NSW Government 2023b).

The Commission heard some concern about the quality and workforce readiness of VET graduates

There have been concerns about the training quality received by students undertaking certificate III and diploma-level Early Childhood Education and Care courses for some time. For example, a key finding of the Commission's 2011 report on the Early Childhood Development Workforce was that – while there were examples of excellence – quality was generally highly variable and there were widespread concerns about poor quality ECEC training being provided by RTOs which, if left unaddressed, risked VET expenditure being 'wasted' (PC 2011, p. 203). And in 2014, the Commission again noted these concerns.

There are widespread concerns in the sector about the quality of some training received by graduates who have undertaken an ECEC qualification, particularly at the Certificate III and diploma level. (PC 2014, p. 309)

In response to the Commission's findings, the Australian Skills and Quality Authority (ASQA) – the national regulator for vocational education and training – undertook a strategic review of VET ECEC training in 2015. While the review concluded that the quality of ECEC training was 'largely comparable with that in the VET sector as a whole' (ASQA 2015, p. 3), it identified significant issues, particularly with respect to:

- course length – for example, over 70% of the delivery of the Certificate III in Child Care was occurring in programs less than one year in length (despite a benchmark set by the Australian Qualification Framework that one to two years was the appropriate length of a certificate III qualification). And 20% of delivery was occurring in programs that were no longer than half a year (26 weeks)
- compliance with the national standards – audits of ECEC training providers revealed that only 26% were found to be fully compliant with the required national training standards, increasing to 69% after RTOs who were not compliant were given 20 days to rectify their non-compliance. Compliance with the standards relating to assessment were found to be the most problematic (ASQA 2015, pp. 2–3, 61).

The review made a range of recommendations to improve the quality of ECEC programs, including: making greater use of minimum benchmarks around the amount of training required; having regulators work closely with peak bodies to improve the processes through which providers can raise concerns about the quality of training and assessment; and changes to how trainers and assessors were trained (ASQA 2015, pp. 5–8).

Over the past five years, there has been a range of significant reviews of Australia's VET sector – including the Braithwaite Review (Braithwaite 2018), the Joyce Review (Commonwealth of Australia 2019), a Review of the National Agreement for Skills and Workforce Development by the Commission (PC 2020), and a 'Rapid Review' of ASQA's regulatory practices and processes (mpconsulting 2020). On the back of these reforms, successive governments have implemented significant reform agendas for the VET sector (Cash and Irons 2020; DEWR 2023a, 2023d; Ferguson 2019), and some reform initiatives remain underway, including processes to revise the standards RTOs must meet and the qualifications issued by the sector (DEWR 2023e, 2023c). A new five-year National Skills Agreement between the Australian Government and state and territory governments has also taken effect (Commonwealth and State and Territory Governments 2023).

As a result of these reform agendas, the VET system is significantly different today to the system that was in place when the Commission (in 2010 and 2014) and ASQA (in 2015) found significant shortcomings in the quality of VET ECEC courses.

The Commission still heard some concerns about the quality of the skills of recently graduated educators and their readiness to work in the sector. For example, the Tasmanian Government Department for Education, Children and Young People submitted:

there continues to be concern nationally about the quality of ECEC training, particularly VET courses that are being fast-tracked by some registered training organisations. Qualifications need to be delivered efficiently to address workforce shortages, but this should not compromise course quality. (sub. 159, pp. 13–14)

While RARE said that services commonly encountered:

poorly trained educators who have a lack of general skills and knowledge necessary for completing their work to a satisfactory level, across all levels of ECEC qualifications. (sub. 45, p. 1)

Concerns were also raised by Waverly Council (sub. 132, p. 9), B4 Early Years Coalition Tasmania (sub. 55, p. 7) and a small number of other inquiry participants.

Overall, however, concerns about the quality of VET graduates have been less prominent in this inquiry than they were in the Commission's past reviews into the ECEC sector (in 2010 and 2014). There are several reasons why this might be the case. For example, this could be a sign that the major reforms undertaken by governments – both to ECEC-specific VET qualifications and to the VET sector in general – are working to address the previously widespread concerns about the quality of training received by students undertaking ECEC certificate III and diploma courses. But it could also be the case that concerns about the quality of VET courses still exist, but there are other factors that are weighing more heavily on the sector – for example, concerns about the quality of VET graduates might be a lower order issue for many providers when they are having difficulty recruiting and retaining enough staff to keep rooms open or offer their full capacity.

The Commission considers that there may be ways to improve the quality of ECEC VET courses and the work readiness of the graduates they produce. For example, there may be a case to make greater use of independent assessment, meaning students' competencies are assessed by an assessor that is independent to those delivering the training. The Commission's Review of the National Agreement for Skills and Workforce Development called for governments to undertake phased implementation of independent assessment, noting that 'it would be particularly valuable to explore the use of [independent assessment] in areas where minimum training standards contribute to public benefit ...' (PC 2020 recommendation 7.6, p. 249). Given a rationale underpinning mandatory qualification requirements for educators is that they contribute to a higher quality care and positive developmental outcomes (COAG 2009, p. 8) – which is a public benefit – ECEC VET qualifications meet this criterion.

However, before formalising any recommendations, the Commission would appreciate further views from inquiry participants on the quality of existing VET ECEC courses, whether improvement is needed, and if so, what steps could be taken to achieve this.



Information request 3.1

The Commission is seeking information on the quality of ECEC-related vocational education and training (VET). In particular, the Commission would welcome views on:

- the impact of recent and ongoing reform – both to VET ECEC qualifications and the VET sector more broadly – on the quality of qualifications and the job readiness of ECEC graduates
- whether there are widespread problems with the quality of VET ECEC courses, and if so, what these problems are, why they exist and what should be done to address them.

Use of traineeships has increased in recent years

Traineeships are a form of vocational training that combines workplace learning with formal qualifications studied through an RTO. Traineeships typically take one to two years to complete, during which the trainee is paid and receives access to workplace entitlements such as leave. While open to workers of all ages, traineeships are often particularly attractive to recent school leavers, and in some cases, can be commenced while a student is still at school (Apprenticeship Careers Australia 2023).

The use of traineeships as a pathway into the sector has increased in recent years (figure 3.18).

As the Commission has previously identified, traineeships can have advantages over other types of training models. For example, traineeships provide more practical experience, which provides trainees with faster pathways to develop their skills and may suit some students who prefer a ‘hands on’ way to obtain qualifications (which some students may prefer over classroom-style learning). And traineeships may help with retention – for example, in 2010, the Commission found those who obtained a certificate III in children’s services via a traineeship were significantly more likely to be employed in the sector one year later than those who obtained the same certificate through different channels (PC 2020, p. 241).

Certificate III and diploma qualifications in early childhood education and care are listed on the Australian Apprenticeships Priority List (DEWR 2023b), and as such, trainees in these programs qualify for the Australian Apprentice Training Support Payment, which involves regular payments over two years (up to a total of \$5,000) (Australian Government 2023b). Additionally, employers of trainees are entitled to claim the Australian Government’s ‘priority wage subsidy’, which provides employees with a subsidy of up to 10% of wages paid to trainees for the first 24 months (up to \$1,500 per quarter) and 5% of wages for the third 12-month period (up to \$750 per quarter) (Australian Government 2023c). This is more generous than the ‘hiring incentives’ available to employers of trainees for qualifications not on the Australian Apprenticeships Priority List.

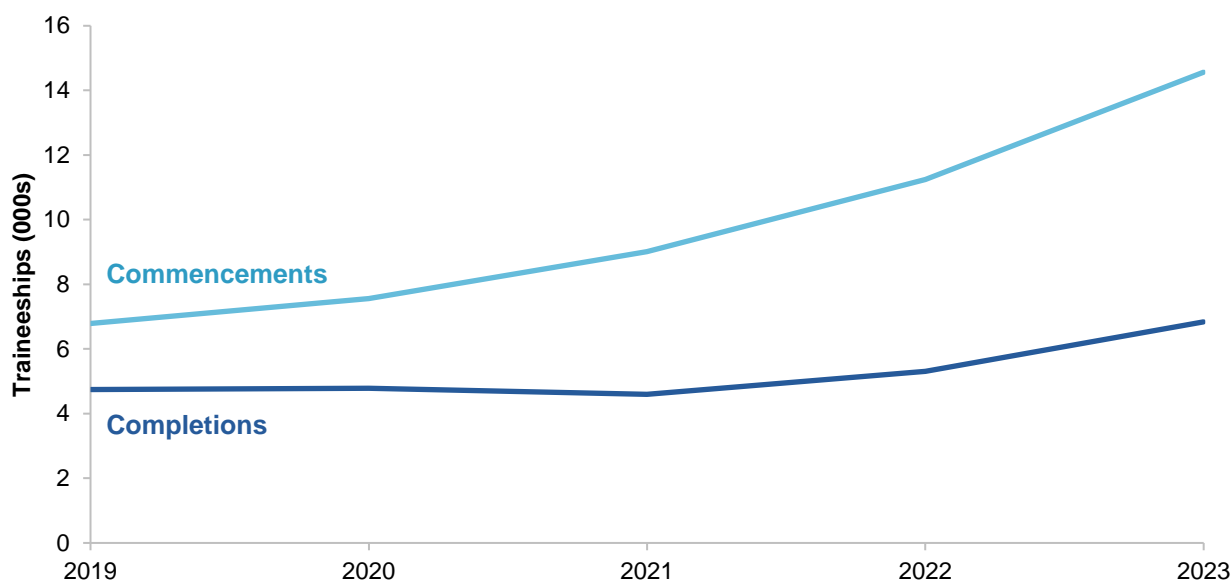
These incentives – particularly the priority wage subsidy – are significant. However, some inquiry participants suggested that they create an incentive for employers to ‘churn’ through trainees to ensure they have continued access to the subsidy. For example, Community Connections Solutions Australia submitted:

a further issue is that trainee schemes encourages employers to not retain a trainee as they can then continue to access government employment incentives on a continual basis for subsequent trainees. The scheme can be used as a strategy for income generation or to limit wages expenditure rather than a commitment to training new staff who will become valuable full-time employees. (sub. 105, p. 13)

This is a risk, but not one that is unique to the ECEC sector. And specifically for the sector, this is a risk that is unlikely to be particularly material when workforce challenges are as widespread and acute as they are at

the moment – even if trainees leave their training employer, so long as the training they have received is of a good quality, many will be picked up by other employers who have a need for staff. But this risk does point to an ongoing need for monitoring to ensure that the financial incentives for traineeships create additionality (that is, result in more trainees than if subsidies were not available) and are only enacted for as long as they genuinely assist the sector to close critical workforce gaps.

Figure 3.18 – Traineeships have increased in recent years^a
Number of commencements and completions in ECEC traineeships, 2018–2022



a. Commencements and completions counts are for the 12 months ending 31 March in each of the years specified for Certificate III (course codes CHC30113 and CHC30121) and Diploma (course codes CHC50113 and CHC50121) courses in Early Childhood Education and Care.

Source: NCVET (2023).

It is also important to monitor the quality of the training delivered through traineeships to ensure that this is of a good quality and valued by both employers and employees. Only a very small number of inquiry participants indicated concern with the quality of traineeships in the sector or the support that trainees receive (for example, brief comment 110, Waverly Council, sub. 132, p. 8). The relatively little commentary on the quality of traineeships in submissions and comments *may* provide an indication that current arrangements are broadly effective. But given the importance of traineeships as an alternative pathway into the sector and their contribution to addressing workforce constraints, the Commission would appreciate further views on the quality of traineeships to inform the final report. Views from employers and employees who have participated in traineeships in the past would be particularly valued.



Information request 3.2

The Commission is seeking information on the effectiveness of traineeships as a career pathway in ECEC, for trainees as well as ECEC providers.

The Commission would also welcome views on opportunities to improve traineeship arrangements.

Pathways for early childhood teachers (ECTs)

ECTs must hold an ACECQA approved early childhood teaching qualification and may need to be registered with their state teaching authority

As noted above, under the NQF, centre-based services with children under preschool age are required to have access to an ECT, and ECTs are required to hold an ACECQA-approved early childhood teaching qualification in order to work as a teacher in the sector. ACECQA maintains a list of early childhood teaching qualifications it has approved, which include:

- many three or four year undergraduate degrees in teaching and education from Australian or New Zealand universities
- some master's courses (which are typically – but not always – two years in duration)
- some graduate diplomas and certificates (which can be as short as half a year) (ACECQA 2023b).

Some qualifications from non-university higher education providers are also approved, including certain bachelor's degrees from TAFE New South Wales and Melbourne Polytechnic.

Individuals with qualifications that are not on ACECQA's approved list can also apply to ACECQA to have their qualifications approved (ACECQA 2023d).

Additionally, as transitional measures:

- teachers who are registered by state-based teacher registration bodies, who have a primary and secondary teaching qualification and who have an ACECQA-approved certificate III-level qualification or higher are considered to meet ECT requirements. This measure is scheduled to cease at the end of 2024, although individuals who have obtained this combination of qualifications before then will continue to be recognised (ACECQA 2023g)
- in some jurisdictions, and in some circumstances, a person may be 'taken to be an early childhood teacher' if they are enrolled in an approved early childhood teaching qualification and have presented their provider with documentary evidence (from the course provider) that they: have started the course; are making satisfactory progress towards completing the course; are meeting enrolment requirements; and hold an approved diploma-level educator qualification or have completed at least 50% of the course. This provision is also scheduled to expire at the end of 2024 (ACECQA 2023a).

While meeting ACECQA requirements is a necessary condition to practicing as an ECT in ECEC settings, in some jurisdictions, this by itself is insufficient, and ECTs must also be registered with their relevant state and territory teaching authority. There is no consistent approach to teacher registration requirements for ECTs, with each jurisdiction having their own (and often vastly different) arrangements (table 3.1).

Depending on the nature of their qualification, ECTs may also be required to pass the Literacy and Numeracy Test for Initial Teacher Education Students (LANTITE) prior to graduating in order to ensure that their literacy and numeracy skills meet a minimum standard.

Table 3.1 – ECT registration requirements across jurisdictions

	Requirements
ACT	No registration requirements for ECTs in NQF settings that are not attached to an ACT school. However, a Bill has been developed that might facilitate ECT registration in the future.
NSW	ECTs working in approved centre-based settings must be accredited.
NT	Registration is not required for all ECTs. However, preschools are attached to schools and as such require registration as a condition of employment.
Qld	The Queensland College of Teachers does not require registration for ECTs in NQF settings. Some employers require teacher registration as a condition of employment.
SA	All ECTs must be registered, including those working in NQF settings.
Tas	Tasmanian kindergartens are part of Tasmanian schools and as such kindergarten teachers are required to hold teacher registration. Registration is not required for ECTs in NQF settings that are not kindergartens or schools.
Vic	All ECTs employed or engaged in the role of an ECT in an early childhood and care service or Victorian Children's Centre must be registered.
WA	All ECTs must be registered.

Source: ACECQA (nd); ACT Government (2023b).

Pathways for educators to 'upskill' to ECTs are important

Throughout this inquiry, the Commission has heard that there is a strong interest among many educators working in the sector to upskill their qualifications to become ECTs. Survey data also points to this interest – for example, a survey of 400 educators found that more than 80% had considered upskilling to become an ECT (Future Tracks 2019, p. 2).

Actual rates of upskilling are much lower. In 2021, about 7% of the ECEC workforce was undertaking study towards bachelor's-level (or higher) teaching qualifications. Rates were highest⁹ in OSHC settings, where about 13% of the workforce was studying teaching degrees (although it is likely that many – if not most – of those studying in OSHC were younger students who were working in OSHC on a casual or part-time basis while completing a teaching degree). If just CBDC staff are examined, about 5% were studying teaching degrees, with more than two-thirds upskilling from diploma-level qualifications.¹⁰

Educators face a range of barriers to upskilling. Survey data suggest that some of these barriers relate to mixed views and low awareness among educators about the value and opportunities that arise from an ECT role, and a lack of support from workplaces for staff to upskill. But there are also significant concerns with the upskilling *process*, including that:

- educators face challenges balancing study with their work and family commitments
- educators have concerns about attending university, including the cost, application processes, the academic support they will receive and uncertainty about how their prior VET qualifications and experience will be recognised (Future Tracks 2019, pp. 11–13).

Addressing these barriers is important for two key reasons.

⁹ Excluding vacation care.

¹⁰ Productivity Commission estimates based on 2021 National Workforce Census data (SRC 2022).

First, it will help increase the supply of ECTs, by allowing more educators already in the sector to upskill. This is important given the expected increase in demand for ECTs as state and territories expand their preschool programs and the vital role that ECTs play in providing educational leadership in ECEC settings.

Second, the presence of clear, established and accessible pathways for educators to upskill to ECTs provides a visible career path for those working in the sector. This is something that the sector largely lacks, with career structures being described as ‘flat’, which encourages high performing educators to look beyond the ECEC sector (such as to schools) in order to build a career (Jackson 2020, p. 31).

It is likely that there are many educators who greatly enjoy or value working in the sector, and who have a range of skills and experiences that would help them be effective ECTs, but for whom a lack of a viable career pathway (that duly recognises their prior qualifications and experience) means that they would find it difficult to become an ECT even if they wished to do so. And it is not just existing educators who would benefit from more visible career pathways – clearer pathways would also make the sector more attractive to school leavers and workers in other industries who might be interested in working in ECEC, but who are discouraged to do so because of a lack of progression opportunities.

Making better use of accelerated early childhood teaching qualifications and recognition of prior learning

In order to minimise the barriers that educators face to upskilling to ECTs, it is important to ensure that the university pathways through which educators can earn a teaching qualification are efficient, not onerously long, and duly recognise both educators’ prior VET learning and the skills and experiences they have gained from working in the sector. In effect, there is a balance that needs to be struck – while early childhood teaching qualifications that are too short pose a risk that educators who are studying will not be exposed to important content in the depth required to be an effective ECT, on the other hand, protracted programs risk being unviable for educators, especially for those who may find it difficult to balance work, study and family commitments over extended timeframes. Longer courses also mean educators face higher costs to upskill and that they have less time to recoup these costs through higher wages.

In some jurisdictions, governments, universities and representatives from the ECEC sector have come together to develop qualifications specially designed to upskill diploma-qualified educators. These include:

- the *Bachelor of Early Childhood Education (Birth to Five Years) (Accelerated)* program offered by the Australian Catholic University. This is a one-and-a-half year program – delivered in partnership with the Victorian Government – open to educators working in an ECEC setting and who have a diploma in early childhood education and care. The course is delivered primarily online, supplemented with two-day intensive symposiums each term and 80 placement days (ACU 2023a; Victorian Government 2023c)
- the *Accelerated Early Childhood Education* program offered by Deakin University. This is a one-and-a-half year program open to eligible educators who hold a Diploma of Early Childhood Education and Care (or equivalent) and who are employed in a service that delivers (or intends to deliver) a funded kindergarten program in Victoria (Deakin University 2023; Victorian Government 2023c)
- the *Accelerated Bachelor of Early Childhood Teaching* offered by Victoria University. This program is two years long and is open to diploma-qualified educators. The course is taught online after work so that educators can continue to be employed while studying, with one in-person class per month (Victoria University 2023; Victorian Government 2023c)
- the *Early Years (Accelerated Pathway Program)* offered by the University of Wollongong and developed in partnership with the University, the Early Learning and Care Council of Australia and the NSW Government. The program is two years long and is open to educators who hold a diploma in Early Childhood Education and Care (or equivalent) and with at least two years’ experience (or equivalent) in an ECEC setting (UoW 2023).

Some universities also offer their own programs that aim to facilitate educators to upskill – seemingly developed independently of government – that are also ACECQA-approved. One example is the *Bachelor of Education (Early Childhood Education and Care)* offered by the University of New England, where entry is based on completion of an ACECQA-approved Diploma or Early Childhood Degree (UNE 2023). The program can be completed in one or two years if undertaken full time. Several universities also offer graduate diploma courses that are open to diploma-qualified educators which allow them to access an ACECQA-approved early childhood teaching qualification in a single year, including:

- the *Graduate Diploma in Early Childhood Teaching* offered by the University of Melbourne, which is open to educators who hold a diploma and have five years of relevant work experience in a leadership position. The program can be completed in one year if undertaken full-time
- the *Graduate Diploma in Early Childhood Teaching* offered by Swinburne University of Technology, which is open to students with a graded diploma of Early Childhood Education and Care and a minimum of five years' work experience in an ECEC setting with leadership responsibilities. The program can be completed in one year if undertaken full time.

Participants in this inquiry offered mixed views on the value of accelerated ECT programs with some noting their benefits in increasing the pool of qualified ECTs (for example, the Australian Childcare Alliance, sub. 150, p. 86; Paul Ramsay Foundation, sub. 148, p. 8). But a small number of participants were critical of these programs. For example, Professor Mary Katsikitis from Flinders University said:

in the Eastern States, there has been a policy focus prioritising increased supply of early childhood teacher graduates through accelerated programs. The accreditation of these programs has been made without evidence demonstrating the quality and graduate preparedness of its curriculum. These programs run high risk in jeopardising the effectiveness of ECTs and go against the research in this area. (sub. 99, p. 6)

The Commission recognises that there is a need to remain vigilant about the quality of accelerated programs (and the quality of teacher training generally). That said, universities face significant incentives to ensure that their accelerated programs are high-quality and produce graduates who are equipped with the skills and experiences needed to succeed as ECTs.

One incentive relates to universities' reputations. The reputation of any university that consistently produces ECTs who are not job ready or who lack necessary skills will be damaged in the eyes of employers and potential students. If this translates into lower enrolments, this has the potential to threaten the viability of their accelerated programs.

But potentially more significantly, universities have an incentive to ensure their programs are high quality because of the role ACECQA plays in approving qualifications for recognition under the NQF. For a qualification to be recognised under the NQF, it must be assessed and approved by ACECQA, something that occurs every five years under current arrangements (with reassessment required earlier if significant changes are enacted that affect the program or student outcomes). This is a powerful regulatory lever, given any course that is not approved by ACECQA would, in effect, mean that its graduates are not recognised as ECTs under the NQF and as such, the qualification would have little value.

Just how strong this incentive is hinges on how rigorous ACECQA's assessment and approvals processes are. The Commission's examination of the process used by ACECQA suggests that it is reasonably comprehensive – as part of the process, universities are required to provide a wide range of material, including curriculum mapping, course outlines, handbooks, course resources, assessment materials, information on entry requirements, evidence from course evaluations and information on the backgrounds of key staff involved in course development and delivery. ACECQA then uses these materials to assess the

program's curriculum across six teaching domains.¹¹ Additionally, ACECQA considers the degree to which programs include content and supervised professional experience that is specifically relevant to the age groups covered in ECEC settings (ACECQA 2019a).

The Commission also heard relatively few concerns from participants about ACECQA's approval processes and the quality of ECT graduates. This lack of comment too provides *prima facie* evidence that ACECQA's approach to assessing and approving early childhood teaching qualifications is broadly effective.

The Commission considers that accelerated programs have an important role to play as governments and the sector seek to grow the number of ECTs. Accelerated programs help to address some of the barriers educators face when upskilling their qualifications by ensuring that their prior qualifications duly translate into reduced study time, and by reducing the financial and time commitments that educators face in order to undertake further study. And to the extent that concerns about the quality of these programs materialise, the Commission is confident they can be managed through ACECQA's qualification assessment and approval processes.

But while accelerated programs are part of the solution, there is also the question of the role government should play in developing and funding them. As outlined above, some programs were designed in concert with state and territory governments, while others seem to have emerged independently. This suggests that government involvement in the design of accelerated programs might not be necessary in all cases, but at the same time, there is little harm in governments continuing to be involved in the design, development and promotion of accelerated programs if universities feel their contribution is value-adding.

State and territory funding of these programs risks being more problematic. For at least one of the programs mentioned above – the *Bachelor of Early Childhood Education (Birth to Five Years) (Accelerated)* program offered by the Australian Catholic University – the Victorian Government funds all course fees (except a Students Amenities Fee) (ACU 2023b). This risks giving this program a competitive advantage over other similar programs and diverting students into this program when other programs may better suit their needs or aspirations.

To the extent that governments wish to financially support educators to upskill to teachers, measures that do not discriminate by program are preferable. This could include scholarships for eligible educators – something that some jurisdictions offer now – which educators can put towards their course fees if they so choose (box 3.10).

¹¹ These domains are: psychology and child development; teaching pedagogies; early childhood professional practice; history and philosophy of early childhood; family and community contexts; and education and curriculum studies. Each domain has several subcomponents (ACECQA 2019a).

Box 3.10 – Scholarships for educators to upskill

Some jurisdictions offer (publicly funded) scholarships to support educators in the sector to upskill. For example:

- the ACT Government offers scholarships of up to \$25,000 for educators working at non-government and non-school approved early childhood education and care (ECEC) services in the Territory to gain an approved early childhood degree qualification
- the Victorian Government offers scholarships to support people to become an ECT which includes (but is not limited to) people already working in the sector. The value of support ranges from up to \$12,000 to undertake a graduate diploma, up to \$18,000 to undertake a master's and up to \$25,000 to undertake a bachelor's degree
- The NSW Government offers scholarships of up to \$25,000 for ECEC teachers studying a bachelor's or master's degree in teaching with an early childhood education specification, and up to \$15,000 for people undertaking a relevant graduate certificate or graduate diploma.

Source: ACT Government (2023a); NSW Government (2023b); Victorian Government (2021).



Draft finding 3.2

Accelerated qualifications will help lift early childhood teacher numbers

With demand for early childhood teachers (ECTs) set to remain high, accelerated pathways that allow diploma-qualified educators to obtain an early childhood teaching qualification in a reduced time frame will have an important role to play in growing the pool of ECTs.

Such programs address some of the more significant barriers that diploma-qualified educators face when upskilling their qualifications by ensuring that their prior qualifications translate into reduced study time, and by reducing the financial and time commitments that educators face in order to undertake further study.

Finally, the Commission is mindful that accelerated programs are not the only way for educators to obtain the qualifications needed to become an ECT – some, for example, may prefer to undertake a three or four year teaching degree, particularly if they wish to leave open the option of teaching in a primary school. However, while some universities are explicit about the extent to which educators' prior qualifications will be recognised as part of these longer programs,¹² for many programs, the extent that prior ECEC qualifications will be recognised (in the form of course credits or reduced study time) is opaque. This is something that the Tertiary Education Quality and Standards Agency has also noted (not just related to ECEC but across universities in general).

TEQSA has identified a range of issues which can indicate potential problems in a provider's approach to granting [recognition of prior learning] and credit. These include either poor or no information being provided to students about how to apply for credit, or their eligibility for credit with a provider, which can impact on a student's decision making when comparing providers. (TEQSA 2023, p. 4)

¹² For example, the Queensland University of Technology identifies that holders of an early childhood diploma can complete their four year *Bachelor of Education (Early Childhood)* program in two-and-a-half years (QUT 2023).

To assist potential students to make informed choices that meet their needs and set them up for the greatest chance of success in their tertiary study, there would be benefits in universities publishing an indicative estimate of how prior ECEC qualifications will be recognised in their programs. This could take the form of a median or average amount of credit students with ECEC qualifications have received in the past.

Educators upskilling should be better supported

Providing pathways for educators to upskill to ECTs is of limited value if many educators do not feel comfortable or confident using them. For many educators, the prospect of completing a university program is likely to be daunting, particularly if it has been a long time since they last studied. University-level ECEC qualifications also traditionally feature different teaching and assessment approaches to what educators might be more familiar with from their previous VET studies, with a greater focus on independent learning and academic literacy (Aitchison et al. 2006; Whittington et al. 2009). This unfamiliarity can translate not only into educators not taking up qualifications to become ECTs, but can also contribute to educators ‘dropping out’ of qualifications because of difficulty or frustration navigating the university environment.

It is difficult to be definitive about the extent to which educators do drop out of university programs, or their reasons for doing so. There is data to suggest that, while completion rates for international students have remained relatively steady, domestic students’ completion rates for early education teaching programs have been falling. For example:

- 66% of domestic students who commenced a bachelor’s-level degree in early childhood teaching in 2005 had completed their degree within six years, compared with 44% of domestic students who commenced in 2016
- 72% of domestic students who commenced a post-graduate degree in early childhood teaching in 2005 had completed their degree within four years, compared with just 56% of domestic students who commenced in 2018
- across both undergraduate and post-graduate courses, 67% of domestic students who commenced an early childhood teaching degree in 2005 had completed it within six years, but in 2016, this was down to just 48% (DoE 2023a).

While the data is not granular enough to examine whether it is increases in drop out rates of educators who are upskilling that is driving this trend, the additional barriers faced by educators means it is likely that they constitute at least a reasonable proportion of those who do not complete their studies.

This points to the value of wrap around supports that assist educators who are studying to become ECTs to navigate their studies and to maximise their chances of completing their qualifications. Ideally, many of these supports will be provided by universities themselves, and some accelerated programs do have tailored supports attached to them. For example, as part of the *Early Years (Accelerated Pathway Program)* offered by the University of Wollongong, students are connected with a mentor from the sector to support them throughout their studies (UoW 2023).

However, these supports can be further augmented by programs delivered outside the university system. One example of this is the Front Project’s Upskill Program, which has been operating since 2019, and provides resources and mentoring to assist educators navigate university (box 3.11) (The Front Project 2023).

Box 3.11 – The Front Project’s *Upskill* Program

The Front Project’s *Upskill* Program aims to support educators who want to undertake a Bachelor of Early Childhood Education in order to become ECTs. Through the program, educators have access to a range of ‘wrap around’ supports to help them undertake university study. These may include: support with enrolment; live webinars (including on topics such as transitioning to university, time management and assessment and referencing); group mentoring by an experienced ECT; access to online communities; and access to a resource library.

The Victorian Government has partnered with The Front Project to deliver free access to the program for up to 100 eligible diploma-qualified educators. To be eligible, educators must be employed in a service that delivers (or intends to deliver) a funded kindergarten program in Victoria, and must intend to complete an approved bachelor’s degree in Early Childhood Education and work as an ECT in Victoria. Participants of certain innovative accelerated programs are not eligible for a Victorian Government supported place in the program.

Source: The Front Project (nda, ndb); Victorian Government (2023c).

The Commission can see merit in initiatives such as the Upskill program. Such programs directly target and alleviate some of the barriers that educators face when seeking to upskill to ECTs, meaning they are more likely to complete their studies and go on to become a qualified teacher.

At least in the near term, when demand for ECTs is set to remain strong – in part because of policy decisions by governments to expand preschool access – and many services are unable to find ECTs to meet this demand, governments should make expanded use of programs that provide wrap around supports for educators seeking to upskill to ECTs. This could include supports to assist students to navigate enrolment processes, assist with building basic academic literacy skills, provide resources for students, and most significantly, provide regular mentoring opportunities so that students can discuss their progress and receive guidance on any obstacles that may impede their studies. Such supports would augment other approaches governments are using to support educators to upskill – such as scholarships – and help governments get a bigger ‘bang for their buck’ from these investments.

Any actions by governments to develop or fund programs that provide wrap-around supports need to be underpinned by arrangements to monitor and evaluate these programs’ effectiveness. At a minimum, such arrangements should ensure any resources that governments provide are used prudently and productively towards program goals. But monitoring and evaluation is also important because it provides an opportunity to understand what supports work and why, and what (if anything) should be done to improve the support provided to educators who are studying going forward.

**Draft finding 3.3****Completion rates for early childhood teaching qualifications have fallen**

Completion rates for domestic students who commenced early childhood teaching qualifications in the mid-2010s are much lower than those for students who enrolled a decade earlier. Only 48% of domestic students who started an early childhood teaching degree in 2016 had graduated by the end of 2022.

It is likely that educators seeking to upskill constitute a reasonable proportion of those who do not complete their studies. This points to the value of wrap-around supports to assist aspiring educators who are studying to become early childhood teachers.

**Information request 3.3**

The Commission is seeking views on the factors that have led to a decline in completion rates of early childhood teaching qualifications.

Arrangements for students undertaking supervised professional experience should be improved

Supervised professional experience – also referred to as practicums or placements – is a mandatory part of most early childhood teaching qualifications and involves students learning or gaining experience from within an ECEC (or school) setting.

The Australian Institute for Teaching and School Leadership (AITSL) has described the purpose of supervised professional experience as providing:

structured opportunities for pre-service teachers to consider and undertake in practice the work of teaching, to relate the practice to knowledge and understanding they are developing in their program, and to demonstrate a positive impact on student learning. It is above all else a period of workplace-based learning. (AITSL 2015, p. 2)

It has also described placements as ‘opportunities for pre-service teachers to develop, practise, demonstrate and understand the impact of their teaching skills in a range of settings with a range of learners’ (AITSL 2015, p. 3).

ACECQA requires at least 80 days of supervised experience for undergraduate and 60 days for postgraduate early childhood teaching qualifications (ACECQA 2023d, p. 4). Supervised professional experience is generally unpaid.

Inquiry participants identified the need for educators to undertake unpaid professional experience as part of their university qualifications as being a particularly significant barrier for educators seeking to become ECTs. For example, Early Childhood Australia said that the requirement for unpaid professional experience was problematic because:

many early childhood educators are working to support their own family while engaging in qualification attainment and cannot afford to have no income while completing placements. (sub. 154, p. 65)

Early Childhood Australia also noted that in regional and remote areas, the need for upskilling educators to often travel long distances and stay away from home to complete their supervised professional experience imposed additional challenges (sub. 154, p. 65).

Others commented on the impacts from a provider perspective, including the challenges of backfilling staff who were attending placements. The NSW Small Business Commissioner heard similar concerns as part of their stakeholder engagement with the sector.

Mandatory unpaid professional experience requirements of universities were criticised as deterring upskilling, as staff cannot afford to work unpaid for three months while forcing the original centre to hire casuals during work experience periods. Further concerns were raised about the potential for other centres to poach staff. (sub. 128, attachment, p. 20)

The Commission agrees that requirements to undertake unpaid professional experience are a significant barrier for many educators seeking to upskill. Requirements are likely to be especially prohibitive for educators who simply are not able to take weeks of unpaid leave from work to complete a practicum because they are an income-earner for their family or have pre-existing financial commitments that must be met.

There are initiatives underway to address some of the barriers to upskilling that are posed by supervised professional experience requirements. For example, in the 2023-24 Budget, the Australian Government allocated nearly \$33 million (over four years) to help services provide paid leave to educators who were undertaking a practicum as part of an early childhood teaching qualification (DoE 2023c, p. 7). This funding is expected to support up to 2,500 educators to complete their studies (DoE 2023c, p. 6). Similar initiatives exist at a state and territory level as well. For example, under the Australian Catholic University's (ACU) *Bachelor of Early Childhood Education (Birth to Five Years) (Accelerated)* – designed in partnership with the Victorian Government – employers whose students are on placement receive payment to backfill their role, so that students can continue to receive their wage without needing to take leave (ACU 2023b). The South Australian Royal Commission identified support for paid placements as one initiative that could be funded under their proposed Early Childhood Workforce Fund (SA Government 2023, p. 19).

While it is too early to assess the effectiveness of these initiatives in depth, the fact that they allow educators to complete their professional experience requirements without having to forgo their earnings mean they do target one of the more significant barriers that educators face when upskilling to ECTs. There is value in such programs continuing, particularly in the context of the ongoing workforce challenges and policy initiatives from governments to expand preschool access (both of which are discussed above), again on the condition that they are complemented by monitoring and evaluation arrangements that allow for their longer-term effectiveness to be assessed.

A further development is the potential for educators to undertake some of their professional experience in the services in which they work. For example, students completing the *Bachelor of Early Childhood Teaching* at Victoria University can undertake half their placements at their current workplace, while students studying the *Bachelor of Early Childhood Education (Birth to Five Years) (Accelerated)* at ACU can complete 30 out of their required 80 placement days at their current workplace (ACU 2023b, Victoria University 2023).

The Commission considers this too to be a useful initiative that assists with lowering the barriers associated with undertaking placements. Allowing educators who are upskilling to ECTs to undertake part of their professional experience in their existing workplace is consistent with the fundamental purpose of professional experience outlined above – that is, it still allows students to undertake workplace learning and to practice what they have learned in an applied setting, and so long as there remains a requirement to complete some of the remainder of their professional experience in other settings, will expose students to a range of teaching environments. But allowing students to complete part of their ECT professional experience in their own workplace has the advantage of being less disruptive for educators, and if done early in their studies, provides them with the opportunity to ease into the practical components of their qualification program. ACECQA should examine the supervised professional experience that is required in order for an early childhood teaching qualification to be approved for the purposes of the National Quality Framework, with a view to extending the degree to which this experience can be fulfilled by students in their existing workplaces.

**Draft finding 3.4**
Unpaid professional experience requirements are a barrier to upskilling

The requirement to undertake supervised professional experience as part of teaching qualifications presents a significant barrier to some educators upskilling to become early childhood teachers, especially where this professional experience is unpaid. Many cannot afford to go without income while completing placements, and placements that involve travelling long distances and staying away from home create additional challenges for educators from remote and regional areas.

**Draft recommendation 3.1**
Reduce barriers to educator upskilling

To improve pathways for educators seeking to upskill to become early childhood teachers (ECTs), the Australian and state and territory governments should:

- work with universities and the ECEC sector to develop and promote accelerated degree programs for upskilling diploma-qualified educators to ECTs
- expand wrap-around supports to educators who are undertaking university-level qualifications to become ECTs. Supports could include assistance to navigate enrolment processes, assistance to build academic skills, and regular mentoring. These initiatives should be underpinned by robust monitoring and evaluation
- provide financial support to ECEC services so they can provide a reasonable amount of paid leave to educators for them to complete supervised professional experience requirements associated with completing early childhood teaching qualifications.

In addition:

- when providing information on teaching courses to potential students, universities should publish an indication of how prior ECEC qualifications will be recognised. This could take the form of a median or average amount of credit that students with ECEC qualifications have received in the past
- the Australian Children's Education and Care Quality Authority (ACECQA) should examine the supervised professional experience that is required in order for an early childhood teaching qualification to be approved for the purposes of the National Quality Framework, with a view of extending the ability of students to fulfil such requirements in their existing workplaces.

Innovative Initial Teacher Education teaching models for ECTs should be encouraged

The 'traditional' approach to training ECTs requires students to enrol and attend a university and complete their studies in a largely academic environment (notwithstanding professional placement requirements). This approach is well established and suits a wide range of students. But this need not be the only way to gain an early childhood teaching qualification. The Commission considers that there is merit in universities exploring other, more innovative approaches for training ECTs that, while still upholding the high standards expected of ECTs, provide alternate pathways to qualification that may better meet the needs of some students or some services. This case for exploring innovative teaching models is especially strong at the moment, when demand for ECTs is high and when increasing the supply of ECTs is essential if the policy commitments of governments are to be implemented effectively.

However, there are barriers to adopting innovative and novel approaches to teaching ECTs.

One barrier is that implementing new and novel approaches unavoidably involves a degree of risk. For example, in testing new models, it can be difficult for universities to gauge *ex ante* the level of interest from students in the new approach and the costs and challenges associated with delivering it. These unknowns act as a source of inertia, encouraging universities to stick with their established (and less risky) approaches.

One way to overcome this inertia is to share risk across parties. When it comes to universities trialling innovative teaching models for ECTs, the Commission considers that there is a reasonable case that some of the risk should be shared with governments, given governments' policies and initiatives have a large impact on the demand for ECTs.

The report of the Teacher Education Expert Panel identified that 'modest financial incentives for higher education providers making genuine and successful efforts to improve the quality of their [Initial Teacher Education] programs is a low risk-option to encourage improved quality' and recommended that Education Ministers invest in these (Australian Government 2023f, pp. 52–53). The Commission too, has previously pointed to the value of modest financial incentives in encouraging universities to undertake more teacher-focussed research (PC 2023a, p. 113).

The Commission believes that supporting universities to trial innovative teaching models for ECTs is another instance where a modest financial contribution from governments would be beneficial. Even if such models turn out to not be viable or do not result in more ECT graduates, there are still benefits from knowing what does not work and why. And if innovative models do work, there are public benefits that will be realised from more children having access to a qualified ECT.



Draft finding 3.5

Innovative pathways could lift enrolments in early childhood teaching qualifications

The conventional approach to training early childhood teachers suits a wide range of students. But innovative approaches that provide alternative pathways to qualification might work better for others. Risks in trialling new approaches can discourage universities from experimenting.

A second barrier to implementing innovative teaching models for ECTs is the need for any early childhood teaching qualifications to be approved by ACECQA in order to be recognised under the NQF. ACECQA's existing approach for approving qualifications – which is largely centred around assessing the content of academic programs – may not be suitable for assessing and approving more novel approaches which do not follow this structure. This points to a need for governments and universities to work with ACECQA to ensure that there are clear approval pathways for early childhood teaching qualifications that are awarded through innovative teaching approaches and graduates can practice as ECTs.

Without wishing to limit the range of teaching models that could be considered, the Commission is of the view that there are two approaches that particularly warrant further exploration. These are:

- models that make greater use of *in situ* or on-site teaching, where relatively more teaching or assessment is done in ECEC settings and relatively less done in real or virtual classrooms in academic settings. For example, this could involve a teacher travelling to an ECEC service to teach or assess a small group of students on-site, which some students might find more familiar and less confronting than if teaching or assessment was done completely in an academic setting
- degree apprenticeship models that combine work and study. Such models, for example, are common in the United Kingdom where apprentices spend most of their week at work (earning pay and holding the

same rights as other employees), but also spend at least 20% of their time in off-the-job study or training (Hubble and Bolton 2019; Office for Students (UK) 2018). This approach might be particularly attractive to students (including school leavers) who have a desire to earn and learn at the same time.



Draft recommendation 3.2

Support innovative delivery of teaching qualifications

Governments should provide modest financial incentives to universities to facilitate trials of innovative approaches for providing Initial Teacher Education to early childhood teachers.

The Australian Children's Education and Care Quality Authority (ACECQA) should work with governments and universities to develop pathways for early childhood teaching qualifications that are awarded through innovative teaching approaches to be recognised under the National Quality Framework.

Teacher registration arrangements for ECTs can be improved

As discussed above, in some jurisdictions, as well as holding an ACECQA-approved qualification, ECTs are required to be registered with their relevant state or territory teaching authority. Depending on the approach used by jurisdictions, ECTs may be included in the same register as primary and secondary teachers or be registered under a separate division (ESA 2018, p. 24).

Teacher registration requirements serve several functions, including building and upholding the professional standards and standing of teachers (box 3.12). Registration can also place obligations on teachers. For example, in Victoria, where ECTs are required to be registered, ECTs who hold full registration are required to complete an annual registration process and, as part of this, are obliged to undertake at least 20 days of professional practice and 20 hours of professional learning per year (VIT 2023a, 2023c, 2023b).

There have been calls for ECTs to be incorporated into teacher registration arrangements for some time. In 2011, for example, the Commission recommended that 'governments should support teachers working in ECEC settings to obtain professional registration on the same basis of those working in primary schools' (PC 2011, recommendation 10.9). More recently, in 2018, a review into teacher registration requirements also recommended that all ECTs should be required to register with teaching authorities, noting that:

including all early childhood teachers in registration requirements will support the continued professionalisation of the early childhood teacher workforce, particularly through engagement with the Teacher Standards. It will also support recognition of the early childhood sector as an integral part of the Australian education landscape (ESA 2018, p. 27).

Progress, however, has been mixed. The current situation is a mishmash of varying requirements across jurisdictions, as summarised by G8 Education.

There are differing approaches between States to teacher registration/accreditation. In NSW, VIC, SA, and WA ECT registration/accreditation is mandatory, whereas in QLD it is only available for those teachers who hold a birth-8 or a birth-12 years qualification and work with 4-year-old children. Birth-8 years and birth-12-years teaching qualifications are recognised across all states and birth-5-years qualification is only officially recognised in NSW and Victoria (sub. 68, p. 5).

Box 3.12 – The purposes of teacher registration

A review of professional teacher registration in 2018 identified three main purposes of teacher registration.

The first related to teacher professionalism. The review said:

Teacher registration provides certainty to employers and the community that every teacher has undertaken a prescribed level of training and professional learning, creates an obligation in the teaching profession to uphold the standards of their profession ... [and] contributes to the integrity of the profession by conferring a moral weight and a sense of common purpose that governs the behaviour of individuals who identify as a teacher. (pp. 2–3)

The second related to teacher quality. The review said:

Teacher registration is a unifying mechanism to ensure a certain level of quality is consistently met by all teachers across the course of their career, in collaboration with their peers and employer. (p. 3)

And the third reason related to children's safety. The review said:

Teacher regulatory authorities ensure the safety of teachers they register by enforcing suitability and character standards ... Once registered and throughout the duration of their career, teacher regulatory authorities can impose sanctions or withdraw a teacher's registration if they do not meet the required standards of personal and professional behaviour. (p. 3)

Source: ESA (2018).

One of the actions governments have committed to under the National Children's Education and Care Workforce Strategy (*Shaping our Future*) is to implement ECT registration in every state and territory (action FA1-2). The first step associated with this action – a review of jurisdiction-specific requirements to enable the registration of all ECTs, including those working in non-school settings – is to be completed by the end of 2024 (ESA 2022b, p. 15).

A range of inquiry participants pointed to the value of teacher registration to improve the recognition of ECTs and their connection to their profession (for example, the Creche & Kindergarten Association (sub. 155, p. 12); AITSL (sub. 86, pp. 2–3); G8 Education (sub. 68, p. 5)).

The Commission accepts that there is considerable benefit in establishing mandatory teacher registration requirements for all ECTs, regardless of the early childhood setting in which they work. As articulated by inquiry participants, teacher registration is a means to promote the professional recognition of the sector. But it has other benefits – it can also be a way for ECTs to access development opportunities and connect them to peers and mentors. And critically, teacher registration can also help to cement career paths for ECTs, given that it is through registration frameworks that teachers can seek to be certified as highly accomplished and lead teachers (HALT) in jurisdictions that maintain the classification. HALT certification serves three functions:

- it recognises and promotes quality teaching
- it provides an opportunity for teachers to reflect on their practice
- it provides a reliable indication of quality teaching that can be used to identify, recognise and/or reward Highly Accomplished and Lead Teachers (AITSL 2017).

While the Commission has previously noted that the number of completed HALT certifications is relatively low (PC 2022b, p. 184), ensuring that it is a viable option for ECTs to pursue (should they want to, and should they meet the requirements) would improve the attractiveness of the sector to work in. (It would also eliminate one of the disparities between the ECEC sector and the schools sector that may be prompting teachers to seek a career in the latter rather than the former.) Ensuring ECTs are effectively incorporated into teacher registration arrangements is the first step in facilitating greater access for ECTs to HALT certification.

Inconsistency in the early childhood teaching qualifications that teacher registration bodies are willing to accept is one barrier to making better use of teacher registration arrangements. For example, in some jurisdictions, an individual must have completed a four-year education degree (or equivalent) in order to be registered as a teacher. In other jurisdictions, an early childhood teaching qualification that has been assessed and approved by ACECQA is sufficient for teacher registration. This includes many three-year programs that have a specific focus on teaching younger (0–5 year-old) children.

Some universities submitted that the current teacher registration requirements operating in some jurisdictions – including the requirement for four-year degrees – was contributing to the content of degrees having a dominant focus on the teaching of primary school age children. For example, Dr Susie Raymond, Professor Anne-Marie Morgan and Professor Shane Dawson from the University of South Australia submitted:

[Initial Teacher Education] is currently a four-year degree program. This requirement reflects AITSL accreditation for birth – 8 early childhood education degrees. Graduates from the four-year early childhood program are therefore able to gain employment in both prior-to-school contexts and Foundation to year 2 in primary school contexts. (sub. 39, p. 4)

They went on to say that within such a program, roughly 70% of content related to primary school curriculum, with the remaining 30% focussed specifically on children aged 0–5 years (p. 5). They argued that a three-year degree – that focusses on content relating to teaching 0–5 year-old children – be recognised for registration (p. 6). Professor Mary Katsikitis from Flinders University also called for recognition of degrees focussing on teaching children aged 0–5 years (sub. 99, p. 4).

Inconsistent registration requirements have real impacts on both the sector and its workforce. In jurisdictions with more restrictive registration requirements, services are denied a source of ECTs – even when graduates with similar qualifications have been accredited by ACECQA to work as ECTs (and are registered as teachers) in other jurisdictions. And ECTs whose qualifications are not recognised cannot teach. Professor Mary Katsikitis from Flinders University suggested this is happening in South Australia.

In South Australia, there is a current supply of Early Childhood teachers with birth-5 teaching qualifications that cannot register to teach and subsequently work in SA ... graduates holding a birth-to-5 early childhood teaching degree cannot be registered as teachers in South Australia, even when they have registration in another state. (sub. 99, p. 4)



Draft finding 3.6

Inter-jurisdictional differences in teacher registration impose unnecessary workforce barriers

Teacher registration offers considerable benefits for early childhood teachers (ECTs) in the form of professional recognition, development opportunities and access to networks of peers and mentors.

Inconsistent teacher registration requirements for ECTs across jurisdictions are problematic. They limit the work opportunities for ECTs who move across jurisdictions, to the detriment of their careers, and reduce the number of ECTs that are available to services to employ.

The Commission is of the view that holding any ECT-level qualification that has been approved by ACECQA for the purposes of meeting the requirements of the National Quality Framework should be sufficient to warrant registration as a teacher in all jurisdictions. It is difficult to comprehend why an ECT degree program offered by a university and scrutinised by ACECQA and deemed to be of sufficient quality for graduates to teach children in ECEC settings, is deemed to be unsuitable for teacher registration because it fails to meet the pre-set prescriptive requirements. It is equally difficult to comprehend why an ECT from one jurisdiction with a degree that ACECQA has approved, has existing teacher registration and potentially has many years of practice as an ECT, would be denied registration were they to move to another jurisdiction.

But in addition to addressing these disparities, ensuring that ACECQA-approved degrees are sufficient for the purposes of teacher registration has other advantages. It ensures that the benefits conferred by teacher registration (as outlined above) are open to all ECTs. And in some jurisdictions, such as those that do not recognise three-year, undergraduate teaching degrees that enable graduates to teach children aged 0–5 years, it may open new and potentially quicker pathways for prospective ECTs to gain their qualification – something that is desirable when demand for ECTs is expected to remain strong. (Shorter pathways also help to reduce some of the barriers educators face when upskilling to become ECTs.)

When making a similar recommendation to amend teacher registration arrangements in South Australia, the South Australian Royal Commission into Early Childhood Education and Care noted there were concerns among some sector stakeholders that allowing shorter degrees to qualify for teacher registration could erode the professional standing of ECTs. The Royal Commission's view was that:

the length of the degree is not a determinative factor in the professional standing [of ECTs], in the public's eyes, or pay and conditions. (SA Government 2023, p. 150)

The Commission agrees with this assessment. It is also worth noting that employers would remain free to choose ECTs with qualifications that suit their needs and values – for example, a service could still aim to employ only teachers with a four-year teaching degree if it considered it essential or desirable to have a teacher with that qualification.

In sum, the Commission recommends that state and territory governments amend their teacher registration arrangements so that:

- ECTs working in NQF-approved ECEC settings are required to be registered with the teacher registration body in their jurisdiction
- any ECT-level degree that has been approved by ACECQA to be recognised under the NQF is sufficient for meeting qualification requirements associated with teacher registration.

In implementing this recommendation, the Commission also considers two complementary actions are necessary.

First, state and territory governments should review their teacher registration arrangements to ensure that there is an accessible pathway for ECTs with an ACECQA-approved qualification to teach in primary school (after they undertake any additional study deemed necessary that focusses on the pedagogy and curriculum relevant to primary school teaching) if they so choose. This will provide a degree of flexibility for ECTs to move between the ECEC and schools sectors as their circumstances change.

Second, state and territory governments should review their arrangements concerning HALT certification (if maintained in their jurisdiction) and act on opportunities to make it more accessible for ECTs. As part of reviewing these arrangements, governments should issue guidance on the eligibility of ECTs for HALT certification, the process through which ECTs can seek certification (including in non-government operated ECEC settings), and the implications for ECTs if certification is achieved.



Draft recommendation 3.3

Improve registration arrangements for early childhood teachers

State and territory governments should amend their teacher registration arrangements so that:

- early childhood teachers (ECTs) working in National Quality Framework-approved ECEC settings can be registered with the teacher registration body in their jurisdiction
- any ECT-level qualification that has been approved by the Australian Children's Education and Care Quality Authority (ACECQA) for recognition under the National Quality Framework should be automatically recognised as meeting qualification requirements associated with teacher registration.

In undertaking these actions, state and territory governments should also:

- review their teacher registration arrangements to ensure that there are accessible pathways for ECTs with an ACECQA-approved qualification to teach in primary school (including after they undertake additional study focussing on teaching in primary school settings)
- review their arrangements concerning highly accomplished and lead teachers (HALT) certification (in relevant jurisdictions) and act on opportunities to make it more accessible for ECTs. As part of reviewing these arrangements, governments should issue guidance on the eligibility of ECTs for HALT certification, the process through which ECTs can seek HALT certification (including in non-government operated ECEC settings), and the implications for ECTs if certification is achieved.

More can be done to better support and mentor new ECTs

The importance of ensuring ECTs – and especially relatively new ECTs – have access to effective support and mentoring networks is difficult to overstate. When examining mentoring arrangements for teachers in primary and secondary schools, the Commission recently observed:

once teachers graduate and enter the classroom, induction and mentoring is key, particularly during the first three to five years of their career. Access to these supports can improve teaching quality and help new teachers to stay in the workforce. (PC 2022b, p. 178)

The importance of support and mentoring arrangements is arguably even more heightened for teachers working in ECEC settings. Unlike in schools – where a newly graduated teacher might have access to a formal induction program and work closely with many experienced teachers – ECTs working in ECEC may potentially be the only degree-qualified person within their service. They may be expected to work independently and show leadership on complicated educational or management matters from very early in

their careers, often with limited direct assistance. As was observed in the National Children's Education and Care Workforce Strategy (*Shaping our Future*):

there are often high expectations from service providers for newly graduated early childhood teachers to 'hit the ground running'. This is in contrast to the far more structured and supported program of induction and mentoring often available in the school sector. Newly graduated early childhood teachers can also often find themselves in senior positions within a long day care service, planning and developing curriculum for large numbers of children, and dealing with families around complex service management issues, sometimes without sufficient support. (ESA 2021, p. 33)

The importance of effective mentoring and support networks was also highlighted by inquiry participants. For example, the Australian Education Research Organisation (AERO) said:

evidence suggests that supports such as mentoring and induction can improve practice and enhance collaboration and connection across the sector. Ensuring that educators and teachers have access to mentoring and induction – especially at key transition points in their career – may help to improve issues related to retention, professional identity and career progression. (sub. 137, p. 2)

Ensuring ECTs receive sufficient mentoring and support is particularly important because it is often ECTs who provide educational, pedagogical and sometimes management leadership for others employed in a service. This means that providing ECTs with good quality mentoring and support can provide a solid foundation for ECTs to support others in the service, which can help to maintain or improve service quality and support staff retention more broadly. Better mentoring and support arrangements in schools is also a 'pull factor' that might persuade some new teachers to choose to work in schools over ECEC settings.

While some ECTs working for large providers – who may employ many ECTs across their services – may have access to 'in-house' mentoring and support offered by their employer, access is much less likely for those working in smaller, independent or regional services (and it is often ECTs working in these types of services who are the most isolated and have the greatest need for support).

There is some evidence to suggest that governments recognise the value and importance of providing mentoring and support for new ECTs. Enhancing mentoring and induction support for new teachers is one of the action items outlined in the National Children's Education and Care Workforce Strategy (*Shaping our Future*) (action FA1-3). As a first step towards this action, AERO has been tasked with undertaking a review of existing supports and their relative effectiveness, as well as completing a literature review of mentoring and induction support (due by the end of 2023) (ESA 2022b, p. 16). And some governments already have a range of initiatives underway. For example:

- the Victorian Government provides funding (of just over \$2,800 per teacher) to services to support ECTs to move from provisional to full registration. Among other things, this funding can be used to provide paid time release for an ECT and mentor to work with each other (Victorian Government 2023b), with ECTs who are unable to find a mentor able to access one through Gowrie Victoria. Additionally, the Victorian Government funds a range of supports for ECTs in their first five years of practice, including individualised coaching for ECTs and communities of practice for ECTs in their second to fifth year of teaching (Victorian Government 2023e)
- South Australia offers an Early Career Teacher Development program, which provides graduate teachers with a site-based mentor to support them to make the transition from a graduate to a proficient teacher (as set out by the Australian Professional Standards for Teachers) (ESA 2022a, p. 4).

A mentoring program for new ECTs was also operated in New South Wales in the past (Centre for Research in Early Childhood Education, sub. 21, p. 15; NSW Department of Education (2021)).

While the Commission has not evaluated the efficacy of these individual programs, in the broad, the Commission considers the determination by some governments to develop and maintain mentoring programs for new ECTs to be commendable. Jurisdictions that do not offer mentoring and support programs for new ECTs should do so, drawing on the research on the effectiveness of existing support programs that AERO is undertaking.



Draft recommendation 3.4

Lift support and mentoring for new early childhood teachers

State and territory governments should develop structured mentoring and support programs for new early childhood teachers if they do not already have these in place. In developing these programs, state and territory governments should reflect the findings of the research underway by the Australian Education Research Organisation (AERO) on the effectiveness of existing support programs.

Jurisdictions that already operate programs to support and mentor new ECTs should review their programs to incorporate the findings from AERO's research once this is finalised.

Aboriginal and Torres Strait Islander people should be better supported to obtain ECEC qualifications – and their cultural knowledge recognised

Aboriginal and Torres Strait Islander educators and teachers are a vital part of the ECEC workforce. In 2021, about 3% of the ECEC workforce were Aboriginal or Torres Strait Islander people, but this varied markedly by location – in remote and very remote areas, Aboriginal and Torres Strait Islander educators and teachers made up more than a quarter of all ECEC staff (SRC 2022, p. 34).

In addition to comprising an important share of the ECEC workforce, Aboriginal and Torres Strait Islander educators and teachers bring their own cultural experiences, perspectives, knowledges, languages and ways of teaching and learning to the sector. These are valuable assets that enrich the ECEC workforce and the education and care the sector provides.

Inquiry participants identified a wide range of benefits that Aboriginal and Torres Strait Islander staff bring to the sector, including improved cultural safety and responsiveness in services (cultural safety is discussed more in paper 2) and greater ECEC participation from Indigenous families in services with Aboriginal and Torres Strait Islander staff. Participants also noted that services with Aboriginal and Torres Strait Islander staff often have better relationships with Aboriginal and Torres Strait Islander families and a better understanding of their particular circumstances (Community Connections Solutions Australia, sub. 105, p. 18; SNAICC sub. 133, p. 10; National Aboriginal Community Controlled Health Organisation, sub. 151, p. 11; National Indigenous Australians Agency, sub 152, p. 6).

Drawing on academic studies (Locke 2022; Webb 2022), SNAICC also identified the important role that Aboriginal and Torres Strait Islander educators and teachers play in fostering cultural identity and strength in Aboriginal and Torres Strait Islander children.

The presence of Aboriginal and Torres Strait Islander educators and staff who share a cultural schema (i.e. a framework for making sense of their world) with children, fosters relatedness and supports the development of identity and cultural pride in Aboriginal children (Webb, 2022). To that end, Aboriginal and Torres Strait Islander educators and staff must be recognised and employed to promote the inclusion of their knowledge and perspectives in both Western-based and [Aboriginal

Community Controlled Organisation] led ECEC (Locke, 2022). The combined impact of this is increased engagement in ECEC services by the entire family and ultimately Aboriginal and Torres Strait Islander children who are resilient and strong in their culture. (sub. 133, p. 7)

Some inquiry participants noted that the benefits of attracting more Aboriginal and Torres Strait Islander educators and teachers were magnified in regional and remote communities – where a disproportionately large share of local families may identify as Aboriginal and Torres Strait Islander and where services might otherwise find it difficult to find staff. It was also noted that the ECEC sector might provide Aboriginal and Torres Strait Islander people living in regional and remote areas with an opportunity to work in their community and/or on Country (which can be especially valuable if there are relatively few other employment options available).

Over the course of the inquiry, the Commission has heard that many Aboriginal and Torres Strait Islander people have a strong interest in working in the sector. However, there are a range of barriers that limit Aboriginal and Torres Strait Islander peoples' participation in the ECEC workforce. Some of these barriers are common to the ECEC workforce as a whole, such as relatively low pay. But some barriers more specifically impact on Aboriginal and Torres Strait Islander people. In particular, participants highlighted barriers accessing the training and qualifications needed to work in the sector, including:

- a lack of local VET or university providers – particularly for Aboriginal and Torres Strait Islander people living in regional or remote areas and a lack of willingness or capacity on behalf of training providers to teach on Country or in Indigenous communities. Consequently, Aboriginal and Torres Strait Islander people are often expected to travel to a training provider and spend significant time away from their home in order to obtain their qualification. This can involve long periods of travel and be expensive. And even when there are training options relatively nearby, they can be under-resourced or under-staffed (Binarri-binyja yarrowoo Aboriginal Corporation, sub. 85 pp. 8–9; Northern Territory Government, sub. 157, attachment, p. 12; National Aboriginal Community Controlled Health Organisation, sub. 151, pp. 11–12)
- a lack of training options that are culturally safe or appropriate for Aboriginal and Torres Strait Islander students. Training providers might also lack flexibility around how content is taught and how assessment is undertaken (including the language in which teaching and assessment occurs), which reduces accessibility for Aboriginal and Torres Strait Islander people (SNAICC; sub 133, p. 10; National Aboriginal Community Controlled Health Organisation, sub. 151, p. 11). Training providers may also be unwilling or unable to accommodate the cultural needs of Aboriginal and Torres Strait Islander people – such as the need for (potentially prolonged) time away from study to meet family or ceremonial commitments
- an unwillingness or inability of training providers to recognise the existing – and often extensive – cultural knowledge and experience that many Aboriginal and Torres Strait Islander people have when it comes to educating and caring for children (Northern Territory Government, sub. 157, attachment, p. 10).

As part of the National Agreement on Closing the Gap, the Coalition of Aboriginal and Torres Strait Islander Peak Organisations, the Australian Government, states and territory governments and the Australian Local Government Association have agreed to develop a series of Sector Strengthening Plans. These plans aim to identify sets of measures to build the Aboriginal and Torres Strait Islander community-controlled sector across a range of policy areas. In December 2021, a Sector Strengthening Plan for the Early Childhood Care and Development sector was agreed to.

Among other objectives, the Plan aims to:

- increase the Aboriginal and Torres Strait Islander ECEC workforce
- increase relevant qualifications and skills of the Aboriginal and Torres Strait Islander workforce, alongside professional recognition of cultural knowledge, skills and relationships.

The Plan also identifies some key actions ‘for further consideration and development’ that aspire to grow the Aboriginal and Torres Strait Islander workforce, including by improving access to ECEC training. Box 3.13 contains a subset of these actions.

In its recent draft report on the *Review of the National Agreement on Closing the Gap*, the Commission examined Sector Strengthening Plans across all sectors where they are in place, and observed that key information, including on resourcing, timelines and accountability, is often lacking.

Many actions are defined only at a high level, often without concrete timeframes, responsibilities, and resourcing. Very few of the actions across four existing [Sector Strengthening Plans] specify who is accountable for the actions in any detail beyond listing ‘all jurisdictions’. Similarly, few actions specify either resources or timeframes for completion. Without clarity about what needs to be done by whom and when, it is difficult to track progress and maintain accountability for the actions to be implemented ... Without clear accountabilities, resources and timeframes, there is a risk that these actions will not be completed. At this stage, accountability mechanisms do not appear to be strong enough to ensure the implementation of [Sector Strengthening Plan] actions. (PC 2023b, pp. 36–37)

These observations ring true for the actions aimed at growing the Aboriginal and Torres Strait Islander ECEC workforce outlined in the Early Childhood Care and Development Sector Strengthening Plan. For most of these actions, responsibility has been broadly allocated to ‘all governments and sector representatives’, and the resourcing to undertake the actions deemed to be ‘existing or to be determined by the parties’. Consequently, while the Plan does identify a range of actions to grow the ECEC workforce, there remains ambiguity about how they will be implemented, by whom, and how they will be held to account to ensure the actions are implemented effectively.

Box 3.13 – Selected key actions of the Early Childhood Care and Development Sector Strengthening Plan

Action A2 – Support Aboriginal and Torres Strait Islander career development through secondary school career engagement, preparation of the workforce, on the job staff development, mentoring, career development and progression

Support career development through secondary school career engagement, preparation of the workforce, on the job staff development, mentoring, career development and progression. This could include:

- scholarships for the Aboriginal and Torres Strait Islander ECEC workforce to undertake further study, including tertiary and graduate studies
- enabling access to professional development programs or on-the-job training for Aboriginal and Torres Strait Islander ECEC staff focused on realising the potential of individuals
- building leadership skills – access to initiatives which actively identify Aboriginal and Torres Strait Islander staff to build leadership skills and progress into leadership positions
- leveraging existing government schooling and tertiary support programs, scholarships and subsidies
- increasing completion rates.

Action A3 – Support for tertiary qualification pathway programs for Aboriginal and Torres Strait Islander early educators in line with promising practice

This could involve strategic partnerships between the community-controlled sector, universities and/or training providers to support Aboriginal and Torres Strait Islander students to enter and progress through

Box 3.13 – Selected key actions of the Early Childhood Care and Development Sector Strengthening Plan

tertiary education. Could also include support for rural and remote locations. Initiatives to consider and reflect the broad identified features of promising and successful programs, which include:

- strengths-based approach
- the combination of on-country, online, and on-campus tuition
- residential programs
- support to meet entry requirements
- local mentors and/or study groups
- face-to-face visits from lecturers/trainers
- financial support for study costs, including food, accommodation, and transport
- close involvement of academic staff specialising in Aboriginal and Torres Strait Islander education.

Action A5 – Support, develop and resource community-based workforce development initiatives led by Aboriginal and Torres Strait Islander early childhood education and care services

There are a range of promising local programs led by community-controlled services to mentor and support career progression and higher-level qualifications for local Aboriginal and Torres Strait Islander community members working in early childhood centres. Limited government programs and resources are available to support community-based workforce development initiatives like these. Consideration of resource needs could include backfill for educators to devote time to mentoring and developing staff, backfill for staff participating in higher education programs, and on-site technology for staff engaging in remote learning.

Source: Joint Council on Closing the Gap (2021).

Governments have already taken some actions (seemingly consistent with the Sector Strengthening Plan) to grow the Aboriginal and Torres Strait Islander workforce. For example, most jurisdictions have scholarship programs in place that provide financial support to Aboriginal and Torres Strait Islander people to undertake initial teacher education (although relatively few of these scholarships are targeted at ECEC-specific qualifications).¹³ And at least one jurisdiction (Victoria), offers scholarships for Aboriginal and Torres Strait Islander people to undertake VET-level ECEC qualifications too (Victorian Government 2021, pp. 1–2). There are initiatives that go beyond financial support as well – for example, the Northern Territory Government has initiatives underway to provide targeted support in some communities (such as Tennant Creek and Galiwin'ku) to assist local Aboriginal women and students to obtain a Certificate III in Early Childhood Education and Care (ESA 2022a, p. 7).

But the Commission is of the view that more can be done to assist Aboriginal and Torres Strait Islander people to get the necessary qualifications to work in ECEC.

In particular, in recognition of the benefits that would arise from having more Aboriginal and Torres Strait Islander ECEC workers, and the substantial barriers many Aboriginal and Torres Strait Islanders face

¹³ For example, Aboriginal and Torres Strait Islander Early Childhood Education Scholarships in New South Wales, Early Childhood Aboriginal Pathway Scholarships in Victoria, Aboriginal Teacher Education Scholarships in the Northern Territory, Pearl Duncan Teaching Scholarships in Queensland, and Amy Levai Aboriginal Teaching Scholarships in South Australia (NSW Government 2023a, 2023d; Victorian Government 2023a; Northern Territory Government 2023; Department for Education (SA) 2023; Queensland Government 2023b).

accessing ECEC training, governments should trial bespoke pathways for Aboriginal and Torres Strait Islander people to complete ECEC-relevant qualifications. These pathways should be designed in collaboration with Aboriginal and Torres Strait Islander people, communities and organisations, and as such, the Commission does not want to be too prescriptive about the forms they should take. Nevertheless, the Commission is of the view that, in forming these pathways, a central aim should be to recognise the existing cultural knowledge that many Aboriginal and Torres Strait Islander people have when it comes to educating and caring for children. In designing these approaches, governments should particularly consider ways to change how prior learning is recognised, how teaching and assessment is undertaken, and how learning supports are provided in order to address some of the barriers Aboriginal and Torres Strait Islander people face when completing ECEC qualifications.

However, increasing the number of Aboriginal and Torres Strait Islander people with ECEC-relevant qualifications alone may not be enough to increase their participation in the ECEC workforce – Aboriginal and Torres Strait Islander educators and teachers with relevant qualifications may still not wish to work in the sector if they feel it is unable to meet their cultural needs or that it is not culturally safe. For example, Binarrri-binyja yarrowoo Aboriginal Corporation said:

workplaces need to [be] mindful of staff's cultural needs as well. If staff do not feel supported in practicing their culture, or that they are excluded because of their culture, they may choose to leave. One example is that in Aboriginal culture, family and cultural commitments are taken very seriously. It is not uncommon for people to unexpectedly be unavailable for long periods of time due to family commitments, which can leave a centre unexpectedly short staffed. (sub. 85, p. 9)

Another challenge that Aboriginal and Torres Strait Islander teachers and educators may face when working in the sector is an expectation that they single-handedly carry the responsibility of ensuring a service is culturally competent, safe and responsive, when in fact this responsibility should be shared across all staff in a service (PC 2022b, p. 224).

Just as services should provide an environment that is culturally safe and responsive for Aboriginal and Torres Strait Islander children and families (paper 2), so should services ensure a safe, supportive and responsive working environment for their Aboriginal and Torres Strait Islander staff as well.



Draft recommendation 3.5

Improve pathways and support for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications

In collaboration with Aboriginal and Torres Strait Islander people, communities and organisations, governments should trial and evaluate new pathways for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications so they can participate in the ECEC workforce in greater numbers.

A central aim of these new pathways should be to better recognise the cultural knowledge and experience many Aboriginal and Torres Strait Islander people have when it comes to educating and caring for children.

In designing these pathways, governments should consider:

- using different approaches – such as culturally appropriate interviews – to better understand the prior knowledge, learning and experience of Aboriginal and Torres Strait Islander people, and to inform decisions about the extent that this can be recognised in the form of course credit (or other ways of recognising prior learning)
- using teaching assessment models that – while still ensuring rigour – might be more accessible or culturally appropriate for Aboriginal and Torres Strait Islander students, such as teaching in local languages or making greater use of observational assessments
- providing tailored, small group or one-on-one supports to Aboriginal and Torres Strait Islander students.

3.6 Professional development arrangements to support the ECEC workforce

Professional development helps to ensure that ECEC staff remain up-to-date with the latest research about how children learn, grow and develop and provides them with opportunities to maintain, improve or broaden their skills and knowledge. As Siraj et al. stated:

Continuing [professional development] fills the gaps in knowledge and skills that are often apparent in practice after initial training, and it keeps educators up-to-date with research into best practice. This is particularly important in ECEC, where there is a growing body of research into ‘what works’ and still some unresolved debates. (Siraj et al. 2016, p. 20)

Access to professional development for the ECEC workforce is important on several levels. It helps the workforce to provide high-quality and stimulating education and care for children that reflects the latest pedagogy – something that families are likely to value. Professional development is also valued by workers, who might view a willingness from their employer to invest in their professional development as a signal that their work is valued, and who benefit from the role that professional development can play in solidifying career pathways. Staff are also likely to value opportunities to develop their own knowledge and skills and incorporate these into their practice. And services can benefit from professional development as well, to the extent that it helps them to offer high quality ECEC to families or leads to reduced employee turnover.

But there are also likely public benefits that arise from the ECEC workforce’s professional development. Professional development that leads to a higher quality service, or that allows services to provide more inclusive ECEC to more children, can be expected to help further unlock the community benefits – including improved developmental outcomes in children – that can arise through ECEC.

The 2021 ECEC Workforce Census indicates that most ECEC workers have access to at least some professional development opportunities, with three-quarters of paid contact staff participating in some form of professional development in the 12 months prior to the ECEC Workforce Census being undertaken. This professional development focussed on a variety of topics, including on strengthening pedagogy or practice and promoting inclusion (figure 3.19).

Figure 3.19 – The ECEC workforce undertakes a range of personal development training
Share of paid contact ECEC staff who have undertaken personal development in the 12 months prior to the 2021 ECEC Workforce Census, by topic of training



Source: SRC (2022).

However, it is difficult to be definitive about the nature of much of the professional development that the ECEC workforce has undertaken, given that, by far, the largest category of professional development captured in the ECEC Workforce Census related to 'other relevant training courses'. It is possible that some of the responses in this category relate to mandatory training (such as training related to first aid or child protection), which – while essential – are focussed more on meeting safety requirements rather than professional development per se.

While the ECEC Workforce Census results suggest the take-up of professional development opportunities is relatively widespread, the Commission has heard that the ECEC workforce still faces several significant barriers to accessing professional development, namely difficulty getting time off work and the cost of professional development activities (Connect.Ed Trauma-Informed Education and Care, sub. 104, p. 15; B4 Early Years Coalition Tasmania, sub. 55 p. 6; Salvation Army, sub. 56, p. 24; brief comment 34). These

experiences are also supported by academic research – for example, a 2021 evaluation of the Inclusion Support Program found that educators ‘largely [had] to allocate their own time and resources’ to purchase and undertake inclusion training. (Bray et al. 2021, p. 168).



Draft finding 3.7

The ECEC workforce faces barriers to professional development

Take-up of professional development opportunities by the ECEC workforce is relatively widespread. But the workforce still faces several significant barriers to accessing professional development, including difficulty getting time off work and the cost of professional development activities. Costs to employers of backfilling positions while staff undertake professional development can also be an impediment. Some governments have begun to provide support to overcome these barriers.

Since July 2023, the Australian Government has funded a Professional Development Subsidy to assist ECEC staff to undertake ‘mandatory or highly recommended training’ (box 3.14). Some states and territories have also developed (or are in the process of developing) their own initiatives – for example, the NSW Government has flagged that it will create a \$10 million Professional Development Fund that is ‘expected to provide free, high-quality, universally accessible professional development opportunities to teachers and educators in ECEC, regardless of their qualification’ (NSW Government 2023c), while in Queensland, services that receive funding through the ‘Kindy uplift’ program are able to put this towards backfill to enable educators to undertake certain professional development activities (Queensland Government 2023a).¹⁴

As discussed above, there is likely to be public benefit arising from ECEC staff undertaking professional development activities. This suggests that there is a case for a degree of public support for the ongoing professional development of the ECEC workforce. However, reflecting the fact that professional development also benefits employers, this public contribution need not cover all costs associated with professional development. Rather, the broad goal of any public support should be to encourage and facilitate the ECEC workforce to undertake professional development by reducing some of the more prohibitive barriers that prevent it from taking place, rather than funding it entirely.

And in supporting professional development, governments should target their contributions towards activities where the potential public benefits are larger, namely professional development that will improve the quality and inclusivity of ECEC practices. Given this objective, prospective areas for professional development support include activities that improve the capability of staff to:

- remain up to date with the latest pedagogical research and how to apply this in their teaching
- understand and apply the National Quality Standard and the nationally approved learning frameworks
- deliver inclusive ECEC, including for:
 - children living with disability, developmental delay or additional needs. The Commission heard from a range of inquiry participants who suggested it is common for many ECEC workers to lack all the necessary skills, confidence or knowledge to fully include children living with disability, developmental

¹⁴ The Kindy Uplift program funds programs, resources, supports and professional development for eligible kindergartens (including community kindergartens and long day care services). Eligible kindergartens have been pre-selected by the Queensland Government ‘based on characteristics predictive of educational need and where additional funding can provide the greatest opportunity to improve learning and development outcomes for children’ (Queensland Government 2023a).

delay or additional needs (for example, Special Teaching and Research (STaR), sub. 87, p. 7; Community Connections Solutions Australia, sub. 105, p. 17)

- children who have experienced trauma, which was also identified by inquiry participants as an important area where professional development was needed (for example, the Alannah and Madeline Foundation, sub. 53, p. 4; the Salvation Army, sub. 56, p. 24; Connect.Ed Trauma-Informed Education and Care, sub. 104, p. 15)
- Aboriginal and Torres Strait Islander children, particularly children attending mainstream (that is, not Aboriginal and Torres Strait Islander community-controlled) services. Several Aboriginal and Torres Strait Islander organisations noted a lack of cultural safety and capability in mainstream services (for example, SNAICC, sub. 133, p. 17; National Aboriginal Community Controlled Health Organisation, sub. 151, p. 6). While building the cultural safety and capability of services will require actions beyond the professional development of staff alone, professional development is nevertheless one step that services can consider to improve their capacity to provide effective ECEC for Aboriginal and Torres Strait Islander children. (Cultural safety in ECEC services and the role of Aboriginal Community Controlled Organisations is further discussed in papers 2 and 7).

Box 3.14 – The Professional Development Subsidy

The Professional Development Subsidy is an initiative of the Australian Government to improve early childhood education and care (ECEC) staff's access to professional development. The program aims to improve the skills and training of ECEC staff and upskill the ECEC workforce by building its supply and capacity through professional development training opportunities.

Under the initiative, the Australian Government provides services with a subsidy that can be used to:

- supplement the cost of backfilling while staff engage in mandatory or highly-recommended training
- pay staff a supplement for training undertaken outside of work hours.

The subsidy covers two days (up to 15.2 hours) of training. Examples of training that the subsidy can be used for include: first aid; asthma and allergies management; centre and complaints management; child protection and mandatory reporting requirements; food handling and hygiene; adult-child relationship development and management; and other safety-related training. The subsidy can also be used to participate in a mentoring or leadership program delivered by a registered training organisation.

\$34 million has been allocated to the program over four years, of which \$13 million has been allocated for 2023-24. In 2023-24, only services and staff in regional, remote and very remote locations, and First Nations services and educators have access to the subsidy, although access will be expanded in future years. The program is demand driven, meaning funding may be exhausted before applications formally close.

Source: DoE (2023c; 2023d).



Draft recommendation 3.6

Contribute to professional development for the ECEC workforce

The Australian and state and territory governments should provide support for the ECEC workforce to undertake professional development activities. This should take the form of a contribution towards the cost of professional development.

Government contributions to professional development should be targeted toward activities that will improve the quality and inclusivity of ECEC practices, including activities that build staff capability to:

- remain up to date with the latest pedagogical research and how to apply this in their teaching
- understand and apply the National Quality Standard and the national approved learning frameworks
- deliver more inclusive ECEC, including for children with disability, developmental delay or additional needs, children who have experienced trauma and Aboriginal and Torres Strait Islander children, particularly those attending in mainstream settings
- work with families – including families in complex or challenging situations – to engage with and participate in ECEC.

3.7 Migration settings to support the ECEC workforce

There were more migrants working in ECEC in 2021 than in 2016

Migrants are an increasingly large part of the ECEC workforce. The number of migrant educators increased from about 37,000 to 57,500 between 2016 and 2021, increasing migrants' share of the ECEC workforce from about 21% to 28%. And migrants were more prevalent in some service types – nearly half of FDC educators and 31% of CBDC educators were migrants in 2021.¹⁵

¹⁵ Commission estimates based on ABS (2021, 2016) Microdata: Australian Census and Migrants Integrated Dataset, Australian Census and Temporary Entrants Integrated Dataset, accessed 30 October 2023. The results of these studies are based, in part, on data supplied to the ABS under the Taxation Administration Act 1953, A New Tax System (Australian Business Number) Act 1999, Australian Border Force Act 2015, Social Security (Administration) Act 1999, A New Tax System (Family Assistance) (Administration) Act 1999, Paid Parental Leave Act 2010 and/or the Student Assistance Act 1973. Such data may only be used for the purpose of administering the Census and Statistics Act 1905 or performance of functions of the ABS as set out in section 6 of the Australian Bureau of Statistics Act 1975. No individual information collected under the Census and Statistics Act 1905 is provided back to custodians for administrative or regulatory purposes. Any discussion of data limitations or weaknesses is in the context of using the data for statistical purposes and is not related to the ability of the data to support the Australian Taxation Office, Australian Business Register, Department of Social Services and/or Department of Home Affairs' core operational requirements. Legislative requirements to ensure privacy and secrecy of these data have been followed. For access to MADIP and/or BLADE data under Section 16A of the ABS Act 1975 or enabled by section 15 of the Census and Statistics (Information Release and Access) Determination 2018, source data are de-identified and so data about specific individuals has not been viewed in conducting this analysis. In accordance with the Census and Statistics Act 1905, results have been treated where necessary to ensure that they are not likely to enable identification of a particular person or organisation. The number of migrants is likely understated because the Australian Census and Migrant Integrated Dataset does not have data for migrants that arrived prior to 1 January 2000. These figures underestimate the total proportion of migrants in ECEC because the migrant data exclude nannies while the population data include them. But the difference is immaterial – the data is available for the 2021 Census, and excluding nannies from ECEC staff in the population increases the proportion of migrants in the ECEC workforce from 28% to 29%.

While the overall number of migrants increased, 75% of all migrants working in ECEC were permanent in both 2016 and 2021. And a similar proportion of both permanent and temporary migrants were working as CBDC educators, OSHC educators and centre managers in 2021. However, there were some differences – 8% of permanent migrants working in ECEC were FDC educators compared with 3% of temporary migrants, while 17% of temporary migrants were ECTs compared with 10% of permanent migrants.

Many migrants in the ECEC workforce in 2021 were previously in another industry or were out of the workforce entirely. Despite the 55% increase in migrants working in ECEC between 2016 and 2021, 83% of the migrants working in ECEC in 2021 were in Australia before 2016. This was partly a result of COVID-19 – migrants working in ECEC in 2021 were ten times as likely to have arrived in one of the three years before the pandemic compared with one of the two years post-pandemic. As such, it was not so much new migrants who contributed to the growth in migrants working in the sector from 2016 to 2021, but migrants who had already been in Australia for quite some time.

The visa arrangements of migrants working in the sector vary. Nearly half of permanent migrants working in ECEC in 2021 were on a family or humanitarian visa without work obligations. And more than half of temporary migrant educators were either New Zealand citizens allowed to stay indefinitely in Australia or on a bridging visa waiting for their substantive visa to be granted or renewed.

However, there were still a significant number of migrant educators on skilled and student visas with stricter requirements. 42% of migrant ECEC staff were on skilled visas requiring work, and 27% of temporary migrant educators were on student visas. ECEC sector feedback indicated that recent policy changes affecting employment rules and requirements for these visas could make recruiting migrant staff more difficult. These policy changes are explored below.

Skilled visa arrangements will affect the workforce

Migrants must work in certain occupations – and be paid a certain income – in order to be eligible for a skilled visa

Both temporary and permanent migrants can enter the ECEC workforce on a skilled visa, but only if they are nominated for ECEC roles that are on skilled occupation lists (table 3.2). Presently, 'Child Care Manager' and 'Early Childhood Teacher' are both on the Medium and Long-term Strategic Skills List, while 'Child Care Worker (group leader)' is on the Regional Occupation List. Under current arrangements, 'Child Care Workers' who are not group leaders cannot qualify for a skilled visa to enter and work in Australia, but are eligible for other work and study visas.

Table 3.2 – Skilled visas are restricted to higher-skilled ECEC roles^a**Work and study visas by ECEC role**

	Manager	Teacher	Group Leader	Worker
Skilled visas				
Employer Nomination Scheme (186)	✓	✓	✗	✗
Regional Sponsor Migration Scheme (187)	✓	✓	✓	✗
Skilled Independent (189)	✓	✓	✗	✗
Skilled Nominated (190)	✓	✓	✗	✗
Permanent Residence (Skilled regional) (191) ^a	✓	✓	✓	✓
Training (407)	✓	✓	✗	✗
Temporary Skill Shortage (482)	✓	✓	✗	✗
Temporary Graduate (485)	✓	✓	✗	✗
Skilled Regional (Provisional) (489)	✓	✓	✗	✗
Skilled Work Regional (Provisional) (491)	✓	✓	✗	✗
Skilled Sponsored Regional (Provisional) (494)	✓	✓	✓	✗
Other work and study visas				
Temporary Work (International Relations) (403)	✓	✓	✓	✓
Temporary Activity (408)	✓	✓	✓	✓
Working Holiday (417)	✓	✓	✓	✓
Work and Holiday (462)	✓	✓	✓	✓
Student visa (500)	✓	✓	✓	✓

a. The Permanent Residence (Skilled regional) Class 191 visa is available to all occupations including Child Care Worker, but migrants are unable to enter Australia on this visa.

Source: Australian Government Department of Home Affairs (2023a).

Migrants may need to be offered a sufficient income to get a skilled visa

To nominate migrants for skilled visas, employers may be required to offer them an income that is above a specified income threshold (table 3.3). Where this applies, this income threshold is either the annual market salary rate (AMSR) or the Temporary Skilled Migration Income Threshold (TSMIT) – whichever value is higher.

The AMSR is the salary that an Australian worker could expect to be paid if they took the job being offered to the migrant. The AMSR is determined by the employer but must be approved by the Australian Government to ensure that the applicable visas are not being used to undercut the prevailing rates of pay in the Australian labour market (box 3.15). If the AMSR for any given role is below the TSMIT, the employer will instead have to offer employees a salary at or above the TSMIT to be able to nominate a potential migrant for a skilled visa.¹⁶

¹⁶ The TSMIT does not include non-monetary benefits such as accommodation or a car. Employers must pay such benefits in addition to the TSMIT.

Table 3.3 – Employers have to pay migrants a sufficient income for some visas
Income requirements for ECEC skilled visas

<i>Skilled visas</i>	<i>Income requirement</i>
Employer Nomination Scheme (186)	✓
Regional Sponsor Migration Scheme (187)	✓
Skilled Independent (189)	✗
Skilled Nominated (190)	✗
Permanent Residence (Skilled regional) (191)	✗
Training (407)	✗
Temporary Skill Shortage (482)	✓
Temporary Graduate (485)	✗
Skilled Regional (Provisional) (489)	✗
Skilled Work Regional (Provisional) (491)	✗
Skilled Sponsored Regional (Provisional) (494)	✓

Source: Australian Government Department of Home Affairs (2023b).

Box 3.15 – Determining the annual market salary rate

Employers need to determine annual market salary rate (AMSR) for employees earning less than \$250,000 by looking at:

- what an equivalent Australian worker is paid
- enterprise agreements or industrial awards
- job outlook information
- advertisements for the last six months in the same location
- remuneration survey or advice from unions or employer associations.

When there is an equivalent Australian worker

The AMSR is what employers are paying this equivalent worker.

If the worker's salary is based on an enterprise agreement or industrial award, employers provide:

- the name of the agreement or award as recorded by the Fair Work Commission, where applicable,
- the salary level or occupation group that applies to the nomination.

If there is no relevant agreement or award, or the employer is paying its Australian employees above the award rate, they must provide:

- copies of relevant employment contracts and
- pay slips for this employee.

Box 3.15 – Determining the annual market salary rate

When there is no equivalent worker but there is an enterprise agreement or industrial award

Employers must provide:

- the name of the agreement or award as recorded by the Fair Work Commission, where applicable,
- the salary level or occupation group that applies to the nomination.

When there is no equivalent worker, agreement or award

Employers must determine and then show the Australian Government what the AMSR is.

Employers must show how they used relevant information to determine what they will pay the equivalent worker. Relevant information can include:

- job outlook information based on the Australian Government's labour insights page
- advertisements from the last six months for equivalent positions in the same location
- remuneration surveys completed by a reputable organisation
- written advice from unions or employer associations.

Source: Australian Government Department of Home Affairs (2023b).

The Australian Government has recently increased the TSMIT from \$53,900 (for applications made on or before 30 June 2023) to \$70,000 (for applications made on or after 1 July 2023) (Home Affairs 2023b). This increase followed a holistic review of Australia's migration system, which recommended increasing the TSMIT because it had not been increased since 2013 and was therefore failing to achieve its objectives (Parkinson et al. 2023, pp. 8, 78–79).

Australia's migration policies limit employment of skilled migrants in ECEC

The policy settings around skilled migration restrict the extent that the ECEC sector can employ skilled migrants, including in response to workforce challenges. As mentioned above, skill lists restrict lower-skilled ECEC staff from many skilled visas. And for migrants that are eligible under a skill list, the recent changes to the TSMIT will make it more expensive for the ECEC sector to recruit them. Only 28% of migrant ECTs working in 2021 would meet the new \$70,000 TSMIT, compared with 57% before the change.¹⁷

While the impact of current skilled migration settings adversely affects the ability for ECEC services to recruit migrants, the Commission notes that requirements around skilled migration are in place to achieve broader policy objectives. Restricting skilled migration to occupations on the skilled occupation list was intended to attract skilled migrants who will make a particularly strong contribution to the economy (Parkinson et al. 2023, p. 51). And the TSMIT change will help to protect migrant workers from underpayment while protecting local workers from international competition (Parkinson et al. 2023, p. 78).

Noting these broader objectives, the Commission does not consider it appropriate to recommend any general exemptions or alterations specifically for the ECEC sector.

¹⁷ ABS (2021) Microdata: Australian Census and Migrants Integrated Dataset, Australian Census and Temporary Entrants Integrated Dataset, accessed 30 October 2023. Weekly income was annualised to derive how many people were above the TSMIT. Weekly income was annualised to derive how many people were above the TSMIT.

There are frameworks in place if governments determine a more tailored approach is needed

Designated area migration agreements could be used in regional and remote areas

Inquiry participants have told the Commission that attracting ECEC educators to regional areas can be particularly challenging.¹⁸ And the Northern Territory Government (sub. 157 attachment A, p. 11) has said that providers in regional and remote areas rely heavily on skilled migrants to meet workforce needs. But there is not strong evidence for this as ECEC services in regional and remote areas employ about as many migrants as other sectors.¹⁹

To the extent that governments consider different migration policy settings in regional and remote areas necessary, designated area migration agreements (DAMAs) should be part of the solution. A DAMA is a two-tiered formal agreement between the Australian Government and a regional, state or territory authority covering a defined regional area.²⁰ They can provide exceptions to visa requirements for that area, and generally make it easier for employers in the area, including ECEC providers, to employ migrant workers (Home Affairs 2023b).

There are 12 DAMAs currently in place, but inquiry participants have made note of three with arrangements that are particularly important for ECEC.

- The East Kimberley DAMA has complemented local employment and training initiatives and served as a further tool to address the East Kimberley's workforce shortages; the first on-the-ground worker sourced through this scheme is working in the ECEC sector (Regional Development Australia Kimberley, sub. 1, p. 8).
- Regional Development Australia approved One Tree as eligible for the Pilbara DAMA, enabling early education and care workers to be nominated for skilled migration (One Tree Community Services, sub. 121, p. 43).
- The Northern Territory's DAMA is currently under negotiation, allowing for concessional arrangements to some standard criteria like English language and age requirements, and includes a 10% concession to the TSMIT. But even with the reduction in the threshold to \$63,000, critical occupations such as ECEC educators are likely to be excluded from the DAMA (Northern Territory Government, sub. 157 attachment, p. 11).

A broader labour agreement for ECEC could also be considered

Some inquiry participants have called for an ECEC sector migration plan that recognises ECEC educators as priority occupations in Australia's migration program (Goodstart Early Learning sub. 125 p. 55). And the recent migration review suggested that 'there may be a role ... for the use of a sector or industry-based tripartite Labour Agreement model for lower paid occupations that includes enhanced protections' (Parkinson et al. 2023, p. 85).

Labour agreements enable approved businesses to sponsor skilled overseas workers when there is a demonstrated need that cannot be met in the Australian labour market and where standard temporary or permanent visa programs are not available. They are negotiated between the Australian Government and

¹⁸ Australian Childcare Alliance sub. 150 p. 18; NT Government sub. 157 Attachment A, Regional Development Australia Loddon Mallee sub. 15 p. 2.

¹⁹ Commission estimates based on ABS (Tablebuilder, 2021, Census of Population and Housing), ABS (2021) Microdata: Australian Census and Migrants Integrated Dataset, Australian Census and Temporary Entrants Integrated Dataset, accessed 30 October 2023.

²⁰ The first tier of a DAMA is an overarching five-year deed of agreement (head agreement) with the region's representative. The second tier comprises individual labour agreements with employers under the settings of the head agreement for that region.

employers, are generally in effect for five years and provide for visas to be granted under one or more of the following visa programs:

- Employer Nomination Scheme (186)
- Temporary Skill Shortage (482)
- Skilled Employer Sponsored Regional (Provisional) (494) (Home Affairs 2023b).

An example of such an agreement is the Aged Care Industry Labour Agreement, which was negotiated between three aged care unions and the Australian Government and could be accessed by aged care employers from May 2023. The employers must enter into a memorandum of understanding with the relevant unions to access the Labour Agreement. And for applicable visas, employers will have access to several concessions, including:

- streamlined visa nomination and priority visa application processing
- no post-qualification work experience requirement
- English language concessions for workers with relevant community language skills.

Under the agreement, migrants must be paid an annual salary of at least \$51,222 or the AMSR, whichever is higher (Home Affairs 2023c).

The Aged Care Industry Labour Agreement could provide a framework for implementing a similar agreement for the ECEC sector, if an ECEC sector-wide approach to migration was sought by the Australian Government, providers and relevant unions.

Student visa arrangements

About 27% of temporary migrant educators are on student visas, and there have been recent changes to the maximum hours they can work. On 1 July 2023, the Australian Government reintroduced a cap on the hours that international students can work that was initially relaxed in January 2022 due to workforce shortages (Australian Government 2023g). However, aged care sector workers on a student visa are exempt from this cap until 2024, and some inquiry participants proposed that a similar exemption be implemented for the ECEC sector (Early Learning and Care Council of Australia sub. 153 p. 17, Goodstart Early Learning sub. 125 p. 7). However, the Commission notes that the decision to provide this extension for the aged care sector formed part of a broader suite of aged care policies, including a 15% pay increase for certain occupations in the sector and the introduction of the Aged Care Industry Labour Agreement (DHAC 2023; Home Affairs 2023c). Given the policy intent of the cap is to allow students to focus on their studies, governments should employ other policy levers to grow the pipeline of ECEC staff (with many of these levers already discussed in the paper) before considering exemptions to student visa arrangements for the sector.

3.8 Making the most of the National Children's Education and Care Workforce Strategy

As outlined in box 3.4 (above), Australian, state and territory governments, in collaboration with key sector participants, have developed a 10-year, National Children's Education and Care Workforce Strategy (*Shaping our Future*) (the strategy) for the ECEC workforce. This strategy serves an important function – it provides a shared vision across governments and outlines a list of collective actions governments will pursue to grow and develop the ECEC workforce (at a time when government action is needed).

But a national workforce strategy is also important because different governments face different incentives to grow and develop different parts of the ECEC workforce. For example, state and territory governments – who

are primarily responsible for funding (and in some jurisdictions, delivering) preschool – have strong incentives to focus on the staffing needs of preschool services within their jurisdiction, but little incentive to consider the workforce beyond those who work in preschool or workforce needs at a national level. And as outlined above, the different functions of governments in the ECEC sector – as the sector’s primary funder and regulator, and also a significant employer, can also give rise to complex and potentially different incentives.

Further, the policy levers available to influence the future ECEC workforce – including its size, composition and quality – are also spread across multiple levels of government. For example, policy settings around migration and industrial relations are within the purview of the Australian Government, while other important policy settings – including those around VET qualifications and teacher registration – are largely within the control of states. And some other policy settings – such as support for professional development – can be influenced by both the Australian and state and territory governments.

If designed well and followed by governments, the strategy can be a document that unifies governments’ actions to grow and develop the ECEC workforce, even in the face of the different incentives each government faces and the different policy instruments they have at their disposal. But if the strategy is to fulfil this function, it needs to be well supported by governments and key stakeholders, it needs to remain relevant as circumstances change and it needs to be clear about who is responsible for what actions and how these actions will be implemented. And importantly, there needs to be accountability measures in place that ensure that governments follow through on the actions that they have signed up to as part of the strategy.

In its current form, the strategy has several features that are commendable. For example:

- as discussed in section 3.3, there appears to be a significant degree of buy-in from the sector for the strategy’s implementation. This may be – in part – because key sector participants were involved in the strategy’s design and will be kept up to date on implementation progress through the strategy’s reporting arrangements
- there is some transparency about how the strategy will be implemented. The strategy’s Implementation and Evaluation Plan (ESA 2022b) outlines how progress against each focus area and action in the strategy will be tracked. Further, ACECQA has been tasked with publicly reporting on the strategy’s implementation (with the first update published in July 2023) (ACECQA 2023h). With this public reporting comes an element of accountability on governments to follow through on the actions they have agreed to in the strategy
- the strategy has pre-established (biennial) review points that provide an opportunity to more formally consider how actions are progressing, whether actions remain contemporary and whether actions need to change in response to developments in the sector (ESA 2021, p. 61).

That said, the Commission considers that there is scope for the strategy to be improved.

At a high level, there would be benefit in a clearer articulation of what the strategy is aiming to achieve. While the strategy does provide an ‘overarching vision’ for the ECEC workforce, there is no clear and measurable objective against which the strategy’s effectiveness can be assessed and measured. The strategy would also benefit from a clearer articulation of the future workforce needs of the sector – including projections of the number of educators and teachers the sector is expected to require in the short, medium and longer terms. Such information is important – it provides a yardstick to assess whether the actions set out in the strategy are sufficient to help the sector meet its future workforce needs and scale up (or down) their level of ambition accordingly. Future iterations of the strategy should include these components.

The Commission also considers that more detail is needed on how the strategy will be resourced. At present, there is a lack of clarity about how actions underway have been funded or how funding for the strategy will continue in the future. This is problematic, given strategies can live or die by the resourcing attached to them – clarity about where funding will come from will provide a degree of certainty to stakeholders that

governments are serious about the strategy's implementation (while also providing a degree of accountability on governments to ensure the strategy has enough resources to implement it effectively).

Further, accountability under the strategy can be improved. While governments have implemented a range of initiatives that aspire to grow and develop the ECEC workforce – some of which have been referred to in this paper, others are detailed in ACECQA's reporting on the strategy as 'complementary initiatives' (ACECQA 2023c) – the nexus between some of these initiatives and the strategy is unclear. This is not to say that many of these initiatives are necessarily inconsistent with the strategy, but rather that it is not clear how (if at all) they were influenced by the strategy or if they are deliberately designed to deliver on the strategy's actions. And there are some examples of tensions between the initiatives undertaken by some jurisdictions and those undertaken by others – a notable instance being some states and territories offering financial incentives to encourage ECTs working in other jurisdictions to move, potentially undermining their own attempts to grow their ECEC workforce (alternatively, jurisdictions may shy away from attempts to grow their own ECEC workforce if they fear that there is a risk that staff in their jurisdiction might be 'poached').

To improve accountability for the strategy's implementation, and to better ensure the strategy drives the actions of governments to grow and develop the ECEC workforce, the Australian Government and each state and territory Government should commit to individually producing annual updates that outline how the actions and reforms that they are undertaking contribute to the strategy's implementation. These should be published alongside the broader assessment of whether the strategy's implementation is on track, which is currently undertaken through ACECQA's implementation tracker.

Finally, the Commission is also cognisant that the strategy's broader context is changing. For example, the strategy predates many major government policy initiatives, including the introduction of the Cheaper Child Care package by the Australian Government, and several state and territory government initiatives to expand families' access to preschool. Further, as discussed above, a sector strengthening plan for the Early Childhood Care and Development Sector has been agreed to, and work is underway to develop both a National Care and Support Economy Strategy and a National Vision for Early Childhood Education and Care, which are likely to articulate additional objectives, outcomes and goals for the ECEC workforce.²¹ The operating environment of the strategy may change again depending on the actions of governments in response to this inquiry, once it is finalised.

The Monitoring and Evaluation Plan for the strategy suggests that the strategy will be reviewed in late-2023, 2025, 2027 and 2029 and the actions amended 'as appropriate, particularly in response to emerging priorities' (ESA 2021, p. 61). It is important that governments seize these opportunities to update the strategy in light of changes in the policy landscape and emerging challenges and opportunities for the sector, else risk the strategy becoming outdated or irrelevant.

²¹ The Australian Government has published draft versions of both documents (Department of the Prime Minister and Cabinet 2023; DoE 2023b).



Draft recommendation 3.7
Improve the ECEC Workforce Strategy

To maximise the value of the National Children’s Education and Care Workforce Strategy (*Shaping our Future*), the Australian, state and territory governments should:

- articulate a clear objective for the strategy against which its effectiveness can be measured
- include projections of the number of educators and teachers the sector is expected to require (over different timeframes) in the strategy
- clarify how each action in the strategy will be resourced
- commit to individually producing annual updates about how the actions, initiatives and reforms they are undertaking are contributing to the strategy’s implementation. These updates should be published alongside the broader assessment of progress in implementing the Strategy published by the Australian Children’s Education and Care Quality Authority (ACECQA).

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4. ECEC and labour force participation

Key points

- ✳ **Early childhood education and care (ECEC) contributes to greater labour force participation by enabling families, particularly mothers, to balance paid work and care. Informal care by grandparents also supports this but there has been an increasing reliance on formal care in recent years.**
 - Many families with children aged 0–3 do not use ECEC. Compared with those who do, the families typically have lower incomes, are receiving income support, live in low-socioeconomic areas and have mothers who are not in paid work and have lower education levels.
- ✳ **The participation rate of mothers with a child aged under 15 increased from 65% to 75% between 2009 and 2021, mostly due to an increase in the participation of mothers with children aged 0–4. The share of mothers working full time also rose – from 40% to almost 50% – but some prefer working part time so they can spend more time caring for children. The participation rate of fathers was consistently high (over 90%) and higher than for men without children.**
 - Mothers' preferences for paid work are shaped by many complex factors, including the affordability, accessibility and quality of ECEC. Mothers also factor in the trade-offs that come with paid work, such as spending less time with children and increased stress in balancing paid and unpaid work.
- ✳ **Parents' stated preferences for paid work suggest there is some scope to increase the participation of mothers, but limited scope for fathers. In 2020-21, most fathers were employed full time, whereas one in five mothers (or 507,000) stated they would either like a job or to work more hours.**
 - About 85,000 parents (mostly mothers) wanting a job or to work more hours nominated ECEC-related reasons as their main barrier. A further 190,000 parents did not want a job or to work more hours but reported ECEC barriers as their main reason for this. If barriers were removed, these parents may be able to work their desired hours.
 - Affordability is most frequently reported as a barrier but parents tend to report multiple ECEC-related barriers including a lack of availability and flexibility.

*** Removing all ECEC-related barriers could see an upper-bound increase in labour supply equivalent to 118,000 full-time workers.**

- Looking at parents' stated preferences suggests that, if all reported ECEC-related barriers were removed for those parents who indicate they would like a job or more hours, the equivalent of an additional 44,000 full-time workers could be added to the labour supply. These would mostly be mothers from lower income households, those with younger children (aged 0–4), those who are more likely to have not completed high school and those who are single parents.
- If parents who reported *not wanting* a job or to work more hours and for whom ECEC-related barriers are the main reason for this status are included in the estimate, then the equivalent of 118,000 full-time equivalent workers could be added to labour supply.
- These estimates are upper bounds. The analysis assumes that all ECEC-related issues are solved and that non-ECEC barriers do not prevent these parents' engagement in the labour force. The estimates also do not reflect the increases in subsidies that took effect from July 2023. Analysis that takes these caveats into account is presented in paper 6.

*** Many policy settings interact to help shape parents' work and care choices, such that tackling only ECEC expenses might have marginal impacts on labour supply.**

- The responsiveness of mothers' labour supply to a decrease in the price of ECEC is estimated to be small on average – a 1% decrease in the price of ECEC leads to an increase in participation of between 0.02-0.29% and hours worked of between 0.02-0.65%.
- Effective marginal tax rates (EMTRs) are high for many mothers, which creates a financial disincentive to working more than 3–4 days per week, but the disincentive is mainly created by the tax and transfer system rather than out-of-pocket ECEC expenses.

Parents make choices in the best interest of themselves and their children. Some choose to care full-time for their children, and not to take on activities such as paid work, studying or training or volunteering. For others, choosing to engage in such activities while their children are young, and to use some form of care provided by others while doing so, is a better fit for them (perhaps due to financial considerations or preferences).

A well-functioning, affordable and accessible early childhood education and care (ECEC) system is integral to supporting the choices of families. Not only can the system aid in the development of children (paper 1), it can also enable families to strike a balance between the time spent caring for children and engaging in paid work and other activities. For example, centre-based day care (CBDC) can allow mothers with young children to return to work, while outside school hours care (OSHC) may enable parents to work longer hours than a regular school day. The ECEC system can also be a gateway to other family services (paper 7).

Some families want to use ECEC, or use it more, but face barriers to doing so. For example, ECEC may be considered unaffordable or inaccessible, of poor quality or is unavailable in their local area. These barriers constrain families' choices.

This paper explores how the ECEC system supports families' choice to participate in the labour force and when it does not. It begins by outlining how families make decisions about work and care, including how formal and informal care support these decisions, and considers families who do not use ECEC and the reasons why (section 4.1). It then examines the state of, and trends in, parental labour supply, with a focus on mothers (section 4.2). The paper then analyses the extent to which ECEC-related barriers prevent parents from working (section 4.3) and concludes by considering the scope for increased labour force participation (section 4.4).

4.1 ECEC enables choice for families

The terms of reference for the inquiry describe the ECEC sector as ‘integral to Australia’s economic prosperity as a powerful lever for increasing workforce participation’. The system supports parents – especially mothers – to make choices about labour force participation and care that work for them.

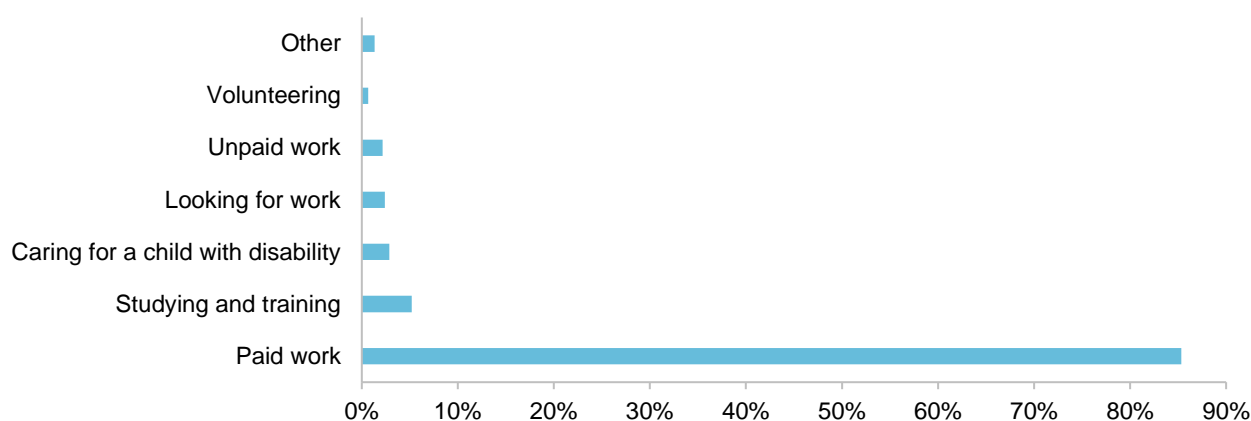
The draft national vision for Early Childhood Education and Care recognised:

an affordable and accessible ECEC system supports parents to work and study, especially women. This in turn supports the Australian economy to grow and prosper. (DoE 2023b)

Parents also use ECEC to support other activities such as studying or training, volunteering, looking for work, and engaging in unpaid work (including working in a family business, an unpaid internship or setting up a business), but these are less common than engaging in paid work (figure 4.1). Therefore, this paper mainly focuses on parents’ decisions to engage in paid work; there is also a focus on secondary income earners and mothers.

Figure 4.1 – Most people use ECEC to enable paid work^{a,b}

Main activity reported for the activity test, June 2022



a. Data is self-reported by parents and is provided for the activity test requirement of the Child Care Subsidy (CCS). The data is for a reference week in June 2022. Preschool attendance within CBDC is covered in the CCS activity test data, but dedicated preschool is not. **b.** Almost 20% of parents report undertaking multiple activities. Their main activity, in terms of hours, is reported in the chart. ‘Other’ includes unpaid leave, own disability or illness or other activity reported.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

Many factors determine mothers’ decisions to engage in paid work

Parents decide how much of their time each week to spend in paid work and how much to spend in other activities, such as caring for children, housework and leisure. But these decisions are subject to constraints – there are only so many hours that family members can work in a given week. And similarly, there are only so many hours in a week that family members can spend in other valuable activities such as caring for children, housework and leisure (Kalb and Lee 2008, p. 284). As such, if a family wants a higher income, assuming the same wage rate, a parent must sacrifice some of their non-work time (such as time spent caring for children or leisure time) and increase hours worked.

In a typical two-parent household, mothers tend to adjust their work arrangements when children are present while fathers continue to work (Baxter et al. 2016, p. 7; Broadway and Kalb 2022, p. 182). This is because mothers tend to bear a disproportionate share of time in taking care of children (Gong and Breunig 2017, p. 16).

The decisions mothers make about their level of labour force participation are influenced by a complex range of factors (PC 2014, p. 200). Often, these decisions will be based not only on a mother’s own preferences, characteristics, and situation, but also take into account the needs and preferences of other members of the household, broader policy settings and economic conditions, and societal norms (figure 4.2).

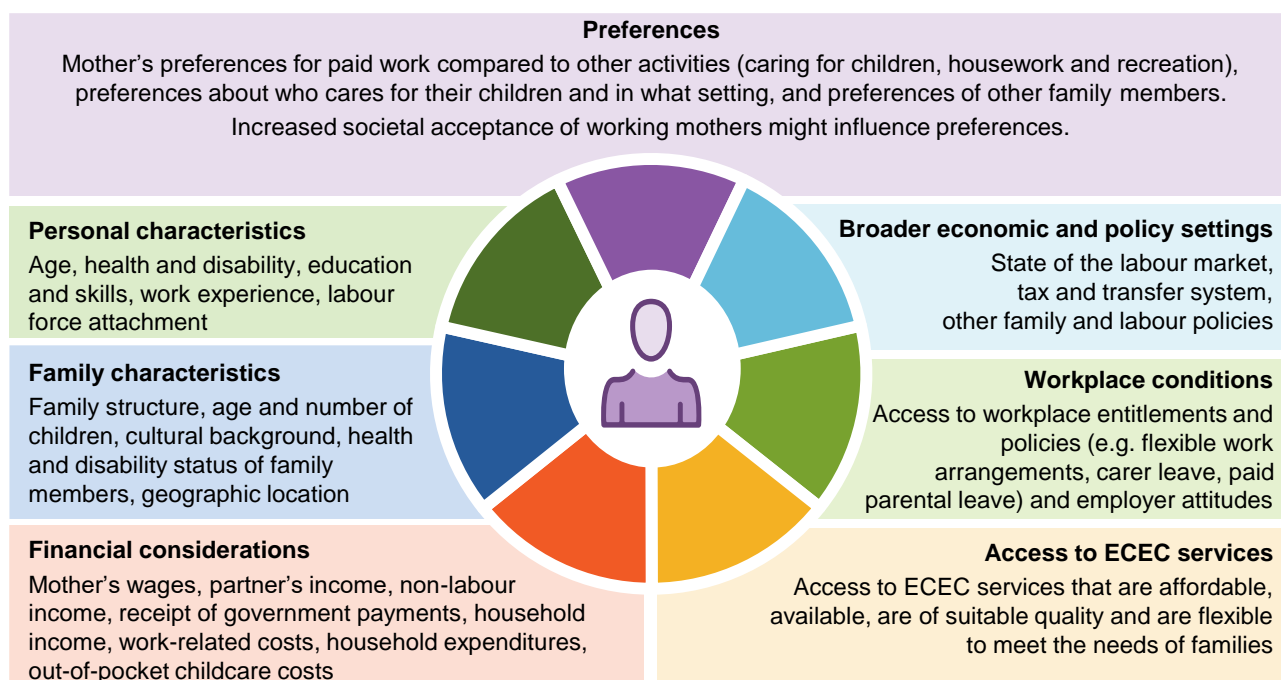
Mothers – sometimes in conjunction with partners – make decisions about participating in the labour force by weighing up the benefits and costs of doing so.

Choosing to join the labour force or working more hours has benefits for mothers. Financial benefits, such as from wages and superannuation, can contribute to a higher standard of living (for example, greater access to quality food, housing, health services and education) and ease cost-of-living pressures. Working can also offer greater opportunities for career progression and on-the-job training, which can increase future earnings, and make use of any investments in education. Other work-related benefits include improving the financial security of mothers and reducing reliance on income support, improved social networks through engaging with others in the community beyond the family, and the satisfaction that can come from working.

However, participation comes with trade-offs for parents, which include reducing time spent with children. There are also:

- effects on unpaid work and other activities undertaken by mothers, and the sharing of household duties between parents (PC 2014, p. 227; Wilkins et al. 2020, pp. 88, 95; Wood et al. 2020, pp. 38–41). Increased participation for mothers can lead to reductions in unpaid work, but may increase their total workload consisting of both unpaid and paid work (Apps et al. 2016, p. 1663; PC 2014, p. 227)
- additional stresses or pressures from maintaining a work–life balance (Wood et al. 2020, p. 39)
- effects on a partner’s labour force participation (typically the father) (PC 2014, pp. 228–229)
- effects on the labour force participation of extended family members, such as grandparents, who may be providing informal care (PC 2014, pp. 229–231).

Figure 4.2 – Mothers’ labour force participation decisions are shaped by many factors



Source: Based on Baxter et al. (2016, pp. 7–10) and Productivity Commission (2014, pp. 200–202).

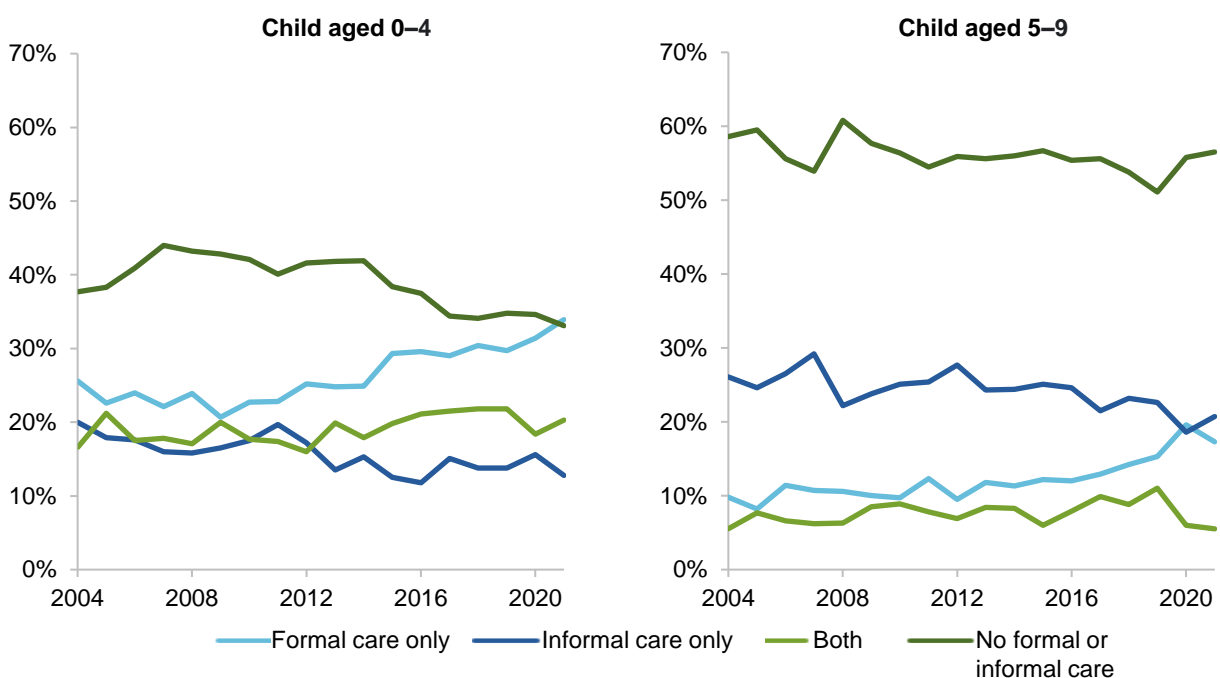
Formal and informal care assist families to balance work and care

Formal and informal care for children play an important role in supporting the wellbeing and choices of families. Non-parental care of children helps families to function, balancing the needs of children to learn and develop and parents to work or study, go shopping or attend appointments and social activities.

- **Formal care** refers to regulated care and early learning services for children – that is, ECEC. These services are government regulated and most receive public funding and/or subsidies. They include, for example, CBDC, OSHC, family day care (FDC), In Home Care (IHC) and preschool.
- **Informal care** refers to non-regulated care and includes care provided by relatives, friends, neighbours, nannies, au pairs and babysitters both on a paid and unpaid basis.

Formal care is playing a much more important role in society today than previously. Families' use of formal care has increased, while their use of informal care has decreased over time (figure 4.3). Since the early 2000s, a growing share of families has been using only formal care – this trend is especially prevalent for children aged 0–4 for whom formal care only is now the most common arrangement. In contrast, a decreasing proportion of families are using only informal care for children aged nine and under. Some families also use a combination of both formal and informal care, particularly for younger children. Still, a high proportion of families do not use formal or informal care.

Figure 4.3 – Use of formal care has increased while use of informal care has declined^{a,b}
Percentage of families using informal and formal care, 2004–21



a. Panel a shows the proportion of families with a child aged 0–4 that use each type of care. Panel b shows the proportion of families with a child aged 5–9 that use each type of care. **b.** Preschool is included in the definition of formal care to the extent that it is reported in HILDA. There are some concerns that preschool use is underreported in HILDA due to it being asked within a module on ‘childcare’. Therefore, the proportion of families with children aged 3–5 using ECEC is likely understated in the figure as it likely excludes the use of preschool.

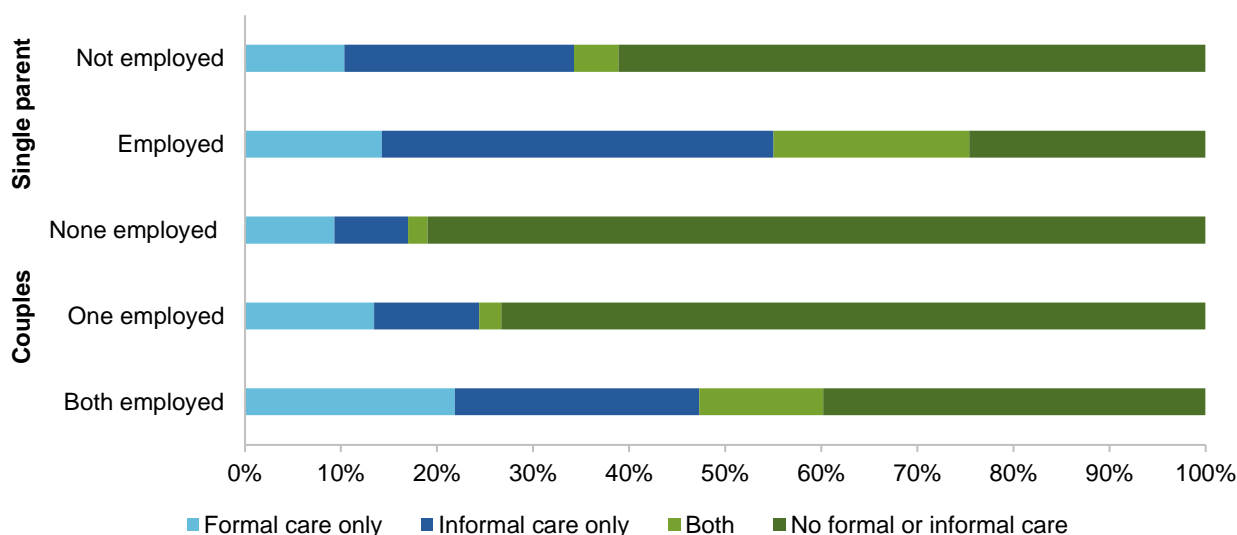
Source: Productivity Commission estimates based on HILDA Release 21.

These trends have been occurring over several decades – ‘in 1984, 18.9% of preschool aged children of couple families with both members employed and employed single parent families used formal care and

47.8% used informal care, by 2017 these proportions were effectively reversed' (Bray and Gray, sub. 14, p. 35). These changes are consistent with expansions in the formal ECEC sector over this time, and with increasing rates of labour force participation among grandparents, the primary providers of informal care (as discussed below).

Looking more closely at how care types are used, formal care is more common among families who have at least one parent employed (figure 4.4). And some research has found that employed mothers work longer hours if they use both formal and informal care; for partnered mothers this was due to an increase in hours of childcare available, and for single mothers it was due to increased flexibility (Brady and Perales 2016, p. 321).

Figure 4.4 – ECEC is more important for families with at least one parent employed^a
Percentage of children aged 0–12, 2017



a. Under the ABS definition, preschool is not counted in formal care, and is therefore not depicted in the chart.

Source: ABS (*Childhood Education and Care, Australia, June 2017*).

Other families with at least one employed parent may use informal care because the formal system cannot support their current work requirements. For example, parents with jobs that are characterised by short shifts, fluctuating hours, precarious shifts and rosters and non-standard hours (such as retail), may find it hard to access formal care within the structure that it is provided (SDA, sub. 72, p. 2). These parents could substitute towards formal care if it becomes more accessible or affordable.

While there has been a shift towards formal care over time, it is not a perfect substitute for informal care. Some parents likely have strong preferences for care provided by family and friends (for example, mothers who work shift hours may prefer if their child stays with a grandparent overnight). These parents are less likely to substitute towards formal care, even if it becomes more accessible or affordable. To the extent that substitution occurs, the effects of expanding ECEC access on increasing labour supply may be dampened. For example, Yamaguchi et al. (2018, p. 8) found that substitution effects were a key reason for the small impacts of a childcare expansion on labour supply in Japan. Similarly, in the Netherlands, an expansion of subsidised childcare for children aged 3–6 caused a small increase in maternal labour supply but a large decrease in informal care (Havnes and Mogstad 2011, p. 1456). Therefore, any policies that aim to expand ECEC access to increase labour supply need to consider the extent to which expansions might simply crowd

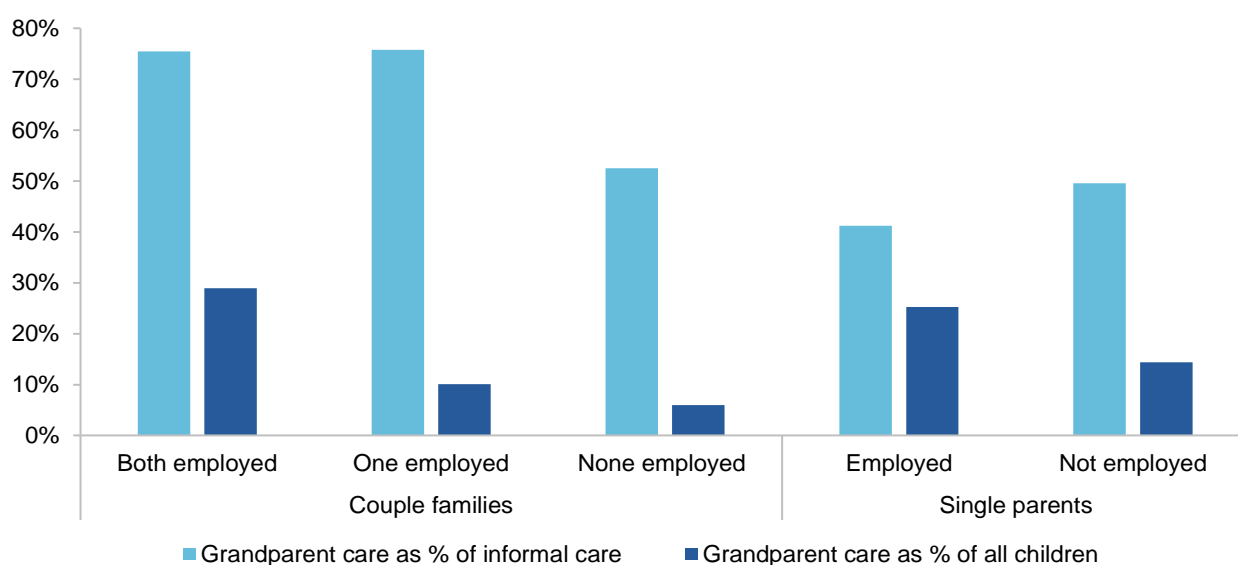
out informal care arrangements. That said, there might be an increase in labour force participation among those who had been providing that informal care.

Grandmothers are providing the bulk of informal care

Grandparents – typically grandmothers (Craig et al. 2019, p. 151) – are performing the bulk of informal care, and they tend to provide more care if parents are employed (figure 4.5). In couple families where at least one parent is employed and they are using informal care, over 70% are using grandparent care. The share is lower for employed single parents reflecting that non-resident parental care is included as informal care in the data underpinning the figure. Grandparents are more likely to provide care if they are not working full time and if they live close by to the child (AIFS 2022, p. 15). Grandparents typically provide fewer than 10 hours of care per week, but about 6% of children are cared for by grandparents for 30 hours or more (ABS 2018, tbl. 6).

Figure 4.5 – Grandparents do the bulk of informal care^a

Children usually in grandparent care as a percentage of children using informal care and all children aged 0–12, 2017



a. Single parent estimates include non-resident parent care as informal care, which is almost as prominent as grandparent care.

Source: ABS (*Childhood Education and Care, Australia, June 2017*).

Families use grandparent care for a range of reasons. For example, grandparent care is mostly unpaid, it allows children to develop relationships with their grandparents and it helps to supplement the care provided by the formal ECEC system (Jenkins 2010, pp. 5–6). One of the key reasons grandparent care is used is because of its flexibility and responsiveness compared to other forms of care (Jenkins 2010, p. 5). For these reasons, grandparent care is relied upon during school holidays, and on weekends and week nights, for example (Jenkins 2010, p. 5).

Most grandparents undertaking this role find it rewarding, but it can create stress. A recent survey found that 97% of grandparents (mostly female) enjoyed providing the childcare (AIFS 2022, p. 1). And although some grandparents found that childcare was tiring, some found it energising (AIFS 2022, p. 27). Lack of choice

over childcare responsibilities or long or nonstandard hours can have a negative effect on grandparents' wellbeing (Hamilton and Jenkins 2015, p. 5).

Caring for grandchildren may also become a barrier to work for grandparents or may result in them reducing their hours worked to be able to provide care.

Many grandparents were 'working around care', balancing work and care responsibilities and making significant adjustments to their work as a result. Among those surveyed, 70% altered the days or shifts they worked, 55% reduced their working hours, and 18% had even changed their job because of their caring commitment. (Hamilton and Jenkins 2015, p. iii)

In the US, becoming a grandmother reduces hours worked by 30% (with the effect largest for those grandmothers working few hours prior to the birth) (Rupert and Zanella 2018, p. 89), while in Austria the birth of the first grandchild increases the chances that a grandmother leaves work by 9% (Frimmel et al. 2022, p. 1645). These results suggest that efforts to expand the use of the formal care sector may strengthen the labour market attachment of grandmothers.

Families do not use ECEC for a range of reasons

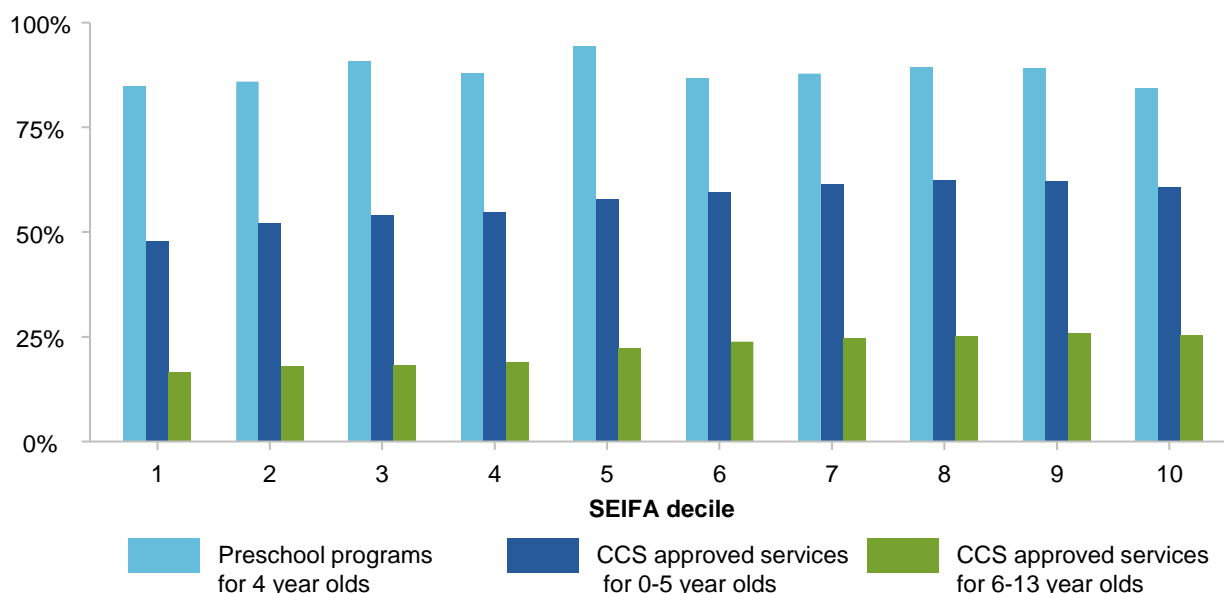
There are families who do not access the ECEC system. In 2021, 88% of children aged four were enrolled in a preschool program, and 57% of children aged 0–5 and 22% of children aged 6–13 attended a CCS-approved service at some point during the year (Productivity Commission estimates based on DoE administrative data and ABS Preschools data).¹ As children age they are more likely to care for themselves after school hours and not use the formal system. From a policy perspective it is important to understand the characteristics of these families and the reasons why they may not be using ECEC.

Families living in low socio-economic areas are less likely to be using ECEC than children from high socio-economic areas (figure 4.6). The pattern is less pronounced for preschool, but still exists.

Consistent with this, mothers in couple families and single parents who are not using ECEC tend to have lower family incomes (paper 6) and other characteristics that are often associated with lower incomes – such as lower education levels, receiving income support and not working (figure 4.7). Children from these types of families tend to be the ones who can benefit the most from ECEC participation (paper 2).

¹ These estimates refer to any use of ECEC across the year. As some children move in and out of ECEC across the year, point-in-time estimates are typically lower, for example, in the 2021 December quarter, 48% of children aged 0–5 years used ECEC (DoE 2023a). Many of the children in the DoE administrative data are enrolled in preschools within a CBDC. There is no way to distinguish this type of preschool use from only CBDC use in this data.

Figure 4.6 – Children in low socio-economic areas are less likely to use ECEC^{a,b,c,d}
Proportion of children in relevant age group attending ECEC, 2021



a. DoE administrative data is used to identify the number of children who *attended* CCS-approved ECEC services (CBDC, FDC, OSHC and IHC) at any time in 2021 by Statistical Area 2 (SA2). Age is calculated as at 1 July 2021. ABS 2021 preschool data is used to identify the population of children *enrolled* in preschool by SA2. **b.** Preschool and ECEC counts overlap for children aged four. Many children in the DoE administrative data are enrolled in preschool programs within a CBDC, but there is no way to distinguish the use of preschool programs in CBDC and CBDC use only. Similarly, the ABS preschools data assume that children attending CBDC of the appropriate age are receiving a preschool program. **c.** Socio-Economic Indexes for Areas (SEIFA): 1 denotes the most disadvantaged area; 10 the most advantaged area. SEIFA is based on SA2s. **d.** A similar trend for preschool is observed if the age is expanded to include children aged three and five.

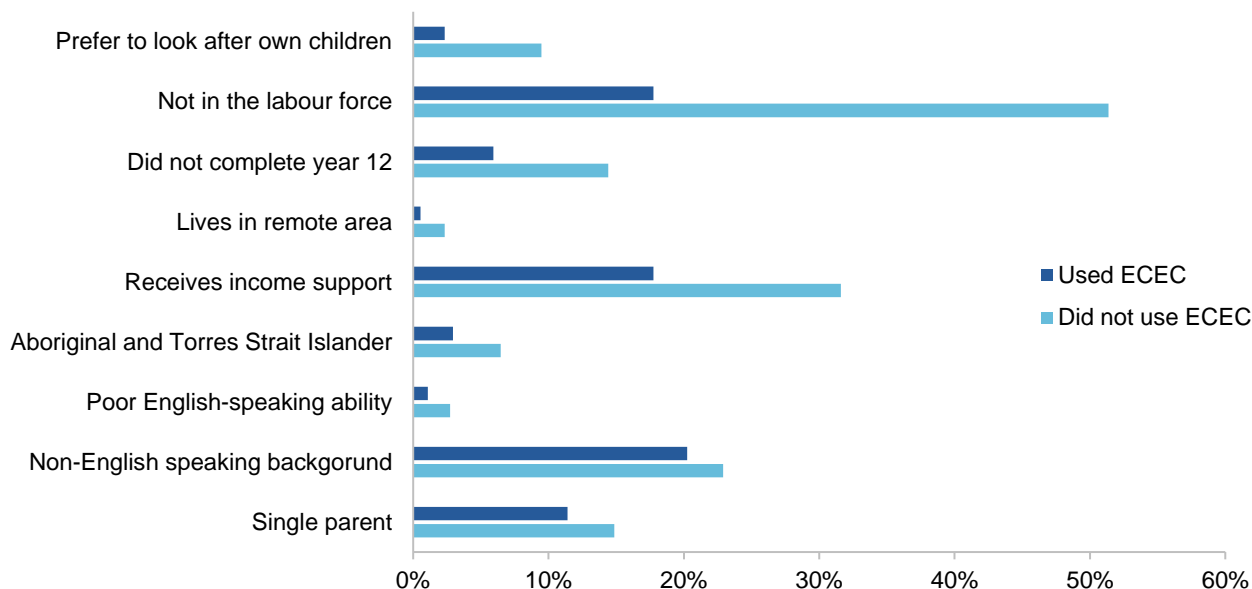
Source: Productivity Commission estimates based on ABS (*Tablebuilder, Census of Population and Housing, 2021*; *Tablebuilder, Preschool Education, Australia, 2021*); DoE administrative data (unpublished).

Many families who do not use formal ECEC tend to have a parent at home to care for children or an available friend or relative (figure 4.8). This is perhaps unsurprising given the strong link between formal ECEC use and mother's employment. Families also reported not using ECEC because they wanted to develop stronger bonds with their children – some non-users have a preference to care for their own children. Non-users are more likely to have traditional views about parental roles and women's labour force participation (figure 4.9), to prefer home-based care, to have younger children and to have a child with a major health issue (NSW PC 2023, p. 13).

Some non-users also reported barriers that prevent them from using ECEC (figure 4.8). The cost of ECEC is the most frequently reported barrier. Concerns around flexibility, accessibility and the quality of ECEC appear to be less significant barriers for non-users compared to cost. Findings from qualitative studies have indicated that these factors are generally not absolute barriers on their own, but they can 'tip the balance' for families not using ECEC when combined with other factors (The Front Project 2021, p. 25). A more detailed discussion of ECEC-related barriers is provided in section 4.3.

Whilst families may not use formal care due to both preferences and ECEC-related barriers, there is often overlap between the different factors that influence families to not use ECEC. For example, some families may have a parent at home to care for children because they also report ECEC being unaffordable.

Figure 4.7 – Many characteristics of non-users are correlated with lower income^a
Shares of mothers in couple families and single parents with a child aged 0–4, by use of ECEC, 2018–21

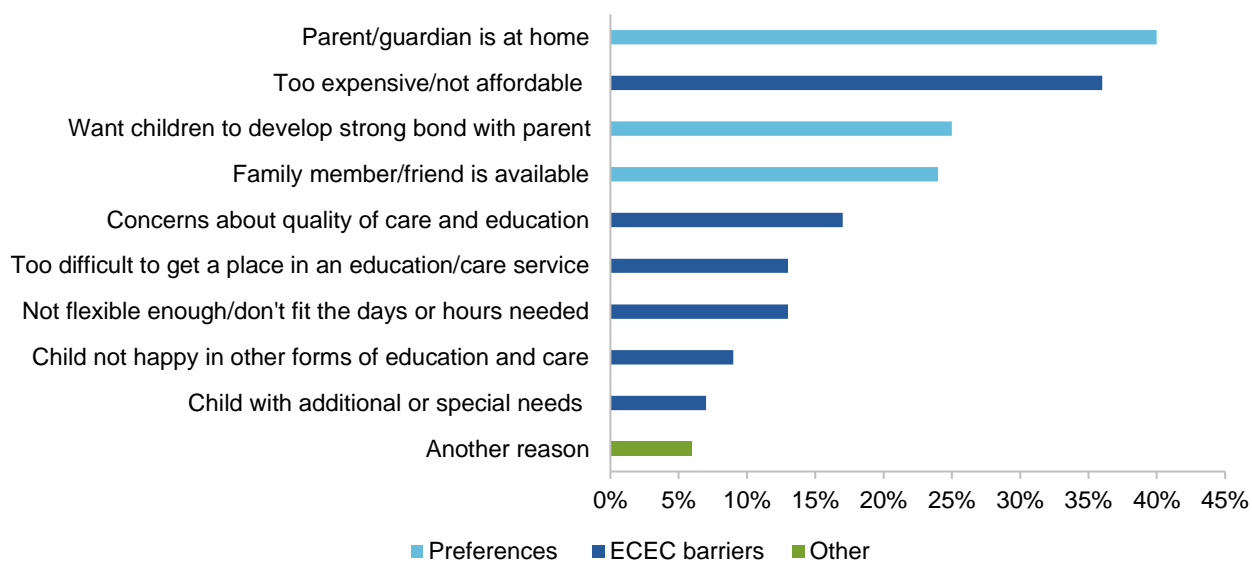


a. The preference to look after own children is only asked of people who are not in the labour force. All differences are statistically significant at the 5% level. Respondents are mothers in couple families with a child aged 0–4 and all single parents (the majority of whom are mothers) with a child aged 0–4.

Source: Productivity Commission estimates based on HILDA Release 21.

Figure 4.8 – Having a parent at home was the most commonly reported reason for not using ECEC^{a,b}

Responses from parents of children aged 0–5, Feb–Mar 2021

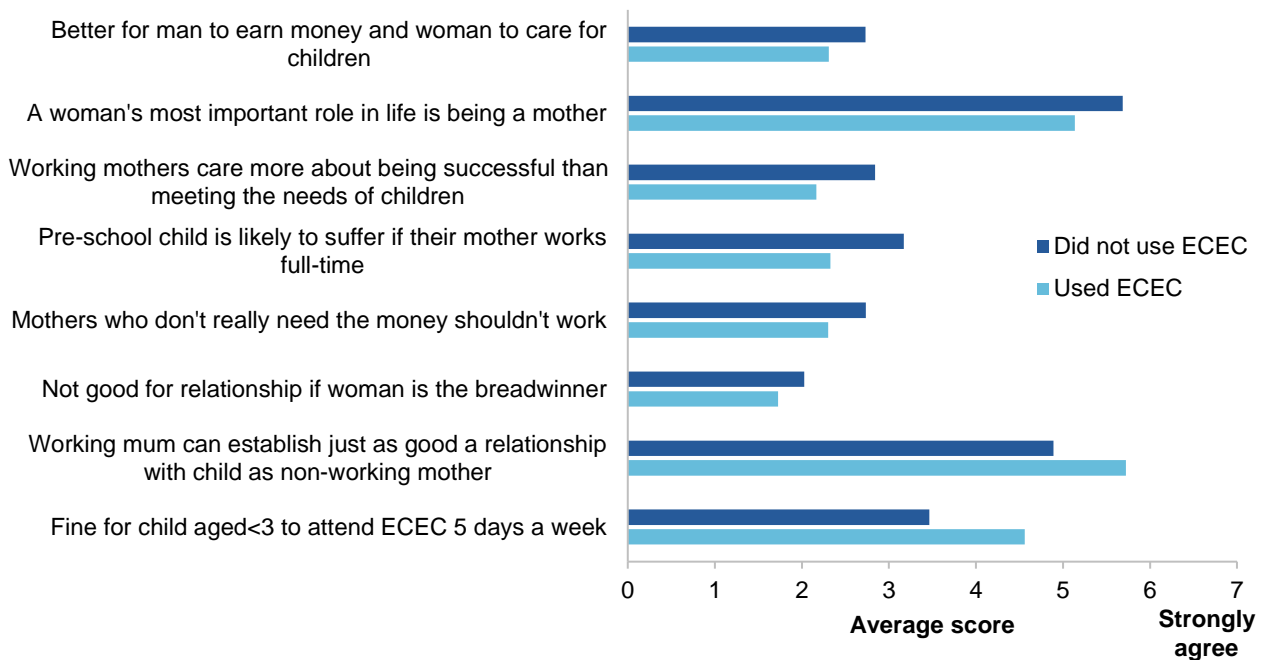


a. Results are based on a quantitative survey (1,695 parent respondents), and qualitative research (bulletin board, narrative interviews and a co-creation session) with 26 users and non-users of ECEC. Respondents were allowed to choose multiple responses. b. Responses are divided into those that may more likely reflect preferences and those that represent ECEC-related barriers to use.

Source: The Front Project (2021, p. 25).

Figure 4.9 – Users and non-users with young children have slightly different attitudes towards ECEC and women’s labour force participation^a

Attitudes among mothers in couple families and single parents with a child aged 0–4, by using and not using ECEC, 2018–21



a. Responses are given on a 7-point Likert scale, where 1 is strongly disagree and 7 is strongly agree. The chart shows the average responses of users and non-users. All differences are statistically significant at the 5% level.

Source: Productivity Commission estimates based on HILDA Release 21.



Draft finding 4.1
Low-income families are less likely to use ECEC

Many families rely on ECEC services, or on a combination of formal and informal care, to participate in the labour force, access study and training or volunteer. ECEC is also a vital link to broader support services.

Families who do not participate in ECEC typically have lower incomes and are more likely to be unemployed or not in the labour force, have a lower level of education and to be receiving income support than those who do participate. They also tend to have more traditional beliefs about gender roles and live in low socio-economic communities.

Families are less likely to use ECEC if they have a parent at home to care for children – whether this is due to their preferences or barriers that prevent them from accessing ECEC is difficult to disentangle. Some families may want to use ECEC but find it too expensive or inaccessible; others may have concerns over the quality of care.

4.2 The state of parental labour supply

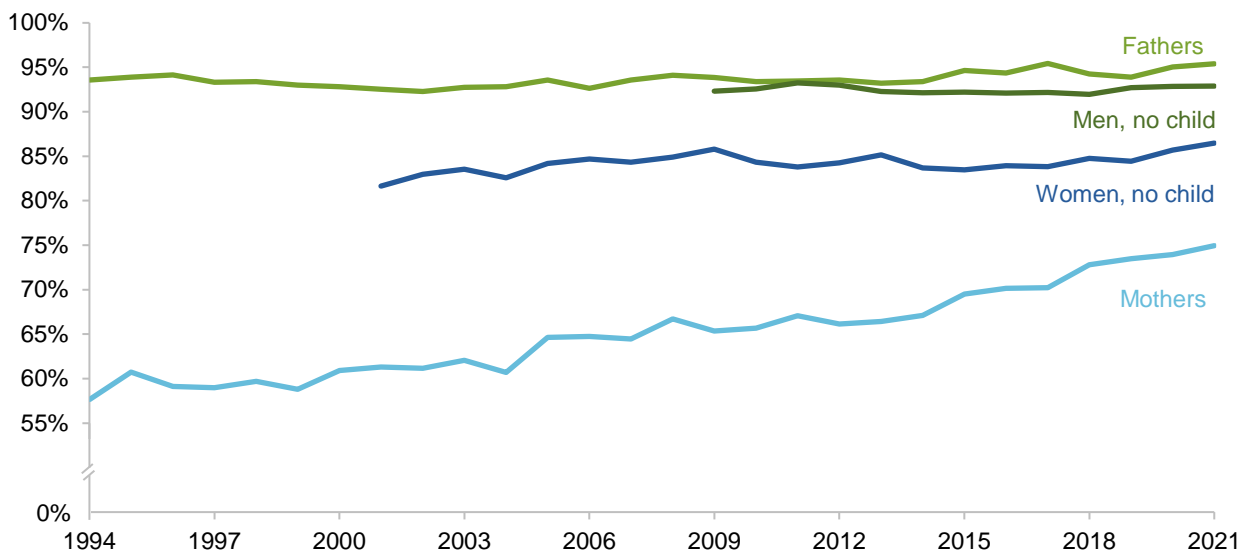
Mothers are increasingly likely to be employed

Over at least the past 30 years, the labour force participation of mothers has increased (figure 4.10). At least in part, this reflects increasing levels of education among women and women’s desire to combine a career with child rearing and increased societal acceptance of mothers engaging in paid work. The number of women holding a bachelor’s degree or above increased from 4.2% in 1982 to 33% in 2019 (National Skills Commission 2021), which has contributed to women building a stronger labour market attachment and increases the likelihood of them returning to work after childbirth (Baxter 2005, p. 16). Stronger labour market connections are also evident for grandmothers (box 4.1).

Mothers’ participation, however, remains considerably lower than fathers’ and relative to women of a similar age who do not have children.

Fathers have a slightly higher participation rate than men without children of a similar age range (figure 4.10). Most fathers also tend to work full time (section 4.3). Single fathers, on the other hand, have lower participation rates than partnered fathers and are more likely to be engaged in part-time work (Baxter 2023b, p. 18). This group is small – single fathers accounted for 15% of single parent families with children aged under 15 and only 3% of all families with a child aged under 15 in 2022 (ABS 2022a).

Figure 4.10 – Mothers’ labour force participation has increased but is lower than others^{a,b}
Participation rates for parents, men and women aged 25–54, 1994–2021



a. Participation rates are for fathers and mothers with a dependent child aged under 15 years for the period 1994–2014, fathers and mothers aged 25–54 with a dependent child aged under 15 for the period 2015–2021. Participation rates for men without children relate to coupled men (husbands and partners). **b.** Data was compiled from three sources: the ABS Labour Force Status and Other Characteristics of Families for 1994–2014 (as used in the Commission’s 2014 ECEC inquiry), ABS Participation, Job Search and Mobility for 2015–2021 and ABS, Labour Force Status of Families for men without children (2009–2021).

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022; Tablebuilder, Participation, Job Search and Mobility, Australia, February 2022*); PC (2014, p. 189).

Some gendered employment patterns exist in same-sex couples with children too.² Male same-sex couples are much more likely to have both parents working full time than in other couple families, but they are also more likely to have both parents not employed (Baxter 2023b, p. 21). Female same-sex couples are more likely than other couples to have at least one parent working part time (Baxter 2023b, p. 21).

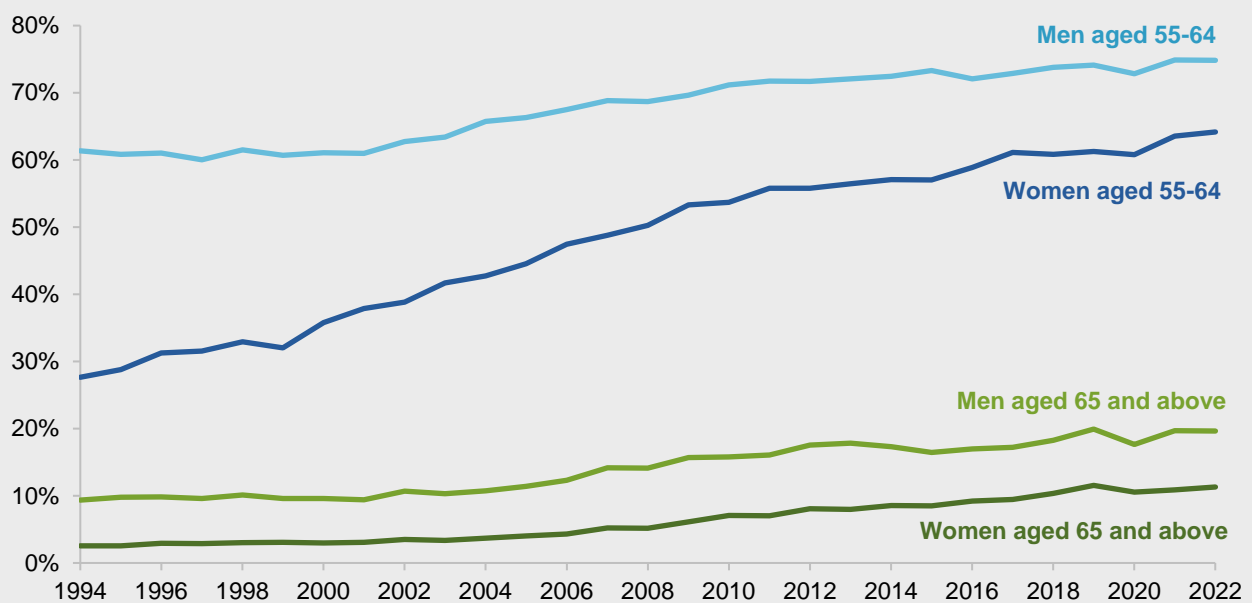
Box 4.1 – Older women are increasingly likely to be employed

Older women are participating more in the labour force than before. The figure below shows the striking increases in female employment between 1994 and 2022 at older ages. For example, the participation rate of women aged 55–64 increased from 28% to 64%. Participation among older men also increased but to a lesser extent – their rates of participation remain higher than for older women.

Many factors have contributed to the increase in participation such as increases in the retirement age and life expectancy, improvements in overall health and changes in social and demographic trends (such as increased educational attainment, decreased fertility rates and increased availability and use of flexible work, childcare and maternity leave), increasing connections to the labour market across the lifetime (AIHW 2023; Baxter 2023a).

About half of employed older women work part time – a trend that has been consistent for over 30 years (ABS 2023c). They have strong preferences for part-time work because it can help transition to retirement and accommodate caring for relatives or their own health issues (Cassidy and Parsons 2017, p. 21).

Growth in the labour force participation of older men and women



Source: ABS (*Labour Force, Australia, detailed, May 2023*).

² This group is typically too small to be picked up reliably in most sample surveys, but census data that cover the entire population can be used to provide some insights into this group.

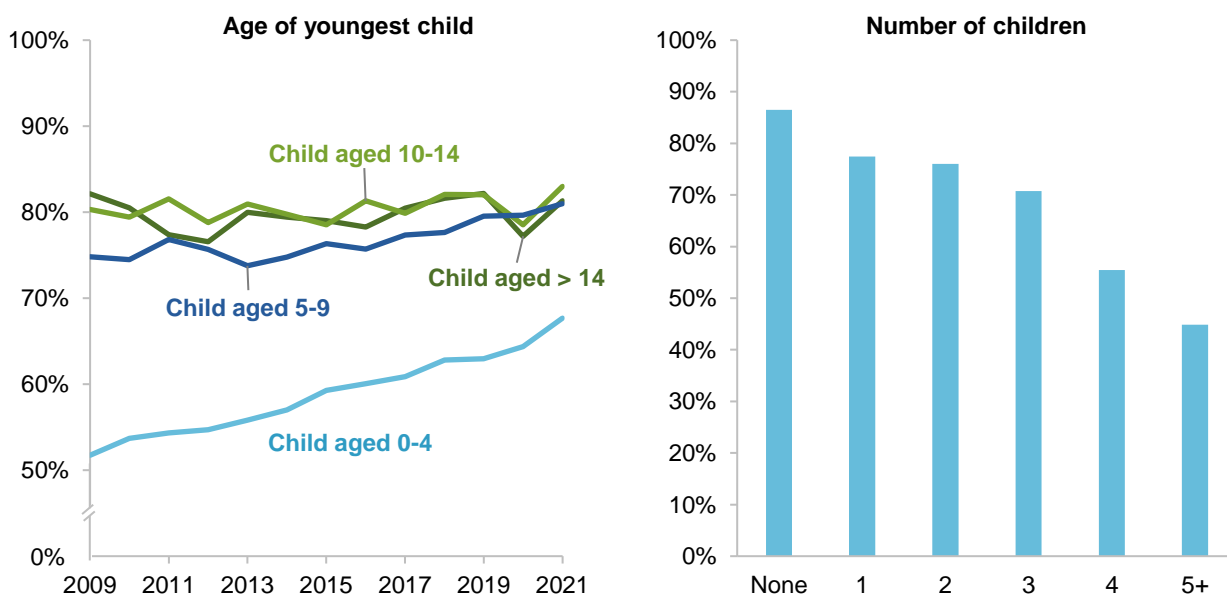
Mothers of children aged 0–4 have substantially increased their participation

The increases in participation among mothers have been particularly strong for those with children aged 0–4 – the participation rate increased by 16 percentage points from 52% in 2009 to 68% in 2021 (figure 4.11). This group is one of the main contributors to the rise in mothers’ participation observed in figure 4.10 above. Better access to quality ECEC, paid parental leave and workplace flexibility are contributing to mothers returning to work, but factors like rising education and changing social norms have also contributed (Tuohy 2023).

While there has been growth in participation among mothers of young children, they still have lower participation rates than other groups. Lower participation rates are seen among:

- mothers of younger children (figure 4.11)
- mothers with more children (figure 4.11)
- single mothers when compared with partnered mothers – with the gaps being largest when children are young (figure 4.12).

Figure 4.11 – Increases in participation have been strong among women with children aged 0–4; but mothers with younger and more children have lower participation rates^a
Participation rates of mothers by age of youngest child (2009–21) and number of children (2021)

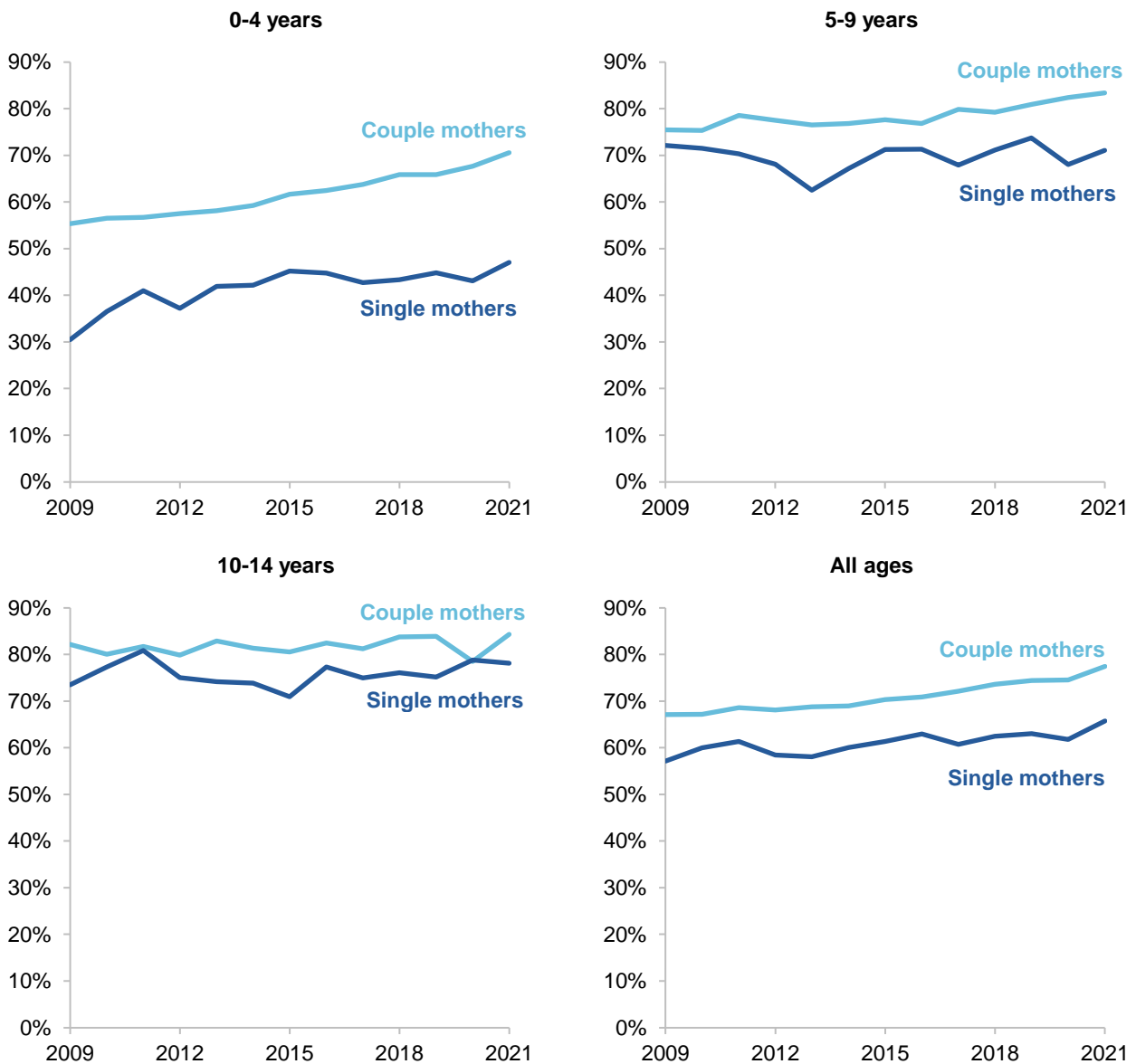


a. Panel b shows participation rates for women aged 25–54 years by number of children aged 0–14 years.

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022; Tablebuilder, Participation, Job Search and Mobility, Australia, February 2022*).

Figure 4.12 – Participation gaps between single and partnered mothers are greater when children are younger^a

Participation rates of single and partnered mothers by age of youngest child, 2009–21



a. 'All ages' includes children aged 0–14 years.

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022*)

Despite improvements in participation a 'motherhood penalty' still exists

Long periods of being out of the labour force or working part time can negatively impact mothers' careers (box 4.2). Evidence also shows that the longer a woman remains out of the labour force the less likely she is to return. NSW Treasury (2022a, p. 17) noted:

the probability of women not returning to work after a short period away for non-child-related reasons is 10 per cent, while the probability of women who take longer, child-related career breaks never returning to the workforce is 30 per cent.

ECEC, especially for mothers whose children have not yet started school, and other policies that strengthen labour market attachment (such as, paid parental leave and workplace flexibility) will likely contribute to reducing the ‘motherhood penalty’ by providing avenues to help mothers to return to work earlier.

Box 4.2 – The ‘motherhood penalty’

Having a child is a significant event that can have repercussions for the labour market outcomes of mothers. While fathers tend to continue working (or even increase hours), mothers tend to face larger disruptions. Mothers tend to reduce their participation around the birth of a child, with some returning to paid work, in some capacity, as children age and others remaining out of the labour force.

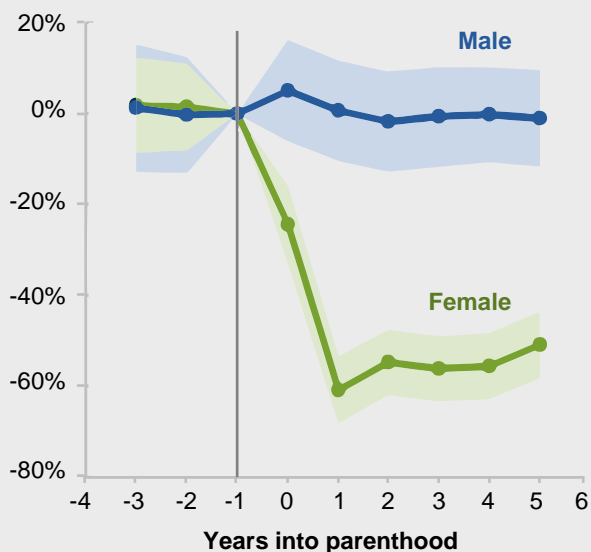
This employment disruption can affect future labour market outcomes of mothers (such as, earnings, career progression and superannuation).

The arrival of children creates a large and persistent increase in the gender earnings gap. Women’s earnings are reduced by an average of 55 per cent in the first 5 years of parenthood. The gap in earnings – termed the ‘motherhood penalty’ – remains significant a decade into parenthood. (Bahar et al. 2022, p. 37)

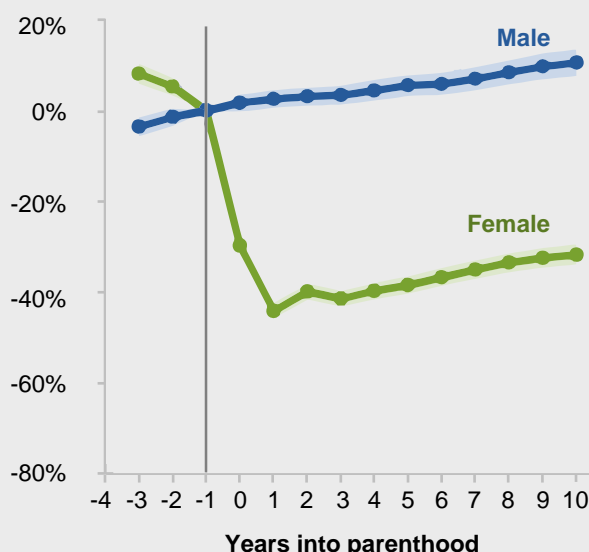
The motherhood penalty can come from three margins: employment; hours of work; and the hourly wage rate. While all three margins contribute, the effects of employment and hours worked are the largest drivers of the penalty in Australia (Bahar et al. 2022, p. 37). But unlike employment, which makes a modest recovery after five years, hours worked does not. This suggests that hours worked may be even more important in its contribution to the motherhood penalty.

Estimates of the motherhood penalty on wage and salary earnings in Australia^a

a) Short run motherhood penalty (HILDA)



b) Long run motherhood penalty (Alife tax data)



a. Motherhood penalty estimated after running an event study of the form specified in Kleven et al. (2019). Estimated magnitudes across panels will differ due to different data sources. Shaded area shows 95% confidence intervals, based on robust standard errors.

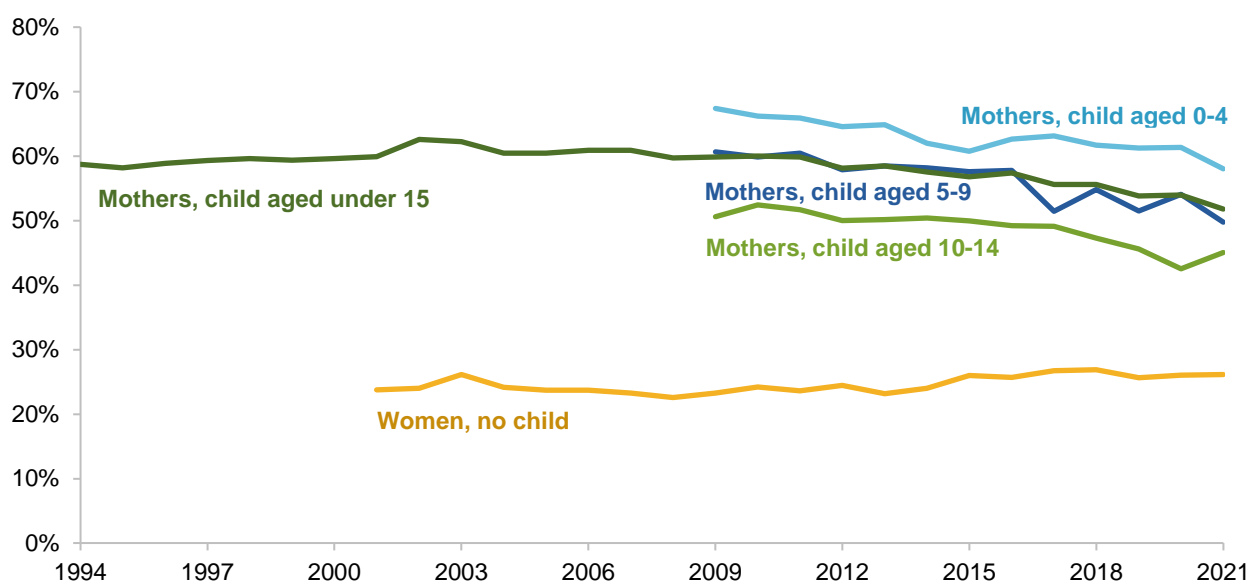
Source: Bahar et al. (2022, p. 38).

Full-time work among mothers has increased

The share of employed mothers working full time has increased in the past decade (figure 4.13).³ There was little change in the share of part-time employment between 1994 and 2011, but since then there has been a gradual decrease in the share from about 60% to 50%. This implies there has been an increase in full-time work such that 50% of mothers now work full time. This trend is evident among mothers with children across all age groups – for example, in 2011 about 34% of mothers with children aged 0–4 worked full time, and this share had increased to 42% in 2021.

Mothers with younger children and multiple children tend to have higher rates of part-time employment (figure 4.14), perhaps reflecting a greater caring load which means they have less time to engage in work or prefer to care for younger children. Single and partnered mothers have similar part-time rates of employment. In 2021, single mothers had a part-time employment rate of 53% compared to 52% for partnered mothers (ABS 2022b).

Figure 4.13 – The share of part-time work has decreased – full-time work has increased^a
Share of part-time employment for mothers and women without children, 1994–21

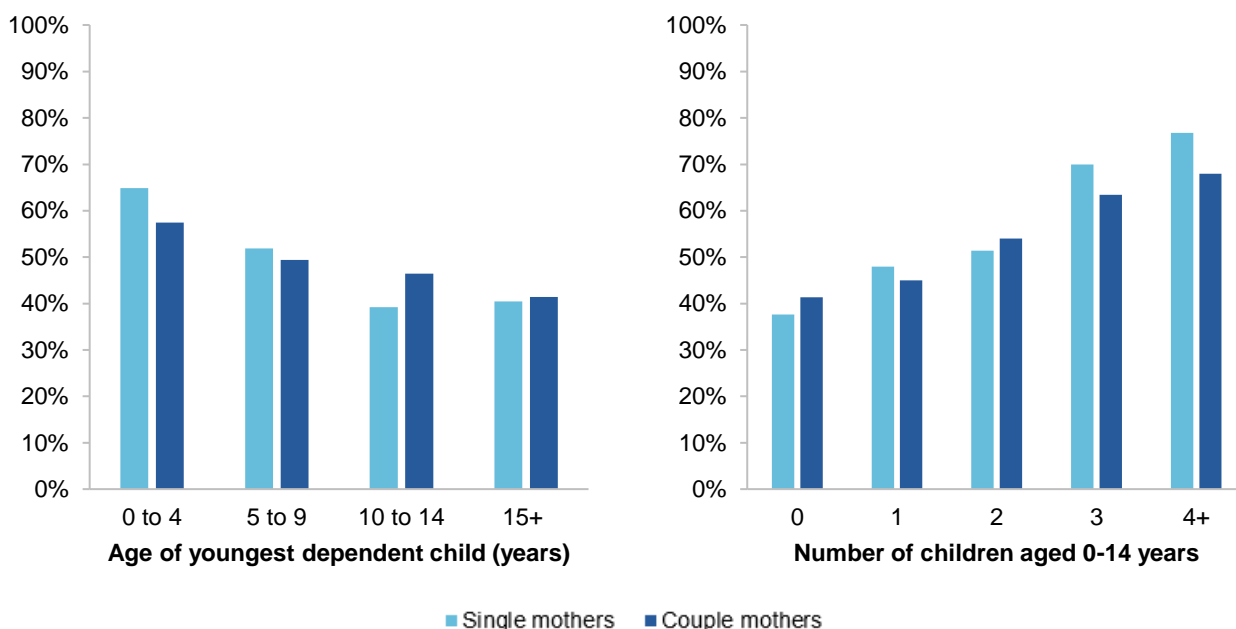


a. Data was compiled from three sources. For 1994–2014, data come from the ABS Labour Force Status and Other Characteristics of Families used in the Productivity Commission’s 2014 ECEC inquiry. For 2015–2021, data for mothers come from the ABS Labour Force Status of Families. For 2015–2021, data for women without children come from the ABS Participation, Job Search and Mobility, Australia. Women without children are aged 25–54 years.

Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022; Tablebuilder, Participation, Job Search and Mobility, Australia, February 2022*); PC (2014, p. 191).

³ Full-time employment is defined as working 35 hours or more across all jobs in a usual working week (ABS 2023d).

Figure 4.14 – Part-time employment is more common among mothers with younger children and multiple children, but the rates do not vastly differ by partner status
Part-time employment rates for mothers, 2021



Source: ABS (*Tablebuilder, Labour Force Status of Families, June 2022*).

Mothers have increased their average hours of paid work over the past two decades. Mothers who work part-time tended to work about 19 hours per week on average in 2001, and this had increased to almost 23 hours per week in 2021 (Productivity Commission estimates based on HILDA Release 21). Meanwhile, average hours worked for mothers employed full time has not changed over time – they work about 42 hours on average.

Some mothers work jobs with irregular or less predictable hours. For example, in 2022, 17% of working mothers were employed on a casual basis, about 18% did not work the same hours each week and about 13% were engaged in shift work (ABS 2023b). Working in these types of jobs can make finding suitable childcare arrangements more challenging (paper 7).

The proportion of women working full-time differs across life stages

Women experience a decrease in both participation and full-time employment across their child-rearing ages. While participation recovers as children grow up, the decline in full-time employment does not fully recover (figure 4.15). This is still the case in some countries but not the case in others (OECD 2018). For example, the Nordic countries do not seem to experience the same dip in female employment at child-rearing ages that Australia does. Not only do women in Nordic countries tend to stay employed they also continue to work full time during their child rearing years (Grudnoff 2022, pp. 16–17).

The dip in participation and full-time employment seen at child-rearing ages, however, is becoming less pronounced among newer generations in Australia (ABS 2021).

Figure 4.15 – Women’s participation and full-time employment falls at child rearing ages
Female participation rate and share of full-time employment by age group, 2021



Source: ABS (*Tablebuilder, Participation, Job Search and Mobility, Australia, February 2022*).

Is part-time work a result of preferences?

Part-time employment has become a common feature of the Australian labour market generally. The share of part-time employment has risen steadily since the 1960s such that part-time employment now represented over one-third of total employment in Australia in 2017 (Cassidy and Parsons 2017, p. 19). While this trend is common in other advanced economies, Australia has one of the highest part-time employment rates among OECD countries (see below). A large share of this is explained by students (aged less than 25) who are working part time (Cassidy and Parsons 2017, pp. 19–20).

The increase in part-time work has been a result of both labour demand and supply factors (Abhayaratna et al. 2008, p. XVI; Cassidy and Parsons 2017, p. 19). Changes in demand for part-time workers reflects the following factors.

- A transition to a service economy has resulted in growth in tourism, hospitality, education and health sectors where the nature of work involves irregular hours and as such there is more scope for part time and casual work.
- There is evidence that some firms are using part-time employment to respond to cyclical fluctuations in demand for their output and to increase the flexibility of their business models and manage costs effectively (Cassidy and Parsons 2017, p. 22).

Labour supply factors have also been important. The demographic of the labour force has changed with greater entry of women into the labour market, increased levels of employment of young people still engaged in education (including international students and working-holiday makers) and greater numbers of older people working. These groups have typically preferred to work part time and the Australian labour market has accommodated these preferences (Abhayaratna et al. 2008, p. XX).

A large majority of mothers attribute their part-time work status to either caring for children or preferences for part-time work. In 2021, about 67% of mothers state they are working part time (rather than full time) because they are caring for children, 20% state they prefer working part time and a mere 3% state they

could not find full-time work (Productivity Commission estimates based on HILDA Release 21). As children age, mothers tend to less frequently report caring for children as the main reason for working part time and to more frequently report a preference for part-time work.

Does 'caring for children' reflect a preference or the inability to work more hours due to other factors such as being unable to find or afford adequate ECEC arrangements? Looking at stated preferences to work more hours can shed some light on this question. In 2021, of the mothers working part time who said they were doing so because they were caring for children, only 16% expressed a preference to work more hours (given their current circumstances and state of the ECEC system) (Productivity Commission estimates based on HILDA Release 21). This implies that for almost 85% of mothers, there was a stated preference to work part time so that they can also care for children. Further, for those mothers who were not working full time, the most important incentive they reported for looking for work or more hours was 'the ability to work part-time hours', that is, these mothers wanted a job where they could work part-time hours (ABS 2023a). Preferences are therefore a significant factor in the decision to work part time. As Goodstart (sub. 125, p. 92) noted, '[u]ndoubtedly, some women's workforce participation decisions are not driven by [workforce disincentive rates] or by financial incentives as part-time work reflects their preference'.

Participation rates are lower and part-time rates are higher in Australia than in other OECD countries

Participation rates of men and women in Australia are lower than in other developed countries. In 2022, for men aged 25–54, the participation rate was about 91% for Australia – about the OECD average – but Australia ranked 29th out of 38 OECD countries because rates were quite similar across countries (OECD 2023c). For women, the participation rate was about 82% – higher than the OECD average of 75% but lower than many other countries (a ranking of 27 out of 38) (OECD 2023c). Australia's participation rate for women is in line with the average of other English speaking countries, but is about 5 percentage points lower than the Nordic average (figure 4.16).⁴

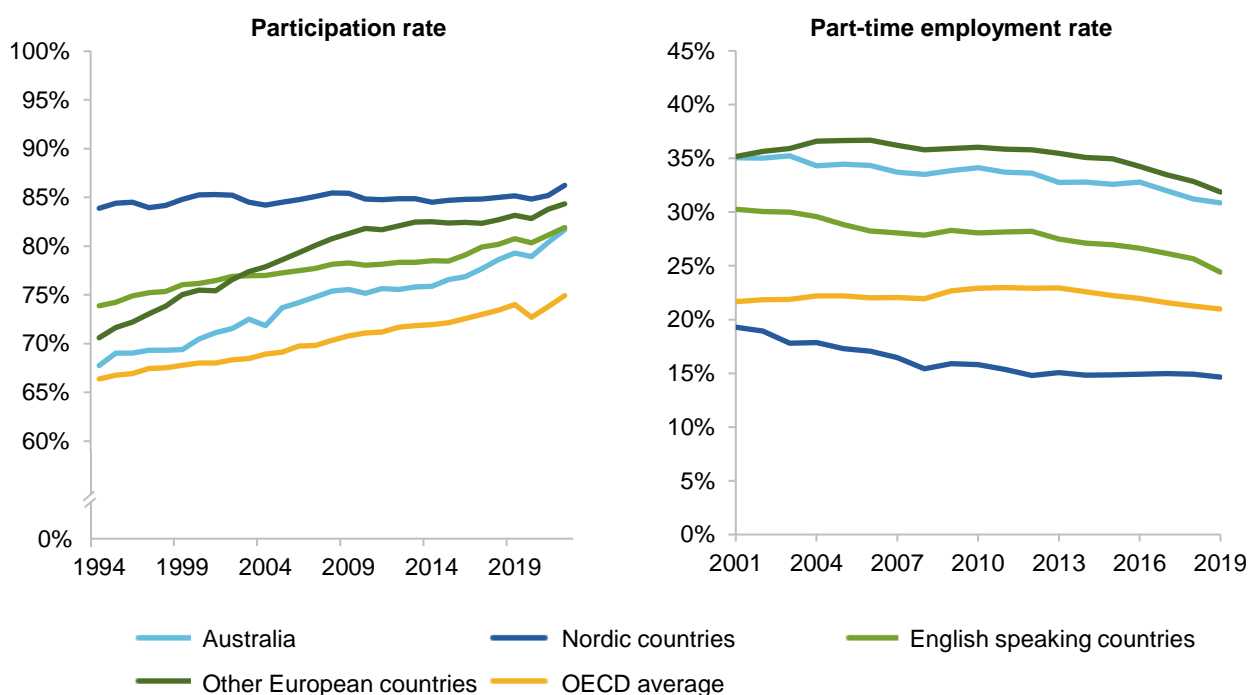
As noted above, part-time employment rates in Australia are higher than most OECD countries – this trend persists across age groups and sex (OECD 2016c). Australian men are participating in more part-time work than ever before, but women still account for the majority of part-time employment (78% in 2019) (OECD 2023a). Women's part-time employment rates are above other OECD countries, but show a downwards trend (figure 4.16). In 2019, about 31% of employed women were employed part time in Australia – higher than the OECD average of 21%. Part-time work among mothers specifically is common in Australian and in other OECD countries (Bray and Gray, sub. 14, p. 35).

Participation rate differences between Australia and other OECD countries are due to several factors such as differences in total fertility rates, tax and welfare systems, industry composition, paid parental leave policies, childcare policies, social norms and attitudes. Population coverage in national labour force surveys and the treatment of persons on maternity leave, for example, also contribute to differences (OECD 2023b; PC 2014, pp. 822–825). These differences need to be considered when making comparisons and judgements about whether Australian mothers can reach the high participation rates of other countries.

⁴ Australia's maternal participation rate is below most OECD countries, and Australian mothers have higher part-time employment rates (OECD 2023d, p. 2). However, making comparisons using this data about mothers specifically should be cautioned as there are differences in the collection approaches and definitions used across countries (OECD 2023b).

Figure 4.16 – Australian female participation has increased, but part-time employment remains high compared to other countries^{a,b}

Average participation rates (1994–2022) and part-time employment rates (2001–19) for women aged 25–54 by region



a. Nordic countries include Denmark, Finland, Iceland, Norway, and Sweden. English speaking countries include Canada, New Zealand, the United Kingdom, and the United States. Other European countries include Austria, Belgium, France, Germany, and the Netherlands. **b.** Part-time employment is defined using the common definition of working less than 30 hours per week in the main job. Data for Australia are not available for 2020 to 2022. The United States is not included in English speaking countries for the average part-time employment rate as the data was not available.

Source: OECD (2023c, tbl. C3, 2023a, tbl. H1).



Draft finding 4.2

Mothers' participation in the labour force has increased markedly

The labour force participation rate of mothers (with a child aged under 15) increased from 67% to 75% over the decade to 2021 – mostly due to an increase in the participation of mothers with a child aged 0–4 years.

Full-time employment among mothers is on the rise, but the part-time employment rate of Australian mothers is still higher than most OECD countries. High rates of part-time work are a feature of the Australian labour market and evidence suggests that preferences are a significant factor in mothers' decisions to work part time.

4.3 ECEC-related barriers deter some parents from working

The terms of reference for this inquiry state:

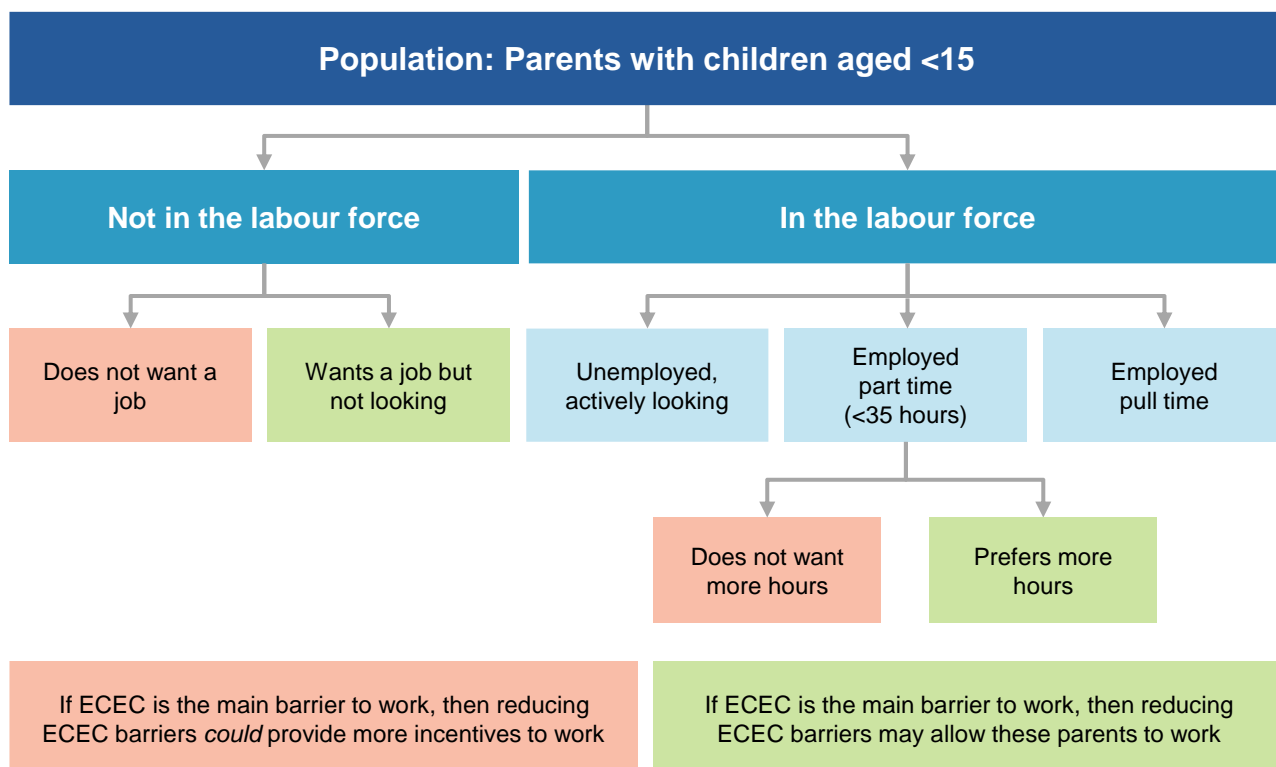
Cost and availability continue to be barriers to accessing ECEC, and for parents and carers achieving their preferred level of workforce participation. The Government believes more accessible ECEC is one of the most powerful initiatives it can pursue for increasing workforce participation, particularly for women.

This section considers the prevalence of different ECEC-related barriers to employment and how they have changed over time.

The ABS regularly surveys Australians on barriers and incentives to employment (ABS 2023a). Parents are asked about the effects of a range of potential barriers to them entering work or working more hours, among them ECEC-related factors such as cost and availability.

Information gathered in the survey depends on a parent’s labour force status (figure 4.17) – whether or not they are in the labour force and, depending on the answer to that question and their current employment situation, whether or not they would like work or more hours.

Figure 4.17 – Labour force situation of Australian parents^{a,b}



a. Framework is based on the ABS’s Barriers and Incentives to Labour Force Participation. b. Unemployed persons are those that actively looked for work in the past four weeks.

If parents are not in the labour force they are not working or actively looking for a job. Some do not want a job, while others want to work but face barriers to doing so. For example, they may have a long-term disability, face difficulties in finding suitable care, lack qualifications or experience, or live in an area where there are few available jobs. Lowering barriers to ECEC could provide an incentive to seek employment.

Parents who are participating in the labour force can be either unemployed or working. The unemployed may face challenges to finding work but the fact that they are actively looking suggests ECEC-related factors are not a significant barrier to their labour force participation. That said, reducing any barriers may make the process of finding a job and matching ECEC arrangements easier.

Among parents who are working, a proportion are in part-time employment and some of this group would prefer to work more hours. Reducing ECEC-related barriers might support them in achieving this outcome. Others report that they do not want more hours but a reduction in ECEC-related barriers might provide an incentive to seek more hours.

There is also a possibility that some working parents may wish to reduce their hours worked, but have not done so because of job requirements or a need for income.

Figure 4.17 summarises this classification of a parent's potential labour force situation. ECEC-related factors can be considered from the perspective of:

- those who want a job or more hours – for them, a reduction in ECEC-related barriers might support greater labour force engagement
- those who do *not* want a job or more hours – for them, a reduction in ECEC-related barriers might create an incentive to seek a job or more hours.

The distinction is drawn because those who want a job or more hours (and report ECEC as the main barrier) are more likely to increase their participation than those who do not want a job or more hours.

Parents' preferences for work

The ABS survey results suggest there is not much scope to increase the participation of fathers, but considerable scope to increase the participation of mothers (table 4.1). Only about 4% of fathers (or 95,000 persons) wanted a job or to work more hours. In contrast, about 19% of mothers (507,000 persons) wanted to participate more.

Table 4.1 – A higher proportion of mothers, rather than fathers, want to work more
Labour force status of parents (with child aged <15) by sex, 2020–21

	Fathers		Mothers		Total	
	('000)	%	('000)	%	('000)	%
Employed						
Employed full time	2009.1	84.3%	846.5	31.3%	2855.6	56.1%
Employed part time						
Prefers more hours	67.3	2.8%	239.0	8.8%	306.3	6.0%
Does not prefer more	108.1	4.5%	758.0	28.0%	866.1	17.0%
Unemployed	60.1	2.5%	101.7	3.8%	161.8	3.2%
Not in the labour force						
Wants a job	27.7	1.2%	268.3	9.9%	296.0	5.8%
Does not want a job	111.7	4.7%	494.5	18.3%	606.2	11.9%
Total	2383.9	100%	2708.2	100%	5092.0	100%

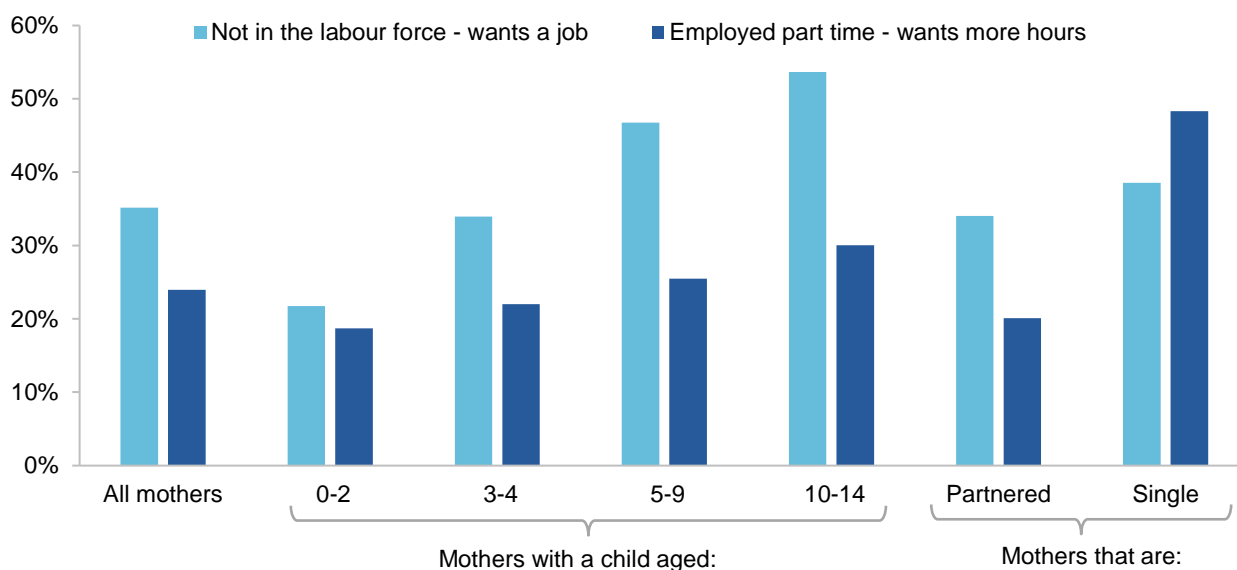
Source: ABS (*Microdata, Barriers and Incentives 2020-21*).

Mothers employed part time who wanted more hours typically worked about 19 hours a week with a stated preference on average for about 31 hours per week. Mothers not in the labour force but who wanted a job stated they wanted to work 20 hours per week on average (that is, most of them wanted part-time work).

A substantial proportion of mothers (46%) did not want a paid job or to work more hours. The extent to which these stated preferences reflected a genuine desire by mothers to look after their own children or result from other factors such as difficulties associated with the affordability or accessibility of suitable ECEC services is unknown.

Mothers' preferences for work change as children age (figure 4.18).⁵ In 2020-21, of mothers who were not working, only 22% wanted a job when their child was aged 0–2, but this increased to 34% when children were aged 3–4 and continued to increase as children age. Single and partnered mothers tend to have similar preferences for wanting paid work if they are not in the labour force. For those working part time, however, 48% of single mothers prefer more hours compared with only 20% of partnered mothers. The proportions are consistent with the Productivity Commission's (2014, p. 203) findings in its previous ECEC inquiry suggesting that these preferences are relatively stable over time.

Figure 4.18 – As children age a greater share of mothers want to work^a
Proportion of mothers who want work by different characteristics, 2020–21



a. Each column can be interpreted as the proportion of mothers in each category who want to work or want more hours. For example, the first column indicates that 35% of mothers who are not in the labour force want a job (implying 65% of mothers who are not in the labour force do not want a job), the second column indicated that 24% of mothers who are employed part time want to work more hours (implying 76% of mothers working part time do not want more hours).

Source: ABS (*Microdata, Barriers and Incentives 2020-21*).

Comparing mothers working part-time who did and did not want more hours sheds light on the characteristics of mothers who could enter the labour force (or work more). The analysis (figure 4.19) reveals that those wanting more hours:

- had an older child (6.7 compared with 5.5 years old)
- had lower household gross weekly incomes (\$1,524 compared with \$2,172)

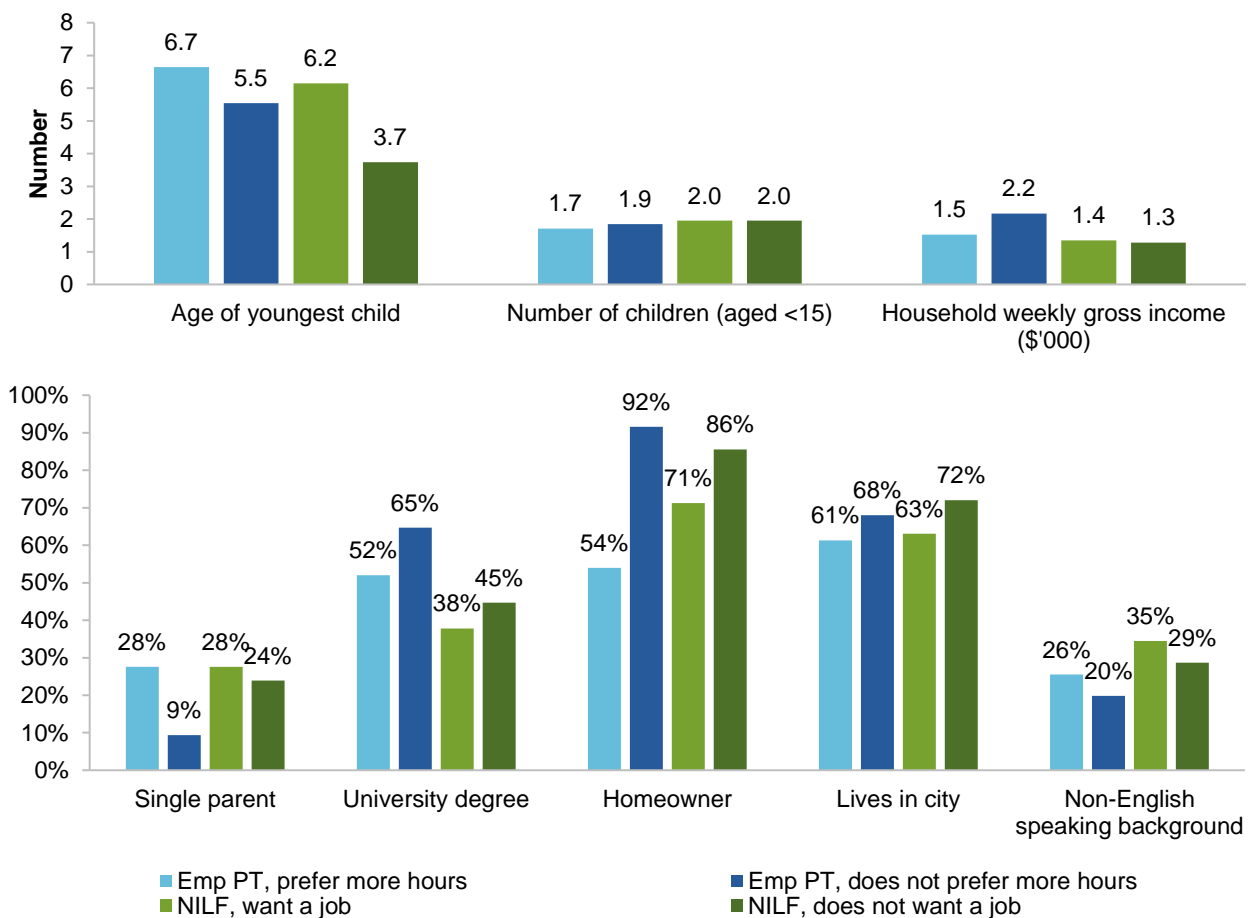
⁵ Because the sample of fathers who are either not in the labour force or employed part time is small, statistics in figure 4.18 could not be calculated reliably.

- were almost 20 percentage points more likely to be a single parent
- were about 10 percentage points less likely to have a university degree
- were much less likely to be a homeowner (including paying a mortgage)
- were slightly more likely to be from a non-English speaking background.

Differences between mothers not in the labour force who did and did not want a job are similar but typically less pronounced, with the exception of a large difference between the age of the youngest child – those who do not want a job tended to have much younger children compared to other mothers.

Figure 4.19 – Mothers who want to work or want more hours tend to be from lower income households^{a,b}

Characteristics of mothers (with a child aged <15) by labour force status, 2020–21



a. 'Emp PT' refers to 'employed part time' and 'NILF' refers to 'not in the labour force'. b. Each bar in the top chart depicts the average characteristic by group (for example, the average household income for a mother who works part time and wants more hours is \$1,500 per week). Each bar in the bottom chart depicts the proportion of mothers with the characteristic by labour force status (for example, 28% of mothers whose labour force status is 'working part time and wanting more hours' are single parents).

Source: Productivity Commission estimates based on ABS (*Microdata, Barriers and Incentives 2020-21*).

Parents who wanted paid work reported more ECEC-related barriers than those who did not want paid work

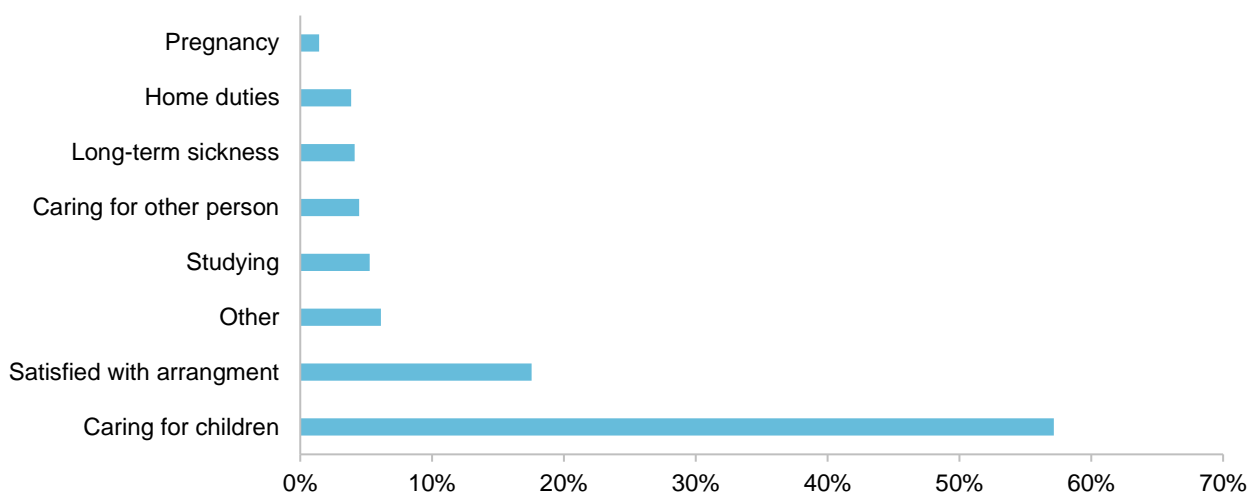
Caring for children is an important factor in the labour force participation decisions of many parents.

- About 30% of parents (or about 180,000 people) who wanted a job or more hours nominated caring for children as the main barrier to them achieving this outcome.
- And nearly 60% of parents who reported that they did not want a job or more hours (or 840,000 parents), nominated caring for children as the main reason for their employment situation (figure 4.20).

The majority of parents nominating ‘caring for children’ as a barrier to work (about 95%) were, perhaps unsurprisingly, mothers.

Figure 4.20 – Caring for children is the main reason most parents do not want paid work or more hours^a

Main reason for not wanting work or more hours, 2020–21



a. Other includes permanently retired, welfare payments may be affected, short-term sickness or injury, moving hours, taking holidays, and other.

Source: ABS (*Microdata, Barriers and Incentives 2020-21*).

Parents were asked for details about why caring for children influenced their work choices with response options including their preferences and ECEC-related factors. Parents were able to nominate both the main reason and all reasons.⁶ About 85,000 parents who wanted a job or to work more hours nominated ECEC as their main barrier. A further 190,000 parents did not want a job or to work more hours, but reported ECEC barriers as their main reason for this.

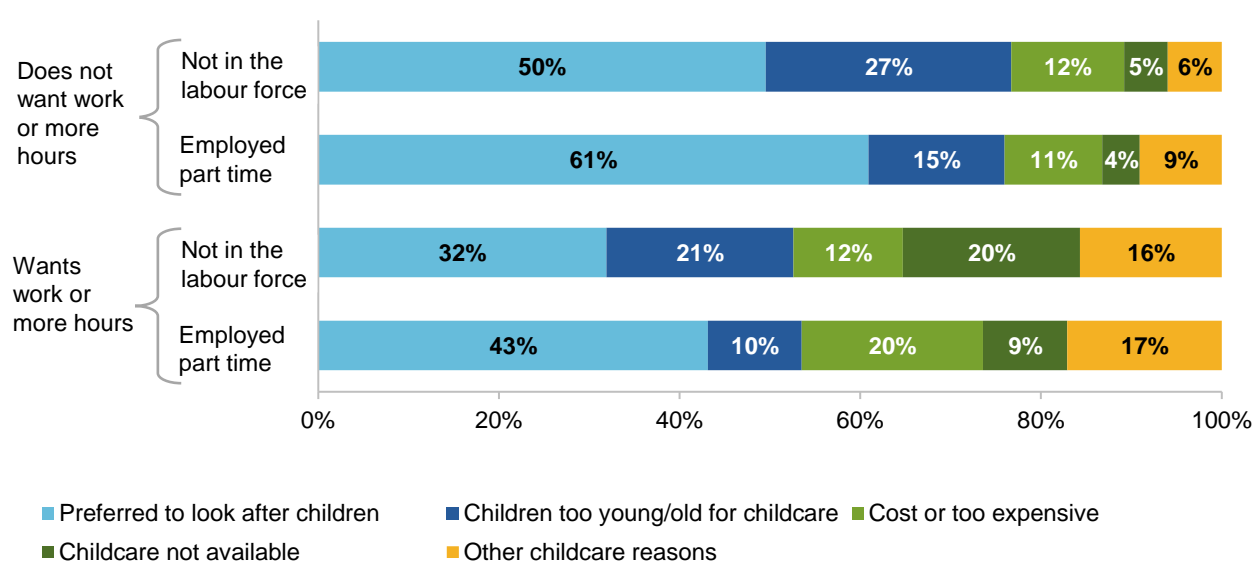
In terms of *main reasons*, regardless of their preferred work situation, parents’ preferences to care for their own children were strong. For example, among parents who were employed part time and did not want more hours, 61% reported the main reason that caring was a barrier was because they preferred to look after their own children (given the ECEC context at the time of the survey), while an additional 15% believed their children were too young or too old for ECEC; only 24% reported that ECEC-related barriers were the main

⁶ The ABS Barriers and Incentives survey does not ask parents about *all* ECEC-related barriers. Data from the ABS’s Survey of Income and Housing (2017–18) is used to supplement analysis in this section because it does ask about *all* ECEC-related barriers.

reason that caring for children was a barrier to them working more (figure 4.21). Parents who wanted to work or work more tended to report more ECEC-related barriers than those who did not want to work.

Cost was the most frequently reported ECEC-related barrier for many parents. An evaluation of the Child Care Package (Bray et al. 2021, p. 273) found similar results, in that parents who wanted to increase their hours of care noted affordability as the main barrier (78%).⁷ However, for one group of parents – those who wanted work but were not looking – availability of childcare was the key impediment.

Figure 4.21 – ECEC-related barriers are more prominent for parents who want to work^a
Main reason caring for children is a barrier to work, 2019–22



a. Chart includes data from June 2019 to December 2022 to increase sample size and be able to extract the information from the ABS datalab environment.

Source: ABS (*Microdata, Barriers and Incentives, multiple releases*).

About 60% of parents who reported that caring for children was a barrier to work nominated *multiple reasons* why that was the case.⁸ For example, of parents who reported the cost of ECEC is a barrier, about 37% of them also reported a preference to care for children and 22% reported that the times and days of available ECEC were not suitable (figure 4.22).

These results suggest that there is a strong relationship between the cost of ECEC and parents' preferences to care for their own children. Parents are likely weighing up the value they place on caring for their own child against the value of sending them to ECEC. That is, parents may be assessing the value of their potential wages and any value placed on potential developmental benefits to the child against the out-of-pocket expenses of ECEC. If parents believe the cost of ECEC is too high this may strengthen their preference for looking after their own children. Therefore, changes to the out-of-pocket expenses of ECEC may result in some parents changing their decisions about caring for children.

⁷ The authors also found that the other most common barriers for this group were the flexibility in work hours, availability of suitable work, the flexibility of childcare and the ability to obtain more hours of care.

⁸ Of the 40% that report one barrier, 51% report cost as the barrier and 36% report preferences to look after their own child or that the child is too young/old for ECEC.

Figure 4.22 – Parents tend to report multiple ECEC-related barriers

If parents report this barrier:	Prefer to care for children	Cost of ECEC
Then a proportion of them also report this barrier:	Cost of ECEC (55%)	Prefer to care for children (37%)
	Child too young/old (38%)	Child too young/old (25%)
	Time/days available not suitable (16%)	Time/days available not suitable (22%)
	ECEC not flexible enough (14%)	ECEC not flexible enough (19%)

Source: ABS (*Survey of Income and Housing, 2017-18*).

Overall, regardless of preferences for work, ECEC-related barriers were the main barrier to labour force participation for about 275,000 parents, of whom about 95% were women. Among this group the main ECEC-related barrier reported was:

- cost for 114,000 parents
- availability for 69,000 parents
- other ECEC-related factors for 92,000 parents.

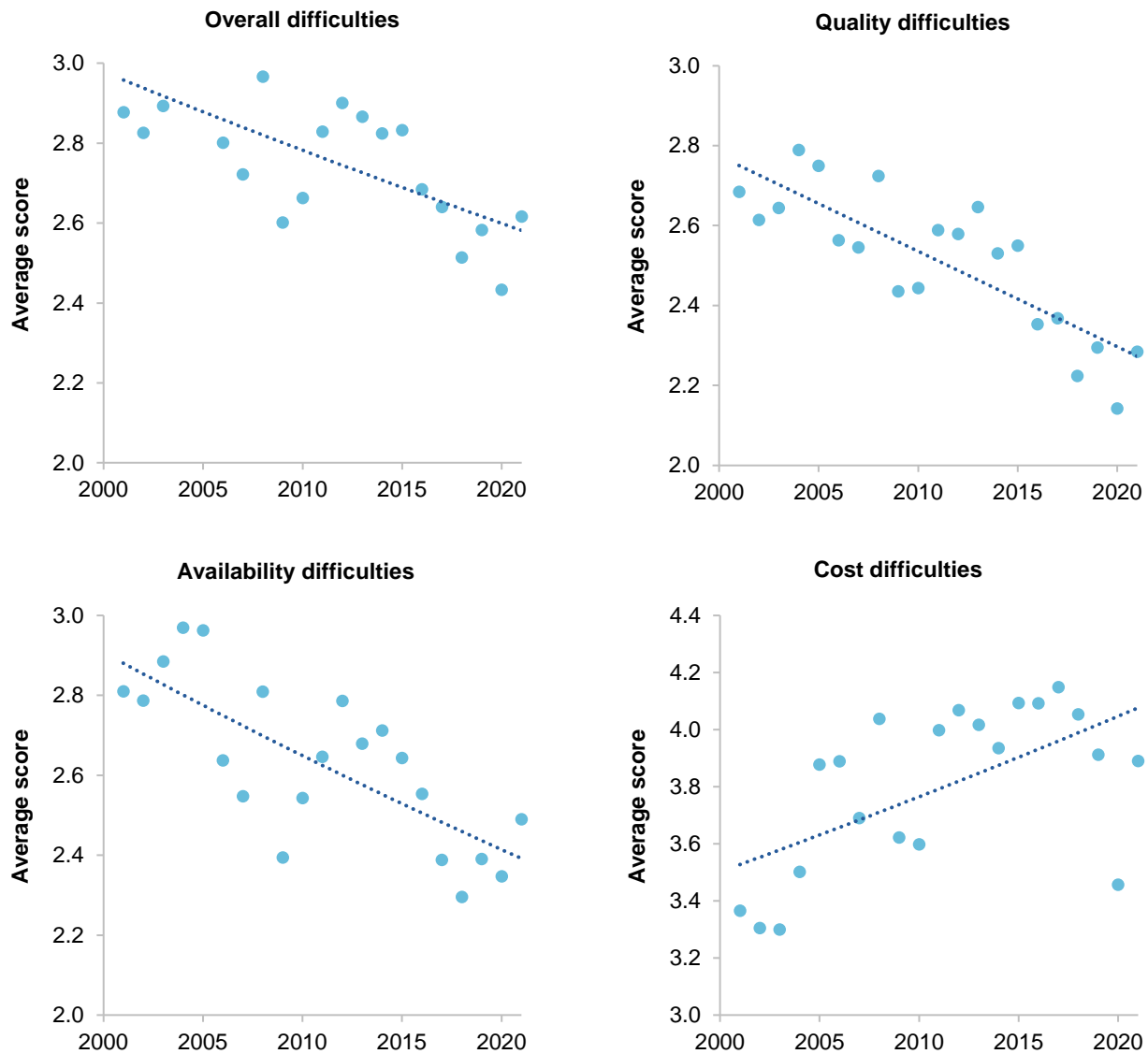
Affordability difficulties are reported to have increased while other barriers to ECEC use have decreased over time

The Commission has used data from the HILDA survey to track families’ reports of difficulties relating to the ECEC system over the past 20 years (in a replication of a figure from Breunig et al. 2023).

Overall, reports of difficulties fell (figure 4.23) due to a reduction in reports of challenges with:

- quality of ECEC (which refers to difficulties in finding quality childcare, the right person to care for child or care that children are happy with)
- availability (which refers to difficulties in finding care for the hours needed, in the centre of choice or in the right location, and in juggling multiple childcare arrangements).

Figure 4.23 – Most ECEC difficulties have declined, with the exception of cost^a
Average responses to difficulty with childcare questions in HILDA, 2001–21



a. HILDA asks each household with a child aged under 15 a set of questions about the difficulties they face with ECEC on a scale of 0 (Not a problem at all) to 10 (very much a problem). These questions can be grouped into difficulties with availability, quality and cost, and average responses for each domain are calculated.

Source: Productivity Commission replication of Breunig et al. (2023) based on HILDA Release 21.

However, the average level of cost difficulties families report increased over the period.

There was a noticeable drop in reports of difficulties with the quality of ECEC around 2014. The National Quality Framework was introduced in 2012 which introduced tighter regulations around qualifications of staff among other things. Since then, the proportion of services meeting the NQS standard overall has increased (ACECQA 2023, p. 6). Parents using ECEC may have noticed improvements in quality and/or may have been more aware of the policies to improve the quality of services, giving them greater confidence in the quality of services.

Difficulties with availability of ECEC services also decreased, likely reflecting strong growth in the supply of ECEC services and number of approved places for children. Presumably, a smaller proportion of parents have faced difficulties in securing their child a place at a service over time.

Reported difficulties with the cost of ECEC show an increasing trend. As illustrated by the CPI, the cost of ECEC has risen more steeply than general prices over the past two decades (figure 4.24). 'Adjustments to subsidies and introducing new programs have typically been associated with strong falls in costs to parents in the short term' (AIFS 2023, p. 8), but price growth tends to return to trend. As a result, the cost of ECEC has been particularly salient in the media, as well as other cost of living pressures, which may contribute to increased reports of difficulties with affordability.



Draft finding 4.3

ECEC is not the main barrier for most women who want a job or more hours

Parents' stated preferences when it comes to whether, and how much, they work suggest there is limited scope to increase the participation of fathers in the labour market but some scope for mothers. Most fathers are already employed full time, whereas about one in five mothers with a child aged under 15 years (or 507,000 women) stated they would like a job or to work more hours.

About 85,000 parents who wanted a job or to work more hours nominated ECEC as their main barrier. A further 190,000 parents did not want a job or to work more hours but reported ECEC barriers as their main reason for this position. If barriers were reduced, parents might be able to work their desired hours. Affordability is the most frequently cited ECEC-related barrier, but parents typically nominated others as well including availability and flexibility.

4.4 Reducing ECEC-related barriers could enable more parents to work

As seen above, there are parents who would like to participate more but may face ECEC-related barriers to doing so. This section explores the potential impacts of changing ECEC barriers on parents' participation. In considering these effects, it is important to also consider how other family policies interact with the ECEC system to shape parents' work choices.

The potential effects of reducing ECEC-related barriers

Responsiveness of participation to the cost of ECEC

Predicting parents' likely responses to a reduction in ECEC-related barriers to labour force participation is not straightforward. In the case of costs, for example, cheaper ECEC creates both an incentive to work more, because working delivers higher hourly pay net of costs, but also an incentive to work less, because that higher net hourly rate of pay means the same total income can be achieved with fewer hours worked (box 4.3). The net effect on hours worked by parents will reflect these opposing effects.⁹ In the case of

⁹ Raising taxes to pay for an increase in ECEC subsidies may have negative employment effects as well.

availability of care, as noted above, the extent to which a parent's preferences to care for their children might change if they had better access to ECEC is unclear.

Box 4.3 – A simple labour supply model

In a simple labour supply model, a parent has a few key decisions to make.

1. What time do they spend engaging in paid work and engaging in other activities (typically described as leisure, and can include things like parental care, housework, studying or volunteering)?
2. If they engage in paid work or other activities outside the home, how are their children cared for – what mix of formal and informal care works best for them?

For parents who are not in the labour force, lower ECEC costs may increase the incentive to take up paid work because lower costs reduce their 'reservation wage' (that is, the lowest net hourly wage rate (post taxes and ECEC expenses) at which a person would be willing to accept a job). Lower ECEC expenses translate into a higher net hourly wage.

Predicting the effect of a reduction in ECEC expenses for parents who are already working is more complicated. An increase in the ECEC subsidy means that a parent's net hourly wage increases (out-of-pocket expenses decrease assuming ECEC prices are unchanged). There are two economic effects of this:

- the substitution effect – an increase in the subsidy means that the economic cost of not working increases as working becomes more attractive. Parents have an incentive to *increase* hours worked
- the income effect – an increase in the subsidy means that net income increases and spending time on non-work activities becomes more affordable. Parents have an incentive to *decrease* hours worked.

The observed change in hours worked depends on which effect dominates. If the substitution effect is stronger, then hours worked increase. If the income effect is stronger, then hours worked decrease.

As Bray and Gray (sub. 14, p. 38) noted 'actual individual responses will depend upon the relative weight individuals place on the value of time in and out of paid employment'. The degree to which people respond to these two effects is called their labour supply elasticity (or the percentage change in hours worked in response to a percentage change in wages) and it is shaped by their individual preferences.

Studies have found that mothers generally increase their labour force participation in response to decreases in ECEC costs, but the responses are relatively small.¹⁰ Generally speaking, a 1% decline in ECEC costs leads to a considerably smaller than 1% increase in participation, on average. Studies for Australia imply a 1% decrease in ECEC costs could increase¹¹:

- the labour force participation of mothers by 0.02–0.29%
- the hours worked by mothers by 0.02–0.65% (table 4.2).

These estimates are consistent with international evidence, despite differences between countries. For example, an extensive literature review (Morrissey 2017, p. 1) found that, among US studies, a 1% decrease

¹⁰ There is limited research on the effects of ECEC prices on fathers' employment responses. Mumford et al. (2020) is one of the few papers that considers fathers. They find a 1% decrease in ECEC costs increases fathers' participation by a mere 0.01% and hours worked by 0.01%.

¹¹ Excluding the results from Kalb and Lee (2008) which finds a zero elasticity for both participation and hours worked.

in the cost of childcare would most likely increase maternal labour force participation (employment) by 0.05–0.25%, while estimates for other countries are typically smaller.

These estimated effects of changes to ECEC costs are also much smaller than the effect that wages have on labour force participation. For example, the NSW PC (2022, p. 8) found that labour force participation is 4.5 times more responsive to a percentage increase in wages compared with ECEC costs.

Table 4.2 – Responsiveness of mothers’ labour supply to ECEC prices^{a,b,c}

Author(s)	Children’s age	Family type	The effect of 1% increase in gross ECEC prices on:	
			Participation	Hours worked
Kalb and Lee (2008)	0–12	Partnered	0%	0%
Doiron and Kalb (2005)	0–12	Partnered	-0.02%	-0.02%
Apps et al. (2016)	0–12	Partnered	Not estimated	-0.25%
Gong and Breunig (2017)	0–5	Partnered	-0.08%	-0.11%
Mumford et al. (2020)	0–4	Partnered	-0.15%	-0.20%
Breunig, Gong and King (2012)	0–13	Partnered	-0.29%	-0.65%
Doiron and Kalb (2005)	0–12	Single	-0.05%	-0.05%
Kalb and Lee (2008)	0–12	Single	-0.19%	-0.16%
NSW PC (2022)	0–4	Both	-0.07%	-0.16%

a. Elasticity estimates are typically estimated for a 1% increase in price, such that the interpretation is a 1% increase in price results in a decrease in participation of 0.29%, for example. The models used to estimate elasticities impose symmetry such that the interpretation for a decrease in the price has the same magnitude of effect in the opposite direction **b.** Estimates of gross price (the price charged by providers) elasticities are presented rather than net prices (the price paid by families after subsidies are received). Some studies estimate both. **c.** These studies do not differentiate between short-term and long-term effects.

But some groups of mothers may be more responsive to price changes than others. Gong and Breunig (2017) estimated elasticities for different subgroups and found mothers who:

- had lower education levels were about 25% more responsive than mothers with a tertiary education
- had more than one child were twice as responsive than mothers with one child
- lived in lower income households were about 50% more responsive than mothers in higher income households.

Other studies found larger elasticities for single mothers compared with partnered mothers (Doiron and Kalb 2005; Kalb and Lee 2008). These results are also consistent with the international literature (Morrissey 2017, pp. 16–17) and help to inform which groups are most sensitive to changes in ECEC costs and which groups might have the largest labour supply response.

There is some discussion in the literature that the estimated elasticities would be larger if models were able to control for the availability of childcare. That is,

shortages may also mask the responsiveness of women to child care prices and EMTRs [effective marginal tax rates]. If child care is rationed, then this restricts the parents' choices, taking out the combined employment and child care use option, or at least reducing the availability of this option. This is likely to lead to fewer women in the labour force than would occur if child care was readily available. Accounting for rationing of child care substantially increased the price elasticity of child care use and of labour supply. (Kalb 2017, p. 141)

Despite this gap, elasticity estimates like those presented in table 4.2 and the models underlying them have been used to estimate the potential effects of changes in policy that aim to reduce ECEC costs (Gong et al. 2018; PwC 2019, p. 59; Wood et al. 2020).

The effects of increasing ECEC subsidies on participation have been limited

Changes to the Australian ECEC system have aimed to make costs cheaper for families (figure 4.24). However, major policy initiatives have only been successful in alleviating out-of-pocket expenses increases in the short term – once the immediate effects of these policy changes have abated, out-of-pocket expenses continue to grow much faster than general prices (CPI). That said, these policy initiatives have been successful in curtailing sustained increases in out-of-pocket expenses especially since the introduction of the NQF which put upwards pressure on costs to improve quality. For example, without the introduction of the Child Care Rebate (CCR) in 2004, out-of-pocket expenses may have continued to grow at a high rate and could therefore have been substantially higher than they currently are.

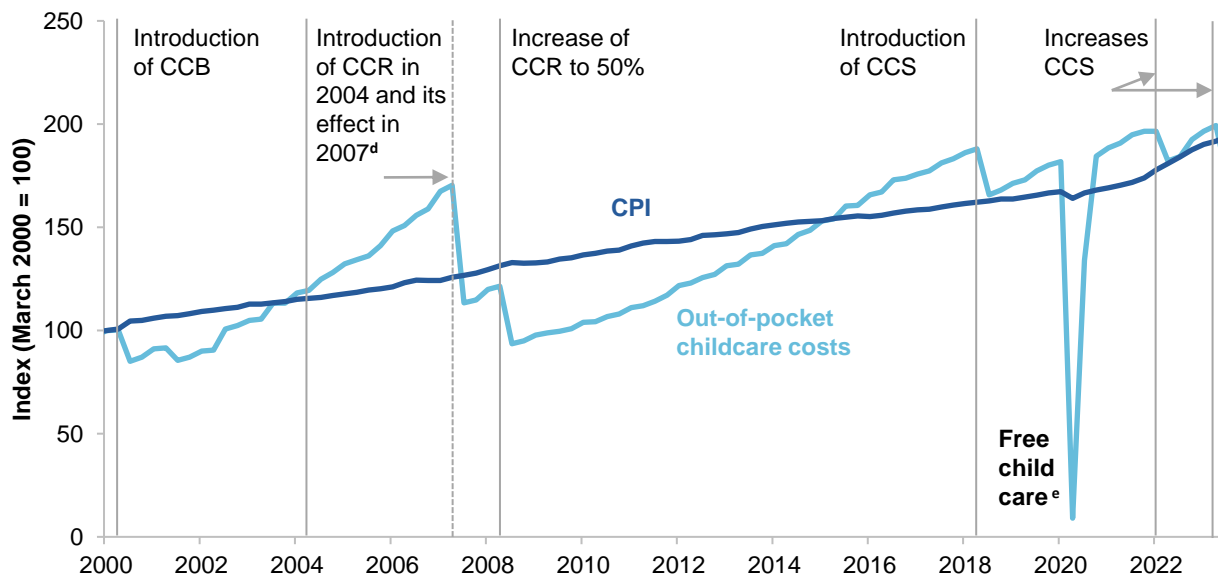
Consistent with the small estimates of the responsiveness of parent labour supply to changes in ECEC costs (table 4.2), most studies that have examined the 'on-the-ground' impacts of Australian policy changes have found limited effects on the labour force participation of parents.

The introduction of the Child Care Tax Rebate (commonly known as CCR) in 2004 produced an increase in hours worked of about one hour on average across mothers and increased the probability of being employed (for non-workers) by 5.6 percentage points. Effects were larger for single mothers (Gong and Breunig 2014, pp. 932–936).

Prior to its introduction, it was predicted that the Jobs for Families Child Care Package in 2018 – in which the CCS replaced the CCB/CCR – would encourage more than 230,000 families to increase their involvement in paid employment (Porter 2016). An evaluation of the package found a small increase in employment – hours of activity increased by 1.4% for single parents and by 0.3% for couples – but that the increase was consistent with the historical trends in employment (Bray et al. 2021, pp. viii, 280). That is, the increase in participation could not necessarily be attributed to the package itself but to existing trends in employment among families. As noted by Bray and Gray:

The evaluation found no significant impact on workforce participation, access to, or flexibility of, childcare services, nor in moderating cost increases for care. (sub. 14, p. i)

Figure 4.24 – Policy changes had short-run effects on out-of-pocket ECEC expenses^{a,b,c}
Quarterly index of childcare subgroup of CPI, March 2000–September 2023



a. CCB = Child Care Benefit; CCR = Child Care Rebate; CCS = Child Care Subsidy. **b.** The CCR was initially a tax rebate that allowed families with a tax rebate to offset 30% of their childcare expenses and was known as the Child Care Tax Rebate (CCTR). It was renamed the CCR in 2009. **c.** In March 2022 there was an increase in the CCS for families with more than one child aged under five years in childcare (DESE 2022, p. 1) and in July 2023 Cheaper Child Care was implemented. **d.** The ABS did not include the CCTR/CCR in the childcare CPI estimate until late 2007. This is the reason why there is a sharp drop in childcare prices in 2007 rather than in 2004. **e.** Free childcare was introduced in response to the COVID-19 pandemic, and lasted from April 2020 to 12 July 2020 (Hurst 2020; Klapdor 2020).

Source: ABS (*Consumer Price Index, Australia, Sep 2023*).

There are many reasons why only limited increases in labour force participation are observed

Some reasons why only limited increases in labour force participation are observed are explored below.¹²

It takes time for parents to find work

The effects of policy changes are not always immediate. Parents need time to enter the labour force, to find a job and to overcome any other barriers they face (see below). Therefore, studies may find small immediate effects of policies but greater effects as parents are able to adapt and change their employment levels. Brewer et al. (2022, p. 2) found effects of an expansion in childcare in the UK were 3 times larger after the first year.

The results of evaluations of policies can depend on the amount of time that has passed since the policy change. For example, Gong and Breunig (2014, p. 929) investigated the likelihood of being employed multiple years after the introduction of the CCR and found positive effects, whereas the evaluation of the 2018 Jobs for Families Child Care Package used data for a single year after the reform and found small, insignificant effects (Bray et al. 2021). A re-evaluation of the effects of the package using more data might find larger effects (assuming that the study can use methods to isolate the effect of the policy change on participation and not conflate it with other changes in the sector or policies that also impact participation of

¹² In addition, it may be difficult to isolate the effects of one policy change from the others that also affect family decisions. Technical methods are typically required.

parents). However, the authors of the study noted that part of the reason no effect was found was because the changes decreased the subsidy for some families (Bray and Gray, sub. 14, p. 37).

Labour market rigidities and inflexible contracts may also make it hard for parents to adjust labour supply, on the margin, in response to policy changes. Parents who are already employed and want to increase their hours worked might need time to adjust. Increasing hours worked is dependent on whether an existing employer can accommodate an increase in hours (which depends on flexibility in job contracts) or whether a parent must change jobs to find one that accommodates their desired hours (which depends on the flexibility of the labour market). As noted by Gong and Breunig (2014, p. 937) 'the ability of policy changes to induce changes therefore may be enhanced or diminished by the degree of dynamism in the labour market'.

The most recent policy change (not depicted in figure 4.24 above) – the introduction of the Cheaper Child Care Bill in July 2023 – is expected to also have impacts on participation (box 4.4). The impacts of such a policy may not be immediate and timely data is not currently available to evaluate it. Any evaluation should bear in mind the factors discussed above.

Box 4.4 – Predicted impacts of Cheaper Child Care Bill 2023

In July 2023, the Australian Government implemented changes to the Child Care Subsidy. This included increasing the amount of subsidy, lowering the taper rate (reducing the 'steepness') and removing the annual subsidy cap. These policy changes are intended to make ECEC more affordable, thereby boosting labour force participation of parents.

- The Federal Budget estimated the hours worked by women with young children will increase by up to 1.4 million hours per week in 2023-24. This is equivalent to an extra 37,000 full-time workers (Australian Government 2022b, p. 4).
- Grattan Institute estimated that the policy would result in about 8% more hours being worked by secondary-earners with young children. This works out to about 220,000 extra days worked in Australia every week, mostly by mothers who are currently working part time increasing their hours. This is equivalent to an additional 44,000 extra full-time workers (Emslie 2022).

Not all parents increase work in response to an increase in ECEC subsidies

Not all parents will respond to an increase in subsidy in the same way. For parents who are already working (especially those working long hours), an increase in ECEC subsidy would have an unknown effect on the number of hours worked because the effect depends on whether the substitution or income effect is stronger (Brewer et al. 2022, p. 2). For example, an increase in income might incentivise some parents to reduce hours worked. This was the case for some parents as a result of the Jobs for Families Child Care Package. The evaluation found that 'some parents reported increasing activity and others reducing' (Bray et al. 2021, p. viii). This gives rise to consideration of a saturation point where further increases in subsidies may not impact labour force participation rates in the aggregate. Further, the design of ECEC subsidies, such as activity testing and reporting requirements and administrative complexity, could also affect labour force participation (discussed further in paper 6).

Looking at overall or average effects of policies on participation might result in small effects being estimated. Averages mask differences in how sub-populations respond to policies. For example, Gong and Breunig (2014, p. 919) found the positive effects of the CCR reform were concentrated amongst single mothers with

lower levels of education and with fewer and older children. This highlights the importance of looking at effects by subgroups where possible.

ECEC supply may be constrained such that additional demand is not met

An important aspect that is typically overlooked when increasing subsidies is the responsiveness of supply. Economic theory would suggest if the subsidy produces a large enough demand shift and if supply is unresponsive (that is, if supply is relatively inelastic, at least in the short term) this will cause prices to rise, such that some families are crowded out of the market. Over the longer term, supply will expand but costs and prices may not return to levels seen before the subsidy increase if marginal costs of provision rise. This is likely to happen to some extent as a consequence of services bidding up the wages of skilled workers and costs of land suitable for ECEC sites as they seek to expand. The increasing costs of supply will constrain expansion in response to higher demand to some extent, limiting increases in participation for children in ECEC and for parents in the labour market. To the extent that this happens, the benefits of higher subsidies will accrue to providers and families able to get a place. The supply side of the ECEC market is considered in paper 5.

Responsiveness of participation to non-price factors

An important consideration is how responsive parental labour supply is to non-price ECEC factors. Whether there are any (local) shortages of ECEC that are impeding parental labour force participation and how labour supply responds to changes in availability is not well understood or researched as most research focuses on cost. Shortages of ECEC in a general sense (such as, the number of places available) or shortages in terms of ECEC that is of sufficiently high quality to be acceptable to parents, given that ECEC is more than just a means for parents to participate in the labour force, can affect parents' choices about work and care.

There is some evidence that higher labour force participation of mothers is correlated with higher supply of ECEC. For example, the Mitchell Institute showed a correlation between the accessibility of childcare and mothers' labour force participation – 'regions where more people live in a childcare desert also have lower levels of workforce participation for females who have a child aged under five in the household' (Hurley et al. 2022, p. 36; paper 5). However, it is unclear whether a greater supply of ECEC was a response to demand from mothers wanting to work or whether the establishment of the ECEC services contributed to mothers choosing to work. Disentangling these two potential explanations is difficult.

Perceptions of local area difficulties with availability and quality have been shown to impact mothers' labour supply choices. In 2011, Breunig et al. (2011, p. 109) found that 'partnered women and [single] parents who live in areas with more reports of lack of availability, low quality or costly child care work fewer hours and are less likely to work than women in areas with fewer reported difficulties with child care'.

Breunig has recently replicated this paper using data up to 2019 for Australia to see if these observations have changed over time (Breunig et al. 2023). The results suggest that partnered mothers' participation decisions may still be affected by local area difficulties with the availability, quality and cost of ECEC, but that the effects have become smaller over time. These difficulties were found to no longer affect single mothers' participation decisions – there may be other more important factors influencing participation for this group.

Local area difficulties with availability, quality and cost are predictive of the decision to work part time for both partnered and single mothers. More reports of local area difficulties are associated with mothers choosing part-time work over full-time work, and these effects have become stronger over time (Breunig et al. 2023).

Taken together, these results suggest that local area difficulties with ECEC are not having a substantial impact on mothers' decisions to work, but they do affect their choices about their hours worked. This means that improvements in the ECEC system may result in greater marginal impacts on hours worked rather than participation per se.

Reducing ECEC-related barriers may only have marginal impacts on labour supply

The extent of parents' inability to find suitable ECEC services to enable them to work when they prefer to can provide a guide as to the scope for increasing the labour force participation of parents. As found in section 4.3, about 275,000 parents, of whom about 95% were women, reported ECEC-related factors as their main barrier to participation.

Removing barriers for parents who express wanting to work

According to the ABS Barriers and Incentives to Labour Force Participation survey, 2020-21, an estimated 602,000 parents (mostly mothers) of children aged 0–14 stated they wanted a job or wanted to work more hours (table 4.1). Of these parents, about 85,000 reported that a lack of suitable ECEC was the main reason preventing them from increasing their labour supply, that is, affordability, availability or other childcare related issues¹³ (section 4.3). If these ECEC-related barriers were removed, and assuming that these parents could find work or increase work hours to their *self-reported* desired hours, then there could be an increase in labour supply of about 44,000 full-time equivalent (FTE, based on 35 hours work per week) workers.

Most of this increase in hours worked (or about 84%) would come from mothers who are not in the labour force choosing to work, as mothers who already work part time wanted to only increase their hours worked marginally (section 4.3). The mothers who would return to work or work more hours tend to be from lower-income households, have younger children (aged 0-4), and are less likely to have completed high school and be single parents.

The Commission undertook a similar exercise in its 2014 inquiry into ECEC and estimated that 165,000 FTE workers would work if ECEC-barriers were removed (PC 2014, p. 214). This is a much larger number than the 44,000 FTE workers estimated in this inquiry. There has been a considerable increase in mothers' labour force participation since 2014 and ongoing improvements in the ECEC sector to improve affordability, accessibility and quality. These factors may have contributed to lowering the number of parents who cannot find work or increase work hours due to ECEC-related barriers.

Removing barriers for parents who do not want paid work

There are about 190,000 parents who stated they *did not* want a job or to work more hours but reported an ECEC-related barrier as the main reason for this. Some of these parents may change their preferences for work if ECEC-related barriers are reduced. These parents are not asked about their desired hours of work, and so it is assumed that each parent not in the labour force wanted to work 20 hours (the median response for those not in the labour force who wanted a job) and those who wanted to work more hours wanted 10 additional hours (the median increase in hours worked desired by those who wanted to work more hours).

Supposing all these parents would choose to work if barriers were reduced, and making these assumptions about their desired hours, then an additional 74,000 FTE workers could join the labour force.

Summary

Overall, the analysis suggests up to an additional 118,000 FTE workers could be added to labour supply if all ECEC-related barriers were removed. Around 275,000 parents would be affected (some of whom are already in the labour force but would increase their hours worked).

¹³ It is assumed that 'other childcare reasons' are ECEC-related.

Recent increases in ECEC subsidies will have improved affordability for some of these parents, and some might have already sought work as a result. Some will also face non-ECEC barriers to their labour force participation – for example, a lack of suitable jobs, or unsuitable hours. Some might also be deterred by the high effective marginal tax rates that they would face as transfer payments are withdrawn and income tax rates rise with higher earned income. These issues are explored below.

As a result, this analysis should be used with caution as it is an upper bound and there are many caveats (box 4.5).

Estimates of the changes in labour force participation and ECEC demand in response to *specific* policy changes to the CCS design are presented in paper 6.

Box 4.5 – Caveats to the potential increase in labour force participation

The estimated increases to labour supply of 44,000 FTE workers (or 118,000 FTE total) is useful to provide a guide for the scope to increase labour force participation if ECEC-related barriers were removed. But the approach to estimating these numbers has several caveats and should be interpreted in conjunction with them. For example, these estimates are:

- an upper bound as they assume that all ECEC-related issues are solved, that even parents who did not want a job or to work more hours choose to work or work more if their ECEC-related barrier is removed and that parents do not face any other barriers to finding a job or more hours
- based on survey data which may not be representative of the Australian population. Population weights have been used to try to reduce misrepresentation
- based on parents' *stated* preferences for work and *self-reported* ECEC-related barriers to work given the conditions at the time of survey in 2020-21. Since then, further improvements in the ECEC sector, such as the introduction of the Cheaper Child Care Bill, may have enabled some parents to join the labour force and others may have changed their preferences regarding work and care. These changes are not captured in these estimates. (Modelling in paper 6 does not rely on parents' *stated* preferences for work or *self-reported* ECEC-related barriers).



Draft finding 4.4

Removing ECEC-related barriers could see an increase in labour supply equivalent to up to 118,000 full-time workers

If all reported ECEC-related barriers were removed, it is estimated that the equivalent of an additional 44,000 full-time workers among those wanting a job or more hours could be added to the labour supply. These would mostly be mothers from lower income households, those with younger children (aged 0–4 years), those who are more likely to have not completed high school and those who are single parents.

If parents who reported *not wanting* a job or to work more hours and for whom ECEC-related barriers are the main reason for this status are included in the estimate, then the equivalent of 118,000 full-time workers could be added to labour supply.

These figures are upper bounds – the analysis assumes that all ECEC-related issues are solved (including availability) and that any non-ECEC barriers are not sufficient to prevent these parents' engagement in the labour force.

Parents face other barriers to working beyond caring for children

Although caring for children is a significant barrier to participation, parents also face other barriers.

Child care related factors are a barrier to some parents seeking to increase their paid work, [but] it is the sole barrier for a relatively small proportion, and is more significant for those already using child care, with cost being the most frequently cited problem. (Bray et al. 2021, p. 273)

There are many reasons why mothers who are not in the labour force are not looking for work, other than ECEC-related reasons and preferences for caring for children. For example:

- their own illness or disability
- ill health of someone other than self/family reasons
- they are studying or returning to study
- believe there is no suitable job available
- they lack training or qualifications necessary (HILDA Release 21).

Further, those mothers *who are looking for work* face barriers that are not ECEC-related. A key barrier appears to be finding a job that is suitable and flexible (also noted by Bray and Gray, sub. 14, p. 38).

Mothers looking for work tend to report the main difficulties they face in getting a job include:

- unsuitable hours
- there are no jobs available
- too many applicants
- did not have required education, training, skills or work experience
- own ill health or disability (HILDA Release 21).

Mothers may also feel discriminated against in the workplace and consider this a barrier to working. Governments have put in place policies to prevent discrimination from occurring – such as *The Sex Discrimination Act 1984 (Cth)* which makes it unlawful to treat a person unfairly because of their sex, family responsibilities or because they are pregnant. Despite this, in a 2014 survey, almost 50% of mothers reported experiencing discrimination in the workplace at some point during pregnancy, parental leave or on return to work (Australian Human Rights Commission 2014). Further, one-in-five mothers were made

redundant, their jobs were restructured, they were dismissed or their contract was not renewed because of their pregnancy, taking parental leave, or family responsibilities that included the need to breastfeed or express milk at work (Australian Human Rights Commission 2014). A more recent survey suggests that mothers' experience of discrimination persists in Australian workplaces (Potter 2023).

The existence of other barriers to employment means that even if all ECEC barriers are resolved not all parents who want a job may be able to find one. In fact, they may find themselves facing new challenges to finding work or more hours.

Parents' work decisions are also shaped by other policies

Other government policies and the conditions offered by employers can also affect parents' choices about whether to work and how much to work. The provision of ECEC, family-friendly work policies and paid parental leave may make it easier for women to combine paid employment and motherhood. The tax and transfer system, however, can bring about financial disincentives to return to work.

The effects of these policies and the interaction with ECEC policies on parental labour force participation is considered below.

Paid parental leave can improve the likelihood of mothers returning to work

The Paid Parental Leave (PPL) scheme was first introduced in January 2011 and provided working mothers with government-funded parental leave at the national minimum wage for a maximum period of 18 weeks. In 2013, Dad and Partner Pay was introduced to provide eligible working fathers and partners up to 2 weeks government-funded pay at the national minimum wage. Although publicly funded, PPL is provided through employers in the majority of cases (Kalb 2017, p. 142). Many large employers also offer parental leave at full pay (NSW Treasury 2022b) – some offer as much as 26 weeks but the most common length is between 7-12 weeks (WGGEA 2022). Some workplaces also have other measures to encourage mothers to keep in touch over their leave period and to facilitate a return to work (Kalb 2017, p. 142).¹⁴

The PPL scheme has supported women by enabling them to take a temporary break from working to care for their infant child and to maintain a connection to their employer and the labour market. Reviews of the scheme found that:

- most mothers who received PPL took the full 18 weeks of payment (suggesting a preference of mothers to care for children if they are in a financial position to do so) (Martin et al. 2013, pp. xvi, 67)
- although mothers took longer to initially to return to work, the probability of returning to work in the longer-term increased, such that more mothers had returned to work by 12 months following birth (Broadway et al. 2020, p. 30; DSS 2014, p. 7,40)
- there was a particularly strong impact on mothers with lower incomes and lower formal education, who were either employed on casual contracts or self-employed before the birth of their child (Broadway et al. 2020, p. 30; DSS 2014, p. 7,40).

As noted by Broadway et al. (2020, p. 50):

By improving mothers' opportunities to stay at home immediately after birth, while simultaneously making a return to paid work more likely later on, the scheme makes a clear contribution to a better balance between paid work and family life.

¹⁴ Under Australian law, all employees are entitled to up to 52 weeks of unpaid leave from their employer when they have a child.

There are concerns, however, that the PPL scheme can reinforce inequities between mothers and fathers. Social and cultural expectations still place the responsibility of caring for children primarily on mothers. As such, mothers tend to have breaks in their employment or reduce their hours worked, while this is typically not the case for fathers.

Many have called for changes to the scheme to improve gender equity. For example, KPMG in conjunction with the Business Council of Australia Women's Participation Taskforce argued that PPL and Dad and Partner Pay should be combined into a new scheme that offers up to 26 weeks to be shared between parents however they choose, with bonuses for more equally shared leave (KPMG 2021, p. 2). And Grattan Institute (Wood and Emslie 2021, p. 3) called for a 'six weeks 'use it or lose it' provision for each parent, and 12 weeks to share between them as they choose', with bonus leave for both parents when both use at least six weeks of leave. The 'use it or lose it' policy is important in encouraging fathers to use PPL; without this policy take up of PPL from fathers is lower (OECD 2016a, pp. 14–15).¹⁵

As a result of concerns of this type, the PPL scheme is being changed to make it more flexible and to encourage both parents to take leave. The 2022-23 Federal Budget announced major changes to the scheme, creating 'Enhanced Paid Parental Leave', and investing \$531.6 million over four years. Changes include:

- the amount of PPL available for families will increase up to a total of 26 weeks by July 2026. From 1 July 2023 the PPL and Dad and Partner Pay entitlements will be combined to 20 weeks, and from 1 July 2024, PPL entitlements will increase by 2 weeks each year until they reaches the 26 weeks
- the introduction of a \$350,000 family income test, which families can be assessed under if they do not meet the individual income test, will expand the number of families eligible¹⁶
- the primary claimant does not have to be the mother such that families can decide who will claim and how they will share the entitlement from 1 July 2023
- the future provision of a dedicated 'use it or lose it' portion for each parent to encourage fathers to use the scheme to promote gender equality and a more equal distribution of caring responsibilities. The Women's Economic Equality Taskforce will advise on the size of the portion (Australian Government 2022a, pp. 40–41, 2022c, pp. 1–2).

These changes will bring benefits to families but are unlikely to have substantial impacts on labour force participation. The scheme will enable fathers to be more involved in the early development of their children and this can have lasting impacts, such as improved cognitive and emotional development for the child and greater life satisfaction for fathers (OECD 2016b, p. 1). Moreover, the 'use it or lose it' measure may encourage more equal sharing of PPL and unpaid work, and fathers taking on an increased share of unpaid work may make it easier for mothers to participate in the labour force (Wood and Emslie 2021, p. 24). However, a substantial review of studies found that evidence on the influence of fathers' leave on gender equality in the labour market remains scarce, and somewhat mixed (Canaan et al. 2022, p. 1). Evaluation of the Australian policy, once it is rolled out, would provide further evidence.

Some have called for further increases to PPL entitlements to 12 months (One Tree, sub. 121, p. 10; Merewether and Bush, sub. 60, p. 3; Parents Work Collective, sub. 73, p. 5; The Senate 2023, p. 183). Proponents argue that this: would enable parents to spend more time with children; may ease pressures on the ECEC system given difficulties in finding care for 0–12-month olds; and would bring Australia into line with the OECD average (OECD 2023f, p. 3). But in the context of labour force participation, extending PPL to

¹⁵ For example, Iceland and Sweden's 'use it or lose it' policies have led to a doubling in the number of parental leave days taken by men (OECD 2016b, p. 2).

¹⁶ Individual income in the year pre-birth must be less than about \$150,000 to be eligible (Services Australia 2023).

12 months or longer has been shown to have negative impacts on mothers' labour market outcomes (Canaan et al. 2022, pp. 13–14).

Consideration of a 12-month PPL scheme would need further investigation to ensure the scheme would provide net community-wide benefits. The 'benefits to children and parents from incrementally longer periods of leave have to be weighed against their (appreciable) budgetary costs' and the trade-offs as to where this money could be spent, such as the ECEC system' (PC 2009, p. XXIV). In 2009, the Commission found that extending leave to 52 weeks would cost about \$7.2 billion and that this would have significant budgetary implications (PC 2009, p. 2.56). The net benefits (or costs) of this type of scheme were not considered. The Commission has previously recommended a PPL scheme that enables families to take up to 26 weeks of leave without financial stress (PC 2009, p. XXI) and the government's proposed changes enable this.

Flexible work and family-friendly policies can encourage parents to work

The availability of flexible work and other family-friendly arrangements are a key positive labour force participation driver. For instance, workplace support and flexibility can increase the likelihood of women returning to work after childbirth (Coulson et al. 2012, p. 39). A lack of flexible working options may cause some mothers to work full time when they would prefer part time, but more typically mothers shift employers or not return to paid work altogether (Wood et al. 2020, p. 77). Flexible work environments are not a substitute for accessible and affordable ECEC, but can be viewed as a complement such that these policies work together to enhance the ability of mothers and fathers to undertake paid employment.

Flexible work and family-friendly arrangements can include:

- changing the hours of work (for example, working part time or changing start or finish times)
- changing patterns of work (such as job sharing)
- changing the place of work (for example, working from home, which has become a prominent feature of many workplaces since the COVID-19 pandemic)
- using leave arrangements
- adopting specific occupational health and safety measures (for example, for pregnant employees)
- having specific employer supports such as onsite childcare or reserving places in a childcare centre.

Under the *Fair Work Act 2009*, certain employees have a legal entitlement to request flexible working arrangements.¹⁷ This includes ongoing and casual employees who have worked with an employer for at least 12 months. Casual employees must also have a reasonable expectation of continuing employment on a regular and systematic basis. The employee must have a valid reason for requesting flexible working arrangements and the Act specifies numerous potential reasons, including an employee being a parent of, or having caring responsibilities for a child who is school age or younger.

The use of flexible working arrangements among men and women is generally similar except when children are young or where multiple children are present (figure 4.25). This could suggest that flexible work is more common among mothers compared to fathers when caring responsibilities are higher. In 2017, 69.5% of mothers used flexible working arrangements specifically to 'care for children', compared to 42.3% for fathers (ABS 2018).

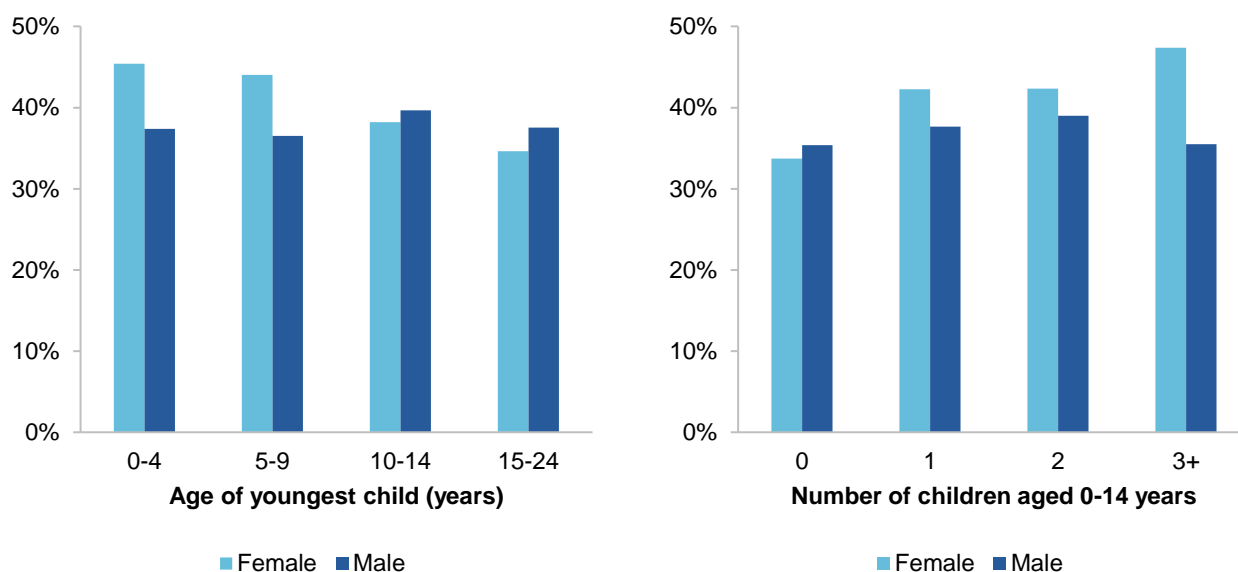
Some fathers are reported to not use flexible work due to prevailing social attitudes (Parents at Work 2019, p. 20). These attitudes include prejudice against fathers for using flexible working arrangements to support caring duties, or attitudes which assert that flexible work is more appropriate for women. Male carers using flexible work report the highest level of exclusion compared to other flexible work users, with 48% witnessing

¹⁷ *Fair Work Act 2009*, s. 65-66.

or experiencing discrimination or harassment in 2021, compared to 28% for male users of flexible work without caring responsibilities (Diversity Council Australia, sub. 71, p. 15).

Figure 4.25 – Flexible working arrangements are more common for mothers with younger and more children^a

Proportion of workers who had a flexible working arrangement in their main job by age of youngest child and number of children, 2021



a. This chart shows the use of flexible work arrangements but does not specifically relate to using those arrangements to care for children.

Source: ABS (*Tablebuilder, Characteristics of Employment, Australia, August 2022*).

The prevalence of flexible working arrangements increased as a result of the COVID-19 pandemic. During the pandemic, working from home became much more common across Australia. Despite the impacts of the pandemic declining over time, these trends in working from home are anticipated to persist to some extent in the future (McKinsey Global Institute 2021, p. 37).

Working from home increased among all workers during the pandemic, but there were greater increases for mothers. In 2021, about half of employed mothers with a youngest child aged 0–14 years were usually working from home in their main job, a 10 percentage point increase from 2019 (ABS 2023b). Over the same period, the share of employed persons usually working from home increased by 9 percentage points among women aged 25–54 years old without children, and 5 percentage points among both fathers with a youngest child aged 0–14 years and men aged 25–54 years without children. The rise in working from home could be explained by evidence that suggests both men and women experienced increases in unpaid work during the pandemic, but there was a greater increase for women (Craig 2020, p. 687).

Mothers with a youngest child aged 0–14 years were already usually working from home in significant proportions (40%) prior to the pandemic (ABS 2023b), with this increasing further during the pandemic as discussed above. As such, working from home may have been a particularly important option for mothers to balance work and care duties following the onset of the pandemic. Working from home may support mothers' labour force participation by improving access to work for those raising children, which are responsibilities that are still mostly carried by women in Australia (PC 2021, p. 82). More broadly, working from home could

also promote a more gender-balanced labour force, as more women than men are in jobs that can be done remotely (PC 2021, p. 83).

Increasing awareness of flexible work options and changing attitudes towards flexible work may further allow parents to balance work and care. The Fair Work Ombudsman (2023) publishes best practice guides for flexible work for managers and employers. These guidelines explain the advantages of taking a best practice approach to flexible working arrangements. Finding ways to promote positive attitudes among employers, employees and the wider community towards parents, particularly fathers, taking up flexible work and other family-friendly arrangements is encouraged. Some argue that this could be achieved through employers setting targets for engaging men in flexible work (Lyons 2019). However, beyond policy considerations, change in this area will likely require broader cultural shifts related to perceptions of traditional gender roles and attitudes (Borgkvist 2021, p. 239).

The tax and transfer system can create disincentives for secondary income earners to work

Some submissions have noted the existence of financial disincentives for mothers to work caused by high net costs of ECEC in tandem with interactions with the tax and transfer system (Australian Government Department of Education, sub. 90, pp. 38–39; Brotherhood of St Laurence, sub. 96, p. 11; Bray and Gray, sub. 14, p. 7; Goodstart, sub. 125, p. 92; NFAW, sub. 10, p. 6; The Salvation Army, sub. 56, p. 22).

Australia is characterised by a progressive tax system and a means-tested transfer system. The personal income tax system has a high tax-free threshold followed by increasing tax rates at subsequent thresholds. In the transfer system most payments are means tested to ensure support is targeted to people who need it the most. Families with children are supported with almost universal payments (such as Family Tax Benefit Part A) and low-income parents (mainly single parents) may also be eligible to receive more targeted welfare transfers (such as Family Tax Benefit Part B and the Parenting Payment). The means testing includes a family income test, where transfers are reduced or cut off as family income increases.

The Child Care Subsidy (CCS) also factors into this system. Among other eligibility criteria, whether a family receives a subsidy is determined by a family income test, and the rate of subsidy is tapered so that those families that earn the least receive a higher subsidy rate (paper 6).

A consequence of the design of Australia's tax and transfer system, with taxes levied on individuals and transfers based on family income, can be financial disincentives for parents, particularly second income earners, to enter the labour force or to work full time.¹⁸ The OECD found 'a high tax wedge between second earners and single individuals exerts a negative impact on female participation' (Jaumotte 2004, p. 78). In Australia, government policies have 'counteractive effects' both encouraging and discouraging the engagement of 'secondary' earners, mostly mothers in paid work (Kalb 2017, p. 152). Providing ECEC subsidies and paid parental leave can encourage women back to work, but the *withdrawal* of family benefits (such as CCS, Family Tax Benefit and Parenting Payment) as family income increases can create financial disincentives for women to engage in or increase paid work.

The disincentives for a secondary earner working can be modelled using effective marginal tax rates (EMTRs) or workforce disincentive rates (WDRs). These measure the combined effect on a person's take-home earnings of income tax, the withdrawal of transfer payments and the out-of-pocket ECEC. An EMTR measures how much money a person would lose from earning an extra dollar (box 4.6). Similarly, WDRs show the proportion of earnings from an additional day of work that is lost to income taxes, the

¹⁸ This is unlike tax systems in many other countries that allow for transfers of a tax-free range between married and de facto partners (Kalb 2017, p. 136).

withdrawal of transfer payments and net childcare fees. WDRs tend to provide a 'more realistic idea of the incentives driving work decisions for secondary earners than [EMTRs] because household decisions are often made about the number of days to work rather than additional hours' (Kennedy 2023). WDRs are typically estimated for the secondary income earner (typically the mother) in a range of cameo family situations, where the primary earner's (father's) income and labour supply is taken as given.

Box 4.6 – What are effective marginal tax rates (EMTRs)?

Most people do not get to keep every cent that they earn. For every extra dollar earned, most people pay income tax (for high income earners, this is as high as 45 cents), some lose part of their transfer payments and, over some income ranges, the rate of Child Care Subsidy for families using subsidised care falls, increasing their out-of-pocket ECEC expenses. The sum of these losses can be referred to as 'cents in the dollar'.

To illustrate, if a person earns one extra dollar, but pays 30 cents of this dollar in income tax, loses 17 cents of welfare benefits (such as FTB or Parenting Payment) and pays 22 cents towards ECEC costs in order to earn that dollar, their effective marginal tax rate (EMTR) is estimated to be 69 cents in the dollar.

EMTRs of over 100 cents in the dollar imply that the person has no financial gain from working more hours (in fact, they would incur a financial loss). That said, some people may tolerate high EMTRs in the short term if they think that participating in paid work will bring financial gains in the longer term (for example, through career progression and the accumulation of superannuation) or they enjoy being in paid work. Further, EMTRs do not consider that some families also use informal care to enable work, such that they may not incur additional ECEC costs from working an extra day.

EMTRs are high for secondary earners ...

Several reports have estimated relatively high EMTRs for the secondary earner in Australia and suggested this discourages them from working more. The Grattan Institute (Wood et al. 2020, p. 25) found that 'for second earners, mainly women, right across the income distribution, there is not much – if any – financial gain from working an extra day, particularly beyond three days a week'. They found that WDRs were more than 50% for mothers working between 2–3 days and 110% for between 4–5 days. Both the Commission and KPMG have previously made similar findings (KPMG 2018, p. 3; PC 2014, p. 220). Typically, secondary earners face a higher workforce disincentive as they work additional days.

The largest workforce disincentives typically affect mothers with young and multiple children. Bray et al. (Bray et al. 2021, p. 280) noted that EMTRs particularly affected single parents or partnered mothers with young children who require full-time care on the days they work. Grattan found that women with multiple children in centre-based day care face the highest EMTRs because they have to pay high childcare fees and because they receive a higher Family Tax Benefit A, meaning dollar withdrawals are higher as income increases than for parents with fewer children (Wood et al. 2020, pp. 25–27).

Despite recent changes to make ECEC more affordable and reduce out-of-pocket expenses, EMTRs remain high. An evaluation of the 2018 Jobs for Families Child Care Package modelled the impact of the reform on EMTRs and, across the scenarios modelled, found that after the package:

there was an average reduction of 8.5 percentage points in the impact of EMTRs on the earnings parents would gain from working an additional day. After these reductions, the median

EMTR was 67.5 per cent, and a quarter of the scenarios had an EMTR of over 78.3 per cent. (Bray et al. 2021, p. viii)

The Cheaper Child Care Bill introduced in July 2023, which increased the subsidy level and lowered taper rates, is expected to further reduce workforce disincentives for almost all families with children in care (Wood et al. 2022, p. 7). Bray and Gray (sub. 14, p. 40) estimated a decrease in the average EMTRs in the cameos modelled of 5 percentage points.

... but high EMTRs are mostly due to the tax and transfer system rather than ECEC costs

Although out-of-pocket ECEC expenses are a contributor to high EMTRs, there is some consensus that the main reason EMTRs are high lies in the tax and transfer system (figure 4.26). In late 2018, out-of-pocket ECEC expenses accounted for between 10% and 50% of average EMTRs depending on the characteristics of the family (Bray et al. 2021, p. 279). But for many, high EMTRs are mainly due to the withdrawal of benefits and the progressivity of the income tax system. Marginal income tax rates are significant, particularly for higher earners, and Family Tax Benefit A, Family Tax Benefit B, Parenting Payment and Commonwealth Rent Assistance all decrease as family income increases – a phenomenon which particularly affects low- and middle-income households (Wood et al. 2020, p. 27).

Generally, the out-of-pocket ECEC expenses have remained a relatively large contributor to high EMTRs for:

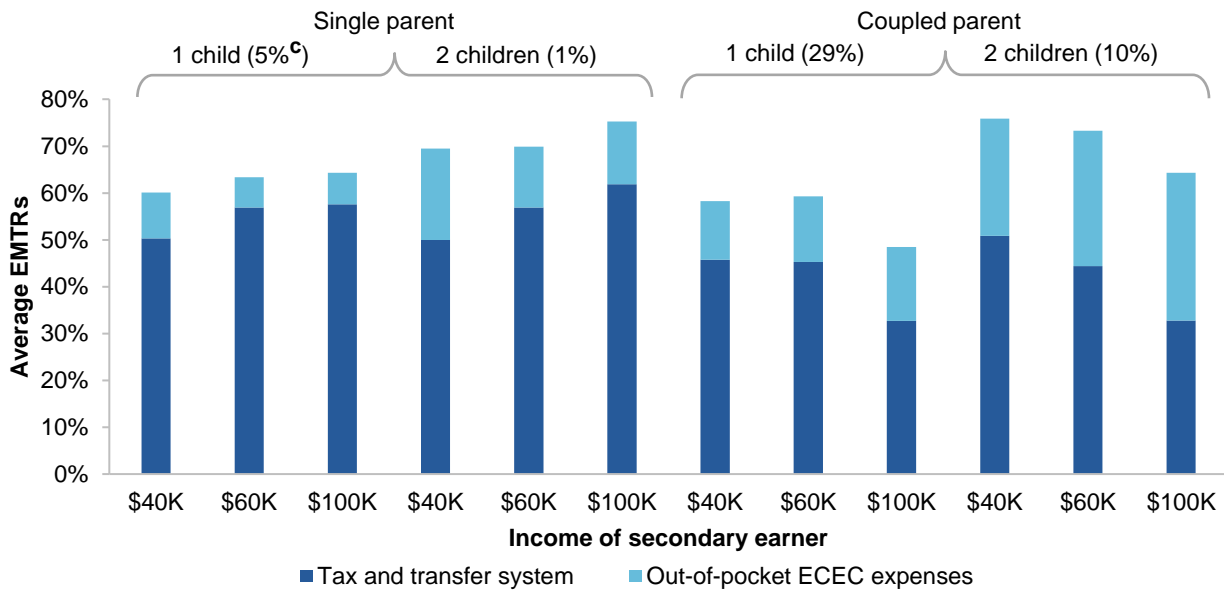
- high-income earners (those with a personal income of \$100,000 per year) with two children aged under 5
- low- to medium-income earners (\$40,000–60,000 per year) with two children aged under 5, who want to work more than 3 days (Bray et al. 2021, figs. 135 and 136).

These high EMTRs are likely ‘biting’ on a small proportion of families – only 11% of all families with children aged under 15 have two or more children aged under 5, the majority of which are in couple families (figure 4.26). The changes to the CCS (under the ‘Higher Child Care Subsidy’) which increased the subsidy for second and multiple children in March 2022 are likely to have reduced these effects (DESE 2022, p. 1). Further, these financial disincentives are not expected to last long because as children reach school age the effects of out-of-pocket ECEC expenses are diminished as ECEC costs fall (Bray et al. 2021, p. 275).

There is no simple solution to high EMTRs. In general, they exist because of desirable design elements of the tax and transfer system – a progressive income tax scale and means-tested benefits that phase out gradually as incomes rise. Careful design can address the highest EMTRs in the system, but generally by smoothing peak EMTRs which can have the effect of raising EMTRs at another point in the income scale. The Commission has previously noted that changes in the tax and transfer system and other policy areas are likely to have a far greater impact on labour force participation than any changes in ECEC policies (PC 2014, p. 16). This remains relevant today.

Figure 4.26 – EMTRs for secondary earners are high mainly because of the tax and transfer system^{a,b}

Average of single-day increment EMTRs and proportion attributed to out-of-pocket ECEC expenses, late 2018



a. Scenarios as defined in Bray et al. For the partnered parent, it is assumed that one partner is already earning a full-time wage at the rate of the scenario, with the partner earning the same annual rate, with their income incrementing proportionally with the number of days they work. Children are assumed to be aged under five. b. Estimates generated after the introduction of the Jobs for Families Child Care Package (2018), but not the Higher Child Care Subsidy (2022) or Cheaper Child Care Bill (2023). c. The proportion of all families with children aged under 15 (2.7 million) that are a single parent family with one child aged under five (ABS 2022a). These numbers provide an indication of the proportion of all families that are affected by these high EMTRs.

Source: Based on Bray et al. (2021, tbl. 102).



Draft finding 4.5

High effective marginal tax rates are largely due to the tax and transfer system

Effective marginal tax rates (EMTRs) are high for many mothers, creating a financial disincentive to work more than part-time hours. However, this is mainly due to the tax and transfer system rather than out-of-pocket ECEC expenses. The contribution of ECEC expenses to high EMTRs has likely been reduced further by the introduction of the 2022 Higher Child Care Subsidy and 2023 Cheaper Child Care reform.

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5. Availability of ECEC

Key points

- ✳ **In 2023, over 18,500 services offered early childhood education and care (ECEC) in Australia.**
 - Nearly half were centre-based day care services (CBDCs), about one quarter provided outside school hours care (OSHC) and about the same proportion were dedicated preschools. Family day care (FDC) and In Home Care services (IHC) accounted for a very small share of the sector.
 - For-profit providers accounted for about half of all services, not-for-profit providers a further 30% and schools or state and territory governments the remainder.
- ✳ **The sector has expanded rapidly over the past decade. Service numbers grew by 25% in the 10 years to Q1 2023 and the number of approved places rose by nearly 50% to over one million.**
 - Faster growth in approved places than service numbers points to services becoming larger.
 - Growth was primarily in CBDC and OSHC; dedicated preschool provision hardly changed and the number of FDC services decreased significantly from 2016 (following a rapid expansion) as the Australian Government addressed integrity issues.
 - Growth was overwhelmingly delivered by the for-profit sector. Large providers (who operate 25 or more services) accounted for a marked share of the growth, particularly in OSHC where small provider numbers (who operate one service) fell.
- ✳ **Despite growth, many have raised issues with the availability of ECEC services.**
 - ECEC availability, especially for CBDC, is variable and tends to be lower in regional and remote areas and in communities experiencing higher levels of socio-economic disadvantage. To some extent, this may reflect a lack of local demand or inability of an area to support a service, or both. Only 8% of children aged 0–5 live in communities with sufficient CBDC provision to support to access to three days of ECEC a week – were that something that families wanted.
 - Including dedicated preschools improves the picture of availability. However, places in dedicated preschools only increase availability for children aged 3–5, and these services often have more limited days of operation and / or shorter session lengths than CBDCs so are not directly substitutable.
 - Only about half of all primary schools in Australia offer OSHC.
- ✳ **Many regional and remote areas are ‘thin markets’ – relatively low levels of demand mean the costs per child of delivering services are higher than families are willing or able to pay with current subsidy arrangements.**
 - If the activity test were relaxed and affordability improved for lower-income families, demand for ECEC would increase in some areas to the point where services are viable without further government support and supply would expand through market dynamics. Lower socio-economic areas with larger populations (including on the urban fringe) likely have this characteristic.

- In other areas, prospective providers may still be reluctant to invest, perhaps due to higher costs and challenges of hiring and keeping educators and teachers. Supply side funding programs will be needed to boost provision to achieve an entitlement to up to 30 hours or three days a week of quality ECEC for all children aged 0–5 whose families choose to use ECEC.

Availability of formal early childhood education and care (ECEC) enables families – particularly mothers – to make choices about their participation in work, volunteering, study or training and about their children’s engagement in early learning. The ECEC sector has grown substantially over the past 20 years and continues to do so. However, research by the Mitchell Institute and the Australian Competition and Consumer Commission (ACCC) reported poor availability of ECEC in some places – particularly in regional and remote areas. There are also reports of families having difficulty finding ECEC services in their local area and inquiry participants have relayed that ECEC availability is lacking in regional and remote areas and for children aged 0–2.

Key questions for this inquiry go to:

- the level of availability sufficient to constitute ‘universal access’ and support net community benefits
- how to increase availability in places where the market-based model has resulted, and likely will continue to result, in undersupply.

The paper begins by considering the level of availability sufficient to constitute universal access (section 5.1). It then describes the ECEC sector in Australia, including growth in provision and the roles of for-profit and not-for-profit providers, along with the availability issues that inquiry participants and others have raised (section 5.2). The paper then examines the extent to which ECEC is available in different parts of Australia (section 5.3), and considers why some areas appear to be undersupplied, including reasons why providers are not servicing a particular area (section 5.4). It then turns to the question of how governments might best ensure that all families seeking access to ECEC are reasonably able to do so (section 5.5), and concludes with a brief discussion of four particular availability issues (section 5.6).

This paper focuses on the question of whether services are available in an area and not on how well the characteristics of available services (such as the hours and days offered) meet the needs of families. This latter set of issues is considered in paper 7.

5.1 All children should have an ECEC entitlement

The terms of reference for this inquiry direct the Productivity Commission to consider a universal ECEC system, but do not define what that means. Inquiry participants have suggested different ways to think about universality, from ECEC that starts at birth for all children to ‘proportionate’ universality, comprising a baseline level of provision for all but with higher levels of support for some, for example, children from age three or those experiencing disadvantage.

In designing the inquiry’s draft recommendations, the Commission has considered that a universal system is one that focuses on the needs of children, and enables all children access to services that would support their development – while also considering the preferences and needs of their families.

An ECEC system that enables universal access is consistent with the *Draft National Vision for Early Childhood Education and Care*, which includes the outcome that ECEC is an entitlement that ‘all families who choose to use can access’ (DoE 2023d, p. 2). Similarly, outcome 3 in the *National Agreement on Closing the Gap* states that ‘Aboriginal and Torres Strait Islander children are engaged in high quality, culturally appropriate early childhood education in their early years’ (Australian Government 2020, p. 24).

Universal, however, does not mean uniform. In a universal system, some form of ECEC would be available to all children regardless of where they live, but the mode of provision would differ depending on location and the needs of children.

But what level of availability would be consistent with universal access?

There is no clear answer on an 'optimal' rate of attendance or model of ECEC delivery that would ensure children and families get the most benefit out of ECEC (paper 1). Attending ECEC is a family decision, that takes into account many factors, including views on early education and the roles of mothers and fathers, the preferred balance between caring for young children and other activities, the cost of ECEC and how suitable services are to family circumstances.

Many inquiry participants have advocated for an entitlement of up to 30 hours or three days of ECEC a week at no or low cost for all children, with additional days for children experiencing vulnerability and disadvantage. This number of hours aligns with some states' plans for the delivery of preschool to children in the year before they start school. The South Australian *Royal Commission into Early Childhood Education and Care* called for 30 hours of preschool per week to be available in the two years before school to 1,000 children in each year level who are identified as being at greatest risk of developmental vulnerability – with the view to expanding eligibility over time (SA Government 2023b, pp. 20–21).

About two-thirds of children who already attend ECEC services do so for up to three days a week, which mostly likely reflects their parents' working hours (appendix D). Many families also use some informal care (because ECEC is too costly or inflexible or because of the desire for children to be cared for by family), some parents have a preference for part-time work to allow them to also care for their children and others may find that the incentives inherent in the tax and transfer system, alongside ECEC fees, mean that the additional income beyond three working days per week tends to be small for a secondary income earner.

Ensuring that all children aged 0–5 years have access to some form of subsidised ECEC for three days a week (up to 30 hours) would strike a balance between the preferences of families and the incentives they face, and the benefits for children from ECEC participation.

This is not to say that families should not be able to choose the number of days that is most appropriate for their child or their labour force participation choices. Places will need to be available for families who choose to use more than three days, so that they will not have to change current attendance patterns.

But a policy setting of at least three days sets a benchmark that governments can consider as a long-term policy goal for universal access to ECEC – ensuring that each child can access three days of quality, age-appropriate ECEC. The specific services available will take different forms depending on their location. Major urban centres already have many centre-based day care (CBDC) services in operation, but in regional and remote areas an expansion of family day care or mobile services might be more in line with local needs.

Alongside changes to subsidy arrangements to increase affordability (paper 6), and improvements in inclusion and flexibility (paper 7), ensuring sufficient availability for all children aged 0–5 to take up an entitlement of up to three days a week of ECEC if their families chose to use it, would enable universal access to ECEC.



Draft finding 5.1

All children aged 0–5 years should be able to attend up to 30 hours or three days of quality ECEC a week for 48 weeks per year

Up to 30 hours or three days a week of quality ECEC should be available to all children aged 0–5 years whose families choose to use ECEC. Meeting this benchmark, along with improved affordability, inclusion and flexibility, would enable universal access to ECEC.

5.2 Characteristics of ECEC markets in Australia

Most ECEC services are delivered through a ‘managed’ market-based model in Australia.¹ While governments subsidise ECEC fees and regulate the quality of services, ECEC is delivered to the community primarily on a fee-for-service basis and mostly by non-government providers². These providers decide when and where to set up their services and what fees to charge. This section describes the ECEC sector in Australia and growth in the sector.

ECEC is provided through a variety of services and provider types

The formal ECEC sector comprises a number of different service types (figure 5.1).³ Most are approved to receive the Child Care Subsidy (CCS) on behalf of parents. These include CBDC, family day care (FDC) and In Home Care (IHC) services which primarily cater to children aged 0–5 and outside hours school care (OSHC) services which primarily cater to school aged children.

Preschool differs from other forms of ECEC in that it is an educational program, rather than a service type per se. Programs are delivered in either a dedicated preschool service or a CBDC and funded via a combination of Australian and state and territory government resources (appendix E). In 2022, about 13,000 ECEC services offered preschool programs. One third were dedicated preschools; two-thirds were CBDCs. The CBDC delivery method is most common in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory; provision in dedicated settings is high in Western Australia, Northern Territory and Tasmania.

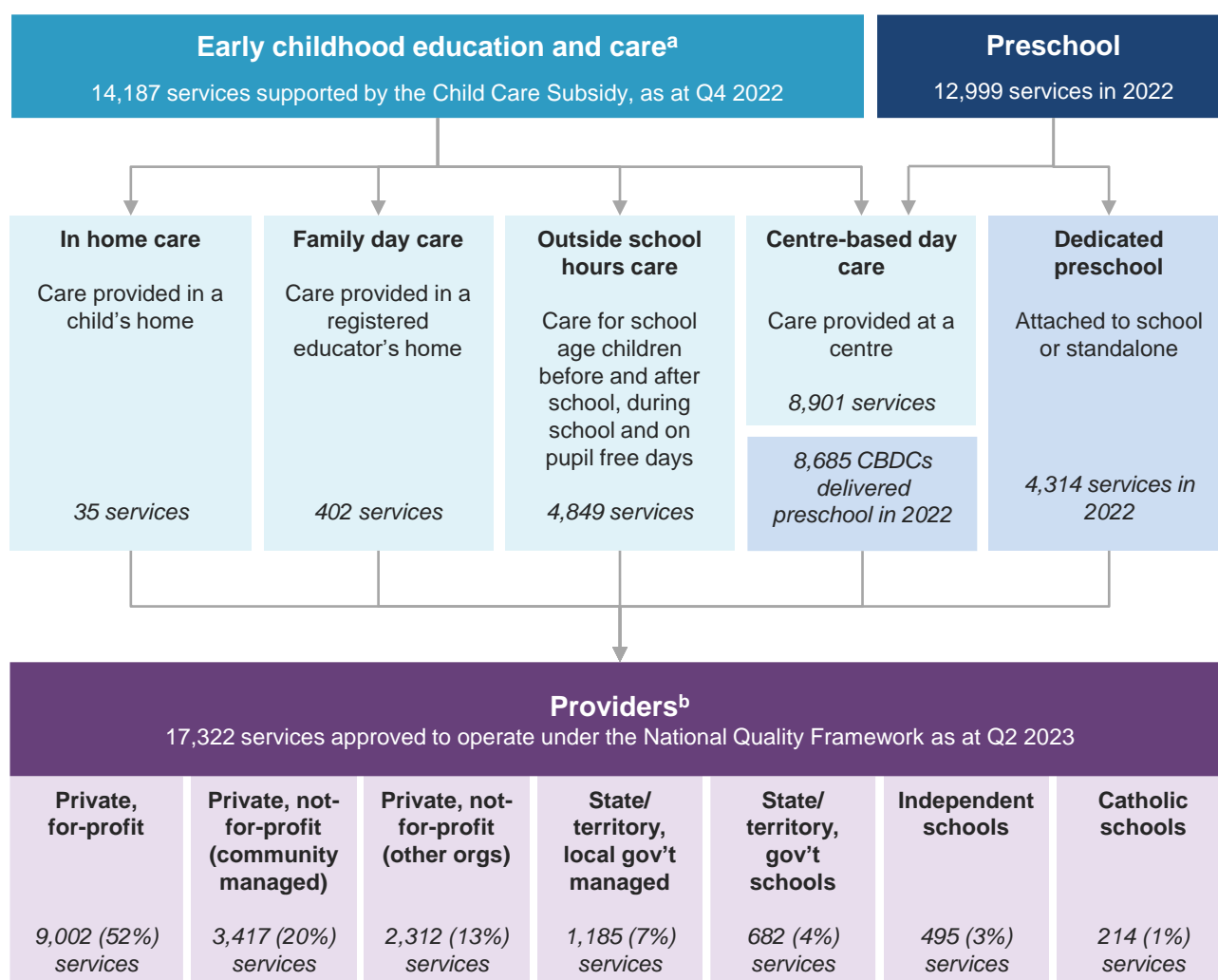
A range of other, smaller ECEC services are funded through other government initiatives. While these represent a small segment of the sector, they are likely very important to those who use them. For example, mobile care helps to provide preschool and childcare services in rural and remote towns (section 5.5).

Much of the discussion in this section draws on data collected by the Australian Children’s Education and Care Quality Authority (ACECQA) which covers services regulated under the national quality framework (NQF). Most dedicated preschools in Western Australia, all dedicated preschools in Tasmania and all IHC services, sit outside the NQF and are, therefore, not represented in this section’s analysis.

¹ A large proportion of preschool programs in Tasmania, South Australia and Western Australia are delivered through primary schools and funded by their state governments.

² The Australian Government became involved with ECEC provision in 1938 with the establishment of the Lady Gowrie Child Centres in each state (Press and Hayes 2000, p. 17).

³ ‘Informal ECEC markets include services such as those provided by nannies, babysitters, and play groups. Informal care also includes arrangements with grandparents, relatives, and kinship carers.’ (Australian Government Department of Education, sub. 90, p. 7).

Figure 5.1 – Structure of the ECEC sector

a. State and territory funded ECEC services are excluded from the chart (166 services in 2022). **b.** Operate services. The majority of providers only operate one service. The difference between the 18,501 services enumerated in the top panel and the 17,322 enumerated in the bottom panel is due to the services not captured in the ACECQA data (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services). There are also 15 unclassified services in the ACECQA data.

Source: ACECQA (2023b); DoE (2023c); SCRGSP (2023).

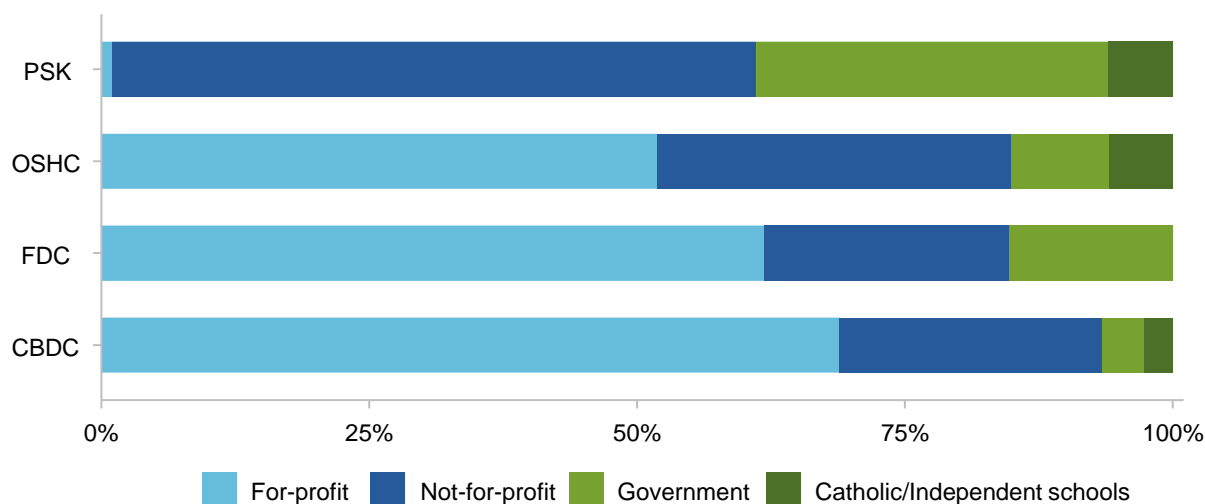
Over half of ECEC services are delivered by for-profit providers

Over 50% of ECEC services (excluding dedicated preschools) are delivered by for-profit providers (figure 5.2). Not-for-profit organisations, state and territory governments and catholic and independent schools are responsible for the remainder. Dedicated preschools are mainly delivered by not-for-profit organisations and state and territory governments.⁴

⁴ Most dedicated preschools in Western Australia and Tasmania are part of the school system. If those services were captured in the ACECQA data the share of dedicated preschools run by governments and schools would be higher.

Figure 5.2 – The majority of ECEC services are delivered by for-profit providers, with the exception of dedicated preschools^{a,b}

Share of services by provider type, Q1 2023



a. CBDC=centre-based day care, FDC=family day care, OSHC=outside school hours care, PSK=dedicated preschool.

b. ACECQA data excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services).

Source: ACECQA (2023b).

A small number of providers operate a significant share of ECEC services

Only a handful of providers are classified as large – just 1% operate 25 or more ECEC services (figure 5.3). But these providers account for just over one-third of all services (ACECQA 2023b, p. 9), and some operate multiple types of ECEC services. For example, the Y Australia (sub. 127, p. 7) noted that they operate 430 services across OSHC, CBDC and dedicated preschools.

Concentration in the ECEC sector has increased over the last decade. Between 2013 and Q1 2023 the share of large providers did not change (it remained at about 1%) but the share of services operated by those providers increased from 28% to 35% (ACECQA 2013, p. 8, 2023b, p. 8). Larger firms may find it easier to raise or obtain funds to expand or have greater capability in opening and operating new services.

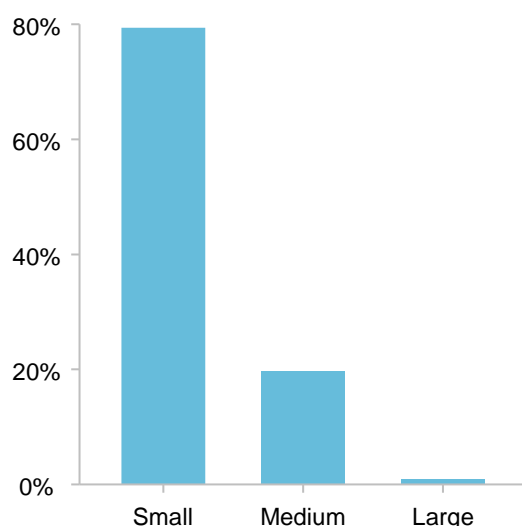
ECEC markets are highly localised

Location is an important consideration in families' choice of a centre – families tend to prefer an ECEC service close to their home (figure 5.4; ACCC 2023a, p. 10). The ACCC (2023a, p. 54) found that the median distance families travel to a CBDC service in major cities is around 2 km, with families in inner and outer regional areas travelling slightly further (between 3.25 and 3.5 km). Families in remote and very remote Australia travel very short distances (between 1 and 2.25 km) reflecting that towns are geographically small, so families attend if there is a service in town near their residence but otherwise do not (ACCC 2023a, p. 54). The ACCC also found that most families were unwilling to travel for more than 15 minutes to access a service (ACCC 2023a, p. 9).

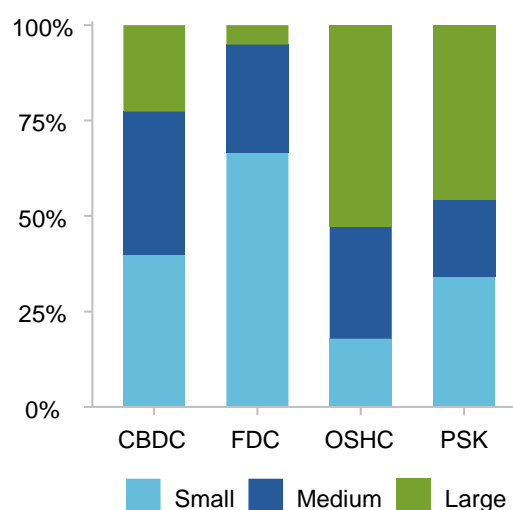
The fact that most families use ECEC services that are relatively close to home – or en route to another destination – suggests that ECEC markets are highly localised and that availability of ECEC must be considered at a local level.

Figure 5.3 – 1% of providers operate 25 or more services, but they account for significant shares of all services^{a,b,c}

a) Per cent of providers by provider size, Q1 2023



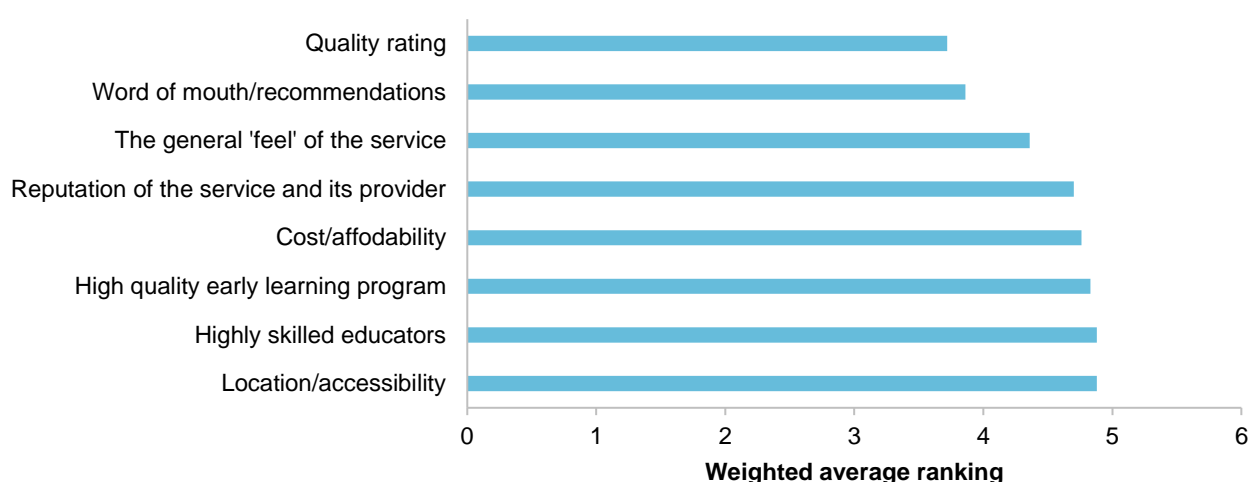
b) Per cent of services by type and provider size, Q1 2023



a. CBDC=centre-based day care, FDC=family day care, OSHC=outside school hours care, PSK=dedicated preschool. **b.** A small provider is defined as operating one service, a medium-sized provider operates between 2 and 24 services, and a large provider operates 25 or more services. **c.** ACECQA data excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services).

Source: ACECQA (2023b).

Figure 5.4 – Location is an important factor in families' choice of an ECEC service^a
Rankings of the importance of factors that influence choice of service, 2021



a. There were 4,026 survey respondents who were asked to rank in order of importance to them a range of factors when choosing an education and care service for their child. Higher scores indicate higher relative importance.

Source: ACECQA (2022, p. 49).

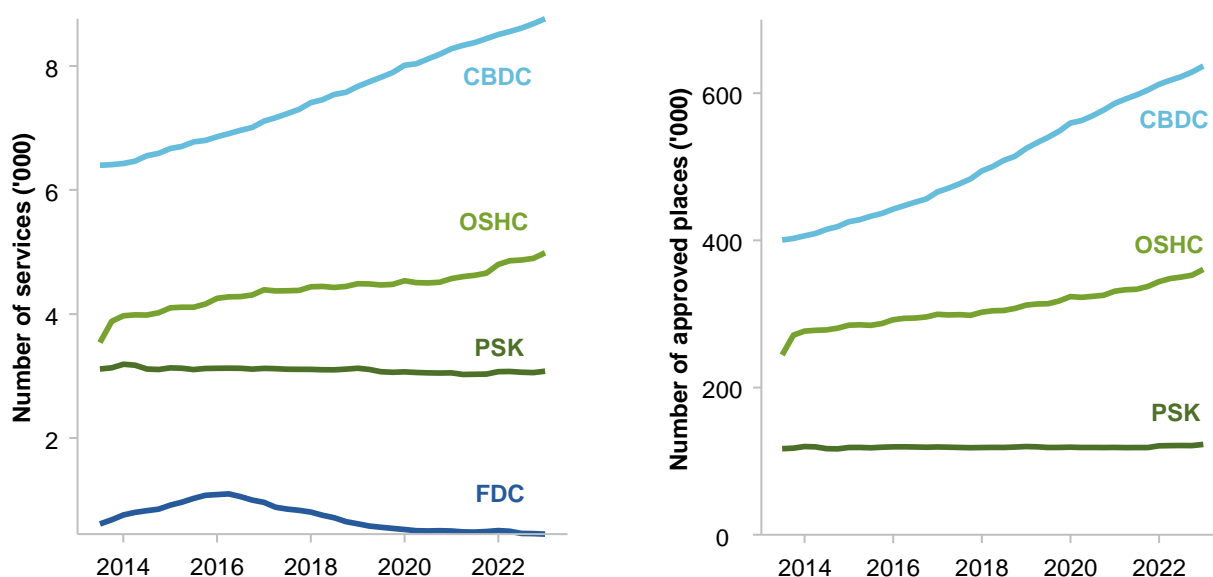
The supply of ECEC has increased significantly over time

The number of ECEC services has grown considerably over the past two decades. Service numbers rose by nearly 60% between 2002-03 and 2012-13 (PC 2014, p. 349). While growth slowed over the following decade, the total number of ECEC services (enumerated in ACECQA data) increased by about 25% to over 17,300 in Q1 2023. The rate of growth varied markedly by service type (figure 5.5). Service numbers in both CBDC and OSHC expanded, the number of dedicated preschool services did not change and the number of FDC services decreased post 2016 following a rapid expansion. Further, more OSHC services are offering vacation care than previously – in 2013, 63% of OSHC services offered vacation care, this increased to 74% by Q1 2023 (Productivity Commission estimates based on ACECQA data).

The total number of approved places (excluding places within FDC due to a lack of data) outstripped growth in the number of services over the decade to Q1 2023, rising from about 760,000 in 2013 to 1.1 million – an increase of nearly 50%. Mirroring changes in service numbers, this growth occurred in CBDC (59% increase) and OSHC (48% increase). Faster growth in approved places than services is consistent with CBDC and OSHC services becoming larger and offering more places on average.

Figure 5.5 – The ECEC sector has grown significantly^{a,b,c}

Number of services and approved places by service type, Q3 2013–Q1 2023



a. CBDC=centre-based day care, FDC=family day care, OSHC=outside school hours care, PSK=dedicated preschool (standalone or in a school). b. ACECQA data excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services). c. The ACECQA data does not provide the number of approved places for FDC. The ratio in family day care is one educator for a maximum of seven children, and there can be no more than four children who are preschool age or under (per educator) (Boyd 2020).

Source: ACECQA (2023b).

For-profit providers accounted for most of the increase in CBDC and OSHC; smaller providers played only a small role

Growth in for-profit provision outstripped growth in not-for-profit provision by a considerable margin over the decade to Q1 2023 (figure 5.6). In the CBDC sector, the number of for-profit services increased by 60%; the number of not-for-profit services increased by only 4%. For-profits also accounted for the bulk of the increase in the number of approved CBDC places. The difference in growth of approved places between for-profits

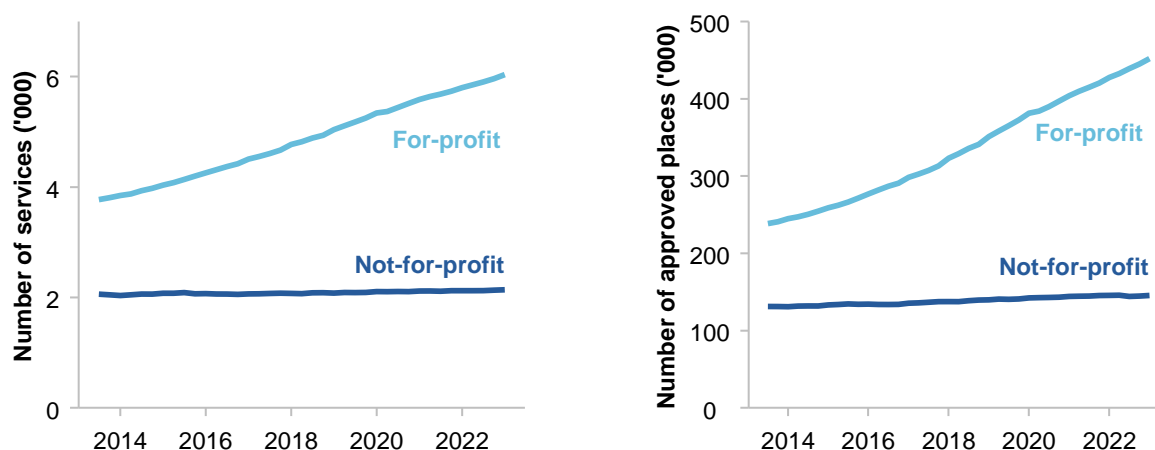
and not-for-profits is less pronounced in OSHC. The fact that the number of not-for-profit OSHC services has not increased much but the number of approved places has, suggests that each not-for-profit service is now larger on average and that services are potentially responding to demand by supporting more children.

Medium and large providers have dominated the growth in CBDC and OSHC (figure 5.7). Some schools that had small OSHC providers (such as those run by school governing councils) made the switch to contracting with large providers, such as Camp Australia. Between 2013 and Q1 2023, about 421 schools (12% of schools with OSHC in 2013) changed their provider from a small one to a medium/large one – or an average of 9 schools switched in each quarter over the period (Productivity Commission estimates based on ACECQA data). This switching helps to explain the decrease in the number of small OSHC providers. About 230 schools kept the same provider but the provider grew from a small to medium/large one over the period.

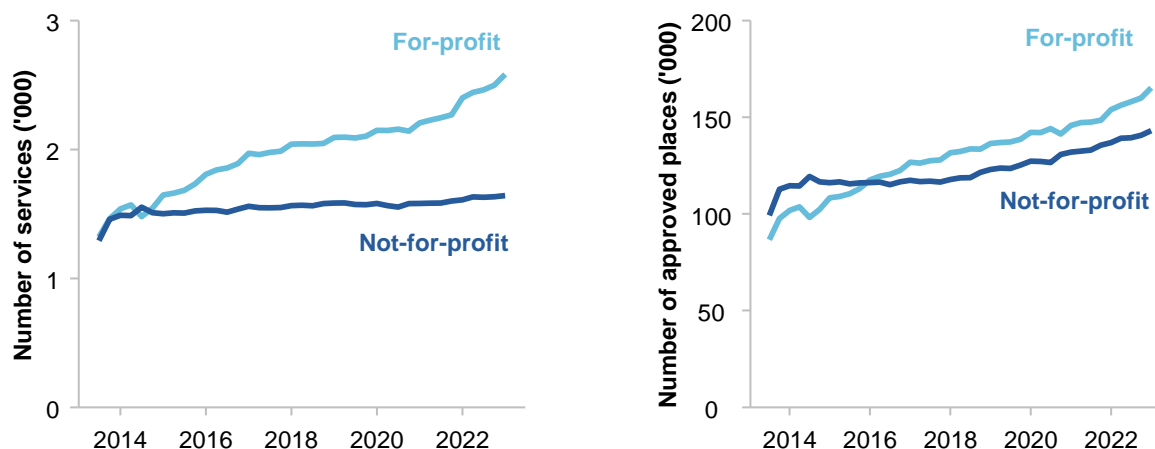
Figure 5.6 – Supply of CBDC and OSHC has grown through for-profit provision^{a,b}

Number of services and approved places by provider type, Q3 2013–Q1 2023

a) CBDC



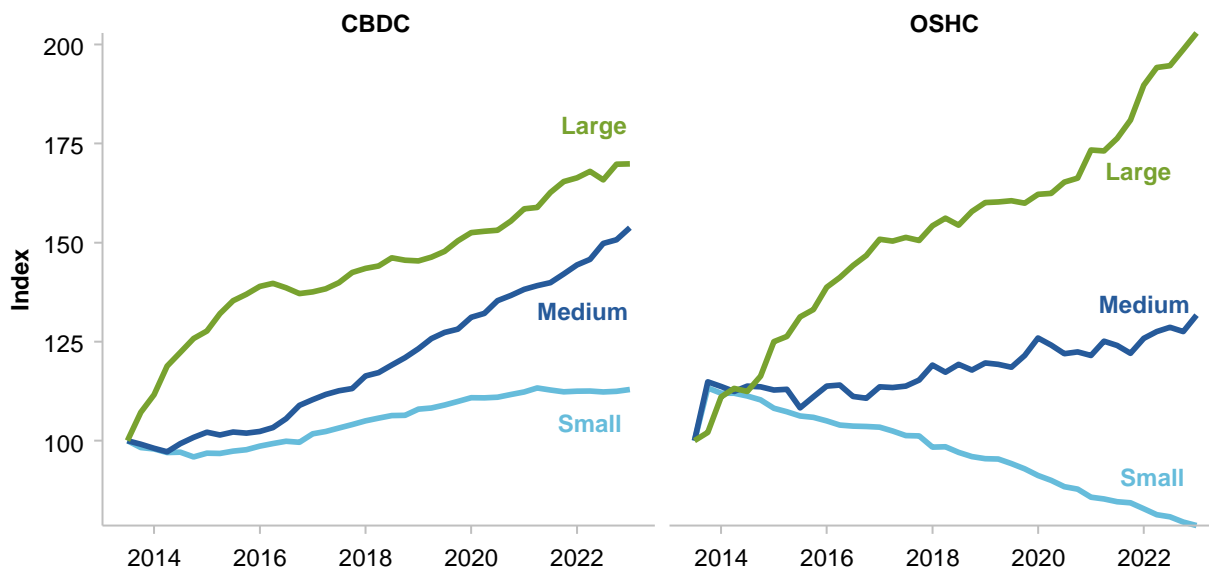
b) OSHC



a. Government, catholic and independent schools, and other unclassified provider types are excluded as they have very small shares of the sector and are therefore only small contributors to any growth.

Source: ACECQA (2023b).

Figure 5.7 – Smaller providers accounted for little of the increase in supply^{a,b}
Index for the number of services by provider size, Q3 2013=100 (base), Q3 2013–Q1 2023



a. A small provider is defined as operating one service, a medium sized provider operates 2 to 24 services, and a large provider operates 25 or more services. b. The index can be interpreted as the percentage change in the number of services since the base year (2013). For example, large providers of CBDC have increased the number of services they provide by about 75% between 2013 and 2023.

Source: ACECQA (2023b).

Why have not-for-profit providers contributed so little to the growth in CBDC and OSHC?

A number of reasons potentially explain why not-for-profit provision has not grown despite at least some providers having advantages over for-profits in the form of support from charities or local governments – for example, a higher proportion of not-for-profits owned (12%) or had a donated site (1.4%) (ACCC 2023b, p. 62), and most receive some tax advantages.

Not-for-profit providers vary from ‘very large social enterprises to local governments and small community-based organisations’ (Bray et al. 2021, p. 16).

At least some not-for-profit providers channel surpluses into service delivery, for example, via over-award payments to staff or higher staff to child ratios (ACCC 2023b, p. 53; Press, sub. 135, p. 4; SA Government 2023a), with the aim of offering higher quality care. This use of surplus funds aligns with the ethos of these providers, but likely means that expansion may be harder and might only be possible for large not-for-profits such as Goodstart Early Learning.

Other, smaller, community-based centres focus on serving their local community, potentially meaning that they might not wish to expand into other communities.

The Commission has also heard that not-for-profit providers can struggle to access the capital necessary to expand (Early Learning Association Australia, sub. 48, p. 24). The South Australian *Royal Commission into Early Childhood Education and Care* presented a similar view:

not-for-profit standalone community run services, which comprise about a quarter of the long day care system, will not have the ability to access capital funding for expansion. Many of these operate in older facilities on a peppercorn lease arrangement (having benefited in earlier

generations from State and Commonwealth government investment in this kind of social infrastructure). They have volunteer management committees that may find the prospect of capital raising or debt financing daunting. (SA Government 2023b, p. 104)

Nevertheless, not-for-profits, like for-profits, receive the Child Care Subsidy via the families that use their services and could lease a new ECEC premises; they would not need to build a new centre.

The importance of each these factors, and whether other considerations play a role, is unclear. The Commission invites not-for-profit providers to provide information about the factors affecting their ability to grow (information request 5.1).



Draft finding 5.2

Expansion of for-profit providers has been the main contributor to increased supply of ECEC

ECEC provision grew by 50% to 1.1 million places over the decade to March 2023, with much of the growth accounted for by for-profit centre-based day care.



Information request 5.1

The Commission is seeking information about possible reasons why not-for-profit providers have not expanded to meet the growing demand for ECEC. What, if any, barriers and limitations do they face?

Integrity concerns, not a lack of demand, explain the decline in family day care service numbers

FDC service numbers peaked at 1,100 in 2016 and have since fallen to 402. An evaluation of the 2018 Child Care Package noted that the then Department of Education, Skills and Employment was actively addressing compliance issues, particularly in FDC (Bray et al. 2021, p. 303). This caused a 'marked decline in Family Day Care, with 79.6 per cent of exits in this sector being associated with government compliance activity' (Bray et al. 2021, p. vii). The Australian Government Department of Education (sub. 90, p. 14) similarly noted that the integrity measures 'aimed at addressing fraud and non-compliance in the FDC sector ... have resulted in the cancellation of more than 200 FDC services'.

The Department of Education remains concerned about integrity risks in FDC provision. During the 2022-23 financial year, the Department received 35 applications to approve new FDC services for receipt of CCS, of which 4 were approved and 31 were refused. The Department is working on ways to address these concerns (Department of Education, pers. comm., 27 October 2023). They are also receiving funding from the Australian Government to perform activities to help safeguard the CCS program from fraud and non-compliance (Australian Government 2023, p. 98).

Inquiry participants noted that FDC demand remains strong. For example, the NSW Family Day Care Association (NSWFDCA, sub. 89, p. 6) submitted that 'demand for Family Day Care from families has not contracted' and that their 'members report extensive waiting lists'.

Growth in supply overall has been a response to increasing demand

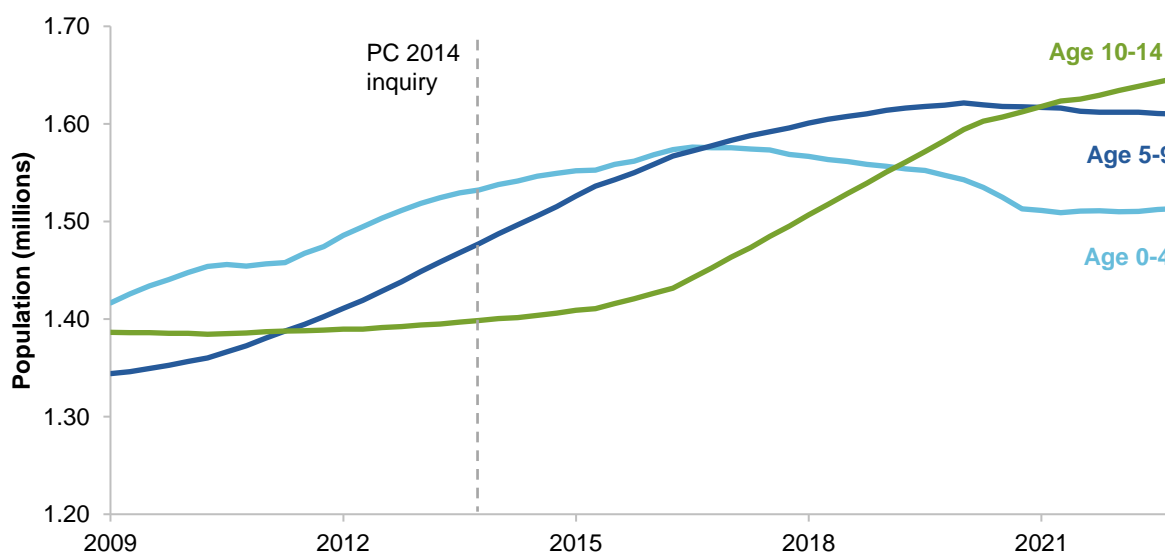
Growth in supply over the last decade reflects provider responses to increases in demand in part supported by subsidies.

At least two factors have contributed to that increase – changes in maternal labour force participation and population growth. As illustrated in paper 4, participation rates among mothers whose youngest child was aged 0–4 rose by over 10 percentage points (to 68%) in the decade to 2021. A rise, albeit smaller, was also recorded for mothers whose youngest child was aged 5–9. And the population of 0–4-year-olds grew steadily from 2009 to about 2016 then fell markedly and growth has levelled off in recent years (figure 5.8). Trends in the population of children aged 5–9 and 10–14 mimic the trends for children aged 0–4, delayed by a few years.

In the short-run, providers have limited options to increase supply. Once a service is at capacity, planning, building and staffing a new service can take a number of years (PC 2014, p. 352). Supply therefore tends to respond to changes in demand with a lag.

Figure 5.8 – Population of children aged 0–4 has recently decreased after strong growth between 2009 and 2016

Population by age group, Q1 2009–Q4 2022



Source: ABS (2023b).

ECEC availability is a concern for many

Despite substantial growth in the sector, many parties have raised issues relating to the availability of ECEC, including a lack of supply in rural and remote areas and extensive waiting lists in many places. These issues suggest a lack of physical services or capacity to meet current demand (that is, at the current price and quality supplied) in some parts of the country. As supply takes time to expand, any additional increases to demand (such as from an increase in subsidies) could worsen availability issues.

The Mitchell Institute for Education and Health Policy at Victoria University (The Mitchell Institute) authored a report in 2022 that analysed the availability of CBDC in Australia. The work measured the supply of CBDC (the number of approved places in each service) and the potential demand for CBDC (the number of children aged 0–4 in a neighbourhood) to determine where ‘childcare deserts’ and ‘oases’ were located. The Mitchell Institute found that 568,700 children aged 0–4 years (or 36.5% of children in this age group) live in

neighbourhoods classified as ‘childcare deserts’ (Hurley et al. 2022, p. 25). Many inquiry participants cited this analysis and the report is discussed further in section 5.3.

Further, case studies have highlighted limited CBDC availability in some regional areas. The Regional Australia Institute, for example, compared the availability of ECEC in Maranoa and Western Downs in Queensland. CBDC services in Maranoa would only be able to accommodate 39% of children aged 0–4 and those in Western Downs, 23% of children aged 0–4, if children in that age cohort attended full time (Regional Australia Institute 2023, p. 3). The study also found that among childcare users accessing care in Maranoa, the largest proportion had waited between 4–6 months for a place, while in the Western Downs the wait was 12 months or more (Regional Australia Institute 2023, p. 3).

Similar reports and observations have been presented to the Commission (box 5.1). Many inquiry participants reported problems with the availability of childcare in regional and remote areas. This is likely due to the lower demand spread across a large geographic area causing ‘thin markets’⁵ (discussed in section 5.4). Some families also spend long periods of time on waiting lists.

Box 5.1 – Inquiry participants have raised concerns about the availability of CBDC

A lack of availability in regional and remote areas

The Victorian Government Department of Education (sub. 146, p. 7) submitted that:

in the Loddon Elmore region, north of Bendigo, there were 34 children under 4 for every childcare place.

Regional Development Australia Loddon Mallee (sub. 15, p. 1) submitted that:

over 19,000 children under the age of 4 live in rural areas in Victoria’s Loddon Mallee Region ... there are approximately 100 children per childcare service.

The Pathways in Place Research Program (sub. 130, pp. 53–54) submitted that, while ECEC is currently sufficient to meet demand in Logan, QLD:

the predicted increase of children living in the Jimboomba SA3 suggests that the current ratio of childcare places is likely insufficient in the future.

Many other inquiry participants also noted ECEC availability issues in regional and remote areas (BBY, sub. 85, p. 7; BHP, sub. 136, pp. 2–3; Costin, sub. 26, p. 1; RDA BSW, sub. 112, p. 2; WA Government, sub. 162, p. 4).

A lack of services and capacity at existing services, contributing to long waiting lists

Many inquiry participants have pointed to a lack of services and capped capacity at existing services leading to long waiting lists.

For example, Lady Gowrie Child Centre Inc (sub. 25, p. 10) noted that:

high-quality [not-for-profit] ECEC services can have extensive waiting lists – the waiting list at Gowrie SA is 370 families with an average 2-year wait.

⁵ Thin markets exist where demand for ECEC is too small or inconsistent to support the competitive provision of services.

Box 5.1 – Inquiry participants have raised concerns about the availability of CBDC

Regional Development Australia Kimberley (sub. 1, p. 1) submitted:

Currently there is no access to any childcare service in the Kimberley region, despite only one centre operating at their licenced capacity. Kimberley childcare centres have capped numbers, closed rooms and services, with a minimum 18-24 months waiting period for all centres.

BHP (sub. 136, p. 3) noted similar concerns in the Pilbara:

data collected in 2021 and 2022 confirmed waitlists of approximately 200 children in Newman and 600 in Port Hedland, with the wait for a childcare place averaging between six months and two years.

And in regional NSW one participant commented that:

'Waitlisted friends have waited on several lists for 12-18 months.' (Brief comment 45)

Many other participants raised similar issues (BBY, sub. 85, p. 7; BHP, sub. 136, pp. 2–3; Costin, sub. 26, p. 1; Gowrie Australia, sub. 79, p. 12; Tessier, sub. 17, p. 1; Lawson Grains and Rural Regional Remote Women's Network, sub. 134, p. 2; NSWFDCA, sub. 89, p. 6; Phillip Island Early Learning Centre, sub. 5, p. 1; RDA BSW, sub. 112, p. 6; WA Government, sub. 162, p. 14).

There are also supply issues for OSHC

Not all primary schools have an OSHC service on site or close by – only 53% have an OSHC service within 500 m (Productivity Commission estimates based on published latitude and longitude of school and OSHC service addresses). Some families also face problems with accessing OSHC where services have insufficient places to fulfill demand and waiting lists prevail.

The provision of OSHC differs by the state and territory (table 5.1). For example, for the 116 primary schools in the ACT there are 104 OSHC services – almost 90% of schools have an OSHC – while in Tasmania this rate is much lower at 40%.

Table 5.1 – Rates of OSHC provision vary markedly between states and territories^a

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Number of schools	2,788	2,233	1,592	672	1073	234	175	116
Number of OSHC	1,578	1,490	790	387	490	91	54	104
Per cent with OSHC	56.6%	66.7%	49.6%	57.6%	45.7%	38.9%	30.9%	89.7%

a. Analysis is restricted to primary, combined and special schools – secondary schools are excluded. The percentage of schools with an OSHC is calculated as the number of OSHC services divided by the number of schools.

Source: ACARA (2023); ACECQA (2023b).

There are concerns for OSHC availability in regional and remote areas. For example, the Victorian Government (sub. 146, p. 7) submitted that a 'shortfall of available childcare in regional Victoria ... affects children of school age. In 2021, only 30% of schools in regional Victoria had an onsite OSHC service, compared to 77% of schools in metropolitan Melbourne'. And the South Australian Government (2023a,

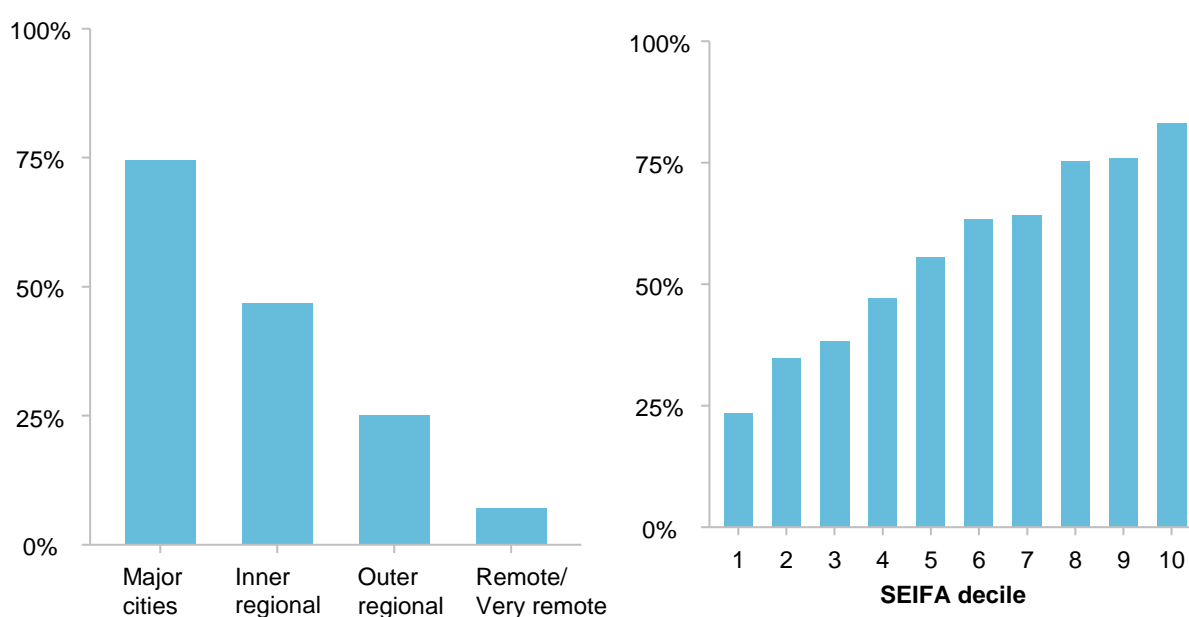
p. 179) has noted that because schools are smaller and people are spread across long distances it can be hard to establish a financially viable service.

OSHC provision is indeed more common in urban areas; it is also more common in high socio-economic areas (figure 5.9). The likelihood of OSHC provision decreases as:

- the remoteness of the school's location increases
- the level of disadvantage of the school's location increases.

Figure 5.9 – OSHC is more likely to be provided at schools located in major cities or high-socio-economic areas^{a,b,c}

Proportion of schools for which there is an OSHC service by remoteness and SEIFA, 2023



a. Schools are not directly linked to an OSHC service, as linkage keys in each dataset are not provided. Supplementary analysis, using reported latitude and longitude of schools and OSHC services to try and match schools to OSHC services, found about 13% of OSHC services do not have a school site within 500 meters of its geolocation. **b.** Analysis is restricted to primary, combined and special – secondary schools are excluded. **c.** Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged and 10 being the most advantaged).

Sources: ACARA (2023); ACECQA (2023b).

Issues were also raised with the availability of vacation care. The Shop, Distributive and Allied Employees Association (sub. 72, p. 14) submitted that some services 'will only accept children for vacation care if they also attend before and after school care'. A lack of vacation care is a significant barrier to families who require care during school holidays.

5.3 ECEC is not readily available in all parts of Australia

As noted above, the Commission has made a draft finding that governments work towards ensuring that sufficient ECEC is available such that every child has access to 30 hours or three days a week of ECEC, where that fits with families' preferences and needs.

This section considers the extent to which families across Australia might face a barrier to accessing ECEC due to a lack of availability.

The analysis considers the potential supply of, and potential demand for, ECEC in local areas to determine the extent to which places are available for children aged 0–5. While this is useful for determining local areas that *may* have issues with ECEC availability – and the characteristics of those areas – it does not reveal imbalances in *actual* supply and demand. As such, results should not be interpreted as revealing areas where demand outweighs supply, or where families are competing for too few ECEC places.⁶

An overview of the Commission’s approach

The Commission’s analysis is similar to work undertaken by the Mitchell Institute (Hurley et al. 2022) (described above), but with different assumptions and methodologies – key differences are outlined in box 5.2.

Box 5.2 – Differences between the Commission’s work and the Mitchell Institute’s analysis of ‘deserts’ and ‘oases’

In contrast with the Mitchell Institute study (Hurley et al. 2022, pp. 15–16) the Commission has:

1. included family day care (FDC) and dedicated preschools as forms of ECEC supply alongside CBDC. The Mitchell Institute did not include FDC and adjusted potential demand to reflect time spent in preschool rather than explicitly including preschool as a form of supply. They did so because they did not have location data on FDC services and dedicated preschools
2. included 5-year-olds in the analysis who had not yet started formal schooling because these children may still require ECEC, whereas the Mitchell Institute only included children aged 0–4
3. analysed markets using standard geographic areas (produced by the ABS), whereas the Mitchell Institute used a method that captured travel times from neighbourhoods to ECEC services.

These differences make direct comparisons of the results difficult, and as such only broad comparisons are drawn where possible.

Details of the Commission’s method, data sources and key definitions are summarised in box 5.3. Key caveats that mean availability might be poorer than the results suggest are discussed after the results.

In the presentation of results, availability of CBDC places is considered in isolation and in combination with places in FDC and dedicated preschools because of differences between the two larger service types.⁷ CBDC services cater to all children aged 0–5.⁸ In contrast, places in dedicated preschools primarily support children aged 4–5 and sometimes 3-year-olds. Furthermore, CBDC services typically offer places five days a week and operate for at least 10 hours a day. In contrast, about 30% of dedicated preschools captured in the ACECQA data run programs on fewer than five days a week, many run programs for different cohorts of children over a subset of days in a week and most operate for fewer than 10 hours a day (ACECQA 2023a).

⁶ This section does not consider a range of other issues that may affect demand for ECEC, such as preferences on whether to use ECEC, out-of-pocket expenses that are higher than families are willing to pay, families having difficulties securing a place at their preferred centre, or lack of information for families to help them find available places. These barriers to using ECEC are discussed elsewhere in the report.

⁷ FDC accounts for a relatively small number of places (about 35,000 in contrast with 150,000 in dedicated preschools and 630,000 in CBDC).

⁸ In 2021, 22% of all CBDC places offered were for children aged 0–1, 25% for children aged 2, 50% for children aged 3–5, and 3% for children aged 6 and over (Commission estimates using the National Workforce Census, 2021).

As a consequence, about 15% of children attend both a dedicated preschool and CBDC in their year before full-time school (ABS 2023c). Places in dedicated preschools are not, therefore, equivalent to those in CBDC (or FDC). Nonetheless, those places add to ECEC supply.

Effectively, results for CBDC alone represent a lower bound on the quantum of formal ECEC available in an area; the combination of CBDC, FDC and dedicated preschool places can be thought of as an upper bound.

A ratio measure is used to summarise availability

The ratio of approved places per child in an area is calculated to provide a measure of how well potential ECEC supply is meeting potential demand. For example, area with 100 approved ECEC places and 200 children aged 0–5 would have a ratio of 0.5, representing 0.5 approved places per child. In other words, there are enough places for each child to attend for half the week.

The ratio gives a broad number that can be easily compared to a benchmark. For example, if the goal were to enable every child to access three days of ECEC per week, every local area would require a ratio of 0.6.

The ratio does not, however, account for practicalities such as whether a family can access the particular days or hours they need, the types of ECEC they need or variation in availability for different age groups.

The ratio adds to the evidence on ‘deserts’ or ‘oases’ – a concept used by the Mitchell Institute. In the literature, an area is considered a:

- ‘desert’ if there are fewer than 0.333 places per child
- ‘oasis’ if there are more than 0.6 places per child (Centre for Policy Development 2021, p. 1; Hurley et al. 2022, p. 18).

These benchmarks can be useful but considering the distribution of the ratio – rather than whether it is above or below certain benchmarks – provides more information about the distribution of ECEC availability across areas. For example, a ratio enables identification of areas that appear relatively underserved compared to others without having to make a judgment about the benchmark that indicates that an area is ‘sufficiently’ supplied. Using a ratio of 0.333 to select ‘deserts’ misses other relatively poorly serviced areas that have a ratio just above this threshold.

Box 5.3 – Data sources and key definitions used in the Commission’s analysis

Data sources

Information on:

- local population and demographic characteristics was sourced from the ABS Census
- approved places in CBDC and dedicated preschool covered under the National Quality Framework (NQF) was sourced from ACECQA
- dedicated preschools in Western Australia and Tasmania was sourced from the relevant departments of education
- FDC supply was sourced from the Department of Education administrative data.

Key definitions

Local markets are approximated by Statistical Area 2 (SA2) and Statistical Area 3 (SA3) areas.^a In dense urban areas, families might reasonably travel beyond their SA2 to access ECEC. SA3s are therefore used to represent local markets in major cities, and SA2s are used for regional and remote areas. This measure does not account for families who use an ECEC service in a neighbouring SA2 or SA3, nor those who use services closer to a parent’s workplace or along their journey to work. Using a locally defined market captures the *majority* of the users but may miss families who travel from other areas for ECEC services. By this method, there are 1091 local markets in Australia.

Potential demand is captured by the population of children aged 0–5 within each local market. A proportion of children aged five are excluded as it is assumed that they have started primary school and no longer require ECEC services. Given some families do not use ECEC services (paper 4), this measure can be seen as an upper bound on potential demand.

Potential supply is calculated as the total number of approved places across CBDC, FDC and dedicated preschool services available for children aged 0–5 in local markets.^{b,c}

a. Statistical Areas Level 2 (SA2) are medium-sized general-purpose areas designed to represent a community that interacts together socially and economically – they generally have a population range of 3,000 to 25,000 persons. Statistical Areas Level 3 (SA3) are geographical areas that cluster groups of SA2s that have similar regional characteristics and are designed to provide a regional breakdown of Australia. SA3s generally have a population of between 30,000 and 130,000 people (ABS 2023a). **b.** OSHC is excluded as it is not a substitute for CBDC, FDC or preschool for children aged 0–5. IHC services are excluded as they are not included in the ACECQA data and only support a small number of children across Australia – about 2,090 (DoE 2023c). **c.** FDC services can only have up to four children of preschool age or under. The Commission has attributed four approved places to each FDC service which would overestimate the number of approved places if an FDC service used some of those places for children beyond preschool age.

Availability of ECEC services varies across Australia

The ratio of approved ECEC places per child varies across Australia. ‘Heat maps’ provide a way to view the extent of variation in availability across the country (figure 5.10).

The ratio of approved ECEC places per child ranges from zero to about two, but for presentational purposes the ratio has been capped at one. There are 54 areas (of 1091) that have a ratio greater than one – these areas and the areas that surround them highlight the importance of in-depth analysis of areas. For example, some areas with a high ratio (greater than one) of approved places in CBDC to children aged 0–5 are surrounded by areas with poorer availability (box 5.4).

Variation in ratios between neighbouring areas means that while the Commission's analysis might indicate problems with supply, it should not be used in isolation to identify areas where a CBDC or other forms of ECEC might be needed. Information on employment hubs, regional traffic flows and ECEC demand, for example, is required to build a more complete understanding and make more informed decisions about whether additional places are needed.

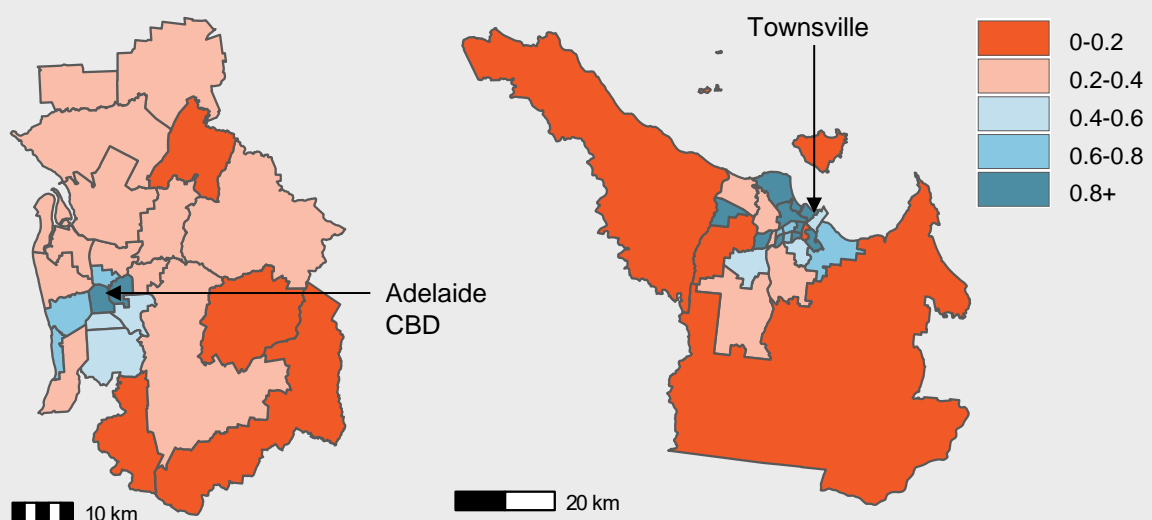
Box 5.4 – Areas of relatively high availability of CBDC can be adjacent to areas of low availability

Ratios of approved places per child for geographic areas do not tell the full story. The heat maps below show areas where the ratio of CBDC is relatively high (greater than one) and the surrounding areas have poorer availability. (A ratio greater than one indicates that there is more than one approved place for each child living in an area.) These areas might include employment centres such as universities or airports that have onsite CBDC but have small or no local child populations and areas within city centres and regional cities where many people concentrate for work.

These examples highlight the challenges with defining markets and the importance of investigating geographic areas in more detail. Due to spillovers between local areas, it is difficult to fully capture and define a 'market' and therefore while some markets appear 'undersupplied' it may be that the adjacent area is considered relatively 'oversupplied'.

Examples of 'high supply' areas and the areas that surround them^a

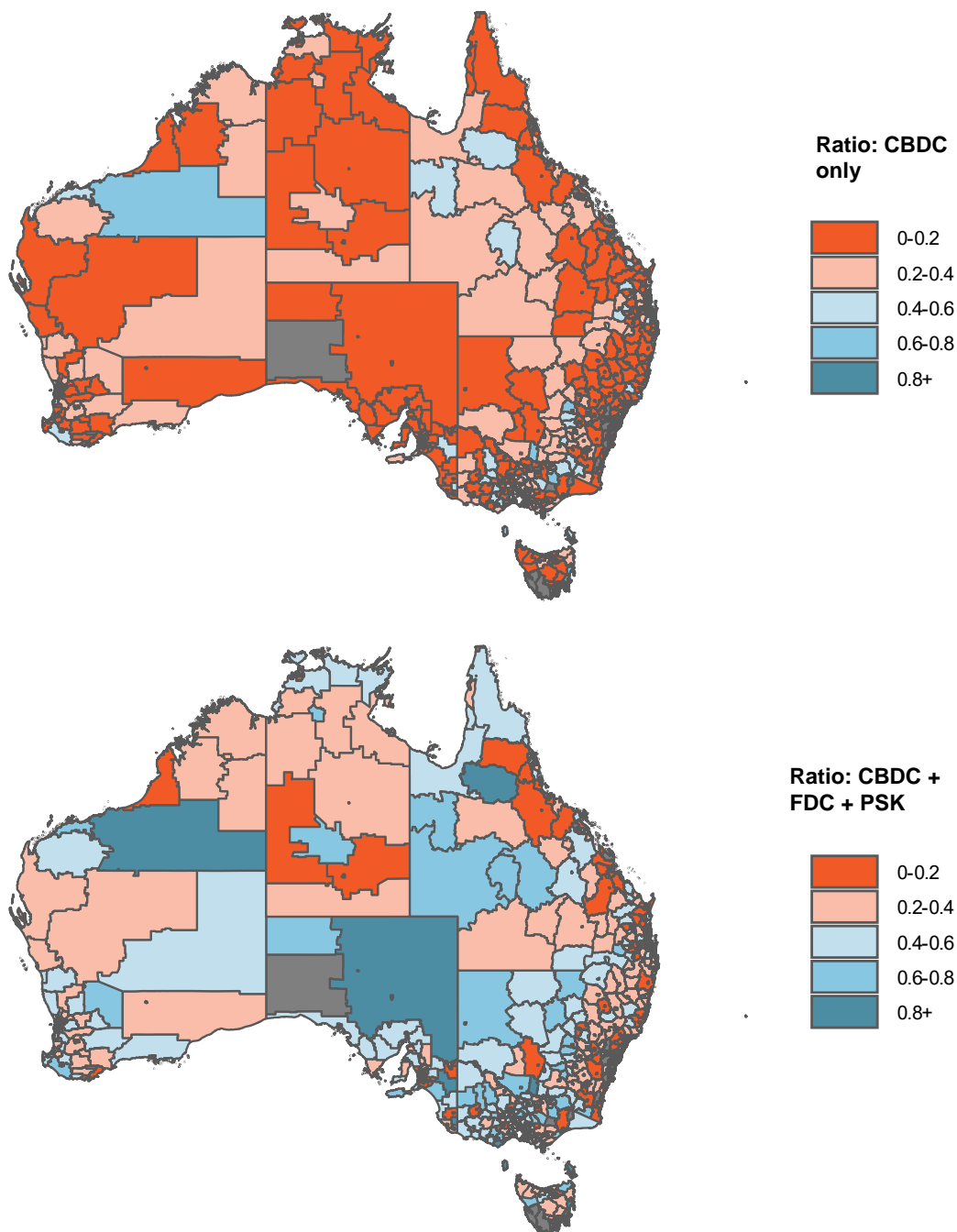
Ratio of approved CBDC places per child in the Greater Adelaide and Townsville, QLD, and their surrounds



a. The picture of availability improves when approved places in family day care and dedicated preschools are included in the analysis.

Source: Productivity Commission estimates.

Figure 5.10 – ECEC availability varies widely across Australia^a
Ratio of number of approved ECEC places to 0–5 population



a. Grey areas have no child population. These are typically national parks.
 Source: Productivity Commission estimates.

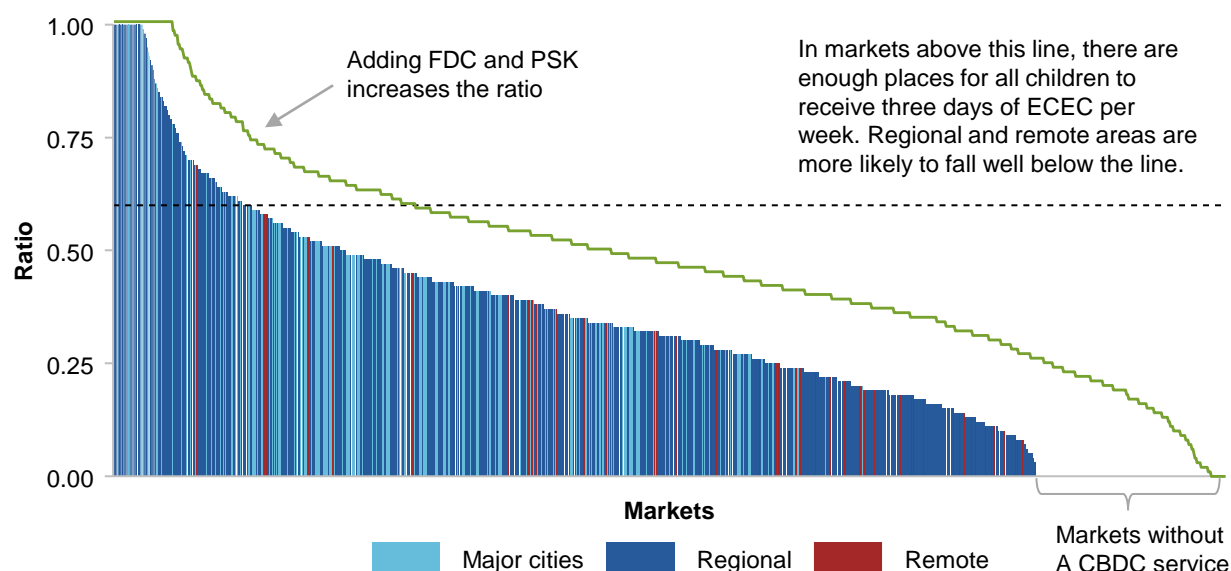
Availability tends to be lower in regional and remote areas

Looking only at CBDC, the distribution of ratios reveals considerable variation between local markets across the country (figure 5.11), with lower ratios more likely in regional and remote areas. In fact, 4 in 5 children

living in remote areas are in a market with a ratio less than 0.333 (which indicates there is one CBDC place per three children) (table 5.2). (Reasons why ECEC availability may be poorer in regional and remote areas are discussed in section 5.4.)

Figure 5.11 – Availability of CBDC varies widely across Australia^{a,b}

Distribution of the ratio of CBDC places per child by geographic area and remoteness



a. Ratio is calculated as the number of approved places per child aged 0–5 in a local area. The number of approved places are as at Q4 2022 and population as at the 2021 ABS Census. **b.** When adding FDC and dedicated preschools to the ratio the order of the areas changes. The green line depicts the new distribution.

Source: Productivity Commission estimates.

Including FDC and dedicated preschools markedly improves the picture of ECEC availability – particularly in regional and remote areas (figure 5.11, figure 5.12). Reflecting the relatively small number of places in FDC, much of that improvement comes from places offered by dedicated preschools. Early Learning Association Australia (ELAA) (sub. 48, p. 16) made a similar observation about the effect of preschool. After adding dedicated preschools to the Mitchell Institute’s deserts mapping for Victoria, ELAA concluded that ‘[w]hilst not completely remedying the issue of deserts, it shows that the areas of limited availability to ECEC would decrease’.

Reflecting the different approaches to delivery of preschool programs around the country, adding places in dedicated preschools increases the number of places per child by a larger margin in Western Australia, South Australia and Tasmania than in states and territories where program delivery through CBDC is more common.

The slightly larger increases in the ratio observed in regional and remote areas when FDC is added suggests that FDC is *relatively* more important in these areas compared to major cities. And the fact that median ratios are similar across remoteness areas when dedicated preschools are included in the ratio suggests that preschool availability tends to be considerably less of a problem in many communities than CBDC availability.

Of course, dedicated preschools do not address the ECEC needs of families with children aged under three, nor those of parents of older children looking for ECEC outside the hours that preschool programs run.

Table 5.2 – 4 in 5 children in remote Australia live in areas with fewer than one CBDC place per three children

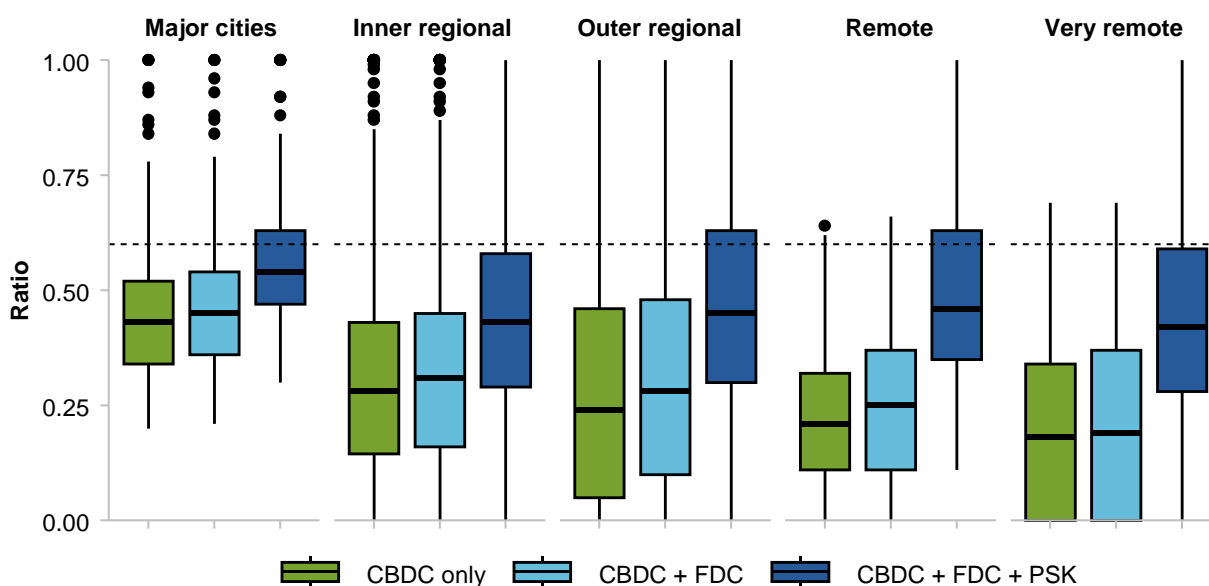
Number and proportion of children aged 0–5 living in an area with a ratio of places to children of less than 0.333 by remoteness

	CBDC ratio<0.333		ECEC ratio<0.333	
	Number of children	Per cent of children	Number of children	Per cent of children
Major cities	368,082	31.0	31,682	2.7
Inner regional	137,194	52.9	59,278	22.9
Outer regional	68,219	58.1	36,395	31.0
Remote	15,482	80.7	2,993	15.6
Very remote	10,662	81.3	3,417	26.0
Total	599,639	37.6	133,764	8.4

Source: Productivity Commission estimates.

Figure 5.12 – Preschool markedly improves availability in regional and remote areas^{a,b,c}

Distribution of ratios for CBDC (green), CBDC and FDC (light blue) and CBDC, FDC and dedicated preschools (dark blue) by remoteness



a. Boxes' capture the middle 50% of ratios for communities within a geographic area. The line across a box represents the median ratio in the distribution – ratios fall below this value in 50%. The 'whiskers', or vertical lines, capture 1.5 times the interquartile range above and below the box. Observations beyond this are outliers represented as dots. **b.** The horizontal dashed line represents a ratio of 0.6, the benchmark where every child in a local area would have access to three days of ECEC a week. **c.** The boxes for CBDC only and CBDC + FDC in very remote areas touches the horizontal axis due to a large number of areas with no CBDC or FDC services.

Source: Productivity Commission estimates.

While availability improves with the inclusion of FDC and dedicated preschools, ratios in most communities remain well below a level consistent with all children being able to access three days of ECEC a week – were that something that families were looking for.

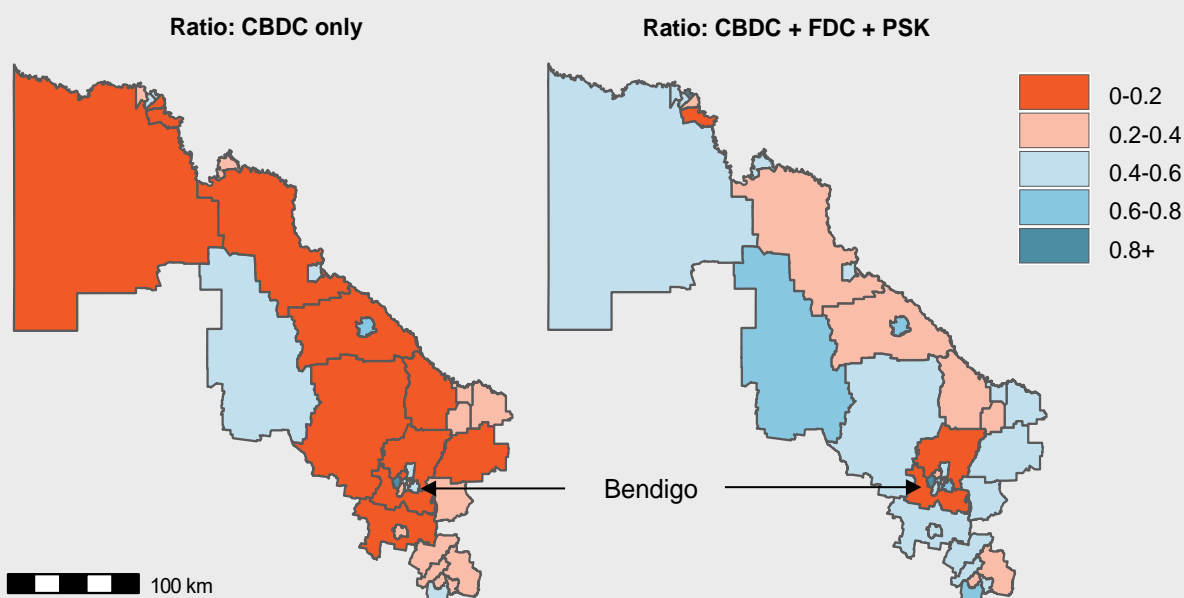
About 8% of children live in areas with a CBDC ratio above 0.6 and 38% of children live in areas that have a CBDC ratio below 0.333 (table 5.2). When approved places in FDC and dedicated preschools are added to the analysis, 21% of children live in areas with a ratio above 0.6 and 8% in an area with a ratio below 0.333. In comparison, the Mitchell Institute found that 13% of children live in oases (ratio above 0.6) and 37% live in deserts (ratio below 0.333) (Hurley et al. 2022, pp. 4, 28). However, as mentioned above, the Mitchell Institute counted children aged 0–4 instead of 0–5, did not include counts of approved places in FDC and dedicated preschools and characterised local markets slightly differently so these figures are not directly comparable.

A case study of the Loddon Mallee area (box 5.5) illustrates the pattern of availability in one group of regional communities for which availability concerns were raised in this inquiry.

Box 5.5 – Case study of Loddon Mallee

Inquiry participants noted poor ECEC availability in the Loddon Mallee region (box 5.1). Ratio analysis illustrates the issue. The population aged 0–5 years in the region was about 20,800 at the 2021 Census, and CBDC places numbered 6,654 and total places – including FDC and dedicated preschools – numbered 10,485 at Q4 2022. These data produce a ratio of 0.32 CBDC places per child (or 3 children for every CBDC place), and 0.50 places per child when FDC and dedicated preschools are included (or 2 children for every ECEC place). Availability varies substantially across areas, and is higher in the more densely populated Bendigo area (figure below).

There are two children for every approved ECEC place in the Loddon Mallee region^a Ratio of approved ECEC places per child in the Loddon Mallee region



a. The Loddon Mallee region is defined as per the approach taken by Regional Development Australia Loddon Mallee area (sub. 15, attachment 1, p. 12).

Source: Productivity Commission estimates.

Availability also tends to be worse in lower socio-economic areas

Looking at the distribution of ratios by the socio-economic status of communities, lower socio-economic areas fare worse, particularly in terms of CBDC and FDC availability (figure 5.13). For example, about 60 markets (or about 20%) in the bottom quintile do not have a CBDC service compared with only 6 markets (9%) in the top quintile.

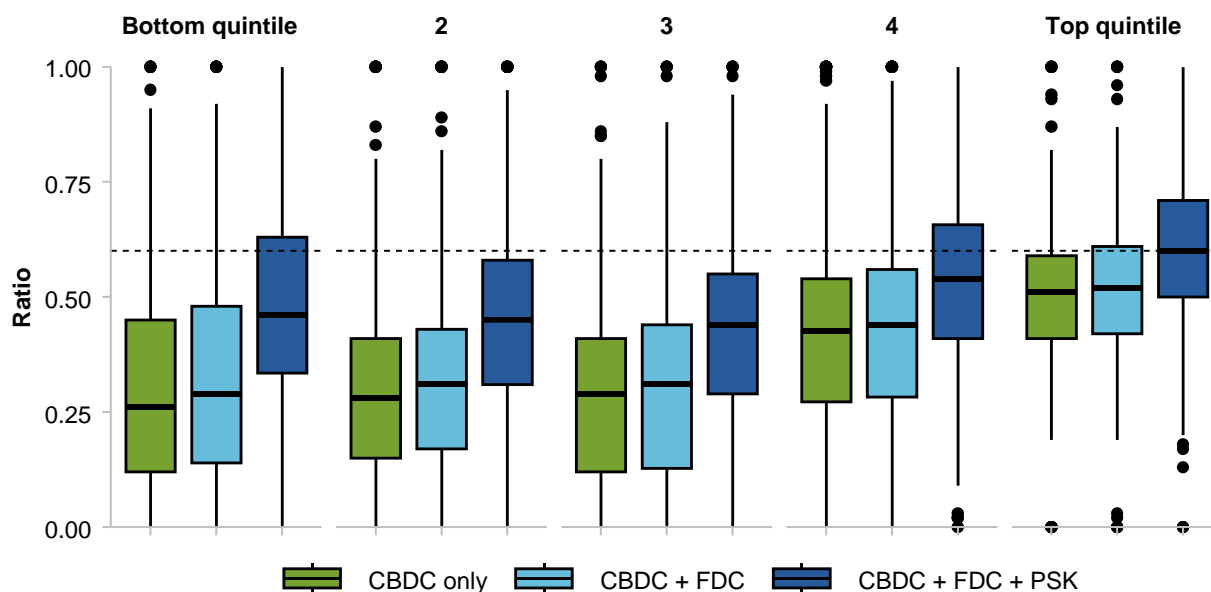
The Commission has also used regression analysis to look at the factors correlated with lower ratios. Other things equal, availability is also more likely to be worse (in the form of lower ratios of approved places to children) in communities with:

- lower labour force participation rates among mothers
- higher labour force participation rates among fathers
- higher rates of part-time work among mothers
- a higher proportion of Aboriginal and Torres Strait Islander people.⁹

Similar findings have been observed in other studies that have focused on characteristics associated with children’s enrolments and attendance in ECEC in the year before school (which could also reflect poor availability and/or a lack of demand) (Restacking the Odds, sub. 149, p. 6).

Figure 5.13 – Communities in lower socio-economic areas are more likely to have poor availability of CBDC^{a,b,c}

Distribution of ratios for CBDC (green), CBDC and FDC (light blue) and CBDC, FDC and dedicated preschools (dark blue) by SEIFA



a. Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged). The Commission used quintiles rather than deciles for this analysis. b. Boxes’ capture the middle 50% of ratios for communities within a geographic area. The line across a box represents the median ratio in the distribution. The ‘whiskers’, or vertical lines, capture 1.5 times the interquartile range above and below the box. Observations beyond this are outliers represented as dots. c. The horizontal dashed line represents a ratio of 0.6, the benchmark where every child in a local area would have access to three days of ECEC a week.

Source: Productivity Commission estimates.

⁹ While these characteristics were associated with poorer availability, not all were found to be statistically significant in the regression analysis.

While it is clear that low socio-economic areas have poorer availability of ECEC services generally, the direction of causality is unclear. For example, poorer availability might reflect a lack of local demand or inability of the market to support an entrant or both. For this reason, the analysis can be used to identify areas where supply may look relatively low, but is not a roadmap for where building new services should necessarily be prioritised – actual local demand needs to be taken into account.



Draft finding 5.3
ECEC availability varies markedly around the country

ECEC availability tends to be poorer in regional and remote areas and in communities experiencing higher levels of socio-economic disadvantage. It is unclear whether this reflects a lack of local demand for ECEC, viability concerns that cause providers to decide against establishing services or both.

Only 8% of children aged 0–5 live in communities with sufficient centre-based day care places to support access to 30 hours or three days of ECEC a week.

Provision of preschool places by state and territory governments improves the broader picture for availability. However, these places only increase availability for some children aged three and over, and dedicated preschools often have more limited days of operation and / or shorter session lengths than centre-based day care.

Availability in many areas is likely to be lower than the analysis suggests

Some services cap enrolments below their number of approved places

As noted above, the number of ECEC places included in the analysis represents the maximum number of places a centre is approved to offer to families. In reality, the number of places offered is sometimes lower. Hence, for some areas, the availability of ECEC is likely worse than the Commission's analysis suggests.

In 2021, the number of places offered by almost one quarter of CBDC services was below their approved capacity (Productivity Commission estimates based on National Workforce Census, 2021). While it is unclear whether this reflects vacancies or a capping of enrolments there is evidence that capping is occurring. In South Australia in early 2023, for example, 16% of CBDC services surveyed offered a capped number of places, and some services did so to maintain quality or provide more space for children (Deloitte Access Economics 2023b, p. 15).

Inquiry participants pointed to some services capping enrolments or places offered because of staff shortages and the inability to meet required staff–child ratios (Bermagui Preschool, sub. 49, p. 2; BHP, sub. 136, pp. 2–3; Cr. Graham, Costin, sub. 26, p. 1; RDA BSW, sub. 112, p. 3; Phillip Island Early Learning Centre, sub. 5, p. 1). An Australian Childcare Alliance (sub. 150, p. 38) survey from May 2023 showed that 56% of their member services were capping enrolment numbers due to lack of staff. Similarly, One Tree Community Services (sub. 121, p. 8) submitted that their 'organisation currently operates as low as 64% capacity because [they] cannot meet staffing requirements'.

Staff shortages, and capping of enrolments, are likely more common in regional and remote areas because of greater challenges in attracting and retaining staff (paper 3; WA Government, sub. 162, pp. 14–15). In regional NSW, for example, one participant reported:

a lack of qualified staff for all the current centres ... Most centres are running at below capacity ... because they do not have enough educators to cover ratios for a full centre ... (Brief comment 95)

Regional Development Australia Kimberley (sub. 1, p. 1) also reported that ‘Kimberley childcare centres have capped numbers, closed rooms and services ... predominantly due to workforce shortages and centres unable to meet staff/children ratios’.

Availability may be worse for families with children aged 0–2

Given dedicated preschools are unable to cater for children aged 0–2, ECEC availability may be poorer for children in this age group compared to older children.

Evidence from inquiry participants and others suggests families with younger children might struggle more to find ECEC. For example, in the eastern suburbs of Sydney ‘many under 2s rooms in Centre Based care remain either closed or limited in capacity because of the sector wide staffing crisis’ (Tessier, sub. 17, p. 1). There are also reports of families with a child aged 0–2 having difficulties finding care (Waverley Council, sub. 132, pp. 3, 6). And some survey evidence from 2019 suggests that waiting lists were higher for children aged 0–2 than other age groups at that time, even though the proportion of children aged 0–2 on waitlists had declined over time (Australian Community Children’s Services 2020, p. 42).

Survey evidence is also consistent with some CBDC services preferencing older children. While almost all services offered places for children aged 3–5 in 2021, and 95% offered places for children aged two, only 88% offered places for children aged 0–1 – a slight increase on the proportion in 2016 (85%). For-profit and not-for-profit services were equally likely to offer care to children aged 0–1 in 2021, but for-profits were slightly more likely to offer places for children aged two (Productivity Commission estimates based on the National Workforce Census, 2021 and 2016).

On one hand and to some extent, these numbers could reflect demand for ECEC for young children rather than providers’ decisions about their ECEC offering. Families of children aged under two may have a stronger preference to care for them at home compared with families with older children (and many families also use Paid Parental Leave entitlements). For example, only 6% of all children under one used CCS approved ECEC at the December quarter of 2022 (DoE 2023c).

On the other hand, costs of delivery of care for children aged 0–2 are higher due to the higher ratios required for this group (ACA, sub. 150, p. 37; ACCC 2023a, p. 101; PC 2014, p. 383). And many centres’ uniform pricing practice means that the price charged to families of children aged 0–2 may not fully recover the cost of delivery (PC 2014, p. 383). Some services might choose to reduce, or not offer, places to this age group, or offer fewer places than their local community is looking for, rather than increase fees to reflect the higher costs of providing ECEC for younger children.

Every local market has different preferences for ECEC

Even where two markets have the same ratio, differences in demand can translate into differences in availability. If one market has much higher *actual* demand for ECEC services compared to the other, then availability would likely be poorer in the market with higher demand. The market with higher demand might be characterised by services with longer waiting lists, while services in the market with lower demand might have more vacancies.

Further, preferences for high-quality ECEC services *within* local markets, for example, might mean that some ECEC services are not fully utilised (and have vacancies) while others have extensive waiting lists.

Data on waiting lists and vacancies are limited and pose a range of issues in interpretation. For example, families tend to put their name on multiple waitlists but do not remove it once they find a place. As a result, waiting lists can be overstated and out of date. Similarly, not all services report on their waiting lists or vacancies for children, or do not change their vacancy status once places are filled. While websites like Starting Blocks and Care for Kids¹⁰ can help families in finding ECEC, they provide no indication of waiting lists, and vacancy data, while reported, may be out of date. Nevertheless, the Commission has drawn on a range of sources to provide some insights into these issues.

Waiting lists can be a sign of availability issues ...

Markets where many services have long and extensive waiting lists have poorer availability even if the ratio of approved places per child is relatively high. Many inquiry participants have reported evidence of long waiting lists at ECEC services (box 5.1).

Although there is limited data on waitlists from services, survey evidence from not-for-profit providers in 2019 showed that waiting lists were longer for CBDC than other forms of ECEC and that major cities and inner regional areas tended to have longer wait lists than other regional areas (remote areas were not included), especially for CBDC and preschool (Australian Community Children's Services 2020, p. 42).

ECEC providers benefit by using waiting lists – they have a ready list of self-identified customers to use their services as soon as places become available.

For families, the value of waiting lists is greatest if they are transparent and timely. Information on waiting lists and the realistic prospects of obtaining care can provide a better basis for families to plan their working lives and organise their ECEC requirements. In particular, families would benefit if providers were to publish:

- information on fees charged to families wishing to be added to the waiting list
- information on the number of families on the waiting list, ideally broken down into suitable age categorisations
- the number of places offered to children from their waiting lists. This information should be updated regularly (PC 2014, p. 406).

... but the existence of vacancies can signal higher availability

Advertised vacancies by many centres in a market generally indicate better availability of ECEC, even if the ratio of approved places per child is relatively low. An advertised vacancy implies that a service has the capacity to take on a child if there is a match between the vacancy characteristics and the needs of the family.

Websites such as Starting Blocks and Care for Kids publish information on vacancies by service (and sometimes age, session type, permanency and day of the week) (ACECQA, sub. 6, p. 3). But services do not always update this information regularly (especially once a vacancy is filled) and some services do not report on vacancies at all, as reporting is not a requirement. Therefore, information on vacancies found on these websites may not be very informative for families looking for care.

Nevertheless, the information from these websites suggests that vacancies in ECEC services are reasonably common. For example, for children aged two, about 45% of CBDC services reported a vacancy for a full day and 10% reported a vacancy for a half day in a reference week in November 2022, while one-in-five CBDC

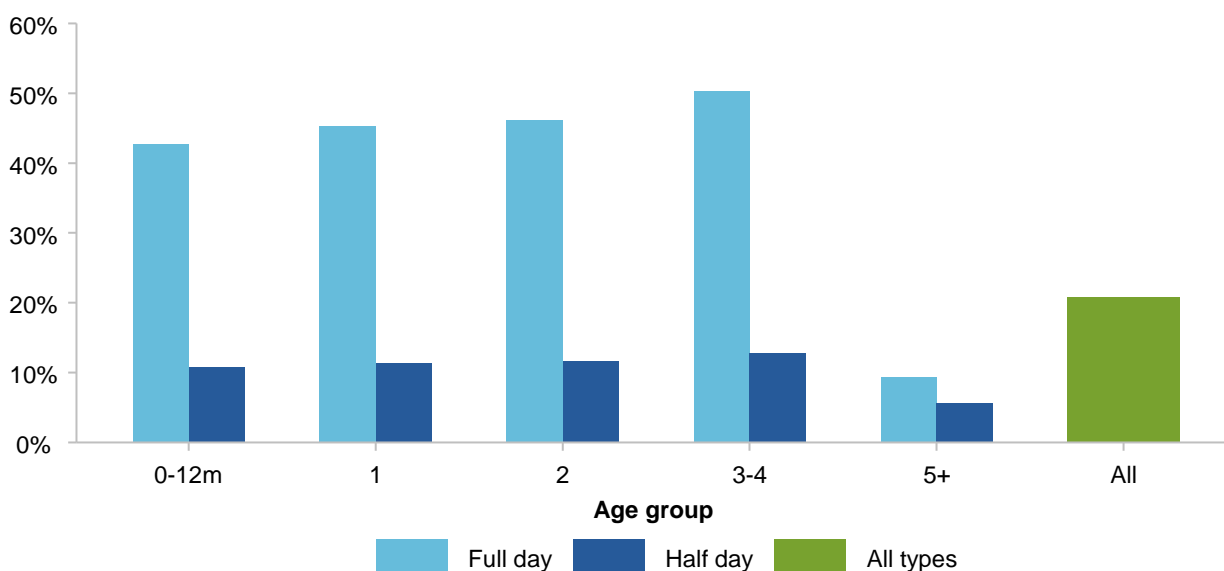
¹⁰ <https://www.startingblocks.gov.au/> and <https://www.careforkids.com.au/>

services nominated having a general vacancy for any age, any session type and that it was on a permanent basis (figure 5.14).

While useful, this vacancy data does not present a granular picture of availability of ECEC places. Families with children of particular ages, or in particular locations, may find it difficult to access ECEC even if vacancies are present. For example, a family with a one-year-old child cannot use a service that has vacancies for children aged 3–4 years. Similarly, vacancies tend to be more common for Mondays and Fridays (Productivity Commission estimates based on DoE Starting Blocks data), so families who require care on Tuesday, Wednesday or Thursday may face more difficulties in accessing ECEC.

Figure 5.14 – Vacancies are quite common in CBDC services^{a,b}

Per cent of CBDC services with a vacancy for a weekday by age and session type, 2022



a. Data is for a random week in November 2022. 6,400 CBDC services recorded information on vacancies for the given week, about 70% of all CBDC services. A service is recorded as having a vacancy if they have a vacancy on any weekday that is permanent (not casual). **b.** The category ‘All’ represents CBDC services that nominated that they had a vacancy for any age group and for any session type during the week.

Source: Productivity Commission estimates based on DoE Starting Blocks data (unpublished).

5.4 Why do some markets have poorer availability of ECEC?

Well-functioning markets provide services where there is demand for them. The observation of areas with poor availability of ECEC around Australia – and more so in regional and remote areas – suggests two things:

1. there is a lack of sufficient and consistent demand to support ECEC centres at prices that families are willing to pay in some areas (also known as thin markets) and/or
2. there are impediments to supply responding to demand. Such barriers to entry, where they are the result of government regulation, are discussed in papers 3 and 9.

ECEC markets can be thin markets ...

A range of motivations can prompt a provider to establish a service, but that decision is ultimately based on whether the service will be viable. This is not a requirement exclusive to for-profit firms; not-for-profit providers also need to cover their costs.

For the most part, the CCS has enabled significant service expansion in metropolitan areas, with services responding to increasing demand from working parents. In many other areas, however, the story is different, reflecting high costs of provision, low capacity to pay (a consequence of low income and limited access to subsidised care) or a combination of both. These areas are often referred to as thin markets – that is, when there is no commercial incentive to enter because the costs of providing services exceed consumer willingness or capacity to pay. Delivering appropriate services in such markets will generally require additional forms of government support such as subsidised care or direct provision (section 5.5.)

Many regional and remote areas, for example, have poorer availability of ECEC due to the higher cost of delivery. Regional Development Australia Loddon Mallee (sub. 15, attachment 2, p. 4) has outlined the unique barriers to running and accessing ECEC services in rural areas including:

- Demand is spread across wide geographic areas making services unprofitable. Commercial services cannot generate the economies of scale and higher fees that promote business development and investment in urban areas
- There are not enough early educators to keep services open. Victoria has a shortfall of 2,916 early years educators, and workers are hard to attract due to the low pay. Workers in rural areas cannot work across a number of services to increase hours
- Regulatory barriers (arising from the disconnected funding systems across the Commonwealth and State) hinder the development of the novel joint-use solutions¹¹ required in rural areas
- Families face higher travel costs and the current funding arrangements leave them out of pocket.

In most markets, higher cost of delivery is recovered through higher prices. But the hourly rate cap of the Child Care Subsidy provides a benchmark for prices – prices *can* be higher than the cap but families will not get any subsidy beyond that point. Hence, families in regional and remote areas may not be willing or able to pay the higher out-of-pocket expenses that would induce greater supply in these areas.

... but in some areas, low supply may reflect low demand

In some areas, lower relative ECEC availability might reflect lower demand for ECEC. For example, some areas might have lower maternal labour force participation rates – or indeed higher maternal part-time work rates – due to a lack of jobs, preferences related to cultural beliefs or weaker financial pressures on secondary income earners because of lower costs of living.

The population in a thin market is also important for determining the appropriate solution to addressing poor availability. Very remote areas with low populations that do not currently support a centre would likely never support centre-based care but services could be provide in other ways.

Exploration of community preferences for ECEC, and consideration of place-based needs, should happen as part of any response to low levels of availability (paper 7).

Potential strategies for developing ECEC in different areas are discussed in section 5.5.

¹¹ Joint use could include running an ECEC service in underutilised physical space.

5.5 What might be done to address availability issues?

This paper has presented evidence of availability issues in some ECEC markets (section 5.3) and discussed possible reasons why these issues might exist and persist (section 5.4). This section explores whether current policy measures would be sufficient to support an expansion of ECEC availability in thin markets. The section focuses on policies associated with physical capacity and operating expenses. Policies related to addressing workforce shortages, also a constraint on provision, are covered in paper 3.

The section only considers ECEC services other than dedicated preschools and OSHC. High levels of preschool enrolments for children in the year before full-time schooling (SCRGSP 2023), and planned growth in provision as state governments work to meet commitments for universal provision under the Preschool Reform Agreement (appendix E), suggest preschool availability does not need further focus. Issues with OSHC availability are addressed in papers 2 and 9.

Different solutions are required in different communities

In many parts of Australia, the ECEC market offers services that cater for the needs of many children and families. Nonetheless, there are communities where supply of services is far lower than what would be required for all local children to receive three days a week of ECEC and, in some places, no services are available. These communities are generally:

- in regional towns, where demographic and economic fluctuations can make ECEC provision unviable
- in remote communities, where the population is dispersed over a large area and service delivery is challenging
- in Aboriginal and Torres Strait Islander communities, where Aboriginal Community Controlled Organisations may face particular challenges – particularly parental disengagement from the CCS – in delivering services
- on the outskirts of major cities.

Potential solutions for situations where ECEC availability is poor are canvassed below. The section analyses current grant (or block-based) funding arrangements, family day care and In Home Care. The important role of Aboriginal Community Controlled Organisations, programs like the Early Years Education Program and the funding mechanisms that can support them are discussed in papers 2, 7 and 9.

Support should be focussed on thin markets

Not all areas with poor ECEC availability should be considered for additional support. For example, were the activity test relaxed and subsidies for lower-income families increased as the Commission has recommended (paper 6), demand would be expected to increase in some areas to the point where providers could be viable without further support and the market will take care of expanding supply. Lower socio-economic areas with larger populations, including on the urban fringe, likely have this characteristic.

Any government funding beyond regular supports available to families based on their income should therefore be focused on areas where services would not be otherwise viable.

Governments run grant funding programs

The Australian Government already has a supply-side funding program to support provision – the Community Child Care Fund (CCCF). The program supports ‘service providers to reduce barriers to accessing child care’ (Australian Government Department of Education, sub. 90, p. 23). The CCCF runs alongside the CCS to support services where the CCS is insufficient to ensure viability or to fund expansion or strategies to address barriers to ECEC participation within a community. Support is provided through a range of grants (box 5.6).

While the CCCF is small, it is a crucial part of the ECEC system. As at February 2023, CCCF open competitive grants supported 1,051 services via \$180 million in funding and restricted grants supported 161 services via \$225 million in funding (Productivity Commission estimates based on DoE administrative data). By comparison, expenditure on the CCS is forecast to be \$55.3 billion between 2023-24 to 2026-27 (Australian Government Department of Education, sub. 90, p. 5).

In the 2022-23 Budget, a small pool of funding (\$18 million) was specifically allocated to support the development of capacity in areas of limited supply.

Box 5.6 – What is the CCCF?

The Community Child Care Fund (CCCF) provides five types of grants: open competitive, restricted, restricted expansion, special circumstances and Connected Beginnings.^a The CCCF also covers a business support program.

Open competitive grants

Open competitive grants are available for three types of support: sustainability (keeping a service viable), capital (supporting the building or extending of physical centres), and community (addressing community-level barriers to participation such as disengagement or cultural safety concerns).

To be eligible for open competitive grants a service needs to be a child care subsidy (CCS) approved operator and be either:

- located in, or servicing families from a CCCF priority area or
- servicing regional, remote or very remote areas or
- providing specialised childcare services to a vulnerable or disadvantaged sector of its community.

Three rounds of CCCF open competitive grants have been run. Results from round 1 were announced in April 2018, round 2 in August 2019 and round 3 in July 2021. A further round is anticipated for 2024.

In the 2022-23 October Budget, an additional \$18 million was allocated to support the establishment of up to 20 services in areas of limited supply. This was a projected estimate based on the maximum amount of funding available per service. A service is eligible for a maximum of \$900,000 over two years: \$600,000 for establishment and sustainability support and \$300,000 for capital support. Applicants must make a capital contribution of at least 50% of the total cost of the project.

Grants can be for new centre-based day care or family day care services in areas experiencing disadvantage in regional and remote Australia where there are no or limited services. Grants are for the 2-year period from 2023-24 to 2024-25. Based on the applications received and assessed, total funding of \$16 million was recommended to support the establishment of 47 new services (Department of Education, pers. comm., 27 October 2023).

Priority areas are published for each round, and can change over time. There were 200 priority areas for the 2023 limited supply round. Areas were identified on the basis of Australian Early Development Census data, Socio-Economic Indexes for Areas from the ABS and the ratio of children to approved services in an area.

Restricted grants

Restricted grants are primarily for former Budget Based Funded (BBF)^b services and are intended to supplement the fee income of these services to ensure they remain viable. Funding is related to previous

Box 5.6 – What is the CCCF?

service funding levels and is adjusted for expected fee income and subsidies from the CCS. In 2022-23, sustainability grants were projected to be \$35 million compared to \$250,000 for capital grants. The funding is designed to be tapered over time such that services can eventually be entirely supported by CCS and ACCS.

A review of the CCCF restricted program is underway and due to be completed in early 2024.

Restricted expansion

The CCCF restricted expansion is a \$29.9 million program over four years from 2021 for up to 20 new CCCF restricted services. The expansion is aimed at increasing the participation of Aboriginal and Torres Strait Islander children as part of the Commonwealth's *Closing the Gap Implementation Plan*. The new services will be delivered by Aboriginal Community Controlled Organisations.

Business support

Within the CCCF, the Department of Education provides advice without charge to grant recipients who need support to improve service viability or sustainability. The Government has allocated \$1.1 million per year from 2022-23 to 2025-26 to deliver business support and has engaged BDO Services Pty Ltd to deliver the support.

a. Special circumstances grants are one-off grants following an emergency or natural disaster and are not relevant to supporting ongoing thin markets. Connected Beginnings primarily supports Aboriginal and Torres Strait Islander families' access to health and family support services and is not the focus of this section. **b.** Budget Based Funded services were non-mainstream services – including centre-based day care, outside school hours care and Multifunctional Aboriginal Children's Services – that were block-based (or grant) funded. This program preceded the CCCF.

Source: AIFS (2023, pp. 4–6); Bray et al. (2021, p. 308); Commonwealth of Australia (2023, p. 55); DoE (2022, 2023a, pp. 8–9, 2023e, 2023b; sub. 90, p. 23).

State governments are also expanding early learning centres

A number of state governments have committed to establishing early learning centres. For example, the NSW Government has announced \$20 million for new not-for-profit early childhood education centres to be built in high-growth and regional areas and another \$20 million under the Flexible Initiatives Trial with one aim being supporting FDC provision in regional and remote areas (NSW DoE 2023). The Western Australian Government announced grants of up to \$100,000 to local governments to improve early childhood outcomes (Sabine 2023). Similarly, the Victorian Government has announced that 50 government-owned and operated early learning centres will be established from 2025. And the South Australian *Royal Commission into Early Childhood Education and Care* recommended that the South Australian Government could consider capital funding to support the establishment of new services or the expansion of existing services (SA Government 2023a, p. 12).

The establishment of early learning centres by federal, state and territory governments is not necessarily coordinated. The Commission recommends that federal, state and territory governments' responsibilities should be clarified through a new National Partnership Agreement (paper 9). And that one of the roles the recommended ECEC Commission should be to provide advice to governments on areas where availability gaps are largest.

Changes to the CCCF would be needed to support universal availability

Communities have different support needs – the CCCF only partially meets them

The nature of support needed by communities can vary.

A community might consider it has sufficient demand to support a service and be keen to establish one but be unsure of how to go about it. In cases like this, provision of information through an advisory service may be sufficient.

Another community might have sufficient demand to cover the operating costs of a service (such as wages, rent and other overheads) via CCS and ACCS, but a service is unviable without further support because expected earnings would not cover the capital costs of building or expanding physical facilities. Funding to support the establishment of a service might be a solution.

A smaller number of communities will likely need further intervention because the level of demand is too low to support all of the costs of operating a service or the population has significant cultural barriers to accessing CCS or ACCS. These areas could not recoup operating expenses and would then require funding for capital *and* at least some operating expenses.

Both the capital support element of the general CCCF open competitive grant rounds and the 2023 limited supply round could provide adequate commercial incentive for a provider to enter a persistent thin market. The former might lower the hurdle for entry in communities that only require capital support. The latter addresses situations where demand might be below the level needed to cover the costs of both establishing and operating a service.

But as they currently stand, neither program would adequately address needs in persistently thin markets if the policy goal were to ensure that every child aged 0–5 has access to 30 hours or three days of ECEC a week. This section discusses potential program changes before considering the need for advice in some communities.

CCCF open competitive grants would be inadequate if the policy goal were availability of up to 30 hours or three days a week for all children

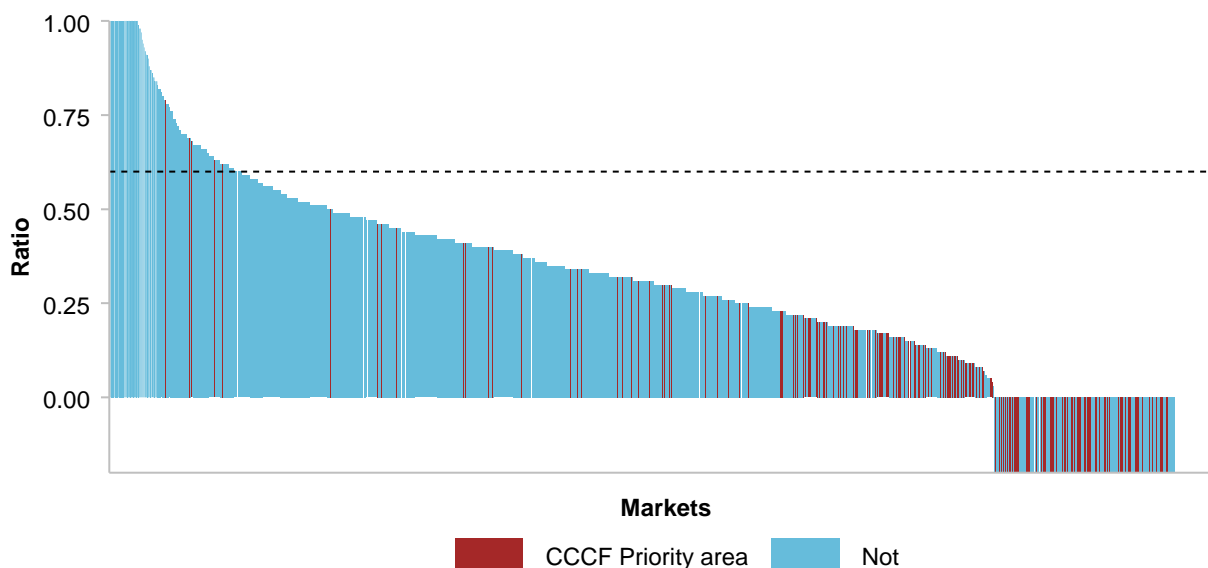
Eligibility criteria do not identify all thin markets

Inclusion of the ratio of children to approved services in eligibility criteria for the 2023 limited supply round is aligned with the goal of addressing persistently thin markets. By comparison, previous rounds only considered Australian Early Development Census data and Socio-Economic Indexes for Areas from the ABS which are not necessarily proxies for thin markets but instead target disadvantage.

The priority areas identified for the limited supply round tend to be those with particularly low ratios of places to children. The ratios of approved CBDC places per child in areas that are CCCF priority areas tend to be lower than in those that are not (figure 5.15). And taking into account preschool and FDC places, the difference between the current number of approved places and the number that would be required for every local child to access 3 days of ECEC per week is far greater in priority areas. Priority areas have a median deficit of 87 approved places in comparison with a median of 52 places across all regional and remote SA2s.

Figure 5.15 – Priority areas for the CCCF limited supply grant are generally the areas with the least number of places per child^{a,b}

Distribution of the ratio of CBDC places per child by CCCF priority area



a. Ratio is calculated as the number of CBDC approved places per child in a local area. The number of approved places are as at Q4 2022 and population as at the 2021 ABS Census. **b.** Markets with no approved places (a ratio of zero) are shown as negative values so the CCCF priority areas (red lines) are visible.

Source: DoE (2023e); Productivity Commission estimates.

But there are many areas with low levels of availability that are not on the priority list. Some might become viable locations for non-government providers if demand increased following relaxation of the activity test and a lift in subsidies for lower-income families. Non-government providers would respond just as they have responded to past increases in demand in other areas. Others are likely to remain thin markets that would not be attractive to non-government providers without further support.

If the CCCF open competitive grant program were to be used to lift availability in persistently thin markets, the eligibility criteria should include the ratio of approved places (rather than approved services) per child and be expanded to ensure all persistently thin markets were identified. Assessment of grant applications should look to ensure that funds are only directed to areas in which non-government providers would not be viable without it.

Funding levels are likely well below what would be needed

Looking at provision within the priority areas identified for the limited supply round (including preschool places), the Commission estimates that about an extra 20,000 places would be required to ensure sufficient availability to enable every child to attend three days of ECEC per week. If dedicated preschools are not included in the current place count, an additional 30,000 or so places could be needed. Moreover, as noted, there are areas of low availability that are not on the priority list.

It is likely that at least some of these areas would remain thin markets even if the Commission’s recommended policy changes were adopted. And, while not all families in these areas would seek to use three days of ECEC a week, it could be assumed that many would. The estimates suggest that there is likely a sizeable gap between potential demand and available places in many of these areas.

Under Round 3 of the CCCF open competitive program, only 25 applicants received capital support (DoE 2021). (It is unclear whether this is because funding was capped or the terms of the grant mean it was unattractive to providers.) Assuming these services provide 70 places each (the average size of a CBDC service, Productivity Commission estimates of ACECQA data as at Q4 2022), this funding will translate into an additional 1,750 places. As noted above, the CCCF limited supply program was allocated \$18 million in the 2022-23 October Budget for up to 20 centres (Department of Education, pers. comm., 27 October 2023). Assuming these centres provided on average 70 places each, this level of funding would translate into a maximum of 1,400 extra places.¹²

This additional capacity will likely fall well short of what would be needed if the policy goal were to make up to 30 hours or three days a week of ECEC available to all children aged 0–5. While expansion of the CCCF restricted program would also address some of the ‘places gap’, funding for other programs would likely need to be significantly boosted.

Grants as they stand are unlikely to attract providers to some thin markets

CCCF open grants require that both the provider applying for a grant *and* the service for which a grant is sought are approved under Family Assistance Law. Essentially, no new services can receive grants. But persistently thin markets would have very few, if any, incumbent services eligible for grants. This restriction might explain why only 25 applicants received capital funding under Round 3 of the CCCF open.

The 2023 limited supply round goes some way to remedying this as only the *provider* needs to be approved under Family Assistance Law. This approach should be continued for further initiatives targeting persistently thin markets.

As noted in box 5.5, grants in the limited supply round are for two years and providers must contribute at least 50% to the total cost of the project. As Deloitte Access Economics (2023a, p. 52) noted, time-limited CCCF grants can be a large impediment to service providers if grants represents a large part of their funding. Goodstart Early Learning (sub. 125, p. 57) submitted that CCCF grants have been inadequate ‘particularly where funding supports service establishment but there is insufficient demand in the community to rely on a demand-driven subsidy like the CCS for long-term service viability’.

An enhanced and expanded funding program should be considered for persistently thin markets

A program of government funding will be essential to achieving a universal ECEC system. Even if policy changes led to significant increases in demand, thin markets will likely remain across many areas in regional and remote Australia.

While the CCCF as it stands seems appropriate for its other goals such as addressing disadvantage, the solutions to persistently thin markets must acknowledge the unique challenges of delivering services in them. Funding targeted provision in thin markets should generally be ongoing, with periodic review to determine if a service can be self-sustaining with CCS and ACCS.

Changes to the CCCF open grant program might lead to more providers seeking funding to establish provision in thin markets, but it is not clear that this will happen. And while applicants to the program compete for funds, it is unlikely that there is competition to provide ECEC within the same market. Moreover, it is likely that a single provider will be the most cost-effective way of delivering services within a thin market.

¹² It is also likely that a service with 70 places would be larger than the capacity needed in some areas.

In some cases, community representatives will be able to establish ECEC services that fit local needs and an advisory program could facilitate their access to existing funding programs. Service provision will likely be viable in some of these communities without further government support. In others, grant funding might be needed for the community representatives to establish a service which could then be viable without further support or block-based funding (recurrent lump sums) could be sought if support for both capital and ongoing operating costs was needed.

Some communities will not have local representatives to manage the development of ECEC capacity and will need more support. In these communities, the Australian Government could tender out the building and operation of services, creating competition to provide services in persistently thin markets where providers do not put up competitive grant applications. The Australian Government should retain ownership of these facilities.

Some communities' needs for advice are not being met

As noted above, there is a business support program within the CCCF but it only provides advice to services that have received grants. There is likely an unmet need for advice in communities and for potential providers that have not applied for funding.

An advisory service should be established to support community representatives – local governments, schools or ACCOs for example – in finding and attracting the type of support needed. This could also help a potential service through the steps to become approved under Family Assistance Law.

An effective way to institute the CCCF advisory service would be for the agency tasked with providing the advice to reach out to identified priority areas to assist them first hand. This would target the service to where it is most needed. The service could use information from the proposed ECEC Commission to identify areas in need.

The nature of the advice would go well beyond the current scope of viability and sustainability provided by the business support program – the service should offer in-depth knowledge of the CCCF. As such, this service should be run within the Department of Education.



Draft finding 5.4

Recent changes to the CCS and ongoing demand from parents will further support increases in supply in some regions; but in other areas, more support will be needed

Many regional and remote areas are 'thin markets' – where the costs of delivering services are higher than families are able or willing to pay and non-government providers have limited incentive to establish services.

If the activity test were relaxed and affordability improved for lower-income families (draft recommendation 6.2), demand for ECEC will increase in some areas to the point where services are viable without further government support and supply will expand through market dynamics. Lower socio-economic areas with larger populations (including on the urban fringe), likely have this characteristic.

In other markets, prospective providers may still be reluctant to invest, perhaps due to higher costs and the challenges of recruiting and retaining educators and teachers. Supply-side funding programs will be needed to boost provision to achieve an entitlement to up to 30 hours or three days a week of quality ECEC for all children aged 0–5 years whose families choose to use ECEC.



Draft recommendation 5.1

Support universal access in persistently thin markets via supply-side funding

To ensure that up to 30 hours or three days a week of quality ECEC is available for all children aged 0–5 years whose families wish for them to participate, the Australian Government should provide additional support in markets where it is clear that ECEC providers are unlikely to invest, even with the changes recommended in this inquiry.

This support could take the form of:

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

The Australian Government could use a process of competitive tendering to provide services in markets where community representatives do not apply for grants.

Centre-based day care, family day care and mobile care should all be considered for funding to help address the varying needs of thin markets.

An advisory program should be established that works with community representatives and enables them to get the support they need.

Family day care can be a solution in regional markets

Family day care has lower barriers to entry than CBDC. Set up costs are lower, and the number of children required to make a service financially viable is much smaller. Inquiry participants have suggested that family day care can be part of the solution to ensuring that families have access to ECEC in thin markets where there might be low and variable demand. For example, the Western Australian Government (sub. 162, p. 4) submitted that family day care is important to ECEC availability particularly in regional and remote areas.

Yet, the full potential of family day care is not being realised due to integrity concerns. To address this, the Department of Education noted the following.

The Family Day Care (FDC) model has a number of benefits that are not being fully realised due to systemic financial integrity risks that are particular to the FDC model. This includes the oversight challenges where care is provided from an educator's home; and wide-spread business practices that create further oversight challenges such as educators collecting gap fees as an agent of the approved provider.

The inherent integrity risks and significant fraud on non-compliance in the program have contributed to a decline in educator numbers, meaning the benefits such as FDC's potential to improve ECEC supply in regional areas are not being fully realised.

The department is undertaking a FDC Capability Trial (the Trial) to test approaches to inform potential systemic changes to the current FDC model to improve financial integrity, combined with supports and incentives to attract new educators in regional areas. A key benefit of building capability and strengthening the FDC model is that a quality FDC can be set up with a reduced lag time and without the larger costs associated with establishing the infrastructure needed for centre-based care. Further to this FDC can offer local employment opportunities and non-standard hours of care for shift or seasonal workers.

The Trial will be delivered over three years. If the trial outcomes can achieve systemic integrity improvements that can be adopted in the FDC model, it is anticipated FDC could play a greater role in meeting the need for quality, flexible ECEC in regional areas experiencing limited supply and more broadly across the whole FDC sector. (Department of Education, pers. comm., 27 October 2023)

The Commission's recommended advisory program could assist an expansion of family day care by providing support for potential providers.



Draft finding 5.5

Family day care can be an effective solution to addressing thin markets

Family day care can be part of the solution to ensuring that families have access to ECEC in markets where there might be low and / or variable demand. Integrity concerns have been raised in the past and this has limited expansion of family day care in recent years. The Commission notes the Australian Government Department of Education is working to support the use of family day care while satisfying probity and integrity expectations.

In Home Care can support families in remote areas – but faces challenges

The In Home Care (IHC) program provides care in a family's home where standard ECEC services are not suitable or available and it can fill an important gap in areas with low and dispersed populations. To be eligible, families must either be working non-standard or variable hours, geographically isolated or have complex or challenging needs.

In 2023, the program provided for 3,200 places, with a place defined as 35 hours per week. A family is not required to use a full place, and some families may use more than one place for a child.

The program is under-subscribed. During the December 2022 quarter, 2,090 children from 1,140 families used IHC (DoE 2023c). It is unclear what proportion of those families were experiencing geographic isolation. But in Q4 2019 about 400 families were using IHC to address geographic isolation of about 1,100 using the program (Bray et al. 2021, p. 172).

Some inquiry participants advocated for an expansion to the program (Ai Group, sub. 126, p. 2; One Tree Community Services, sub. 121, p. 15, Parents Work Collective, sub. 73, p. 6).

Among inquiry participants who raised IHC, key issues related to:

- access and availability (Regional Education Commissioner, sub. 102, p. 2)
- affordability (Isolated Children's Parents' Association, sub. 58, p. 3)

- educator qualification requirements and restrictions on their role and who they can care for (Isolated Children's Parents' Association, sub. 58, p. 3).

Families using IHC to address geographic isolation might also incur additional costs. For example, the Isolated Children's Parents' Association submitted that geographically isolated families may face additional costs, such as board and lodging (sub. 58, p. 3).

The IHC program has been the focus of review by the Department of Education but, at the time of writing, the final review report had not been released. The ACCC's Childcare inquiry is also looking at the costs of providing IHC services, and will include this analysis in its final report, due with the Treasurer by 31 December 2023. The Commission will draw on this work in further analysis of the IHC program for its final report.

5.6 Other factors affecting availability

Changing the hourly rate cap would not be the most effective way to increase supply in thin markets

Some inquiry participants have supported the idea of a higher hourly rate cap in regional and remote areas (One Tree Community Services, sub. 121, p. 20; Rural and Regional Remote ECEC in Victoria, sub. 88, p. 9; Western Australian Government, sub. 162, p. 5).

It would be difficult to find an hourly price cap that would be high enough to attract supply in all markets without overshooting in other markets.

The Commission's view is that an expanded supply-side funding program – combined with changes to subsidies for lower-income families and the activity test – would be more effective at addressing thin markets than changing the hourly rate cap in regional and remote areas.

Cross-subsidisation can be a risk to ECEC availability

As noted above, fees charged to families do not always reflect the cost of delivery. Many centres charge a fixed fee regardless of the child's age meaning that younger children who require higher staff–child ratios are loss-making for the provider (ACCC 2023b, pp. 172–173). On the other hand, older children with lower staff–child ratios are generally more profitable and cover the loss induced when providing for younger children, a situation known as cross-subsidisation (ELACCA, sub. 135, p. 10). Cross-subsidisation likely occurs because a uniform price is simple for families to understand and lowers the administrative burden for the provider. That said, some providers do charge different rates depending on the age of the child.

Cross-subsidisation could become less viable as government preschool provision expands, posing substantial future risks for the availability of places offered at CBDCs. If providers can only afford to deliver services for the 0–2 age group by cross-subsidising using revenue from children aged 3–4, then the expansion of fee-free preschool in dedicated centres might risk the availability of places for children aged 0–2 (SA Government 2023b, p. 85). The ECEC Commission – recommended in the short report – would be well placed to monitor this risk.

There is no case for regulating whether services can enter a profitable market

Some inquiry participants argue that the clustering of services in areas where provision is more profitable pulls scarce resources – particularly workforce – from other providers and amplifies availability issues in disadvantaged areas. As a consequence, many inquiry participants have called for greater planning around the establishment of ECEC services (Berry Cottage Childcare, sub. 141, p. 4; C&K, sub. 155, p. 8; ELACCA, sub. 153, p. 5; Goodstart Early Learning, sub. 125, pp. 86–87; KU Children’s Services, sub. 83, p. 5; Rebecca Swainson, sub. 114, p. 4; Shirley Cornelius, sub. 75, p. 4). In a similar vein, Berry Cottage Childcare (sub. 141, p. 4) recommended that the number of approved places be capped to address perceived oversupply in some areas.

A central theme of these submissions is that ECEC provision left to the market will undersupply in less profitable areas – regional and remote, low SEIFA – and oversupply in more profitable areas.

While the Commission acknowledges that availability *is* worse in disadvantaged areas (section 5.3), the entry decisions of non-government ECEC providers ultimately rests on service viability. Providers will enter markets where they can generate an operating surplus. Thin markets, however, will not be profitable regardless of whether there is oversupply in advantaged areas and the challenges of providing ECEC in remote or sparsely populated areas will remain.

Capping entry and places in certain markets would risk generating excess demand and upward price pressure, increasing profitability for incumbent services. Parents crowded out from their local market might seek ECEC services in other less convenient areas, use informal care or reduce their working hours.

Moreover, there are several mechanisms at play in the market to contain oversupply. As the ACCC (2023b, p. 18) has pointed out, enrolment levels are critical for centre profitability and viability. Providers will enter a market if they can make a profit or surplus but if entry increases and enrolments per service decline, profitability will also decline, sending a signal to other potential providers that the market is less lucrative to enter. As such, provided a surplus is being made in a market, it is unlikely that services are being overprovided.

Planning processes can affect availability

Providers need approval to set up an ECEC centre. Obtaining approval involves the lodging of an application with the relevant authority (usually a local government), the assessment of this application (often involving a referral to other agencies for consideration and/or a public notification and consultation process), and a decision on whether the development can proceed which may also include conditions on that development. This decision may be able to be appealed (PC 2022, p. 489).

Even when approval is ultimately granted, this process can increase the time it takes before a service is able to start operating and the costs that providers face in setting up a new service, making expansion less likely to be financially viable. Differences in processes between local governments may make applications harder to navigate, particularly for smaller providers.

Local governments can take an active approach in supporting the availability of ECEC (for example, City of Sydney, sub. 65, p. 3; Municipal Association of Victoria, sub. 115, pp. 6–7). But proposals for the construction of ECEC centres may also be denied by local governments. Often, this is due to concerns from some residents over impacts from the construction or operation of the centre, for example on noise or traffic. Some centres have been denied approval after objections including that the presence of an ECEC centre was outside the character of the neighbourhood, that parents may slam car doors while dropping off their

children, or that the number of children the centre could support was excessive (City of Ipswich 2021; Trembath 2017; Western Australia Department of Planning, Lands and Heritage 2023).

There are trade-offs between potential amenity costs for residents of an area and the benefits of ECEC for children and families. But the groups who will be advantaged and disadvantaged by a proposal may not have an equal voice in the approval process. Local governments can face pressure from a vocal minority of opposed residents. Parents of young children, on the other hand, may struggle to find the time to speak in support of a proposed new centre (and, ironically, may not be able to access the ECEC they would need to do so). Some who may need the service in the future but do not yet have children may be unaware that they would benefit from speaking in support of one. And families who are not residents of the area but wish to use the potential service (for example, because they work nearby) may not have their interests represented at all.

State and territory government involvement in planning could facilitate the supply of ECEC if more standardised provisions and processes led to greater consistency, clarity and certainty for providers. State and territory governments may also be better placed to consider all those who may benefit from more accessible ECEC in assessing whether a particular centre would provide net benefits to the Australian community.

There is a range of options for state and territory involvement. For example, the Victoria Planning Provisions set out a template for planning provisions and processes to promote clarity and consistency in local government development assessment processes (Victorian Department of Transport and Planning 2023). Other options could shift responsibility even further – one inquiry participant has suggested that local governments' involvement in approvals process could be removed entirely in response to these issues (Long, sub. 8, p. 13).

The Commission is seeking information on providers' experiences with the development assessment process, the extent to which this may affect the accessibility of ECEC, and how these potential barriers could be addressed.



Information request 5.2

The Commission is seeking views on the effects of planning processes on the availability of ECEC.

Are delays, inconsistency or complexity in the development assessment process, or unwarranted rejections of applications for development approval for ECEC centres, posing a barrier to availability? Where are planning systems working well to support the availability of ECEC services, and how could these efforts be built on or expanded?

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6. ECEC affordability

Key points

- * Out-of-pocket expenses are a key determinant of whether families can afford early childhood education and care (ECEC). The Child Care Subsidy (CCS, including the Higher CCS (HCCS)) and the Additional Child Care Subsidy (ACCS) reduce out-of-pocket expenses for families, but those on lower incomes spend a higher proportion of their income on ECEC compared with those who are better off.**

 - The families whose incomes are in the bottom 10% of the income distribution pay out-of-pocket expenses equal to about 9% of their income on average. In contrast, families whose incomes are in the top 10% of the income distribution pay about 5% on average.
- * Aspects of CCS design can discourage ECEC participation by families.**

 - The activity test creates a barrier to participation for some children and it is unclear if the requirement that parents or guardians engage in activities like work or training to access subsidised ECEC has had any effect on labour force participation.
 - The 6% of families who were eligible for 24 or 36 hours of subsidised ECEC a fortnight in 2021-22 tended to have lower incomes and about two-thirds were charged for at least some unsubsidised hours of care.
 - The effectiveness of the CCS hourly rate caps in reducing out-of-pocket expenses is muted if families face fees above the cap. Between 2018 and 2022, the share of centre-based day care and family day care services with average fees above the CCS hourly rate cap nearly doubled from 13% to 22% and 24% to 45%, respectively. The combined effect of automatic indexation of the cap and increased subsidies (which occurred from July 2023) on affordability are not yet clear.
 - Information available to families when they are working out their CCS entitlement can be confusing and create substantial uncertainty as to their entitlements. Navigating this complexity can be much more difficult for those with low levels of English and / or computer literacy. For some families, this level of complexity creates a substantial barrier to ECEC access, and in some cases, means they choose not to access ECEC.
- * Relaxing the activity test for all families and lifting subsidies for low-income families would target support to children and families who would benefit the most. Alongside improving availability, inclusion and flexibility, these changes to the CCS would enable universal access to ECEC.**

 - Implementing these changes is estimated to increase: hours of ECEC used by 12%; hours of work by 3.4% (or the equivalent of 20,700 full-time workers); and Australian Government outlays on the CCS by 20% or \$2.5 billion per year.
 - Over half of the resulting increase in CCS expenditure would benefit the 20% of families on the lowest incomes.

*** Broad-based CCS changes would make ECEC more affordable for all families but come at a substantial cost to taxpayers.**

- If in addition to relaxing the activity test and increasing the CCS rate for lower-income families, the Australian Government were to extend a subsidy rate of 90% of the fee, up to the hourly rate cap, to all families for three days of ECEC a week, it is estimated that total hours of ECEC used would increase by 21%; hours of work by 5.7% (or the equivalent of 34,900 full-time workers); and Australian Government outlays on the CCS by 53% or \$6.8 billion per year.
- Policy options extending the 90% subsidy rate to all ECEC users or introducing a flat fee of \$10 a day have similar implications for labour force participation, demand for ECEC and net costs to government.
- A disproportionate share of the increased government support would go to high-income families – rather than to those experiencing disadvantage, who are most likely to benefit from greater access to ECEC.

*** Low-income families would not benefit if the only change to the CCS were a 90% subsidy rate for all families because they are already eligible for a 90% subsidy. However, a universal 90% subsidy rate would bring ECEC closer to the funding principle that underpins some aspects of Medicare.**

- This policy change is estimated to increase: total hours of ECEC used by 7.4%; hours of work by 2.8% (or the equivalent of 17,000 full-time workers); and Australian Government outlays on the CCS by 33% or \$4.1 billion per year.
- Nearly 60% of the increase in government outlays would accrue to the 20% of families on the highest incomes (those earning \$200,000 per year and above) and nearly 30% to the second highest 20% (those earning between about \$150,000 and \$200,000 per year).

*** The Australian Government should ensure that the complexity of ECEC subsidy arrangements is not a barrier to access for families.**

- Options to make information provided on government websites about CCS eligibility easy to find and easy to understand by families should be explored.
- Functionality of the CCS calculator on the Starting Blocks website should be improved.
- Single Touch Payroll information from the Australian Tax Office should be used to prompt families to update their activity and income level details with Services Australia.
- Clear and easy to find information should be provided to families about the CCS withholding rate during the CCS application process and when families update their details with Services Australia.

Early childhood education and care (ECEC) promotes social and economic benefits such as child development and parents' labour force participation (particularly for secondary earners who are usually women), and a key element of whether a child participates is whether their family can afford ECEC.

This paper examines the affordability of ECEC.

- Section 6.1 discusses characteristics of the main government programs that provide support to families in covering their ECEC expenses.
- Section 6.2 considers the effectiveness of these programs at improving affordability for families and the extent to which families may still face financial barriers to ECEC participation.
- Section 6.3 focuses on changes to subsidy arrangements that would improve affordability as well as the effectiveness of subsidies to improve affordability.

6.1 How do governments provide support for families in covering ECEC expenses?

Out-of-pocket expenses are the key determinant of affordability

For families with children attending formal ECEC (except preschool), out-of-pocket expenses depend on the fees they are charged and the amount of subsidy they receive. Fees are set by ECEC services. Subsidies depend on a family's characteristics, in tandem with the subsidy rates and eligibility criteria set by the Australian government. Two key Australian government programs deliver subsidies to families – the Child Care Subsidy (CCS) (which includes the Higher CCS (HCCS) for families with multiple children) and the Additional Child Care Subsidy (ACCS).

For families with children in the year before school, out-of-pocket expenses may be reduced further compared to other below school age groups because these children are eligible to attend a preschool program for which further funding is provided by both the Australian and state and territory governments. Preschool affordability is discussed below.

A brief overview of the CCS and ACCS

In 2023-24, the subsidy amount that families are eligible for is a function of:

- an activity test – the level and type of recognised activity undertaken by parents or guardians determines the number of care hours that a family is eligible for to be subsidised by the CCS (in general, higher activity levels lead to higher eligible subsidised care hours)
- a family's income – for incomes up to \$80,000 per year, families are eligible for a 90% CCS rate, with the rate tapering down by 1% for every \$5,000 of income above \$80,000, reaching 0% at \$530,000
- whether the hourly fee for ECEC is above or below the CCS hourly rate cap – if the hourly fee is above the cap, the CCS rate is applied to the cap amount and the remaining fee must be paid for by the family. If the hourly fee is equal to or below the cap, the CCS rate is applied to the full fee.

Under the HCCS, families earning up to \$138,118 per year are eligible for a 95% CCS rate for second and subsequent children with the rate tapering down as a family's income increases.

The ACCS provides extra assistance to families who face additional barriers to accessing ECEC, through higher subsidy rates (generally 100% of fees if below or equal to the rate cap or up to 120% of the hourly rate cap if fees are above the rate cap) and a higher number of subsidised ECEC hours (generally 100 hours per fortnight).¹ There are four categories of ACCS.

- ACCS (Child Wellbeing) – for families caring for a child at risk of serious harm, abuse or neglect (Services Australia 2021).
- ACCS (Grandparent) – for grandparents on income support who are the principal carers of their grandchild(ren) (Services Australia 2022e).
- ACCS (Temporary Financial Hardship) – for families experiencing temporary financial hardship due to an event that happened in the preceding six months (Services Australia 2023a).
- ACCS (Transition to Work) – for families transitioning to work from income support (Services Australia 2023b).

Detailed information on the CCS, HCCS and ACCS is in appendix D.

¹ The exception to these conditions is ACCS (Transition to Work), where 95% of fees are subsidised if fees are below or equal to the rate cap or up to 95% of the hourly rate cap if the fee is above the rate cap, and the eligible subsidised hours depend on a family's activity level.

CCS has a marked effect on out-of-pocket expenses

Many families have ECEC subsidised through CCS. In the December 2022 quarter, 1.4 million children attended a CCS-approved service² and of these children, 93% received subsidised ECEC (Productivity Commission estimates based on DoE administrative data (unpublished)).

Out-of-pocket expenses are typically significantly lower than the fees charged by services (table 6.1). Across a financial year, families pay out-of-pocket expenses with some CCS withheld.³ Out-of-pocket expenses are slightly lower when calculated simply as the charged fee less subsidy, assuming that families will receive their CCS withholding amount at the end of the financial year. In this paper, out-of-pocket expenses are typically calculated this way.

One reason for the divergence in fees and out-of-pocket expenses between service types is differences in the number of hours typically charged to families. For example, fees and out-of-pocket expenses are lower for outside school hours care (OSHC) because primary school aged children spend less time in formal ECEC. In addition, OSHC fees are charged per session, and a child may attend two sessions per day – before and after school.

Table 6.1 – Subsidies reduce out-of-pocket expenses^{a,b,c}

Average fees and out-of-pocket expenses (with and without CCS withholding), by service type, December quarter 2022

	Per hour			Per day (CBDC and FDC) or per session (OSHC)			
	Mean fee	Mean OOP	Mean OOP (CCS withheld)	Mean fee	Mean OOP	Mean OOP (CCS withheld)	Mean daily charged hours
CBDC	\$11.80	\$4.40	\$4.77	\$123.72	\$46.02	\$49.90	10.5
FDC	\$11.93	\$3.79	\$4.20	\$92.68	\$29.32	\$32.50	7.8
OSHC	\$8.81	\$4.08	\$4.31	\$30.68	\$14.00	\$14.84	3.7

a. Mean calculations are based off week summaries ending Sunday. **b.** This analysis excludes cases where out-of-pocket expenses were zero. **c.** CCS: Child Care Subsidy; CBDC: centre-based day care; FDC: family day care; OSHC: outside school hours care; OOP: out-of-pocket expense.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

Analysis of Department of Education administrative data showed that out-of-pocket ECEC expenses make up a higher proportion of disposable income for families in the first income decile (figure 6.1). The families whose incomes are in the bottom 10% of the income distribution pay out-of-pocket expenses equal to about 9% of their income on average. In contrast, families whose incomes are in the top 10% of the income distribution pay about 5% on average. The Australian Competition and Consumer Commission (ACCC) found a similar pattern in their Childcare inquiry June 2023 interim report (ACCC 2023a, p. 15). Families

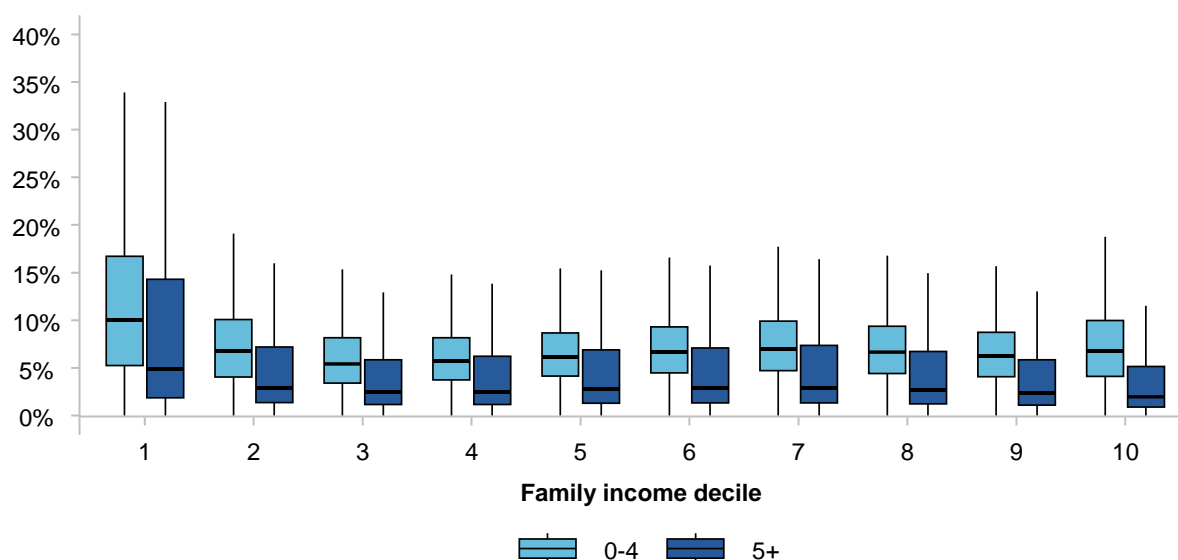
² For a provider to run a service that offers CCS, it must have two types of approval. One is by the relevant state or territory government which deems the service suitable to ensure the health, safety, wellbeing and educational outcomes of children. It is granted by the relevant state or territory regulatory authority and is known as National Law approval or state regulatory approval. The second type of approval is by the Australian Government which deems the service suitable to administer CCS. This is known as CCS approval or Family Assistance Law approval and it cannot be granted until state or territory government approval has been granted. Both approvals can be applied for at the same time (DoE 2023a). For the following discussion on CCS, 'services' refers to CCS-approved services unless otherwise stated.

³ By default, 5% of a family's CCS entitlement for each week is withheld until the end of the financial year to reduce the potential for CCS debt. Discussion of CCS withholding is in appendix D.

where the youngest child is of before school age spend a higher proportion of their disposable income on ECEC compared to families where the youngest child is of school age (figure 6.1).

Figure 6.1 – Families with before school-aged children spend a larger share of their disposable income on ECEC^{a,b}

Out-of-pocket expenses as a share of family after-tax income, by age of youngest child in ECEC and family income decile, fortnight to 27 Nov 2022



a. Subsidies for the out-of-pocket expense calculation are calculated as the CCS plus the ACCS. The out-of-pocket expense accounts for fees that might be paid above the hourly rate cap. After tax household income calculated by applying tax rates to customer and partner reported incomes. Excludes In Home Care services. **b.** These box and whisker plots show the median (black horizontal line), two hinges at the 25th and 75th percentiles (top and bottom box edges), and two whiskers extending to the values no further than 1.5 times the interquartile range from the hinges. Outliers are omitted.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).



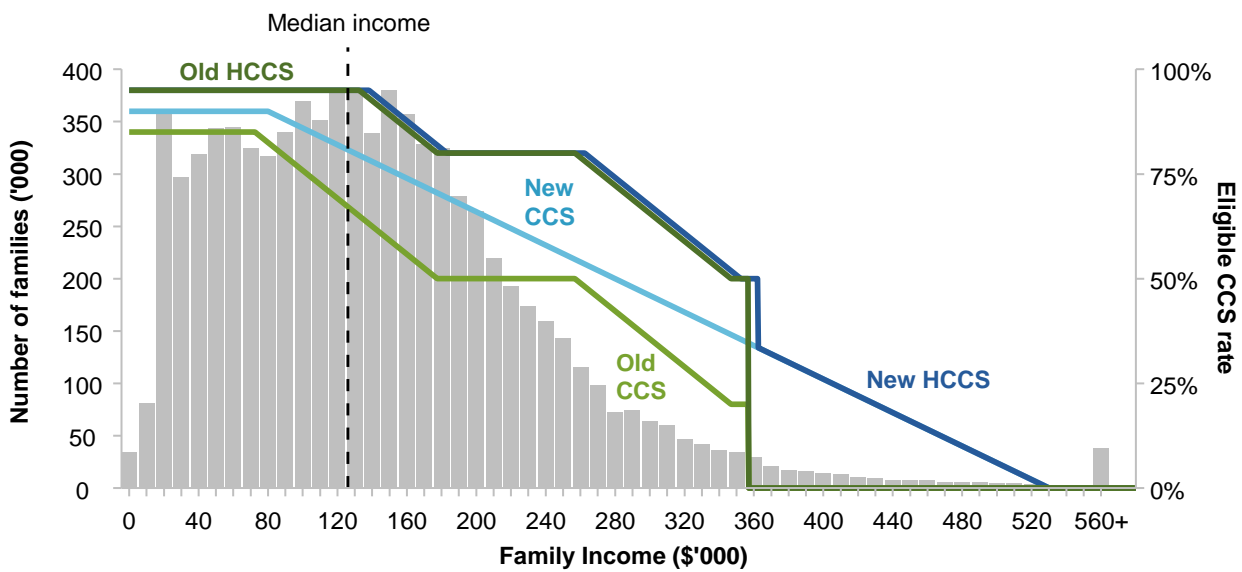
Draft finding 6.1
ECEC is less affordable for lower-income families

The Child Care Subsidy lowers out-of-pocket expenses for families, but those on lower incomes spend a higher proportion of their income on ECEC compared with those who are better off. The families whose incomes are in the lowest 10% of the income distribution pay out-of-pocket expenses equal to about 9% of their income on average. In contrast, families whose incomes are in the highest 10% of the income distribution pay about 5% on average.

Recent CCS reforms are expected to reduce out-of-pocket expenses for families ...

Reforms to CCS that began on 10 July 2023 increased subsidy rates, and it was anticipated that the proportion of families receiving a CCS rate of at least 70% would increase from about half to about 70% (figure 6.2). Box 6.1 provides an example of how recent CCS reforms have affected out-of-pocket expenses.

Figure 6.2 – About 70% of families have a CCS rate of at least 70% from 10 July 2023^a 2023-24 and 2022-23 subsidy rates and number of families receiving CCS for the week to 26 June 2022, by family income



a. The black dotted line represents median family income.

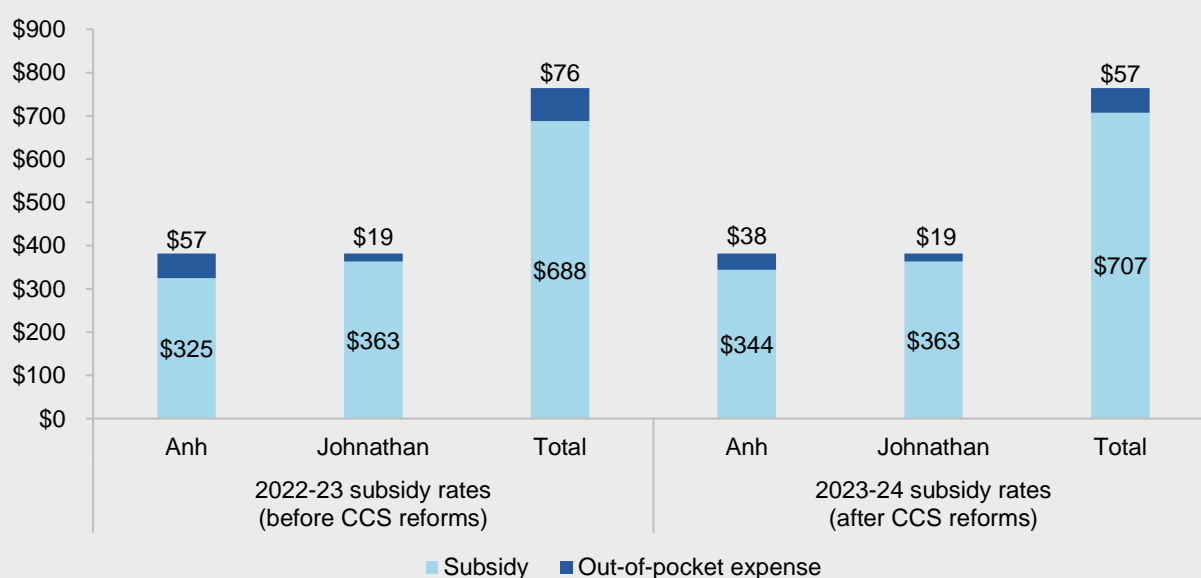
Source: Productivity Commission estimates based on DoE administrative data (unpublished).

Box 6.1 – Illustration of the effects of recent Child Care Subsidy reforms on out-of-pocket expenses

Recent Child Care Subsidy (CCS) reforms reduce out-of-pocket expenses for families. Consider a family with a taxable income of \$60,000 and two children, Anh (aged three) and Johnathan (aged two). Both children attend a centre-based day care (CBDC) for three days a week. The parents meet the activity test and thus all hours attended at the CBDC are subsidised. CCS rates would apply for Anh and the Higher Child Care Subsidy (HCCS) rates would apply for Johnathan. The CCS reform would reduce this family's out-of-pocket expenses from \$76 to \$57 per week (figure below) if fees remained unchanged.

Families receive higher amounts of CCS from 10 July 2023^a

Family with \$60,000 annual income and two children in CBDC, 2022-23 and 2023-24 subsidy rates, weekly expenses



a. These hypothetical scenarios assumes an annual family income of \$60,000 and that the two children attend CBDC for three 10-hour days each week. Johnathan is assumed to be the second child that received the HCCS. The hourly fee is assumed to be at the 2022-23 CCS hourly cap rate of \$12.74.

Source: Productivity Commission estimates.

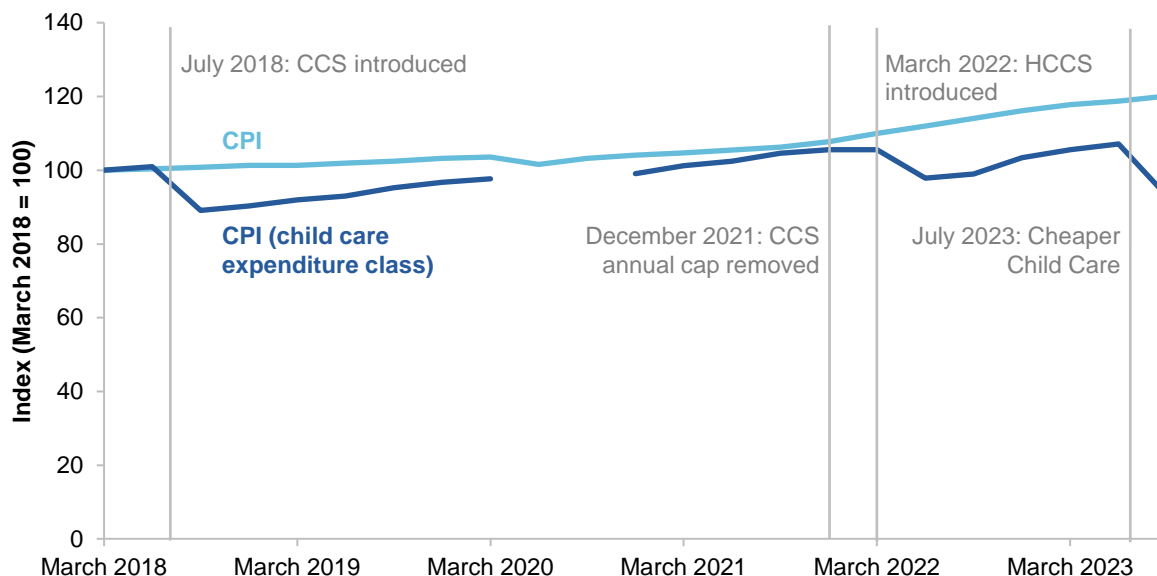
... however, the effectiveness of subsidy increases may be muted by fee growth

Fee rises can reduce the effectiveness of subsidy increases in reducing out-of-pocket expenses for families.

Since 2018, unlike overall inflation, out-of-pocket ECEC expenses have fallen (figure 6.3). The main reasons for this are the increased subsidies provided to families through the introduction of the CCS on 2 July 2018 (Parliamentary Library 2019), removal of the CCS annual cap on 10 December 2021, introduction of the HCCS on 7 March 2022 (Hume 2021) and the July 2023 Cheaper Child Care policy changes. Without the increase in subsidies, it is likely out-of-pocket expenses would have increased faster than CPI because of fee growth.

Figure 6.3 – Since 2018, out-of-pocket ECEC expenses have fallen whereas the overall level of consumer prices has increased^a

Quarterly index of child care CPI and CPI, March 2018 to September 2023



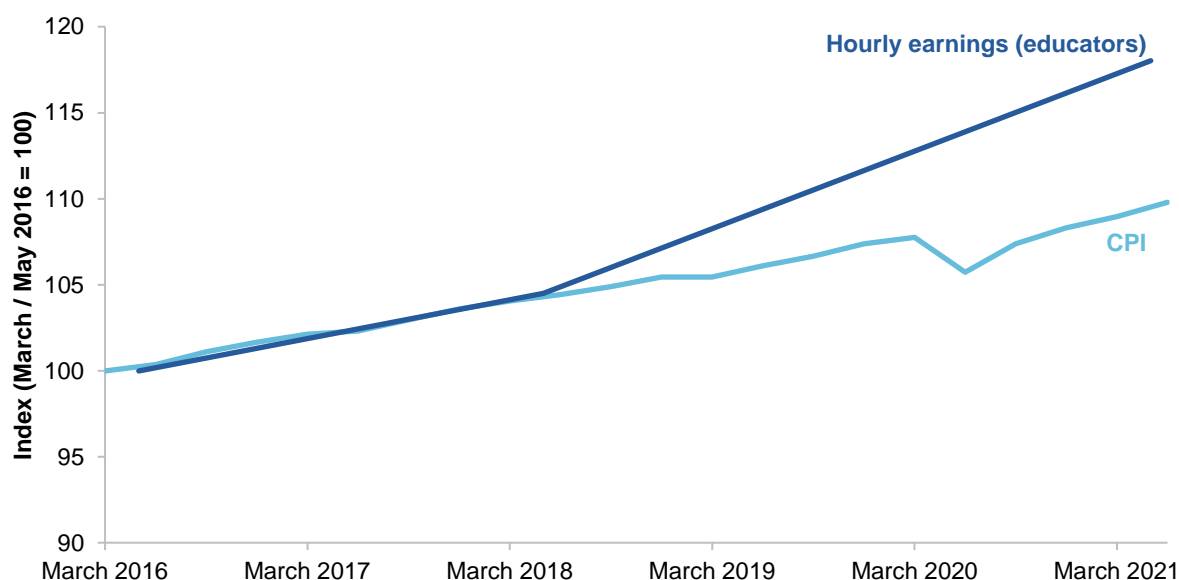
a. Data for June and September quarter 2020 is excluded due to the impact of COVID-19 on out-of-pocket expenses.

Source: Productivity Commission estimates based on ABS (September 2023) 'Table 7: CPI: group, sub-group and expenditure class, weighted average of eight capital cities' [time series spreadsheet], *Consumer Price Index, Australia*, accessed 30 October 2023.

The growth in fees is unsurprising given that increases in the hourly earnings of full-time educators have outstripped CPI growth in recent years (figure 6.4) and that labour is the largest cost for ECEC services. Labour costs account for 69% of costs for centre-based day care (CBDC) services and 77% of costs for OSHCs (ACCC 2023b, p. 43). The average costs for large CBDC providers grew 27% between 2018 and 2022 with average labour costs growing by 28% for that same period (ACCC 2023b, p. 50). For large providers of OSHC, average cost increases were in line with inflation between 2018 and 2022 with average labour costs growing by 7% (ACCC 2023b, p. 51). For large CBDC providers, finance and administration costs represent 9% of total costs and have increased in real terms between 2018 and 2022, reflecting greater 'investment, acquisition and debt' in the sector since 2020 (ACCC 2023b, p. 53).

Figure 6.4 – Between 2018 and 2021, hourly earnings of full-time educators grew more quickly than CPI^{a,b,c}

CPI and index of average hourly total cash earnings for full-time non-managerial child carers (ANZSCO minor group 421), March 2016 to June 2021



a. CPI data is released quarterly in March, June, September and December. **b.** Hours and earnings data is released biannually in May, with a three year gap between 2018 and 2021 due to COVID-19. Hourly earnings data is only available from 2016. **c.** Hourly earnings data only covers full-time employees. Part-time and casual employees may be expected to have higher hourly earnings on average, for example, due to casual loadings. This means that this data may underestimate hourly earnings for the entire population of educators.

Source: Productivity Commission estimates based on ABS (September 2023) 'Table 7: CPI: group, sub-group and expenditure class, weighted average of eight capital cities' [time series spreadsheet], *Consumer Price Index, Australia*, accessed 30 October 2023 and ABS (May 2021) 'Data cube 13. Full-time non-managerial employees paid at the adult rate' [data set], *Employee Earnings and Hours*, accessed 31 October 2023 (and previous releases).

Any difference between hours charged and hours attended may also affect affordability

Total fees, subsidies and out-of-pocket expenses are based on the hours charged by a service. For many families, there is a difference between the hours for which they are charged and the hours that their child attends a service. For example, a service may only offer 10-hour sessions between 8am and 6pm, but a family may drop their child off at 8am and pick them up at 2pm. In this situation, the family will be charged for, and CCS will be applied to, all ten hours despite the child only attending 60% of the session. Families can also be charged for days where their child is absent.

Across a year, families only attend about 60% of the hours for which they are charged, and attendance rates are relatively similar across eligible subsidised hours thresholds⁴ and income deciles. Attendance rates tend to be higher when a family pays for some unsubsidised hours⁵ (figures 6.5 and 6.6).

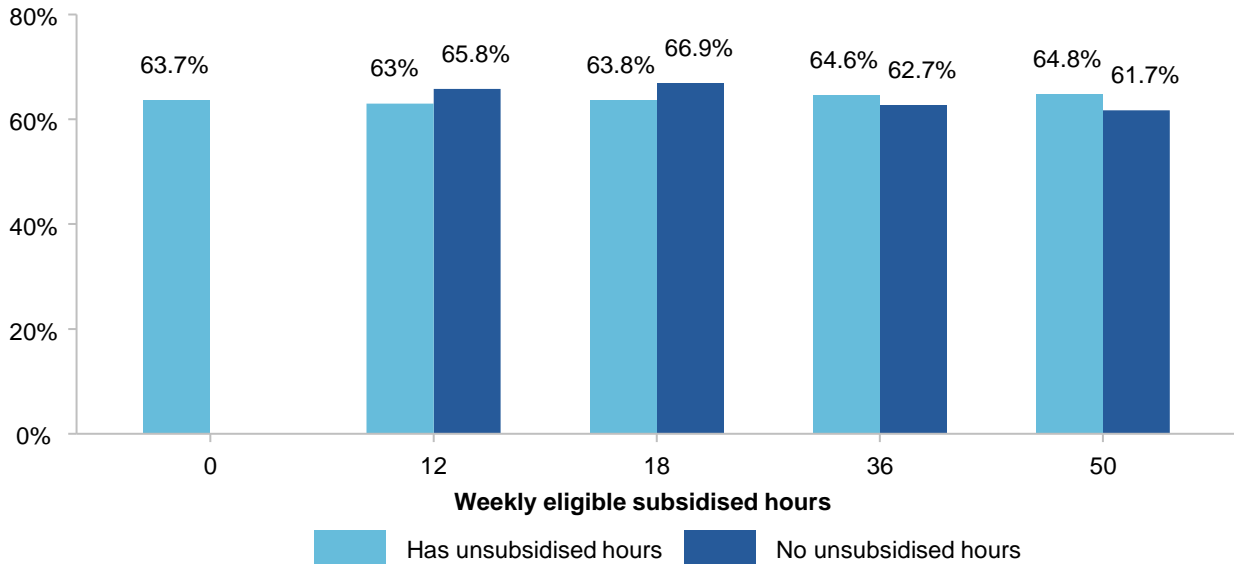
Paper 7 discusses enrolled versus attended hours further.

⁴ Under the activity test, families are eligible for a number of subsidised hours depending on the parents' or guardians' activity levels. The activity test is discussed in more detail below.

⁵ Unsubsidised hours are those that are not subsidised by the CCS. Families' eligibility for care to be subsidised by the CCS depends on whether they meet the activity test or have an exemption to the activity test and their level of income.

Figure 6.5 – Attendance rates are reasonably similar across eligible subsidised hours thresholds ...^{a,b}

Average proportion of charged hours attended, by eligible subsidised hours

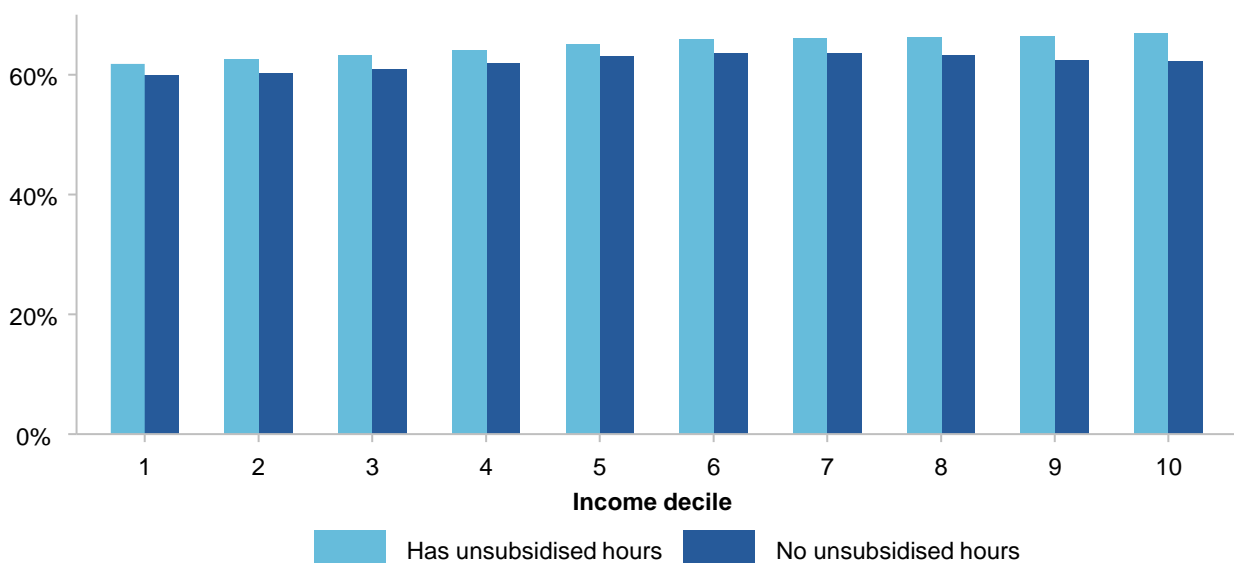


a. Based on families who accessed CCS-approved services in 2021-22. A family’s maximum subsidised hours can change through the year. Weekly eligible subsidised hours for a family is based on half of the family’s median fortnightly eligible subsidised hours, as reported in weekly-level data for the financial year. Weekly hours are used, rather than fortnightly hours as defined in CCS policy, to allow a simpler comparison with data provided at the weekly level, but could overstate unsubsidised hours if families use substantially different hours of ECEC across each week of a fortnight. **b.** Families with a median of no eligible subsidised hours and no unsubsidised hours represent less than 0.01% of families and are excluded from this figure.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

Figure 6.6 – ... and income deciles^a

Average proportion of charged hours attended, by income decile



a. See figure 6.5 note a.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

Preschool funding assists in improving affordability for children in the year before school

Preschool is attended by many children in the year before full-time school⁶ and is delivered through dedicated preschools and CBDCs.⁷ Most children participate in a preschool program in one of these settings, but some attend both.

There are no or low affordability barriers for children to attend a program in dedicated preschools in the year before school. All states and territories offer free or subsidised preschool through government-run services (table 6.2) during the school term. For example, the Australian Capital Territory, the Northern Territory, Western Australia and Tasmania offer free preschool in these settings. For 55% of children enrolled in a dedicated preschool in 2022, families paid no fees and for 31% of children, families paid between \$1 and \$4 per hour (ABS 2023c). There may, however, be other barriers (such as inconvenient session times or lack of access) that stop a family from sending their child to preschool in a dedicated setting.

There may be affordability barriers for children in the year before school who attend a preschool program in a CBDC. Compared to other age cohorts attending CBDCs, out-of-pocket expenses may be reduced further in some states and territories for children in the year before school (such as New South Wales, Victoria and Queensland) due to state or territory government preschool funding passed on to families as fee relief (Victoria and New South Wales provide \$2,000 and \$2,110 respectively in fee relief for children in the year before school attending a preschool program in a CBDC, for example). Families would also still be eligible to receive the same level of CCS even when accounting for this state and territory government funding.⁸ And children in the year before school who attend preschool in a CBDC are eligible for 36 subsidised hours of care per fortnight without the need for parents or guardians to meet the activity test. Families whose eligibility for subsidised hours was below this previously would receive a higher allowance of subsidised hours. Nevertheless, some families may still face affordability barriers to access preschool through a CBDC which would be heightened for some as not all states and territory governments provide funding for out-of-pocket expense relief for children attending a preschool program in a CBDC.

As well as direct fee relief, some states provide preschool services with program funding. For example, the NSW Government offers a program payment through its Start Strong program to eligible services, on a per-child basis, which can be used for costs associated with staffing or functional and educational resources to improve the quality and affordability of preschool in New South Wales (NSW DoE, pers. comm. 30 October 2023; 2023a). In South Australia, funding from the Preschool Reform Agreement can be used for additional subsidies to services for each enrolled child who is Aboriginal and/or Torres Strait Islander or holds a concession card, and/or has a disability (CFFR 2021, pp. 7–8). And in the Northern Territory, preschool programs in regulated long day care settings may be eligible for the Northern Territory's Early Childhood Services Subsidy, which aims to help offset the cost of service delivery – although may not directly reduce fees for families (NT DoE, pers. comm., 11 October 2023).

⁶ Some services offer preschool programs for both three-year-old and four-year-old children. This section focuses on preschool in the year before school.

⁷ In the case of preschool programs, funding arrangements differ across jurisdictions and by service type (appendix E). Median out-of-pocket expenses for children attending preschool range from \$0 to \$3.67 per hour across jurisdictions.

⁸ State or territory government funding provided is considered a Third Party Payment (TPP). Typically, TPPs result in a lower CCS entitlement for families. However, a TPP can be 'prescribed' in the Minister's Rules, which enables the payment to directly reduce the gap fee after CCS entitlement has been calculated (*A New Tax System (Family Assistance) Act 1999 (Assistance Act)*, paragraph 2(2A)(c) of Schedule 2).

Table 6.2 – Fee relief for preschool in the year before school, by jurisdiction 2023

	Fee relief	Coverage
New South Wales	<p>Fee relief of up to \$4,220 per year for children attending an eligible community or mobile preschool.</p> <p>Fee relief of up to \$2,110 per year for children attending an eligible CBDC or MACS preschool (in addition to CCS).^a</p> <p>No fees are payable in 2023 for children attending a NSW Department of Education preschool.</p>	<p>Children enrolled in 600 hours or more of preschool in a year at an eligible service will receive the maximum fee amount.</p> <p>Fee relief in community and mobile preschools is proportionately adjusted if children are enrolled for less than 600 hours per year.</p> <p>Five days per fortnight for all children.</p>
Victoria	<p>Free in participating dedicated (sessional) kinder programs.^b</p> <p>Fee relief of up to \$2,000 per year for children enrolled in a kinder program through CBDC (in addition to CCS).</p>	<p>Children attending kinder for 15 hours per week (regardless of setting) are eligible for either free kinder (dedicated programs) or fee relief (programs within CBDCs).</p>
Queensland^c	<p>Free under the Kindy plus program for certain priority cohorts.^d</p> <p>Fee relief of up to \$3,544 per year for sessional kindergarten or \$500 per year for kindergarten in CBDC, under the Kindy Family Tax Benefit subsidy.</p>	<p>Priority cohorts (600 hours per year)</p> <p>Families that receive the Family Tax Benefit</p>
South Australia	<p>Families pay contributions for government preschools, with fees set by the preschool.^e</p> <p>Preschool in CBDC settings is not subsidised beyond CCS.</p>	<p>15 hours per week (600 hours per year).</p>
Western Australia	<p>Free in government and community kindergartens with the exception of voluntary contributions up to a maximum of \$60 per year and mandatory charges for extra cost optional components under the <i>School Education Regulations 2000</i>.</p> <p>Kindergarten in CBDC settings is not subsidised beyond CCS (though grant funding to some services may indirectly contribute to reduced costs for families).</p>	<p>15 hours per week (600 hours per year).</p>
Northern Territory	<p>Free in government preschools.</p> <p>Preschool in other settings is not directly subsidised to families beyond CCS.</p>	<p>15 hours per week (600 hours per year).</p>

	Fee relief	Coverage
Tasmania	Free in public school-based settings, and free in some non-government school settings. ^e CBDC-based kindergarten can be subsidised by both the state and under the Preschool Reform Agreement in some circumstances. ^f	600 hours per year (15 hours per week). Five hours per week funded by the Preschool Reform Agreement if the CBDC service operates a registered kindergarten program. An additional ten hours per week funded by the state if the service registers as a school, regardless of profit status.
ACT	Free in public school settings. Preschool is not subsidised beyond CCS in other settings.	15 hours per week (600 hours per year).

a. MACS refers to Multifunctional Aboriginal Children's Services, which are a type of childcare service for Aboriginal and/or Torres Strait Islander children. **b.** Some dedicated kinders may choose to not participate in the Free Kinder program, and can charge fees (set by the provider). Services under the Free Kinder program may also charge for additional hours above the 15 hours per week. **c.** The Queensland Government announced it will introduce free kindergarten for all children attending a government-approved kindergarten program for 15 hours a week (600 hours a year), from 2024 (2023a). **d.** Cohorts eligible for fee-free kindy under the Kindy plus program include holders of an Australian Government Health Care Card or Pensioner Concession Card, formal foster or kinship arrangements, three or more children of the same age enrolled in the same year, children living in formal child protection out-of-home care arrangements, children who identify as Aboriginal and/or Torres Strait Islander, and children whose family holds a temporary visa or is seeking asylum or have entered Australia under the Refugee and Humanitarian Program. **e.** Preschool directors set fees in consultation with the preschool's management committee, based on the estimated cost of providing the program, and children cannot be excluded from a preschool program if their family cannot pay a fee. There is some flexibility to reduce or waive fees if needed (SA DfE 2022). **f.** Families may still incur school levies when using kindergarten in a government school in Tasmania. **g.** At September 2023, no CBDC kindergarten programs in Tasmania received funding to provide free kindergarten under the National Partnership Agreement or state-based funding, because none of these services delivered a registered kindergarten program nor were registered as a school.

Source: ACT Education Directorate (pers. comm., 14 September 2023); NSW DoE (pers. comm., 30 October 2023; 2023c, 2023b, 2023a); NT DoE (pers. comm., 11 October 2023); Queensland DoE (2023b); SA DfE (2022); Tasmanian DECYP (pers. comm., 14 September 2023); Victorian Government (2023); WA DoE (pers. comm., 8 November 2023).

The high proportion of four-year-olds enrolled in preschool suggests that lower fees are effective in encouraging preschool attendance. The ABS estimated that in 2022, 87% of all children aged four were enrolled in a preschool program⁹ (ABS 2023c).

Families in remote areas experience unique affordability barriers when accessing preschool

Early learning programs can also be delivered by distance education for the year prior to a child starting compulsory schooling. For many geographically isolated families, this is the only avenue available to access early childhood education. Children that receive primary or secondary schooling by distance education are eligible to receive the Assistance for Isolated Children Distance Education Allowance which 'contributes towards incidental costs incurred by geographically isolated families' (DSS 2023b, p. 57).

However, children attending preschool via distance education are ineligible to receive the Distance Education allowance as it is not an approved course (DSS 2023b, p. 20).

[Children attending distance preschool] are deemed ineligible for the Assistance for Isolated Children (AIC) Distance Education Allowance as they are not recognised by the Australian Government as participating in compulsory schooling and no payment is available through the

⁹ 22% of all children aged five were also enrolled in a preschool program.

Child Care Subsidy (CCS) either as these children are still in their parents' care while participating in distance education. (Isolated Children's Parents' Association of Australia, sub. 58, p. 5)

The intent of the CCS hourly rate cap is to constrain growth in fees and government spending

The CCS hourly rate cap was introduced to provide some downward pressure on fees by sending a strong message about what a 'high fee' service is whilst allowing variability in fees and also restraining government expenditure over time (DET 2015, pp. 51, 54). It was designed to motivate families to shop around to lower their out-of-pocket expenses and that ECEC services would take this into account when setting fees (ACCC 2023b, p. 164).

It is unclear if the CCS hourly rate cap has constrained fees

The Australian Institute of Family Studies (AIFS) Child Care Package evaluation¹⁰ found little evidence that the CCS hourly rate cap was constraining fees (Bray et al. 2021, p. 341). The share of hours being charged over the CCS hourly rate cap has been increasing over time even with the annual indexation to CPI (ACCC 2023a, p. 129). Between 2018 and 2022, the share of CBDC and family day care (FDC) services with average fees above the CCS hourly rate cap nearly doubled from 13% to 22% and 24% to 45% respectively (ACCC 2023b, pp. 167–168). The share of OSHC services with average fees above the CCS hourly rate cap remained relatively stable at 13% (ACCC 2023b, p. 170).

The ACCC found that the complexity of the CCS along with unique characteristics of the childcare market may limit the effectiveness of the CCS hourly rate cap in constraining prices (ACCC 2023b, p. 164). For example, the ACCC noted the disconnect between the CCS calculated at an hourly level and fees generally charged at a daily level (ACCC 2023b, p. 165). It was also noted that prices are important in attracting families to services but not in retaining them (ACCC 2023b, p. 98). Non-price considerations also contribute to families' decisions to change ECEC services.

Characteristics of a service or its clientele may increase the likelihood of its fees being above the CCS hourly rate cap. The AIFS evaluation found that factors that increased the probability of being charged at least one hour with a fee in excess of the cap included: living in capital cities and remote areas; higher incomes; youngest child aged 0-2; low usage (up to ten hours per week); and living in the Australian Capital Territory, Western Australia, Victoria and New South Wales¹¹ (Bray et al. 2021, p. 70). Analysis of administrative data also shows that children from higher-income families and who live in major cities and remote Australia were more likely to have fees above the hourly rate cap (Productivity Commission estimates based on DoE data (unpublished)). Aboriginal and/or Torres Strait Islander families were less likely to be paying fees above the CCS hourly rate cap (Productivity Commission estimates based on DoE data (unpublished)).

Some of these factors, such as remoteness, would reflect higher costs in delivering ECEC that are out of families' control, but others, such as family income, likely reflect families' willingness to pay. Any potential increase in assistance aimed at increasing ECEC participation should ideally target families for whom costs are relatively high due to factors outside of their control.

Families are also more likely to face hourly fees in excess of the cap if they enrol their children in shorter sessions rather than full days in CBDC services (ACCC 2023a, p. 105). Analysis of administrative data in the AIFS evaluation indicated that services tailor session lengths and hourly fees to reflect families' number of eligible subsidised hours (which are determined by the activity test). AIFS found that families using nine hour

¹⁰ Hereafter referred to as the AIFS evaluation.

¹¹ This analysis was completed using a logit model.

sessions overwhelmingly had an entitlement to 36 or 72 subsidised ECEC hours a fortnight whereas families using ten hour sessions overwhelmingly had an entitlement to 100 subsidised hours, but these families' 'daily' rates were similar (Bray et al. 2021, pp. 168–169).

The ACCC also found that the activity test influenced session lengths with an increasing number of 10-hour session lengths charged by CBDCs. 10-hour session lengths grew the most between 2018 and 2022, increasing by 63% (ACCC 2023b, p. 177). 9-hour session lengths also increased by 36% during this same period, while 11- and 12-hour session lengths remained relatively stable (ACCC 2023b, p. 177). 10-hour session lengths were also the most common session lengths followed by 11- and 12-hour session lengths in 2022 (ACCC 2023b, p. 177). This increase in 10-hour session lengths coincides with a greater use of four and five days of care per week by families (an increase of 33% between 2019 and 2022) (ACCC 2023b, p. 176). This is likely due to the maximum entitlement of subsidised hours available under the activity test of 50 hours per week. When this 50 hours is divided amongst five days, it works out to be ten hours per day. Structuring session lengths this way means that families' entitlement is fully utilised.

Some families may face lower out-of-pocket expenses with shorter session lengths while others may be better off with longer session lengths, even if their children do not require care for the whole session (box 6.2).

Box 6.2 – Interactions between the Child Care Subsidy hourly rate cap and the activity test

Divya's family and Sam's family are both looking for centre-based day care (CBDC) for their children. The CBDC they are considering offers two session length options – either ten or 12 hours. The daily fee is \$150 irrespective of session length, meaning the derived hourly cost for the ten-hour session is \$15 (above the hourly rate cap of \$13.73), while the hourly cost for the 12-hour session is \$12.50 (below the hourly rate cap). Both Divya and Sam have access to up to 72 hours of subsidised care each fortnight (or 36 hours per week), and both are eligible for an 80% subsidy rate.

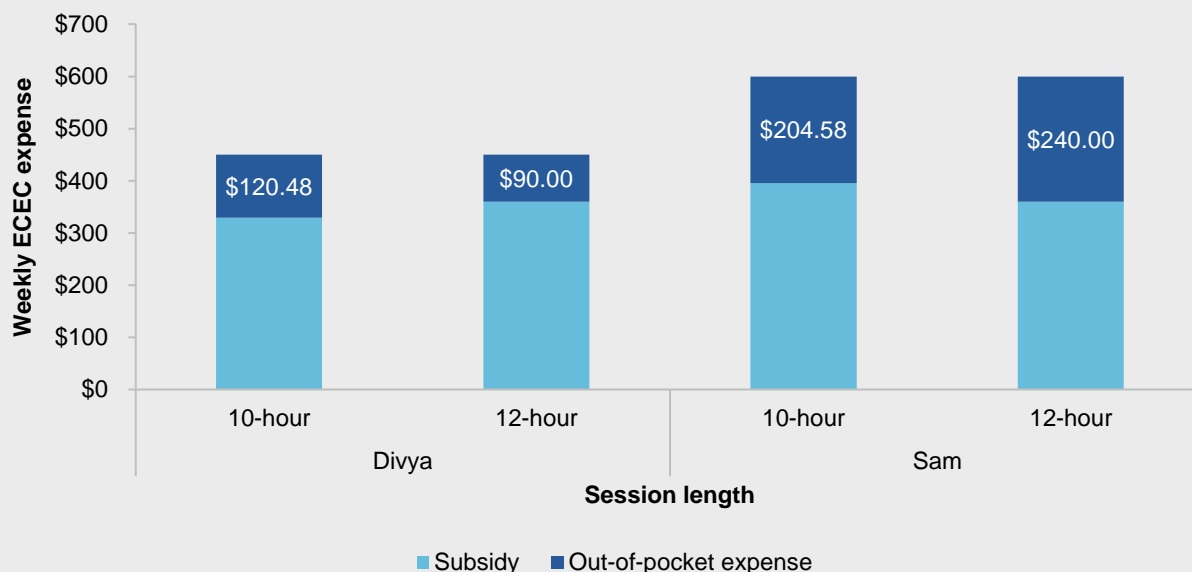
Divya will be working three days a week, and considers that ten hours of care for her child per working day will be sufficient. The cost of three sessions per week is \$450. However, as illustrated in the figure below, the out-of-pocket expense for the 12-hour session is cheaper given her circumstances. The lower hourly fee means that the 80% subsidy can be applied to the whole fee amount instead of being capped.

Sam will be working shorter hours for four days a week. The cost of four CBDC sessions is \$600. Sam's circumstances mean that choosing the ten-hour session length is more cost-effective, despite the higher hourly fee, because more hours of care will be subsidised under the activity test.

Box 6.2 – Interactions between the Child Care Subsidy hourly rate cap and the activity test

The activity test affects out-of-pocket expenses

Weekly expenses, 2023-24 subsidy rates

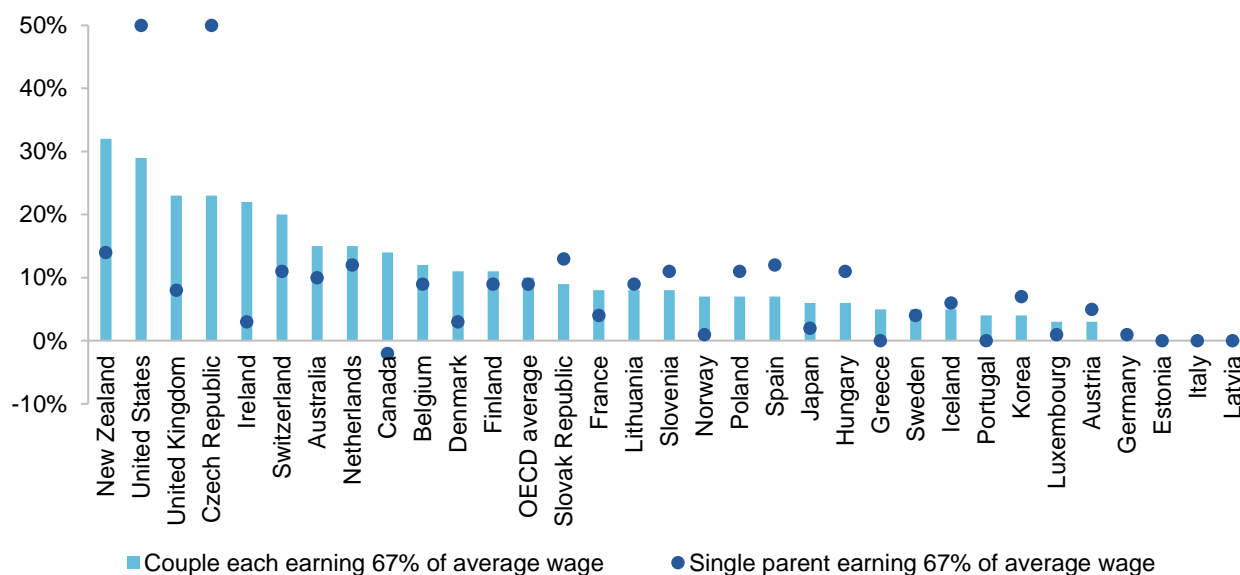


Source: Productivity Commission estimates.

International evidence suggests that ECEC is relatively expensive in Australia

OECD analysis based on data from 2022 indicated that Australian families tend to pay more for ECEC than families in many other developed countries (figure 6.7). It is important to note, though, that this analysis does not incorporate HCCS or the July 2023 changes to CCS rates and income testing.¹² The effect of HCCS on fees is unclear, but data suggests out-of-pocket ECEC expenses have fallen under the new CCS arrangements. Using preliminary Department of Education data, between July 2022 and July 2023, hourly fees increased by 8% while out-of-pocket ECEC expenses decreased by 16.6% (DoE (unpublished)). Other OECD countries have also recently made changes to their ECEC funding arrangements – for example, Ireland’s Core Funding scheme was introduced in 2022 (appendix B). It remains to be seen how these new policy settings have affected relative affordability across OECD countries. These international comparisons also rely on hypothetical examples. They do not reflect actual families’ situations but rather illustrate an ‘invented’ family’s outcome. Overall, despite these limitations, the comparisons are useful in highlighting the relative differences in ECEC expenses across countries.

¹² HCCS was introduced in March 2022. As HCCS was not in place on 1 January 2022, it is not modelled in the OECD’s analysis of Australia’s net ECEC expenses in 2022 (OECD 2023a, p. 20).

Figure 6.7 – ECEC expenses are higher in Australia than the OECD average^{a,b,c}**Net childcare expenses for single parents and couples, % of net household income, 2022**

a. Expenses are for full-time use of CBDC, after any benefits designed to reduce gross fees have been applied. These benefits may take the form of allowances, tax concessions, fee rebates and increases in other entitlements. **b.** Data assumes that families have two children aged two and three and that parents are aged 40 and work full-time. **c.** Information on fees and benefits is based on national rules. Where fees are determined at the local level, in most cases the local authority of a country's capital is considered.

Source: OECD (2023).

6.2 Some families still face affordability barriers to ECEC participation

Despite the CCS, affordability can still be a barrier to ECEC participation for some families.

- The Smith Family's Small Steps, Big Futures report stated that 'cost is a significant barrier for families and plays out differently in different contexts' (2021, p. 19).
- In its voluntary parent and guardian survey, the ACCC found that 60% of respondents said fees were somewhat financially burdensome and a further 14% struggled with fees (2023a, p. 58)¹³. Further, households that considered their out-of-pocket expenses burdensome limited their use of childcare (ACCC 2023a, p. 15).
- The 2022 Australian Early Learning Monitor found that 87% of Australians believe that many families do not send their children to ECEC or limit participation in ECEC due to the cost (Thrive By Five 2022, p. 5).
- A NSW Productivity Commission survey and choice modelling analysis identified that when barriers to ECEC were considered in isolation, cost was rated the highest barrier by non users, low users and high users of ECEC. But when parents considered out-of-pocket expenses amongst other barriers (such as preferred provider type and suitable hours), decisions were less influenced by cost (NSW PC 2023,

¹³ The ACCC report notes that these statistics may be understated as the number of respondents that reported their income between \$0 and \$73,000 was lower than would be expected from a sample representative of the whole population. The sample size in the other income brackets were similar to the broader population.

p. 36). Non users of ECEC were the least responsive to changes in cost and low users of ECEC were the most responsive (NSW PC 2023, p. 15).

- In Australia, 15% of mothers who wanted a job or more hours of work and nominated caring for children as their main barrier to work, said that the costs of ECEC were the main reason they were not in the labour force (ABS 2023a) (labour force participation of parents is discussed in paper 4).

Families experiencing disadvantage face relatively higher financial barriers to ECEC participation

As illustrated in figure 6.1, out-of-pocket expenses represented a higher proportion of disposable income for families in the lowest two income deciles (ACCC 2023a, p. 15). This could be limiting ECEC participation for lower-income families. Financial resources are more constrained for lower-income families which makes them more sensitive to price.

Out-of-pocket expenses could be one reason families with lower incomes are less likely to be using formal ECEC. Children living in low socio-economic areas are less likely to participate in ECEC compared to children living in higher socio-economic areas (figure 4.6).¹⁴ Low-income families can still face affordability issues even when taking into account the 90% CCS rate:

for families with little disposable income, the remaining 10 per cent of childcare fees remains unaffordable. For these families, ECEC is considered a luxury, with finding housing and keeping food on the table remaining the priority. (The Salvation Army, sub. 56, p. 9)

That said, there may be other reasons why lower-income families are not using ECEC, such as the activity test (discussed below), availability (paper 5), non-financial barriers (paper 7) and preferences to care for their own children (paper 4).

Efforts to improve affordability for low-income families have been found to have positive effects on ECEC attendance. For example, Goodstart Early Learning developed the Early Learning Fund to reduce fees for children from low-income families or facing other forms of hardship, but who are not eligible for other subsidies such as ACCS (Goodstart Early Learning, sub. 125, p. 32). This support provided families with at least two days of ECEC for about \$7 a day, in addition to engagement with families to set learning goals. Children supported by the Fund were found to have higher attendance rates and better retention in ECEC – with only 7% of children leaving compared with 52% among other low-income families in 2020 and 2021.

Additional support is available through the ACCS for families experiencing vulnerability and disadvantage

The ACCS plays an important role in improving affordability for families whose personal circumstances mean that they face additional barriers to accessing ECEC. The higher subsidy rate reduces out-of-pocket ECEC for eligible families. The ACCS was found to be effective and targeted at children who may be vulnerable in the AIFS evaluation (Bray et al. 2021, p. 235).

Use of ACCS is low relative to total ECEC attendance. In the 2022 December quarter, there were about 40,000 children accessing ACCS (74% of whom were eligible through the Child Wellbeing category), among the 1.4 million children attending CCS-approved services (DoE 2023c). And across the three main service types (CBDC, FDC and OSHC), between 2% and 3.7% of all hours were subsidised through ACCS (ACCC 2023a, p. 35). Children receiving In Home Care had a higher proportion of hours subsidised through ACCS (32%), which reflects

¹⁴ Although living in a low socio-economic area does not necessarily mean that all families living in the area have low incomes, spatial socio-economic data does indicate the 'collective socio-economic characteristics' of people living in an area (ABS 2023d).

that families with complex or challenging needs are eligible for this form of care. The majority of these children (over 90%) were subsidised through ACCS (Child Wellbeing) (ACCC 2023a, p. 35).

While the low usage of ACCS partly reflects the nature of this targeted assistance, there is a question of whether usage could or should be higher. Some families who are eligible for ACCS may not apply, and hence not attend ECEC, for reasons such as stigma or distrust of government. These and other barriers to ECEC attendance that are associated with the design and application of CCS are discussed below.

It is difficult to know what the 'right' level of ACCS use should be in the community. Each ACCS category targets families that face certain circumstances, and families may or may not face these circumstances permanently. For example, the ACCS (Temporary Financial Hardship) category provides assistance for 13 weeks to families that are facing temporary financial hardship (Services Australia 2022d). The ACCS (Grandparent) category provides assistance with no time limit on eligibility, to families where a grandparent or great grandparent is the guardian and receives an income support payment (Services Australia 2022c). Whether families face circumstances that make them eligible for ACCS may depend on events that occur unpredictably or vary from year to year (for example natural disasters or increased unemployment and/or financial hardship due to broader economic conditions).

To provide an indication of whether the current level of ACCS access is 'right', ACCS (Child Wellbeing) was examined as an example as it is the most commonly used ACCS category and a data source with a comparable population cohort was readily available. ACCS (Child Wellbeing) is for families caring for a child at risk of serious harm, abuse or neglect and includes children in formal foster care or formal kinship placement or in the care of the state, territory or the Minister (Services Australia 2021). The number of children receiving subsidised ECEC through ACCS (Child Wellbeing) was compared to data on children receiving child protection services.

In the December 2022 quarter, about 1% of children aged 0–12 years old received subsidised ECEC through ACCS (Child Wellbeing). This contrasts to about 3% of children aged 0–14¹⁵ years receiving child protection services in 2021-22 (Productivity Commission estimates based on ABS (2023b) and AIHW (2023, table S2.3)). A child may receive child protection services if they are subject to an investigation due to a notification of maltreatment, have been granted a protection order due to being the victims of abuse/neglect or are in need of protection, are in out-of-home care because they are unable to live at home or if their families have been referred to intensive support services (AIHW 2023).

Although the ACCS (Child Wellbeing) eligibility criteria does not fully align with children receiving child protection services, it is clear that there are overlaps within these two groups. The higher proportion of children receiving child protection services relative to those receiving ACCS (Child Wellbeing) may suggest that there is scope for more children to access ACCS (Child Wellbeing). The apparent underuse of ACCS could be due to a number of reasons such as administrative complexity or families not knowing that children may be eligible to receive subsidised ECEC through ACCS (Child Wellbeing). Administrative complexity is discussed further below.

Other groups also experience some affordability barriers

There are other groups in the community who potentially face affordability barriers when accessing ECEC services. One is children with disabilities and/or additional needs. The ACCC's 2023 survey of parents and guardians found that 77% of parents and guardians of a child with disability and/or complex needs said that

¹⁵ Child protection services data was grouped according to the ages unborn, <1, 1-4, 5-9, 10-14 and 15-17 which meant aligning ages exactly with CCS eligibility (0-12) was not possible. The age grouping of 0-14 was used instead to provide a comparable grouping to CCS eligibility.

they found childcare fees 'somewhat financially burdensome' or that they 'struggle to pay fees', compared to 74% of all respondents (2023a, pp. 103–104). Some submissions also noted that families of children with disabilities or additional needs may incur additional costs that make it harder to access ECEC services (Gowrie SA, sub. 25, p. 9; Royal Australasian College of Physicians, sub. 37, p. 8). There is not adequate data to determine whether families of children with additional needs face higher average out-of-pocket expenses for ECEC than other families (ACCC 2023a, p. 103). But children with disabilities are slightly more likely to live in low-income households compared to children who do not live with disabilities (AIHW 2020, p. 96). This increases the likelihood that families of children with disabilities face financial barriers to using ECEC services.

Inquiry participants suggested that out-of-pocket expenses can also be a barrier to some Aboriginal and/or Torres Strait Islander children participating in ECEC.¹⁶ And a qualitative study in seven communities across Australia found that affordability was a common barrier to ECEC participation for Aboriginal and/or Torres Strait Islander families – especially for families that were not using ECEC (Kellard and Paddon 2016, p. 23).

Analysis by the ACCC found that the average hourly CBDC fee charged for Aboriginal and/or Torres Strait Islander children was slightly less than for non-Aboriginal and/or Torres Strait Islander children (before subsidies) (ACCC 2023a, p. 102). This may reflect that Aboriginal and/or Torres Strait Islander children are more likely than the average Australian child to live in a less advantaged socio-economic area, where ECEC fees tend to be lower on average (ACCC 2023a, p. 81; NIAA 2023b). And while some Aboriginal and/or Torres Strait Islander families do not face difficulties with ECEC affordability, Aboriginal and/or Torres Strait Islander families are proportionally over-represented in lower income bands (NIAA 2023a), which increases the likelihood that they will face challenges with ECEC affordability.

The Productivity Commission heard from inquiry participants that other cohorts may also face higher affordability barriers to accessing ECEC, compared to the average Australian family.

- Children and families who have restricted residency in Australia (such as temporary protection visa holders) may not be eligible for CCS, which can make ECEC services prohibitively expensive.¹⁷
- Some submissions suggested that out-of-pocket expenses can be a significant barrier for families from culturally and/or linguistically diverse backgrounds (Centre for Excellence in Child and Family Welfare, sub. 59, pp. 2-3). And a qualitative study of some newly-arrived families in Australia found that cost (and low awareness of available subsidies) of dedicated preschools was a significant barrier for many participants (Brotherhood of St Laurence 2020, p. 13).
- Single parent families and families with multiple births may also face greater affordability barriers. The financial burden of ECEC can be significant for single parent families due to their greater reliance on a single income (Council of Single Mothers and their Children, sub. 100, pp. 3-7). Families with multiple births can also face higher affordability barriers due to multiple children needing ECEC at the same time (Australian Multiple Birth Association, sub. 165, p. 4).
- Families that are known to child protection, in the out-of-home care system and/or experiencing family or domestic violence can also face elevated financial barriers to using ECEC. This can include difficulties paying fees, as well as financial constraints due to relocations (which may include financial consequences if the appropriate notice is not given to ECEC services, or if children are absent) (Centre for Excellence in

¹⁶ Binarri-binyja yarrowoo Aboriginal Corporation, sub. 85, p. 10; Centre for Excellence in Child and Family Welfare, sub. 59, pp. 2-3; National Aboriginal Community Controlled Health Organisation, sub. 151, p. 6; National Indigenous Australians Agency, sub. 152, p. 5; SNAICC, sub. 133, p. 18.

¹⁷ 1st Impressions Early Learning Centre, sub. 91, p. 1; Early Years Intercultural Association, sub. 97, p. 1; Brotherhood of St. Laurence, sub. 96, p. 7; Paul Ramsay Foundation, sub. 148, p. 4; The Salvation Army, sub. 56, p. 14.

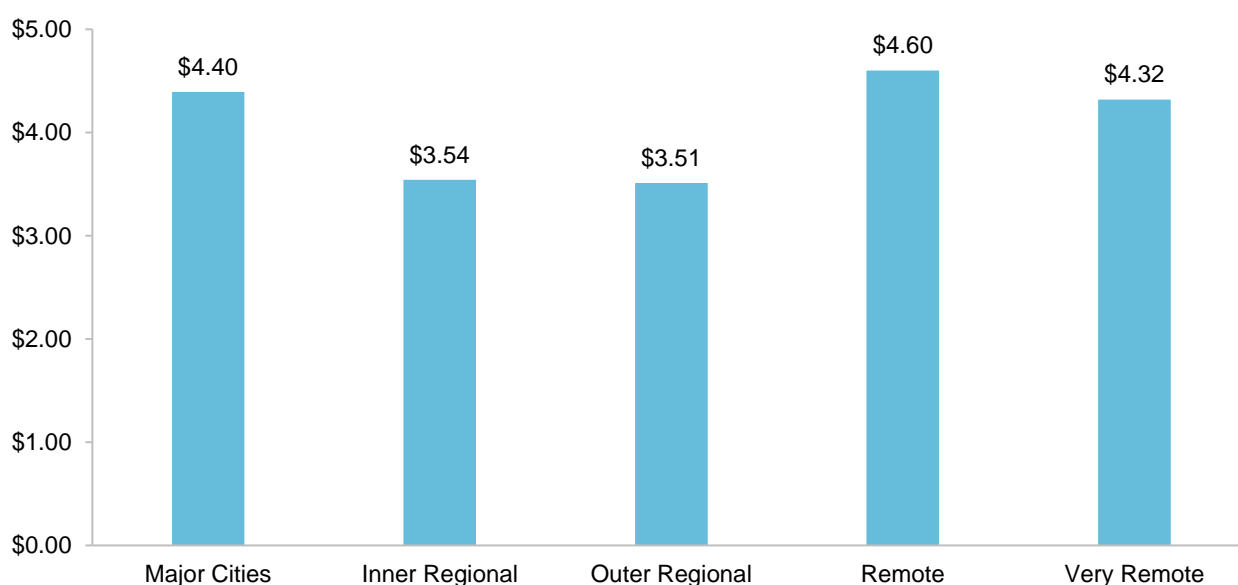
Child and Family Welfare, sub. 59, p. 2; Council for Single Mothers and their Children, sub. 100, p. 5; WA Government, sub. 162, p. 10).

Some families also face barriers due to the indirect costs of ECEC. Families living outside of metropolitan areas can incur significant additional costs associated with travel and time to get to an ECEC service, which can increase the financial barriers to ECEC (SDA, sub. 72, p. 20) (paper 7 discusses this in more detail).

The relationship between remoteness and affordability is complex

Although mean out-of-pocket expenses do not increase or decrease consistently with remoteness – expenses are highest on average in metropolitan and remote areas (figure 6.8) – there is some evidence that affordability may be of particular concern to families living in remote areas.¹⁸ Additional expenses associated with ECEC participation (such as travel costs) can be higher for families living in regional and remote Australia (paper 7 discusses this further).

Figure 6.8 – Mean out-of-pocket expenses are highest in metropolitan and remote areas^a
Mean hourly out-of-pocket expenses by remoteness, 2021-22



a. This analysis excludes cases where out-of-pocket expenses were zero.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

The ACCC's June interim report identified that families in remote and very remote Australia have lower effective subsidy rates on average than families in less remote areas. This means that compared to other families in Australia, families in remote and very remote Australia, on average, receive a lower proportion of subsidy relative to the fees they pay. And the difference cannot be explained by differences in household income or CCS rates. A possible reason for this difference is that families in remote and very remote Australia use more unsubsidised hours compared to other families. The ACCC intends to investigate

¹⁸ One caveat of the following discussion is that while data on fees and out-of-pocket expenses represents the best available information on how affordability differs with remoteness, a more relevant measure of affordability may be out-of-pocket expenses as a proportion of household income.

whether this trend can be explained by families living in remote areas being more likely to use ECEC services beyond their maximum number of subsidised hours under the activity test (2023a, pp. 116–117).

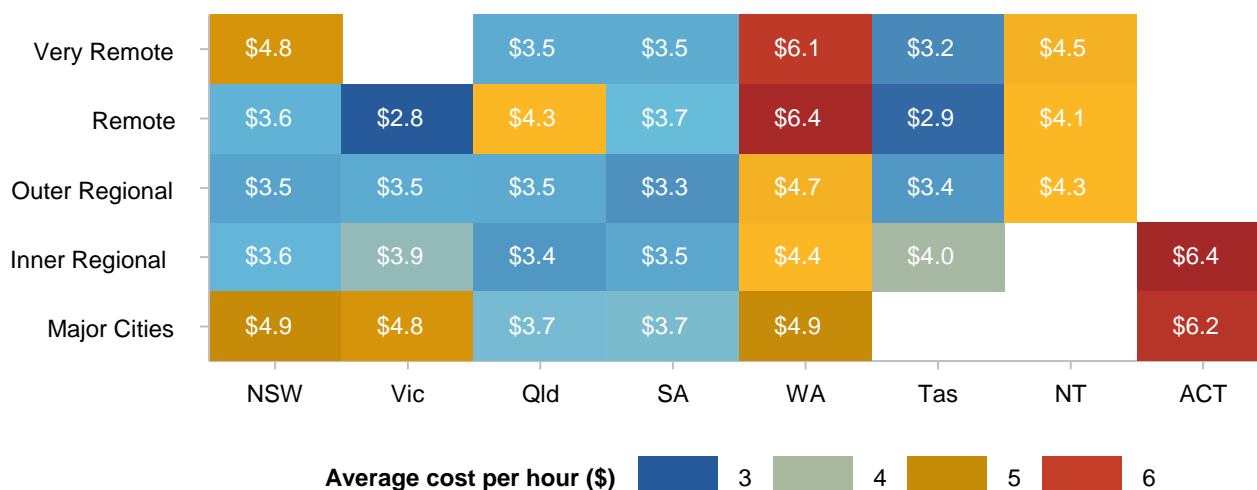
These aggregate figures, however, obscure more complicated associations between remoteness, fees and out-of-pocket expenses. For example, the relationship between remoteness and average fees differs by service type. Mean CBDC fees fall with remoteness, while mean FDC fees increase. OSHC fees do not display a clear pattern – mean fees are highest in remote Australia and similar across other levels of remoteness (ACCC 2023a, p. 80).

The link between remoteness, affordability and service type is further complicated by the fact that other factors affecting affordability, such as market structure, differ systematically with remoteness. For example, most CBDC services in remote areas are operated by not-for-profit providers and fees for not-for-profit services are lower on average than fees for for-profit services (ACCC 2023a, p. 94). Likewise, large CBDC providers (40 or more services) are less likely to operate in remote and very remote Australia, and mean fees for small providers (less than five services) are lower than mean fees for large providers (ACCC 2023a, p. 95).

Additionally, the association between remoteness and out-of-pocket expenses differs by jurisdiction (figure 6.9). While mean out-of-pocket expenses fall with remoteness in Victoria and Tasmania, in Western Australia, mean out-of-pocket expenses rise significantly with remoteness. This is at least partly explained by the fact that mean CBDC and OSHC fees are higher in Western Australia’s remote areas than in other states and territories. The ACCC will explore whether the large number of mining towns in Western Australia is contributing to this result (2023a, pp. 85–86).

Figure 6.9 – The association between out-of-pocket expenses and remoteness varies by jurisdiction^{a,b,c}

Average hourly out-of-pocket expenses, by jurisdiction and remoteness, 2021-22



a. Out-of-pocket expenses are adjusted to June 2023 dollars. b. Blank tiles mean no cross-classifications between jurisdiction and remoteness level. c. This analysis excludes cases where out-of-pocket expenses were zero.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

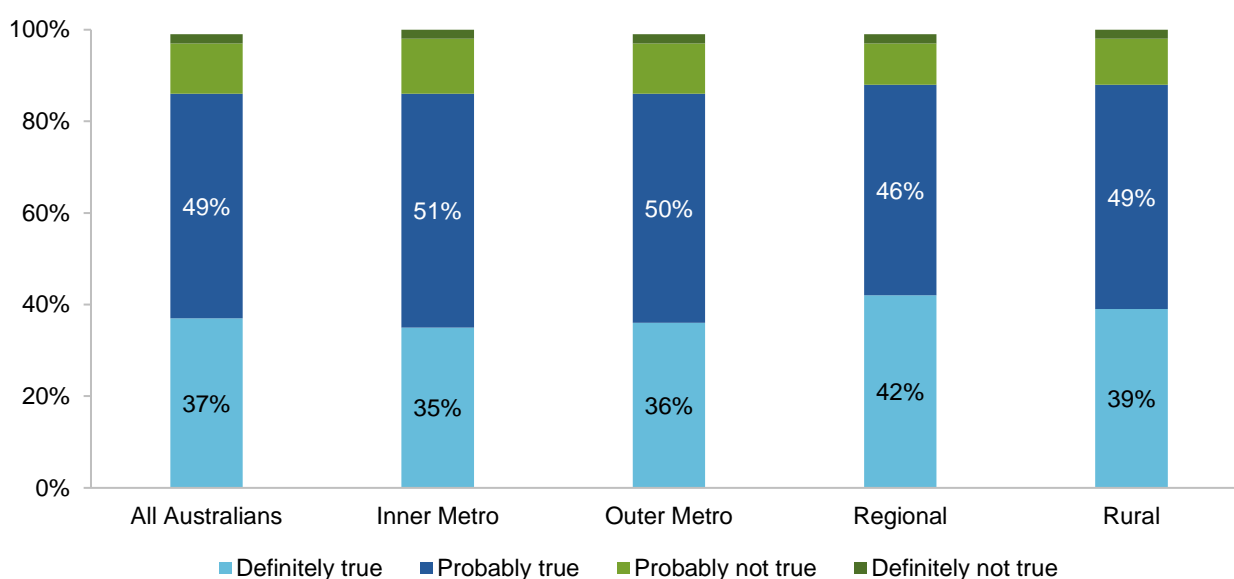
Perceptions of ECEC affordability differ with remoteness

As well as identifying whether actual fees and out-of-pocket expenses change with remoteness, it is also important to consider whether perceptions of affordability differ geographically as perceived affordability of ECEC – regardless of the actual expense – acts as a barrier to ECEC participation (The Smith Family 2021, p. 5). Figure 6.10 highlights that concerns about ECEC affordability are slightly more pronounced in regional

and rural areas relative to metropolitan areas. Additionally, parents using ECEC in regional Australia are relatively more likely than those in metropolitan areas to believe that ECEC costs have risen substantially over the past three years (Thrive By Five 2023).

Figure 6.10 – People in regional and rural areas are slightly more likely to be concerned about ECEC affordability

Share of responses to the statement ‘Many families don’t send their children to early childhood education and care or limit how long they send them, because of the cost’



Source: Thrive by Five (2022).

The activity test aims to increase labour force participation

As noted above, the number of subsidised care hours a family is eligible for is determined by the level and type of ‘activity’ of the parent or guardian (table 6.3). Recognised activities include working, volunteering, looking for work, maternity and parental leave and education and training. When there are two parents or guardians, the lower activity level determines the number of eligible subsidised hours.

In 2021-22, a majority of families were eligible for the maximum number of subsidised care hours of 100 hours per fortnight (table 6.3) and very few were eligible for none (Productivity Commission estimates based on DoE administrative data (unpublished)).¹⁹ The majority of families meet the activity test through undertaking paid work (paper 4, figure 4.1).

For some families, exemptions to the activity test apply. Eligible families can access between 24 and 100 hours of subsidised care each fortnight depending on their entitlement without meeting the activity test. Further details on the activity test and exemptions are in appendix D.

¹⁹ As families’ maximum number of subsidised care hours can change through the year, this analysis used the median value for each family as reported in weekly level data.

Table 6.3 – Higher activity levels increase a family’s eligible subsidised care hours^{a,b} 2021-22

Implied activity level each fortnight	Hours of subsidised care each fortnight	Number of families	Percentage of families
Less than eight hours	0 hours if income is above \$70,015	10,945	1.0
	24 hours if income is \$70,015 or below ^d	15,564	1.4
More than eight to 16 hours	36 hours	51,281	4.6
More than 16 to 48 hours	72 hours	304,590	27.1
More than 48 hours	100 hours	743,499	66.0

a. Based on number of families who accessed CCS-approved services in 2021-22. Some families were excluded due to missing data. Implied activity hours is based on median observed eligible subsidised hours for a family during the year, rather than actual activity hours (which could be lower at points during the year due to exemptions to the activity test, including for most ACCS recipients). **b.** Income thresholds based on 2021-22 CCS policy.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

However it is unclear if the activity test has had its intended effect on labour force participation

The activity test was tightened in July 2018 with the introduction of the CCS to induce parents and guardians to increase their activity levels. Under the previous funding model, families that undertook at least 15 hours of activity a week were eligible for up to 50 hours of subsidised ECEC. Families that did not meet this test were eligible for up to 24 hours a week. With implementation of the 2018 Child Care Package, the number of subsidised hours that families could access without the need to meet an activity test was halved to 24 hours per fortnight (12 hours per week) (Bray et al. 2021, p. 8).²⁰

The change to the activity test was recommended in the Productivity Commission’s 2014 ECEC inquiry.

The Commission is aware that this activity test may deter some parents from taking a job with very low hours per week, but it also provides an incentive to increase work hours above the minimum threshold for ECEC assistance. The recommended hours for the activity test reflects the need to balance these incentives, as do the recommendations on the exemptions from the activity test. (PC 2014, p. 25).

Whether the activity test has increased labour force participation is ambiguous. As noted in the AIFS evaluation:

taken as a whole, these results suggest that while employment and other activity of parents may have increased since the introduction, the impact is small, and cannot necessarily be attributed to the [2018 Child Care] Package, as opposed to ongoing trends towards greater participation. (Bray et al. 2021, p. 280).

The activity test can make it harder for some families to participate in ECEC

The tightened activity test has increased barriers for some families to participate in ECEC, particularly for those living with disadvantage. The AIFS evaluation found that the 2018 reduction in subsidised hours ‘disproportionately impacted children in more disadvantaged circumstances’ (Bray et al. 2021, p. viii). In regards to the 24 hours of subsidised care per fortnight, the evaluation also noted that ‘these hours can be

²⁰ Families with more than four and less than 15 hours of activity per week in 2018 became eligible for either 18 or 36 hours of subsidised care a week under the new test.

quickly absorbed by long session times and weekly booking routines, with the 24 or 36 hours typically translating to one day a week in a service that has 10, 11 or 12 hour daily sessions' (Bray et al. 2021, p. 185). Between 2018 and 2022 there was a 26% drop in the number of children accessing the non-activity tested 24 hours of subsidised care per fortnight (Productivity Commission estimates based on DoE administrative data (unpublished)). There could be a number of reasons for this including:

- affordability barriers (even with assistance through the subsidy)
- lack of access to ECEC
- families unwilling to put their children in for one day of ECEC per week
- families receiving assistance through ACCS (Child Wellbeing) which provides a higher subsidy rate and more subsidised hours (over this same period there was an increase in the number of families with a child accessing ACCS (Child Wellbeing) (Productivity Commission estimates based on DoE administrative data (unpublished) although correlation does not necessarily mean causation).

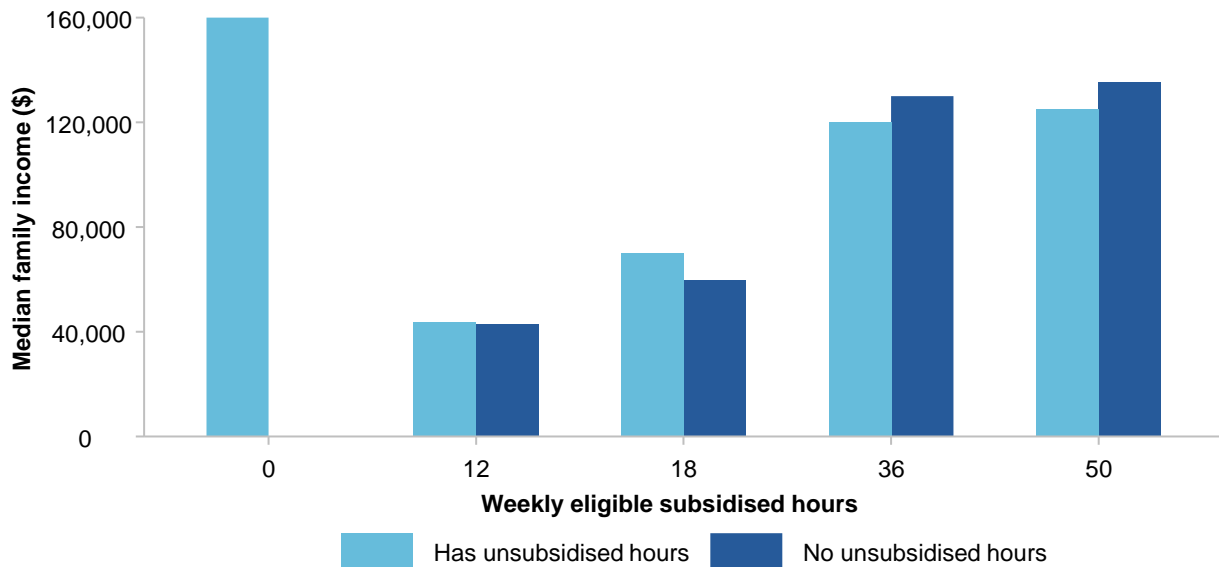
Any hours above eligible subsidised hours that are unsubsidised can limit ECEC participation for families living with disadvantage. Analysis of CCS administrative data for 2021-22 shows that families eligible for 12 and 18 hours of subsidised ECEC tended to have lower incomes (figure 6.11) and used less ECEC than those eligible for more subsidised hours (Productivity Commission estimates based on DoE administrative data (unpublished)). Furthermore, lower-income families were more likely to have a higher number of unsubsidised hours (figure 6.12). The ACCC had similar findings in its September interim report (ACCC 2023b, p. 181).

Furthermore, families eligible for relatively few subsidised hours are more likely to accrue unsubsidised hours (figure 6.13). In 2021-22, 6% of families were eligible for either 12 or 18 hours of subsidised ECEC a week. About two-thirds of each of these groups were charged for at least some unsubsidised hours of care during the year – with the mean shares of unsubsidised hours sitting at about 33% and 19% for each group respectively. These families also tended to have lower incomes (figure 6.11).²¹ In contrast, only about 30% of families with a higher number of eligible subsidised hours accrued unsubsidised hours and these families also tended to have higher incomes (figure 6.11).

Recent changes to the activity test aim to support participation in ECEC for Aboriginal and/or Torres Strait Islander children. From 10 July 2023, the number of subsidised ECEC hours that these children can receive increased to 36 hours per fortnight, regardless of activity level.

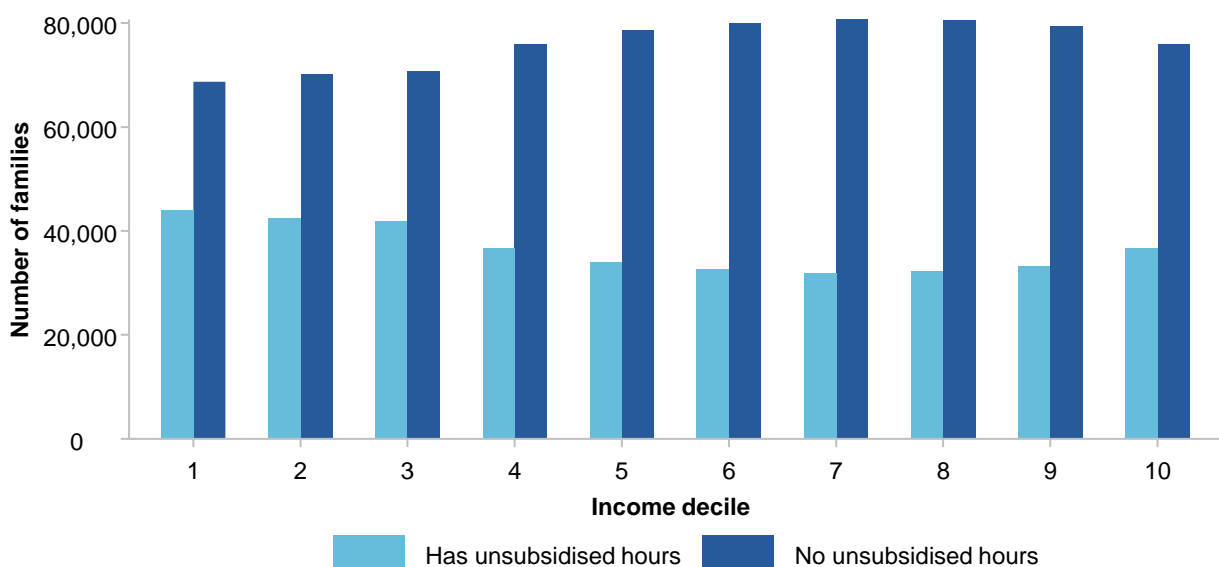
²¹ If reported incomes are an accurate reflection of actual incomes, the relatively low incomes of some families accruing unsubsidised hours raises the question of how families are paying for those hours. The AIFS evaluation made similar observations and suggested that some families may be drawing on other economic resources (such as assets and support from families or friends) (Bray et al. 2021, p. 79).

Figure 6.11 – Families with 12–18 eligible subsidised hours have lower incomes^{a,b,c}
Median family income by weekly eligible subsidised hours and whether accrued unsubsidised hours, 2021-22



a. A family’s maximum subsidised hours can change through the year. Weekly eligible subsidised hours for a family is based on half of the family’s median fortnightly eligible subsidised hours, as reported in weekly-level data for the financial year. Weekly hours are used, rather than fortnightly hours as defined in CCS policy, to allow a simpler comparison with data at the weekly level, but could overstate unsubsidised hours if families use substantially different hours of ECEC across each week of a fortnight. **b.** Median family income is the median of incomes across families, where the income for each family is the median of their reported incomes in the financial year. **c.** Families with a median of no eligible subsidised hours and no unsubsidised hours represent less than 0.01% of families and are excluded from this figure. Source: Productivity Commission estimates based on DoE administrative data (unpublished).

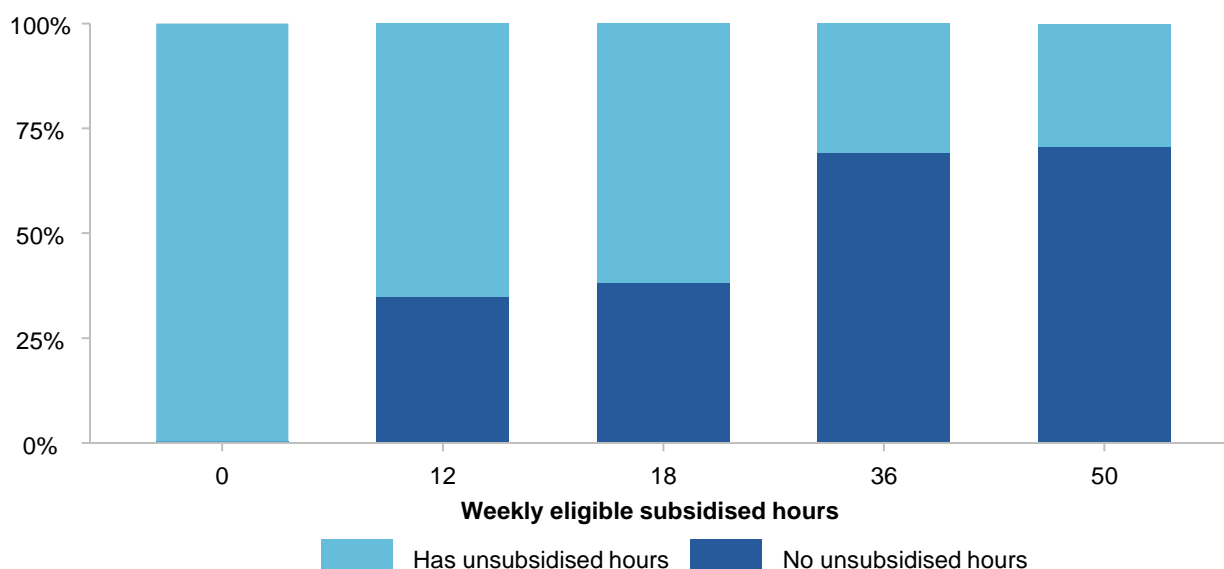
Figure 6.12 – Lower-income families are more likely to have unsubsidised ECEC hours^{a,b}
Number of families with and without unsubsidised hours by income decile, 2021-22



a. See figure 6.11 note a. **b.** A family’s median reported income through the year was used to calculate deciles. Source: Productivity Commission estimates based on DoE administrative data (unpublished).

Figure 6.13 – A large proportion of families with 12–18 eligible subsidised hours a week accrue some unsubsidised hours each year^a

Proportion of families accruing unsubsidised hours by eligible subsidised weekly hours, 2021-22



a. See figure 6.11 note a.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

While the activity test caps subsidised hours for some families, its mere existence may discourage ECEC participation. Parents or guardians may not understand their reporting requirements or what activity types are eligible, and/or be concerned about a potential CCS debt if they misreport their activity hours and as a result may choose not to send their children to ECEC.

Services and inquiry participants expressed concern about families' understanding of eligibility for subsidised care under the activity test particularly where the parent or guardian had casual or intermittent working hours or completed non-paid work (Bray et al. 2021, p. 48). The guidance for casual or irregular hours of work is that parents or guardians should provide an estimate of the highest number of hours they expect to work in a fortnight for the next three months which then determines their eligible number of subsidised hours (Services Australia 2022a). However, families may not know or understand how intermittent working hours can affect their number of subsidised ECEC hours due to unclear advice from Services Australia. Some may think that their number of subsidised hours is dependent on their actual work hours each fortnight, and that if they enrolled their child to cover the maximum number of hours they might work and those hours did not eventuate, that they would have to pay unsubsidised rates for the difference. As a result, they may only enrol their child for the number of hours they are confident they will work. This likely makes it challenging for these families to increase their working hours when there is an opportunity to do so.

Some families may even choose not to access ECEC due to the complexity of the activity test and the need to understand what activities are eligible and how activity levels affect their eligible number of hours of subsidised ECEC. The Smith Family's *Small Steps, Big Futures* report notes that some families did not

understand that CCS is available for preschoolers²² in the year before school regardless of their parent or guardian's activity levels (2021, p. 19). Several submissions discuss these issues (box 6.3).

Box 6.3 – Submissions regarding families' experiences with the activity test

The requirements of the activity test are difficult to navigate for some families who are unsure as to which activities satisfy the test's guidelines, or who have fears about the financial consequences of incorrectly reporting their activity ... [The activity test] is especially problematic for families with unpredictable incomes [and] those with casual work and/or short-term contracts. (SNAICC, sub. 133, pp. 19–20)

Families on the bottom rungs of the activity test are more likely to have irregular work patterns, insecure work, or other complexities ... they still need ECEC but pay a much higher out-of-pocket cost because they don't meet, or cannot navigate, the Services Australia notification process for the overly complex activity test. (Goodstart Early Learning, sub. 125, p. 31)

The CCS activity test has ... contributed to significant uncertainty for parents in casual employment or a range of changing employment arrangements due to the ongoing risk that they will fail to meet the activity test and generate over-payment debts. In its current form the activity test is not inclusive of shift workers and casual workers who experience uncertain work hours. (NSW Government, sub. 158, p. 6)

Further, from discussions with the Department of Education (pers. comm., 6 November 2023), the Commission understands that families' activity levels are not actively audited. This means that if a family's activity levels change such that it would change their subsidised hours entitlement and the family does not report it, there will be no impact on the number of their subsidised hours. There is an incentive for families to update their activity levels when they increase as it could result in an increase in subsidised hours. However, there is not the same incentive when activity levels decrease. If families update their activity levels when they decrease such that their number of subsidised hours entitlement decreases then they will no longer be eligible to receive a higher number of subsidised hours. However, those families who do not update their decreased activity levels would continue to receive the same number of subsidised hours. This is inequitable as those families who update their activity level are worse off compared to those that do not update their activity levels.

In its report to the Australian Government, the Interim Economic Inclusion Advisory Committee identified that the activity test in its current form:

- is poorly designed and punitive
- contributes to children from the poorest households missing out on subsidised ECEC
- leaves low-income families most likely to be paying extra for unsubsidised care
- acts as a barrier to some parents participating in the labour force and working more hours
- has significant administrative complexity for little benefit
- produces a risk of overpayment for casual employees (Interim Economic Inclusion Advisory Committee 2023, p. 69).

²² Preschoolers attending preschool at a CBDC service are eligible for 36 hours of subsidised ECEC regardless of their parent or guardian's activity level (DSS 2023a).

The report also noted the uncertainty and complexity associated with the activity test can dissuade ECEC usage by families and usually these families are living with disadvantage (Interim Economic Inclusion Advisory Committee 2023, p. 68). The OECD has also noted that it is important that any work requirement to receive childcare cost assistance is balanced with additional measures for low-income families (OECD 2020, p. 10).

Other aspects of administrative complexity can make it harder for families to understand and access the CCS

Difficulties in families understanding ECEC subsidy arrangements has been an enduring issue. The Productivity Commission's 2014 inquiry into ECEC found that the system at the time was complex and that families had difficulty understanding their entitlements under the then dual subsidy approach (PC 2014, p. 44). Some elements of the 2018 Child Care Package were intended to make the system simpler (including by shifting to a single CCS approach). However, the package also introduced additional complexities, such as the hourly rate cap, more detailed activity testing and delivery of all assistance through Centrelink. A survey found that parents were weakly positive about the new CCS being easier to understand than the former subsidy system, but 43% still 'neither agreed or disagreed' with this statement when asked both shortly after the introduction of the CCS and one year after (Bray et al. 2021, pp. 41–42).

While the 2023 Cheaper Child Care Package has made adjustments that may simplify understanding of the CCS, such as the change to a simpler sliding subsidy rate with changes to family income, other sources of administrative complexity remain (box 6.4).

Box 6.4 – Submissions about administrative complexity in the Child Care Subsidy system

The process [of understanding which subsidies families are entitled to] can be complicated, and families can get overwhelmed, particularly if literacy is also a concern. (The Hive Mount Druitt (United Way Australia), sub. 64, p. 3)

The inherent complexity in the CCS system, including its frequent changes, confuse families using Family Day Care ... The lack of education to families about fee caps and the impact on their subsidies if educators charge over the fee cap [causes] friction between educators and families. (NSW Family Day Care Association, sub. 89, p. 9)

Many families either do not know of the supports available to them or need additional assistance to engage and participate due to the complexity of the system ... Language is a common barrier. Many services use acronyms or terms that families (and most service providers) struggle to understand. It is even more challenging for recent migrants who are unfamiliar with Australian public services or speak English as a second language. [Brotherhood of St Laurence] staff frequently find that translated resources are inaccurate and confusing, causing families to disengage. (Brotherhood of St. Laurence, sub. 96, p. 7)

All families, especially disadvantaged families and families with fluctuating incomes, face challenges to navigate the system and avoid overpayments and debts. (Victorian Government Department of Education, sub. 146, p. 8)

Families can find it difficult to understand how much CCS they are entitled to

The multiple components of the CCS subsidy calculation can make it challenging for families to understand whether they are eligible for the CCS, and how much they might be eligible for.

- A draft finding from the ACCC's September interim report was that 'The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses' (ACCC 2023b, p. 160).
- The AIFS evaluation found that, on average, parents viewed that they had 'somewhat of an understanding' of various aspects of the CCS in September 2019 (Bray et al. 2021, p. 44). The effect of activity hours was less understood than the effect of family income on CCS entitlements. Families that worked variable hours were more likely to report lower understanding overall.
- A more recent 2021 survey commissioned by The Front Project (2021, pp. 43–44) indicated that among parents of children aged 0-5 years who were not yet at school, about half agreed that working out eligibility for ECEC subsidies or government benefits was straightforward. However, 27% disagreed with the statement, including 9% who strongly disagreed.
- The Department of Education's (unpublished) parent survey in June 2023 found that the effect of the number and age of children on CCS entitlements was less understood than the effect of family income and activity hours. 37% of families using ECEC considered they understood the effects of number and age of children in paid care on CCS entitlements either well or very well – these shares were 40% and 47% for activity hours and family income respectively. That said, at least another third of parents considered they had 'somewhat of an understanding' across all these questions.

Some of the challenges with understanding CCS entitlements relate to how different components of the calculation interact when families change their circumstances. For example, if a parent decides to increase their working hours, their family's income may increase, which would reduce their CCS rate. But their activity hours would also increase, so they may be eligible for a greater number of subsidised care hours. Parents or guardians transitioning from income support to employment face the additional challenge of figuring out how their income support and rent assistance payments would be affected, as well as the cost of ECEC (Bray et al. 2021, pp. 48–49). Parents or guardians may also have the further challenge of the number of eligible subsidised hours reducing if they were previously exempt from the activity test. Additional income may also impact the amount of Family Tax Benefit A and B a family receives and may have implications for how much income tax and Medicare levy a family is liable for. (Paper 4 discusses the impact of the withdrawal of income support on labour force participation.)

The HCCS rate is no longer linked to the CCS rate, adding an additional layer of complexity. When the HCCS was first introduced, it was set to be a 30% higher subsidy than the CCS up to a maximum of 95% (DoE 2021). However, since 10 July 2023 the CCS has been streamlined (such that the CCS rate decreases by 1% for every \$5,000 of family income over \$80,000) but the HCCS has remained largely unchanged (figure 6.3 illustrates the CCS and HCCS in 2022-23 and 2023-24).

Changes to ECEC session lengths can also have opposing effects on CCS calculations. As described above, some families may face lower out-of-pocket expenses with shorter session lengths so that fewer care hours are unsubsidised, while others may be better off with longer session lengths so that the hourly fee is more likely to be within the CCS hourly rate cap. These calculations are difficult to understand without assistance or detailed knowledge of the design of the CCS. That said, among CBDCs that offer multiple session lengths, the patterns of usage of particular session lengths appear to align with the number of subsidised hours that families have (ACCC 2023b, p. 174; Bray et al. 2021, pp. 155, 169). This indicates that families are, to an extent, choosing session lengths that lower their out-of-pocket expenses at these services, either through their own understanding or with support from services.

Tools are available to help families understand the CCS and out-of-pocket ECEC expenses. For example, the Australian Government's Starting Blocks and Centrelink websites include calculators that estimate out-of-pocket expenses (with the Centrelink calculator covering all Centrelink payments and services). However, neither calculator allows families to easily compare the effect of changes in circumstances (such as changes in work hours or session lengths) on their out-of-pocket expenses. Further, other factors may limit the usefulness of these information sources to families, such as low awareness (with only 10% of surveyed ECEC users reporting that they were aware of Starting Blocks) and outdated or missing fee information on the Starting Blocks website (which relies on services to update fee information) (DoE 2023 Starting Blocks Survey Report (unpublished)). That said, families are more likely to use websites of ECEC services themselves to access information, including on fees and out-of-pocket expenses (DoE 2023 Starting Blocks Survey Report (unpublished)), and some large providers have added cost comparison features to estimators on their websites to fill this demand (Bray et al. 2021, p. 49).

Services themselves can also support families in understanding their CCS eligibility and entitlements, including in the effect of session lengths described above. More than 85% of services considered that they had at least a good understanding of the 2018 Child Care Package by July 2019 (Bray et al. 2021, pp. 50–51). Some major ECEC providers employ staff dedicated to supporting families applying for government subsidies (Goodstart Early Learning, sub. 125, p. 61–62). However, services are not always able to assist families with their CCS application and enrolling for ECEC through myGov (described further below) and not all families may reach out for assistance.

Families experiencing disadvantage may find it particularly difficult to engage with the CCS system

Families must apply for CCS through Centrelink (administered by Services Australia), and then register their enrolment in an ECEC service through myGov in order to receive the subsidy. These processes are not always well understood and issues can be difficult to resolve and also emerge throughout the process. In the AIFS evaluation (Bray et al. 2021, pp. 54–56, 234), services described a number of issues that families face, such as:

- delays in Services Australia processing CCS applications for a minority of families, which are sometimes due to processing errors or incomplete or inaccurate documentation on immunisation records or birth certificates
 - however, the time to finalise CCS claims in less than 28 days has improved from 67% in 2018-19 to 87% in 2022-23 (Services Australia (unpublished))
- Services Australia staff providing incorrect, incomplete or inconsistent information and advice to families, including in relation to ACCS
- families not knowing they need to confirm their enrolment in ECEC through myGov, and services finding it difficult to support them as they did not have visibility of what the families needed to do
- services not being able to support families, including for ACCS applications, as they are prevented from liaising with Services Australia on specific queries about families
- long wait times, lengthy exchanges and slow resolutions on the phone with Services Australia (for families) and the CCS Helpdesk (for services and providers).

More than half of parents of school age or younger children surveyed by Thrive by Five (2022) agreed that the thought of having to go through Centrelink to apply for support they were entitled to (such as CCS) would put them off applying for it. Half of parents also agreed that the possibility of making a mistake in a Centrelink application would put them off seeking support they were entitled to.

Some families may find it particularly difficult, or be reluctant, to access CCS and ACCS, and hence require additional supports to access ECEC, for example due to:

- cultural and language barriers (Bray et al. 2021, pp. 54, 234; Brotherhood of St Laurence, sub. 96, p. 7) (this is discussed further in papers 2 and 7)
- distrust of government organisations and stigma associated with a child being identified as ‘at risk’ in order to access ACCS (Child Wellbeing), especially for Aboriginal and/or Torres Strait Islander families (Bray et al. 2021, pp. 233–234, 333; The Smith Family 2021, p. 17; Goodstart, sub. 125, p. 29)
- fear of making mistakes in their application, leading to CCS debts (discussed further below)
- complex or uncommon family circumstances that make the application process less straightforward, such as:
 - needing to calculate activity hours when engaged in intermittent work (Bray et al. 2021, p. 49)
 - changes in a child’s custody or living arrangements that require the child’s new guardian to reapply for the child’s CCS (Goodstart Early Learning, sub. 125, p. 35)
 - children under the care of an informal kinship carer, who are not recognised in eligibility for ACCS (Grandparent) (Bray et al. 2021, p. 249).

Issues and delays in accessing CCS and ACCS can be financially challenging for families and can mean that children experiencing disadvantage are unable to access care in the meantime, especially where services are asked to charge families full fees before they are approved to receive CCS (Bray et al. 2021, p. 234). This can lead to families incurring debts to services (described further below).

Measures in the 2023-24 Australian budget were aimed at reducing administrative complexity for ACCS (Child Wellbeing) by supporting enrolments to be ‘assessed in a more streamlined manner, [and] reducing double handling and the risk of potential gaps in entitlement for the subsidy’ (DoE 2023a).

The potential impacts of some of these administrative challenges were illustrated to an extent in the midst of the COVID-19 period. The Australian Government made ECEC free between 6 April 2020 to 12 July 2020, and removed requirements for families to apply for CCS or meet eligibility requirements. Goodstart Early Learning found that although some families reduced their attendance at Goodstart centres during this period, others enrolled or increased their children’s attendance. Families who were not previously able to access CCS (due to failing the activity test or the visa status of refugee families) were able to during the free period, and nearly half of Aboriginal and/or Torres Strait Islander children increased their days attended – including those for whom ECEC was already free due to eligibility for ACCS. Removing the administrative burden and Centrelink process, reducing stigma of accessing care, and Goodstart’s own engagement processes, were nominated as contributors to the increased ECEC usage during this time (Wong et al. 2021, pp. 10–11).

Research from overseas suggests that reducing the administrative burden of applying for ECEC for lower socio-economic status families can increase children’s ECEC attendance and mothers’ labour force participation. A study of lower socio-economic status families with children aged under three years in Germany, for example, involved providing information and customised assistance in applying for Germany’s universal ECEC system. This led to increased enrolments in ECEC relative to those who did not receive this assistance, and improved mothers’ full-time employment and earnings (Hermes et al. 2022, p. 25).



Draft finding 6.2

Complex ECEC subsidy arrangements can be a barrier to access for some families

The information available to families when they are working out their Child Care Subsidy entitlement can be confusing and create substantial uncertainty as to their entitlements. Navigating this complexity can be much more difficult for those with low levels of English and / or computer literacy. For some families, this level of complexity creates a substantial barrier to ECEC access, and in some cases, means they choose not to access ECEC.

Concerns about debt may reduce ECEC participation for some families

Families receiving CCS do not immediately get the full benefit of reduced out-of-pocket expenses when their child attends ECEC – as noted above, 5% of a family's CCS is withheld by Services Australia until the end of the financial year. The aim of this measure is to provide some protection for families from a potential CCS debt if they underestimate their annual income or misreport their activity hours. Families are required to report their estimated income and activity levels when applying for CCS. This reported income and activity level is then used to estimate their eligible CCS amount. Families are also expected to update their reported income and activity levels with any changes in their circumstances as these changes could impact their eligible amount of CCS. At the end of the financial year, a reconciliation occurs which takes into account a family's actual annual income and a CCS debt may arise if the family's income is higher than what was reported during the year. CCS debts can also arise, and CCS eligibility ceased, if a family has not lodged a tax return two years after the end of the financial year or have not notified Services Australia that they are not required to lodge. The withheld amount is used to either pay any CCS debts that arise during reconciliation or is refunded if there is no debt. The 5% withholding rate is set by default when families apply for CCS and can be changed up to two times a year. In the December 2022 quarter, the median withheld amount per child was about \$10 per week for families in the first five income deciles. For families in the sixth to ninth income deciles, the median withheld amount per child ranged between about \$6 and \$8 per week and falls to about \$2 per week for families in the tenth income decile (Productivity Commission estimates based on DoE administrative data (unpublished)). This makes sense given that lower-income households are eligible for higher amounts of CCS compared to higher-income households.

The possibility of a CCS debt can discourage ECEC participation

The potential for a CCS debt however can discourage ECEC participation for some families. Families may have limited understanding of the intricacies of the CCS and therefore overestimate the potential for a CCS debt. And this even applies for families who are in receipt of CCS. For example, a survey of childcare users completed as part of the AIFS evaluation found that parents' self-reports indicated that the 5% withholding amount was the least well-understood aspect of the CCS (Bray et al. 2021, p. 44). Further, AIFS reported that about half the parents surveyed were worried about a CCS debt if they did not get their activity details right and about 40% were worried about the possibility of a CCS debt at reconciliation (Bray et al. 2021, p. 137). That said, during interviews with lower-income parents, there was a lower level of concern about the reconciliation process (Bray et al. 2021, p. 137) which suggests that concerns about debt were not concentrated at the lower part of the income distribution. Families yet to apply for CCS would likely have even less understanding of this aspect of the system. Concerns about debt may have also been heightened given Robodebt.

Most families do not end up with a CCS debt

Data for 2021-22 also indicates that relatively few families incur CCS debts – among the 90% of families with reconciled incomes, 18% incurred a debt, with a mean debt of \$1,268 and a median of \$461 (Services Australia (unpublished)). For the 2019-20 financial year, under 18,000 families (about 1% of families receiving CCS) had not lodged their tax return two years later. As at 30 June 2023, about 40% of these families still had an outstanding debt with a mean amount of \$4,433 (Services Australia (unpublished)). For these families who had not lodged their tax return two years later, debts are likely to fall once they confirm their income because the amount of debt raised reflects the total amount of CCS that was paid to the family. Once a family confirms their income, the amount of CCS that they were entitled to will be deducted from the debt (further information about balancing and debt can be found in appendix D).

There is an incentive for families to reconcile their CCS entitlements at the end of the financial year because if they fail to do so by one year after the end of the financial year, they stop receiving CCS payments (DoE 2023b) and have to pay full fees for ECEC. Further, if a family does not confirm their income by two years after the financial year, their CCS eligibility is cancelled and they need to reapply to receive it again. CCS is also not backdated for the period before income is confirmed (DoE 2023b). However, as children age out of the ECEC system, families have less of an incentive to reconcile their CCS entitlements. This may partly explain why there are about 6,500 outstanding non-lodger debts for 2018-19 and 7,400 for 2019-20 (Services Australia (unpublished)). Non-lodger debts occur as a result of the customer not confirming their family income (lodging a tax return, or advising Services Australia they do not need to lodge a return for the applicable financial year) within two financial years of receiving CCS.

Similar to 2021-22, analysis of 2018-19 administrative data shows that relatively few families incur a CCS debt. Modelled estimates suggested that 32.5% of families with reconciled incomes had a debt with the mean level being \$638 per annum and the median \$225 but only half of these families (16.1%) had a debt in excess of the 5% withholding amount (with a mean level of \$1,059 and median of \$580) (Bray et al. 2021, p. 135). For this group, their debt represented on average (at the mean) 16.7% of benefits received with a median amount of 10.1% (Bray et al. 2021, p. 135). Although this is a substantial percentage of benefits, it is only a small percentage of income with the mean and median debt levels amounting to 0.6% and 0.4% of income respectively (Bray et al. 2021, p. 135). Further, the modelling estimated that lower-income families had virtually no CCS debt up to and including the third decile. CCS debt was estimated to be largest for the highest 5% of earners at around 0.9% of gross family income (Bray et al. 2021, p. 136).

A debt is more likely for higher-income families as a result of the structure of the CCS (as in the income thresholds, rates and tapers). For the 2021-22 financial year, approximately 243,000 families had a CCS debt (Services Australia (unpublished)). Information received from Services Australia shows that a higher proportion of high-income families (incomes over \$100,000) had a debt compared to lower-income families. 11% of families with a debt in 2021-22 had reconciled incomes below \$100,000 (Services Australia (unpublished)). 55% of families with a debt had reconciled incomes between \$100,000 and \$200,000 and 34% families with a debt had reconciled incomes over \$200,000 (Services Australia (unpublished)).

Families can also incur debts to ECEC services

A range of reasons can give rise to family debts to ECEC services, including:

- delays in processing CCS applications
- third party software and Services Australia generating incorrect or inconsistent information
- families not understanding the two stage enrolment process and not confirming their enrolment
- when back pay of CCS is made directly to the families rather than to services and services are unable to recover it from families
- when subsequent ACCS applications are not approved but the family continue to use the same number of ECEC hours (Bray et al. 2021, pp. 137–138).

Guidance from Services Australia states that services should charge full fees until a CCS application has been approved. However, in reality, many services charge families based on what they estimate will be their CCS eligible amount as many families do not have the financial resources to pay full fees. A debt could then arise either due to a misalignment with a service's estimate of CCS eligibility and a family's actual eligibility or due to delays in processing CCS applications beyond the 28 day limit of backdating CCS (Bray et al. 2021, pp. 137–138). Services were further concerned with the wellbeing and safety of the child if services pursued recovering the debt (Bray et al. 2021, p. 138).

The issue of backdating will be partially addressed through 2023-24 Budget measures that expand the exceptional circumstances criteria that can be applied to applications to backdate ACCS (Child Wellbeing) by more than 28 days (Australian Government 2023, p. 98).

Families may also incur debts to ECEC services as a result of unsubsidised hours. As discussed earlier, families eligible for fewer hours of subsidised ECEC tend to have lower incomes and also tend to accrue a higher number of unsubsidised care hours. Families receive no subsidy for unsubsidised hours which means that families are liable for the full fee for those hours. Given this, these families may not have the financial ability to pay for ECEC which may result in a debt to the service.

Overall there is scope to improve current subsidy arrangements

For most families, the CCS is effective in improving ECEC affordability especially for families who have a reasonable level of income and consistent, stable and predictable working hours. However particular cohorts within the population face larger affordability barriers – including families with low incomes, Aboriginal and/or Torres Strait Islander families and families from culturally and linguistically diverse backgrounds, families with certain structures (including single parent and multiple birth families) and families who have restricted residency in Australia and are not eligible to receive CCS.

The activity test and administrative complexity also present barriers for certain cohorts within the population, such as families where parents or guardians work variable and unpredictable hours and those from culturally and linguistically diverse backgrounds. The complexity of the design of the CCS and difficulties navigating the CCS system make it challenging for some families to understand and access subsidised ECEC which may discourage ECEC participation.

The potential for CCS debt can also discourage ECEC participation for some families although the AIFS evaluation found that lower-income households were less likely to incur a CCS debt and were less concerned about a potential CCS debt (Bray et al. 2021, p. 137).

6.3 Improvements to subsidy arrangements would assist families with affordability

Many changes could be made to subsidy arrangements to improve affordability for families. Some relate to the design of the CCS and the calculation of subsidy entitlements; others involve simplifying the system to make CCS easier to understand.

Improving affordability by adjusting the design of the CCS

The Commission has considered a suite of adjustments to the design of the CCS that could improve affordability. Most build on each other, providing higher levels of support for families at each step (table 6.4). The first option relaxes the activity test and the second couples that change with a lift in the subsidy rate for lower-income families (those earning up to \$80,000 a year) to 100% of the hourly fee, up to the hourly rate cap. Subsequent options add highly subsidised ECEC for all other families (those earning more than \$80,000 a year) to the policy mix. These changes will primarily affect families with children aged 0–5 years, and the preliminary modelling focuses on this cohort.

In line with the terms of reference to consider a universal 90% subsidy, a policy option where the only change to current settings is an increase in the CCS rate to 90% of the hourly fee, up to the hourly rate cap, for all families (option six) is also modelled.

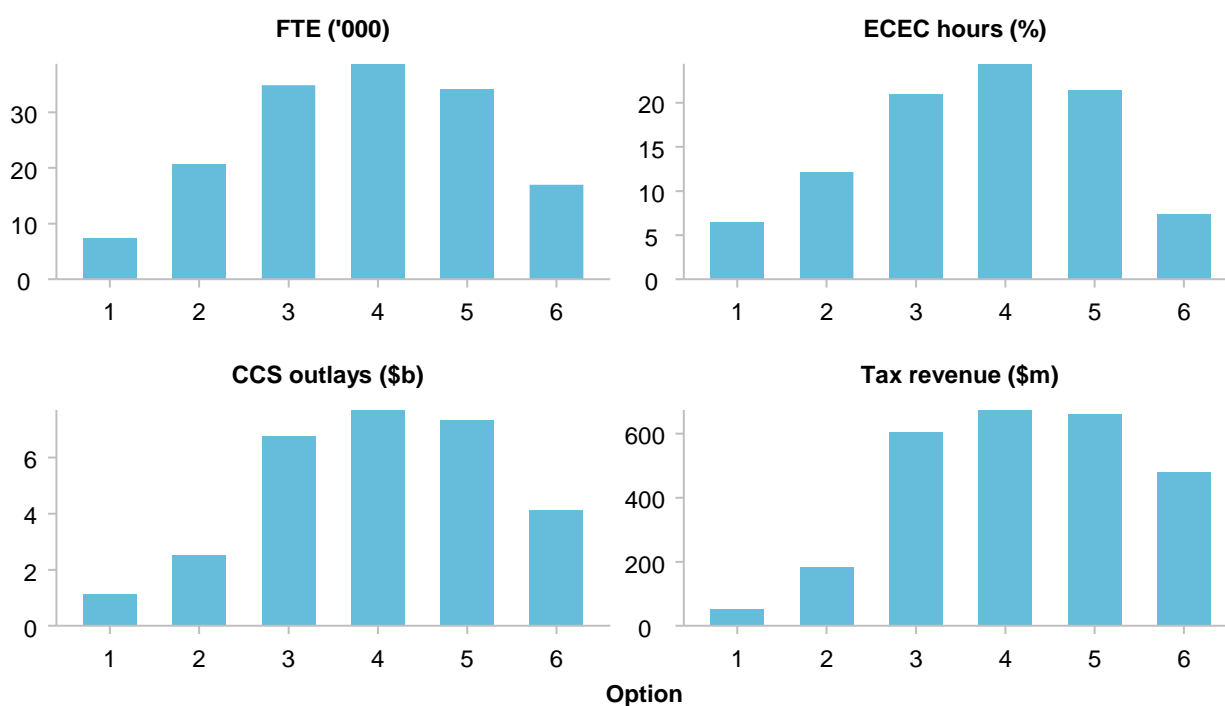
The Commission has undertaken preliminary work to estimate the changes in labour force participation, demand for ECEC and net costs to government that might stem from each option (box 6.5). As levels of support to families rise, so too do each of these outcomes (figure 6.14).

Table 6.4 – Modelled Child Care Subsidy policy options

Option	CCS rate	Higher CCS rate	Activity test	CCS hourly rate cap
1: Relax the activity test for all families and retain income testing	No change – based on current income test for all days of ECEC	No change	None for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
2: Relax the activity test for all families, and increase the subsidy for low-income families	100% for families with incomes under \$80,000 No change for other families	100% for families with incomes under \$80,000 No change for other families	For all families, none for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
3: 90% subsidy for three days for all families, relax the activity test, and increase subsidy for low-income families	100% for families with incomes under \$80,000 For other families, 90% for three days of ECEC (72 hours per fortnight) and current income test for days four and five	100% for families with incomes under \$80,000. For other families, at least 90%, and highest rates above 90% remain as they are for three days, and current income test for days four and five	For all families, none for three days of ECEC per week (72 hours per fortnight), and no change for days four and five	No change
4: 90% subsidy for all, remove the activity test, and increase subsidy for low-income families	100% for families with incomes under \$80,000 For other families, 90% with no income test	100% for families with incomes under \$80,000 For other families, at least 90%, and highest rates above 90% remain as they are	None	No change
5: Free ECEC for low-income families, flat fee ECEC expense per day of \$10 for other families, no income test or activity test	None – free for families with incomes under \$80,000, and flat fee for other families	None	None	None
6: 90% subsidy for all	90% for all families	No change	No change	No change

Figure 6.14 – Changing the CCS setting results in an increase in ECEC use – but comes at a cost^{a,b}

Results of preliminary modelling of different options for changes to the CCS



a. Results based on preliminary modelling of changes to the CCS, as outlined in table 6.4. Box 6.5 details the method and assumptions behind these results. b. FTE: full-time equivalent workers.

Source: Productivity Commission estimates.

While all these options come at a cost to taxpayers, some changes are necessary to enable universal access and address shortcomings in the CCS.

The Commission recommends that the Australian Government implements the two policy changes underpinning option two – relaxing the activity test and lifting subsidies for lower-income families – as this will most likely deliver benefits to Australian children, families and the broader community that exceed the costs of policy change. The suite of options are discussed in more detail below.

Box 6.5 – Preliminary modelling of changes to the CCS

Preliminary modelling of changes to the CCS was undertaken to estimate the effects of potential policy changes on labour supply, ECEC demand and fiscal costs (appendix F). The approach involved estimating changes in out-of-pocket expenses that would arise from policy changes, for families with children aged 0–5 years in the ABS 2019-20 Survey of Income and Housing data. Then ‘elasticities’ from the literature were applied to estimate how families might respond by increasing hours of work and hours of ECEC. It is assumed that those who are not working or not using ECEC make decisions about work and ECEC in an increment of three days, while those who are already working or using ECEC consider the change in out-of-pocket expenses over up to two days if they are using one day of ECEC, and one day if they are using two to four days of ECEC.

Elasticities were drawn from Gong and Breunig (2017, p. 32), which estimated that a 1% fall in out-of-pocket expenses increases:

- hours of ECEC by 0.203% and ECEC participation by 0.125%
- hours of work by 0.081% and labour force participation by 0.055%.

These elasticities indicate that families’ decisions about hours of ECEC are more responsive than hours of work to changes in out-of-pocket expenses. This is because some families who are already working replace informal care with formal ECEC after ECEC becomes cheaper. And some families use ECEC for reasons other than work (such as for study, volunteering, housework or social activities). Further, hours of ECEC are typically lower than hours of work, which means that the same hours increase can appear as a larger percentage increase for hours of ECEC due to its lower base.

Fiscal costs were estimated by applying proportional increases in aggregate CCS outlays, as estimated using the survey data, to CCS outlays estimated by the Department of Education for 2023-24. These costs were adjusted based on the Productivity Commission’s analysis of the Department’s administrative data, to account for the observation that assumptions made using the survey data tended to overstate the number of unsubsidised hours of care that families have under the activity test.

The results are sensitive to a range of assumptions, such as the elasticities used and the number of extra days of work and care over which families consider their change in out-of-pocket expenses. A wide range of elasticities have been estimated and used in the literature – a doubling of elasticities implies an hours of ECEC or hours of work response that is double the size for every 1% fall in ECEC expenses.

The model has a number of limitations. It is assumed that increases in ECEC demand and labour supply are fully accommodated by the ECEC and labour markets, without any changes in ECEC fees or wages. The model is also not able to take into account broader benefits – such as benefits of reducing system complexity, educational benefits to children, benefits that easier access to ECEC may have in searching for a job, and longer term benefits of increased labour force participation including on skill development, productivity and reduced reliance on welfare payments.

While this technique improves on some past analysis of CCS policy changes that only examine the effects of some components of the CCS regime, or that are estimated for much broader groups of families, more sophisticated modelling options exist. The Productivity Commission’s final inquiry report will include updated estimates of the effects of CCS policy changes by using a behavioural microsimulation model. This models individual families’ decisions to choose work and care hours through preferences that are unique to the family’s characteristics, rather than by applying broad-based elasticities.

A modified activity test would enable more families experiencing vulnerability to access ECEC

Modifying the activity test, such that all families can access at least three days (up to 30 hours) of subsidised ECEC a week, would relax the requirement that ties children's participation in ECEC to their parents' or guardians' activity. Income testing and the CCS hourly rate cap would remain in place under this option. Activity testing should also remain for families who wish to use more than 30 hours of ECEC per week.

Similar recommendations have been made in other recent inquiries into ECEC, for example:

- the draft recommendation in the ACCC Childcare inquiry's interim report released in September 2023 noted that consideration should be given to 'removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to more vulnerable children ... accessing care and creating a barrier to workforce entry or return for some groups' (ACCC 2023b, p. 30)
- the final report of the South Australian Royal Commission into ECEC recommended that the Australian Government change the CCS to 'enable all families to access up to three days a week of care without the need to meet any activity test' (SA Government 2023, p. 7)
- the interim report of the NSW Independent Pricing and Regulatory Tribunal's Review of ECEC found that the activity test particularly affects low-income families who are Aboriginal and/or Torres Strait Islander, and/or who are living in remote areas, with a draft recommendation that the activity test 'should be reviewed as a priority' (2023, p. 3).

Although the activity test was intended to increase labour force participation, it is unclear if it has had this intended effect, and it makes it harder for some families to participate in ECEC (section 6.2).

Relaxing the activity test would improve affordability for families who were previously allowed fewer than 30 hours of subsidised ECEC per week (typically lower-income families). These families are currently charged the full fee for any hours of care used over their subsidised entitlement. It will mean that fewer families are charged for unsubsidised hours and more families are able to access subsidised ECEC. Improving affordability would encourage these families to use more ECEC, enabling them to spend more time on other activities, including working.

The preliminary modelling²³ finds that relaxing the activity test leads to an estimated 1.2% increase in total hours worked by single parents and secondary workers in couple families with young children – the equivalent of 7,300 full-time employees. A larger increase of 6.5% is estimated for the total hours of formal ECEC attended by children. Most of this increase is estimated to arise from families who were not previously using ECEC prior to the policy change. There is a slight increase in estimated ECEC hours by families who were already using ECEC, who experience a fall in out-of-pocket expenses due to having fewer unsubsidised hours (figure 6.15).

Beyond increasing subsidised hours, modifying the activity test would have benefits that are not captured by the modelling. It would reduce some of the administrative complexity of the CCS, making it easier for families to understand their eligibility for subsidised ECEC. This is particularly important for families with variable patterns of work (such as people in casual jobs), who may be more likely to find the current activity test challenging to understand and/or administratively burdensome (section 6.2). It would also lessen families' concerns about incurring CCS debt if their hours of activity change and provide people who are looking for work greater certainty in their access to a number of hours of subsidised ECEC while they are searching for a job. Impact

²³ It is assumed in this modelling scenario that current tiers of the activity test are removed, such that all families can access 72 hours of subsidised ECEC per fortnight (36 per week on average). This would enable all families to access at least three days of subsidised ECEC per week.

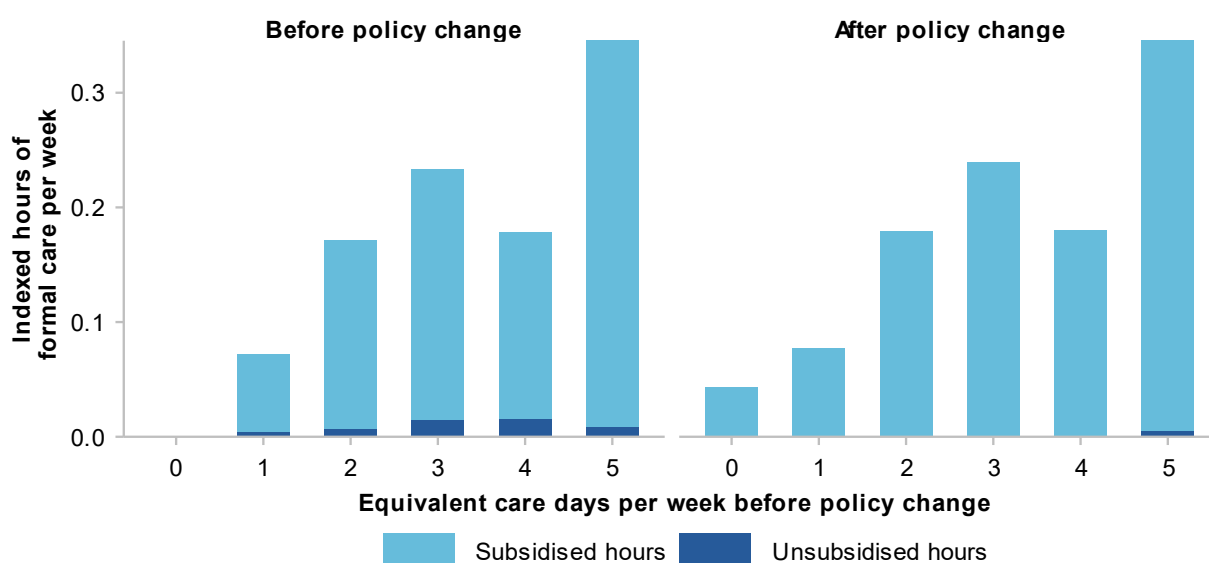
Economics and Policy (2023, pp. 5, 26–27) estimated that allowing all children to access three days of ECEC would increase labour force participation by about 40,000 women through reducing job search costs.

Relaxing the activity test would also assist in enabling children to attend ECEC consistently as families would continue to receive subsidised ECEC for three days even if their activity levels drop temporarily. Attendance in ECEC would support educational outcomes for children, particularly for children from families experiencing disadvantage who may be more highly affected by the activity test.

At the same time, activity testing for parents seeking more than 30 hours of ECEC would retain some of the labour force participation incentives that underpin the activity test, by offering a larger number of subsidised hours to families with higher activity levels, including time spent working. While some parents could choose to reduce their work hours due to not having to meet an activity test, the evidence for this is uncertain given that past tightening of the activity test did not substantially raise labour force participation (section 6.2).

Figure 6.15 – Many unsubsidised hours of ECEC would become subsidised by relaxing the activity test^{a,b}

Estimated indexed number of ECEC hours before and after relaxation of the activity test, by subsidised hours status and by equivalent care days before the policy change



a. Equivalent care days calculated as weekly formal care hours divided by 10, rounded up. **b.** Hours of formal care per week are indexed to a value of one for the total care hours before policy change.

Source: Productivity Commission estimates.

The Australian Government could consider phasing the introduction of a modified activity test, for example, starting with lower-income families, in order to allow time for supply to respond to increased demand and to evaluate the effects of the change before relaxing the activity test more widely.

Overall, the increase in costs to the Australian Government associated with this policy change are estimated to amount to \$1.1 billion per year, or about 9% of the estimated CCS outlay for 2023-24.²⁴ Lower-income families benefit most from the change; families within the lowest 20% of the income distribution account for about half of the increased costs to government. Relaxing the activity test will also affect higher-income families who are not eligible for subsidised hours under current arrangements because they do not meet the

²⁴ This compares to an estimate by Impact Economics and Policy (2023, p. 28) of \$1.3 billion for abolishing the activity test.

activity test. These families account for about one fifth of the estimated increase in total hours of care. However, because these families have higher incomes, and therefore lower subsidy rates, the costs to government of their increase in ECEC participation are relatively low.

To a small extent, the increased costs to government will be offset through a rise in tax revenue as parents work more. Income tax revenues from increased labour force participation are estimated to be about \$53 million per year. Associated falls in transfer payments were not estimated as part of the preliminary modelling, but are also expected to occur because income testing means that families' entitlements to transfer payments taper down as their incomes increase (examples demonstrating this are in appendix D).

Although three days of care has been characterised as 30 hours above, in practice 30 hours could be spread across more or fewer than three full days depending on daily session lengths. Many families are charged for hours that they do not use. Creating incentives for session lengths to match children's attendance would help to ensure that these subsidised hours are spread across actual hours of attendance. The Commission is considering ways to encourage services to offer greater flexibility around session lengths (paper 7).

The Commission is also considering the levels of activity that should be required for hours above 30 hours of subsidised ECEC per week (or 60 hours per fortnight), and is seeking input on the relative merits of different options. Some options could include:

- retaining the current activity test for hours of care over 60 hours per fortnight. This would allow 60 subsidised hours for all families, up to 72 hours of subsidised hours for families with 16 to 48 activity hours per fortnight, and up to 100 hours of subsidised care for those with more than 48 activity hours. While this is a simplification of the current activity test, it would still retain some complexity. Further, the level of activity required at the first tier of the activity test (at least 16 hours) would be more than the increase in subsidised hours at that tier (an increase of 12 hours, from 60 to 72 hours per fortnight)
- simplifying the number of activity test tiers further by allowing 60 subsidised hours for all families and up to 100 subsidised hours for those with more than 48 activity hours. However, this would penalise families who are currently eligible for up to 72 hours of subsidised care due to having 16 to 48 hours of activity
- simplifying the number of activity test tiers by allowing 72 subsidised hours for all families and up to 100 subsidised hours for those with more than 48 activity hours. This would allow families using session lengths of less than 12 hours a day to access more than the three days of subsidised care per week.



Information request 6.1

The Commission is seeking views on the costs and benefits of options to modify the Child Care Subsidy activity test. Draft recommendation 6.2 would relax the activity test to allow all families to access up to 30 hours of subsidised care a week (60 hours per fortnight) regardless of activity, providing a step towards universal access. Options for the levels of activity that should be required for hours above 60 hours of subsidised care per fortnight could include:

- retaining the current activity test for hours of care over 60 hours per fortnight. This would allow 60 subsidised hours for all families, up to 72 hours of subsidised hours for families with 16 to 48 activity hours per fortnight, and up to 100 hours of subsidised care for those with more than 48 activity hours
- simplifying the number of activity test tiers further by allowing 60 subsidised hours for all families and up to 100 subsidised hours for those with more than 48 activity hours
- simplifying the number of activity test tiers by allowing 72 subsidised hours for all families and up to 100 subsidised hours for those with more than 48 activity hours.

The introduction of a modified activity test could also be phased, for example, starting with lower income families, in order to allow time for supply to respond to increased demand and to evaluate the effects of the change before relaxing the activity test more widely. The Commission is seeking views on the costs and benefits of a phased introduction, and which cohorts of families would benefit most from being able to access a relaxed activity test earlier.

Making ECEC free or low cost for low-income families would encourage new enrolments

As noted above, the CCS leads to relatively high out-of-pocket expenses for the lowest income families (figure 6.1). And while out-of-pocket expenses as a share of income are reasonably similar for many cohorts, that does not mean that they affect families equally. Out-of-pocket expenses equal to 10% of income can represent a larger financial burden for a family earning \$80,000 per year for example, than one with an income of \$200,000 per year. In other words, ECEC is relatively more expensive for those who can least afford it. This is likely contributing to lower participation rates in ECEC for lower-income families.

An increase in the top subsidy rate to 100% of the fee up to the hourly rate cap for lower-income families (those earning up to \$80,000 per year) would reduce their out-of-pocket expenses; in some cases, where charged hourly rates are below or equal to the hourly rate cap, ECEC use will be free for these families. In implementing this policy change, all families who hold a Health Care Card should automatically receive the 100% subsidy rate, reducing administrative complexity. The Commission is investigating further options to reduce administrative complexity (discussed below).

As described in section 6.2, the experience of the COVID-19 period – when ECEC was free for all families without a need to demonstrate eligibility – showed that a reduction in out-of-pocket expenses and administrative complexity likely encouraged more families experiencing disadvantage to enrol their children in ECEC (Wong et al. 2021, pp. 10–11). Similar to the changes in the activity test, this is likely to support better educational outcomes for children, and may also have benefits for their families, as using ECEC may enable them to find work or link them to additional support services.

Currently, the top rate of CCS is 90% of the hourly rate cap and applies to families with incomes of up to \$80,000 per year, and the HCCS rate for these families is 95%. Raising the subsidy level for both the CCS

and HCCS for families earning up to \$80,000 per year will have implications for the way in which rates taper down from 100%. The Commission will consider this further for the final report. A balance is needed between avoiding taper rates that are too steep (which can result in greater workforce disincentive effects) and taper rates that are too low (which can lead to families on high incomes having relatively high subsidies, and the fiscal consequences associated with that). The Commission is also considering a simplified tapering of HCCS to be more closely aligned to the CCS (discussed further below).

Preliminary modelling was done on the potential effects of increasing the top subsidy rate to 100% for families with incomes up to \$80,000 per year, in addition to relaxing the activity test. Among the modelled population, 30% of families with children aged 0–5 have incomes up to \$80,000 per year. Under this policy option, it is assumed that CCS and HCCS rates for families with incomes over \$80,000 per year are equivalent to current subsidy rates.

The policy changes are estimated to lead to a 3.4% increase in total hours worked (equivalent to 20,700 full-time employees) by single parents and secondary workers in couple families with young children. Hours of formal ECEC are estimated to increase by about 12%, with about two-thirds of the increase attributed to families who were not previously using ECEC. The fiscal cost of reforming the activity test and lifting the CCS rate for lower-income families is estimated to be about \$2.5 billion per year or a 20% increase on the estimated CCS outlay for 2023-24, partly offset by income tax collections of about \$180 million per year. The lowest family income quintile is estimated to receive more than half of the total increase in CCS expenditure across all families.

Reducing out-of-pocket expenses for some families could reduce their sensitivity to fee increases. Some providers might take the opportunity to raise fees more rapidly than they might otherwise have done, particularly in areas where many lower-income families live (or where there are few higher-income families who may change services if fee rises are excessive). The Australian Government should monitor changes in fees and out-of-pocket expenses on a regular basis to identify areas where movements are out-of-step with the sector norm. Increases that vary markedly from the norm should prompt closer investigation, and a regulatory response should be considered if they are not reasonable. To inform judgements about what reasonable increases might look like, the Australian Government should commission a detailed investigation of costs and profits across the sector every three years, along the lines of the work that the ACCC has been undertaking. This work will also signal if the hourly rate cap needs to be reset (described further below).



Draft finding 6.3

CCS changes would reduce affordability barriers for lower income families

Many changes could be made to subsidy arrangements to improve affordability for families. The Commission has considered a suite of options to identify their effects on labour force participation, demand for ECEC and net costs to government, and their effectiveness in achieving universal access to ECEC.

Relaxing the activity test for all families and lifting subsidies for lower income families would target support to children and families who would benefit the most. Alongside improving availability, inclusion and flexibility, these changes to the Child Care Subsidy (CCS) would enable universal access to ECEC.

Preliminary modelling shows that relaxing the activity test for all families to allow at least three days of subsidised ECEC per week, and lifting the CCS rate to 100% for families with children aged 0–5 years who have incomes up to \$80,000, would increase:

- total hours of ECEC demanded by 12%
- hours of work by single parents and secondary earners in couple families with young children by 3.4% (or the equivalent of 20,700 full-time workers)
- Australian Government outlays on the CCS by 20% or \$2.5 billion per year.

Over half of the resulting increase in CCS expenditure would benefit families whose income is in the lowest 20% of the income distribution.



Information request 6.2

The Commission is seeking views on how Child Care Subsidy taper rates could be designed if the top rate of subsidy was increased to 100% of the hourly rate cap, as proposed in draft recommendation 6.2. This includes options to adjust taper rates for the Higher Child Care Subsidy, available to families with multiple children aged five or younger in ECEC who are eligible for a subsidy.

Resetting and indexing the hourly rate cap to better reflect costs of provision

Under the current CCS design, affordability for families becomes more challenging when fee growth outstrips increases in the hourly rate cap. While hourly rate caps are adjusted annually based on the CPI, labour costs are the biggest driver of ECEC costs, and labour costs have increased much faster than inflation over the past five years (ACCC 2023b, p. 30). Services increase fees to offset increases in operating costs and to maintain profits and surpluses. This has led to an increase in the proportion of CBDCs and FDCs charging above the hourly rate cap – for example, from 13% to 22% between 2018 and 2022 for CBDCs (ACCC 2023b, p. 167).

Resetting the hourly rate cap for each service type to better reflect costs of provision and changing the indexation approach to prevent the cap rising more slowly than provider costs (and, therefore, fees) would help to sustain affordability. The ACCC made a similar suggestion in its recent interim report, recommending that consideration be given to ‘determining an appropriate base for the rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of childcare services’ (ACCC 2023b, p. 30).

But how should a new hourly rate cap be determined, and how should that figure be indexed going forward? As part of its Childcare inquiry, the ACCC has developed a database of costs from ECEC services (ACCC 2023b, p. 30). This could be used to estimate average efficient costs of provision, as a basis for determining the new hourly rate cap. Productive efficiency means that providers are able to deliver their services at the desired quality using the least amount of resources necessary to do so. Periodic review of fees and costs would help to ensure that there is regular oversight of these key determinants of ECEC affordability (as discussed above), and the reviews could inform adjustments in the hourly rate cap. In between any major adjustments to the hourly rate cap, indexation should better reflect changes in costs of providing ECEC. Indexation based on the Wage Price Index could be an option, given the importance of labour costs to providing ECEC services. A composite index could also be considered. The Commission is seeking views on ways to set and index the hourly rate cap.

The ACCC has also suggested considering rate caps that align with pricing practices for different service types, such as having a daily fee cap for CBDC instead of an hourly rate cap. The Commission considers that it is important that families have the flexibility to access shorter session lengths to promote affordability and ensure that taxpayer dollars are used efficiently. Creating stronger incentives for services to offer variable session lengths to match children's actual attended hours, and allowing remaining opening hours to be filled by other children (paper 7), would be preferred to introducing a daily fee cap.



Draft recommendation 6.1 **Monitor rises in fees and out-of-pocket expenses**

The Australian Government should monitor changes in fees and out-of-pocket expenses on a regular basis to identify services where movements are out of step with sector norms. Increases that vary markedly should prompt closer investigation, and a regulatory response should be considered if they are not reasonable. To inform judgements about what reasonable increases might look like, the Australian Government should commission a detailed investigation of costs and profits across the sector every three years, along the lines of the work that the Australian Competition and Consumer Commission has been undertaking. This work would also signal if the hourly rate cap needed to be reset.



Information request 6.3

The Commission is seeking information on how the level and indexation of the Child Care Subsidy's hourly rate cap could be adjusted to better reflect costs of provision over time, including a higher hourly rate cap for non-standard hours, as proposed in draft recommendations 6.2 and 7.3.

Other options for CCS reform

The terms of reference for this inquiry asked the Commission to consider a universal 90% subsidy rate. This would represent a significant change to the current system, as only children from low-income families currently have at least 90% of their ECEC fees subsidised.

Lifting subsidies for all families to at least 90% of the fee, up to the hourly rate cap, for three days of ECEC per week in addition to relaxing the activity test and a 100% subsidy for lower-income families (option three),

is estimated to lead to a 5.7% increase in total hours worked by single parents and secondary workers in couple families with young children, or 34,900 full-time workers. Total hours of formal ECEC are estimated to rise by 21%. This policy change is also estimated to add \$6.8 billion per year to government outlays on the CCS, an increase of 53%, and income tax collections are estimated to increase by \$600 million per year.

Further extending the 90% subsidy regime to five days, along with complete removal of the activity test (option four), is estimated to increase total hours worked by 6.3% (38,700 full-time equivalents), hours of ECEC by 24% and CCS outlays by \$7.7 billion per year, or 61%. Income tax collections are estimated to increase by \$670 million per year.

The fifth option considered, a flat daily fee, is used in parts of Canada and has the advantage of giving families certainty over ECEC expenses. The option modelled of a daily flat fee of no more than \$10 is estimated to increase total work hours by 5.5% (34,100 full-time equivalents) and total ECEC hours by 21%. CCS outlays are estimated to increase by \$7.3 billion per year, or 58%, and income tax collections by \$660 million.

If the only policy change were to extend a CCS rate of 90% of the fee up to the hourly rate cap to all families (option six), it is estimated that total hours of work by single parents and secondary workers in couple families with young children would rise by 2.8% (or the equivalent of 17,000 full-time equivalent workers). Hours of ECEC are estimated to increase by 7.4% and fiscal costs would rise by \$4.1 billion a year (or about one third), partly offset by higher income tax collections of \$480 million.

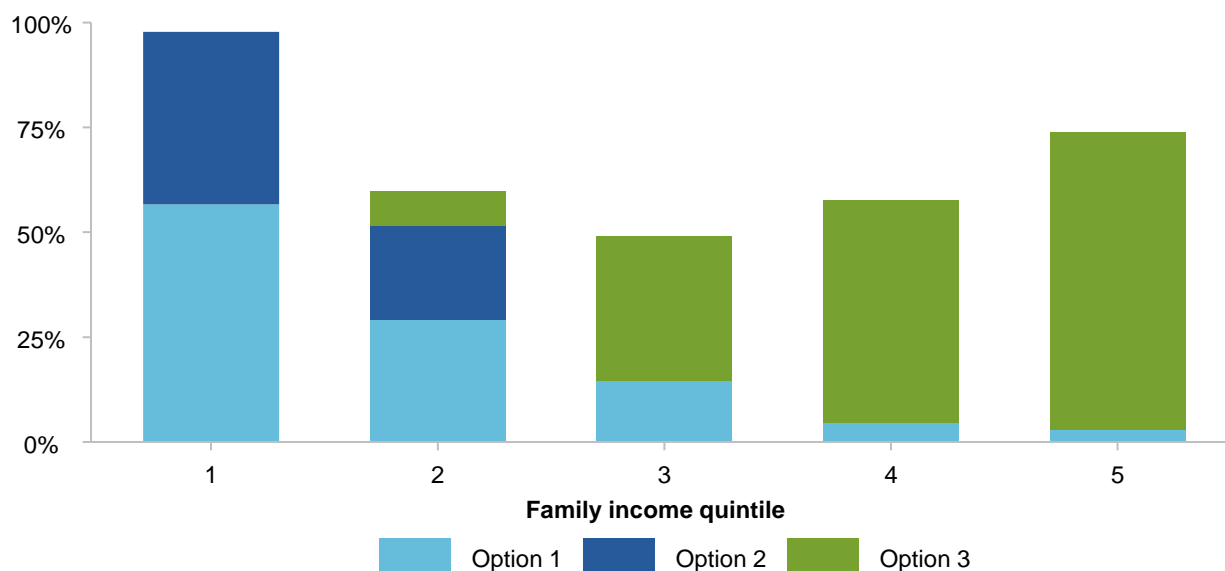
If the only reform implemented was either a 90% subsidy rate or a flat fee by (that is, with no change to the activity test or further increases to the subsidy rate for lower-income families), the main beneficiaries would be high-income families. This is because low-income families are already eligible for a 90% subsidy rate for the hours that they are allowed under the activity test, and would have similar out-of-pocket expenses under the option of a flat fee. In the absence of other policy changes, moving to a 90% subsidy rate for all families would have no benefit for lower-income families. Nearly 60% of the estimated increase in government outlays of \$4.1 billion a year would accrue to the 20% of families on the highest incomes (those earning \$200,000 and above per year) and nearly 30% to the second highest 20% (those earning between about \$150,000 and \$200,000 per year).

Combining a 90% subsidy rate or flat fee system with more targeted assistance aimed at lower-income families and relaxation or removal of the activity test (options three, four and five), would enable the benefits to be more evenly spread across different income groups.

Under option three, the 20% of families with the lowest incomes and the 20% with the highest (the lowest and highest income quintiles) experience the largest estimated falls in out-of-pocket expenses (figure 6.16). The highest income families would benefit considerably more from the rise in CCS expenditure, accounting for 35% of the increase compared with 23% for the lowest income families, because they use a larger number of hours of ECEC (figure 6.17). The estimated percentage increase in hours worked is highest for the lowest income parents under this option, as they have more scope to increase their work hours than the highest income families (figure 6.18).

Figure 6.16 – A 90% subsidy would benefit high-income families most while low-income families benefit from relaxing the activity test and targeted subsidies^{a,b}

Incremental fall in weekly out-of-pocket ECEC costs based on baseline ECEC usage (%)

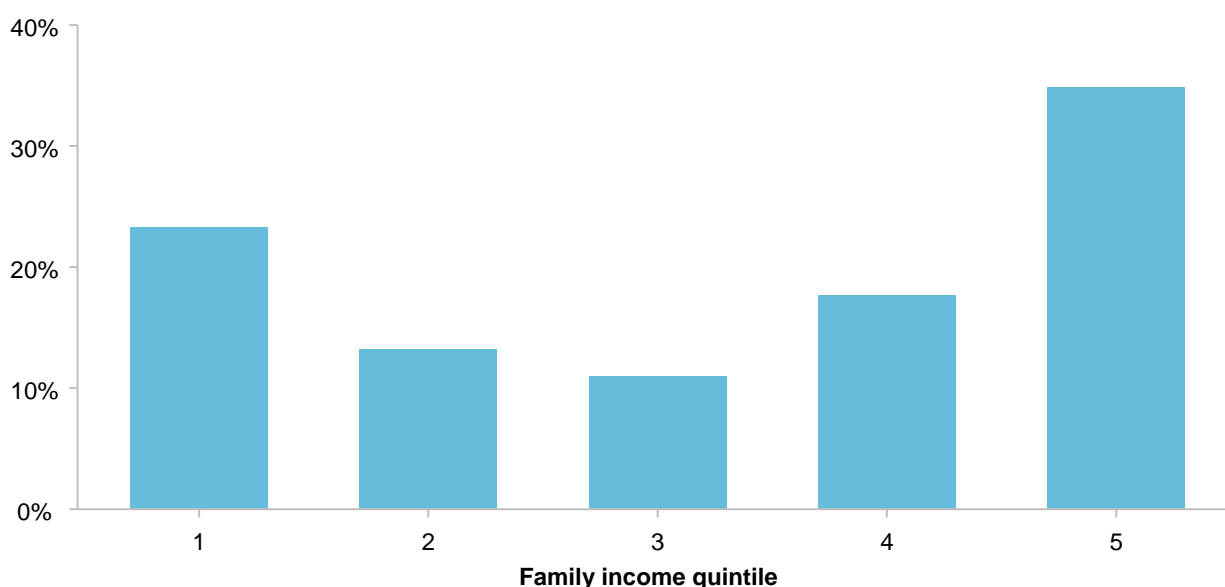


a. This policy change involves removing the first three tiers of the activity test (option one), raising subsidies for lower income families to 100% (added in option two), setting the subsidy for all other families at 90% for up to 72 hours of ECEC per fortnight for the first child and up to 95% for subsequent children, and the current subsidy regime for any hours over 72 per fortnight (added in option three). **b.** Family income quintiles are up to about \$60,000, \$100,000, \$150,000 and \$200,000, and over about \$200,000 for the fifth quintile.

Source: Productivity Commission estimates.

Figure 6.17 – High income families would receive the largest share of increased CCS expenditure under option three^a

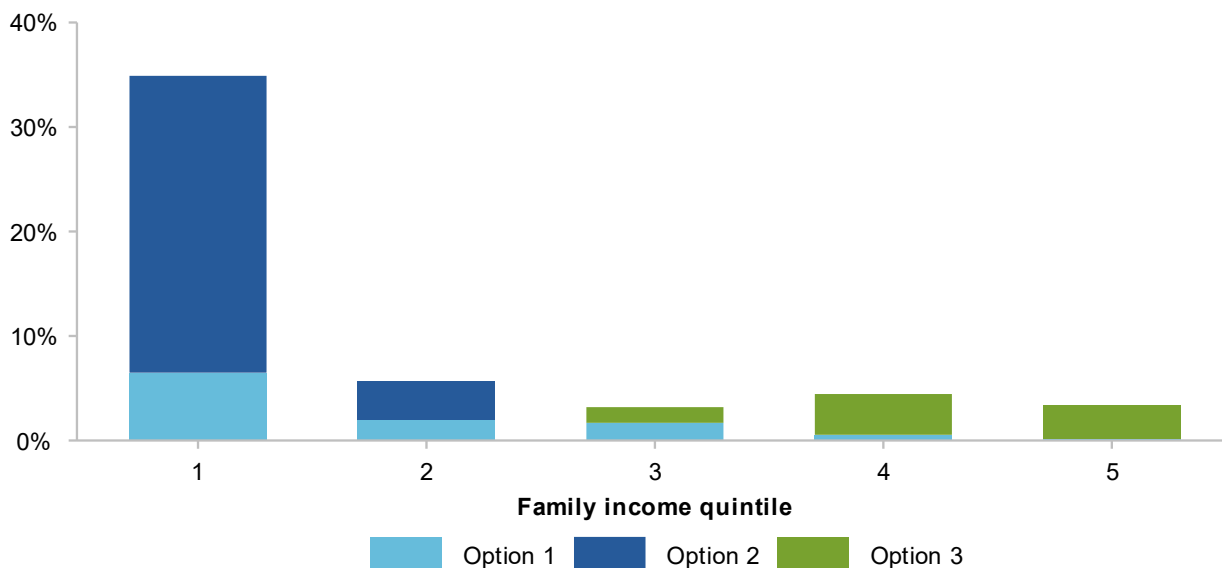
Share of increased CCS expenditure attributed to families by income quintile (%)



a. See figure 6.16 notes.

Source: Productivity Commission estimates.

Figure 6.18 – Parents in the lowest income quintile would have the largest increase in their hours of work as a result of relaxing the activity test and targeted subsidies^{a,b}
Incremental increase in hours worked under modelling of options one to three (%)



a. See figure 6.16 notes. b. Incremental results in this chart are adjusted to sum to the overall change in hours worked for option three. Unadjusted results may not sum to the total for option three because of probabilities that were applied to determine which families begin working, that can lead to different families entering work under different modelled options. Source: Productivity Commission estimates.



Draft finding 6.4
Broad-based CCS changes would make ECEC more affordable for all families but come at a substantial cost to taxpayers

Broad-based changes to the Child Care Subsidy (CCS) would reduce out-of-pocket expenses for all families and support larger increases in labour force participation – but come at a substantial cost to taxpayers.

For example, if in addition to relaxing the activity test and increasing the CCS rate for lower income families, the Australian Government were to extend a subsidy rate of 90% of the fee, up to the hourly rate cap, to all families for three days of ECEC a week, it is estimated that this would increase:

- total hours of ECEC demanded by 21%
- hours of work by single parents and secondary earners in couple families with young children by 5.7% (or the equivalent of 34,900 full-time workers)
- Australian Government outlays on the CCS by 53% or \$6.8 billion per year.

Preliminary modelling results show that policy options extending the 90% subsidy rate to all ECEC users or introducing a flat fee of \$10 a day have similar implications for labour force participation, demand for ECEC and net costs to government.

These options are more costly than a policy option that includes relaxing the activity test and increasing subsidy rates for lower income families. In addition, a disproportionate share of the increased government support would go to high income families – rather than to those experiencing disadvantage, who are most likely to benefit from greater access to ECEC.



Draft finding 6.5

Lower income families would not benefit if the only change to the CCS were a 90% subsidy rate for all families

In line with the request in the terms of reference to consider a universal 90% subsidy, the Commission has assessed the potential effects of a policy option where the only change to current settings is that the Child Care Subsidy (CCS) rate increases to 90% of the hourly fee, up to the hourly rate cap, for all families.

It is estimated that this policy change would increase:

- total hours of ECEC demanded by 7.4%
- hours of work by single parents and secondary earners in couple families with young children by 2.8% (or the equivalent of 17,000 full-time workers)
- Australian Government outlays on the CCS by 33% or \$4.1 billion per year.

The policy change would have no benefit for low-income families, who are already eligible for a 90% subsidy rate. Nearly 60% of the increase in government outlays would accrue to the 20% of families on the highest incomes (those earning \$200,000 and above) and nearly 30% to the second highest 20% (those earning between about \$150,000 and \$200,000).

Reforms with the largest benefits relative to the cost should be prioritised

Implementing option two – relaxing the activity test and lifting subsidies for lower-income families – would target the increase in support to the children and families who would benefit the most.

Higher levels of support (options three, four and five) would generate a somewhat stronger labour market response from parents, and potentially other social benefits including increasing gender equality and making more effective use of people's skills and education, but at a much higher additional cost to taxpayers. A disproportionate share of the increased government support (35% under option three, for example) would go to higher-income families (those currently earning about \$200,000 per year and above) and there would be more children from higher-income families increasing their participation in ECEC relative to option two. As described above, children experiencing disadvantage tend to experience greater improvements in educational outcomes as a result of attending quality ECEC, so increasing participation in ECEC for children from higher-income families may have more muted longer-term benefits relative to the increase in costs.

Overall, increasing the CCS rate to a universal 90% or introducing a flat fee for ECEC is likely to disproportionately assist high-income families, who already spend a lower proportion of their income on out-of-pocket ECEC expenses when compared to families in the lowest income decile. These options are costly but do not lead to significant increases in labour force participation, address the inequity created by the current CCS settings, nor support greater ECEC access for children and families experiencing disadvantage. These policy goals would be more effectively achieved through relaxing the activity test and increasing the subsidy rate for lower-income families. Increasing the hourly rate cap to better reflect costs of provision would also help to ensure that affordability for all families is maintained over time. These changes should therefore be a priority for policy action.



Draft recommendation 6.2

Modify the Child Care Subsidy to improve affordability and access

The Australian Government should modify the Child Care Subsidy to allow:

- all families to access up to 30 hours or three days of subsidised care per week without an activity requirement
- families with annual income at or below \$80,000 should be eligible for a subsidy rate of 100% of the fee, up to the hourly rate cap.

In addition, the Australian Government should review the hourly rate cap associated with the Child Care Subsidy, and set a new cap based on the average efficient costs of providing early childhood education and care services. This should include consideration of a higher hourly rate cap for non-standard hours (draft recommendation 7.3). The hourly rate cap should be reviewed every three years to ensure it continues to reflect costs (in conjunction with other work mentioned in draft recommendation 6.1). In between these reviews, the hourly rate cap should be indexed at a rate that best reflects changes in the costs of provision such as wage indices or CPI.

Improvements for families facing higher affordability barriers

A number of submissions to this inquiry (1st Impressions Early Learning Centre, sub. 91, p. 1; EYIA, sub. 97, p. 1; Paul Ramsay Foundation, sub. 148, p. 4) have suggested improving ECEC affordability for children from families that have restricted residency in Australia (such as temporary protection visa holders). Children from these families are not eligible to have their ECEC subsidised through the CCS meaning that it is likely that these families would have to pay full fees for their children to participate in ECEC. Given that these families are likely to have lived and/or may continue to live with adversity and that a high proportion of temporary protection visa holders end up becoming permanent residents in Australia (Parliamentary Library 2013), ensuring children from these families have access to affordable ECEC would be important to improve educational outcomes and career trajectories and support longer-term integration. These benefits would need to be contrasted with the costs of expanding CCS eligibility for these families.

Proposals considered in paper 5 to increase supply-side funding in thin markets, including geographically isolated areas, would go towards making ECEC more available in these areas. The Isolated Children's Parents' Association of Australia submission suggests that affordability could also be improved by expanding the Assistance for Isolated Children Distance Education Allowance, to include children receiving preschool education through distance education (sub. 58, p. 5). The Distance Education Allowance 'contributes towards incidental costs incurred by geographically isolated families whose student children are undertaking their education by distance education methods' (DSS 2023b, p. 57). Currently the Assistance for Isolated Children Distance Education Allowance is limited to those participating in compulsory schooling. The benefits of expanding the Distance Education Allowance would need to be contrasted with its costs.



Information request 6.4

The Commission is seeking views on the costs, benefits and practicalities of:

- expanding CCS eligibility to include families who have restricted residency in Australia such as temporary protection visa holders
- expanding the Assistance for Isolated Children Distance Education Allowance to include children receiving a preschool education in geographically isolated areas.

Reducing administrative complexity could make ECEC subsidies more accessible

Improving families' understanding of CCS and the application process would assist in encouraging ECEC participation. This could be achieved by simplifying the CCS design (how the CCS is calculated, including eligibility requirements), simplifying the CCS system (how families apply for and manage CCS) and providing clear, accurate and easily accessible information to improve families' understanding.

Simplifying the design of the subsidy would make it easier for families to understand their eligibility for support

Relaxing the activity test would make it easier for families to understand their CCS eligibility. This is explored above.

Streamlining the HCCS would also make it simpler for families to understand how much ECEC subsidy they are eligible to receive. Before the 2023 Cheaper Child Care changes, the HCCS was determined as the CCS rate plus 30 percentage points up to a maximum of 95%. But the policy changes mean the HCCS rate is no longer linked to the CCS rate. An option to simplify the subsidy settings would be to align the HCCS rate more closely to the CCS rate.

A number of submissions to this inquiry (Gowrie SA, sub. 25, p. 3; Early Learning and Care Council of Australia, sub. 153, p. 8) supported increasing the length of eligibility for ACCS (Child Wellbeing). ACCS (Child Wellbeing) is initially provided for a period of six weeks and services must apply for a determination for the relevant child to continue to be eligible for it. If the determination is approved, eligibility can be for up to 13 weeks and up to 52 weeks if the child is on a long-term protection order, in formal foster care or in a formal kinship arrangement (Services Australia 2022b).

Extending the length of eligibility for ACCS (Child Wellbeing) would reduce the burden on services to reapply and would assist in continued ECEC participation for the relevant children. If a child is deemed eligible to receive subsidised ECEC through ACCS (Child Wellbeing) it is unlikely that their circumstances would improve dramatically within the initial 13 week determination period. And for these children there are greater benefits from continuing to attend ECEC (van Huizen and Plantenga 2018, p. 219). For those children on a long-term protection order, in formal foster care or in a formal kinship arrangement, eligibility could remain indefinitely while their circumstances remain unchanged. For remaining children eligible for ACCS (Child Wellbeing), the initial determination period could be extended to 26 weeks with eligibility on reapplication also extended for to 26 weeks.

Simplifying the CCS and ACCS application processes would make it easier for families and reduce barriers to ECEC participation

Administrative complexity could be reduced by allowing families who are already eligible for income support payments or a Health Care Card to be eligible for CCS automatically. Aligning similar processes across different payment types, for example family income reconciliation processes across CCS and Family Tax Benefit, would also assist with reducing complexity.

Another approach to reducing complexity for families would be to streamline data inputs across myGov services for use in CCS applications as was recently recommended by (NSW IPART 2023, p. 117). This could be achieved by utilising information provided as part of other income support payment applications, for example, families receiving Family Tax Benefit who have already submitted an estimated family income that would also be relevant to determine CCS rates.

Maintaining a child's eligibility for subsidised ECEC when their guardian changes, whether it be permanently or temporarily, would reduce or remove the risk of a child's ECEC attendance being disrupted. When, for any reason, the primary carer of a child may change (for example due to the parent no longer being able to primarily care for a child), the child's CCS eligibility would remain in place for a period of eight weeks while the new guardian puts in an application for CCS. This would provide consistency for the child during a period of uncertainty and change. There would be some administrative adjustments required to allow this flexibility.

Related to a change of guardianship, recognising informal kinship carers as carers under ACCS (Grandparent) would assist in reducing barriers to ECEC attendance for Aboriginal and/or Torres Strait Islander children. Currently to be eligible for ACCS (Grandparent) children must primarily be cared for by their grandparent or great-grandparent. Extending this to include informal kinship carers would recognise that for some Aboriginal and/or Torres Strait Islander children, their primary carer may change without any formal process and that their attendance at ECEC should not be at risk of disruption as a result of this. Data on the number of children in informal kinship care is limited. One piece of research suggests it may be at least 100,000 and could be as high as 450,000 children (Kiraly 2018, p. 3). For some Aboriginal and/or Torres Strait Islander children, their informal kinship carer may be a relative such as an aunt, uncle, sibling, other relative or a family friend rather than a grandparent (Kiraly 2018, p. 4) which would make these children ineligible to receive subsidised ECEC under ACCS (Grandparent). There may also be some administrative challenges with recognising informal kinship carers apart from Grandparents for the purposes of ACCS (Grandparent).

These options to reduce administrative complexity will be explored further for the inquiry's final report.

**Information request 6.5**

The Commission is seeking views on the costs and benefits of potential measures to reduce Child Care Subsidy (CCS) administrative complexity. These may include:

- streamlining the Higher Child Care Subsidy rate to be more aligned with the CCS rate over time
- allowing families who are already eligible for income support payments or a Health Care Card to be automatically eligible for CCS, and aligning processes that are similar across CCS and other payments
- extending the initial length of eligibility for Additional Child Care Subsidy (Child Wellbeing) from six weeks to 26 weeks and subsequent lengths of eligibility to between 26 and 52 weeks
- extending the length of eligibility for Additional Child Care Subsidy (Child Wellbeing) for those children on a long-term protection order, in formal foster care or in a formal kinship arrangement, while their circumstances remain unchanged
- extending Additional Child Care Subsidy (Grandparent) to recognise informal kinship carer arrangements
- maintaining a child's eligibility for CCS for a period of eight weeks when there is a change of guardian.

Providing clear, accurate and easily accessible information on CCS eligibility would make it easier for families to understand their CCS eligibility

Providing easy to find and easy to understand information would assist in improving families' understanding of their CCS eligibility. This could be achieved by ensuring all information provided on government websites about how CCS eligibility is determined is consistent across sites, easy to find and navigate and easy to understand. The Australian Government should explore options to achieve this.

A calculator which allows families to estimate the amount of CCS they are eligible for under different scenarios (such as different working hours or income levels) would also assist in improving families' understanding of how their CCS eligibility is determined. The Starting Blocks website contains a dedicated CCS calculator but it does not allow for estimation of CCS eligibility under different scenarios. Extending this calculator so that families could estimate their CCS eligibility under different scenarios would assist families' understanding of the system. Improving awareness of the availability of this calculator would also be necessary given that awareness of the Starting Blocks website itself is low (ACCC 2023b, p. 183). The Australian Government should investigate the best way to achieve this.

For families who may find it challenging to access ECEC, support in navigating the system via alternative entry points can be helpful. One potential solution could involve a 'system navigator' role to help families understand the system, fees, forms and other enrolment processes (paper 7 discusses this further).

**Draft recommendation 6.3****Make information about CCS eligibility easy to find and understand**

The Australian Government should explore options to make information provided on government websites about CCS eligibility easy to find and easy to understand by families.



Draft recommendation 6.4

Improve the CCS calculator on the Starting Blocks website

The Australian Government should improve the functionality of the Child Care Subsidy calculator on the Starting Blocks website so that families can estimate their Child Care Subsidy eligibility under different scenarios (such as different working hours or income levels).

The Australian Government should investigate the best way to improve awareness of the availability of the CCS calculator on the Starting Blocks website.

Improving families' understanding of CCS withholding and minimising debt and the potential of debt

As mentioned above, the 5% withholding rate is the least understood part of the CCS. Providing clear and easy to find information to families about the CCS withholding rate, and that it can be adjusted, would assist in improving understanding of how it works and its impact on out-of-pocket expenses at the time of fee payment to services. Information about the option to adjust the rate could be provided both during the CCS application process and whenever families have to update their details, improving visibility and knowledge about the rate.

Making use of greater linkages between government data sources could assist in reducing a family's potential for a CCS debt. The 2019-20 Budget announced as part of the expansion of Single Touch Payroll (STP) that STP information would be shared by the Australian Taxation Office to Services Australia to assist in streamlining Services Australia's interactions with customers (ATO 2022). It would include prefilling customer information, streamlining claims, enhancing Family Tax Benefit processes by sending SMS and email messages to customers when STP data showed changes in circumstances (such as changes to income and working hours), assisting Services Australia to pay customers the right amount and using STP data to understand customers' recent employment and income history when there are debts (ATO 2022).

STP information could similarly be used in regard to families' CCS eligibility. Similar to the enhanced Family Tax Benefit processes, SMS and email messages could be sent to families when the STP data indicates a change of circumstances. This should mean families are able to update their details in a more timely manner so that the period during which they receive the incorrect amount of CCS (based on more up-to-date information) is minimised which would minimise overpayment of CCS and the potential of a CCS debt.

The recommendations to relax the activity test would also assist in reducing the potential for a CCS debt. Under the current system, if a parent or guardian's activity level reduced and they were slow to update their activity details with Services Australia this could lead to a debt. This is because they may no longer be eligible for the same level of subsidised hours (as in their number of subsidised hours could be reduced) and they may incur a debt the CCS they had already received. However if the activity test is relaxed, the potential for this to occur is reduced as 30 hours of ECEC would be subsidised regardless of the parent or guardian's activity level.

**Draft recommendation 6.5****Prompt families to update their details with Services Australia**

The Australian Government should use Single Touch Payroll information from the Australian Tax Office to prompt families to update their activity and income level details with Services Australia.

**Draft recommendation 6.6****Provide better information to families about CCS withholding rates**

The Australian Government should provide clear and easy to find information to families about the Child Care Subsidy withholding rate during the Child Care Subsidy application process and when families update their details with Services Australia.

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7. Other barriers to access

Key points

- * Families have diverse preferences and needs in relation to early childhood education and care (ECEC). While the current system caters to many families, others may experience barriers to access.**

 - Inquiry participants described a range of barriers beyond the availability (paper 5), affordability (paper 6), quality and inclusivity (paper 2) of services. This included practical barriers such as lack of transport, food or clothing, difficulty navigating the system, cultural responsiveness and safety and the flexibility and availability of hours.
 - Participants also described other barriers such as unstable home situations or perceptions of maternal roles. Many of these issues are outside the scope of this inquiry. But ideally policy settings should be sensitive to the diverse circumstances families experience.
- * Different approaches or services may be required to meet the needs of some families and address barriers to ECEC access.**

 - Some families may experience practical barriers to ECEC access, such as transport. It is unclear whether current funding programs sufficiently resource services to support families and address these barriers.
 - Most families will successfully navigate the ECEC system, but some may experience additional challenges such as limited digital access, literacy or other barriers. Some may receive support through their networks, but others may benefit from a 'system navigator' to help them understand the system and enrol.
 - Inquiry participants highlighted how integrated services can support children and families requiring services beyond ECEC, particularly those experiencing disadvantage or vulnerability. An ECEC Commission should be responsible for advising governments on the need for integrated ECEC services.
 - While outside of the formal ECEC system, playgroups have a valuable role in supporting families and children in their early years.
- * Aboriginal Community Controlled Organisations (ACCOs) are well placed to deliver culturally safe ECEC to Aboriginal and Torres Strait Islander children and families.**

 - Inquiry participants argued a new ACCO funding model is needed, given the unique circumstances ACCOs operate in and the integrated services many provide. The Early Childhood Care and Development Policy Partnership, established under Closing the Gap, has commissioned research on funding model options for ACCO-delivered ECEC, which the Productivity Commission will consider in its final report.
- * ECEC services can better support the diverse range of family working hours and schedules.**

 - Some families require non-standard hours ECEC, shorter sessions or access to ECEC on a casual basis. Changes to the hourly rate cap for non-standard hours and ensuring occasional care is available where needed could help. The Commission is considering ways to encourage flexibility around session lengths.
 - Preschool hours do not align with a standard work week. Changes to make it easier to receive the Child Care Subsidy for outside preschool hours ECEC could assist families to manage these hours.

Ensuring families do not face undue barriers to accessing early childhood education and care (ECEC) is key to a high-quality and equitable system. Families have diverse preferences and needs in relation to ECEC and may experience barriers to access beyond the availability (paper 5), affordability (paper 6), quality and inclusivity (paper 2) of ECEC.

This paper first discusses the types of barriers families may face (section 7.1) and then considers policy responses, including:

- options to meet the needs of families to address practical barriers, navigate the system or access integrated services (section 7.2)
- cultural safety (section 7.3)
- flexibility, including the availability of non-standard hours ECEC, session lengths and charging practices, the availability of casual ECEC and out of preschool hours ECEC (section 7.4).

7.1 Barriers to ECEC access encompass a broad range of issues

Some families face barriers to accessing ECEC (box 7.1). These barriers can be complex and touch on a variety of factors within the ECEC service and policy system. They may also involve broader social determinants, such as access to transport. Some families may experience few barriers, while others may experience several that compound.

Inquiry participants described a number of ECEC-related factors that may affect access for families, including:

- availability and location of services (Goodstart Early Learning, sub. 125, p. 26; Australian Childcare Alliance, sub. 150, p. 32; NACCHO, sub. 151, p. 6)
- cost of services, access to the Child Care Subsidy (CCS) and understanding of out-of-pocket expenses (Australian Childcare Alliance, sub. 150, p. 32; The Smith Family, sub. 108, p. 6; Social Ventures Australia, sub. 145, p. 7)
- quality of services (NACCHO, sub. 151, p. 6; NIAA, sub. 152, p. 5)
- ability of services to provide support for children with additional needs (Australian Childcare Alliance, sub. 150, p. 32; The Smith Family, sub. 108, p. 6)
- flexibility and availability of hours (Australian Childcare Alliance, sub. 150, p. 32)
- cultural responsiveness and safety (NACCHO, sub. 151, pp. 6–7; SSI, sub. 16, p. 3)
- difficulty navigating the ECEC system and enrolment process, poor service coordination or not having the required documentation (The Hive Mt Druitt (United Way Australia), sub. 64, p. 3; The Smith Family, sub. 108, p. 6).

Several of these factors have been considered separately in papers 2 (How do ECEC services support children?), 3 (The ECEC workforce), 5 (Availability of ECEC) and 6 (ECEC affordability).

Inquiry participants also described a range of other barriers, such as transport, lack of food, clothing, poor child health or unstable home situations (Meli, sub. 139, p. 4; Tasmanian Government Department for Education, Children and Young People, sub. 159, p. 6; The Hive Mt Druitt (United Way Australia), sub. 64, p. 3; ACT Government, sub. 27, p. 7; The Front Project, sub. 143, p. 14). Some of these factors are outside the scope of this inquiry, although ideally ECEC policy settings would be sensitive to them. In addition, some participants outlined other individual factors impacting families' access, including perceptions about maternal roles, not perceiving the benefits of ECEC or a belief that a child is too young to attend (Social Ventures Australia, sub. 145, p. 7; ACT Government, sub. 27, p. 7).

Box 7.1 – Some families may be more likely to face barriers to accessing early childhood education and care

The Report on Government Services identifies cohorts who may experience higher barriers to early childhood education and care (ECEC) access compared to other groups, including children:

- who are Aboriginal and Torres Strait Islander children
- from non-English speaking backgrounds
- from regional and remote areas
- from low socio-economic areas or from low-income families
- with disability.

While these indicators are focussed on the child, the majority (aside from children with disability) are likely to be shared characteristics of the family. In cases where these characteristics are not shared, it is reasonable to expect the circumstances of the child also affect the family's access (and vice versa).

Australian Government programs (Inclusion Support Program, Additional Child Care Subsidy and In Home Care) designed to ensure equal ECEC access also identify additional cohorts of families or children who may experience barriers to access or have additional needs in ECEC. This includes families:

- experiencing geographic isolation
- with complex or challenging needs
- working non-standard or variable hours
- experiencing temporary financial hardship, transitioning to work from income support or where grandparents have primary care of the child and are receiving income support.

It also includes children:

- with developmental delay
- with serious medical or health conditions, including mental health
- with challenging behaviours
- at risk of serious abuse or neglect, including those that are in formal foster care, formal kinship arrangements, on a long-term protection order or otherwise identified as at risk
- presenting with trauma-related behaviours
- from refugee or humanitarian backgrounds.

This paper does not assume that all families or children in the identified groups are inherently vulnerable or disadvantaged, although some may be in vulnerable situations.

Source: SCRGSP(2023); DoE (2023f, 2023g, p. 8, 2023e); Services Australia (2022).

7.2 Making the ECEC system more accessible

Some families may require or prefer different or targeted approaches to meet their needs or address barriers to access. This section discusses:

- ways to address practical barriers to access (such as transport)
- overcoming system complexity and the potential role of 'system navigators'
- the role of integrated services
- the role of playgroups.

Overcoming practical and logistical barriers to accessing ECEC

Inquiry participants noted families may face a range of practical and logistical barriers to accessing ECEC, such as:

- transport (for example, The Hive Mt Druitt (United Way Australia), sub. 64, p. 3; The Smith Family, sub. 108, p. 6)
- non-fee costs of attending services, such as clothing or excursions (Centre for Research in Early Childhood Education, Macquarie School of Education, Macquarie University, sub. 21, p. 11)
- lack of adequate food (Meli, sub. 139, p. 4; The Child Development, Education and Care Research Group, sub. 19, p. 6).

For example, inquiry participants highlighted a range of transport barriers families may experience, including limited public transport options, lack of access to private vehicles or a driver's license, high travel times and high travel costs (The Hive Mt Druitt (United Way Australia), sub. 64, p. 3; Early Childhood Australia, sub. 154, p. 59; Binarrri-binyja yarrowoo Aboriginal Corporation, sub. 85, p. 9; The Shop, Distributive and Allied Employees' Association, sub. 72, p. 20).

Inquiry participants noted transport barriers may particularly impact rural and remote, Aboriginal and Torres Strait Islander and culturally and linguistically diverse (CALD) families (ACT Government, sub. 27, p. 6; Early Learning Association Australia INC., sub. 48, p. 2; SSI, sub. 16, p. 3; Binarrri-binyja yarrowoo Aboriginal Corporation, sub. 85, p. 9; Regional Development Australia Loddon Mallee, sub. 15, attachment 1, p. 20). Families on low incomes or where parents are unemployed may find it hard to afford transport costs to access ECEC (Beatson et al. 2022, p. 2938).

Although it is not a mandatory requirement, some services and programs support families with transport (box 7.2). One inquiry participant submitted that some ECEC services assist families with taxi vouchers or bus fares without dedicated funding (Lady Gowrie Child Centre Inc., sub. 25, p. 16). Others, such as Mogo Aboriginal Preschool in New South Wales, offer a bus service to pick up and drop off children (Campbell Page 2023).

There are also examples of services that assist families to overcome barriers other than transport. Research undertaken for the SA Royal Commission into ECEC showed one in five long day care services in South Australia directly offered a foodbank or similar programs (Deloitte Access Economics 2023b, p. 18). One participant described how some services may also assist families with items such as shoes, lunch boxes or clothes, or with groceries (Gowrie Australia, sub. 79, p. 5).

Although responsibility for addressing the above barriers should primarily rest with broader social policy initiatives, ECEC programs may also be able to assist where these barriers cannot be addressed through other government services or programs.

Box 7.2 – Examples of transport provision to support greater early childhood education and care access

Child Care Subsidy services

In a 2019 survey, 6.9% of surveyed Child Care Subsidy (CCS) services offered transport assistance to low-income and vulnerable families (Bray et al. 2021, p. 218). Of this group, the rate was significantly higher for former Budget Based Funded services (36.4%) (Bray et al. 2021, p. 218).

Community Child Care Fund (CCCF)

The CCCF provides a range of grants to CCS services, including to support services in disadvantaged and vulnerable communities to increase the number of children in early childhood education and care (ECEC). Under the CCCF Open Competitive (vulnerable and disadvantaged) grant, one of the permitted purposes includes providing transport assistance to facilitate attendance by isolated families and those with transport difficulties (DESE 2021, p. 10). Grants are also available under the CCCF Limited Supply stream for newly established ECEC services in areas of limited supply to provide transport assistance (DoE 2023a).

Victorian Government School Readiness Funding

The Victorian Government provides School Readiness Funding to ECEC services delivering preschool for three- and four-year olds, with the amount of funding varying depending on the profile of the children enrolled (Victorian Government 2023b). Part of this funding can be allocated for a transport program aimed at improving preschool attendance for children with transport access issues (Victorian Department of Education 2023).

Tasmanian Working Together program

This program provides 20 hours of free early learning per week for eligible children in the year before preschool. It also provides some support to families, including transport assistance for their child to attend (Tasmanian Department for Education, Children and Young People 2023).

The Australian Government Community Child Care Fund (CCCF) provides a range of grants to services, including to address community-level barriers, such as for:

- working with local organisations
- building relationships with families not using ECEC
- providing transport assistance
- developing and implementing a community stakeholder engagement plan (DESE 2021, p. 10).

The last grant round conducted for established services to reduce these barriers was in 2021, with 180 services receiving funding (DoE 2021). To be eligible, services needed to be located in or servicing families in disadvantaged, regional, remote or very remote areas, providing specialised services to a vulnerable or disadvantaged sector of the community (such as an Aboriginal or Torres Strait Islander-specific service, or a service targeting children with additional needs), or have received funding under previous rounds (DESE 2021, pp. 8, 17).

A new CCCF round will be run in 2024, with funding available to support services to address barriers to participation (Community Grants Hub 2023). Further information on the round is not yet available.

Given many of these barriers may require a relatively quick response, it is unclear if the frequency and the design of CCCF is appropriate. The Productivity Commission is seeking feedback from inquiry participants on this, as well as whether the scope of eligible activities is appropriate.

If a new approach is required, the Commission also seeks views from inquiry participants on a preferred mechanism. One option could include a flexible pool of funding available through the CCCF that could be applied for as needed and would be available in all areas, with a service required to demonstrate community need in its application. Alternatively, eligibility for the Innovative Solutions funding stream of the Inclusion Support Program (paper 2) could be expanded to provide funding for activities that address community-level barriers.



Information request 7.1

The Commission is seeking information on the appropriateness and responsiveness of the Community Child Care Fund (CCCF) to address practical barriers to ECEC access (such as transport) that families may face.

- Do CCCF grants adequately and effectively respond to the various practical barriers (such as transport or food provision) that families face in accessing ECEC?
 - Is the current frequency (that is, grant rounds every 2–3 years) and funding amount available to services for community-level supports sufficient? If CCCF is not accessed for this purpose, are services receiving funding for this elsewhere?
- If the current CCCF does not adequately and effectively respond to these needs, what funding changes are needed? Options could include:
 - a more flexible approach through CCCF, with an open pool of funds that could be applied for as needed and available to all services, provided they demonstrated community need in their application
 - an expansion of the Inclusion Support Program, where funding could be provided through Innovative Solutions.

The ECEC system can be complex for families to navigate

The ECEC system can be confusing and hard for families to navigate, with multiple funding sources, programs and governments involved. Inquiry participants raised the difficulties families experience in navigating this system (Early Learning Association Australia INC., sub. 48, pp. 6, 8; KU Children's Services, sub. 83, p. 4; Waverley Council, sub. 132, p. 10; Community Early Learning Australia, sub. 92, p. 8).

As noted in paper 6, families can find the CCS system hard to understand, particularly in relation to their subsidy entitlement, out-of-pocket expenses and engaging with Centrelink.

Others may find navigating and selecting a service confusing. For example, research undertaken by The Smith Family in four communities in New South Wales and Victoria found families may be overwhelmed when trying to understand which preschool service (dedicated or centre-based day care) would be best suited to their family's needs (The Smith Family 2021, p. 22).

In addition, some families may not be aware of ECEC, its benefits or the appropriate age to attend preschool (Early Learning Association Australia INC., sub. 48, p. 8; The Hive Mt Druitt (United Way Australia), sub. 64, p. 4; SSI, sub. 16, p. 3).

For some families, this complexity is compounded by other factors, including low English proficiency, lack of digital access or access to government offices, fear or mistrust in governments, or other circumstances. One participant noted not having a birth certificate can be a barrier for some families (The Hive Mt Druitt (United Way Australia), sub. 64, p. 3) and there are additional challenges CALD families may face due to language, literacy and digital literacy barriers (SSI, sub. 16, p. 3). The 2021 Australian Institute of Family Studies evaluation of the Child Care Package (AIFS evaluation) heard feedback from services that for some families where English was not their first language, the terminology used by Centrelink was at times ‘confusing’ (Bray et al. 2021, pp. 54–55).

The Smith Family noted:

enrolment and subsidy application processes assume a level of agency, literacy and mobility which some families struggle to navigate without support. Families often do not understand their out-of-pocket expenses for [early childhood education] which impacts their ability to make an informed choice. (sub. 108, p. 6)

Providing system navigator support

Simplifying the CCS and making information more accessible to families will go some way towards addressing these issues (paper 6). But given the need to maintain integrity and accountability in public funding, a degree of complexity is likely to remain in the system. As a result, more targeted approaches may be necessary to support families who experience additional barriers to navigating the system.

One solution could involve a ‘system navigator’ role that could provide support to eligible families to understand the system, fees, forms and other enrolment processes. There are already some examples of these types of roles in the ECEC sector, with some receiving government funding (box 7.3).

This role could also conduct outreach with families who may not be aware of or are otherwise unlikely to engage with ECEC. For example, the Municipal Association of Victoria noted that following an expansion of the Victorian CALD Outreach Worker program in 2021, enrolments in targeted preschool and early learning programs provided for priority cohorts increased from 399 to 947 in 2022 (sub. 117, p. 13).

Box 7.3 – Examples of system navigator roles in early childhood education and care

- The Victorian Government provides funding for councils to create centralised preschool enrolment points and funds 22 councils to employ a Culturally and Linguistically Diverse (CALD) outreach worker to address barriers to preschool access for CALD families (Victorian Government 2023c, 2023a).
- Goodstart Early Learning partners with the Victorian Government to deliver outreach and support to families to address barriers to accessing Additional Child Care Subsidy (Child Wellbeing), including providing a Family and Community Engagement Worker who facilitates the administrative process and develops an orientation plan for the child and family (sub. 125, pp. 67–68).
- The Institute for Urban Indigenous Health (IUIH) runs a Deadly Kindies Program, funded by the Queensland Government, which encourages families to complete a health check at a IUIH clinic and enrol in kindergarten (Institute for Urban Indigenous Health nd, nd). IUIH and/or clinic staff can follow up with families to support kindergarten enrolment (Institute for Urban Indigenous Health nd).
- The Hive Mt Druitt Early Learning Linker initiative supports families to seek information about early education or preschool options (The Hive Mt Druitt 2021). It assists families in navigating the Child Care Subsidy process such as enrolment paperwork or accessing their child’s birth certificate. For

Box 7.3 – Examples of system navigator roles in early childhood education and care

families who cannot afford the early childhood education and care bonds, the initiative assists with paying brokerage for bonds or arrears.

- Gowrie Australia notes some services may provide additional support to families to help them navigate enrolments and Services Australia processes, and may provide translation services (sub. 79, p. 5).
- One Tree Community Services receives funding from the Community Child Care Fund for some of its services, which have a Community Liaison Officer to support families in remote communities where there is no Centrelink office (sub. 121, attachment 2, p. 33).

Some families may also receive support from other sources. For example, a 2019 survey of services conducted as part of the AIFS evaluation found 41% of services assisted low-income and vulnerable families with Centrelink applications (Bray et al. 2021, p. 218). And it is likely other non-ECEC services assist families too, although there is no information available to assess the extent to which this happens.

The Commission is seeking information from inquiry participants on whether existing supports are sufficient, or whether investments in a 'system navigator' initiative may be required.

The Commission also seeks feedback from participants on how such an initiative could be delivered, including how it could be delivered in a culturally appropriate way for Aboriginal and Torres Strait Islander or CALD families. Options could involve delivery by Inclusion Agencies as part of the Inclusion Support Program (which would need to be better resourced) or by ECEC services, community organisations or local councils under a grants program. For Aboriginal and Torres Strait Islander families, delivery by Aboriginal Community Controlled Organisations (ACCOs) could also be considered.



Information request 7.2

The Commission is seeking views from inquiry participants on 'system navigator' roles in the ECEC sector.

- Are current initiatives to support families experiencing additional barriers to navigating the ECEC system sufficient? Do they require additional information or support to perform this role?
- Is there a need for national investment in system navigator roles?
 - If so, who would be best placed to perform these roles? Examples could include Inclusion Agencies or contracted delivery by a range of ECEC services, community organisations, local councils or ACCOs.
 - How could this be delivered across different groups of families (for example, regional or remote, Aboriginal and Torres Strait Islander and culturally and linguistically diverse families), including ensuring delivery in a culturally sensitive manner?

Integrated services can reduce system complexity for families

A range of inquiry participants advocated for integrated services to support children and families experiencing vulnerability or requiring services beyond ECEC (for example, The Salvation Army, sub. 56, p. 17; Early Learning and Care Council of Australia, sub. 153, p. 19).

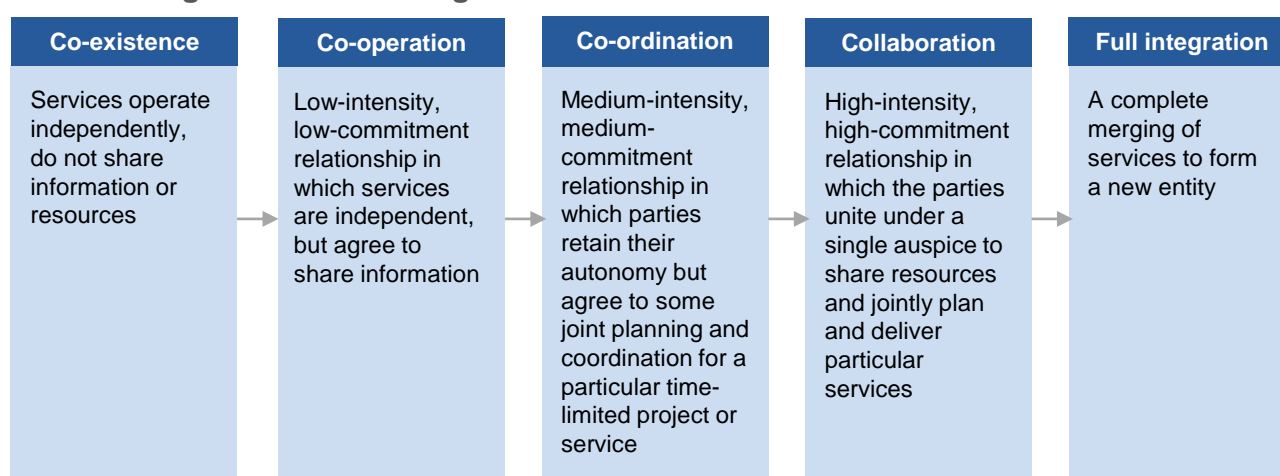
Integrated services can take many forms, operating along a continuum of activities ranging from co-existence (where services operate completely independently) to the complete merging of activities under a single entity (full integration) (figure 7.1). The types of services integrated can vary and can include allied health, employment support, playgroups, family services, or schools. While ECEC is not always included in integrated services, inquiry participants have highlighted the role it can play in an integrated service setting (for example, Early Childhood Australia, sub. 154, p. 37).

Broadly, integrated services:

provide access to multiple services to children and families in a cohesive and holistic way. They recognise the impact of family and community contexts on children's development and learning and focus on improving outcomes for children, families and communities. Through respectful, collaborative relationships, they seek to maximise the impact of different disciplinary expertise in a shared intent to respond to family and community contexts. (Press, Sumsion and Wong 2010, p. 53)

Figure 7.1 – Integrated services operate on a continuum

The five stages of service integration



Source: Adapted from Moore and Skinner (2010, p. 17).

Integration recognises that children and families have a variety of needs

Several inquiry participants highlighted the role of place-based integrated services in supporting families experiencing vulnerability who have multi-faceted needs (for example, Social Ventures Australia, sub. 145, p. 8; Goodstart Early Learning, sub. 125, p. 66). Participants suggested these services provide a range of benefits, including:

- making it easier for families to access support and ensuring they do not need to jump through multiple hoops or repeat their story (SSI, sub. 16, p. 4; Brotherhood of St Lurance, sub. 96, p. 9)
- better identification of child and family needs, including developmental concerns (Royal Far West, sub. 41, p. 15; The Benevolent Society, sub. 98, p. 7)
- improving the engagement and retention of families, particularly those experiencing vulnerability (Early Learning Association Australia INC., sub. 48, p. 18; The Benevolent Society, sub. 98, p. 7)
- better ability to support children and families, including considering whole-of-family needs (The Salvation Army, sub. 56, p. 17; Early Learning Association Australia INC., sub. 48, p. 18).

There are also examples of integrated services providing trauma-informed and responsive support to children and families (box 7.4).

Box 7.4 – Integrated services can be trauma-informed and responsive

Some families and children may experience challenging or vulnerable circumstances, and accessing early childhood education and care (ECEC) may be particularly difficult during these times. This may include experiencing violence, abuse, neglect, exploitation, mental health deterioration, relationship breakdown, housing instability, or other challenging or vulnerable circumstances.

Data from the 2021-22 Personal Safety Survey shows that a considerable portion of Australians have experienced or witnessed family violence and abuse from a young age. About one in six women (18% or 1.7 million) and one in nine men (11% or 1 million) in Australia experienced physical and/or sexual abuse before the age of 15 (ABS 2023a). About 2.6 million people (13%) aged 18 years and over witnessed violence towards a parent by a partner before the age of 15 (ABS 2023a).

Similarly, a 2021 study of 3,775 participants reported that one in six female carers (17.0%) said a child residing with them experienced some form of abuse in the 12 months prior to the survey, perpetrated by a current or former partner (Wolbers, Boxall and Morgan 2023, p. ix).

There are examples of ECEC services undertaking integrated activities to support these families and children.

- Victoria's Early Childhood Agreement for Children in Out-of-Home Care sets out roles and responsibilities for partnered ECEC and child protection organisations, with the aim of ensuring enrolment and ongoing support for vulnerable children in ECEC settings (Victorian Department of Education and Training and Victorian Department of Health and Human Services 2019, p. 45).
- A trial of an intensive ECEC model for children experiencing significant disadvantage who were engaged with family or child protection services included an infant mental health clinician and family support practitioner as staff members (Tseng et al. 2022, pp. 7, 10).
- Budup Wilam Aboriginal Child and Family Centre provides wrap-around services for families requiring additional support, including due to trauma (SNAICC, sub. 133, p. 6). This includes 'family violence assistance, prevention, mental health support, child protection, advocacy and support'.

Integration can overcome the siloing of services – including ECEC

The South Australian (SA) Royal Commission into ECEC refers to the connection function or 'glue' that links ECEC services with other early years services such as health and family supports. It notes 'how funding systems currently fail to adequately recognise its role' (SA Government 2023a, p. 33). Under current arrangements, the majority of these services are funded and delivered independently, making the connection function between services key – but also one that often falls between the cracks when it comes to policy and funding.

The SA Royal Commission acknowledged that creating these connections is challenging because of the different layers of government and non-government organisations involved in this broader service system (SA Government 2023a, p. 63). One way to fund this function, as SA Royal Commission noted, is through the creation of integrated services. In the context of integrated services, this paper refers to this connection function as the 'integration function'.

There are a range of integrated services operating across Australia, and models vary (box 7.5). Some are funded by the Australian, state or territory governments while others may rely on philanthropic or other funding.

Box 7.5 – Examples of integrated services in Australia

Queensland Early Years Places

Each Early Years Place has a different mix of programs including playgroups, early childhood education and care (ECEC), health services and family and parenting support (Queensland Government 2023).

Western Australian Child and Parent Centres

The centres are located at schools in partnership with a non-government organisation (WA Government nd). A range of services may be offered, including maternal and child health, speech therapy support, psychological services and counselling, antenatal classes, early learning programs, playgroups, school holiday programs, parenting and family support, multicultural programs and services, and referrals to other services. The centres do not provide ECEC but four are co-located with ECEC services (WA Government, sub. 162, p. 23).

Tasmanian Child and Family Learning Centres

The centres provide place-based affordable and flexible early learning that parents can attend with their child (Tasmanian Department for Education, Children and Young People, sub. 159, p. 8). Through the centres, families can connect with services, such as adult learning, allied health and social supports.

Northern Territory Child and Family Centres

The centres operate in six locations and provide a range of services including ECEC and the Families as First Teachers program (NT Government 2023). They can also connect families to other services.

Aboriginal Child and Family Centres (ACFCs)

38 ACFCs were originally established through the National Partnership Agreement on Indigenous Early Childhood Development, signed by governments in 2009. The agreement envisaged these centres would provide a mix of services, including ECEC, early learning and parent and family support services (COAG 2009, p. 6). The agreement ceased in 2014, but analysis by Social Ventures Australia identified 44 ACFCs operating in 2023 (Social Ventures Australia 2023, p. 22).

Multifunctional Aboriginal Children's Services (MACS)

As an example of services provided by MACS, Oorunga Wandarrah MACS Centre offers long day care, with regular visits from primary and allied health services (Tharawal Aboriginal Corporation 2023). The centre also invites families to share skills and participate in their child's learning and development.

Australian Government Connected Beginnings program

The program is for Aboriginal and Torres Strait Islander families and provides grants to integrate local support services so children and families can access culturally appropriate services (DoE 2023d). This may include maternal and child health, ECEC, family support, preschools and schools, local government and council support.

Research undertaken by Social Ventures Australia suggests funding for the 'integration function' is generally well accounted for in state- and territory-funded services (Social Ventures Australia 2023, pp. 50–51, 55). But it noted many of these services do not provide ECEC (Social Ventures Australia 2023, p. 60). Other integrated services may not receive explicit funding for this function.

Aboriginal and Torres Strait Islander integrated services, which are primarily funded by the Australian Government, do not generally receive funding for the ‘integration function’ and rely on several funding streams, some of which are short-term (Social Ventures Australia 2023, pp. 54–55). Many of these services are ACCOs. The Commission will consider Aboriginal and Torres Strait Islander integrated services more fully in its final report, following completion of research commissioned by the Early Childhood Care and Development Policy Partnership on funding models for ACCO-delivered ECEC (section 7.3).

Given the varied approach to funding and delivery, there is no official list of integrated services available nationally, or an estimate of the number of integrated services that provide ECEC.

Deloitte Access Economics and Social Ventures Australia undertook a mapping exercise to determine the number of ‘Integrated Child and Family Centres’ (ICFCs) in Australia, which were defined as a hub where families can access key child and family services and connect with other families. This analysis identified 209 ICFCs, around 250 other hubs (that did not meet the ICFC definition) and 80 place-based initiatives nationally (Deloitte Access Economics 2023a, pp. 18–19). Some of these services provide ECEC, but not all.

Despite the range of ICFCs identified, modelling undertaken by Deloitte Access Economics suggested there were at least 100,000 children experiencing significant disadvantage aged 0–6 years who did not have access to an ICFC (Deloitte Access Economics 2023a, p. 6).

While estimates of gaps may vary, the different ways these integrated services are funded and established may give rise to inconsistent access. Some communities that may benefit from integrated services may be missing out, particularly if ECEC is not consistently included. It is also likely community needs will change over time, underlining the importance of continued monitoring.

To ensure investment is targeted to where it is needed, an ECEC Commission (draft recommendation 9.2) should be responsible for advising governments on the need for integrated service hubs involving ECEC and the communities in which they are needed.



Draft finding 7.1

ECEC services cater to many children and families, but some families need additional support

While the current system caters for many families, others may require or prefer different approaches to meet their needs or address barriers to access, and some may require additional support beyond ECEC.

Integrated services can support children and families experiencing vulnerability or requiring services beyond ECEC. Initiatives that create the ‘connection function’ that links ECEC services with other child and family services, such as health and family supports, can also overcome the siloing of services, providing more effective support to families.



Draft recommendation 7.1

Ensure integrated services are available where needed

An ECEC Commission (draft recommendation 9.2) should be responsible for advising governments on the need for integrated early years services involving ECEC and the communities in which they are needed.

But a more joined up system is important too

Aside from the examples discussed above, there are also a range of other activities that may be thought of as involving some form of integration between services.

Evidence presented to the SA Royal Commission into ECEC showed most SA government preschools offered between one and four additional services or activities per year (SA Government 2023b, p. 35). This included speech pathology, health, parenting support and playgroups. Many of these programs were funded through SA Government preschool funding, although some services accessed parent fees as a source of funding.

Work undertaken for the SA Royal Commission also suggested that almost all long day care services in SA identified needs and offered direct supports or referrals where they could (SA Government 2023b, p. 35). Long day care services reported offering an average of around eight additional activities either directly or through a third party in 2023 (Deloitte Access Economics 2023b, p. 17). The range of activities varied, but included supports such as speech pathology, occupational therapy, other allied health and foodbanks (Deloitte Access Economics 2023b, p. 17).

Anecdotal evidence would also suggest similar activities are happening in other services (box 7.6). For example, the NSW Independent Pricing and Regulatory Tribunal's (IPART) review into ECEC noted examples of services providing 'wrap-around' services to families (NSW IPART 2023, pp. 69–70).

Box 7.6 – Integration can encompass a broad range of activities

Plumtree Children's Service

As a not-for-profit, community-based organisation, Plumtree provides preschool services, centre-based playgroups, parent educational programs, and therapies for children aged birth to eight years with a disability or developmental delay and their families (Plumtree Services 2023).

Tiny Tots Talking Program

The Western Sydney Local Health District, in partnership with Blacktown City Council, delivers 'Tiny Tots Talking programs', which aim to increase language-rich environments in early childhood education and care (ECEC) services (Western Sydney Primary Health Network, sub. 57, p. 6). Through the program, speech pathologists provide professional development in ECEC services in low socio-economic environments.

Goodstart Early Learning

Goodstart Early Learning's submission describes how it provides support to families experiencing hardship, including joblessness, mental illness, homelessness and relationship breakdown. It also notes it provides allied health support within its centres (sub. 125, p. 22).

Koorana Preschools

Koorana Child and Family Services runs two preschools in New South Wales. It employs allied health professionals to deliver therapy within its preschools (Koorana Child and Family Services 2022).

One inquiry participant outlined the additional costs services may incur coordinating with other on-site or external services such as allied health or maternal and child health (Gowrie Australia, sub. 79, p. 5). Similar

feedback was provided to the NSW IPART review of ECEC, which heard coordinating with allied health is burdensome upon services (NSW IPART 2023, p. 56).

The expectations upon ECEC services to undertake this type of work are likely to grow. For example, the SA Royal Commission envisaged preschool should include pathways to parental and community supports, including on site (SA Government 2023a, p. 104). And the recent review of the National Disability Insurance Scheme heard from consultations that there is not enough focus on supporting children in their everyday environments, including in ECEC (NDIS Review 2023, p. 12).

As part of its role in assessing access to ECEC in different communities, the ECEC Commission should also explore the connections between existing services and the most suitable ways to address these gaps.



Draft recommendation 7.2

Support connections between ECEC and child and family services

As part of its role in assessing access to ECEC, an ECEC Commission (draft recommendation 9.2) should be responsible for examining connections between ECEC and other child and family services and identifying the most suitable way to address any gaps.

Playgroups can be more accessible than other ECEC services for some families

While outside of the formal ECEC system, playgroups also have a role in supporting families and children in their early years. Unlike formal ECEC services, in playgroups, family members participate alongside their child.

Playgroups as an early years service

Playgroups are delivered in a variety of models. They can operate informally with families or community members (community playgroups) or be run by a trained facilitator for certain cohorts of families (supported playgroups) (Commerford and Robinson 2016, p. 3). Some playgroups may be offered as part of an ECEC or an integrated service.

Playgroups may receive funding for a range of sources, including the Australian, state, territory and local governments (for example, DSS 2023; Playgroup Victoria 2023; Victorian Department of Families, Fairness and Housing 2023). Local governments may also directly provide playgroups (Municipal Association of Victoria, sub. 117, p. 7).

While there is no national data collection on playgroups, an analysis of 2018 AEDC data suggests more than one in three children attended playgroup before they started school (Sincovich, Harman-Smith and Brinkman 2019, p. 1). Analysis of 2015 AEDC data showed attending playgroup was positively associated with development upon school entry for children from a range of backgrounds, after adjusting for confounding factors (Sincovich et al. 2020).

Playgroup Australia submitted that playgroups provide ‘a triple benefit: play-based learning and development for children; social support for parents and carers; and connections that build communities’ (sub. 160, p. 2). More broadly, inquiry participants underlined the role and importance of playgroups in a range of settings (box 7.7).

Box 7.7 – Inquiry participant views on the benefits of playgroups

Inquiry participants have noted that playgroups:

- provide a relaxed and friendly environment (Pathways in Place research program, sub. 130, p. 55)
- provide opportunities for children to play with their peers and support early childhood development (Pathways in Place research program, sub. 130, p. 55; Academy of the Social Sciences in Australia, sub. 116, p. 7; Playgroup Australia, sub. 160, p. 7)
- provide opportunities for parents to strengthen social and community connections, build skills and gain knowledge and information on their child's development (Pathways in Place research program, sub. 130, p. 55; Catholic Education South Australia, sub. 13, p. 2)
- provide valuable community engagement and safe pathways for referral for migrant and refugee families (KU Children's Services, sub. 83, p. 9)
- can be 'non-stigmatising' soft-entry points to ECEC for culturally and linguistically diverse families (SSI, sub. 16, p. 4)
- play an important role for families in rural and regional locations, with several participants highlighting the role of mobile playgroups (Isolated Children's Parents Association Australia, sub. 58, p. 8; Regional Education Commissioner, sub. 102, p. 1; Royal Far West, sub. 41, p. 6).

Supported playgroups can be a source of information and support for families

Supported (or targeted) playgroups are run by a trained facilitator and generally cater to families with diverse needs or vulnerabilities. They may be specific to young parents, parents or children with a disability, those who are socially isolated, experiencing mental ill-health, or from a CALD, Aboriginal or Torres Strait Islander background (Commerford and Robinson 2016, p. 3).

While providing social support, supported playgroups can also link families to formal supports when needed (Commerford and Robinson 2016, p. 14), such as ECEC, health, family, and other services.

Some playgroups may be run specifically for CALD or Aboriginal and Torres Strait Islander families (box 7.8).

Inquiry participants noted the importance of playgroups for CALD families and described how they could provide 'soft entry' points to ECEC (SSI, sub. 16, p. 4). And some playgroups have had success in engaging with CALD families – for example, for approximately 90% of families accessing early years services as part of the National Community Hubs Program (an integrated service for CALD families), a playgroup provided through the hub was the first early years program they had engaged with in Australia (Deloitte Access Economics 2021, p. iv).

Similarly, in a report on a supported playgroup run by the Victorian Aboriginal Child Care Agency (VACCA), SNAICC noted that:

in recognising that Aboriginal and Torres Strait Islander people are best placed to determine what works for their families, these playgroups become valuable places for children and their parent/ carers to gather with other Aboriginal and Torres Strait Islander families, build social connections, access formal and informal supports, discover their heritage, and learn about their culture. In turn, the playgroups work towards VACCA's core purpose of supporting culturally strong, safe and thriving Aboriginal and Torres Strait Islander communities and realising Aboriginal and Torres Strait Islander peoples' right to self-determination. (SNAICC 2022c, p. 3)

SNAICC also described how VACCA facilitators could help connect families with mainstream preschools (SNAICC 2022c, p. 8).

Box 7.8 – Examples of playgroups for culturally and linguistically diverse and Aboriginal and Torres Strait Islander families

National Community Hubs Program

Established in 2013, the National Community Hubs Program (NCHP) uses a place-based, person-centred approach to support culturally and linguistically diverse (CALD) families to connect with their community, schools, health, education and settlement services. There are around 100 hubs co-located in primary schools across four states. As part of their service offering, community hubs run playgroups for children and families.

Gumala Aboriginal Corporation, 3a playgroup

Gumala is a community-controlled organisation. It delivers playgroups in six sites across the Pilbara in Western Australia, for local Aboriginal and Torres Strait Islander children aged 0–5 years and their families.

Where possible, playgroups are run five days a week, with culturally and age-appropriate content that prioritises local languages. They make long-lasting relationships with families, with a key aspect of success being the local staffing. Gumala can also assist families by providing referrals and visits from multidisciplinary teams (such as child health nurses or medical officers) who may attend the playgroups when required.

The playgroups also offer parents and caregivers opportunities to become learning assistants. Once confident, they can progress to becoming a playgroup facilitator.

Source: Deloitte Access Economics (2021, p. ii); Community Hubs (2022, pp. 3, 8, 12); SNAICC (2022a).



Draft finding 7.2 Playgroups are a valuable part of the early years system

While outside of the formal ECEC system, playgroups play a valuable role in supporting families and children in their early years. An ECEC Commission (draft recommendation 9.2) should consider a community's preference for a playgroup when assessing ECEC availability.

7.3 Ensuring Aboriginal and Torres Strait Islander families can access culturally safe services

Cultural safety is an important factor in ensuring ECEC services suit the needs of families. This section highlights the role of community-controlled organisations in providing culturally safe services for Aboriginal and Torres Strait Islander families.

While this discussion focuses on Aboriginal and Torres Strait Islander families, experiencing cultural safety in services is also critical for CALD families. Other aspects of ensuring culturally responsive services are considered throughout this inquiry, including in mainstream ECEC services (paper 2).

Improving the representation of Aboriginal and Torres Strait Islander educators within the ECEC workforce is discussed in paper 3.

Community-controlled services play a significant role for Aboriginal and Torres Strait Islander children, families and communities

While all ECEC services should be inclusive (paper 2), the National Agreement on Closing the Gap recognises that ACCOs are often preferred by Aboriginal and Torres Strait Islander people and achieve better results (clause 43).

Under the National Agreement on Closing the Gap, an ACCO is defined as an organisation that:

delivers services, including land and resource management, that builds the strength and empowerment of Aboriginal and Torres Strait Islander communities and people and is:

- incorporated under relevant legislation and not-for-profit
- controlled and operated by Aboriginal and/or Torres Strait Islander people
- connected to the community, or communities, in which they deliver the services
- governed by a majority Aboriginal and/or Torres Strait Islander governing body. (clause 44)

In an ECEC context, ACCOs may include a variety of organisations, such as Multifunctional Aboriginal Children's Services (MACS) and Aboriginal Child and Family Centres (ACFCs) (box 7.9).

Box 7.9 – The early years community-controlled sector

As at 2022, there were 175 Aboriginal and Torres Strait Islander-focused integrated early years services (PC 2023b). These include Aboriginal Child and Family Centres (ACFCs), Multifunctional Aboriginal Children's Services (MACS), Aboriginal and Torres Strait Islander preschool services and other Aboriginal and Torres Strait Islander-operated long day care centres.

In 2022, around three in five of these services were Aboriginal and/or Torres Strait Islander community-controlled (PC 2023b). The remainder were government and/or non-Indigenous controlled services but may operate with various Aboriginal and Torres Strait Islander community advisory and input arrangements.

Analysis by SNAICC (unpublished) identified 106 early years ACCOs in 2023.

Box 7.9 – The early years community-controlled sector

Aboriginal Child and Family Centres

38 ACFCs were established through the National Partnership Agreement on Indigenous Early Childhood Development (Joint Council on Closing the Gap 2021, p. 7), signed by governments in 2009. The agreement envisaged these centres would provide a mix of services, including ECEC, early learning and parent and family support services (COAG 2009).

The partnership agreement ceased in 2014. However, centres continue to operate with state and territory government funding (Joint Council on Closing the Gap 2021, p. 7). Programs in ACFCs are supported through a variety of state, territory, and Australian government funding, including the Australian Government Indigenous Advancement Strategy, Australian Government early childhood education and care (ECEC) funding and state and territory education and community services.

In 2021, approximately half of ACFCs were operated by community-controlled organisations (Joint Council on Closing the Gap 2021, p. 7). Analysis by Social Ventures Australia identified 44 ACFCs in 2023 (Social Ventures Australia 2023, p. 22). And analysis by SNAICC (unpublished) identified 25 community-controlled ACFCs in 2023.

Multifunctional Aboriginal Children's Services

MACS were first funded in 1987 (Social Ventures Australia 2023, p. 27). In 2003, funding for MACS was consolidated with a range of other services under the Budget Based Funded Program, which provided block-based funding to services (Australian National Audit Office 2010, p. 13). The program ceased in 2018 and these services transitioned to the Child Care Subsidy (CCS) and Community Child Care Fund Restricted grant funding, which provides supplementary funding to the CCS (Social Ventures Australia 2023, p. 27).

There were previously 37 MACS but in 2021 fewer than 30 remained (Joint Council on Closing the Gap 2021, p. 7). Analysis by SNAICC (unpublished) identified 26 community-controlled MACS in 2023.

ACCOs are well placed to provide early years and family services

As the Commission noted in its draft report of the Review of the National Agreement on Closing the Gap, ACCOs are well placed to design and deliver culturally safe and effective services for Aboriginal and Torres Strait Islander people (PC 2023a, p. 39). In part, this is because ACCOs 'employ more Aboriginal and Torres Strait Islander people, have greater cultural expertise, skills and knowledge and have stronger ties to the community' (PC 2023a, p. 39).

Similarly, consultations undertaken as part of the Australian Human Rights Commission's Wiyi Yani U Thangani report highlighted that successful models of early childhood learning were community-owned and controlled, engaged Aboriginal and Torres Strait Islander staff in delivering the curriculum, were family-inclusive, and had a balance of both cultural learning and Western education priorities (Australian Human Rights Commission 2020, p. 459).

Inquiry participants spoke about the value of ACCOs to Aboriginal and Torres Strait Islander children and families.

We know ACCO services achieve outcomes for both our children and adults. We know our children and families prefer to access ACCO services over services run by others, which achieves

better outcomes for our children’s learning and development. (Binarri-binyja yarrowoo Aboriginal Corporation, sub. 85, p. 11)

The strengths of ACCOs include their connections and accountability to their communities and use of a holistic model to deliver integrated and culturally safe services, which can lead to better health and wellbeing outcomes (SNAICC 2022b, p. 26).

In addition to delivering culturally safe services, ACCOs also play a key role in delivering integrated services for Aboriginal and Torres Strait Islander children and families. For example, SNAICC submitted that:

ACCOs provide a broad range of education, family and early intervention services ranging from community-based playgroups to fully integrated early education and family support hubs which provide holistic wraparound services to families. These services have a significant impact on supporting children and families, preventing child protection intervention, support self-determination and work to ensure children are connected to their families, communities, cultures and Country. (sub. 133, p. 6)

Governments have committed to strengthening ACCOs

Under Priority Reform 2 of the National Agreement on Closing the Gap, governments committed to building Aboriginal and Torres Strait Islander community-controlled sectors, including in early childhood care and development (clauses 42, 48–50).

Under the agreement, parties agreed that a strong community-controlled sector was where:

- there is sustained capacity building and investment in ACCOs to deliver services according to a set of relevant standards
- there is a dedicated Aboriginal and Torres Strait Islander workforce with wage parity
- community-controlled organisations delivering common services are supported by a Peak Body, governed by a majority Aboriginal and Torres Strait Islander Board, which has strong governance and policy development and influencing capacity
- community-controlled organisations delivering common services have a dedicated, reliable, and consistent funding model to suit community and individual needs (clause 45).

To support this reform, the Joint Council on Closing the Gap agreed in-principle the Early Childhood Care and Development Sector Strengthening Plans (ECCD SSP) in December 2021 (NIAA 2023). The ECCD SSP includes 18 ECEC-related actions related in the following areas:

- workforce
- capital infrastructure
- service delivery
- governance
- consistent funding model
- peak body (Joint Council on Closing the Gap 2021, pp. 21–40).

A key objective of the ECCD SSP is the ‘development of dedicated, reliable and consistent funding models’ for ACCOs (Joint Council on Closing the Gap 2021, p. 19).

However, SNAICC’s submission raised concerns about the adequacy of funding for ACCOs. SNAICC argued that an ACCO funding model should reflect the integrated and tailored support services ACCOs provide, the limited economies of scale, costs associated with operating in rural and remote areas, and support for the Aboriginal and Torres Strait Islander workforce (sub. 133, p. 13).

Similar views were captured in the ECCD SSP, which observes:

Aboriginal and Torres Strait Islander ECEC services have noted the impact of the shift from a dedicated funding model to CCS, with fees now dependent on enrolments and attendance. In particular, former [Budget Based Funded] and Indigenous Advancement Strategy services who still receive a similar amount of funding through the [Community Child Care Fund Restricted grant] and CCS, have noted that their attention has shifted from supporting the most vulnerable children and families within their communities to thrive, to meeting the needs of working families – the key target group for CCS. Many of these services also report reduced attendance by Aboriginal and Torres Strait Islander children and families related to additional challenges and barriers to access childcare funding and attend their early education and care service. (Joint Council on Closing the Gap 2021, p. 11)

Two relevant changes to Australian Government early years funding for ACCOs have occurred in recent years: the cessation of the National Partnership Agreement on Indigenous Early Childhood Development for ACFCs in 2014 and the transition to the CCS in 2018 for MACS and other former Budget Based Funded (BBF) services (box 7.9). Where these services receive direct Australian Government ECEC funding, they are now incorporated into mainstream ECEC funding arrangements (Joint Council on Closing the Gap 2021, p. 10). Funding for child and family functions varies based on the government funding the program (Joint Council on Closing the Gap 2021, p. 10). MACS are also eligible for supplementary funding through the Community Child Care Fund Restricted grant (CCCF-R) (Social Ventures Australia 2023, p. 27).

In a 2023 research report on integrated services, Social Ventures Australia found that while the CCCF-R operates as a temporary 'stop-gap measure', MACS were reliant on the grant for continued operations in non-viable markets (Social Ventures Australia 2023, pp. 27–30). And it also identified that many Aboriginal and Torres Strait Islander integrated early years services are reliant on multiple funding streams and sources, which may be short term or one-off (Social Ventures Australia 2023, p. 54).

In its submission, SNAICC expressed the need for 'adequate, long-term, and flexible' funding for ACCOs, and recommended 'priority and increased funding' for ACCOs that provide integrated, holistic early years services, including ACFCs and MACS (sub. 133, pp. 5–7). Another participant suggested reinstating block-funding for Aboriginal-controlled ECEC services, as per the previous BBF program (Australian Research Alliance for Children and Young People, sub. 107, p. 5).

The Early Childhood Care and Development Policy Partnership has commissioned a research project to develop funding model options for ACCO-delivered ECEC, including integrated early years services, with delivery of the research project expected for completion in December 2023 (ECPP 2023b, p. 2, 2023a, pp. 1–2). In addition, the Australian Government Department of Education has commissioned a review of the CCCF-R, which is due to be completed by early 2024 (DoE 2023c).

The Commission will consider findings from these pieces of work in its final report.



Draft finding 7.3

ACCOs are well placed to provide early years and family services – but face funding challenges

Aboriginal Community Controlled Organisations (ACCOs) provide culturally safe ECEC to Aboriginal and Torres Strait Islander children – but often face funding challenges and uncertainty.

Under Priority Reform 2 of the National Agreement on Closing the Gap, governments have committed to building Aboriginal and Torres Strait Islander community-controlled sectors, including in early childhood care and development. The Early Childhood Care and Development Policy Partnership, established as part of the Closing the Gap commitments, provides a forum for governments and Aboriginal and Torres Strait Islander people to develop new funding frameworks to support the work of ACCOs.

7.4 Flexibility is important to many families

For families, ECEC plays a key role in enabling labour force participation (paper 4). To do so, families require ECEC that is available during their working hours and is compatible with their work arrangements.

For many families, particularly those with non-standard work arrangements, the ability to access flexible ECEC services is important for enabling this participation. For example, this may include access to services that are able to accommodate non-standard hours, shorter sessions or access on a casual or occasional basis. And some families experiencing vulnerability may require access to flexible ECEC to enable other activities, such as attending appointments or interviews (The Salvation Army, sub. 56, p. 10; Bridge Darebin, sub. 3, p. 1).

Other families, including those working standard hours, may face challenges managing preschool hours, which do not align with a standard-work week.

This section considers:

- the flexibility of CCS services, particularly for families with non-standard work arrangements
- the structure of preschool hours and the challenges this can create for families requiring additional hours of ECEC.

The flexibility of CCS services could be improved

Flexibility is an important consideration for families, particularly as many have non-standard work arrangements (figure 7.2).

In a 2023 survey of New South Wales parents, finding providers who had suitable operating hours and/or could accommodate flexibility in required days was the third largest barrier to using ECEC (NSW PC 2023, p. 20). Similarly, in a 2021 survey, 80% of parents agreed there need to be more affordable and flexible options for families working unusual hours and 43% reported they had had to change work arrangements to fit in with the service they could find or afford (The Front Project 2021, pp. 47–48).

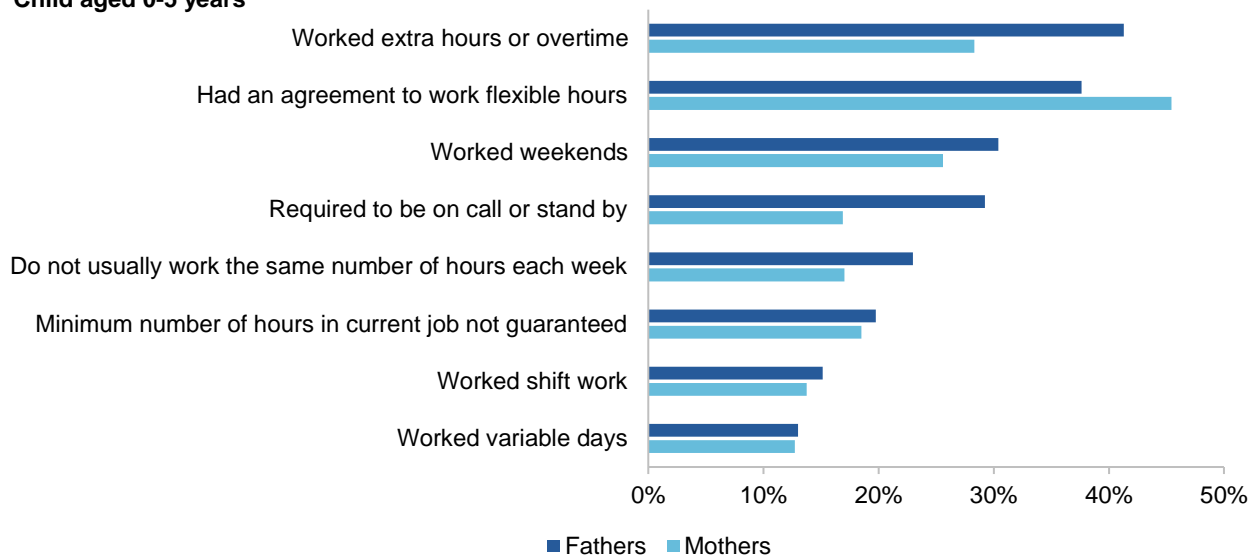
It is hard, however, to distinguish how much these findings relate to broader availability issues (paper 5). For example, parents may regard the system as relatively inflexible if they are unable to access their preferred days, even if they are within 'standard hours'. The Australian Institute of Family Studies evaluation of the Child Care Package evaluation (AIFS evaluation) noted it was common for parents to answer questions

about flexibility in terms of access (such as vacancies or lack of services in an area) or affordability, suggesting these concepts are linked for many families (Bray et al. 2021, p. 147).

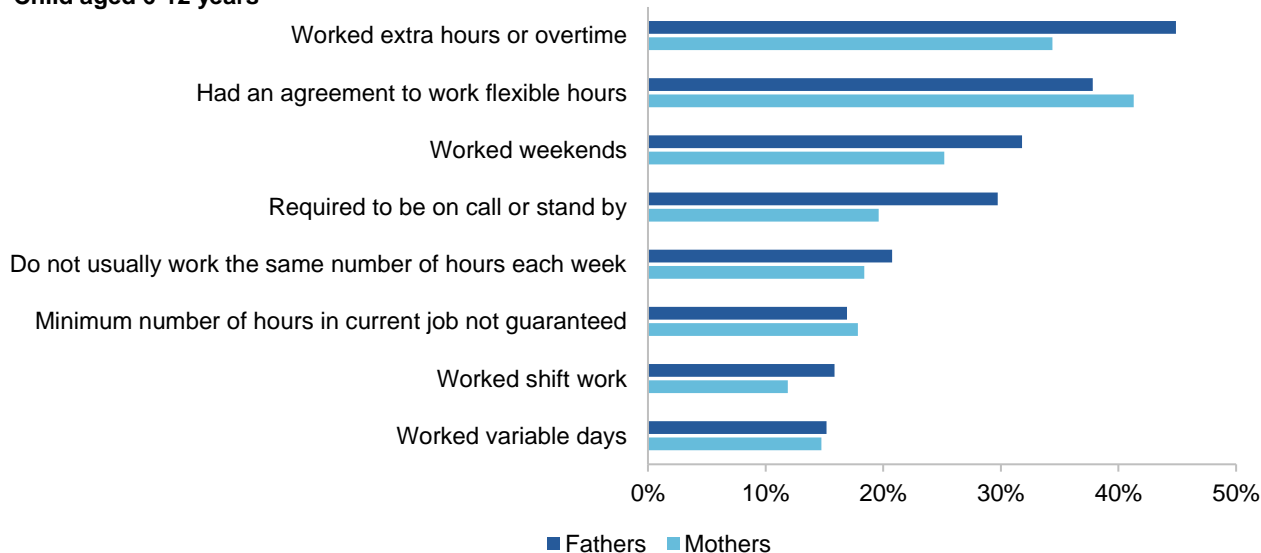
Figure 7.2 – Non-standard work arrangements are relatively common^{a,b,c}

Select usual work arrangements of employed parents by age of youngest child, August 2021 and August 2022

Child aged 0-5 years



Child aged 6-12 years



a. Data for some variables is only reported every two years. Data on proportion of people who work variable hours each week and who do not have a guaranteed number of minimum hours are from 2022. All other data is at 2021. Some estimates that are not statistically different from zero have been included in the calculations to maintain consistency across variables. These estimates do not materially affect the results. b. Data on ‘worked variable days’, ‘worked weekends’ and ‘worked extra hours or overtime’ is for all respondents’ jobs. The other variables are only for respondents’ main job. c. Excludes contributing family members in their main job.

Source: Productivity Commission estimates based on ABS (August 2021; August 2022), Characteristics of Employment, Australia TableBuilder, accessed 9 October 2023.

Surveys conducted in 2018 and 2019 as part of the AIFS evaluation show that the three most common areas families thought could be improved related to:

- flexible session lengths, including only paying for hours of ECEC used, and charging per hour or half-days
- service operating hours, with being able to drop off and pick up children earlier and later than currently available being most frequently cited
- ability to book days on a casual basis or swap days, which was particularly common among parents working rotating rosters or casually. (Bray et al. 2021, p. 147).

These findings generally align with the views of inquiry participants (box 7.10), with concerns largely focussed on the challenges experienced by families with non-standard work arrangements. But while non-standard work arrangements are relatively common (figure 7.2), it is hard to assess how many families with non-standard work arrangements will require flexible ECEC services to facilitate their labour force participation.

Some families will manage non-standard work arrangements through the family unit, or through accessing informal care arrangements. Others may use non-standard work arrangements to help them manage their caring responsibilities. In June 2017, 64% of surveyed families reported either parent used flexible work arrangements (such as flexible working hours, shift work, working at home, part-time work, job sharing or other arrangements) to care for their children aged 0–11 years (ABS 2018).

Nonetheless, there is likely a cohort of families for whom the current structure of ECEC hours do not work for. This section considers the availability of non-standard hours ECEC, session lengths and charging practices and access to ECEC on a casual basis.

Box 7.10 – Participant views on flexibility

One participant reflected on the challenges faced by shift workers:

it's extremely difficult for shift workers to continue their career with the currently available childcare scheme. Most centres are only open from 6:30-7am to 6-6:30pm. This makes it near impossible to return to work with young children, as often shifts will start at 7am or earlier (be 12 or more hours in length, due to urgent patient care requirements) and may end at 8pm to 11:30pm or be overnight. (brief comment 26)

The Salvation Army submitted:

a lack of flexibility complicates access to ECEC for families due to a lack of appropriate service availability. For example, many parents and carers work outside of standard ECEC hours. This includes shift workers, and parents working casually and requiring ad hoc care arrangements. Further ECEC is often required on an ad hoc basis to allow parents and carers to attend appointments such as interviews and housing inspections. (sub. 56, p. 10)

The Shop, Distributive and Allied Employees' Association submitted findings from research into their members' experiences of managing their work and care responsibilities. Findings included that:

- many families pay for formal childcare that they do not use ... Families sometimes book more care than they need because their child care service requires regular bookings, but their employers do not offer regular hours. ... When their roster becomes available, they may discover they only need two or three of those days, but still need to pay for the days

Box 7.10 – Participant views on flexibility

their child doesn't attend. Other times, families pay for childcare that their child doesn't use because the service will not accept a sick child, or because the parent's roster has changed with short notice, and they do not require the care (sub. 72, p. 7)

- the most commonly mentioned challenge was the need to pay for a full day of long day care, even if a child attends for short hours ... Child care becomes unaffordable for SDA members as a result. (sub. 72, p. 8)

Australian Council of State Schools Organisations Ltd stated:

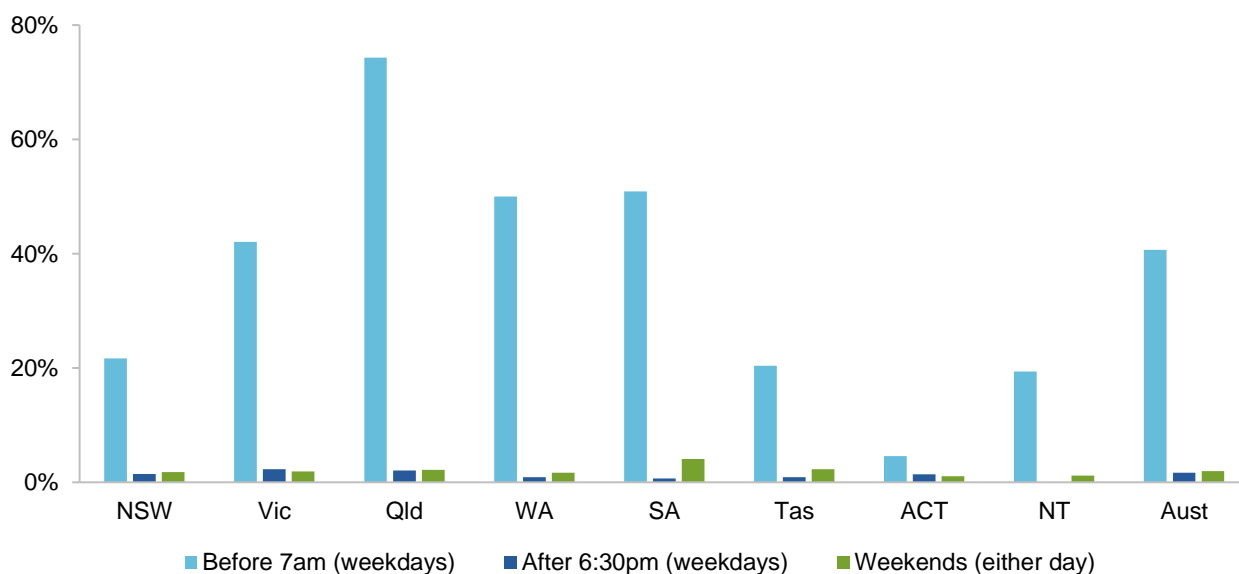
due to the demands of our working lives, many of us require overnight or weekend childcare options. However, unfortunately, most childcare centres operate only during regular business hours and have yet to adapt to these changes (sub. 115, p. 4).

The availability of non-standard hours ECEC is limited

Access to CCS approved services during non-standard hours is limited. While around 41% of services are available before 7am on weekdays, the proportion of services available after 6.30pm on a weekday or on the weekend is very small (figure 7.3).

Figure 7.3 – Early opening hours is the most common non-standard hours service provided^a

Proportion of CCS approved services available during non-standard hours, March quarter 2022



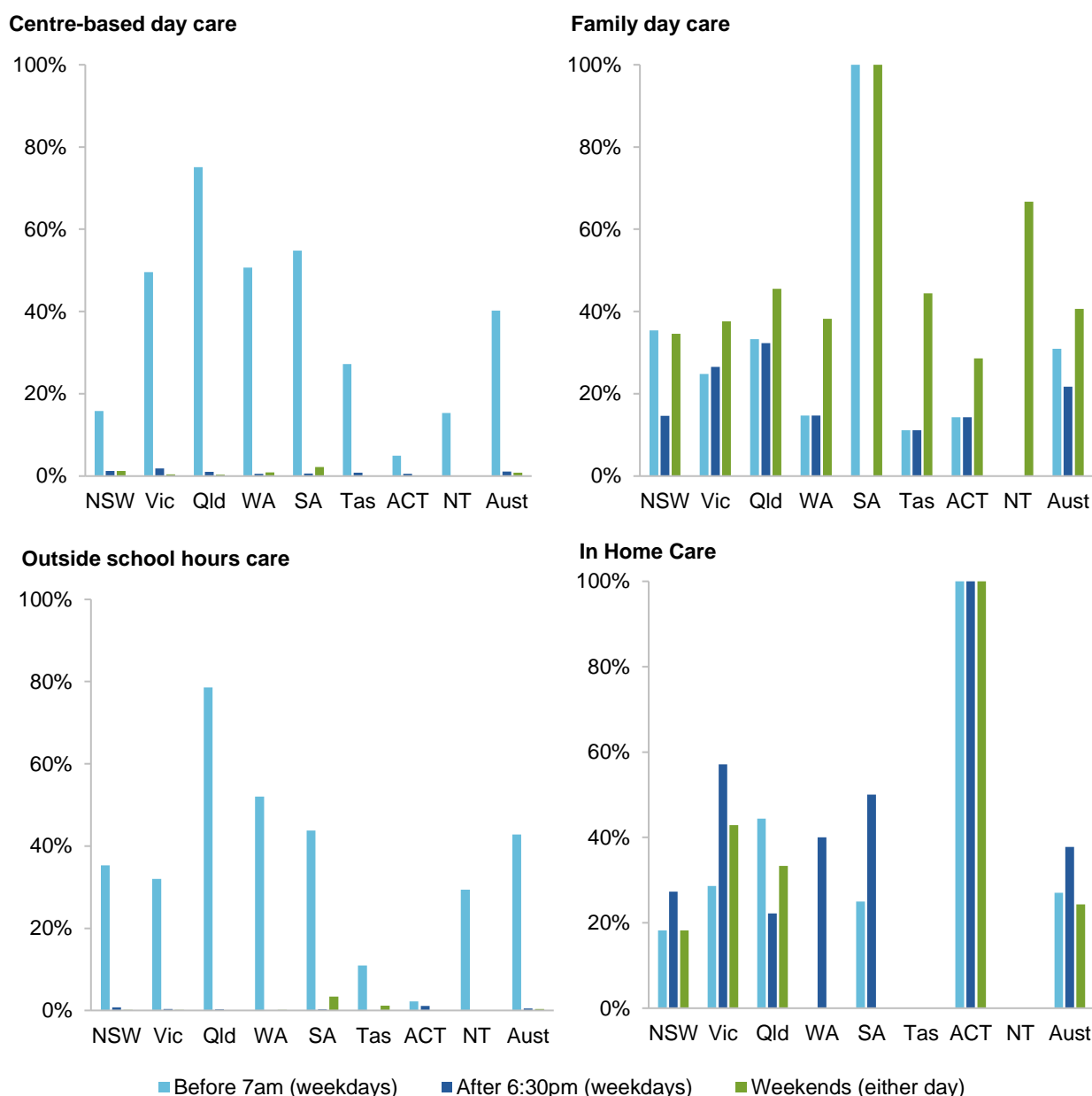
a. The opening hours of some services were unknown for the March 2022 quarter. Proportions are calculated as a percentage of the total services where opening hours were known.

Source: SCRGSP (2023).

This varies by service type, with family day care (FDC) and In Home Care (IHC) services typically offering more flexible operating hours (figure 7.4). But numbers of FDC services have declined in recent years (paper 5).

Figure 7.4 – Non-standard hours service offerings vary by service type^a

Proportion of CCS approved services available during non-standard hours, by service type, March quarter 2022



a. The opening hours of some services were unknown for the March 2022 quarter. Proportions are calculated as a percentage of the total services where opening hours were known.

Source: SCRGSP (2023).

There are a range of barriers to non-standard hours ECEC

Inquiry participants highlighted a variety of barriers to providing non-standard hours ECEC, including lack of staff, regulatory restrictions and the prohibitive cost of providing these services (box 7.11). These views align with the AIFS evaluation, which concluded a lack of flexibility was due to the cost of provision, including the

need to pay penalty rates and potentially offer staff other incentives to work non-standard hours (Bray et al. 2021, p. 173). These additional costs are not currently reflected in the CCS hourly rate cap.

In addition, some providers participating in the evaluation survey reported regulation and licensing issues, such as restrictions on service hours of operation (Bray et al. 2021, p. 152).

While the Commission has not undertaken a comprehensive stocktake of planning requirements, it notes findings from the NSW Productivity Commission that planning restrictions may restrict service opening hours in New South Wales. For example, NSW planning guidelines suggest the hours of operation of ECEC services should be confined to 7am to 7pm on weekdays for centres in predominantly residential areas and some local NSW councils further restrict operating hours (NSW PC 2023, p. 42).

Box 7.11 – Service providers' views on barriers to extended opening hours

One Tree Community Services, an early childhood education and care (ECEC) provider, submitted:

the cost of delivering non-standard hours of care or flexible care is prohibitive. This is primarily related to the salary costs and NQF requirements. Our experience is families are not prepared to pay the higher fees. It is also extremely difficult (if not impossible) to staff these arrangements. (sub. 121, p. 15)

The Australian Childcare Alliance stated:

lack of available staff, award restrictions and lack of demand are the key barriers preventing providers from offering more flexible care. The flow on effect is felt by services in their capacity to offer spaces to families, while balancing the staff ratio requirements ... There are often calls for more flexible care models, this requires ECEC staff to work outside of regular hours, with different work conditions and agreements in place. Without funding mechanisms to support these extended hours of care in addition to the 6am to 6pm [long day care] model, and the critical workforce issues – this often seems out of reach. (sub. 150, pp. 38–39)

Lady Gowrie Child Centre Inc. noted:

[ECEC in non-standard hours] tends to remain unviable given the staffing costs and limited use by paying families. (sub. 25, p. 15)



Draft finding 7.4

Additional costs of providing ECEC during non-standard hours are not reflected in the hourly rate cap

Access to Child Care Subsidy approved services during non-standard hours is limited. Services incur additional costs, such as penalty rates, to provide ECEC during these times but these costs are not reflected in the hourly rate cap.

Adjusting the hourly rate cap and reducing regulatory restrictions could help improve availability in non-standard hours

The cost of non-standard ECEC can be a barrier – for families and service providers. The Council of Single Mothers and their Children noted the cost of ECEC can be prohibitive for those in roles requiring work over weekends or at night (sub. 100, p. 3). For some families, IHC offers an alternative option. But one IHC provider noted they typically charged higher fees for non-standard hours and that families found the out-of-pocket expense too high (Australia’s Leading Home Care Agency, sub. 167, pp. 2–4).

Previous trials of non-standard hours ECEC provision have fared poorly. The Child Care Flexibility Trials conducted in 2013 and 2014 tested different models of flexible ECEC delivery, including non-standard hours ECEC. This included extended operating hours in long day care and outside school hours care (OSHC) settings, weekend and evening ECEC in a school-age setting, and FDC available 24/7 and changeable at short notice (Baxter and Hand 2016, pp. 1–3). Take up of the first two options was low – with the exception of services that provided extended hours at no additional cost (or without the need to book). And in FDC there were challenges matching families with educators willing to provide a flexible service.

Given the additional costs of provision and families’ concerns about affordability, the Commission considers there to be a case for raising the hourly rate cap for ECEC provided during non-standard hours. This is unlikely to incentivise every service to offer non-standard hours ECEC. But it should help address affordability concerns related to IHC and may, at the margin, incentivise provision by FDC and centre-based day care (CBDC) services where there is sufficient demand.

In designing the higher rate cap, the Australian Government should ensure:

- families are required to provide evidence both parents work non-standard hours to access the higher rate cap
- the higher rate cap is only available during non-standard hours, with the definition adopted in the Children’s Services Award (weekdays before 6.00am and after 6.30pm and weekends) offering a useful anchor point (but is not available if services offer care for a short period either side of standard hours)
- the higher rate cap is applied to all service types, although different rates should be set for each service type to reflect differences between them in costs of provision.

The higher rate cap should be set based on the costs of providing ECEC during non-standard hours and subject to regular review and indexation, consistent with draft recommendation 6.2.

In addition, the Commission considers there is no clear case to restrict the operating hours of services. State, territory and local governments should review their planning regulations to ensure they do not unnecessarily restrict service opening hours.



Draft recommendation 7.3

Introduce a higher hourly rate cap for non-standard hours

The Australian Government should raise the hourly rate cap for ECEC delivered during non-standard hours. In designing the higher rate cap, the Australian Government should ensure:

- families are required to provide evidence that both parents work non-standard hours to access the higher rate cap
- the higher rate cap is only available during non-standard hours, with the definition adopted in the *Children's Services Award* (weekdays before 6.00am and after 6.30pm and weekends) offering a useful anchor point (but is not available if services offer care for a short period either side of standard hours)
- the higher rate cap is applied to all service types, although different rates should be set for each service type to reflect differences between them in costs of provision.

The higher rate cap should be set based on the costs of providing early childhood education and care during non-standard hours and subject to regular review and indexation as outlined in draft recommendation 6.2.



Draft recommendation 7.4

Examine planning restrictions related to operating hours

State, territory and local governments should examine their planning regulations to ensure they do not unnecessarily restrict the ability of services to provide ECEC during non-standard hours.

Session lengths and charging practices are relatively rigid

Session lengths and charging practices were raised by several inquiry participants, who raised concerns about families paying for hours of ECEC they do not use (National Foundation for Australian Women, sub. 10, p. 7; The Shop, Distributive and Allied Employees Association, sub. 72, p. 8).

Charging practices vary by service type, but families are typically charged based on session lengths rather than hours attended. In CBDC, services most commonly charge a daily fee for a full-day session (such as 10 or 12 hours) although some may offer shorter or part-day sessions (ACCC 2023a, p. 72). As a result, children often attend for fewer hours than families are charged, although usage patterns vary across service types (figure 7.5). Across a year, children only attend about 60% of the hours for which their families are charged (paper 6).

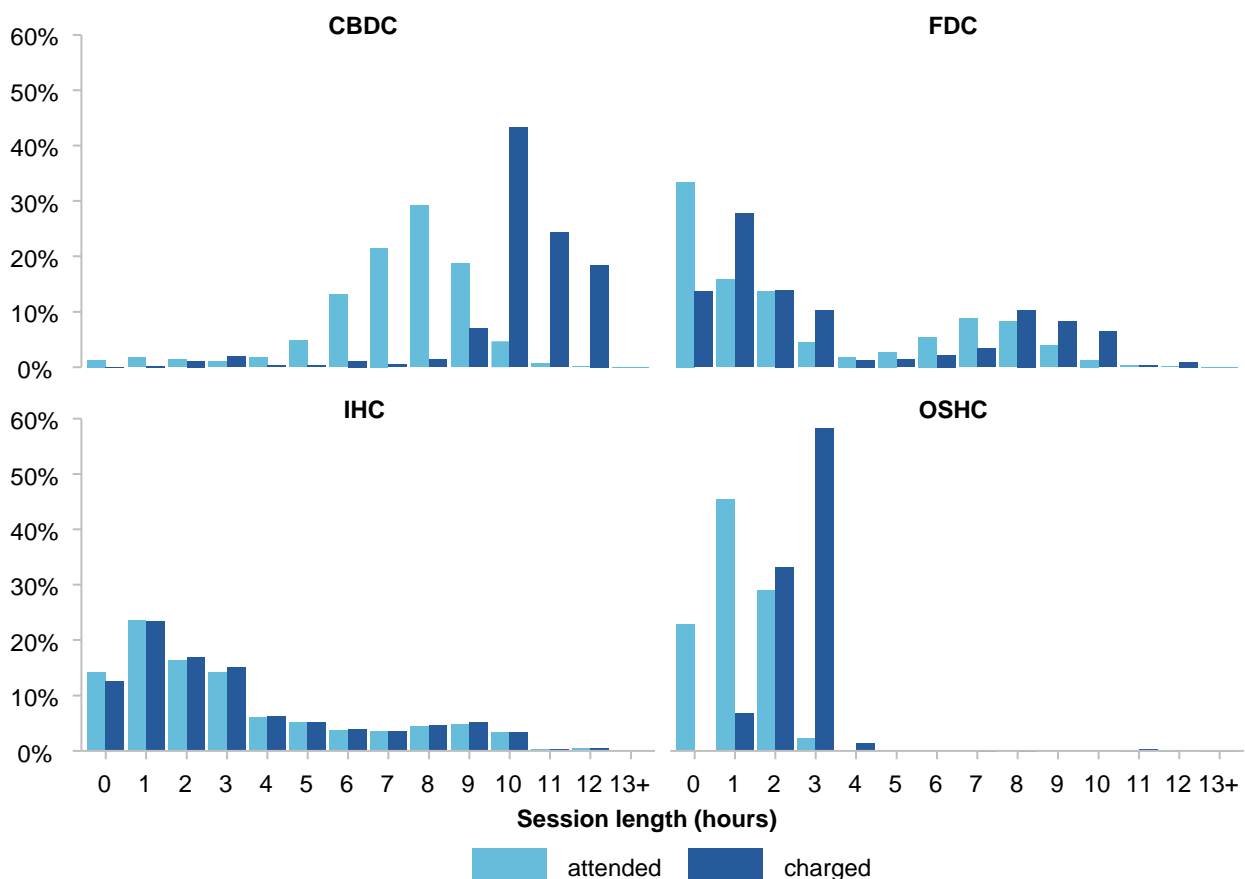
This inflexibility can also lead to families being charged for unsubsidised hours, and it imposes a cost on the tax payer, as some subsidised hours go unused. It is challenging, however, to determine the extent of overpayment by families (and taxpayers), given hourly fees are likely to be higher for shorter sessions.

The lack of flexibility in session lengths may also create 'air pockets' in the system. Over 10% of children who attended CBDC in 2021-22 did so for an average of less than six hours a day in at least half of the weeks they attended (among children who were enrolled for at least four weeks and excluding weeks in which a child did not have any attendance records during the week) (Productivity Commission estimates based on DoE administrative data (unpublished)).

This suggests there is unused capacity in the system that may be able to be used by other families. For example, shift workers who only require ECEC for parts of the day could ‘share’ a place with other families that have different working schedules. While this would remove some flexibility, as families would have to adhere to their booked schedules, it would increase the availability of ECEC overall.

There may also be scope to release places to other families when there is a planned absence, such as holidays.

Figure 7.5 – Attendance patterns in some services differ to charging patterns^{a,b}
Distribution of hours attended per session compared to hours charged per session, by service type, 2022



a. Session lengths rounded down to the nearest hour. Based on a select week ending 20 November 2022. **b.** Excludes sessions where a child did not attend, or where there is insufficient information available to determine attendance.

Source: Productivity Commission estimates based on DoE administrative data (unpublished).

Some services offer multiple session lengths but in CBDC this is likely due to the activity test

One of the intended impacts of the 2018 Child Care Package was to improve the flexibility of services. By removing restrictions on the hours per day and days per week a service must be open, the package was expected to increase offerings of shorter session lengths (Bray et al. 2021, p. 145).

The Child Care Provider Handbook, published by the Australian Government Department of Education, states:

child care providers should consider changes that deliver flexible, cost-effective care and learning services for families. For example, providers could choose to offer parents receiving 36 hours of subsidy under the preschool category six sessions of six hours or four sessions of nine hours per fortnight. (2023b, p. 66)

While the AIFS evaluation found CBDC services offered a greater variety of session lengths in response to the package, this appeared largely driven by service attempts to align offered hours with families' allowed hours under the activity test (Bray et al. 2021, p. 173). And it also found the 2018 changes had limited impact on the extent to which hours attended fell significantly below those charged for (Bray et al. 2021, p. 170). A survey conducted in 2019 as part of the evaluation found that across all service types:

- 39.1% of surveyed services charged by the day or had one session length
- 42.8% said families can choose from multiple sessions
- 11.0% reported having multiple sessions, with some only offered to particular families
- 3.8% charged on an hourly basis
- 3.4% had other charging arrangements. (Bray et al. 2021, p. 160)

Similarly, the Australian Competition and Consumer Commission found that CBDC services optimise session lengths to maximise the number of hours subsidised under the activity test (ACCC 2023b, pp. 174–175).

Despite this, session lengths in CBDC are still typically 10 to 12 hours, and providers argued they encounter viability challenges and lack of demand for shorter sessions (box 7.12).

The AIFS evaluation also identified the challenges shorter sessions create for services in having to maintain staff ratios and resourcing, and in managing occupancy, budgeting and administration (Bray et al. 2021, pp. 152–153).

Box 7.12 – Service providers' views on shorter session lengths

Goodstart Early Learning's submission noted it previously offered two six-hour sessions in the middle of the day to support families entitled to 24 hours of subsidised early childhood education and care (ECEC) per fortnight under the low-income activity test exemption. However, it noted these were not successful because:

- families found the offer inconvenient and hard to navigate around other commitments, such as picking up and dropping off older children, especially when using public transport
- educators found it challenging to plan and program for high quality, intentional early learning experiences and to support peer-to-peer learning when most children were attending for longer days. We also had reports of children not wanting to 'always leave early' while other children got to 'stay with their friends'
- at a provider level, shorter sessions had to be heavily subsidised as costs for the 'unsold' hours each day could not be recovered
- demand for six-hour sessions has declined further each year, particularly since COVID, and the impact of the hourly fee cap has meant out-of-pocket costs for families increased despite ongoing cross subsidisation by Goodstart. (sub. 125, p. 31)

The Australian Childcare Alliance submitted:

service providers are limited in extending a huge variety of session offerings as they impact service viability. (sub. 150, p. 16)

Creating incentives for shorter sessions that match attendance

Services are not prohibited from offering shorter session lengths. As the above discussion shows, some CBDC services do appear to tailor their session offerings to meet a family's subsidised hours under the activity test. And in FDC and IHC, hourly charging models are relatively common (Bray et al. 2021, p. 160).

But as the ACCC noted, CBDC providers generally charge a daily fee, which is often similar across a range of different session lengths (ACCC 2023b, p. 174). A uniform session length is likely easier for providers to manage and keeps their costs in check. But there may be potential to develop solutions to enable viable models for shorter sessions. For example, one provider in Scotland allows families to book by the hour and change their hours each week (Flexible Childcare Services Scotland 2023). To enable this, it has developed a software tool that enables services and parents to see hour-by-hour information about service availability (Flexible Childcare Services Scotland 2021).

The Commission is considering ways to encourage providers to offer greater flexibility around session lengths. It seeks further information from inquiry participants on the barriers to providing shorter sessions of ECEC that more closely align with attended hours. It also seeks views from families on their preferences for shorter sessions, noting that in some cases shorter session lengths may create less flexibility for families by reducing the window of time they have to drop off and pick up their children.

More closely aligning session lengths to attended hours may also help make existing spare capacity more available to families requiring access to ECEC on a casual or occasional basis. This issue is discussed in the following section.



Draft finding 7.5

Families do not use a significant amount of the ECEC that they pay for

In centre-based day care, services most commonly charge a daily fee for a full-day session (such as 10 or 12 hours) although some may offer shorter or part-day sessions. Children's attendance patterns often do not align with hours charged for, meaning families and taxpayers pay for ECEC that is unused. Across a year, children only attend about 60% of the hours for which their families are charged.

This inflexibility can lead to families being charged for unsubsidised hours. It may also create 'air pockets' in the system. Over 10% of children who attended CBDC in 2021-22 did so for an average of less than six hours a day in at least half of the weeks they attended. This suggests there is unused capacity in the system that may be able to be used by other families.



Information request 7.3

The Commission is seeking information on barriers and potential solutions to providing shorter sessions of ECEC that more closely mirror attendance patterns and are less expensive than full-day sessions, particularly in centre-based day care. Suggestions for ways that unused hours ('air pockets' in the system) might be made available to families who want access to ECEC on an occasional basis are also sought.

Access to ECEC on a casual basis is particularly important for some families

For some families, the ability to access ECEC on a casual or occasional basis plays a key role in supporting their labour force participation or other needs. Inquiry participants highlighted the role such flexibility plays in supporting families working unpredictable hours and those who may require care for activities such as job interviews (The Shop, Distributive and Allied Employees Association, sub. 72, p. 7; The Salvation Army, sub. 56, p. 10).

Other inquiry participants highlighted the role dedicated occasional care services play in supporting families experiencing vulnerability, who may require ECEC to attend English classes, training, appointments, or court cases (Bridge Darebin, sub. 3, p. 1; Neighbourhood Houses Victoria, sub. 124, p. 3). These services were previously a separate service type for the purposes of Child Care Benefit (CCB), but in 2018 were combined with long day care services under the CBDC service type (Bray et al. 2021, p. 8).

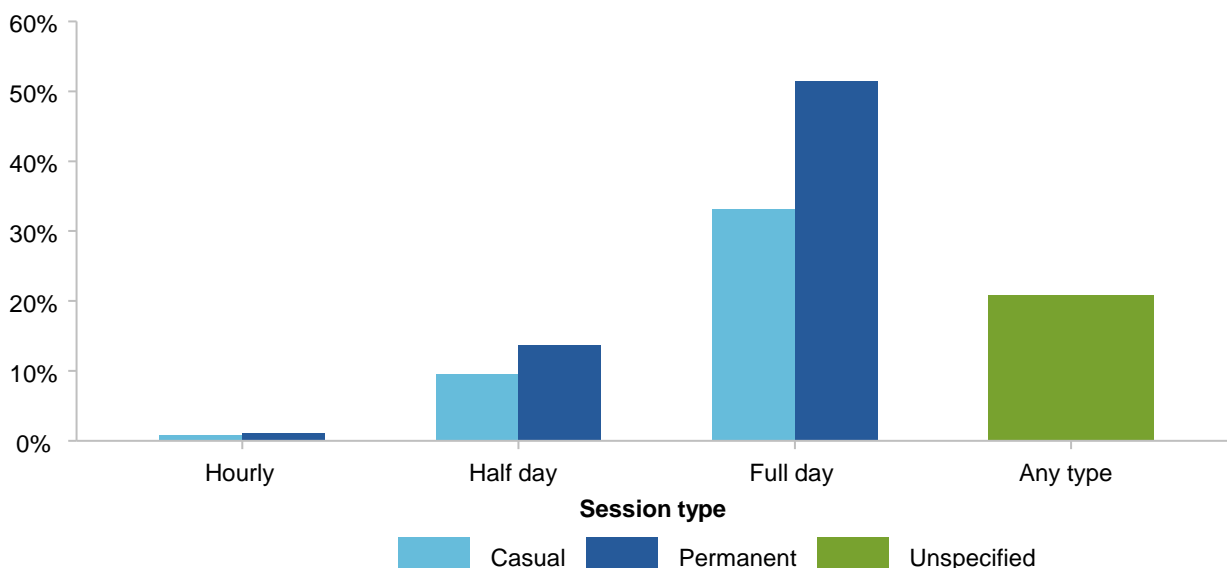
But casual ECEC may be harder to find

There is limited data on the prevalence and availability of casual ECEC.

Analysis of Starting Blocks data suggests CBDC services that report having at least one casual vacancy are less common than those that report having at least one permanent vacancy (figure 7.6). But not all services choose to specify the type of vacancy and others do not report at all. Other services, such as FDC or OSHC, may be more flexible.

Figure 7.6 – Fewer CBDC services report having a casual vacancy than report having a permanent vacancy^{a,b}

Proportion of CBDC services on Starting Blocks with at least one vacancy for a weekday, by vacancy type, 2022



a. Data is for a reference week in November 2022. Excludes services that did not provide vacancy information. 6,400 CBDC services recorded information on vacancies for the given week, about 70% of all CBDC services. A service is recorded as having a vacancy if they have a vacancy on any weekday from Monday to Friday **b.** The category 'Unspecified' represents CBDC services that nominated that they had any type of vacancy (casual or permanent) for any session type during the week but did not specify the type.

Source: Productivity Commission estimates based on DoE Starting Blocks data (unpublished).

Analysis of Care for Kids listings (a non-government website where families can search for ECEC services) shows services offering 'occasional, casual or flexible' ECEC represent a small proportion of services listed (table 7.1). But again, not all services choose to make a listing.

Similarly, analysis of DoE administrative data shows that of the 105 former occasional care services approved for CCB in the first half of 2018, 66% were approved for the CCS at the start of 2023 (Productivity Commission estimates based on DoE administrative data (unpublished)). A degree of caution should be used when interpreting these figures as they do not account for services that may have changed ownership or merged and do not guarantee these services were active. They also do not capture new services that may have entered the market. However, the figures suggest there has been a decline in former CCB-approved occasional care services in the market.

These findings align with feedback provided to the NSW IPART review of ECEC affordability, access and consumer choice, which heard from stakeholders that the availability of occasional care has declined in recent years (NSW IPART 2023, p. 44).

Table 7.1 – A small proportion of services offer occasional, casual or flexible care^{a,b}
Services listed on Care for Kids as providing occasional, casual or flexible care services, November 2023

State	Number of services	Proportion of all services listed
New South Wales	271	3.6%
Victoria	269	4.6%
Queensland	180	4.1%
South Australia	66	4.5%
Western Australia	132	6.3%
Tasmania	11	4.0%
Northern Territory	7	2.6%
Australian Capital Territory	26	5.2%

a. Care for Kids describes occasional, casual or flexible services as providing short periods of care for children under school age, which families can access on a regular or casual basis. **b.** Data extracted on 17 November 2023.

Source: Productivity Commission estimates based on Care for Kids (2023).

The Commission is seeking information about the availability of ECEC on a casual or occasional basis, the barriers services face in providing this type of ECEC and how these might be resolved. It is also seeking information about whether families' needs for this type of ECEC are going unmet.



Information request 7.4

The Commission is seeking information about the availability of ECEC on an occasional basis. What barriers, if any, do services face in providing this type of care? How might these be resolved? Are families' needs for this type of care going unmet?

Challenges managing variable demand and funding changes affect the availability of casual ECEC

CCS services are not prohibited from offering ECEC on a casual basis. But they likely have an incentive to enrol families seeking permanent places prior to making casual bookings.

Were bookings to fluctuate significantly, it would likely be hard for ECEC services to manage this variable demand. The need to ensure adequate ratios and provide notice to staff of work arrangements places limits on the ability of services to manage changes in attendance. As such, there is likely a strong incentive for services to predominantly accept permanent bookings.

Services may have an incentive to offer casual bookings where it provides them an opportunity to fill places when families cancel or children are absent due to illness or other reasons. Some ECEC software providers offer services the ability to use a booking system that enables families to see and book casual places if available.

Inquiry participants described how occasional care services are struggling under current funding models (box 7.13). These services were previously funded under a mix of arrangements. Some were eligible for CCB and Child Care Rebate. Those funded directly by the Australian Government were generally eligible for some form of operational support to assist with the day-to-day costs of delivery. In addition, the National Occasional Care Program provided funding to support non-CCB approved services in participating jurisdictions, particularly in rural, regional and remote areas. The Australian Government contributed 55% of costs to participating jurisdictions under a national partnership. These arrangements ceased in 2018 with the introduction of the Child Care Package. Since 2018, the CCS has been the primary Australian Government funding source, with a small number of non-formula funded services eligible for supplementary funding under the CCCF-R.

There are also examples of state delivery, with the South Australian Government offering occasional care at some of its government preschools and Children's Centres for Early Childhood Development and Parenting (SA Department for Education 2022).

However, the decline in services and feedback from inquiry participants would suggest this approach is insufficient.

Box 7.13 – Case study: neighbourhood houses in Victoria

Neighbourhood Houses Victoria

Neighbourhood Houses Victoria (NHV) is the peak body for the neighbourhood house sector, representing 400 independent, community-based organisations across Victoria.

Since their inception in the 1970s, most neighbourhood houses offered occasional care. NHV's submission outlines how these services enable women to gain skills and training and also support women in cases of domestic and family violence or family breakdown.

NHV submitted there has been a long-term decline in occasional care, with less than 100 neighbourhood houses in Victoria offering occasional care, compared to 160 in 2011. NHV considered there were three factors contributing to this decline:

- removal of state funding and use of the Child Care Subsidy (CCS) as the single funding instrument, which NHV notes does not meet the fixed costs of smaller, shorter hours providers and requires services to be open for 48 weeks a year

Box 7.13 – Case study: neighbourhood houses in Victoria

- introduction of three-year-old preschool, which NHV notes has exacerbated workforce issues and skewed demand to younger children who require higher staffing ratios without additional funding or increased willingness or ability of families to pay
- improved child safety standards and cultural safety guidelines for Aboriginal and Torres Strait Islander children, which NHV notes are welcome but have increased costs.

Bridge Darebin

Bridge Darebin is a neighbourhood house and adult learning organisation based in Preston and Thornbury, Melbourne. As part of its services, it delivers occasional care to support women studying adult education classes, newly arrived migrants studying English, refugees and women who have escaped family violence and need to deal with the courts, Centrelink and other support agencies.

Bridge Darebin's submission notes the erosion of government funding for occasional care has seen the number of Victorian neighbourhood houses offering occasional care decline from around 150 in 2011 to 88. It noted that without annual funding and change in eligibility criteria for state and federal grants, occasional care will continue to decline.

Bridge Darebin notes it became CCS registered in response. It also made changes to increase fees, introduced minimum seven-hour bookings, and no longer provides free early childhood education and care to those who need it. Bridge Darebin closed one of its two services in 2020 due to it no longer being financially viable and expects that without external funding it will close the other within the next three years.

Source: Bridge Darebin (sub. 3); Neighbourhood Houses Victoria (sub. 124; 2022).

Improving the availability of casual ECEC

Given the link between service capacity and casual bookings, recommendations to improve the availability of ECEC (paper 5) may also help increase the availability of casual ECEC. Encouraging providers to better align session lengths with attended hours (discussed above) may also help make existing spare capacity available to families requiring access to ECEC on a casual basis.

However, this may not be enough. Data limitations preclude the ability to estimate the gap in supply of occasional care.

It is clear that for some families, particularly those experiencing vulnerability, the ability to access casual ECEC is likely to be particularly important. There may be a case for grant or other additional funding for occasional care services to meet these needs, in certain communities. An ECEC Commission (paper 9) should be responsible for advising on the need for occasional care services and the appropriate communities in which to invest in these services. Where the ECEC Commission identifies a need, additional funding should be available through a more flexible Community Child Care Fund to support these services.

The Australian Government Department of Education should ensure there are appropriate mechanisms in place to ensure this funding is not provided to CBDC services predominantly providing 'long day care'. One potential option could be to restrict this funding to CBDC services that generally do not provide a full day of ECEC.



Draft recommendation 7.5

Ensure occasional care is available where needed

An ECEC Commission (draft recommendation 9.2) should be responsible for advising on the need for additional investments in occasional care and the communities in which these services are needed. Where additional investments are required, funding should be available through a more flexible Community Child Care Fund.

Preschool hours do not align with a standard work week

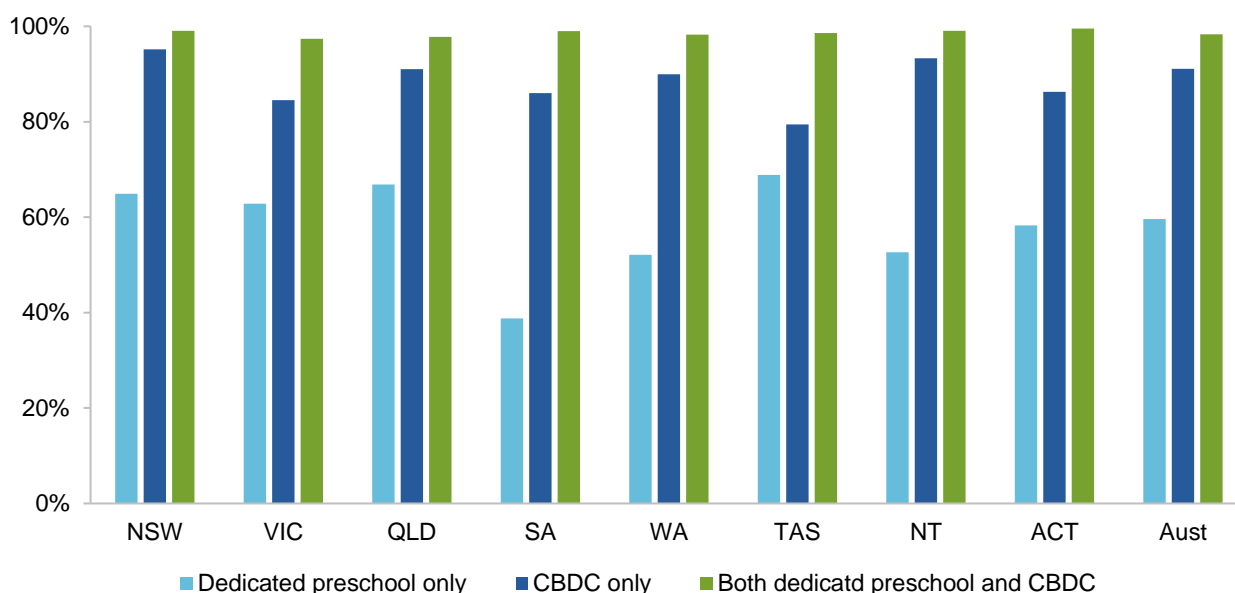
The structure and length of preschool hours were raised by several inquiry participants, with some noting it can be a barrier to preschool or labour force participation (Restacking the Odds, sub. 149, p. 7; brief comment 62; Early Learning Association Australia INC., sub. 48, p. 17).

The Australian Government provides funding to states and territories under the Preschool Reform Agreement to support the delivery of 15 hours of preschool a week (or 600 hours a year) for children in the year before full-time school (appendix E). These hours are delivered differently across Australia, depending on the setting and the state or territory. Dedicated preschools are generally less flexible, with programs usually operating for limited hours (for example, between 9am and 3pm) and during school terms. In contrast, preschool delivered through CBDC provides families greater flexibility, allowing them to access additional ECEC hours beyond the 15 hours of preschool provided under the Preschool Reform Agreement. The reasons for this difference are largely historic, reflecting differences in the way these two service types evolved – one from ‘education’ and the other from ‘care’.

For families, arrangements in dedicated preschools may create challenges in balancing preschool hours with work commitments. In some cases, this may lead to them combining preschool with other ECEC services or may mean some children miss out on the full 15 hours per week of preschool; in 2022, 20.1% of children enrolled in preschool in the year before full-time school did not attend for the full 600 hours per year (Productivity Commission estimates based on ABS 2023b). Among children enrolled in preschool in the year before full-time school, children who are enrolled in preschool in dedicated settings only are less likely to attend for the full 600 hours per year (figure 7.7).

Figure 7.7 – Children enrolled in preschool in dedicated preschool only are less likely to attend for the full 600 hours a year in the year before full-time school^{a,b,c}

Proportion of children who are enrolled in preschool in the year before full-time school who attend for 600 hours a year, by service type, by jurisdiction, 2022



a. Data is a point-in-time collection only. Children are counted as enrolled if they are attending in the reference week, or are absent due to illness, holiday leave or COVID-19 impacts and expected to return. Children's attended hours per year are calculated using the number of attended hours during the reference period, multiplied by the number of weeks the service is open. **b.** Some states have used reference periods of different duration or dates, or have averaged figures. **c.** Children attending centre-based day care of the appropriate age are assumed to be receiving a preschool program.

Source: Productivity Commission estimates based on ABS (2022), Preschool Education, accessed 8 June 2023.

Some services offer longer hours or support parents to access wrap-around ECEC

Some services provide additional flexibility to families to help them manage preschool hours. This may be through longer preschool hours, or through access to 'wrap-around' ECEC, where preschools hours can be supplemented by additional 'non-preschool' ECEC. There are a range of examples where this has been implemented, although models vary.

- The Early Learning Association Australia INC's submission noted some dedicated preschools offer extended hours or days to families but have done so at full fees (sub. 48, p. 17). For example, one dedicated preschool offers up to 37.5 hours of preschool at a cost of around \$2,600 per term but families cannot access the CCS to subsidise this cost (Glen Education 2023).
- Bermagui Preschool's submission described how it provides integrated preschool, long day care, before and after school care and vacation care (sub. 49, p. 2).
- The Australian Capital Territory Government is expanding a trial of OSHC for preschool children (ACT Government nd). Under this model, preschool children stay in their preschool room and OSHC and preschool educators transition in and out depending on the ECEC being delivered.
- The South Australian Government has funded a trial of preschool OSHC at 20 preschool sites, with operational models tested in 2023 and rolled out in specific locations in 2024 (SA Department for Education 2023a).

- CBDC services delivering a preschool program can offer parents the ability to combine preschool and other CCS-subsidised ECEC in the same setting.

Some dedicated preschools may be co-located with CBDCs or on a school site with an available OSHC, allowing parents to use these services to supplement preschool hours. For example, in 2021, there were 41 SA government preschools operating alongside a CBDC, with a further 41 co-located with an OSHC (SA Department for Education 2023b, p. 21).

OSHC services are able to provide places to preschool aged children, although CCS requirements stipulate these services must primarily be for children attending school. For example, in the December 2022 quarter, about 9,200 children aged 3–4 years attended OSHC services (Productivity Commission estimates based on DoE administrative data (unpublished)).¹

But this may be insufficient for some families

Where available, families can be expected to select services that suit them best. For example, in states and territories where preschool delivered through CBDC is a readily available option, parents seeking more flexible preschool hours may choose to enrol their children in these services (although may not receive ‘free’ preschool as a result).

This suggests managing preschool hours is most likely an issue for families where dedicated preschools form a larger share of the preschool delivery mix and there is not an available OSHC, or where a CBDC providing a preschool program is not an available or affordable option.

It is unclear how many families this would affect, although in some jurisdictions this may be a substantial proportion. For example, analysis conducted by the SA Department for Education estimated that at least 81% of children enrolled in government preschools in SA did not have access to on-site ECEC outside of preschool hours (SA Department for Education 2023b, p. 21).² But it is unclear what proportion of these children required additional hours of ECEC.

There are options to better support families

While dedicated preschools are not prohibited from offering additional hours of ECEC, current arrangements make it hard for families to receive the CCS for this.

Different options could be considered to better support families, including:

- additional subsidised ECEC hours within the preschool service
- separate outside preschool hours care services, ideally onsite.

These models have benefits for families, but they could also improve children’s ECEC experience, as it could reduce the need for them to attend multiple services or locations. 14.1% of children enrolled in preschool in the year before full-time school attend both CBDC and preschool, experiencing different environments and interacting with different groups of peers (Productivity Commission estimates based on ABS 2023b).

¹ Based on existing data, it is not possible to identify whether these children were attending preschool. This figure does not capture all children of preschool age attending OSHC. Some children in preschool are aged over 4 years, depending on the age they start full-time school in their state or territory. Not all three-year-old children are eligible for state and territory funded or delivered preschool programs.

² This estimate predates the announcement of a trial of preschool OSHC at 20 SA preschool sites.

Current arrangements make it hard to access additional subsidised hours within preschool services ...

One option could involve making it easier for dedicated preschools to access the CCS for additional hours of 'non-preschool' ECEC.

Under current arrangements, dedicated preschools can modify their business models to operate as a CCS approved CBDC service providing preschool sessions. However, provisions in Family Assistance Law make this challenging.

- ECEC services are ineligible to receive the CCS if they primarily provide an early education program to children in the year before full-time school, meaning preschool sessions would need to comprise the minority of ECEC provided.
- CCS-approved CBDC services are required to operate for at least 48 weeks per year, which does not align with the 40-week operating model often used in dedicated preschools.

Together, these two requirements act as an integrity measure to help ensure the CCS does not subsidise preschool that should be funded by states and territories and the Preschool Reform Agreement. But the CCS already subsidises preschool delivery in CBDCs, raising the question of equity among service types and the families that use them.

... or to access separate subsidised outside preschool hours care services

Alternatively, a second option could involve making it easier to establish a second CCS approved service on dedicated preschool sites to provide 'outside preschool hours' ECEC. In instances where there was insufficient demand or capacity at a single site, off-site delivery could also be considered with appropriate transport.

These arrangements are currently permitted, but again provisions in Family Assistance Law may make this impractical.

- If established as a CBDC service, the service must operate for at least 48 weeks per year as noted above.
- If established as an OSHC service, the service must primarily deliver ECEC to children who attend school.

Establishing a separate 'outside preschool hours' care type that primarily catered to preschool age children and was not subject to the minimum 48-week operating period could make it easier for services to provide additional non-preschool hours of ECEC.



Draft finding 7.6

Dedicated preschools have difficulty providing additional subsidised hours of ECEC

The 15 hours per week of preschool provided under the Preschool Reform Agreement do not align with a standard work week. For families accessing dedicated preschools, this may mean they need to supplement preschool hours with additional ECEC to support their labour force participation.

Dedicated preschools are not prohibited from offering additional hours of ECEC, or from facilitating access to a separate outside preschool hours service either on or off site. But provisions in Family Assistance Law make it hard for these types of activities to attract the Child Care Subsidy.

Removing restrictions in Family Assistance Law would allow preschool services to better meet families' needs

Given the diversity of preschool delivery across states and territories, it is unlikely one solution will fit all circumstances.

At a minimum, the Commission considers it appropriate to allow the CCS to be claimed for ECEC delivered in addition to jurisdiction-specific preschool hours. To ensure CCS is not directed towards subsidising preschool hours, this would require services to report on the length of the preschool session delivered.

However, some services may not have the capacity to extend their hours within the service itself, particularly where two cohorts of children attend the preschool across the full five working days. For these services, making it easier for them to establish a separate outside preschool hours service on site may be more appropriate.

In either instance, a separate CCS service type would likely need to be established to ensure the required amendments to Family Assistance Law did not apply more broadly to other services.

The Commission notes concerns from some inquiry participants that fragmented care may have negative impacts on children (for example, Goodstart Early Learning, sub. 125, p. 73). While the Commission acknowledges these concerns, it considers the proposed changes would provide greater continuity for children than current arrangements.

National Quality Framework (NQF) requirements as they relate to centre-based services should continue to apply in either circumstance. The Australian Government should also seek commitments from the Western Australian and Tasmanian governments that any additional 'non-preschool' hours provided by preschools in their school system would be regulated in a way that is consistent with the NQF.



Draft recommendation 7.6 Support out of preschool hours ECEC

To support greater access to outside preschool hours ECEC, the Australian Government should amend Family Assistance Law to:

- allow dedicated preschools to claim the Child Care Subsidy (CCS) for additional 'non-preschool' hours by creating a separate 'wrap-around preschool' care type that would:
 - not be subject to minimum operating periods or restrictions that it must not predominantly provide a preschool program in the year before full-time school
 - attract the CCS for hours of ECEC delivered beyond jurisdiction-specific standard preschool hours, with services required to report on the length of the preschool session delivered
- make it easier for providers to establish a CCS-eligible 'outside preschool hours' service, by creating a separate 'outside preschool hours' care type that would cater primarily to preschool aged children and would not be subject to the minimum 48-week operating period.

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8. Regulating for quality

Key points

- ✳ **Governments regulate the quality of early childhood education and care (ECEC) services to ensure children's safety and promote their development. Aspects of ECEC quality can be difficult to discern by families and poor quality can bring significant risks of harm (such as for child safety). Well-designed regulation can promote trust in services and reduce risks.**
- ✳ **The regulatory system already has several mechanisms that promote efficiency, transparency and accountability, but there is room for further improvement.**
 - Annual reporting by state regulatory authorities would improve system-wide transparency and accountability. Reporting should include information on funding and performance metrics (including approvals, assessments and ratings, and other monitoring and compliance measures).
- ✳ **Assessment and rating processes should be improved, in order to provide a reliable indication of ECEC quality.**
 - Under-resourcing of regulatory authorities has prevented timely assessment and rating visits. Most services that are found to not meet the National Quality Standard (NQS) go more than three years before they are reassessed. This leads to missed opportunities for quality improvement and reduces the accuracy of information available to families on quality. An independent review should assess whether additional funding is required.
 - Many inquiry participants have expressed concern over the accuracy, consistency, and efficiency of assessment and rating processes. While efforts are underway to address some of these issues, their effectiveness is unclear. A review of the National Quality Framework should seek to identify opportunities for further improvement.
- ✳ **Ratings against the NQS are seldom used by families to choose between services.**
 - The communication of information on quality should be more effective. This could include communicating NQS ratings to families in more circumstances, with greater levels of detail and clearer wording.
- ✳ **The regulatory system deals well with serious underperformance, but more support could be offered to services that are not meeting the NQS. The system could do more to reward providers of demonstrated quality seeking to expand.**
 - In July 2023, 11% of rated ECEC services were not meeting the NQS. Most services that do not meet the NQS subsequently meet the NQS in their next rating. But in July 2023, 5% of services not meeting the NQS had held this rating for 10 or more years.
 - Higher quality providers should be prioritised when regulators consider new service approvals.

Governments regulate early childhood education and care (ECEC) services primarily to improve the quality of education and care that they provide, including through the provision of information on the quality of services to inform families' decisions.

The National Quality Framework (NQF) is the primary vehicle for ECEC quality regulation, setting out a regulatory system for most long day care (LDC),¹ family day care, preschool and outside school hours care (OSHC) services. The NQF itself is covered in paper 2, including the appropriateness of its educator ratios and qualification requirements, the scope of its coverage and whether it is fit for purpose for OSHC.

This paper considers the effectiveness and efficiency of regulation under the NQF, including:

- why and how the quality of ECEC services is regulated, and a framework for the assessment of this regulation (8.1)
- whether the quality regulation system is operating with efficiency, accountability and integrity (8.2)
- the performance of the assessment and rating system, including its accuracy, consistency, efficiency and timeliness (8.3)
- the extent to which families use National Quality Standard (NQS) ratings (8.4)
- how the quality regulation system supports and takes action against underperforming services (8.5).

This draft paper focuses on key issues relating to the quality regulation system raised by inquiry participants. The Commission is seeking further information on a number of issues that will be considered in the final report of this inquiry.

8.1 Regulation aims to improve the quality of ECEC

The potential for market pressures alone to ensure and enhance ECEC quality is limited by a range of factors. Where families struggle to discern the quality of services, competition may not take place on the basis of quality. Families often do not have multiple available and accessible places to choose between based on quality (to the extent that they can gauge it). And the benefits of ECEC quality are difficult to measure, long-term and extend beyond the individual family that pays for the service.

Well-designed quality regulation is necessary to promote children's health, safety and development. Providing better information on quality can inform families and, to some extent, strengthen providers' incentives to provide a high quality service. Direct guidance, requirements and support can lead to quality improvements even when the potential for competition on quality is limited. And serious risks to safety can be managed.

Of course, regulation creates costs and, unless operating effectively, may not lead to benefits. The remainder of this section covers actions taken by regulators to promote quality, and a framework within which these actions may be assessed.

¹ The NQF categorises service types differently to the classification system used for the Child Care Subsidy (CCS), which has been adopted throughout this report. Long day care services refer to centre-based services providing all-day care to children. Some CCS approved centre-based day care services also offer shorter sessions or occasional care.

The current regulatory system

Since 2012, quality in the Australian ECEC system has been regulated under the NQF.² The NQF provides a nationally consistent framework covering:

- the application of quality benchmarks through the NQS
- the assessment and rating processes against the NQS
- the process of provider and service approvals
- national approved learning frameworks for use in ECEC settings (paper 2).

The framework is set out in the *Education and Care Services National Law Act 2010* (Vic) (the National Law) and the *Education and Care Services National Regulations 2011* (NSW) (National Regulations).³

The NQS consists of 40 elements, which are grouped into 15 standards, and in turn are part of seven quality areas.

1. Educational program and practice – requires the service to use and document an approved learning framework and develop an educational program.
2. Children’s health and safety – relates to policies and procedures regarding hygiene practices, healthy eating, physical activity, preventing harm to children and dealing with injury or illness.
3. Physical environment – requires the design of indoor and outdoor areas to be safe, suitable and provide a diverse range of experiences, and for the service to use sustainable practices.
4. Staffing arrangements – relates to educator to child ratios, staff qualification requirements and professional staff interactions.
5. Relationships with children – relates to interactions with and support for children.
6. Collaborative partnerships with families and communities – includes relationships with and information provided to families, engagement with the local community and facilitation of access to support assistance.
7. Governance and leadership – includes governance arrangements and the development of key documentation, records and administrative systems.

The NQF underwent a major review in 2014. In response to the review, the number of elements in the NQS was reduced from 58 to the current 40, in 2018. More minor changes to regulatory processes and requirements were made in response to the 2019 review, with others awaiting implementation.

Under the NQF, each service is periodically assessed by its local state- or territory-based regulatory authority. In most states and territories, ECEC services are assessed and rated by a regulator within the jurisdiction’s Department of Education. The exceptions are Western Australia (whose regulator is within the WA Department of Communities) and South Australia (which uses an independent regulator, the Education Standards Board) (appendix C).

Each regulatory authority assesses and rates ECEC services in their jurisdiction. The possible ratings are:

- Significant Improvement Required – the service does not meet one of the seven quality areas or a section of the legislation and there is a significant risk to child safety, health and wellbeing
- Working Towards the NQS – the service provides a safe program but there are one or more elements of the NQS that it does not meet
- Meeting the NQS – the service meets all 40 elements of the NQS

² Appendix C outlines the NQF in more detail.


³ The National Law was passed by all jurisdictions except Western Australia, which passed the *Education and Care Services National Law (WA) Act 2012*, with some minor variations.

- Exceeding the NQS – the service exceeds the NQS in at least four quality areas, with at least two of these being quality areas 1, 5, 6 or 7, and meets the NQS in all other quality areas.

Services that exceed all seven quality areas of the NQF can apply to the Australian Children’s Education and Care Quality Authority (ACECQA) for a further rating of Excellent. These ratings must be displayed by the service and are published through the national registers (which can be viewed on ACECQA’s website), and on the Starting Blocks website.

The state and territory regulatory authorities have various monitoring, compliance and enforcement powers, ranging from the ability to assess and rate services and monitor their compliance with the National Law and National Regulations, to the ability to issue infringement notices, prosecute people committing offences against the National Law, or cancel a service or provider’s approval to operate (figure 8.1). Other than the assessment and rating of services, these powers are primarily used for breaches of the National Law and Regulations (for example, due to serious child safety concerns), and this is typically separate to the assessment and ratings process.

Figure 8.1 – Powers and other measures used by regulatory authorities

Monitoring	Compliance and enforcement
<ul style="list-style-type: none"> • Targeted campaigns • Service assessments and ratings • Scheduled and unscheduled visits • Investigations into services 	<p>Actions that can be taken if an approved provider breaches the NQF</p> <ul style="list-style-type: none"> • Infringement notice • Emergency action notice • Compliance direction • Compliance notice • Enforceable undertaking • Direction to exclude inappropriate people from service premises • Adding conditions to or amending service approval • Prosecution • Suspension or cancellation of service or provider approval <p>Actions if a nominated supervisor breaches the NQF</p> <ul style="list-style-type: none"> • Infringement notice • Enforceable undertaking • Direction to exclude a person from service premises • Prosecution <p>Actions if a staff member or educator breaches the NQF</p> <ul style="list-style-type: none"> • Enforceable undertaking • Prosecution • Family Day Care educators: Infringement notice, enforceable undertaking, direction to exclude a person from service premises
<p>Other measures to promote quality</p>	
<ul style="list-style-type: none"> • Quality Improvement Plans • Risk Assessment and Management Tool • Support, education and resources for services <div style="text-align: center;">  </div>	

Source: Based on ACECQA (2020, pp. 495–499, 2023g).

Services also conduct some self-assessments of their performance and quality. For example, services must develop (and update at least annually) a Quality Improvement Plan in which they assess their programs and practices against the NQS and National Regulations, identify areas for improvement and include a statement about the service’s philosophy (ACECQA n.d.). Other measures, such as the Risk Assessment and

Management Tool, are encouraged but not compulsory⁴ – services can use the tool to help identify, assess and manage the risk of harm for the service’s children, staff and families (ACECQA 2023g, p. 3).

Waivers allow services to operate where they are unable to meet some regulatory requirements

Waivers help maintain the supply of ECEC services to families while the service deals with special circumstances or unexpected events. A service can seek a waiver for specific components of the National Regulations that relate to staffing requirements or the physical environment, with the overwhelming share of waivers in force relating to staffing (appendix C).

Waivers are overwhelmingly held by private for-profit operators: 76% of all services with at least one waiver are private for-profit, despite only accounting for 51% of the sector (table 8.1).

Table 8.1 Ratio of waivers to services

Management type	Proportion of all waivers	Proportion of all services
Catholic schools	1%	1%
Independent schools	1%	3%
Private for-profit	76%	51%
Private not-for-profit community managed	9%	20%
Private not-for-profit other organisations	9%	13%
State/Territory and Local Government managed	3%	7%
State/Territory government schools	1%	4%

Source: Productivity Commission estimates based on ACECQA data (unpublished).

A framework for assessing the regulatory system

Several elements make up a well-functioning regulatory system (box 8.1). This includes the intent, operation and practices that support the effectiveness of a regulation.

When the National Partnership on the National Quality Agenda for Early Childhood Education and Care (NQA) was first agreed by the Council of Australian Governments (COAG) in 2009, it outlined several principles of best practice regulation.

1. The system will operate in a transparent, accountable, efficient, effective and fair manner.
2. ECEC and outside school hours care (OSHC) service providers will have certainty about the regulatory requirements associated with the NQA.
3. The regulatory requirements on ECEC and OSHC care service providers will be consistent across Australia.
4. To the greatest extent possible legislative requirements contained under other laws will not duplicate the NQA’s regulatory requirements.
5. Joint governance arrangements will provide scope for individual jurisdictions to have their perspectives considered.
6. Jurisdictions will not move unilaterally to change standards or fees in the future.

⁴ Services are required under the National Law to undertake ongoing risk management practices using regular risk management and safety checklists, regularly updating maintenance logs, planning new experiences for children and identifying emerging risks and actively supervising children – but are not required to use the Risk Assessment and Management Tool for this (ACECQA 2023g, p. 8).

7. The NQS will include provision to recognise location specific conditions in particular circumstances (COAG 2009a, pp. 7–8).

This paper focuses on some aspects of the regulatory system that were raised most often by inquiry participants. Namely, it examines the extent to which:

- the regulatory system operates efficiently and with transparency and accountability
- service quality is reviewed and rated in a timely manner
- the ratings system provides useful information to families
- the system supports quality improvement and effectively deals with underperformance.

8.2 Does the system operate efficiently and with transparency and accountability?

One of the principles of any well-functioning regulatory system is that it operates efficiently and with integrity and accountability. This means that regulations should be understandable and have clear objectives, with clear roles, responsibilities and requirements of regulators, and that those who apply regulation are accountable for its performance (box 8.1).

Box 8.1 – Principles of good regulation

Governments typically have well-established principles that guide good regulation. While there is variation in the exact principles, they generally outline common themes.

- **Transparency:** regulation should be understandable and have clear objectives, with clear roles, responsibilities and requirements of different regulatory authorities.
- **Accountability:** regulation should have criteria against which its effectiveness can be judged and those who apply the regulation should be held accountable for its performance.
- **Proportionality:** regulation should be appropriate for the issue being addressed.
- **Consistency:** regulation should be consistent within itself and with other regulation.
- **Targeted:** regulation should focus on the problem it aims to address while minimising unnecessary complexity and costs on businesses and people. Enforcement of regulation should be based on risk, and regulation should be regularly reviewed to ensure it is fit for purpose.

Other principles guide appropriate governance and conduct of regulatory authorities specifically, including that regulators are free of undue political interference, are adequately resourced and have the capabilities needed to perform their role, use resources efficiently and keep administrative costs at an appropriate level.

Source: COAG (2007); PC (2020, p. 99).

For the most part, the role of national and state entities in the ECEC regulatory system are clear. ACECQA oversees the NQS, and the state regulatory authorities assess services against the NQS, and more broadly enforce the National Law and Regulations.

Some aspects of the ECEC regulatory system already promote efficiency. For example, the risk-based approach that regulatory authorities take in assessing and monitoring ECEC services tends to prioritise

underperforming services for more regular review (section 8.3). And the National Quality Agenda IT System also improves efficiency through a national system with data on ECEC services and providers, and by providing a portal through which services can provide information, such as notification of a serious incident (ACECQA n.d.; Lucas 2021).

One of the ways in which the system could improve efficiency is through better consistency in how the states and territories enforce the National Law and National Regulations. Significant differences exist in measures such as the time taken between reassessments of services (section 8.3) and the level of support given to underperforming services (section 8.5). Such inconsistencies not only create unequal treatment of services by jurisdiction, but can also impose unnecessary costs on service providers that operate across multiple jurisdictions.

The ECEC regulatory system enshrines some accountability and transparency principles, but there is room for development. For example, ACECQA publishes the detailed rating of every service, and various indicators based on this (for example, the proportion of services in each jurisdiction with each NQS rating). And some of the operations of each state regulatory authority (such as the number of services assessed) are also included in state government department annual reports. But some information on the actions and funding of regulatory authorities is not readily available in many jurisdictions.

In South Australia, the regulatory authority publishes an annual report that details the regulator's funding and outcomes such as the number of visits, assessments and other activities performed in a year (ESB 2022). This allows various stakeholders, including all levels of government, families and ECEC services, to better understand how quality is being regulated in that jurisdiction, and how ECEC services are performing. To promote transparency and accountability, all regulatory authorities should be required to publish an annual report detailing how the regulator delivered on broader objectives, including metrics on the number of assessments performed, average time between assessments, funding and other monitoring, compliance and enforcement activities.



Draft recommendation 8.1

State and territory regulatory authorities should improve their performance reporting

To improve the transparency of the ECEC regulatory system, all regulatory authorities should publish an annual report detailing progress against key objectives, including metrics on the number of assessments performed, average time between assessments, funding and other monitoring, compliance and enforcement activities.

At the system level, there is no entity with clear responsibility for quality. It appears that both ACECQA and the state regulatory authorities influence quality, though this creates a risk of diluting the overall level of accountability for quality in the system. There may be some merits to states having primary responsibility for ECEC quality in their jurisdiction - as recommended by the South Australian *Royal Commission into Early Childhood Education and Care* – given that states also regulate ECEC quality in their own jurisdiction (SA Government 2023, p. 6). However, the Commission considers that there are also merits to the Australian government having overarching responsibility for quality in the sector, given that it is part of a national system, and there is a need for consistency across jurisdictions. System-level quality could be included as an explicit responsibility in the proposed ECEC Commission, as is considered in paper 9. This will be explored further in the final inquiry report.

8.3 Are assessment and rating processes working well?

The assessment and rating of services against the NQS is at the heart of the NQF. These processes can ensure services follow the National Law and the National Regulations, assess the quality of the education and care they provide and allow this information to be used to drive quality improvement directly (through support and compliance) and indirectly (by informing families' choices).

Views on the accuracy of ratings are mixed

Since it took effect, providers' support for the broad framework of the NQF has been consistent and strong, remaining at over 95% for a decade (ACECQA 2022b). Many inquiry participants also conveyed strong support for the NQF (for example, The Creche & Kindergarten Association, sub. 155, p. 14; Family Day Care Australia, sub. 66, p. 6; Goodstart Early Learning, sub. 125, p. 16; KU Children's Services, sub. 83, p. 6; SDN Children's Services, sub. 63, p. 5). But some expressed scepticism about the ability of NQS ratings to measure quality accurately.

These concerns included the potential for the 'gaming' of assessment and rating visits. Until recently, guidance was for regulatory authorities to provide four weeks' notice before a visit, and there had been reports of providers temporarily moving equipment – or even staff – to a service before assessment (Child Development Education and Care Research Group, sub. 19, p. 8). The potential for this may be limited by the introduction of shorter notice periods of 1 to 5 days before most assessment and rating visits (ACECQA 2023b, p. 353), although some regulatory authorities have not yet implemented this change. Educators and centre directors, while acknowledging the issue (with one noting that 'importing an A team' during assessment and rating preparation time is a widespread practice in the sector), had mixed views on whether a shorter notice period would address this (ACA NSW 2023).

Concerns also relate to the extent to which the assessment and rating process relies on documentation, rather than observations of interactions between educators and children. This is reflected in one inquiry participant's statement that 'assessment and rating is a joke - if you have time to write, [you're] sitting pretty. It's not a real reflection of many services or how they operate day to day' (brief comment 96). Documentation may not even have been produced at the service being assessed, with reports of services copying and pasting material including quality improvement plans (ACA NSW 2023).

Other inquiry participants have been sceptical of whether the quality improvement suggested by changes in ratings data over time (paper 2) reflects a true improvement, for example arguing that authorised officers can be convinced that a service is high quality by centre directors who know the right 'lingo' of quality, or if the physical premises of a service are new and modern, even if the quality of education and care provided to children is mediocre.

It is difficult to determine how closely aligned NQS ratings are to the 'true' quality of a service.⁵ There is no perfectly accurate measure of quality against which NQS ratings can be compared, and alternative measures of quality seem to have at most a minor role in explaining how different ECEC programs have led to different effects on children's outcomes (paper 1).

There are plans for the introduction of a Preschool Outcomes Measure for children attending a preschool program in the year before full-time school, with a trial set to take place in 2025 (DoE nd). This measure

⁵ There are many conceptions of what comprises ECEC quality, and what the aims of ECEC should be (for example, Dahlberg, Moss and Pence 2013). This report would refer to one service as higher quality than another if it would improve the outcomes of children, on average, to a greater extent – noting that each child's experience will be unique, and that many outcomes can be affected by ECEC.

could be used to compare the pace of children's learning between centres with different NQS ratings, at least for older children, and provide some indication of the relevance of these ratings for children's outcomes.

It is unclear how effectively efforts at promoting consistency are operating

Many inquiry participants have stated in consultations and in submissions that there is inconsistency within or between jurisdictions in the assessment and ratings process (for example, G8 Education, sub. 68, p. 11; Goodstart Early Learning, sub. 125, p. 31; The Y Australia, sub. 127, p. 13). For example, it has been argued that 'authorised officers often impose their own interpretations and biases onto the assessment process, deviating from established guidelines and regulations' (Centre Support, sub. 113, p. 3).

Promoting consistency in the application of the NQF is one of the primary functions of ACECQA, and efforts are already in place to support this objective. Authorised officers must go through nationally consistent training delivered by ACECQA, and 'drift tests' are conducted in attempts to ensure that authorised officers continue to carry out processes consistently.

But in a 2015 trial, 20% of authorised officers gave an overall service rating that differed from that of the ACECQA lead assessor who was shadowing them (ACECQA 2016a). It is possible that the degree of reliability between the ratings of two authorised officers would be lower, and unclear how consistency between authorised officers may have changed since that trial was conducted, including with the introduction of the 2018 NQS.

When ratings are inconsistent, they are less useful for families. Inconsistency may also misdirect quality improvement efforts, as inadequacies go unrecognised or are falsely identified. And any incentives to improve quality will be dampened if this improvement risks going unnoticed and unrewarded.

How are assessment and rating processes affecting educators and services?

Some degree of regulatory burden is necessary to ensure ECEC is high quality, provide reliable information to families and promote a culture of continual improvement. But the resources this requires can be significant – particularly as the time educators spend producing evidence that will be used in assessment and rating processes is time that cannot be spent providing education and care to children.

In 2022, about half of providers who responded to an ACECQA survey indicated that they experienced a high level of burden from complying with the NQF. Assessment and rating visits were the component of the NQF that was reported to lead to high levels of burden by the largest share of providers (64%). Only 37% considered that the benefits of assessment and rating visits outweighed their costs (ACECQA 2022b).

Inquiry participants have argued that providing high quality ECEC is sometimes in opposition to convincing regulators that high quality ECEC is being provided. For example, the Commission heard from one provider that considered but eventually decided against seeking a rating of Exceeding due to a perception that it would require using resources to *demonstrate* quality that could otherwise be spent *improving* quality, to the detriment of children.

Educators and centre directors are often frustrated with the documentation requirements of the assessment and rating process:

Educators are required to do so much paperwork rather than spending quality time with children. (brief comment 79)

The level of paperwork required in early childhood education is voluminous and though we endeavour to minimise this, takes away qualified staff from the children. (brief comment 102)

The paper work side and assessment and rating process needs to change though. Focus needs to be on the children not what paper work needs to be completed. (brief comment 54)

A common source of complaint is the assessment and planning cycle element of the NQS, which requires documentation of children's learning, and has been specifically mentioned by many providers as a source of administrative burden (ACECQA 2022b). The Commission heard arguments that this documentation is often produced as a box-ticking exercise and can go unused, while taking up a significant proportion of educators' time.

The NQF was designed as an outcomes-based regulatory framework (ACECQA 2022c, p. 3). But the outcomes against which services are assessed are not children's outcomes, with the contribution of ECEC towards these being difficult to assess. Instead, the assessed outcomes are the elements and standards of the NQS. For example, element 1.2.1 states that 'educators are deliberate, purposeful, and thoughtful in their decisions and actions' (ACECQA 2023b, p. 127); authorised officers must determine whether this is the case.

Authorised officers are limited in their ability to directly observe whether such statements are true, particularly as visits may only last six hours, and in that time educators know they are being assessed. The assessment and ratings process leads to production of written documentation that authorised officers may consider, such as the written program, team meeting minutes, documented examples of practice, planning documentation and documentation monitoring children's progress. While philosophically the NQF may be outcomes-based, its application seems to place a significant role on inputs.

Guidance on what is required to meet elements of the NQS is high-level and vague, and does not include the expected quantity and level of detail for documentation. Where expectations are unclear, services may feel a need to produce an unnecessary amount of documentation, as otherwise there is a chance that an authorised officer may feel that there is insufficient evidence of their quality. Inquiry participants, including many educators, have expressed a desire for greater clarity.

Proper and appropriate guidance needs to be given for programming and planning for children and a clear expectation of what [assessment and rating] wants. (brief comment 114)

A recently introduced move to greater use of partial reassessments against particular quality area/s of the NQS may affect the experiences of educators and services, with less comprehensive but potentially more frequent visits. Some researchers have suggested that particular aspects of the NQS may be more significant than others, and could be prioritised (Child Development Education and Care Research Group, sub. 19, p. 8, Molloy et al. 2020).

The current version of the NQS has never been comprehensively reviewed, despite having a central role in the quality regulation system.

A future NQF review could consider if educator time and provider resources could be freed up by simpler, clearer and more consistent assessment against the NQS. Five-yearly reviews were a feature of the NQA and were mandated by a National Partnership Agreement between the Australian, state and territory governments. But this agreement has expired, and there has been no commitment to a future review.

The current version of the NQS was excluded from the 2019 NQF review, as many recommended changes from the 2014 review took until 2018 to be implemented (ESA 2019, pp. 10, 34–36). The Commission, as it works towards the final report in this inquiry, will further consider the scope of and time between reviews of the NQF, given the impact of consultation for these reviews on the sector, and the time required to implement changes to the NQF and observe their effect.



Draft recommendation 8.2 A new review of the National Quality Framework

Australian, state and territory governments should, through the Education Ministers Meeting, commission ACECQA to review the National Quality Framework, with a specific focus on the way in which services are assessed against the National Quality Standard, and if assessments could be made more accurate, consistent and efficient.

NQF reviews should be conducted on a regular basis to enable regulators to incorporate feedback from ECEC providers as well as new findings from research on links between ECEC quality and children's outcomes.

Assessments are too infrequent

In the National Partnership Agreement on the National Quality Agenda, which established the NQF, it was envisaged that Working Towards, Meeting, and Exceeding services would be reassessed every one, two and three years, respectively (COAG 2009a). Many inquiry participants have argued for a target of reassessments every year for Working Towards services and every three years for Meeting and Exceeding services (for example, Early Learning Association Australia, sub. 48, p. 25; Early Learning and Care Council of Australia, sub. 153, p. 12; Goodstart Early Learning, sub. 125, p. 41; The ParentHood, sub. 122, p. 4).

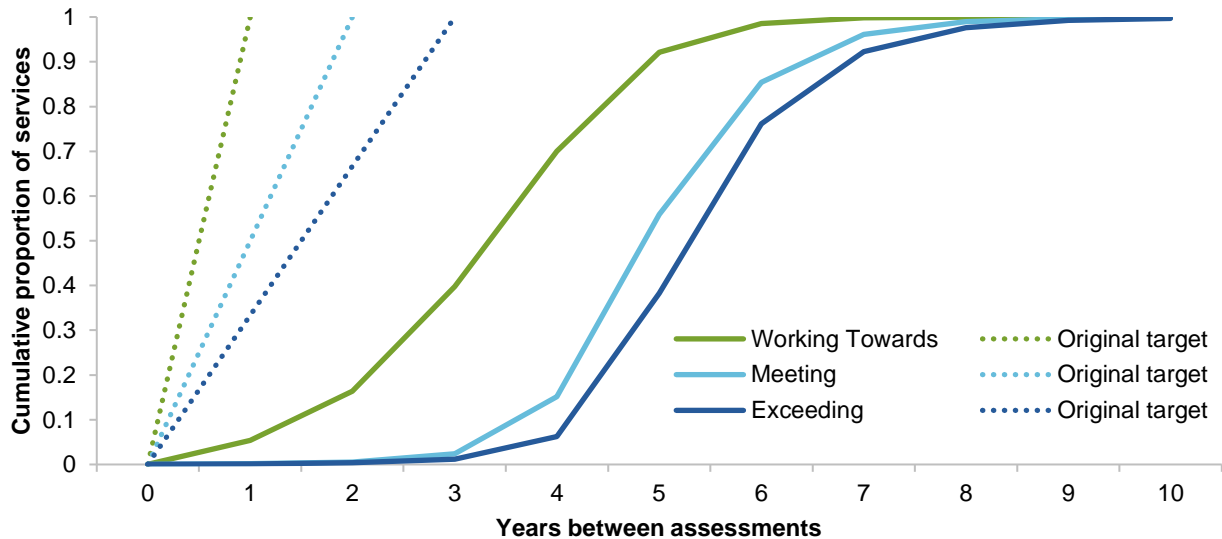
Neither of these targets are near being met. There are considerable lags between assessment and rating visits, and many services' NQS ratings are significantly outdated (figure 8.2). Even for services that are Working Towards the NQS, almost a third go more than four years between assessments (ACECQA 2023e). And in some jurisdictions, lags are significantly longer, for example in South Australia where the average time between assessments for services with a rating of Meeting or Exceeding is about eight years (figure 8.3).

Long lags between assessments are particularly problematic for services that are Working Towards the NQS. Although most of these services are, upon reassessment, found to have improved their quality (section 8.5), until that reassessment takes place their rating may be misleading to families. For services that have not improved, their lack of progress may go unnoticed.

Assessment delays are a risk to quality even for services currently rated as Meeting or Exceeding. Many that are doing well could still be doing better. And some of these services will not have their current quality levels reflected by their rating. When services with a previous rating of Meeting are reassessed, 16% are rated as Working Towards. For services previously rated as Exceeding, 9% have their rating downgraded to Working Towards (ACECQA 2023d, p. 13). Many services with a good but old rating may have their quality levels overestimated by families, or not be aware that they need to improve in certain areas.

Almost one in ten services has never been assessed. While many of these have only recently been approved, about half have been approved for more than a year without being assessed. Unrated services are more prevalent in some states, for example comprising one in every six services in Western Australia (ACECQA 2023c, p. 6).

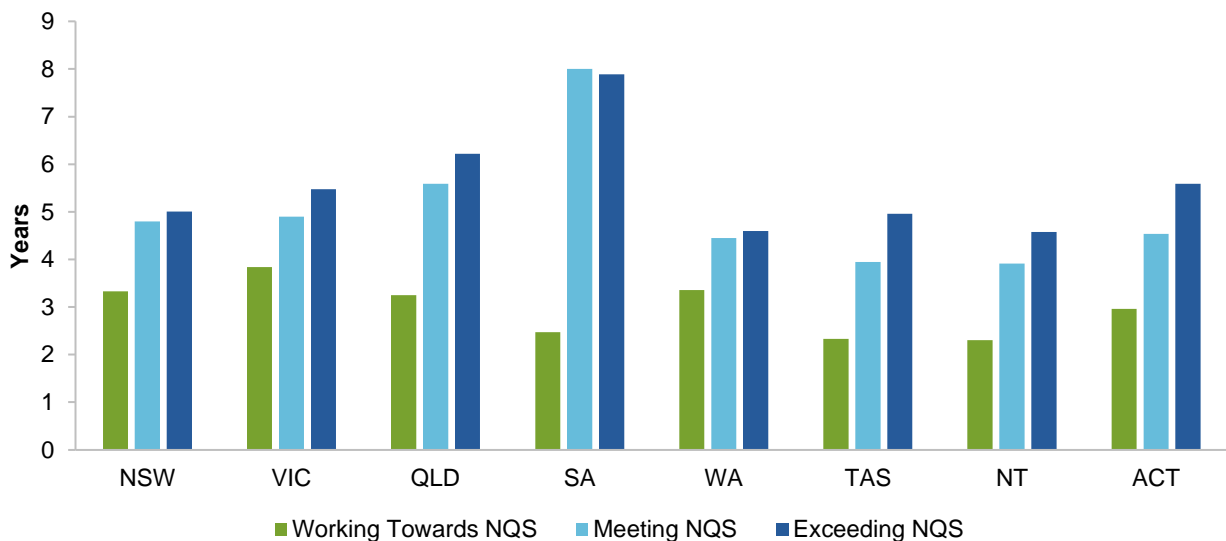
Figure 8.2 – Reassessments are much slower than was originally envisaged^{a,b}
Cumulative proportion of reassessed services by years between assessments and by previous rating, at July 2023 (solid lines), and NQA benchmarks (dotted lines)



a. The National Partnership Agreement on the National Quality agenda included an expectation that services that were Working Towards, Meeting and Exceeding the NQS be assessed every one, two and three years, respectively. Although this has been represented in the figure as taking place at a consistent rate, meeting these expectations would be more likely to involve a disproportionate number of assessments at the end of these timeframes. **b.** Only includes the about 71% of services that have been assessed at least twice.

Source: Productivity Commission estimates based on ACECQA data (2023a).

Figure 8.3 – Delays in reassessment are particularly long in some jurisdictions
Average years between ratings (by state and territory, and previous rating)



Source: Productivity Commission estimates based on ACECQA data (2023a).

Notwithstanding long intervals between assessments, there is little evidence to determine how often reassessments should take place. Rating visits' requirements on service and educator time, fiscal costs, and use of regulatory authority resources (which could be spent on supporting rather than assessing services) must be balanced against the benefits of more up-to-date ratings. When results from the Preschool Outcomes measure become available, the development of a timeline could be informed by how the relationship between NQS ratings and children's learning weakens as ratings age, and how this relationship is affected by other risk factors.⁶

But while a clear basis for determining optimal reassessment timeframes may not be available now, it is clearly a problem when services can go several years without assessment, and most long day care services that are found to be Working Towards the NQS go more than three years before they are reassessed (figure 8.2). More frequent assessments are necessary for an accurate indication of the performance of services and would be a powerful tool to increase the quality of education and care that children receive.

Improvements in the efficiency of the ratings process could increase the number of assessment and rating visits that can take place for a given level of funding. An increase in the use of partial reassessments that commenced from 2023 may lead to services that are Working Towards only a small number of elements to have these elements reassessed sooner (ACECQA 2022a). And broader efforts to reduce the time taken by assessment and rating visits may be desirable. But efficiency improvements alone are unlikely to be sufficient for timely ratings.



Draft finding 8.1

The timeframe between service assessments is too long

The time between ECEC quality assessments undertaken by state regulatory authorities is unacceptably long. This increases the risk of poor quality service provision and undermines the relevance and value of quality ratings.

Regulatory authorities need to be better resourced

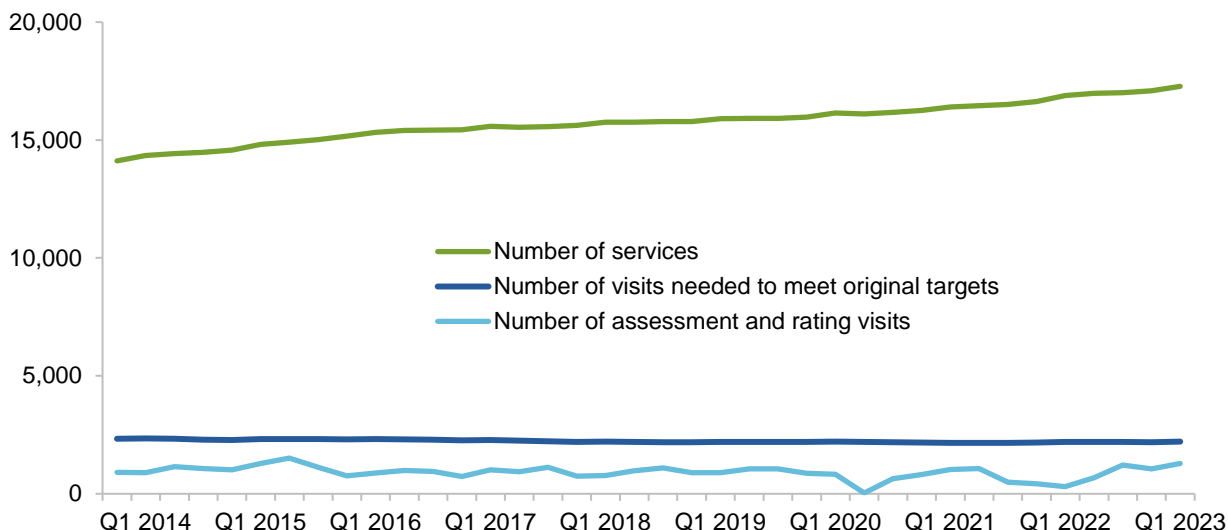
The resources provided for regulators to carry out assessment and rating visits, alongside other functions, do not seem to be sufficient to allow for the large number of operating services to be assessed in a reasonable timeframe (figure 8.4). Previously, through the National Partnership Agreement on the National Quality Agenda, the Australian government provided funding to each state and territory government to support the operation of their regulatory authority (COAG 2009a, 2016). The most recent agreement expired in 2018, and has not been replaced with any other mechanism for Australian government funding.

Goodstart Early Learning argued that this 'removed the Australian Government's key lever to influence and work with state-based regulators', and that 'as a result, regulators are underfunded, and basic regulatory tasks (such as assessment and rating) have fallen behind the originally intended three-year cycle' (sub. 125, p. 37).

⁶ For example, a two-year-old rating of a service that has continued operating in a consistent manner may be a better indication of service quality than a one-year-old rating of a service that has changed ownership and undergone considerable staff turnover. While rating age is a key factor in prioritising assessments, it is not the only factor.

Figure 8.4 – The number of services has grown; the number of assessment and rating visits has not^{a,b}

Approved services, number of assessment and rating visits, and number of visits needed to meet National Quality Agenda targets in each quarter, 2013-2023



a. The number of visits required to meet NQA targets has fallen slightly despite a greater number of services as ratings against the NQS have improved, and these targets include longer periods between visits for better-rated services. **b.** This chart treats unrated services as rated, with their ratings assumed to follow the same distribution as rated services. This will underestimate the required number of visits to meet NQA targets, as the NQA included an expectation that new services would be rated three to six months after approval. However, this approach allows for easier comparisons across time, as otherwise the proportion of unrated services shortly after the introduction of the NQF would create a short-term pattern in the early years of the NQF that would mask long-term trends.

Source: Productivity Commission estimates based on ACECQA data (2023a).

Inadequate resourcing, and the resulting inability of regulatory authorities to carry out core functions with sufficient frequency, needs to be addressed as a matter of priority. An independent review should examine the additional resourcing that would be required for reassessments to occur in a reasonable timeframe, and the Australian government should fund the shortfall given its role in the establishment of the NQF, its greater revenue-raising capacity and the potential for coordinated funding to be used to further promote consistency in the application of the NQF.

As discussed above, there is no straightforward way to quantify the costs and benefits of changes to rating frequency. Reforms to assessment and ratings processes, and particularly an increased use of partial reassessments, further complicate the setting of targets. The Commission, as it prepares its final report, will further consider timeframes for reassessment, and how these should vary by NQS rating.



Draft recommendation 8.3

Ensure regulatory authorities are adequately resourced

The operations of the state and territory regulatory authorities that administer the National Quality Framework should be independently reviewed. This review should examine the timeliness of assessments, and whether additional funding is required to enable authorities to improve timeliness.

Based on the outcomes of this review, the Australian Government should ensure additional funding is provided to state and territory regulatory authorities, to provide updated assessments within agreed timeframes.

8.4 Are the ratings produced by regulators useful to families?

NQS ratings are seldom used in families' decision-making

A key impetus for the inclusion of the rating system in the National Quality Framework was to enable families to make informed decisions based on these ratings, strengthening services' incentives to improve their quality (COAG 2009b, pp. 8, 56; ECDWG 2010, p. 31). The rating system does not seem to be fulfilling this objective meaningfully.

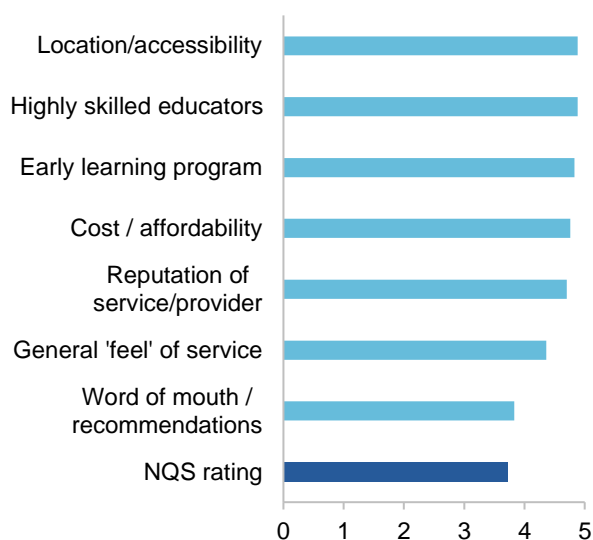
Families' use of NQS ratings is low. In 2021, 45% of those surveyed by ACECQA were not aware of the existence of the rating system. 66% were either unaware of the system, or did not know the rating of the service they used or planned to use. 72% were either unaware of the rating system, unaware of the specific service's rating or did not find this rating helpful in making their choices (ACECQA 2022b, pp. 46–47).

These figures are for parents who chose to respond to a survey from ACECQA, and may not be representative of most families. Of the several dozen focus group participants in a research project aiming to understand families' use of NQS ratings, not a single one indicated that they had used NQS ratings to inform their choice of service (Hall & Partners 2018, p. 49). Providers expressed to the ACCC's childcare inquiry that families 'place low or no significance on formal quality ratings' (ACCC 2023b, p. 95), also consistent with views expressed by participants in the Commission's inquiry.

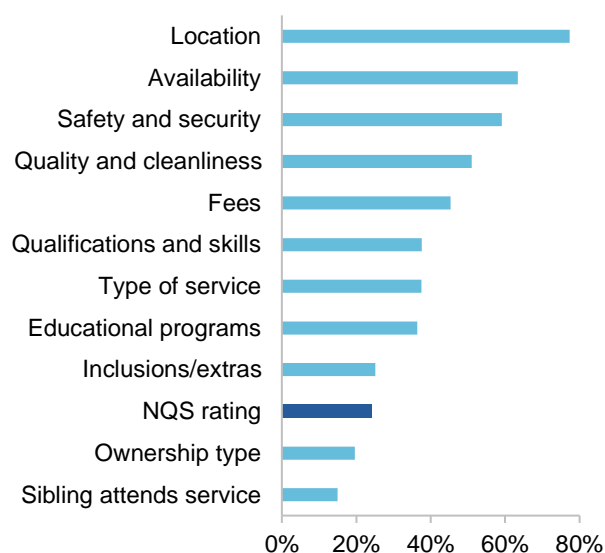
Families do care about ECEC quality. They just do not seem to care much about NQS ratings as measures of quality. Instead, they tend to rely on other sources of information, such as word of mouth, the 'feel' of a service or online ratings from other families (figure 8.5). While the weight that can be placed on any quality measure will be limited by accessibility, as many families do not have a large number of services to choose between that are nearby, affordable and have an available place, this cannot explain why NQS ratings are viewed as less important than other quality measures.

Figure 8.5 – NQS ratings are among the least important factors in families’ ECEC decisions^{a,b}

a. Weighted average ranking of factors when choosing a service (higher = more important), ACECQA families’ survey



b. Proportion ranking each factor for choosing a CBDC service in their top five factors, ACCC parents and guardians survey



a. Ratings from 4026 respondents in a 2021 survey from ACECQA, including some who were not currently using an ECEC service. **b.** Excludes the categories ‘Accommodates complex needs’, ‘Accommodates CALD children’ and ‘Accommodates First Nations children’ due to very low proportions of respondents including these in their top 5.

Source: ACCC (2023a, p. 65); ACECQA (2022b, p. 49).

While other sources of information on service quality can be of some use, the information they are able to provide is limited. Before enrolling their child at a service, families may only directly observe the operations of that service during a scheduled visit, where the centre knows they are being observed by a prospective customer. Word-of-mouth recommendations or online reviews from families currently using the service can be informed by observations during pick-up, drop-off or visits, but almost all the time children spend in ECEC settings goes unobserved by families. And children themselves may not be able to assess service quality.

The extent to which educators’ interactions with children promotes their development is also difficult for parents to gauge. In a Peruvian study where parents rated the quality of their children’s educators, they did not seem to be able to identify educators who offered a higher quality experience to children, and did not give higher ratings to educators that improved the developmental outcomes of the children under their care to a greater extent than their colleagues (Araujo, Dormal and Schady 2019, pp. 18–19). And one US reform that improved the quality of interactions between educators and children led to *lower* online ratings, with reviews becoming more likely to mention the price of the service (which rose due to the reform) while not being any more likely to mention the quality of the learning environment (Herbst and Brown 2023, p. 5).

NQS ratings (if they are sufficiently up to date) may give families a stronger indication of the quality of services. Ratings are based on 40 elements across seven quality areas, developed with consideration of international evidence on children’s development (COAG 2009b). The authorised officers assessing services against these elements are trained in the assessment of quality and often have experience as educators. NQS ratings could be expected to be more informative than other indicators of quality – but they are still seldom used.

Why do families tend to disregard NQS ratings?

Many factors could be playing a role in families' minimal use of NQS ratings.

- As discussed above, about half of families may not know that a quality rating system even exists. In many cases, a lack of use of NQS ratings may reflect a lack of awareness, rather than an informed rejection of their significance.
- Families often misunderstand the rating system. For example, the Commission has heard of cases where it is assumed that, as there is a quality assessment system in place, all providers meet a minimum standard, and so it is unnecessary to look for regulatory information on service quality.⁷ Families also sometimes misinterpret a rating of Working Towards as meaning that a service has not yet been rated against the NQS, not that it does not meet the NQS.
- NQS ratings are not always communicated alongside explanatory information. Families may search online for a service they are considering using and see a webpage for that service on ACECQA's national registers stating: 'Quality Area 7: Working Towards NQS'. But they are unlikely to be aware that Quality Area 7 is governance and leadership, or what it means in practice that a service is working towards the governance and leadership quality area.
- NQS ratings, and how they are communicated, will not always allow for families to distinguish between all the services that they can access.
 - As services almost always receive one of three ratings, and about 90% are either rated as Meeting or Exceeding, all the services that a family is choosing between could have the same rating.
 - Services with the same rating can still be of very different quality, even if these ratings are both up to date. A service that meets 39 of the 40 elements will be rated as Working Towards, but so will be another that only meets 6 of 40 elements. Services with overall ratings of Meeting or Exceeding can also differ substantially in the number of individual NQS standards they exceed. But ACECQA's national registers of services and Starting Blocks website, which is intended to help families choose between services, provide no way of determining how many elements of the NQS a service is working towards or how many standards they are exceeding.
- Ratings are often many years old (section 8.3). They can also change substantially between assessments. Services can go from Exceeding the NQS in all quality areas to meeting between two ratings, or to go from Working Towards to Meeting the NQS in all quality areas. Given that ratings are often outdated, in many cases it may be rational for families to not place much weight on them – although it seems unlikely that many families do not use ratings because of their frequency given so many families are not aware of the rating system at all.
- Ratings may not be perceived as accurate. Common survey responses in those aware of services' ratings but who did not find them to be helpful included a belief that NQS ratings were subjective and not a true indication of service quality (ACECQA 2022b). Families also expressed concern that ratings may be gamed, and that complying with regulatory requirements took up time that could be spent caring for and educating children (Hall & Partners 2018, p. 39).

As noted by the ACCC, 'more targeted and accessible use of National Quality Framework information may help families' decision making in respect of childcare services' (ACCC 2023b, p. 32). Over time, there is some indication that families' knowledge of, use of, and belief in the value of the rating system has been

⁷ An absolute minimum standard does exist, as services that do not provide a safe environment for children may have their registration cancelled – but although this can also occur for services that are consistently Working Towards the NQS, the Commission has not heard of this power being exercised solely for this reason, despite some services holding a rating of Working Towards for many years (section 8.5).

improving (ACECQA 2022b, pp. 46–49). But the pace of this has been slow, and more could be done to realise the potential of NQS ratings to drive improvement in the quality of ECEC services.



Draft finding 8.2

Families tend not to use information about service ratings

Families are usually unaware of or do not value ratings against the National Quality Standard when choosing between ECEC services, preferring other indicators of quality. Families would benefit from more detailed, accessible information on service ratings.

How could ratings be made more useful to families?

There is a wide range of options that could make NQS ratings more useful to families. The accuracy of ratings could be improved, particularly through sufficiently resourcing regulatory authorities to allow for frequent ratings (draft recommendation 8.3). But simple changes to when and how information on NQS ratings is provided to families could also increase their use.

For example, there is no requirement for NQS ratings to be mentioned on the website of a provider. And services are under no obligation to inform families of their NQS rating prior to their child's enrolment at that service, or to inform families with children currently at the service when they receive a new rating, even if they are found to be Working Towards.

Where information is provided, it could often be provided in a more meaningful and accessible way. For example, ACECQA's national registers could name each quality area, rather than refer to them by their number, which families are unlikely to know. And the national registers, as well as the Starting Blocks website, could mention the specific element/s in each quality area that a service is Working Towards or the standard/s that they are Exceeding, alongside a clear explanation of each element or standard.⁸ The ACCC recommended that the Australian government reconsider the presentation of information on the Starting Blocks website, including 'more targeted and accessible use of National Quality Framework information' (ACCC 2023b, p. 32).

The wording of overall ratings could also be made clearer. It is not apparent to all families what it means when a service is rated as Working Towards the NQS. If a service does not meet the quality standards, the rating it is given could simply state this – although it should still be clear that these services were considered safe enough to remain in operation.

These are only some of the many options that could improve families' use of NQS ratings. While these examples may help achieve this goal, there may be better alternatives, or complementary options that have not been mentioned. The Commission is seeking feedback on how NQS ratings could be communicated in order to make them most useful to families.

⁸ If too much information is provided by default, this could make it overwhelming or confusing to access information on service quality. But, for example, a drop-down list could allow for each element's rating to be viewed without showing this by default, as could a 'tooltip' that only provides an explanation of what is covered by an element when the user of a website hovers their cursor over it. Varying levels of detail and methods of presenting information could be trialled, for example by the Behavioural Economics Team of the Australian government, as discussed by the ACCC (2023b, p. 32).

Of course, increasing the use of NQS ratings will only be desirable if these ratings provide accurate and meaningful information. It may be necessary to delay the implementation of some of these options until issues with the timeliness of ratings are addressed to prevent choices being made based on outdated assessments.

Even then, barriers to accessibility will inevitably limit the extent to which NQS ratings can be used. But some families are still in a position to choose between services and should be able to do so based on a clear understanding of the best information on the quality of those services. Effective communication of NQS ratings could improve families' understanding of service quality, informing their decisions and providing an incentive for services to improve their quality.



Information request 8.1

The Commission is seeking information on how service ratings information could be made more useful and more accessible to families. For example:

- requiring services to display ratings information on their website
- changing how ratings information is communicated:
 - to specify which element/s of the National Quality Standard a service did not meet
 - to make clearer what is meant by a rating of Working Towards
- requiring services to inform:
 - prospective families of their current National Quality Standard rating
 - current families of a new National Quality Standard rating.

Would these changes be desirable, and how would they best be implemented? Are there other options that should be considered?

8.5 How does the system deal with underperformance?

While many ECEC services are high quality, it is essential that the regulatory system is equipped to appropriately deal with underperforming services – ranging from services that are safe but not meeting the NQS, to services that generate serious concerns (such as urgent child safety concerns). This is especially important when the market does not incentivise services to deliver high quality services, such as in areas where there is a shortage of ECEC places compared to demand. The state and territory regulatory authorities are responsible for dealing with services that do not meet the NQS or breach the National Law and National Regulations.

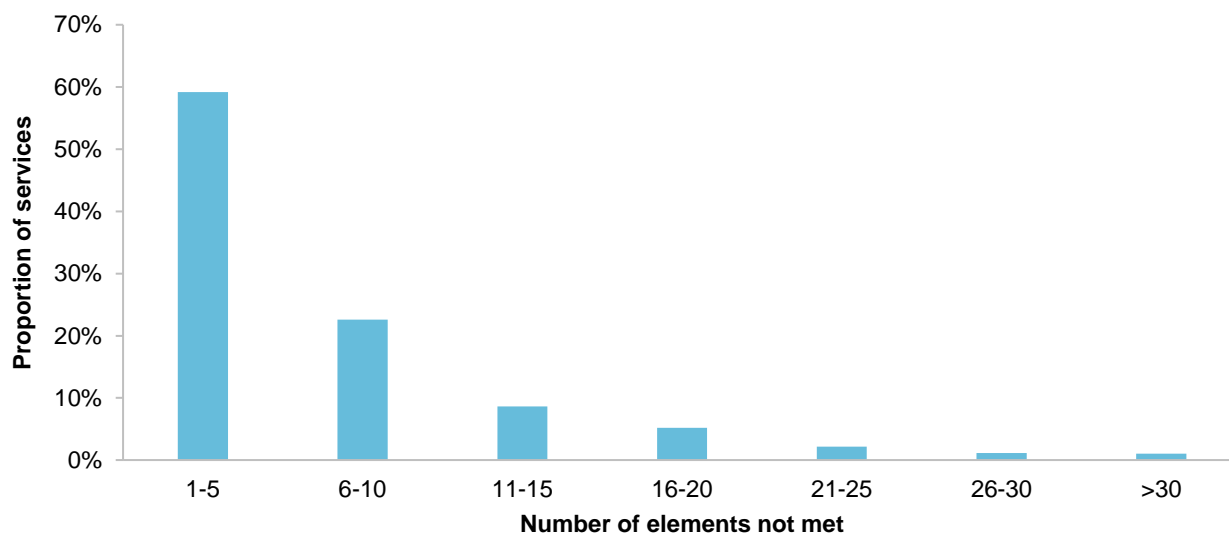
The regulatory system provides some rewards for quality ECEC services, though these have limitations. Being rated as Meeting or Exceeding the NQS (or the Excellent rating awarded by ACECQA) allows services to differentiate themselves from their competitors and attract families. But for services to attract more families based on their rating, families must first be aware of and value service ratings, and families must also have a choice about which service they use – but in practice this is often not the case. Regulatory authorities also tend to take a risk-based approach to assessing and rating services – which means higher-rated services tend to be reassessed less frequently than lower-rated services. This can reward higher-rated services with an 'earned autonomy' for their performance, though the long times between assessments for all services

(including those not meeting the NQS), can diminish the relative reward for higher quality services. This means that other measures are necessary to compel services to provide quality ECEC.

A significant minority of services are not meeting the NQS

While most ECEC services are either Meeting or Exceeding the NQS, a sizeable minority are not meeting the standards - in July 2023, about 11% of rated ECEC services were not meeting the NQS⁹ (ACECQA 2023c, p. 14). Many of these were only failing to meet a handful of elements of the NQS (figure 8.6) – and about 47% of services rated as Working Towards the NQS in 2023 were only failing to meet one or two quality areas (ACECQA 2023c, p. 20). The most common quality areas that services do not meet are Quality Area 1 (educational program and practice), Quality Area 7 (governance and leadership) and Quality Area 2 (children’s health and safety) (ACECQA 2023c, p. 17).

Figure 8.6 – Most ‘Working Towards’ services are not meeting five or fewer NQS elements
Proportion of services and number of elements not met, at July 2023



Source: ACECQA (2023a).

The services that do not meet the NQS are diverse. They exist across all types of providers and services, and in every geographic category from major cities to very remote areas (paper 2). But some characteristics are overrepresented in services that do not meet the NQS, which are more likely to be:

- school or private for-profit providers
- family day care and OSHC services
- located in remote and very remote areas
- located in areas with relatively higher levels of disadvantage (paper 2, figure 2.6).

But the proportion of services not meeting the NQS at a point in time does not show the full picture. Most services that previously did not meet the NQS demonstrate improvements in their rating when they are next assessed – in 2023, 68% of services previously rated as Working Towards the NQS had improved their overall rating at reassessment to either Meeting or Exceeding the NQS (ACECQA 2023c, p. 13). Similarly,

⁹ ‘Not meeting’ the NQS refers to both services rated as Working Towards NQS and Significant Improvement Required – noting that at July 2023, only one service was rated in the latter category.

there is some evidence that services are more likely to move from Working Towards the NQS to Meeting or Exceeding the NQS if they are not-for-profit providers (relative to for-profit providers), and large providers (relative to smaller providers, including standalone providers) (Harrison et al. 2023, pp. 17–18). In some circumstances, underperformance may reflect a lack of resources – particularly in regional or remote areas, where workforce shortages may exacerbate a service’s ability to raise quality (paper 3) – and a need for additional support, before regulators resort to enforcement measures.

However, a small but persistent minority of services have been underperforming for an extended period of time. In July 2023, about 5% of services rated as not meeting the NQS had held this rating for 10 or more years – or about 80 services – though some of these services had not been assessed for several years (ACECQA 2023a). Over three quarters of these services were operated by for-profit providers, and 81% were long day care services – despite for-profit providers and long day care each making up just over half of all services (ACECQA 2023a). While ratings data has some limitations given many services have not been assessed for several years, and some new services have not been rated at all (section 8.3), it still suggests that the existing regulatory system is not lifting or incentivising quality among all services as effectively as it could be.

Regulatory authorities are most equipped to deal with extreme cases

Regulatory authorities have a range of enforcement powers that they can use for serious breaches of the National Law and the National Regulations (figure 8.1). Most of these powers are for breaches that are not based on a service’s rating – for example, prosecution based on the actions of a service or an educator, or financial penalties for failing to comply with certain national regulations (ACECQA 2023b, pp. 551–552).

Some inquiry participants suggested that the regulatory system should provide stronger penalties for services that are rated Working Towards the NQS.

More attention must be placed on services not meeting the National Quality Standard (NQS) with timely assessment of new services and more frequent assessment of services rated as Working Towards NQS... There must be less tolerance for services not meeting the standard. (KU Children’s Services, sub. 83, p. 6)

Implement stronger consequences for services rated as Working Towards for two or more cycles in a row... Management and funding consequences for services that do not meet quality measures. (Goodstart Early Learning, sub. 125, p. 6)

When a service does not meet the NQS, there are some measures that regulatory authorities can use. If a service is rated as Significant Improvement Required, meaning that ‘there is a significant risk to the safety, health and wellbeing of children’, ACECQA indicates that ‘the regulatory authority will take immediate action’ (ACECQA n.d.). This action could involve suspending a service’s approval to operate (effectively shutting it down for a period of time), or accepting a written undertaking from a service provider to take or refrain from taking certain actions. These measures seem appropriate given the serious nature of the Significant Improvement Required rating.

When a service is rated as Working Towards the NQS, the consequences are more limited – and services do not typically face enforcement measures for a Working Towards rating alone. Regulators have some enforcement powers when a service is rated Working Towards – for example, they can suspend a service’s approval to operate, or compel a service to agree to take or refrain from taking certain actions, if it has been rated as Working Towards the NQS and has not improved its rating (and a service waiver does not apply in relation to the non-compliance) (ACECQA 2020, p. 528). But the Commission is not aware of any examples of this occurring in practice. This is because a Working Towards rating alone does not generate serious concerns about the service. ACECQA suggests that Working Towards services are still providing a ‘safe

education and care program', and that a Working Towards rating is not a 'failure', because 'the assessment and rating process was not designed to be a pass-fail system. Rather, it is a system that examines a broad range of quality measures and encourages continuous improvement' (ACECQA 2016b, n.d.c).

However, the NQS sets a minimum standard services should meet, and regulatory authorities should use an appropriate combination of support and enforcement measures to ensure that those services take steps to improve quality – especially given that the time between assessments can be very long. The appropriate response by regulatory authorities will depend on the individual circumstances of the service, and requires regulators to weigh up various risks, costs and benefits including:

- any risks that the service poses for children's safety, health and wellbeing
- possible detrimental effects on child development from a lower quality service (and benefits to children from an improvement in service quality)
- effects on the service, families and children if enforcement measures were used (for example, if a service's approval was suspended or cancelled, or a service faced financial penalties that affected its ability (or cost) to operate).

Given that most services that are rated as Working Towards the NQS improve their rating in their next assessment, support may be more appropriate than compliance and enforcement measures in the first instance – with the onus placed on the service to demonstrate that it has raised quality. However, services should automatically face increased scrutiny from their regulatory authority if they are rated as Working Towards for more than one consecutive assessment, and stronger enforcement and compliance measures should be considered by the regulator if support to the service is unsuccessful. The Commission is seeking more evidence about the best course of action in instances where services are not meeting the NQS across multiple assessments (information request 8.2).



Information request 8.2

The Commission is seeking views about the most appropriate regulatory actions for serial underperformers, while considering the effects on families and children from more severe measures (such as service closure). Specifically:

- are serial underperformers enough of a problem in the sector to warrant stronger regulatory actions?
- if serial underperformance of some services is a problem, would this be best addressed by additional powers for regulatory authorities, or by regulators making more use of existing powers?

Regulators should balance enforcement measures with support for services

Services are primarily responsible for meeting the NQS. But when services are only marginally not meeting the NQS and there are no serious concerns (for example, child safety concerns), additional support from regulatory authorities may be more appropriate than compliance and enforcement measures in the first instance.

An improved rating and assessment cycle will lift quality more rapidly in conjunction with systemic support for services 'working towards' the NQS. (ELACCA, sub. 153, p. 12)

At present, the level and type of support that regulatory authorities provide to services varies. For example, in New South Wales, the State Department of Education offers the Quality Support Program in partnership with ACECQA. The program offers up to 18 weeks of free professional development and support (which is

provided by ACECQA) for all ECEC service types, and includes in-person visits, online training, workshops, follow-up online and telephone support and other resources to support quality improvement. Services can be eligible if they have received a rating of Working Towards the NQS or are currently rated Working Towards the NQS, with priority given to services that:

- do not meet six or more NQS elements
- are in disadvantaged areas
- have been Working Towards the NQS for longer periods of time (four or more years)
- have been rated Working Towards the NQS twice or more
- services operated by a single provider (ACECQA 2023f).

The results of the first four stages of the program (held over 2018 to 2022) indicated that 73% of the participating centre-based services subsequently achieved a rating of Meeting NQS or above – and were 2.6 times more likely to be rated Meeting NQS or above compared to similar services that did not participate in the program. The results for participating family day care services were not substantially different from similar services that did not participate – though among all service types, service leaders reported significant increased rates of confidence in what they needed to do to meet the NQS following the program (NSW Department of Education and ACECQA 2022, pp. 7–12). The results of this program suggest it may be a more effective way of raising quality among some types of ECEC services than regulatory actions alone.

ACECQA also provides a range of educational material to both regulatory authorities and services, to help services understand what is required to meet the NQS (ACECQA, sub. 6, p. 6).

In their submission, Goodstart Early Learning suggested that one goal of a new national partnership-style agreement should be to ‘work more directly with services to raise quality, especially in areas where quality is likely to be lower (such as in low SEIFA and remote areas)’ (sub. 125, p. 6).

In instances where services are rated as Working Towards the NQS but there are no serious concerns with the service, additional support may be a more desirable measure to improve quality than enforcement measures alone, given that service closures will create costs and challenges for families and children. The Commission is seeking evidence about the extent to which services need more support to meet the NQS, and the types of support required.



Information request 8.3

The Commission is seeking information and evidence about the extent to which services need more support to meet the NQS, and the types of support required. For example, would the Quality Support Program offered in New South Wales provide the type of support needed by services in other states to meet the NQS?

New service approvals should prioritise higher quality providers

Some inquiry participants argued that the incentives for services to deliver high quality ECEC should be higher (Goodstart Early Learning, sub. 125, pp. 6, 88; KU Children’s Services, sub. 83, p. 6). One of the ways in which services could be rewarded for providing quality services over time is through the service approval process. At present, regulatory authorities are not required to consider the ratings of a provider’s existing services when considering an application from that provider to open new services – though they may

do so to consider whether there are any serious safety concerns as part of the approval process (for example, NSW Department of Education 2021, pp. 16–17). Some participants suggested that providers' existing services should have to meet a certain quality requirement to be approved to open new services.

Provider would not be granted a new service approval unless 90% of their existing services Meet or Exceed the National Quality Standard, which could be increased over time to 95%. Exceptions could be made for new operators where the operator has previously owned or managed a service that was assessed as meeting NQS; or where the service is not-for-profit and meets national priorities around quality and inclusion. (Goodstart Early Learning, sub. 125, p. 88)

That [improving ECEC quality] should also include making sure that new service approvals only go to providers with a proven record of delivering quality services. (The ParentHood, sub. 122, p. 4)

As the ECEC system moves towards universal access (paper 5), quality must be maintained as services expand. Regulatory authorities should be required to consider the ratings of a provider's existing services when considering an application for a new service, with priority (such as fast-tracked approvals) given to providers that have a track record for providing high quality services over providers that have lower average ratings across their existing services. This process should not exclude or penalise new (or small) providers, or services that do not have a provider already operating other services.

There are also other potential avenues through which higher quality services could be rewarded. For example, services need approval under the *Family Assistance Legislation Amendment Act 2017* (Family Assistance Law) to receive CCS funding. This process also does not require the service's quality rating to be taken into account.



Draft recommendation 8.4 **Incentivise quality provision in new ECEC services**

State and territories regulatory authorities should be required to consider the performance of a provider's existing services when making decisions on an application to approve new services from that provider, and prioritise new service approvals from higher rated providers over those with lower existing service ratings.

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9. Funding, governance and stewardship

Key points

- ✳ **A mixed approach to funding early childhood education and care (ECEC), comprising a mainstream instrument to support affordability and accessibility for all families, and additional expenditure targeted to enabling participation among those with higher needs, could underpin a universal system.**
 - Reforms to improve the efficiency and effectiveness of the Child Care Subsidy, Additional Child Care Subsidy, Inclusion Support Program and Community Child Care Fund would represent a significant improvement on the current funding model and contribute to achieving universal access.
 - These reforms should be complemented through a more coordinated approach between the Australian, state and territory governments to co-fund preschool, address availability gaps and support the establishment of integrated services where there is a need.
- ✳ **Australian, state and territory governments should sign a new National Partnership Agreement on ECEC, which would outline their respective roles and responsibilities as stewards of the system, as well as the objectives all governments seek to achieve.**
 - The Australian Government should remain responsible for early childhood policies in the years before preschool and associated funding responsibilities and for the funding of outside school hours care through the Child Care Subsidy.
 - State and territory governments should remain responsible for preschool, school readiness and take on the responsibility of ensuring the delivery of outside school hours care in government schools.
 - Governments should build upon the Preschool Reform Agreement to ensure funding supports the desired outcomes, regardless of the preschool delivery model adopted in each jurisdiction.
- ✳ **A new independent ECEC Commission should be created to embed an effective stewardship model.**
 - A stronger stewardship model would address some of the challenges observed in the market, coordinate a more cohesive policy response and steer the sector towards universal access.
 - An ECEC Commission should support governments to better coordinate and deliver ECEC policies by providing information and advice. It should also provide a mechanism to hold stewards accountable for achieving the objectives of the ECEC system, as defined in the proposed National Partnership Agreement.

The terms of reference for this inquiry asked the Productivity Commission to assess the efficiency and effectiveness of government investment in the early childhood education and care (ECEC) sector.

ECEC is one type of human service. Human services are essential for the wellbeing of individuals and their families, and underpin economic and social participation. Ensuring that everyone, regardless of their means or circumstances, has access to a minimum level of high-quality human services promotes equity and social cohesion, which in turn contributes to the welfare of the community as a whole (PC 2017, p. 3).

ECEC services are places where children play, form relationships, use their imagination and learn, and for many young children and their families, ECEC is a part of everyday life (paper 2). ECEC services are also critical to the wellbeing of families – many rely on them to participate in the labour force, access study and training opportunities, or volunteer (paper 4).

Human services, including ECEC, are typically funded through a combination of family and government contributions.

Governments invest in human services in different ways, designed to achieve efficiency, effectiveness and social objectives. The ambition in funding these services is to promote net community benefits; this in turn presents challenges for program design and in targeting those with the greatest need while at the same time balancing the administration of rules and processes to ensure funding integrity and policy outcomes. As such, a range of governance obligations and accountabilities are often used to oversee these investments.

In assessing the efficiency and effectiveness of government investment in ECEC, three questions need to be considered:

- Are individual programs such as the Child Care Subsidy (CCS), Additional Child Care Subsidy (ACCS) Inclusion Support Program (ISP) and Community Child Care Fund (CCCF) efficient and effective in achieving their objectives?
- Should these programs be improved and if so, how?
- What might be the most effective and efficient funding and governance structures for delivering the ECEC policy agenda proposed by the Commission?

Other supporting papers – specifically papers 2, 5, 6 and 7 – tackle the first two questions, and make draft recommendations to improve the functioning of the CCS, ACCS, ISP and CCCF.

This paper focuses on the third question. It considers whether significant progress towards universal access can be achieved using the current mix of funding instruments (including families' contributions), on the basis that all of the Commission's recommendations for improvement are adopted. The Commission also asks inquiry participants whether there are broader opportunities for funding reform.

This paper also considers how well governments are working together to achieve the broad objectives of ECEC policy, and whether further efforts to enhance collaboration and policy coordination are required through a stronger stewardship model.

More specifically, this paper:

- describes levels of government and families' expenditure on ECEC (9.1)
- sets out a framework for considering the ECEC funding model (9.2)
- considers opportunities to reform the funding model (9.3)
- assesses the current allocation of roles and responsibilities between governments (9.4)
- discusses why a stewardship model – underpinned by an ECEC Commission – could bring better funding and policy coordination to the system, and enhance transparency and accountability (9.5).

9.1 Expenditure on ECEC has grown significantly

In 2021-22, government and family contributions to the ECEC sector were in the order of \$19 billion.

Total Australian, state and territory government recurrent and capital expenditure was \$12.9 billion in 2021-22, an increase in real terms of 65% since 2012-13 (figure 9.1). Expenditure in 2021-22 comprised \$10.3 billion (about 80%) from the Australian Government, \$2.14 billion (17%) from state and territory governments, and \$470 million (4%) of preschool funding provided by the Australian Government to states and territories through the National Partnership on Universal Access to Early Childhood Education, which preceded the Preschool Reform Agreement (PRA) (SCRGSP 2023b, tables 3A.4 and 3A.7).

Families paid about \$6 billion in out-of-pocket expenses at CCS-approved services in 2021-22, representing about 40% of the total fees charged (Productivity Commission estimates based on DoE administrative data (unpublished)). Families may also pay out-of-pocket expenses at dedicated preschools (appendix E).

The Australian Government's principal ECEC funding instrument is the CCS, which is both means and activity tested (paper 6). Targeted funding is also provided via the Australian Government's Child Care Safety Net (Australian Government Department of Education, sub. 90, pp. 21–24).

- The ISP provides funding to ECEC services to support children with additional needs in mainstream services. Funding can be used for a range of supports, such as additional educators in a room or providing specialist training to increase staff capability (paper 2).
- The CCCF provides grants to address barriers to ECEC participation in regional and remote and Aboriginal and Torres Strait Islander communities (paper 5).
- The ACCS offers higher subsidy rates and longer hours of subsidised care for eligible families experiencing hardship (paper 6).

Total Australian Government expenditure on the CCS program (including the ACCS) was expected to be \$10.6 billion in 2022-23, up from \$9.8 billion in 2021-22. The estimated outlay for 2023-24 is \$12.7 billion (Australian Government Department of Education, sub. 90, p. 17). Additionally, the Australian Government anticipates providing \$575 million in CCCF funding over the four years to 2025-26 and \$133 million per year in ISP funding (Australian Government Department of Education, sub. 90, pp. 23–24).

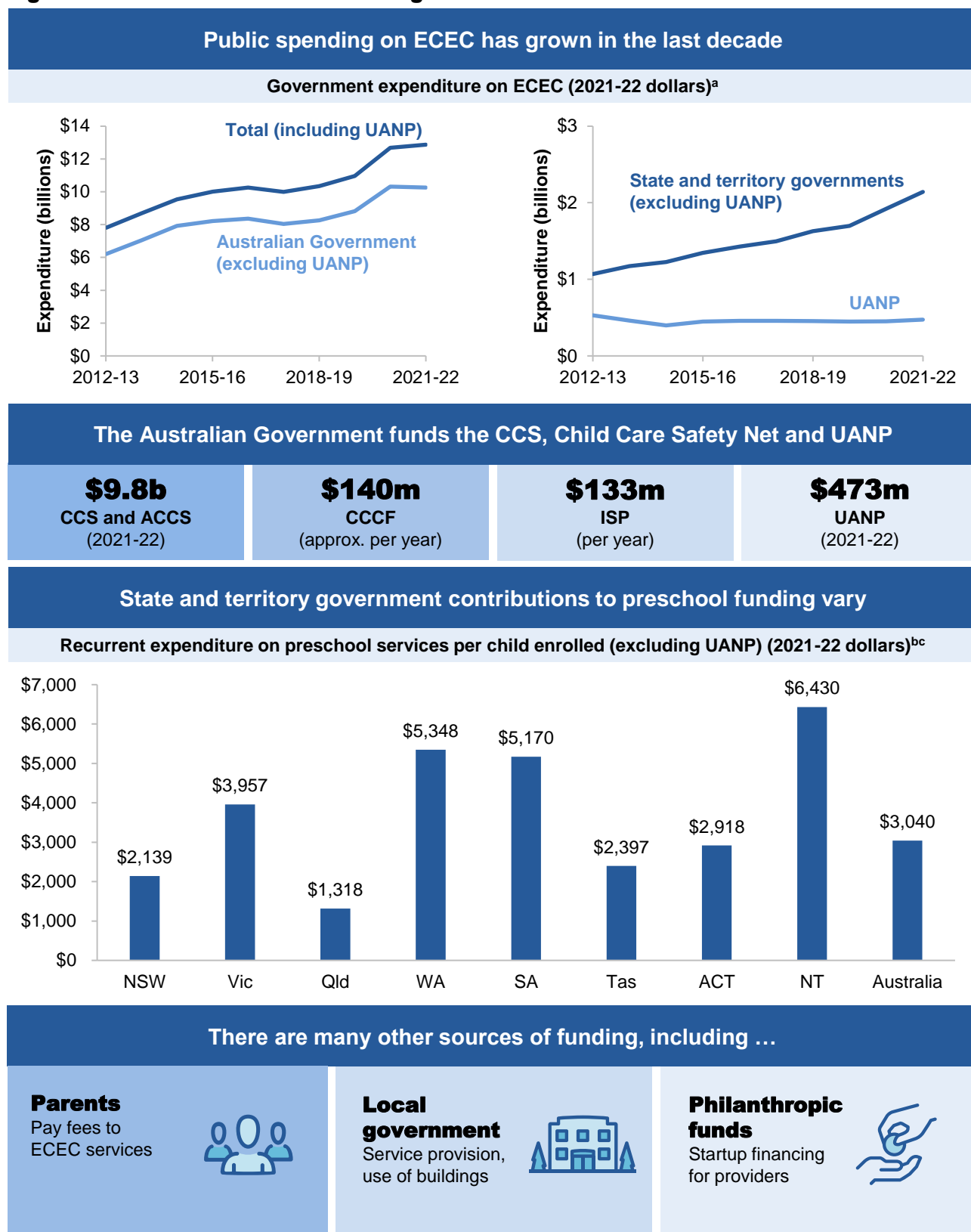
The Australian Government's contribution to ECEC funding as a proportion of its total budgetary expenses rose from 1.4% in 2012-13 to 1.6% in 2021-22 (Australian Government 2013, table 5, 2022, table A.1; SCRGSP 2023a, table 2A.26, 2023b, table 3A.4).

State and territory governments – with assistance from the Australian Government via the PRA – fund preschool programs (appendix E). The Australian Government expects to provide about \$1.84 billion to state and territory governments through the PRA 2022–25. The PRA total budget was estimated to increase from \$453 million in the 2022 program year to \$467 million in the 2025 program year (Australian Government 2021, table 1A).

State and territory governments are also involved in the provision of integrated services (for example, assisting in the development of Doveton College in Victoria (2013, p. 15) and early learning centres (paper 5)).

Some local governments operate services and some provide support to community run services, such as discounted use of council buildings. Philanthropic organisations also contribute funds to ECEC in certain circumstances. For example, philanthropic contributions helped to establish Children's Ground (2022, p. 7) and Doveton College (2013, p. 14).

Figure 9.1 – ECEC is funded via a range of instruments and from a number of sources



a. From 2013-14 onwards, data labelled UANP relates to the Universal Access to Early Education National Partnership (UANP), which began from July 2013. For 2012-13, data labelled UANP relates to the National Partnership on Early Childhood Education. Although it is not shown in this data, the Preschool Reform Agreement 2022–25 replaced the

UANP. **b.** Recurrent expenditure is calculated on an accrual basis and includes administration expenses, employee expenses (excluding payroll tax, overheads, recurrent grants and other expenditure on service provision), financial support to families, and umbrella department costs. **c.** Preschool enrolment by jurisdiction for 2021-22 was calculated by averaging the number of enrolments at all ages for 2021 and 2022 reported in SCRGSP (2023b, table 3A.18).

Source: Real total government expenditure from Productivity Commission estimates using SCRGSP (2023b, tables 3A.4 and 3A.7); CCS, ACCS, CCCF and ISP expenditure from DoE (sub. 90, p. 17, 23–24); PRA expenditure from SCRGSP (2023b, table 3A.7); real total recurrent expenditure on preschool services from Productivity Commission estimates using SCRGSP (2023b, tables 3A.6 and 3A.18).

9.2 A framework for considering ECEC funding models

How do governments intervene in human services?

In considering the potential nature and form of intervention in a human service, governments face two critical questions:

- What should be the balance between market versus public provision? In considering this, governments also decide the specific ways in which public provision should occur.
- What should be the balance between private versus public funding? In considering this, governments decide the specific instruments used to deliver public funding.

Consideration of government intervention in ECEC, like almost all human services, is not a binary debate about whether the sector should be supported by solely government funding or private funding (family contributions). Rather there are justifications for varying the allocation between those funding sources, including for different cohorts, depending on the net benefits to children and families from participation. These benefits need not necessarily be solely economic – they could stem from equity or social reasons, or relate to the relative costs of administering different funding models.

The extent to which a service delivers private or public benefits is therefore important in considering the balance between funding sources and modes of provision. As private benefits are larger, the balance tends towards private funding and more market provision. As public benefits are larger, the balance shifts towards some public funding and more public provision.

ECEC has elements of both private and public benefits. Children typically develop a range of social, cognitive and emotional skills during the period of their lives when they attend ECEC. These skills provide a foundation for future learning, employment and life outside work. Many of the benefits that children experience later in life can also have broader benefits to society. Improved labour market, health and criminal justice outcomes, for example, can translate into higher tax revenues and reduced government expenditure on social support systems (paper 1).

Families also benefit from having children attend ECEC, as this frees up parents and carers to pursue work, study or volunteering activities. This can confer benefits to parents in the form of higher income, greater career progression and the satisfaction that can come from working, for example. From a societal perspective, greater parental labour force participation can contribute to breaking the cycle of intergenerational disadvantage.

Precisely quantifying the private and public benefits associated with a human service is often difficult. ECEC is no exception. This is in part because many of the benefits cannot be measured until children who attended ECEC reach adulthood, and because some benefits related to wellbeing can be difficult to measure. Without longitudinal studies, impacts such as higher income, reduced welfare dependency and lower involvement in

crime cannot be fully assessed. Further, these and other life outcomes are a product of many other factors. Isolating the contribution of ECEC is challenging (paper 1).

Ultimately, decisions about the balance between market and public provision, and between private and public funding, for any human service are at the discretion of governments.

In the ECEC sector, the majority of activity is delivered by private organisations and, as outlined in the section above, paid for by one funding instrument, the CCS. Family contributions (out-of-pocket expenses), are the balance of fees charged by services less subsidies via the CCS (paper 6).

In some circumstances, the private market will not deliver a service because the expected costs exceed the expected revenue generated from private contributions and government subsidies – for this reason, the Australian Government provides additional support through the CCCF (paper 5), and some state and territory governments provide additional funding to build ECEC centres and integrated services.

Different funding approaches are used in Australia's human services sectors

Other human services sectors in Australia utilise a variety of funding types (box 9.1), often including some form of base payment with additional support targeted to areas or individuals with higher needs.

Box 9.1 – Funding of other human services

Schools

Like ECEC services, primary and secondary schools are jointly funded by the Australian Government, state and territory governments, and parental or other private contributions (such as fees).

The Australian Government provides funding to schools based on each school's Schooling Resource Standard (SRS). As of 2023, the Australian Government provides at least 20% of each government school's SRS and 80% of each non-government school's SRS. State and territory governments also provide funding for government and non-government schools as per the National School Reform Agreement.

A school's SRS includes a base amount plus four student-based loadings and two school-based loadings. Student-based loadings cover students with disability, are Aboriginal and Torres Strait Islander people, are experiencing socio-economic disadvantage, and/or have low English proficiency. Schools may be eligible for loadings based on size and location.

Medicare

Medicare is Australia's universal health insurance scheme. It is funded by the Australian Government through taxation revenue, including instruments such as the Medicare levy and Medicare levy surcharge.^a Medicare includes a range of safety nets for individuals who incur high out-of-pocket medical expenses, including the Greatest Permissible Gap, Original Medicare Safety Net and Extended Medicare Safety Net. Additionally, medical practitioners are incentivised to bulk bill so that patients face no out-of-pocket expenses. The national bulk billing rate during the 2023-24 July to September year to date was about 75%.

Aged care

Residential aged care is funded by the Australian Government and contributions from residents.

Providers receive a daily subsidy based on assessments of permanent residents' physical and cognitive ability, behaviour and mental health. Providers also receive an initial entry adjustment payment when a

Box 9.1 – Funding of other human services

new permanent resident transfers into a facility, as well as additional supplements based on the needs of residents. Funding is reduced when a resident receives a compensation payment or pays fees.

a. The Medicare levy is generally 2% of taxable income. In 2022-23, individuals generally paid a reduced Medicare levy when earning below \$30,345, and did not pay the levy when earning below \$24,276. The Medicare levy surcharge is 1%, 1.25% or 1.5% of taxable income, reportable fringe benefits and any amount on which family distribution tax has been paid, for individuals above an income threshold who do not have an appropriate level of private patient hospital cover. In 2022-23, the Medicare Levy Surcharge base income threshold was \$90,000 for singles and \$180,000 (plus \$1,500 for each dependent child after the first one) for families.

Source: AIHW (2022); ATO (2023a, 2023b, 2023c); DoE (2023c, 2023e); DHAC (2022, 2023a, 2023b, 2023c).

Governments can use a range of instruments in funding ECEC

Funding instruments used to support ECEC delivery are generally distinguished by:

- whether the quantum of funding depends on the level of demand from families, that is, it is child- or family-based (referred to as demand-side funding)
- whether the funding is linked to the characteristics of those delivering the service, that is, it is provider-based (referred to as supply-side funding)
- the level of co-payment required from families (referred to as out-of-pocket expenses).

The choice of funding instrument and co-payment has efficiency and efficacy implications.

Demand-side funding instruments

Demand-side funding instruments typically come in the form of a subsidy which covers all or some of the ECEC fees incurred by families.

As they are child- or family-based, subsidies can be calibrated to reflect characteristics such as family income or particular needs of the child. They can also be simply targeted to certain cohorts and not others, but they cannot be differentiated by service provider. However, there could be a broader requirement that consumers only receive a subsidy if they use a registered/approved provider who meets quality and other accountability standards.

On the assumption that families have sufficient information on quality and alternative options to meet their needs, demand-side subsidies can help facilitate choice, thereby promoting efficiency by encouraging providers to respond to the preferences of families, including about where centres are established and the type of care provided (PC 2014, p. 565). They can also promote competition between service providers – this is discussed further below.

Supply-side funding instruments

Supply-side funding instruments are designed to cover all or part of service delivery costs and can be varied to reflect cost differences. These differences can include particular cost components (such as wages or capital), or can be linked to other service provider characteristics.

Different methods can be used to calculate and deliver supply-side funding (The Front Project 2022a).

- **Activity-based:** Funding is calculated as an amount directly proportional to the estimated units of service, determined by methodically classifying, counting and defining the cost of certain activities.

- **Need-based:** Recurrent funding is provided directly to service providers to support individuals with additional needs. The amount of funding is typically estimated by the level of resourcing required to meet these needs, with a 'base' and additional 'loading' formula.
- **Outcomes-based:** Funding is attached to required levels of provider performance across set performance metrics. This approach is typically used to achieve a 'higher-than baseline' performance, and to incentivise service providers to improve their quality and outcomes.
- **Programmatic:** Bespoke funding is made available for targeted investment for specific purposes and needs. Programmatic funding is typically an additional funding stream alongside mainstream funding instruments, for a set period of time, and is based on estimated delivery costs.
- **Block-based:** Funding is delivered as recurrent lump-sum payments to service providers, calculated to cover service delivery costs (including operational expenses).

Funding can also be automatically tied to other instruments, such as award wages. Prior to 1985, before moving to an operational funding model, the Australian Government funded 75% of the cost of approved staff salaries in ECEC services (Parliament of the Commonwealth of Australia 1985, p. 3).

Supply-side funding approaches allow governments to attach conditions to grants and target specific areas of need through tailored funding instruments. Some approaches also have benefits in terms of greater certainty and simplicity for families.

However, implementing a broad supply-side funding instrument within established ECEC markets could dampen incentives for ECEC providers to tailor services to what works best for families and weaken price signals that providers reference when making decisions about when to enter, expand or exit an ECEC market. Some broad supply-side instruments also require governments to:

- develop an accurate understanding of the efficient cost of service delivery
- develop a mechanism to adjust this over time to mitigate the risk of a mismatch in funding
- play a much stronger role in planning and coordination of service provision to address availability gaps
- move away from individualised means testing.

Co-payments from families

Some level of co-payment – absorbed by families as an out-of-pocket expense – can have benefits.

Co-payments:

- can reflect the private benefit that accrues to the child and family
- provide an incentive for families to consider their usage decisions and reduce the risk that places will be taken up when they may not be needed
- can empower families to demand more from the service providers as making a payment can help them feel like they are buying a service, rather than just receiving it from government
- are a way of controlling government expenditure on ECEC. This is because there is a direct substitution between what families pay and what government pays, and because higher co-payments can reduce the demand for ECEC and hence the total cost of government subsidies (PC 2014, pp. 565–566).

In demand-side funding instruments, subsidies can be expressed as a dollar amount (as is the case, for the National Disability Insurance Scheme) or as a capped share of fees paid (like the CCS, which applies the subsidy to fees up to the hourly rate cap (paper 6)). Both approaches expose families to changes in prices – out-of-pocket expenses rise as prices rise unless the subsidy is adjusted. When at least some families face out-of-pocket expenses, providers have an incentive to compete on price to attract (and retain) families and, therefore, to minimise the cost of delivering the services they provide.

In supply-side funding instruments, while the quantum of funding is typically set to cover the cost of service delivery, this does not preclude governments or service providers also charging a fee. For example, in the case of dedicated preschools, which are funded through supply-side instruments, families can face additional fees (Victorian Government Department of Education, sub. 146, p. 6).

Co-payment options – such as a fixed dollar amount for every family – can be adopted. However, fixed fees do not give families a good indication of the cost of delivering ECEC services, nor of changes in the cost. A fixed co-payment means that families may be less concerned about fee increases. Fixed co-payments do have the advantage however, that families know how much they will be required to pay (PC 2014, p. 565).

Although co-payments can contribute to a more efficient market for ECEC services, there can be situations where even a low co-payment may discourage the participation of some children. Providing further financial assistance may be necessary to reduce affordability barriers for these families to encourage participation in ECEC (paper 6).

A mix of funding instruments is used in many countries

In Australia, a mix of funding instruments has emerged to support the broad objectives of ECEC. The instruments target different objectives and fall into three categories:

- a broad baseline funding instrument, primarily targeted at affordability and accessibility goals. The CCS falls into this category, offering means-tested subsidies to families, as does the preschool funding provided by state governments, which allocates a set amount of funding per child for eligible services
- targeted assistance primarily aimed at reducing barriers to ECEC that are higher for some families due to location, disadvantage or for children who have additional needs. The ISP falls into the category, providing support for the inclusion of children, as does the CCCF, which provides funding to increase the supply of ECEC in eligible communities
- highly targeted interventions for children who would significantly benefit from access to high quality ECEC. Integrated services, including those delivered by Aboriginal Community Controlled Organisations (ACCOs) and those funded through the CCCF, are an example.

Some inquiry participants noted the complexity of current funding arrangements and highlighted the value of adopting a multi-pronged approach. The Independent Education Union of Australia noted:

... early childhood funding must be comprised of both universal supports to enable all children to access quality early childhood education services and targeted interventions to ensure the participation of those facing significant barriers. Government funding must recognise the geographic, socio-economic and cultural factors that inhibit families' access to services. (sub. 40, p. 6)

Similarly, University of NSW, Social Policy Research Centre submitted that:

There is a need for multiple funding streams, where mainstream funding streams are accompanied by parallel streams of targeted funding. These could support First Nations services, services which are located in high poverty contexts, services working with large refugee or new migrant communities, or services which have high levels of expertise including children with disability. Importantly the multiple streams should be streamlined to reduce the administrative burden on services who apply for and account for funding. (sub. 176, p. 10)

A similar mix is observed internationally in countries with a similar mixed market approach to ECEC provision to Australia (that is, where ECEC is delivered through a combination of private organisations and government-run entities) (box 9.2 and appendix B). The approaches generally comprise mainstream funding and additional targeted support.

Box 9.2 – Different countries approach funding decisions in different ways

Appendix B provides an overview of international approaches to ECEC, with a focus on British Columbia in Canada, Ireland, Netherlands, New Zealand and Sweden. The work illustrates some of the variety of approaches taken elsewhere, noting that the ways in which governments design and manage their ECEC systems are a product of social context and wider policy considerations.

All countries studied use base funding supplemented with targeted assistance

While each jurisdiction has a unique ECEC funding model, there is consistent recognition that base funding instruments are not sufficient in themselves to cover the needs of all children, and many countries also provide targeted funding for some cohorts.

The design of funding instruments for children needing additional support varies – funds are sometimes attached to individual children, and in other instances paid directly to services or municipalities based on the anticipated needs of all enrolled children. Families requiring assistance with out-of-pocket expenses are often eligible for additional demand-side funding, either through limited eligibility programs or extensions to existing funding instruments (for example, where families receive financial support above standard means testing rates).

Governments can tailor their oversight of the sector to suit different policy goals ...

In British Columbia, services participating in the Child Care Fee Reduction Initiative must agree to not increase fees beyond an amount specified by the provincial government and new participating services cannot set fees beyond the 70th percentile for their region and service type (Beach et al. 2023, p. 206). Under Core Funding, Irish ECEC providers must meet conditions regarding fees (including a fee freeze until August 2024), service quality and operational transparency (Government of Ireland 2023). In New Zealand, the amount of ECE Funding Subsidy that services receive differs based on staff qualification levels (New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2023). In contrast, CCS funding for approved services in Australia mainly differs by fees and family characteristics rather than individual service characteristics, with only the hourly rate cap differing by service type (appendix D).

... but each approach to funding has pros and cons

The relationship between funding instruments, affordability and access is complex. Greater use of supply-side funding does not guarantee improved ECEC affordability. OECD data suggests that for some families in jurisdictions with well-established supply-side funding instruments (such as New Zealand), out-of-pocket ECEC expenses as a proportion of household income are higher than in Australia.

Supply-side instruments have assisted British Columbia in meeting the Canada-Wide Agreement interim target of halving average ECEC out-of-pocket expenses by the end of 2022 (Gould and Whiteside 2022). But there have been reports of services introducing opt-in payments for items that were previously included in fees (such as meals) following the increase in Child Care Fee Reduction Initiative funding rates, which has limited improvements in affordability (MacMahon et al. 2022). Given these changes are recent, it is too early to properly assess their effect on affordability.

To deliver sustained improvements in affordability, funding instruments – whether they are focused on families or on service providers – must be sufficiently responsive to service costs. Irish providers have expressed concerns that Core Funding rates are not increasing in line with service cost (Wayman 2022).

Box 9.2 – Different countries approach funding decisions in different ways

In October 2023, the Irish Government announced a 14% increase in Core Funding expenditure for 2024 to ‘support improved affordability and accessibility for families, improved pay and conditions for the workforce and improved sustainability for providers’ (O’Gorman 2023).

No single funding instrument would efficiently or effectively support attainment of all the goals of a universal ECEC system. The overarching funding model should therefore consist of a mix of instruments targeted at different objectives.

**Draft finding 9.1****A one-size-fits-all funding model would not be efficient or effective**

A one-size-fits-all approach to ECEC funding would not be an efficient or effective model to support the objectives of access, affordability, inclusion and flexibility. A mixed approach comprising mainstream funding to support affordability and accessibility for all families, and additional expenditure targeted to enabling participation among those with higher needs, could efficiently and effectively underpin a universal system.

9.3 There is scope to improve funding arrangements**Some service types may not be well served by the current model**

Many inquiry participants have suggested the CCS, acting as the mainstream funding instrument, is not the most effective way to support some service types, including integrated services, services delivered by ACCOs, and preschool programs.

Integrated services lack funding security and consistency

Integrated services combine ECEC and other services. They can take various forms, such as early learning family centres (combining ECEC and maternal child health services), co-location (for example, placement of ECEC services on the grounds of primary schools), and fully integrated child and family centres (for example, providing ECEC, family, employment and health services) (paper 7).

These services can encourage providers to develop and implement practices that better serve children with additional needs, their families and communities. However, funding approaches are inconsistent, and often draw on sources outside of ECEC budgets.

Having a variety of funding sources is not necessarily a problem. Because integrated services operate in a place-based context, their form ideally fits the needs of the communities they serve such that different components are supported by different funders. It is important however that the funding model does not act as a barrier to delivering integrated services where they are needed. Programmatic streams of funding – which often form one of multiple sources of funding for integrated services – can be challenging to navigate and may risk the integration function being inconsistently funded.

The South Australia Royal Commission into Early Childhood Education and Care refers to the connection function or 'glue' that links ECEC services with other early years services such as health and family supports. It also notes 'how funding systems currently fail to adequately recognise its role' (SA Government 2023, p. 33). The Commission's previous ECEC inquiry noted that 'access to mainstream funding arrangements offers greater financial stability for integrated services, although some block funding (for the integration 'glue') may be needed' (PC 2014, p. 640).

As a guiding principle, where there is an identified need for an integrated service, all aspects should be funded in full, including the integration function or 'glue'. This may necessitate a block-funding or needs-based funding approach.

Block-based funding will better support Aboriginal and Torres Strait Islander communities

Like other integrated services, there is inconsistent and often insecure funding for integrated services run by ACCOs. These services take many forms, such as Aboriginal and Torres Strait Islander Child and Family Centres, Multifunctional Aboriginal Children's Services and Aboriginal and Torres Strait Islander-operated centre-based day care (CBDC) services. In some jurisdictions, preschool services are delivered by ACCOs. Across all service types, funding is often provided through a mixture of sources across multiple levels of government and from philanthropic organisations.

Inquiry participants have highlighted that a new ACCO funding model is required which reflects the integrated services ACCOs provide, the limited economies of scale associated with operating in rural and remote areas, the needs of Aboriginal and Torres Strait Islander families, and support for the Aboriginal and Torres Strait Islander workforce. SNAICC (sub. 133, p. 6) submitted that:

ACCOs provide a broad range of education, family and early intervention services ranging from community-based playgroups to fully integrated early education and family support hubs which provide holistic wraparound services to families. These services have a significant impact on supporting children and families, preventing child protection intervention, support self-determination and work to ensure children are connected to their families, communities, cultures and Country.

Prior to 2018, ACCO-delivered integrated services were funded through a type of block funding model, often referred to as budget based funding. Following the introduction of the 2018 Child Care Package, these arrangements ceased. The intention was that these services would transition to mainstream funding models under the CCS, with additional support through the ACCS and CCCF. The third funding stream ultimately became the CCCF Restricted Grant category. SNAICC noted that this has had lasting impacts on services operating in rural and regional communities, with services now having to draw on multiple funding sources from different levels of government. Reliance on the mainstream funding instrument has exacerbated challenges for ACCO-led services, as they typically operate in rural and regional thin markets and metropolitan areas where socio-economic disadvantage is more prevalent. In addition, Aboriginal and Torres Strait Islander families are likely to experience thin markets for culturally safe services (sub. 133, pp. 11–12).

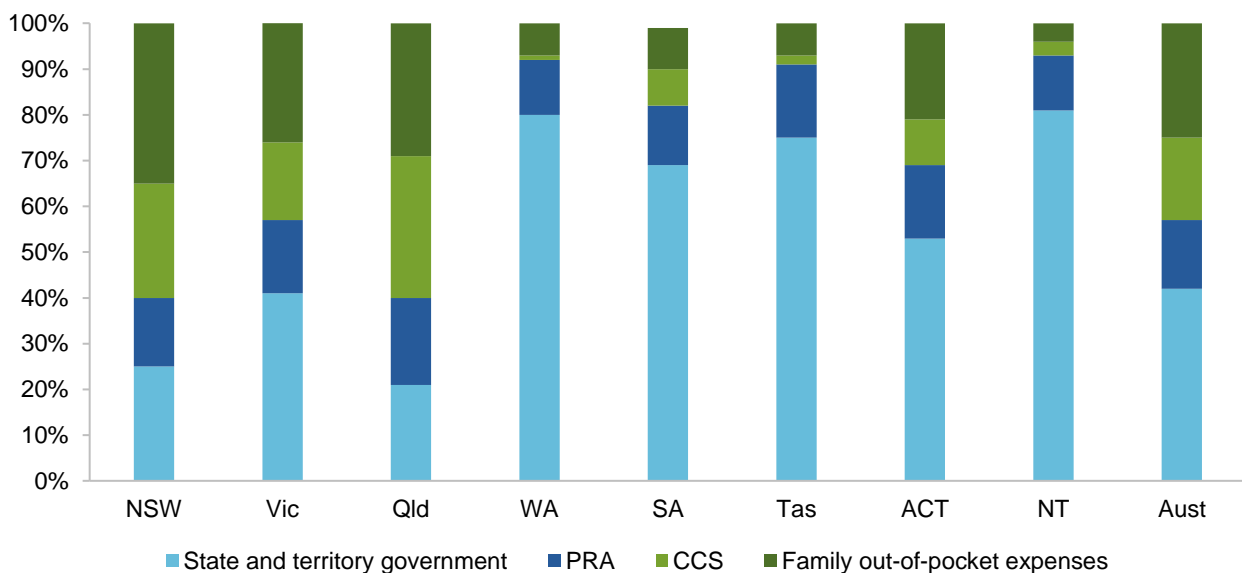
The Early Childhood Care and Development Policy Partnership (ECPD) is delivering a research project on funding model options for ACCOs that deliver ECEC, including integrated early years services (ECPD 2023, p. 2), with a report due in late 2023. In addition, the Australian Government Department of Education has commissioned a review of the CCCF's restricted grant program, which is due to be completed by early 2024 (DoE 2023a).

The Commission will consider the findings and recommendations from these pieces of work as part of the ECEC inquiry's final report.

Costs of delivering preschool programs need further investigation

The diversity in preschool delivery settings across Australia translates into a different preschool funding mix in each state and territory. In states and territories where most preschool programs are integrated within the schools system, such as Western Australia, Tasmania and the Northern Territory, the state or territory government is the primary funder of preschool. In contrast, state and territory government expenditure represents a smaller proportion of preschool funding in New South Wales and Queensland, where preschool programs are generally delivered within CBDC services (figure 9.2).

Figure 9.2 – State and territory government contributions to preschool funding vary^{a,b,c}
Funding of preschool programs for 600 hours for children in YBFS, by funding type and jurisdiction, 2018-19



a. Funding labelled as PRA relates to the Universal Access to Early Education National Partnership (UANP). The PRA 2022–25 replaced the UANP. YBFS = Year before formal schooling **b.** Comparisons between jurisdictions should be made with caution as state and territory governments do not calculate expenditure with uniform methodologies. **c.** See Nous Group (2020, pp. 30–31) for notes on methodology.

Source: Nous Group (2020, pp. 30–31).

A 2020 review of the Universal Access to Early Education National Partnership (UANP) examined differences in preschool funding sources between jurisdictions. The review found that there was insufficient evidence to conclude that preschool programs delivered in CBDC services benefit from a ‘double subsidy’ – where a child enrolled at a CBDC service is eligible to receive both CCS and PRA funding (COAG Education Council 2020, p. 11).

Investigating this issue further would require access to providers’ financial records to evaluate the efficient cost of preschool delivery, as well as whether this cost differs between preschool delivery settings.¹ In determining the hourly rate cap for the CCS, the Commission has recommended that provider costs and profitability be reviewed every three years (paper 6). Preschool provision could be within scope of that work.

¹ Preschools were outside the scope of the Australian Competition and Consumer Commission inquiry into the costs of providing ECEC.

The review also identified state and territory autonomy as a strength of current preschool funding arrangements – jurisdictions have been able to work towards delivering universal preschool in a way that is complementary to existing services and family preferences (COAG Education Council 2020, p. 1).

Some inquiry participants have suggested that equity and flexibility should be important considerations for preschool funding. The Western Australia Government (sub. 162, p. 18) called for consideration of ‘options for more equitable distribution of Commonwealth funding across jurisdictions but which also allow for state and territory government flexibility in determining the model/s of preschool delivery that best suit their context and legacy’. Similarly, the Victorian Government Department of Education (sub. 146, p. 13) recommended a sector-neutral funding model, which would ‘provide jurisdictions with CCS equivalent funding for preschool regardless of the setting it is delivered in’ so that ‘states are not penalised for their sector mix’.

The Commission notes that PRA contributions represent a negotiated outcome between the Australian, state and territory governments and these negotiations operate in the context of other Commonwealth–State funding discussions. With the current PRA lapsing at the end of 2025, there is an opportunity to address equity concerns and ensure funding arrangements take into account the range of service delivery models across the country.

The Commission will give more consideration to these issues in its final report.

Some inquiry participants have called for a shift in the mainstream funding mix

Some inquiry participants have called for changes to the funding mix. Some have advocated for a shift in the balance in favour of increased government funding for ECEC services; others have called for a change in the balance between different funding instruments (box 9.3).

In developing positions in favour of alternatives, many inquiry participants focused their criticisms on particular elements of the existing funding model – such as the activity test, the inadequacy of inclusion support funding and the limited scope of the CCCF. Given the significant transitional costs that would come with any broader funding reform, there is an argument in favour of first addressing these issues and other barriers to affordability, accessibility, inclusivity and flexibility in order to improve the efficiency and effectiveness of government investment.

Box 9.3 – Some inquiry participants expressed support for a new funding approach

Many inquiry participants called for consideration of a new funding approach, including approaches where ECEC is free or provided for a fixed fee.

Community Early Learning Australia submitted:

That ECEC funding should work towards delivering a universal entitlement to 30 hours per week of free early childhood education and care from birth to school age across all service types, provided through block funding. (sub. 92, p. 6)

The Shop, Distributive and Allied Employees Association recommended:

The provision of supply side funding by Government to ensure widespread availability of flexible ECEC places for children of workers with non-standard hours and unpredictable shifts. (sub. 72, p. 3)

Catholic Education South Australia advocated:

Transition to a national/state funding model that extends the principles of Gonski to the provision of preschool for 4-year-olds and 3-year-olds. (sub. 13, p. 3)

Thrive Group Tasmania Inc. proposed that the government should:

Scrap current funding systems and replace with a model that more closely recognises and responds to organisational and community needs ... Pay service \$15-20 an hour per child sessionally. (sub. 81, p. 3)

Thrive by Five – Minderoo advocated:

That the Productivity Commission recommends a low-cost, set fee pricing model for accessing a basic entitlement of ECEC in Australia ... That the Productivity Commission recommends the Commonwealth Government and State and Territory Governments develop a new funding model that considers 'supply-side' (block) funding for ECEC services in regional and remote locations; or enables direct delivery by existing government entities such as public schools. (sub. 70, p. 9)

The Independent Education Union of Australia submitted that:

It is time for government to move to a model of direct funding of early childhood services to pay teacher salaries and ensure consistent and guaranteed funding for quality early learning education for all children from birth to school age. (sub. 40, p. 4)

Work and Family Policy Roundtable recommended that:

Public financing of physical infrastructure for ECEC could prevent 'leakages' of public funding for service provision into profits of corporate providers and their lenders, and corporate owners of the underlying real estate. (sub. 138, p. 17)

Centre for Policy Development suggested:

... including a needs-based funding aspect into the funding model where additional funding is provided to services based on level and concentration of disadvantage. Services could be restricted in what they can spend this additional funding on, with the government providing a

Box 9.3 – Some inquiry participants expressed support for a new funding approach

'menu' of evidence-based interventions and services going through a planning and acquittal process. (sub. 156, p. 45)

Goodstart Early Learning recommended:

That the Commission consider financing approaches that make progress towards a universal, affordable quality ECEC system, which encompasses the most positive elements of demand and supply side funding. The new or reformed model should be developed in close consultation with the sector to test for unintended and intended consequences.

That the financing approach and model moves away from attempting to meet all need with a single financing instrument and recognises the need for a multi-layered financing model to meet broader public policy objectives of supporting child development and workforce participation. (sub. 125, p. 9)

Improvements to the current model would support a universal system

All governments operate in a budget constrained environment, and there is a social policy case to prioritise funding towards families who need it most, particularly as those experiencing disadvantage are likely to benefit disproportionately from access to ECEC (paper 1).

The current means testing arrangements, which are applied to the mainstream funding instrument, help to improve the equity of government spending. By reducing the subsidy rate as family income increases, this prioritises financial support towards those that need it most. In turn, this frees up budget capacity to fund additional more targeted supports and investments in areas of greatest need.

The structure of the current ECEC funding approach aligns with the tiered structure described earlier.

- The CCS represents the broad reaching baseline funding instrument, primarily targeted at affordability and accessibility. This is complemented by preschool funding through the PRA (and contributions from states and territories), which follows the child and reduces the expense of accessing ECEC for families with four-year-old children.
- The ACCS, CCCF and ISP represent targeted assistance aimed at reducing barriers to ECEC for some families. Combined, these components are needs-based, targeted subsidies, implemented through a programmatic approach.
- Highly targeted interventions, such as integrated services, are funded through a range of mechanisms, including the CCCF and other state-based contributions.

Other supplementary papers have articulated issues with the CCS and ACCS (paper 6), CCCF (paper 5) and ISP (paper 2) and made recommendations to improve the efficiency and effectiveness of each. Relaxing the activity test, funding 100% of fees up to the hourly rate cap for low-income families, increasing funding for inclusion support, and increasing the scope of the CCCF to support access in regional and remote areas collectively represents a significant shift in the balance between private and public funding of ECEC services, and will make significant inroads towards achieving universal access.



Draft finding 9.2

Improving components of the funding model would support universal access

The architecture of the current ECEC funding model provides a baseline mechanism to support families to access ECEC, with additional, targeted interventions to address cost barriers, provide additional support for inclusion needs and to establish services in regional and remote markets.

Reforms to improve the efficiency and effectiveness of the Child Care Subsidy, Additional Child Care Subsidy, Inclusion Support Program and Community Child Care Fund would represent a significant improvement on the current funding model and contribute to achieving universal access.

These reforms should be complemented through a more coordinated approach between the Australian, state and territory governments to co-fund preschool, address availability gaps and support the establishment of integrated services where there is a need.

Beyond the Commission's recommendations, is there scope for broader reform?

Some inquiry participants, in their criticism of the current funding model, recommended the adoption of broader supply-side instruments within mainstream funding. Some of the alternatives proposed are briefly described below. Each represents a shift away from the predominantly demand-side approach of the current mainstream instrument.

- **A hybrid approach:** CCS blended with a supply-side subsidy designed as a direct payment to service providers to cover some operational costs of service provision (Goodstart Early Learning, sub. 125, pp 71-72, City of Sydney, sub. 65, p. 14). This subsidy could, at government's discretion, become a wage supplement which would mean that government fully funds any increase in wages (Gallagher, Aisling, sub. 164, p. 3, Community Early Learning Australia, sub. 92, p. 12, National Foundation of Australian Women, sub. 10, p. 3).
- **A predominantly supply-side funding model:** Moving to block-based and needs-based funding provided as direct payments to service providers (Centre for Policy Development, sub. 156, pp. 44–45, Community Early Learning Australia, sub. 92, p. 8, Community Child Care Association, sub. 111, p. 23, Shop, Distributive and Allied Employees Association, sub. 72, p. 21).
- **Direct service provision:** Governments funding and delivering services themselves in certain circumstances (Centre for Policy Development, sub. 156, p. 43). Currently, government-run services represent only 3.9% of CBDC services and 32.9% of preschool services (paper 5).

The Commission will further explore the potential merits of reforming the funding model. Specifically, the Commission will consider the relative merits of different funding approaches in supporting the proposed ECEC policy agenda presented in this draft report, taking into account the relative public and private benefits of each approach and the potential transition issues associated with each. Changing the balance of market versus public provision, or a shift in the mix of private versus public funding would change the allocation of risks involved in ECEC provision and the incentives faced by families and service providers. Implications for the efficiency and effectiveness of the ECEC system in delivering its objectives will be examined.

Inquiry participants now have the opportunity to consider the Commission's draft recommendations and their implications for funding arrangements. In this context, the Commission seeks feedback on the implications of broader funding reform.



Information request 9.1

The Commission welcomes views on the implications of broader funding reform in ECEC for children, families, service providers and governments, including the benefits and costs of expanding the use of supply-side funding mechanisms.

9.4 Greater clarity around roles and responsibilities would address a range of coordination challenges

Complex human services like ECEC are different to other sectors in that they have broader social goals. Beyond providing the service itself, they aim to improve the wellbeing and quality of life of the individuals and communities they serve. This, together with their role in funding, means governments have a strong interest in ensuring that human services sectors are working well and that they are reaching the people who are likely to benefit from them.

In the case of the ECEC sector, governments typically want to provide quality education and care to children, enable families to manage parenting and participation in work, training, study or volunteering, and reduce the impact of disadvantage on children's opportunities throughout their lives. Governments also want to protect the overall integrity of the system by supporting the entry of high-quality service providers and be assured that public funded services deliver good outcomes for children and families.

All levels of government aspire to this, but their roles, responsibilities and impact may differ markedly.

Historic arrangements remain a feature in today's ECEC system

The governance arrangements that guide Australia's ECEC system stem from the constitutional division of roles and responsibilities between the Australian, state and territory governments. These arrangements have been well embedded for decades, with a relatively clear delineation of roles and responsibilities with respect to policies primarily aimed at labour force participation and those primarily aimed at childhood development.

Historically, the Australian Government has focused on welfare and employment – with subsidies for ECEC typically designed through a social welfare and labour force participation lens. State and territory governments have constitutional responsibility for education, and therefore preschool policies have fallen within their realm. This division of responsibility is reflected in contributions to system funding, with the Australian Government the primary funder of CBDC, family day care, outside school hours care (OSHC) and In Home Care, and states and territories the primary funder of dedicated preschools (appendix E and figure 9.1).

Despite this, there are areas of policy where roles, responsibilities and priorities of governments either have not been, or risk not being, clear. For example, the Australian, state and territory governments are funding ECEC infrastructure investments (including those that deliver integrated services) (paper 5) and deliver workforce and tertiary education policies (paper 3). Further, while there is some national consistency in both governance and funding arrangements for preschool programs for children in the year before formal schooling, some state and territory governments are moving towards similar programs for three-year-old children (two years before formal school) and provision of wrap-around care in dedicated preschools is constrained by challenges in accessing the CCS.

Some inquiry participants have called for a clearer delineation of governance and funding responsibilities.

The historical division of funding responsibility, whereby the Australian Government funds long day care to support parents' workforce participation, and States fund state and/or community preschool to support children to transition to school has increasingly become blurred. This division does not reflect the diversity of parental needs and preferences, with many parents combining different types of care arrangements for their children and facing complex trade-offs when deciding when, where and how much to use ECEC services. (NSW Government, sub. 158, p. 3)

With the potential for an increase in demand for all ECEC services in response to planned reforms and the recommendations made by this inquiry it is timely to consider whether the current governance arrangements are fit-for-purpose.

While the focus of this paper is on the interactions between the Australian, state and territory governments, where they are active, local governments also contribute to the planning and coordination of ECEC. In Victoria, 50 of the 79 local governments provide one or more direct ECEC services, 26 are Early Years Managers providing administrative support for three or more services that operate a preschool program, and 60 deliver a central enrolment and registration system, which helps provide information on demand for preschool (Municipal Association Victoria, sub. 117, p. 7).

Some local governments have also traditionally offered 'peppercorn rents' within lease agreements to community-run providers, reducing the cost of service provision compared to those paying commercial rents. Recently, the Australian Competition and Consumer Commission (ACCC) found little evidence that land costs vary due to this practice (ACCC 2023, p. 11.). Other local governments deliver ECEC services themselves, or play a role in planning and coordination activities.

At times, local government regulations have hampered the development of ECEC facilities. Some inquiry participants have pointed to an unnecessary additional approval process whereby prospective providers gain approval to operate, only to have a local government reject their application on the basis of visual amenity of the proposed centre, or insufficient car parking requirements (Long, Vanessa, sub. 8, pp. 9–10).

Despite there being some desire for more active local government involvement, there are no mechanisms that the Australian, state or territory governments can use to compel all of them to be more active and in turn deliver a coordinated and consistent approach. While some ECEC challenges can be tackled well at the local level, this is most often at the discretion of the local government whose residents are most affected. Consideration of alternative governance arrangements need to take this into account.

Policy coordination between the Australian, state and territory governments can be enhanced

Many inquiry participants have pointed to insufficient coordination between the different levels of government, causing fragmentation in the overall ECEC policy response. Coordination challenges identified include that:

- objectives are not aligned across jurisdictions. While the states and territories have responsibility for providing education, they have less incentive to support labour force participation as they do not benefit from the increased income tax revenue (Centre for Policy Development, sub. 156, p. 18). The Victorian Government Department of Education argues that the resulting vertical fiscal imbalance acts as a barrier to investment by the states (sub. 146, p. 6)
- the reform agendas of jurisdictions are also often not well aligned. This causes 'significant differentiation between states delivering on minimum standards, versus others delivering a more aspirational policy

setting, [which] will widen the gap of a child-centred entitlement, based on their geographic location' (The Creche & Kindergarten Association Limited, sub. 155, p. 12)

- state and territory governments sometimes move independently on workforce attraction and recruitment strategies, which may inadvertently impact other jurisdictions
- there are areas where policies overlap between the Australian, state and territory governments, and the interaction between preschool and the CCS can be difficult to navigate for families and services. For example, the inclusion funding available to support children with disability depends on whether their attendance is funded through the CCS or a preschool program, and services that offer both must apply for and manage each program separately (Centre for Policy Development, sub. 156; NSW Government, sub. 158; Association for Children with a Disability, sub. 78; Deloitte Access Economics (2023))
- some system-wide objectives do not have any particular body accountable for them and performance is not monitored as closely as it should be (Goodstart Early Learning, sub. 125, p. 26). Nationally, there is no government body responsible for tracking where there is inadequate supply, which leads to inconsistency in policy responses, such as developing a 'provider of last resort' in communities where private services are not willing to provide
- there is limited data sharing across different levels of government, making it more difficult for states and local governments to plan for their specific communities (Western Australia Government, sub. 162; Municipal Association of Victoria, sub. 117; NSW Government, sub. 158; Centre for Policy Development, sub. 156; South Australia Royal Commission into Early Childhood Education and Care, sub. 161)
- there are inconsistent OSHC contracting approaches across jurisdictions, with some being led by education departments, and others being driven by individual schools. In addition, there are at times poor linkages between OSHC services and the school communities they service.

In addition, governments are implementing some preschool reforms independent of each other. Where long-term reform announcements are being made in regard to preschool policies (such as those in New South Wales, Queensland, South Australia, Tasmania and Victoria) there may be associated impacts in other policy areas such as workforce attraction, which is a national and state-based challenge.

Typically, governments look to multilateral agreements and interjurisdictional forums to help to ameliorate challenges of this type. For example, the Education Ministers Meeting (EMM) is 'a forum for national cooperation on early childhood education and care, school education, higher education and international education. The forum progresses items of national strategic importance within the portfolio collaboratively to achieve agreed objectives and priorities' (DoE 2021). Reporting to the EMM is the Australian Education Senior Officials Committee (AESOC), which is responsible for the execution of EMM's decisions.

The EMM is used to reach agreement on a range of matters relevant to all governments, including funding and workforce strategies. Examples include the PRA (aped E) and the National Children's Education and Care Workforce Strategy (paper 3). This EMM is the appropriate forum to work through roles and responsibilities that overlap jurisdictional boundaries.

Australian governments have a history of working effectively together. As noted by Goodstart Early Learning (sub. 125, p. 14), the introduction of universal preschool has been seen as a major policy success, and an example of governments working together with a shared vision to achieve a desired outcome – namely, lifting preschool attendance. Achieving this outcome did not require a fundamental change in responsibilities. Similarly, the move to a National Quality Framework (NQF) from state-based systems, provides another example of governments working collaboratively to achieve a consistent policy response.

Many of the problems associated with overlapping roles and responsibilities can be addressed through a more effective stewardship model, underpinned by a clear national vision for ECEC (section 9.5). As the NSW Government submitted:

With many ECEC national reform discussions underway, it is timely to consider the roles and responsibilities for different levels of government and also what co-stewardship could look like in practice, recognising the varied funding, regulatory and policy levers available to different players in the ECEC system. Without sufficient alignment of stewardship activities, there is a risk of making the ECEC system more complex and missing opportunities to improve child, family and system outcomes (sub. 158, p. 8)

Rather than a fundamental change to roles and responsibilities, the effectiveness of current arrangements could be improved through clearer articulation. This need not happen at the constitutional level, but could be achieved through existing processes, such as the development of the national vision for ECEC, and consolidated through future partnership agreements between governments.



Draft finding 9.3
System stewardship is a missing part of the policy puzzle

Overlapping roles and responsibilities between different levels of government create a range of coordination challenges for sector participants. Funding and policy coordination can be addressed through a stewardship model. There would be benefit in clarifying roles and responsibilities through the national vision for ECEC and any future partnership agreement between governments.

There is, however, a case for states and territories to manage OSHC

OSHC operates in a unique context, with the large majority of services located on school sites and catering for older children.

OSHC is crucial to supporting working families, but availability of places is mixed across the country (paper 5) and inquiry participants pointed to a range of issues associated with both the availability and operation of OSHC (including vacation care) (box 9.4).

Box 9.4 – A number of inquiry participants raised concerns about OSHC

Bray and Gray observed that:

The overall framework for the coordination of schools and Outside School Hours Care is one in which there is generally no responsibility upon schools to provide this service, but rather it appears to be an option. This has clear implications for parents and workforce engagement. (sub. 14, p. 25)

Early Childhood Australia noted that:

In many communities, schools have the infrastructure available but are reluctant to provide OSHC because of the additional regulatory requirements. Harmonising or bridging regulatory

Box 9.4 – A number of inquiry participants raised concerns about OSHC

requirements between schools and OSHC providers could create the conditions in which more schools would be willing to deliver OSHC. (sub. 154, p. 44)

National Outside School Hours Services Alliance submitted that:

Schools regularly use OSHC (particularly in the Government schools sector) to revenue raise and this is often at the expense of quality OSHC operations including investment in children's resources, professional development and non-contact time for OSHC educators and providing adequate staffing levels (beyond minimum standards) to promote children's wellbeing, learning and development. (sub. 103, pp. 1–2)

Shop, Distributive and Allied Employees Association (SDA) observed that:

Given the fairly low use of OSHC and high reliance on informal care for school aged children of the parents surveyed and the difficulties identified, it appears that OSHC for SDA members is not universally available, accessible or convenient. (sub. 72, p. 13)

The Association also commented on the challenges some families face in accessing vacation care and relayed the experience of a parent who:

... only requires care during school holidays, but their children's service will only accept children for vacation care if they also attend before and after school care. So to have access to vacation care, they enrol their children in care during term time they don't need. (sub. 72, p. 14)

In 2014, the Commission recommended that state and territory governments should proactively encourage the provision of OSHC on school sites, and place the onus on school principals to take responsibility for ensuring there is an OSHC service for their students on and/or offsite if demand is sufficiently large for a service to be viable (PC 2014, p. 416).

There is a strong argument that OSHC availability be a responsibility of state and territory governments. Nearly all OSHC services are operated on school grounds and in some jurisdictions, the relevant education department manages the contracts with providers in public schools. If schools and OSHC were governed under the same system, the observed concerns about availability and charges levied by schools might more readily be addressed.

The only commonality between OSHC and the rest of ECEC is their funding through the CCS, which is the responsibility of the Australian Government. But families could continue to access the CCS (or an alternative funding model implemented at the national level) even if the regulation and governance of OSHC was the responsibility of states and territories.



Draft finding 9.4

States and territories are better placed to oversee and ensure availability of OSHC

There is a strong case for state and territory governments to take responsibility for ensuring the provision of outside school hours care (OSHC) in government schools to address availability gaps, promote more consistent charging and contracting practices within jurisdictions, and improve linkages between schools and the OSHC providers operating on site.

Roles and responsibilities should be settled through a new National Partnership Agreement for ECEC

Renegotiation of the PRA could be a catalyst for more significant changes to governance arrangements beyond those applicable to preschool. Rather than solely developing a new preschool funding agreement, governments could work towards an agreement that encompasses a range of ECEC domains.

A number of submissions noted the need for something broader than the PRA.

We need a coordinated approach across all levels of Government to improve responsibility and accountability. A siloed approach sees duplication, disconnected data, and unnecessary competition for resources that can result in missed opportunities for collaboration and impact. States and territories are making commitments and forging ahead with initiatives, but a national strategy is needed to bring cohesion. There needs to be a more coordinated response with cross-government and non-government collaboration, with a permanent national partnership agreement for outcomes to be achieved. (KU Children's Services, sub. 83, p. 8)

[The Productivity Commission should consider] the re-introduction of a National Partnership on Quality with funding from the Australian Government to support each state and territory to actively regulate the sector. (Victorian Government Department of Education, sub. 146, p. 11)

An intergovernmental agreement between the Commonwealth, State and Territory Governments is needed to ensure unity and commitment to their shared responsibility and actions in early learning, capturing initiatives and funding from birth to school, to support a coherent, connected and compatible funding system. The agreement should be supported by a system steward engagement. (The Creche & Kindergarten Association Limited, sub. 155, p. 12)

A new National Partnership Agreement should clearly outline the respective roles and responsibilities of the Australian Government and state and territory governments, to reduce overlap, and funding and regulatory complexity. The agreement could articulate overarching responsibilities for ECEC, preschool and OSHC, in addition to elements of a stewardship model. It could set national goals, with inter-jurisdictional variation in strategies for achieving them to account for the differences in preschool delivery models around the country.

However, negotiation of such an agreement is likely to take a long time, making this a longer-term reform option. It may need to be phased, with a foundational partnership agreement to commence from 2026 (after the PRA ceases), and a subsequent agreement with broader coverage from 2030.



Draft recommendation 9.1 Improve policy coordination and implementation

The Australian, state and territory governments should form a new National Partnership Agreement (NPA) for Early Childhood Education and Care (ECEC) by 2026.

The NPA should articulate the national vision for ECEC and clarify roles and responsibilities between all governments.

- The Australian Government should remain responsible for early childhood policies in the years before preschool and for associated funding responsibilities and for the funding of outside school hours care through the CCS.
- State and territory governments should remain responsible for preschool, school readiness and take on the responsibility of ensuring the delivery of outside school hours care in government schools.
- Governments should build upon the Preschool Reform Agreement to ensure funding supports the desired outcomes, regardless of the preschool delivery model adopted in each jurisdiction.

The NPA can also help to establish a more formal stewardship approach, underpinned by an ECEC Commission (draft recommendation 9.2).

9.5 There is a strong case for system stewardship

Many inquiry participants have pointed to system stewardship as a potential answer to many of the challenges identified in this paper (box 9.5).

Some of the advantages of implementing a model of system stewardship (reflected by inquiry participants) include better coordination, the opportunity for long-term thinking and planning, better oversight of the sector and clear accountability for wider system outcomes. Further, implementing a stronger stewardship model would not require a fundamental change in roles and responsibilities across governments.

This section explores how stewardship works and how this concept could be applied to the ECEC sector.

Box 9.5 – Inquiry participants support a stronger stewardship approach

The Academy of Social Sciences in Australia observed that:

There is a strong case for policy reform that puts children, families and public good at the centre of system design. The current market will need to be better managed by the Commonwealth, in partnership with States and Territories, to work effectively and fully realise the social and economic potential of a world-class ECEC system. The solution is not to ban or expel for-profit providers but to deploy appropriate market stewardship levers. (sub. 116, p. 8)

The NSW Government submitted that:

The Productivity Commission could consider the merits of a clear system stewardship framework... This could include exploration of the levers available to governments and how

Box 9.5 – Inquiry participants support a stronger stewardship approach

they can coordinate their responses to develop effective, sustainable solutions in partnership with the sector. (sub. 158, p. 10)

The Centre for Policy Development noted that:

In the ECEC system, responsibility for the system and its long-term outcomes needs to be taken by the Commonwealth and state governments. Both need to actively take on this system stewardship role, including to set direction around a common vision, objectives and outcomes. As part of this system stewardship, governments need to provide greater oversight and facilitation in the ECEC market. This means taking a broader role than funding and regulating, to include other more intentional steps such as better informing consumers, monitoring the market for inequities, filling service gaps, and actively setting and adjusting the ‘rules of the game’ (such as funding rules). (sub. 156, pp. 32–33)

The Western Australian Government submitted that:

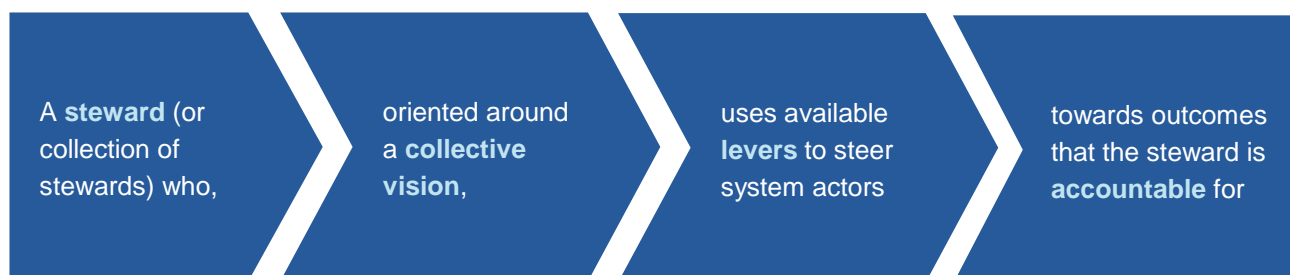
More active Commonwealth stewardship in the market in collaboration with state, territory and local governments to address under-provision and support the growth and sustainability of the ECEC sector will have long-term benefits for children, families, communities and the economy. (sub. 162, p. 18)

What is system stewardship?

System stewardship is a model of governance that involves improved coordination in how governments and other actors work together, and aligns them behind a shared aspiration for the system. Governing bodies are required to extend their focus beyond the specific areas that they are responsible for funding or regulating, and instead take on the role of ‘steward’ over the entire system and its outcomes (The Front Project 2022b).

Stewards take ownership over the system as whole, working collaboratively with other system actors – including different levels of government, advocacy groups, service providers and families’ representatives – to steer them towards the wider social objectives that have been collectively agreed upon. The aim of this approach is to produce a more coordinated policy and governance response across the system, in line with the needs and preferences of the beneficiaries of the system (figure 9.3).

Figure 9.3 – At its core, system stewardship involves:



Source: Productivity Commission analysis.

Who can act as a steward?

In an ideal model of system stewardship, each system actor is aware of their own unique but complementary stewardship role and carries this out in a way that best contributes to the overall health and performance of the system (The Front Project 2022b, p. 18). In practice, it is often necessary that one or a small number of stewards are given a larger oversight role in order to provide leadership within the system.

The steward must have the trust and respect of other participants in the sector if they are to effectively influence their actions and objectives. The particular body or bodies that are best placed to take on this role depends on the characteristics of the system in question, but this may involve various levels of government or private organisations.

Collective vision

Actors in a system, including the stewards, should be united by a collective vision that articulates the priorities and goals for the system (The Front Project 2022b, p. 32). This vision must be clear and endorsed by a wide range of sector participants, in recognition that their buy-in is essential for system-wide cooperation.

The steward should promote the collective vision by providing an accessible way for sector participants to understand the vision and why and how they should support it. The system's desired outcomes can continue to evolve after an initial vision is established – the steward should promote a continuous cycle of evaluation of the system and its objectives to ensure that they remain appropriate.

Levers

Stewards cannot deliver everything alone – they must actively use their funding, regulatory and policy levers to lead other system actors towards delivering on the objectives that have been agreed upon (Centre for Policy Development, sub. 156, pp. 5–6). Levers should be particularly focused on areas where the market alone will not deliver on these objectives, and stewards should try to steer other actors' behaviour without being overly prescriptive.

The levers used depend on the characteristics of the particular sector, but can include actions that are softer and more indirect – such as sharing information and incentivising certain behaviours – to more direct mechanisms – such as setting minimum standards, providing services directly, and removing certain providers.

In the case where there are multiple stewards operating in partnership, there should be flexibility for each steward to identify the levers most appropriate to its role. Stewards should establish a formal plan that articulates the division of responsibilities between them – including which levers each will use – in line with their individual strengths.

Accountability

Stewards are required to take responsibility for the outcomes of their system, and where the system is failing to meet its overall objectives, it is up to the steward to recognise and address this (Moon et al. 2017, p. 10). Producing and publishing a formal plan for a stewardship model would establish clear and public accountability for the role of the stewards. This would also help to identify gaps where there may not currently be anyone responsible for outcomes.

Performance against the vision's objectives should be measured, and there should be clear benchmarks for when the steward is to intervene. Reporting on progress should also be shared publicly to strengthen the accountability of the stewards to the public.

A model of system stewardship has been introduced to New Zealand's education system to address a number of challenges (box 9.6).

Box 9.6 – System Stewardship in New Zealand's education system

In 2016, seven New Zealand government agencies with stewardship responsibilities over the education system – including ECEC, compulsory schooling and tertiary education – requested that the State Services Commission (now the Public Service Commission) undertake a performance assessment of the education system and how it was being governed.²

The assessment found that unclear system-wide objectives and poor coordination between agencies limited the system's success, and that 'a more coherent and systematic approach is required to generate the substantial lift in system performance necessary to ensure that every learner can succeed' (New Zealand Government 2016, p. 4). As a result, the State Services Commission and the seven agencies co-designed *A Blueprint for Education System Stewardship* to outline a new, more collaborative governance approach.

Introducing a more comprehensive model of stewardship was seen by the agencies as an opportunity to create common understanding, agreement and ownership of the system. The Blueprint also emphasises the importance of strengthening accountability for system outcomes among the stewards.

If those charged with this stewardship are not responsible for the outcome produced by the system, then who is? ... system stewardship implies responsibility even when system stewards do not control all the factors that influence [an] outcome. This attitude defines stewardship: it is about 'best endeavours'. (p. 10)

The Blueprint identified a number of priorities for the system to address, including large disparities in student performance, inconsistent uptake of innovation and best practice, and systemic weaknesses in how funding, information and people resources are developed and deployed (New Zealand Government 2016, pp. 22–23). The Blueprint then identified a shared purpose for the system, as well as medium- and long-term goals. Some of the initial actions aimed at addressing these goals included creating shared online resources for other system actors, aligning data systems and forming joint planning processes across the agencies.

Since the publication of the Blueprint, a number of programs and policies have also been implemented that further strengthen government stewardship of New Zealand's education system. Notably, Te Mahau was introduced in 2021 within the Ministry of Education to provide responsive, accessible and integrated local support to early learning services, schools and kura (Māori schools) (Te Mahau 2023). Te Mahau staff across multiple regional offices work directly with schools to provide support with curriculums, learning support and teaching resources to help align service delivery with the goals of the stewards and the education system more broadly.

Source: New Zealand Government (2016).

²The seven government agencies involved are the Ministry of Education, the Education Review Office, the New Zealand Qualifications Authority, the Tertiary Education Commission, Careers New Zealand, Education New Zealand and the Education Council (New Zealand Government 2016, p. 6).

How would stewardship work in practice?

Overall, stewardship should be understood as a scale – rather than as a binary concept that is either achieved or not achieved – and the ECEC system already applies some elements of stewardship, such as national agreements, minimum quality standards and the development of a ‘national vision’ for ECEC (discussed below). However, there is a case for further development of this stewardship model.

Considering Australia’s ECEC system against the four elements identified above – a steward, a vision, levers and accountability – can inform how a more comprehensive model of system stewardship could be achieved.

A steward

As noted above, there is a high level of involvement from all three levels of government in the ECEC sector, and some forums for collaboration already exist, such as the EMM and AESOC.

In order to improve stewardship of the ECEC system, one or multiple system actors would need to take on a stronger role as a ‘steward’ to ensure the system is led in a more coordinated way. Determination of who may be best positioned to manage the system as a steward needs to take account of the different strengths and powers available to each actor. The Australian Government, for example, has significant funding, resources and oversight over the entire system, while local level organisations are able to understand local market conditions and relationships. There is therefore an argument to have multiple stewards acting in different but complementary roles.

Some possible candidates, suggested by inquiry participants and in research, include:

- the Australian Government (The Front Project 2022b, p. 32; The Creche & Kindergarten Association, sub. 155, p. 11)
- state and territory governments (The Front Project 2022b, p. 33)
- local governments (The Front Project 2022b, p. 33)
- a taskforce or other new body, such as an ECEC Commission (The Front Project 2022b, p. 33; Stanley, sub. 34, p. 6; Thrive by Five, sub. 70, p. 6)
- existing entities that could be given more responsibilities or powers, such as Australian Children’s Education and Care Quality Authority (ACECQA) or National Cabinet (The Front Project 2022b, p. 33; Early Learning and Care Council of Australia, sub. 153, p. 13)
- a combination of the above – for example, the Australian, state and territory governments (Centre for Policy Development, sub. 156, p. 35) or all three levels of government (The Front Project 2022b, p. 33; Municipal Association of Victoria, sub. 117, p. 9).

The Australian, state and territory governments represent the most practical stewards for the ECEC system as they hold the key policy, regulatory and funding levers, as well as access to existing forums for collaboration such as the EMM. The Australian Government commits the majority – approximately 80% – of total government funding into the sector (section 9.1). State and territory governments contribute most of the remaining funding to the sector, and they have a strong historical connection to the funding and provision of preschool, as well as constitutionally granted powers over education policy that protects their authority over this area. No other governing bodies have a similar or consistent level of influence over ECEC policy, regulation or funding.

Despite their influence in certain communities, local governments are unlikely to be well-placed to act as stewards of a national ECEC system. While local governments act as system stewards in certain overseas models (appendix B), they do not have a similar capacity to take this leading role in Australia. This is because there is wide variation in the extent to which different local governments participate in the ECEC

sector, and it would be impractical to give all local governments key responsibilities as stewards when many have demonstrated minimal interest in participating.

However, it is also important to recognise that a number of local governments play very active roles in the sector, and they should still be provided opportunities to expand on this role. In addition, local governments have an understanding of their local communities that national and state governments do not, and this should be leveraged where possible to better cater ECEC provision to each community. Local governments should therefore be considered as valuable partners in any stewardship plan – the system stewards should work with local governments particularly in identifying where and what services are needed in their communities. This is a sentiment that has been reflected by inquiry participants (box 9.7).

Stewards must act in partnership to effectively steer the ECEC system, and this, as noted above, is currently facilitated through the EMM and AESOC. These forums, however, may have some limitations – the EMM only meets four times per year, and ‘meeting agendas focus on three decision-making priorities of national importance every six months’ (DoE 2021). These priorities can be spread across the entire education portfolio, which includes ECEC, school education, higher education and international education.

If the Australian Government were to adopt all of the inquiry’s recommendations, this would require a significant reform agenda to be implemented over a number of years. Given the number of levers and the changes proposed, a high degree of cooperation and collaboration between the system stewards is needed. It is unlikely that a forum such as the EMM would have the capacity to consider all matters to the extent that a true stewardship model requires. System stewards may benefit from having a dedicated advisory body to guide decision-making and support a consistent and coordinated policy response across the system more broadly (discussed below).

Box 9.7 – Inquiry participants noted the important role local governments can play

Early Childhood Australia noted that:

While the federal, state and territory governments are well placed to take on the funding and regulatory stewardship of the system, they have limited capacity to plan services in response to local priorities. (sub. 154, p. 34)

The City of Sydney observed that:

There is a real opportunity for Federal and State Government to work more closely with Local Government who are well placed to deliver outcomes in the community, but who are also able to provide insights into community needs. (sub. 65, p. 14)

The Municipal Association of Victoria (MAV) submitted that:

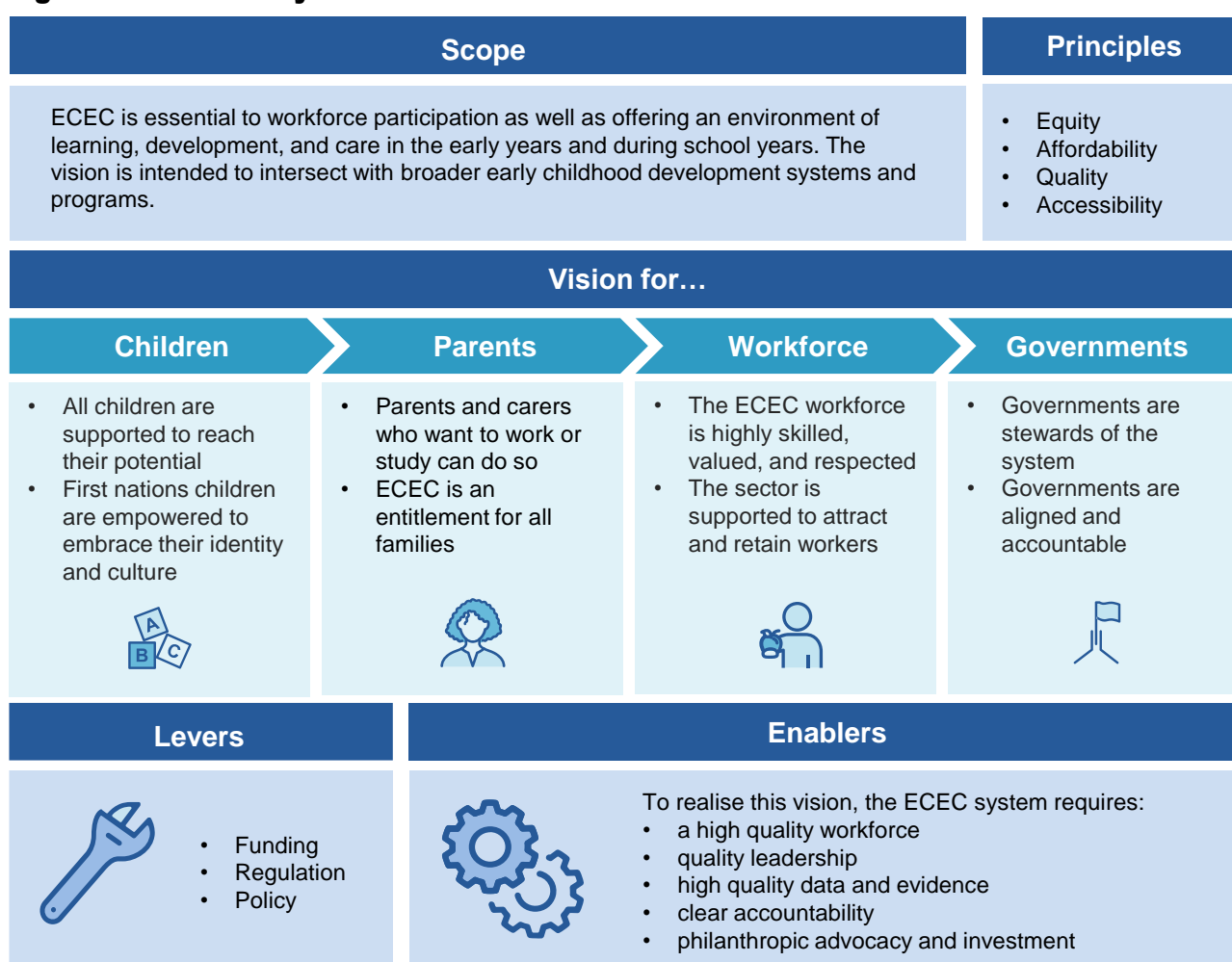
The MAV believes that local government is in the best position to coordinate access for [children with additional needs and children living in regional and remote areas] and proposes each council be funded to take on this role. ... Councils could further be funded to undertake deliberative engagement with their communities to truly understand the ECEC needs of their local families, including barriers to participation, preferred service models and opportunities for integrated early years services. (sub. 117, p. 13)

Collective vision

A starting point for a vision for the sector is the draft national vision for ECEC (figure 9.4).

In August 2022, National Cabinet agreed to create a joint long-term vision for ECEC to deliver improved early learning and child development outcomes. This is led by the Education and Early Years Ministers as a joint initiative of the Australian, state, and territory governments. As part of the design process, the Australian Government Department of Education sought stakeholder feedback through surveys, submissions, workshops and discussions, and National Cabinet is expected to consider the Vision in late 2023 (DoE 2023d). It is noted that the draft vision already has support from the key system stewards – the Australian, state and territory governments – and has been codesigned with other system actors.

Figure 9.4 – Summary of the draft national vision for ECEC



Source: Adapted from DoE (2023b).

One area that the draft vision does not consider, however, is the connection between the ECEC system and early years policy more widely. In line with our terms of reference, Early Childhood Australia emphasised the importance of connecting a vision for the sector with other relevant strategies, such as the Early Years

Strategy, the National Plan to End Violence Against Women and Children and the National Framework for Protecting Australia’s Children (sub. 154, p. 11). Early Childhood Australia also suggested that:

Once agreed upon, a national vision for early childhood education and care needs to be captured in legislation or in a form that positions it with authority, so that it is recognised with the same gravitas as the Mparntwe Education Declaration. (sub. 154, p. 12)

One alternative to legislation is to articulate the national vision as an opening statement of the proposed National Partnership Agreement for ECEC to position the vision at the centre of the system (draft recommendation 9.1).

Levers

The system stewards already use many funding, regulatory and policy levers to steer the ECEC system (figure 9.5).

Figure 9.5 – Governments already use many levers to steer the ECEC system
Selected examples of funding, regulatory and policy levers used by the Australian, state and territory governments

Australian Government	State and territory governments
<p style="text-align: center;">Funding</p> <ul style="list-style-type: none"> • Child Care Package (CCS, ACCS, ISP, CCCF) <ul style="list-style-type: none"> • Preschool Reform Agreement • Initial teacher education 	<p style="text-align: center;">Funding</p> <ul style="list-style-type: none"> • Funding for preschool programs • Direct provision of preschool services
<p style="text-align: center;">Regulatory</p> <ul style="list-style-type: none"> • Maintaining the NQF (setting minimum standards) <ul style="list-style-type: none"> • Approving services for CCS • Monitoring system integrity 	<p style="text-align: center;">Regulatory</p> <ul style="list-style-type: none"> • Enforcing the NQF (providing ratings and assessments) • State-specific requirements for services
<p style="text-align: center;">Policy</p> <ul style="list-style-type: none"> • Maintaining Starting Blocks and ACECQA websites to provide information to parents • National Children’s Education and Care Workforce Strategy 	<p style="text-align: center;">Policy</p> <ul style="list-style-type: none"> • Workforce strategies • Teacher registration • Direct provision of some ECEC services <ul style="list-style-type: none"> • Complaint mechanisms

Source: DoE (2023b); The Front Project (2022b, p. 25); Early Childhood Australia, sub. 154, pp. 32–33.

As noted above, other information papers have recommended improvements to these levers, such as relaxing the activity test (paper 6) and enhancing the ISP (paper 2) and CCCF (paper 5). These improvements will change the way system actors behave, and steer them towards the outcomes that have been identified by the draft national vision. The key difference between simply using these levers and instead viewing them as mechanisms for stewardship is that they should be strategically aligned and well-coordinated.

After establishing a collective vision for the sector, stewards should develop a plan that divides and coordinates individual responsibilities for each governing body within the system. By designating certain roles for each governing body, the system will be able to retain flexibility and leverage the strengths of the different levels of government. This approach also recognizes that different states and territories would be starting from different places and are responding to different needs in their communities, meaning a uniform approach would not be appropriate.

A new National Partnership Agreement presents an opportunity to articulate the respective policy and funding levers that each jurisdiction plans to use and which outcomes these levers are responding to. Through a clear agreement of responsibilities, gaps, overlaps and interactions between the levers of each jurisdiction should become clearer. Further, the introduction of an advisory body (an ECEC Commission, discussed below) could support governments to use their levers more effectively.

Accountability

A stewardship model requires mechanisms for keeping stewards accountable to the system, however this can be challenging to achieve when the stewards involved are government bodies. In this case, it is ultimately the public that is responsible for holding stewards to account, and transparent public reporting on the performance of the stewards becomes very important.

The fragmentation of policy in ECEC, however, means that responsibility for system-wide outcomes is spread across multiple levels of government, and no single body is responsible for reporting on these outcomes. In addition, other system actors do not have adequate access to data to report on the sector themselves:

Limited ECEC utilisation data is available to understand current and unmet demand. ... the national Workforce Census is conducted irregularly, the results are slow to be available, and the most recent census didn't include preschools. The AEDC is the best existing measure of early childhood outcomes, but only conducted triennially. The NQS provides important quality data, but services are not frequently re-rated, the data lacks granularity in important areas, and parents themselves are not sufficiently aware of NQS ratings. (Centre for Policy Development, sub. 156, p. 30)

These limitations in data collection and system monitoring processes increase the risk that failures in the system are not identified or addressed. To improve this, an independent body should be established – separate from wider government implementation and political processes – that is willing and able to highlight where stewards are or aren't meeting their commitments to the ECEC system.

An ECEC Commission to support the stewards

While government departments have the authority and capacity to implement the policies that underpin the ECEC system, they are also impacted by external processes that influence how decisions are made. For example, decision-making may be tied to budget processes or election cycles, and key stakeholders, such as government ministers, can have high turnover rates (The Front Project 2022b, p. 32). This affects policy direction and increases the risk of fragmentation, ultimately reducing alignment between the actual policy landscape and the broader social objectives that the system aims to achieve. There is also no body that monitors the system's performance against these objectives and this reduces the extent to which governments are held to account for outcomes.

In this environment, an independent authority could champion longer-term, national objectives and strengthen accountability for the stewards, without being subject to the same external influences. It could also highlight where and how government should use existing levers – such as where to provide grant

funding or additional workforce support – or recommend what levers could be introduced or changed to improve the system.

Some inquiry participants have also called for a new body to fulfil these roles.

This Productivity Commission Inquiry must recommend that responsibility for the universal provision of ECEC be given to a new national body, overseen by Commonwealth and State Governments, to ensure that government response to this issue is not fragmented between jurisdictions. (Stanley, sub. 34, p. 6)

The Commonwealth Government should establish a Commonwealth/State/Local Government ECEC planning body to plan for current/future publicly funded ECEC service provision to foster a diverse range of ECEC options available for families and address the market failure of the long day care sector where this may occur. Such a collective approach could further be the foundation for a whole-of-ECEC-system review and redesign identifying the ideal participation and contribution of each system actor to achieve the agreed vision and outcomes for the sector. (Municipal Association of Victoria, sub. 117, p. 9)

One body, created by legislation of both the Commonwealth Government and the State and Territory Governments, needs to be established with the authority to create a high-quality, universal ECEC system. This body should be responsible for determining key policy settings related to delivery, regulation, and funding. (Thrive by Five, sub. 70, p. 6)

Thrive by Five extends this idea, suggesting this body could be responsible for monitoring and data collection, workforce development and ‘determining where services can be established and funded (e.g., CCS or block funding)’ (sub. 70, p. 6).

An independent ECEC Commission should be established to fulfill two main functions.

- Support the Australian, state and territory governments to better coordinate and deliver ECEC policies, by providing information and advice. Currently, as each level of government is primarily focused on the segments of the ECEC system that they are directly responsible for, there is not sufficient understanding of how their separate components operate together. An ECEC Commission would establish a broader understanding of the policy landscape and provide advice to the different governments on how to better coordinate and direct their respective policy levers. This role could also include overseeing a research agenda for the sector.
- Provide a mechanism to hold the system stewards publicly accountable for where the needs of the system are not being met. To support this, an ECEC Commission would publish regular reports on progress against commitments made under a new National Partnership Agreement, as well as on the performance of the system more broadly.

In practice, these functions could be applied across a range of areas.

Universal access and planning

The ECEC Commission could monitor the ECEC market to identify availability gaps and highlight where investment is required. This could extend to advising on what service delivery models may be most appropriate in different communities by consulting with local governments and other organisations. This should include consideration of less common models of service provision, such as occasional care.

To support programs aimed at improving availability, such as the CCCF (paper 5), the ECEC Commission could provide advice as to where grant funding could be best spent. It could also identify where there is a need for more intensive interventions, such as integrated services hubs – including those delivered by ACCOs.

By reporting publicly, the ECEC Commission would play a strong role in disseminating clear information to families, services and communities on their local markets.

Reform commitments made under the National Partnership Agreement

From 2025, governments should focus on negotiating the NPA ECEC, including establishing the ECEC Commission as a joint body of the Australian, state and territory governments (recommendation 9.1). The National Partnership Agreement should include a number of reform commitments for all stewards, for example, with respect to the National Children's Education and Care Workforce Strategy.

The ECEC Commission should track and report on progress against key milestones, and could also provide advice to the stewards as to where gaps may be emerging and priorities may need to be adjusted.

Potential for national consistency

The ECEC Commission could report on where state-based approaches diverge or where there are overlaps between national and state level approaches that may be causing fragmentation and complexity for families and providers. The Commission could identify whether these inconsistencies could or should be improved by introducing nationally consistent arrangements. This could cover a range of domains, such as:

- **inclusion support** programs offered by states and territories, and their interactions with the Australian Government's Inclusion Support Program
- **workforce policies**, such as educator and teacher qualification requirements, career development pathways and professional development policies
- **regulatory approaches**, such as ensuring sufficient resources for state regulators and considering broader policy responses to regulatory issues (for example, support for services that are working towards the NQF)
- **OSHC contracting** approaches, developing a consistent approach to OSHC provision in schools.

Data collection and sharing

The ECEC Commission would require sufficient access to high quality data to execute its advisory and reporting functions effectively. However, many inquiry participants have noted it is difficult to access relevant and comprehensive data on ECEC, and report that it is particularly difficult to access data that is collected and owned by the Australian Government. They describe data access as limited and irregular, and multiple state governments have reported that this affects their ability to forecast supply and demand for ECEC planning processes (NSW Government, sub. 158, p. 11; Western Australian Government, sub. 162, p. 13; Victorian Government Department of Education, sub. 146, p. 10).

An ECEC Commission would require the authority to collect and analyse data from the Australian, state and territory governments, as well as mechanisms to safely store data and share it between jurisdictions.

Regulatory functions

ACECQA carries out roles that may, in time, be better placed under the responsibility of the ECEC Commission. The structure of the proposed Commission could strengthen ACECQA's ability to deliver a fit-for-purpose regulatory system that works to continuously lift quality and inclusion across all services. In practice, the Commission's regulatory functions could involve staff from state and territory regulatory agencies – who may ultimately become employees of the ECEC Commission – to give it a national focus. The ECEC Commission could also be involved in reviewing regulatory arrangements for services that are out-of-scope of the NQF, working with communities to ensure services meet the needs of children.



Draft recommendation 9.2 Establish an ECEC Commission

A stewardship model – where the Australian, state and territory governments better coordinate their roles in the ECEC system and share accountability for sector outcomes – should be implemented to address some of the challenges observed in the market, coordinate a more cohesive policy response and steer the sector towards universal access. This should be underpinned by an ECEC Commission, jointly established by the Australian, state and territory governments as part of a new National Partnership Agreement (draft recommendation 9.1). The ECEC Commission should have two main functions:

- support the Australian, state and territory governments to better coordinate and deliver ECEC policies, by providing information and advice
- provide a mechanism to hold the system stewards publicly accountable for achieving the objectives of ECEC policy.

The ECEC Commission will require high quality data to execute its advisory and reporting functions effectively. It should have the authority to collect data from the Australian, state and territory governments, as well as mechanisms to safely store and share data between jurisdictions.



Information request 9.2

The Commission is seeking views on:

- how the proposed ECEC Commission should be structured
- what the scope of its functions should be
- whether it should include the national regulator, the Australian Children's Education and Care Quality Authority (ACECQA).

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Appendices

A. Public consultation

Following the receipt of the terms of reference for this inquiry on 9 February 2023, a call for submissions was released on 14 March 2023, inviting public submissions and brief comments.

So far, a total of 176 submissions have been received (table A.1) and 142 brief comments. The submissions and brief comments are available at [View submissions and brief comments - Early Childhood Education and Care - Productivity Commission \(pc.gov.au\)](#). The Commission has consulted with children and parents, service providers, advocacy groups and peak bodies, Australian Government agencies, state and territory government departments, academics and researchers (table A.2), and held two roundtables (table A.3).

The Commission welcomes further submissions on the content of this draft report, including responses to the information requests, draft findings and recommendations. Public hearings will be held during February and March 2024. Further details on registering for hearings and making submissions can be found on the inquiry website.

The Commission would like to thank everyone who has participated in this inquiry so far.

Table A.1 – Submissions

Participants	Submission
1 st Impressions Early Learning Centre	91
Academy of Social Sciences in Australia	116
ACT Government	27
AGJ Businesses Pty Ltd	2
Alannah and Madeline Foundation	53
Albury Preschool	43
Association for Children with a Disability	78
Australian Childcare Alliance (ACA)	150
Australia's Leading Home Care Agency	167
Australian Children's Education and Care Quality Authority (ACECQA)	6
Australian Council of State Schools Organisations Ltd (ACSSO)	115
Australian Council of TESOL Associations (ACTA)	74
Australian Early Childhood Teacher Education Network (AECTEN)	106
Australian Education Research Organisation (AERO)	137
Australian Education Union (AEU)	144
Australian Government Department of Education	90
Australian Industry Group (Ai Group)	126

Participants	Submission
Australian Institute for Teaching and School Leadership (AITSL)	86
Australian Institute of Family Studies (AIFS)	76
Australian Multiple Birth Association	165
Australian Research Alliance for Children and Youth (ARACY)	107
Australian Research Council Centre of Excellence for the Digital Child	67
B4 Early Years Coalition Tasmania	55
Bermagui Preschool	49
Berry Cottage Childcare and Preschool	141
BHP	136
Big Fat Smile	120
Binarri-binyja yarrowoo Aboriginal Corporation (BBY)	85
Borland, Jeff	94
Bray, Dr J Rob, and Gray, Prof Matthew	14
Bridge Darebin	3
Brotherhood of St Laurence	96
Business Council of Australia (BCA)	101
Byrne, Brian, Larsen, Sally A., Coventry, William L	7
Byron Bay Preschool	18
Carlyle, Michelle	9
Catholic Diocese of Parramatta Services	84
Catholic Education South Australia (CESA)	13
Catholic School Parents Australia	36
Centre for Excellence in Child and Family Welfare	59
Centre for Policy Development (CPD)	156
Centre for Research in Early Childhood Education, Macquarie School of Education, Macquarie University	21
Centre Support	113
Chief Executive Women (CEW)	142
Child Development Council (SA)	22
Children and Young People with Disability Australia (CYDA)	35
Children First Alliance	140
City of Sydney	65
Clarendon Children's Centre Co-operative Ltd	12
Colman Education Foundation	33
Community Child Care Association (CCC)	111

Participants	Submission
Community Connections Solutions Australia (CCSA)	105
Community Early Learning Australia (CELA)	92
Connect.Ed Trauma-Informed Education and Care	104
Cornelius, Shirley	75
Corowa Preschool	44
Costin, Cr. Graham	26
Council of Single Mothers and their Children	100
Cultural Au Pair Association of Australia (CAPAA)	31
Curtin University	175
Deniliquin Children's Centre	169
Diversity Council Australia (DCA)	71
Early Childhood Australia (ECA)	154
Early Childhood Organisation South Australia (EChO)	28
Early Learning and Care Council of Australia (ELACCA)	153
Early Learning Association Australia INC.	48
Early Years Intercultural Association (EYIA)	97
Elder Street Early Childhood Centre	30
Faculty of Education, Monash University	80
Family Advocacy	118
Family Day Care Australia (FDCA)	66
Fischer, Glenn	172
Flinders University	99
G8 Education Limited	68
Gallagher, Aisling	164
Goodstart Early Learning	125
Gowrie Australia	79
GrainGrowers Limited	46
Hicks, Tamika	61
Howlong Preschool	77
Independent Schools Australia (ISA)	110
Kids First Australia	163
KU Children's Services	83
Lady Gowrie Child Centre Inc.	25
Lawson Grains and Rural Regional Remote Women's Network	134
Life Without Barriers	24

Participants	Submission
Loddon Campaspe Group of Councils	11
Long, Vanessa	8
Manuka Occasional Childcare Centre Association (MOCCA)	42
Meli	139
Merewether, Netty, Taylor-Bush, Adam	60
Milton, Dr Alyssa	168
Municipal Association of Victoria (MAV)	117
National Aboriginal Community Controlled Health Organisation (NACCHO)	151
National Catholic Education Commission (NCEC)	69
National Foundation for Australian Women (NFAW)	10
National Indigenous Australians Agency (NIAA)	152
National Nutrition Network-Early Childhood Education and Care (NNN-ECEC)	95
National Outside School Hours Services Alliance (NOSHSA)	103
Neighbourhood Houses Victoria	124
Network of Communities Activities	171
Northern Territory Government	157
Northside Community Service	29
NSW Family Day Care Association (NSWFDCA)	89
NSW Government	158
NSW Small Business Commissioner	128
Ogrizek, Mick	4
One Tree Community Services (OTCS)	121
Outside School Hours Council of Australia (OSHCA)	82
Parents Work Collective	73
Pathways in Place research program	130
Paul Ramsay Foundation	148
Peatfield, Jonathon, Wilson, Caitlin	38
Phillip Island Early Learning Centre	5
Playgroup Australia	160
Preschool Directors Association of South Australia	47
Press, Prof Frances	135
Queensland Government	174
Queensland University of Technology (QUT), School of Early Childhood and Inclusive Education	52
RARE	45

Participants	Submission
Regional Australia Institute (RAI)	170
Regional Development Australia, Barwon South West	112
Regional Development Australia, Kimberley	1
Regional Development Australia, Loddon Mallee	15
Research in Effective Education in Early Childhood (REEaCh) Centre	54
Restacking the Odds	149
Ross Circuit Preschool Inc.	62
Royal Australasian College of Physicians (RACP)	37
Royal Far West	41
Rural Regional and Remote ECEC in Victoria	88
Sandgate Kids Early Education Incorporated	51
Sargood, Annie	166
SDN Children's Services	63
Shop, Distributive and Allied Employees Association (SDA)	72
Siraj, Prof Iram	23
SNAICC	133
Social Ventures Australia	145
South Australian Council of Social Service (SACOSS)	129
South Australian Royal Commission into Early Childhood Education and Care	161
Special Teaching and Research (STaR) Ltd	87
Speech Pathology Australia	109
SSI	16
Stanley, Fiona	34
Sutherland Shire Preschool Alliance	131
Swainson, Rebecca	114
Tasmanian Government	159
Tessier, Jessica	17
The Benevolent Society	98
The Bryan Foundation	123
The Child Development, Education and Care Research Group	19
The Creche & Kindergarten Association Limited (C&K)	155
The Front Project	143
The Hive Mount Druitt (United Way Australia)	64
The Hon. Fiona Nash, Regional Education Commissioner	102
The Independent Education Union of Australia (IEUA)	40

Participants	Submission
The Parenthood	122
The Salvation Army	56
The Smith Family	108
The University of South Australia	39
The Y Australia	127
Thrive By Five – Minderoo	70
Thrive Group Tasmania Inc.	81
Tregeagle, Dr Susan	173
UNICEF Australia	93
United Workers Union (UWU)	147
University of NSW, Social Policy Research Centre	176
Victorian Government (Department of Education)	146
Vision Australia	119
WA Government	162
Waverley Council	132
WentWest (Western Sydney Primary Health Network)	57
Woden Valley Early Learning Centre	50
Work and Family Policy Roundtable	138

Table A.2 – Consultations**Participants**

ACECQA

ACT Education Directorate

AERO

Albury City Council

Albury Occasional Care

Albury Public School

ALGA

API Childcare

Australian Bureau of Statistics (ABS)

Australian Childcare Alliance

Australian Competition and Consumer Commission (ACCC)

Australian Early Childhood Teacher Education Network (AECTEN)

Australian Education Union (AEU)

Australian Institute of Family Studies (AIFS)

Australian Institute of Teaching and School Leadership

Australian Local Government Association (ALGA)

Australian Parents Council

Australian Research Alliance for Children and Youth

B4 Early Years Coalition

Baptcare

Barang Regional Alliance

Beswick Creche

BetterStart Health and Development Research

Borland, Prof Jeff

Bray, Rob

Breunig, Prof Robert

CAAPS Aboriginal Corporation

Care for Kids

Care West and Child Australia

Castillo, Prof Marco

Catholic Education (SA)

Catholic Education (Tasmania)

Centre For Policy Development (CPD)

Charlton Street Childcare

Participants

Child Australia

Child Development Council

Childcare and Kindergarten Association (C&K)

Children and Young People with Disability Australia

Childrens Ground

Clarence Childrens Services

Cleveland, Gordon

Community Child Care Association (CCC)

Community Early Learning Australia (CELA)

Cook, Tony

Cornish, Ros

Craig, Prof Lyn

Creche and Kindergarten Association

Dandalo Partners

Darrandirra Child and Family Centre

Department for Education, Children and Young People (DECYP)

Department of Children, Equality, Disability, Integration and Youth - An Roinn Leanai, Comhionannais, Michumais, Lanphairtiochta agus Oige (Ireland)

Department of Communities (WA)

Department of Education (DoE)

Department of Education (NT)

Department of Education (UK)

Department of Education (WA)

Department of Employment and Workplace Relations

Discovery Early Learning Centres

Doveton Early Learning Centre

Early Childhood Aboriginal and Torres Strait Islander Committee

Early Childhood Australia

Early Childhood Australia (NT)

Early Childhood Australia (SA)

Early Childhood Australia Regional Group

Early Childhood Management Services

Early Childhood Organisation (EChO)

Early Childhood Policy Partnership (ECPD)

Early Learning and Care Council of Australia

Participants

Early Learning Association Australia

Education and Care Regulatory Unit (WA)

Education Standards Board

Educators SA

Edwards, Prof Ben (ANU)

Employment and Social Development Canada

Families Australia

Family Day Care Australia

Family Day Care (WA)

Good Shepherd Lutheran School

Goodstart Early Learning

Gowrie SA

Grattan Institute

Gray, Prof Matthew

Independent Education Union of Australia (IEUA)

Independent Regulatory and Pricing Tribunal (IPART)

Indigenous Education Consultative Meeting

Institute for Urban Indigenous Health (UIIH)

Isolated Children's Parents Association (ICPA)

Jobs and Skills Australia

Kalano Community Association

Kalb, Prof Guyonne

Karlstad University

Kentish Lifelong Learning & Care Inc

KU Children's Services

Lady Gowrie Tasmania

Lady Huntingfield

Leading Home Care Agency

LEAP Centre

Leederville Early Childhood Education Centre

Li, Jinjing

Minderoo Foundation

Ministry of Education - Te Tahuu o te Matauranga (NZ)

Ministry of Education and Research (Sweden)

Ministry of Social Affairs and Employment (Netherlands)

Participants

Municipal Association of Victoria

Murdoch Children's Research Institute

National Children's Commissioner

National Outside School Hours Service Alliance (NOSHSA)

NDIS Review Secretariat

Neylon, Dr. Gerardine

Nido

Northern Territory Department of Education

NSW Department of Education

NSW Department of Education

NSW Productivity Commission

Office for Women, Department of the Prime Minister and Cabinet

One Tree Community Services

Out of School Hours Council of Australia (OSHCA)

Petrie, Prof Ragan

Playgroup Australia

Plumtree Children's Services

Preschool Directors Association of South Australia

Prime Minister and Cabinet

Queensland Children's Activity Network (QCAN)

Queensland Department of Education

Reform Management Office (NT)

Regional Education Commissioner

Remote and Isolated Childrens Exercise (RICE)

Roper Gulf Shire Council

SA Department for Education - Office for the Early Years

SA Royal Commission into Early Childhood Education and Care

Seaton Community Children's Centre and Clarendon Children's Centre

Secretariat of National Aboriginal and Islander Childcare (SNAICC)

Services Australia

St Virgil's College

Stanley, Prof Fiona

Tagari Lia Aboriginal Child and Family Learning Centre

Tasmanian Department for Education, Children and Young People

Tasmanian Education and Care Unit's Stakeholder Reference Group

Participants

Telethon Kids

The Front Project

The Nous Group

The Parenthood

The Parkville Institute

The Smith Family

The Y Australia

The Y NSW

Thorpe, Prof Karen

Treasury

Tseng, Yi-Peng

US Department of Health and Human Services

United Workers Union

University of Canberra (NATSEM)

Victoria University

Victorian Aboriginal Education Association Inc

Victorian Department of Education

Whitehouse, Andrew (Telethon Kids)

Zubrick, Steve

Table A.3 – Roundtables

15 August 2023 – Children’s outcomes

Participants

Dr Anne Kennedy	Co-Director of Research and Practice, Parkville Institute
Assoc. Prof. Catherine Neilsen-Hewett	Academic Director of The Early Years, School of Education, University of Wollongong
Dr Dan Cloney	Senior Research Fellow, Australian Council for Educational Research
Professor Karen Thorpe	Queensland Brain Institute, University of Queensland
Professor Linda Harrison	Macquarie School of Education
Myra Geddes	General Manager – Social Impact, Goodstart Early Learning
Professor Sally Brinkman	UniSA, Education Futures
Professor Sharon Goldfeld	Director, Centre for Community Child Health and Theme Director, Population Health at the Murdoch Children’s Research Institute

3 October 2023 – Modelling workshop

Participants

Australian Bureau of Statistics
Australian Competition and Consumer Commission (ACCC)
Associate Professor Ben Phillips (Centre for Social Research and Methods, ANU)
Emeritus Professor Siobhan Austen (Curtin Business School)
Department of Education
Department of Employment and Workplace Relations
Dr Angela Jackson (Impact Economics and Policy)
NSW Productivity Commission
Owain Emslie
Tim Murray (Precision Economics)
Professor Robert Breunig (Tax and Transfer Policy Institute (ANU))
Treasury
Professor Patricia Apps (University of Sydney)

B. International models

The provision of early childhood education and care (ECEC) varies widely internationally – some countries frame ECEC as a legal right for all children and support the sector with high levels of public funding, and others place a higher value on parental and informal care, with less support for formal services. One common trend, however, is that many countries are undertaking reforms to their ECEC sector as additional research comes to light, and as views change on the function of ECEC and the role of government in supporting the sector.

The primary aim of the appendix is to describe some of the key characteristics of ECEC systems in different countries and illustrate the variety of approaches taken. While the data used in the appendix is useful for broad comparisons, selected indicators should not be relied upon alone to make judgments about the relative performance of ECEC systems of different countries.

Moreover, the ways in which governments design and manage their ECEC systems are a product of their social contexts and policy settings, such as those around taxation or industrial relations. These factors can have significant impacts on how governments approach ECEC but are beyond the scope of this appendix.

Finally, this appendix focuses primarily on the structural elements of ECEC. While it briefly looks at how governments influence quality through ratios and qualification requirements, it does not seek to compare the quality outcomes of different systems, or the extent to which countries improve child development outcomes through ECEC.

The paper first examines ECEC systems in OECD countries across some key indicators, then examines how several other small, advanced economies approach ECEC in more detail.

B.1 An overview of international ECEC use and delivery

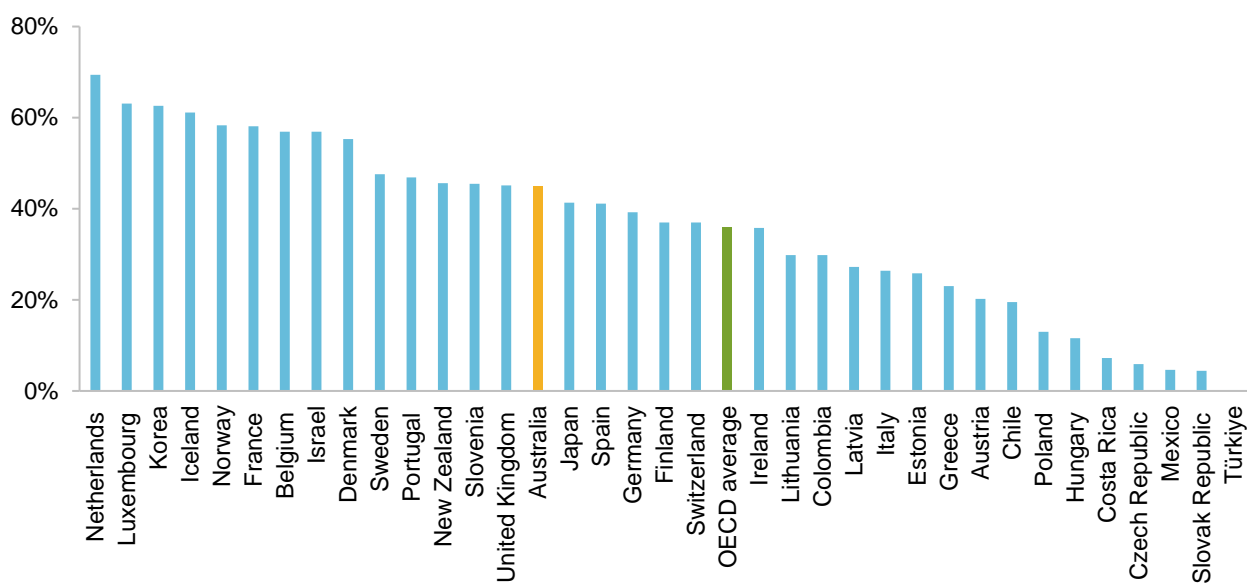
ECEC participation

Families' decisions and preferences about the type of ECEC they use are often rooted in complex social norms and cultural values which can lead to significant variation in ECEC participation.

Rates of ECEC participation for younger children (0-3 years old) in OECD countries vary from almost zero in **Türkiye** to almost 70% in the **Netherlands**, with Australia also featuring relatively high use (figure B.1). Participation then increases markedly as children approach school age, with participation rates for children in the year before full-time schooling ranging from about 80% in **Türkiye** to almost 100% in many other countries, including the **United Kingdom**, **Mexico**, **Portugal**, and **Switzerland** (figure B.2). Australia ranks behind these countries, with the OECD reporting that 82% of children in the year before full-time schooling participate in ECEC. It is important to note, however, that this is a lower figure than is used elsewhere in this report – domestic sources estimate that the share of four-year-olds enrolled in ECEC is about 90% (paper 2). This difference is likely due to methodological decisions made by the OECD for more effective cross-country comparison.

Many countries are working to increase their ECEC participation rates. In 2022, European Union member states adopted the Barcelona Targets for 2030, which feature a set of goals around ECEC access and participation (Council of the European Union 2022, pp. 21–23). The Targets designate that at least 45% of children below the age of three and at least 96% of children between the age of three and the country’s school starting age should participate in ECEC, and that at least 25 hours per week should be available to each child. Many countries also provide entitlements to ECEC at certain ages, meaning that governments guarantee that a place will be available for any family that requests one. For example, a study of ECEC in European countries found that seven countries – including **Germany**, **Latvia** and **Denmark** – offer guaranteed places for children at very young ages (starting at six months old), and almost half guarantee a place for children from the age of three (European Commission 2019, pp. 10–11). Compulsory ECEC in the year before full-time schooling is also becoming more common, with at least one year of ECEC now compulsory in over a third of European countries, and some countries (such as **Greece** and **Hungary**) mandating that children attend multiple years of ECEC.

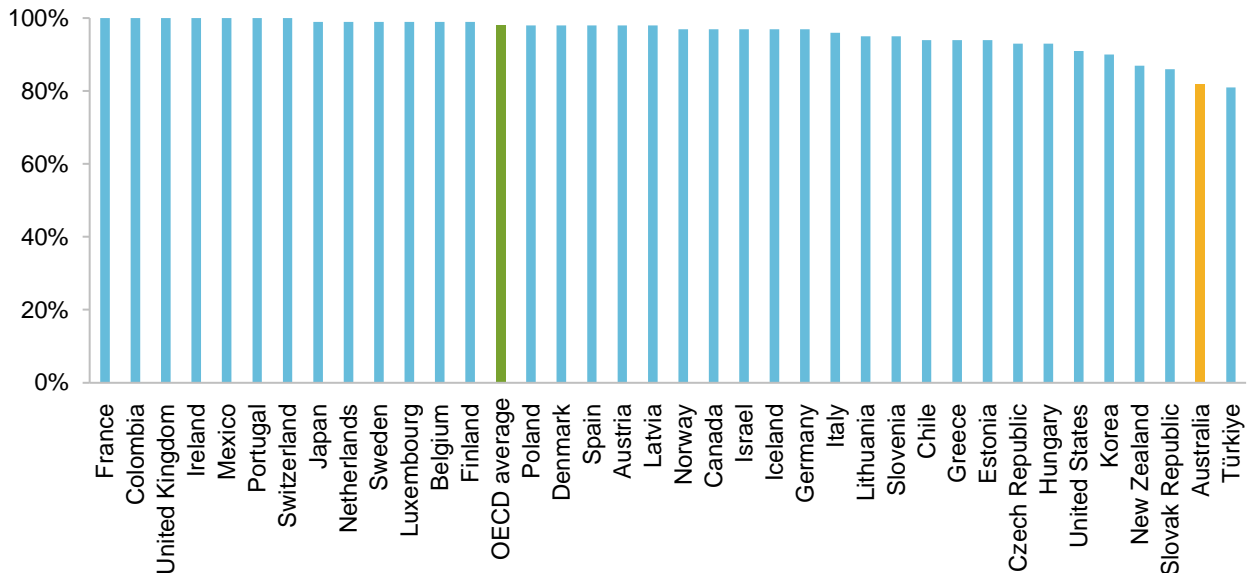
Figure B.1 – ECEC enrolment in Australia is relatively high among children aged 0–3 ...^{a,b}
Enrolment rate of children under three years of age in early childhood education and care services, 2020



a. Data generally includes services within the scope of International Standard Classification of Education (ISCED) 2011 level 0 (formal ECEC services) and other registered ECEC services outside the scope of ISCED 0. Potential mismatches between enrolment data and population data (for example, due to different reference years or geographic coverage) may affect estimated enrolment rates. **b.** Data for Costa Rica, Iceland and United Kingdom is from 2018. Data for Japan is from 2019.

Source: OECD (2023e).

Figure B.2 – ... but preschool participation in Australia is lower than the OECD average^a
Participation rate in organised learning one year before primary school entry, 2020



a. The official primary school entry age differs between countries.

Source: OECD (2022).

Paid parental leave

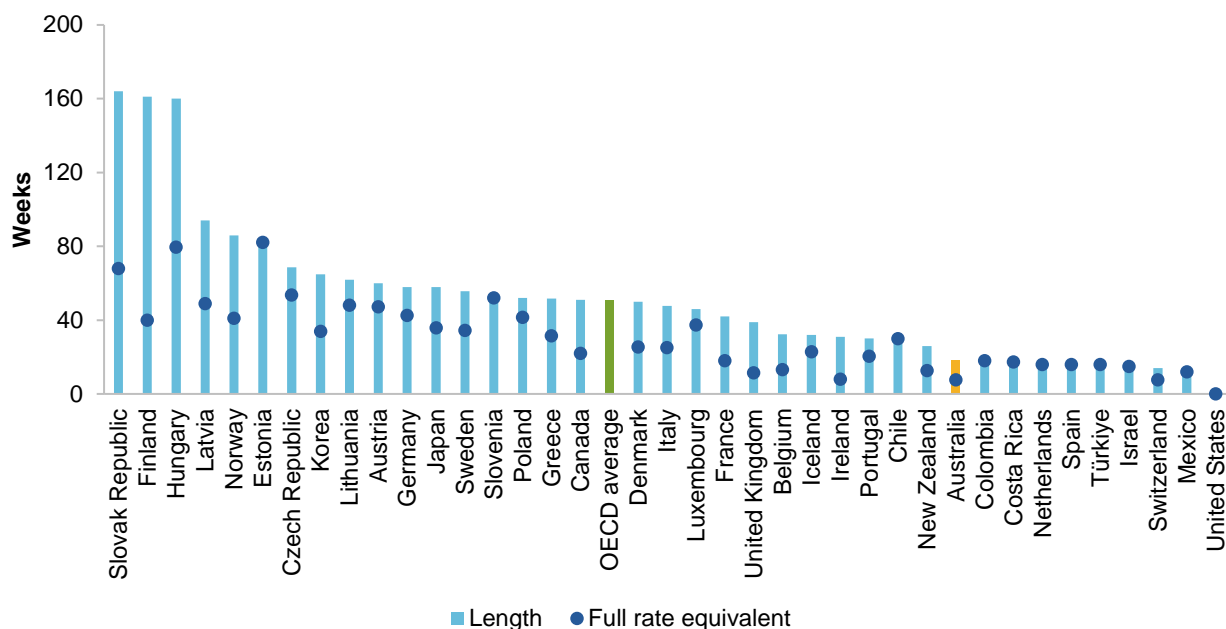
Publicly funded paid parental leave entitlements vary widely between countries (table B.1). The length of, and level of, income provided by paid parental leave schemes affect parents' decisions about when to return to work after the birth of a child, and whether they use ECEC services in a child's early years.

Figure B.3 provides an overview of the length of different countries' publicly funded paid parental leave schemes. However, in many countries, it is common for these allowances to be supplemented by additional leave funded privately by employers, and as such, the entitlements set out in the figure generally represent the minimum available to new parents.

Some countries also continue to provide payments to parents after they have used their paid parental leave entitlements if they decide to care for their children at home rather than enrolling them in an ECEC service. For example, in **Norway** and **Finland**, parents receive 'cash-for-care' benefits for young children if they do not attend an ECEC service or if they attend only part time. This provides families with financial support whether they choose informal or formal care for their child (Kela 2023; Norwegian Labour and Welfare Administration 2023). However, such models have been criticised as contradicting other policies aimed at promoting gender equality and female employment. Some countries have sought to unwind similar policies – for example, **Sweden** abolished their cash-for-care benefit in 2016 (which, at the time, was used by only about 5% of eligible families) (Ellingsæter 2012, p. 3; Giuliani and Duvander 2016, pp. 2–7).

Figure B.3 – Publicly funded paid leave for mothers is lower in Australia than in many other OECD countries^{a,b,c}

Total paid leave available to mothers, 2022



a. Paid leave includes maternity leave, parental leave and home care leave. Home care leave is offered in some countries as an additional period of leave following parental leave that allows parents to stay at home to care for children until about the age of two or three. **b.** Data only reflects entitlements at the national level. **c.** The full rate equivalent is the entitlement length multiplied by the average payment rate of the entitlement. The average payment rate refers to the proportion of previous earnings replaced by the leave benefit for a person earning 100% of average national full-time earnings.

Source: OECD (2023c).

Some countries also offer additional forms of parental leave that extend further into a child’s life – in some countries parental leave can be used until a child turns twelve (table B.1).

Table B.1 – Paid parental leave entitlements vary between countries

	Maternity leave	Paid component	Leave for partners	Parental leave ^a
Canada	Parents can choose between (a) 35 weeks of leave over a 12 month period or (b) 61 weeks over an 18 month period	Payment depends on length of leave. Parents who use option (a) are paid 55% of their weekly earnings (up to CAD\$638 (AUD\$710) per week) and parents who use option (b) are paid 33% of their average weekly earnings (up to \$383 (AUD\$425) per week)	If parents choose to share leave, they can access an additional 5 weeks under option (a) or 8 weeks under option (b)	

	Maternity leave	Paid component	Leave for partners	Parental leave ^a
Ireland	42 weeks	26 weeks are paid at EUR€262 (AUD\$435) per week	2 additional weeks, paid at the same rate	Parents receive both: 7 additional weeks of parent's leave paid at EUR€262 (AUD\$435) per week (which must be used before a child turns two); and 26 weeks of unpaid parental leave which can be used until a child turns twelve
Netherlands	6 weeks pregnancy leave (before childbirth) and 10 weeks maternity leave (after childbirth)	All weeks paid at 100% of usual income, up to a maximum of EUR€256 (AUD\$430) per day	6 additional weeks – one paid at full pay, and the other five paid at up to 70% of their usual salary	26 additional weeks which can be used until a child turns eight years old, of which 9 weeks are paid at 70% of the parent's salary and must be used in the child's first year
New Zealand	52 weeks	26 weeks are paid at the individual's average weekly wage, up to a maximum of NZD\$712 (AUD\$660) per week	The 52 weeks can be shared between both parents, and partners are also entitled to an additional 2 weeks of unpaid leave	
Sweden	68 weeks	55 weeks are paid at 80% of usual income and the remaining 13 weeks are paid at 180SEK (about AUD\$25) per day	In couple families, the 68 weeks can be shared between both parents, however a minimum of 13 weeks is reserved for each parent	About 54 of the 68 weeks must be used before a child turns four, and the remaining 14 weeks can be used up until a child turns twelve
Australia	52 weeks	20 weeks paid at about \$880 per week	In couple families, leave can be shared between both parents, however a minimum of 2 weeks of the paid component is reserved for each parent	

a. Many countries offer 'parental leave' in addition to maternity and paternity leave, which can often be used later in a child's life. This is different to the definition of 'parental leave' in Australian national legislation, which is used as an overarching, gender-neutral term for leave entitlements in association with the birth or adoption of a child (otherwise known as maternity or paternity leave).

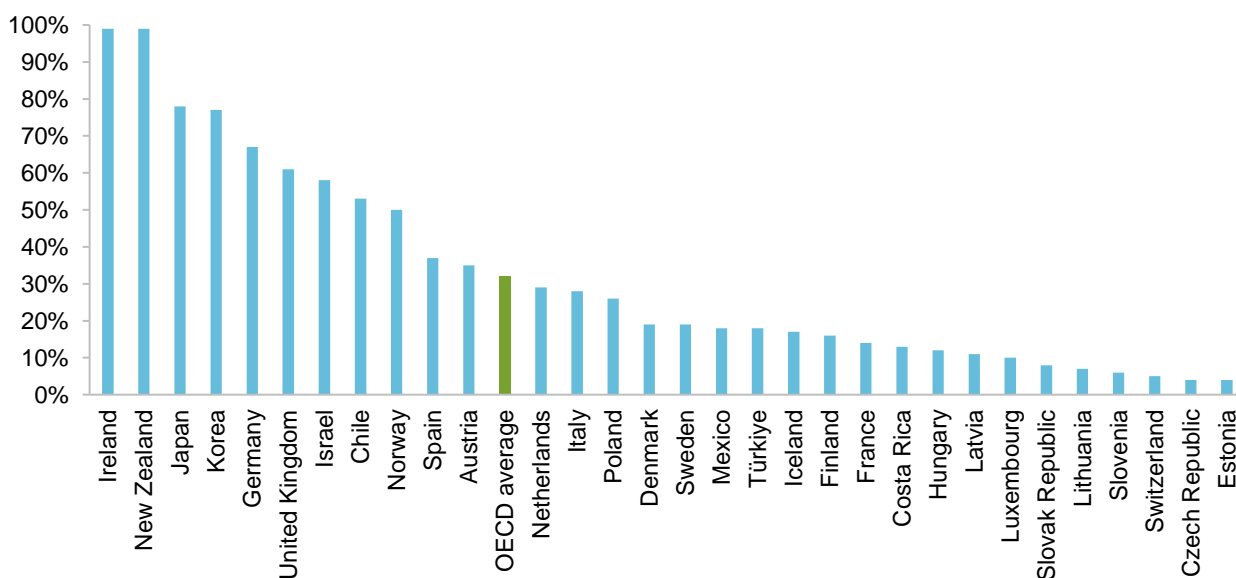
Source: Beach et al. (2023, p. xxxii); Irish Government Citizens Information Board (2023b); Netherlands Government (2022); New Zealand Ministry of Business, Innovation and Employment (Hikina Whakatutuki) (2022b); European Commission (2019, p. 52, 2023c); Koslowski et al. (2022, p. 82); Services Australia (2023); Fair Work Ombudsman (2022, p. 1).

The split between private and public ECEC provision

There is wide variation in the share of ECEC that is provided privately (including by both for-profit and not-for-profit organisations) across OECD countries (figure B.4). Many European countries feature very low rates of private ECEC provision, while in other countries, such as **New Zealand** and **Ireland**, private providers dominate the market. While there is no directly comparable data for Australia, data from other sources suggests private providers make up 89% of all services, suggesting that Australia has a higher share of private service provision than most other OECD countries (paper 5).¹

Figure B.4 – The proportion of ECEC services delivered through private providers varies widely between countries^{a,b,c}

Percentage of children enrolled in private ECEC institutions, 2020



a. Data includes services within the scope of ISCED 0 (formal ECEC services). **b.** Private institutions include both government-dependent private institutions (which receive more than 50% of their core funding from government sources) and independent private institutions (which receive less than 50% of their core funding from government sources) **c.** Data for Costa Rica is from 2021 and data for Greece is from 2019.

Source: OECD (2023a, p. 189)

ECEC expenditure

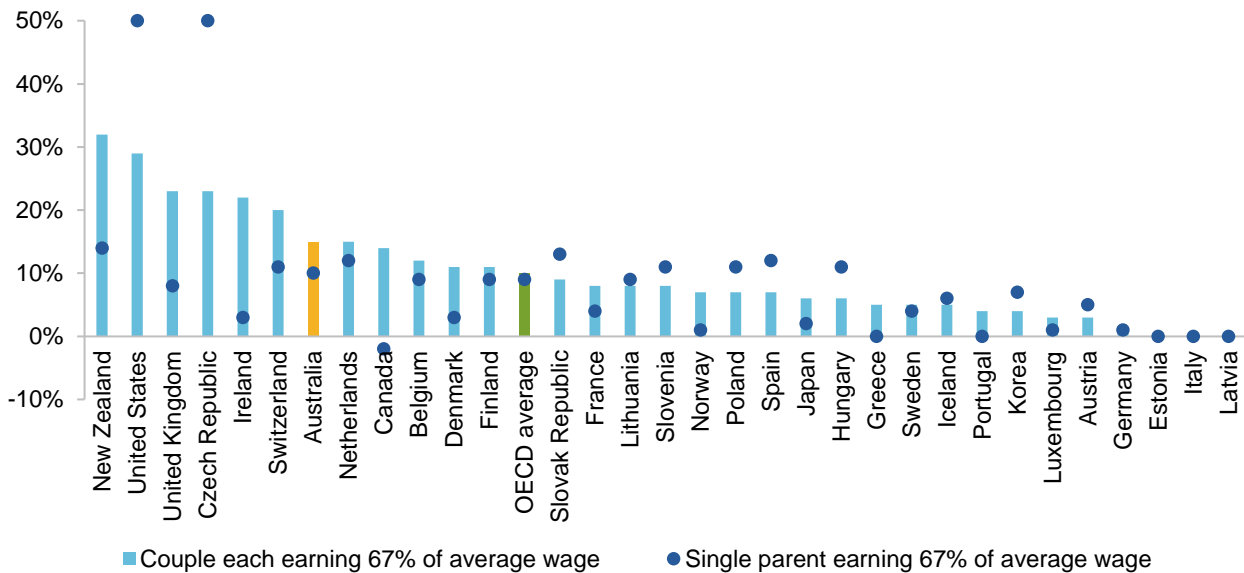
OECD data suggests net out-of-pocket expenses for ECEC in Australia are relatively high compared to other countries, with ECEC costs (for a couple family with two children) representing about 15% of a family’s net income – higher than the OECD average of 10% (figure B.5). Public spending on ECEC also represents a lower percentage of Australia’s GDP compared to many other OECD countries (figure B.6), though this percentage is likely to have increased following the 2023 Cheaper Child Care reforms (appendix C).

Of note, many of the countries whose governments spend a relatively high proportion of GDP on ECEC report relatively low average out-of-pocket expenses for families, and, similarly, many countries that have lower public expenditure report higher out-of-pocket expenses.

¹ This excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services), which are largely publicly provided.

Figure B.5 – Out-of-pocket ECEC expenses in Australia are above the OECD average^{a,b,c}

Net ECEC costs as a percentage of net household income, for a couple and a single parent earning 67% of the average wage, 2021 or latest available data

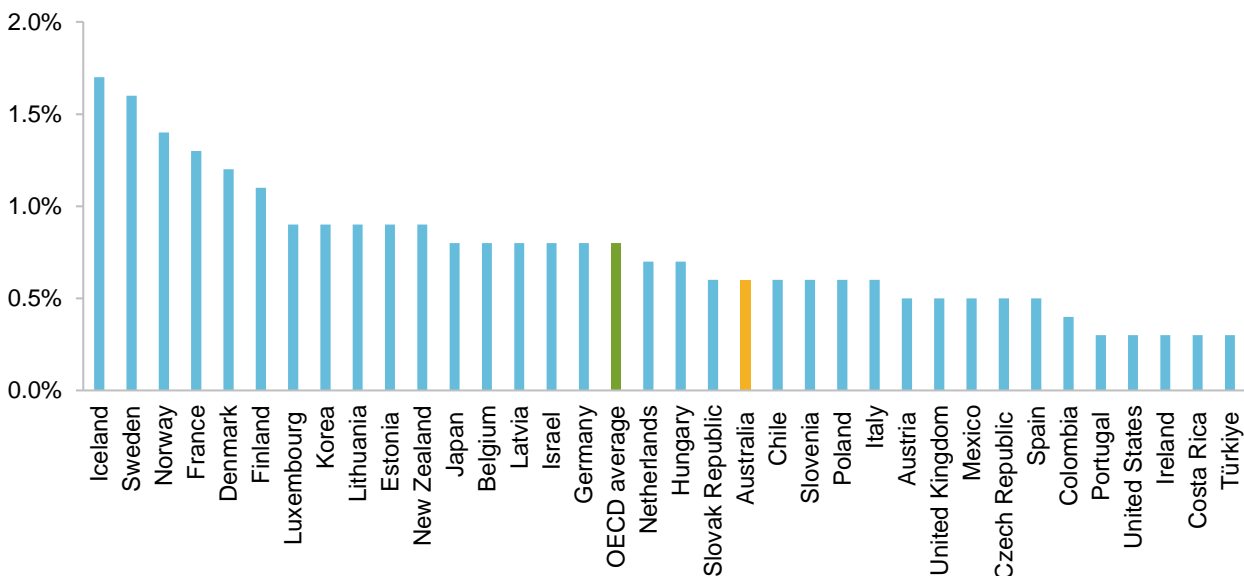


a. Costs are for full-time use of centre-based day care. Net ECEC costs are equal to gross ECEC costs less ECEC benefits and any resulting impact in taxes and other benefits following the use of ECEC. Net income includes social assistance benefits and family benefits, and is calculated after tax and social security contributions. b. Data assumes that families have two children aged two and three and that parents are aged 40 and work full time. c. Information on fees and benefits is based on national rules. Where fees are determined at the local level, in most cases the local authority of a country’s capital is considered.

Source: OECD (2023b)

Figure B.6 – The share of GDP spent on ECEC in Australia is below the OECD average^a

Public spending on ECEC, percentage of GDP, 2019



a. Local government spending on ECEC may not be fully captured in the data.

Source: OECD (2023d).

B.2 A closer examination of international examples

This section provides a more detailed analysis of the ECEC programs and funding models used in Canada, Ireland, the Netherlands, New Zealand and Sweden. These countries were selected to cover a range of contexts, including public and private provision, use of different service types, delivery by one or multiple levels of government, and different funding models. Many of these countries are experiencing similar challenges to Australia, and some are also undertaking reforms to their ECEC sectors to improve access, affordability and quality.

A ranking of international models by UNICEF provides a brief overview of the different characteristics of these systems (table B.2). However, it is important to note that while such rankings can provide helpful indications of the strengths of different systems, they also have limitations. Not all aspects of an ECEC system's access, quality and affordability can be consistently measured and assessed – for example, the quality measure in the table below only considers the ratios and minimum qualification standards set in each country, while in reality, quality is impacted by many other factors, such as the curriculum taught, quality assessment processes and the nature of child-to-educator interactions.

Table B.2 – UNICEF rankings highlight different characteristics of international models^{a,b}
Country rankings out of 41 advanced economies

Country	Overall rank	Paid parental leave	Access	Quality	Affordability
Sweden	3	9	4	17	10
Canada	22	23	16		21
Netherlands	28	31	1	28	30
New Zealand	33	39	27	3	36
Ireland	36	38	14		33
Australia	37	37	34	12	34

a. A green background indicates a place in the top third of the ranking, yellow denotes the middle third, and red the bottom third. The blank cells indicate that no up-to-date comparable data is available. **b.** The paid parental leave ranking measures full-pay equivalent leave available to both parents. The access ranking measures access to ECEC for children under three for at least an hour a week and proportion of children in services in the year before full-time schooling. The quality ranking measures educator-to-child ratios and minimum qualification requirements for staff. The affordability ranking measures the cost for either two working parents or a single working parent to place two children in ECEC after subsidies.

Source: Gromada and Richardson (2021).

Policy contexts

Canada's ECEC sector is governed at the province and territory level, with each province employing its own set of schemes and programs. One province, Quebec, has often been cited as an example of affordable ECEC since a capped price of CAD\$5 (AUD\$5.60) per day was introduced in 1997. This price has since risen to CAD\$8.85 (AUD\$10) but is still far lower than the Canadian national average price per day of CAD\$31 (AUD\$35) (Beach et al. 2023, p. 97; Statistics Canada 2023). It is likely that these lower fees have contributed to Quebec's relatively high rate of participation in ECEC – 71% of children aged 0-5 are enrolled in ECEC, compared to the national average of 52% (Statistics Canada 2022b).

In 2021 the Canadian Federal Government introduced the Canada-Wide Early Learning and Child Care plan, which aims to improve affordability and access to ECEC and bring all provinces in line with Quebec. As part of this plan, each province has signed an agreement with the Federal Government that unlocks new federal funding for ECEC. In return, provinces were required to halve families' out-of-pocket expenses for ECEC by the end of 2022, and are now required to further lower fees to an average of \$10 per day by 2026 (Beach et al. 2023, pp. xxi–xxii).

The Canadian province of **British Columbia** is undertaking this process from a starting point that is relatively similar to Australia's current ECEC landscape – including similar proportions of for-profit and not-for-profit service provision, and similar rates of ECEC participation, with 53% of children aged 0–5 and 83% of children aged 3–5 attending ECEC (Statistics Canada 2022a, 2022b). British Columbia will therefore be the primary province discussed in this appendix, with a focus on the levers it is using to achieve the objectives set out in its agreement with the Canadian Government under the Canada-wide plan.

ECEC in British Columbia is offered in a range of service types, including kindergarten (the equivalent of preschool in Australia), centre-based services, family day care (regulated and unregulated), outside school hours care (OSHC) and preschool (a part-day learning-based service for children over two and a half years old) (Beach et al. 2023).

Ireland is also undertaking significant reforms to their ECEC arrangements, with the Irish Government launching the First 5 program – a ten-year whole-of-government strategy aimed at improving the lives of babies, young children and their families – in 2019. This includes the introduction of the Core Funding scheme, which represents a significant shift from demand- to supply-side government funding (Government of Ireland 2018).

About 40% of Irish children under age three are enrolled in ECEC, and in the year before primary school almost all Irish children participate in ECEC (figures B.1 and B.2). A large number of service types are available, including playgroups, playschools, day nurseries, crèches, Montessori groups, Naíonraí (Irish language services), drop-in centres and OSHC (Irish Government Citizens Information Board 2023c).

Ireland also has a large childminding sector that was – until recently – almost entirely unregulated. Alongside their First 5 reforms, the Irish government set out an 8-year reform plan to bring Ireland's paid childminders into their ECEC regulatory framework and allow families using these services to receive public subsidies (Irish Government Department of Children, Equality, Disability, Integration and Youth 2021).

The **Netherlands** is also planning to undertake significant reform to their ECEC policy and funding settings, and they are set to transition to a universal 96% subsidy by 2027 (NL Times 2023). Children aged under three in the Netherlands are enrolled in ECEC services at a higher rate than any other OECD country (figure B.1), and these children primarily attend centre-based day care services or registered childminders. From age four, children have a legal entitlement to free ECEC in primary school settings – which most children attend – before primary school attendance becomes compulsory at age five. OSHC services are also available to children aged between four and twelve (European Commission 2023b).

Children in **New Zealand** also participate in ECEC at relatively high rates, with 81% of 3-year-olds, 87% of 4-year-olds and 98% of 5-year-olds attending services (Paull and Wilson 2020, p. 61). An unusual feature of the New Zealand system is that the types of services that children attend typically do not change as children approach school age, and there is no specific service type (such as preschool services) that caters to children in the year before primary school – as is the case in many other countries (New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2022a).

ECEC service types in New Zealand include centre-based services (such as education and care services and Kindergarten Association services), home-based services (such as family day care and in home care), and parent-led services (box B.1).

Children in **Sweden** have a legal entitlement to ECEC from the age of one, and all children must attend a year of compulsory pre-primary classes at age six (European Commission 2022a).² As such, participation in Sweden is relatively high – 48% of children below age three and 99% of children in the year before full-time schooling attend an ECEC service (figure B.2). ECEC systems are managed at the municipality (local government) level, and the majority (approximately 70%) of services are provided directly by municipalities (Garvis 2018, p. 3).

Other subsidised forms of ECEC available to families in Sweden include family day care – which makes up a very small proportion of the sector – and OSHC ‘leisure centres’, which are attended by almost all primary school aged children (European Commission 2022d; Nilsson et al. 2020). Families can also access publicly provided ECEC services on weekends and at night where this is necessary for parents to be able to work.

Many of the countries examined also offer publicly funded parent-led ECEC services (box B.1).

Box B.1 – Many countries publicly fund and regulate parent-led ECEC

Many countries provide publicly funded drop-in ECEC services that are parent-led and free for families to attend – similar to playgroups in Australia. These sessions are often supported by qualified ECEC educators, and provide children with opportunities to socialise, while giving parents access to information and support.

British Columbia’s StrongStart BC services, **Ireland’s** playgroups, playschools and naíonra (Irish language playgroups), **New Zealand’s** playcentres and Kōhanga Reo Māori services, the **Netherlands’** parent-run crèches and **Sweden’s** ‘open preschools’ all offer these services to families (Beach et al. 2023, p. 200; Donegal Childcare 2022; European Commission 2022d; Expatica 2023; Irish Government Citizens Information Board 2023c; New Zealand Ministry of Business, Innovation and Employment (Hikina Whakatutuki) 2022a).

New Zealand has a particularly high rate of participation in parent-led ECEC compared to most other countries, with 9% and 10% of children in formal care attending parent-led playcentres and Kōhanga Reo Māori services respectively (Paull and Wilson 2020, p. 60).

Funding models

Jurisdictions use a range of mechanisms to fund ECEC, although there are often similarities in approaches between countries.

Most countries offer free hours of ECEC as children approach school age

All five countries examined offer free hours of ECEC to children at particular ages, typically covering the year or two before children start primary school (table B.3).

² In some countries, including Australia, children may have already commenced primary school by age six.

The types of services that can offer these free hours vary between countries – in **British Columbia** and the **Netherlands**, free hours are delivered in primary school settings, while in **Ireland** and **New Zealand**, free hours can be accessed in settings that also deliver other paid services (such as long day care or services for younger children). **Sweden** uses a mix of these approaches, as free hours can be used in long day care services until age five, before children move to special ‘six-year-old preschool’ classes, located in primary school settings, to help them transition from preschool to primary school.

Table B.3 – Many countries offer free hours of ECEC to children of certain ages
Universal free hours offered in international ECEC systems

	Program name	Service types	Ages	Amount
British Columbia	Kindergarten	Preschool in a primary school setting	Age five (school starts at age six)	School hours
Ireland	Early Childhood Care and Education	Registered ECEC services (including family day care)	Age three onwards (school starts at age five)	Three hours per day, 5 days per week, 38 weeks per year
Netherlands		Preschool in a primary school setting	Age four (school starts at age five)	School hours
New Zealand	20 Hours Early Childhood Education (ECE)	ECT-led services (including home-based services with a qualified coordinator) ^a	Age three onwards (school starts at age five)	Up to six hours per day, up to 20 hours per week, 52 weeks per year
Sweden		Long day care services or ‘six-year-old preschool’ classes in primary school setting	Age three onwards, compulsory from age six (school starts at age seven)	525 hours per year, often 15 hours per week over 35 weeks ^b

a. Home-based services include what would be referred to in Australia as family day care and In Home Care services, as well as services provided in any other home nominated by the families attending the service. **b.** Municipalities in Sweden have some agency in how they deliver free preschool.

Sources: Beach et al. (2023, p. 199); European Commission (2022d); European Commission (2023b); Irish Government Department of Children, Equality, Disability, Integration and Youth (2022, pp. 16, 29); New Zealand Government Ministry of Education (Te Tāhuhu o te Mātauranga) (2023a).

Subsidies are a common mechanism for improving affordability of additional hours of ECEC

In addition to funding a level of free ECEC for children in the years before school, many countries provide subsidies to support families to access other types of ECEC. This covers services such as ECEC for younger children who are not yet eligible for free hours, or for care outside of preschool and primary school operating hours. The rationale for subsidising ECEC in these circumstances tends to focus less on educational benefits and more on facilitating parents’ workforce participation. As a result, funding for these services tends to be delivered through more targeted, activity- and means-tested subsidies.

British Columbia and **New Zealand** offer subsidies that are activity- and income-tested, and are provided as a set subsidy amount that varies according to household characteristics. In British Columbia, subsidies vary with family income, child age and service type, and they may or may not fully cover the ECEC fees

families face. The maximum subsidy available – which would apply to a low-income household using a high-cost care type, such as care for a very young child – is CAD\$1250 (AUD\$1400) per month, and parents must be working, studying or have a medical exemption to be eligible for the subsidy (Beach et al. 2023, p. 212). Similarly, New Zealand's Childcare Subsidy offsets fees for low- and middle-income families by up to NZD\$6.10 (AUD\$5.60) per hour, and families can access nine hours of this subsidy per week if they are not working, or 50 hours if they pass an activity test. Like in Australia, the subsidy rate varies with the number of children attending an ECEC service from the same family, with the income test becoming more generous as the number of children using ECEC increases (New Zealand Ministry of Social Development (Te Manatū Whakahiato Ora) 2023b, 2023a).

Ireland uses a mix of two different subsidy schemes – a universal subsidy of EUR€2.14 (AUD\$3.60) per hour (that is activity tested but does not vary with income) and a subsidy available to low-income families that is both income- and activity-tested. Families cannot receive both at once and must choose the one that will benefit them most. Parents participating in work or study are eligible for 45 hours of subsidised care per week, and those who are not are eligible for 20 hours per week (Irish Government Citizens Information Board 2023a).

The **Netherlands** currently has a means and activity tested ECEC benefit, with the broad aim being that families, government, and employers each contribute to a family's ECEC costs – employers must reimburse one-third of the ECEC fees that their employees incur and, depending on family income, government also reimburses between 0% and 63% of fees through refundable tax credits (Paull and Wilson 2020, p. 32). In cases where parents are not working, the government will also cover the employer's contribution as long as parents are undertaking other approved activities (Statistics Netherlands 2023).

As noted above, however, these subsidy arrangements are expected to change substantially by 2027 – government funding to ECEC is set to double as the Netherlands transitions to a universal 96% subsidy that will not vary with household income or activity levels (NL Times 2023; Ottens 2022; Utrecht University 2022).

Fees for ECEC in **Sweden** – beyond the free hours – are proportional to parental income and set at 3% of gross parental income for the first child (up to a cap of 1,572 SEK (AUD\$225) per month), 2% for the second child, 1% for the third child, and there is no fee for any subsequent children. Low-income families do not pay any out-of-pocket fees (European Commission 2022c).

Many countries also use supply-side funding mechanisms

Operational funding is commonly used overseas in addition to demand-side subsidies to improve affordability for families, though governments can also use this type of funding to steer the behaviour of services and influence their fees and quality. Supply-side funding has also proven to be a preferred mechanism for governments undertaking reforms, with many countries introducing or strengthening existing operational funding mechanisms to improve affordability and access for families.³

As part of its plan to first halve ECEC fees and then transition to a universal \$10-a-day ECEC system, **British Columbia** has expanded its use of operational funding. In 2018, The Child Care Fee Reduction Initiative was introduced, which provides supply-side funding to services on top of the funding that services already received under the Child Care Operating Funding program. The initiative provides CAD\$260-550 (AUD\$290-620) per month per child attending full-time services – varying by child age and service type – to eligible licensed providers to reduce and stabilise fees for families. Participating providers must agree not to

³ Examination of the relative contributions of demand-side and supply-side subsidies to total government expenditure on ECEC is difficult. Overall, the different combinations of demand- and supply-side funding mechanisms used in each country have led to out-of-pocket expenses for families that are similar to or higher than in Australia in all of the countries studied except Sweden (in the examples reported in figure B.5).

increase fees beyond an amount approved by the province, and any new facilities must set fees at or below the 70th percentile for fees in their region for the same type of care (Beach et al. 2023, pp. 213–214). The government also funds more than 12,000 spaces at Universal Child Care Prototype Sites, which provide ECEC services for \$10 per day to test funding models and support a transition to a universal \$10-a-day system by 2026 (Beach et al. 2023, p. 207). There are also a range of other grant funding opportunities that encourage new services to open and existing services to renovate their spaces – these are typically designed to expand public and not-for-profit provision, particularly in communities that face additional barriers to access (Beach et al. 2023, pp. 213–216).

Ireland is similarly relying on its recently introduced supply-side Core Funding mechanism to deliver policy reforms as part of the government’s plan to introduce a greater degree of public management to the ECEC sector. This program provides funding to services that varies according to service operating hours, number of places offered, age of children enrolled, type of service, and qualification levels of staff. In return for the increased funding and stability that Core Funding delivers, providers must meet conditions relating to fees – including a fee freeze until August 2024 – and service quality, among other things (Government of Ireland 2023b).

The **New Zealand** government uses supply-side funding instruments to subsidise up to 30 hours of ECEC per child each week. This includes the 20 Hours ECE program (mentioned above) and an additional ten hours that are partially subsidised through the ECE Funding Subsidy. New Zealand also uses this supply-side funding to incentivise services to operate at a higher quality level – supply-side funding rates are based on an Operating Cost Survey, and additional funding is provided to services that employ a certain proportion of certificated teachers, and to services that pay educators according to a salary scale (New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2023c; Paull and Wilson 2020, p. 60).⁴

The **Netherlands** is the only one of these five countries to transition in the opposite direction, moving from a system that provided funding through both the demand and supply sides, to relying only on demand-side funding since 2005 (Akgunduz and Plantenga 2014).

The mix of provider management types influences how governments manage affordability and access

While most countries use a mix of public and private provision of ECEC, the proportion of services that are private for-profit, private not-for-profit and publicly provided affects the affordability and accessibility of services for families.

In countries where ECEC is established as a legal right of all children, such as in **Sweden**, there tends to be higher rates of public provision because governments (often local governments) are required to act as a provider of last resort to ensure all children have access to a service (European Commission 2022c). As noted above, the majority of Swedish ECEC services are delivered publicly, with approximately 70% of services operated by local governments (Garvis 2018, p. 3).

However, in other countries, it is more common for the ECEC sector to be made up of private (for-profit and not-for-profit) providers. While preschool services in **British Columbia** and the **Netherlands** are largely delivered publicly within schools, there is little public provision for other types of ECEC – such as services for younger children – and private for-profit services make up the majority of the rest of the sector (Beach et al. 2023, pp. 200, 205; European Commission 2023b; Friendly et al. 2021, p. 135). In **Ireland** and **New Zealand** there is minimal public provision of any type of ECEC, and for-profit providers make up a

⁴ Teacher certification requires satisfactory recent teaching experience and participation in professional development, among other requirements. Practising certificates expire and must be renewed every three years.

substantial proportion of the sector in both countries – representing 74% and 41% of services respectively (Early Childhood Ireland 2022; Neuwelt-Kearns and Ritchie 2020, p. 6).

The prevalence of different provider management types in a country's ECEC sector influences which policy levers are available to government to steer the sector towards desired outcomes. The public provision of services in **Sweden** gives local governments direct control over the fees charged to families and the accessibility and quality of services. Where for-profit providers are common, governments often closely manage funding mechanisms and quality standards to be confident that increases in public funds are not flowing directly into higher profits for businesses. For example, **Ireland** has introduced a fee freeze as a condition for services receiving new operational funding, and services participating in a new supply-side funding scheme in **British Columbia** are not allowed to increase fees above a rate set by the government (Beach et al. 2023, p. 213; Government of Ireland 2023b).

As noted above, British Columbia is also using its new funding mechanisms to influence the mix of provider management types that are most prevalent in the sector, in accordance with the specification of the Canada-wide plan that service growth should primarily be in the not-for-profit and public sectors. All Canadian provinces, including British Columbia, are seeking to expand their respective ECEC sectors either exclusively or predominantly through not-for-profit and public provision (Beach et al. 2023, p. xxiii).

Supporting children with additional needs and those experiencing disadvantage

Most countries have additional programs that aim to help children and families experiencing disadvantage or who face barriers to accessing ECEC.

British Columbia, Ireland and **New Zealand** have programs to support children with disabilities or developmental delay, and typically provide additional support to services to fund extra staff, train existing staff or buy equipment. These programs can support individual children (such as Ireland's Access and Inclusion Model) or be provided to services with a high proportion of children experiencing disadvantage more generally (such as New Zealand's Targeted Funding for Disadvantage) (Beach et al. 2023, p. 203; Government of Ireland 2023a; New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2023b). The **Netherlands** also offers a supplementary play-based early education program for children at risk of developmental delay, hosted within mainstream centre-based services and primary schools (European Commission 2023a).

Services in isolated or low socio-economic areas in **New Zealand** are provided with additional funding through initiatives such as Equity Funding or the Annual Top-Up for Isolated Services (New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2023b, 2023a). As mentioned above, in **Canada**, providers can also access additional funding to renovate or build new services in communities that face barriers to access, including in rural, remote, and low-income areas (Government of Canada 2023).

For culturally and linguistically diverse families, many countries offer language-specific services, such as Naíonraí (part-time) and Naíolann (full-time) Irish language services in **Ireland**, bilingual services in the **Netherlands** and Māori Kōhanga Reo in **New Zealand** (Donegal Childcare 2022; European Commission 2022a). **Canada's** Aboriginal Head Start program also provides free culturally-based ECEC services while connecting families to other wrap-around services (Beach et al. 2023, p. 217).

As services in **Sweden** are largely publicly provided, funding to support children with additional needs is delivered as part of each service's general operational funding, rather than through particular programs.

Quality assessment

Many countries require services to be regularly inspected so that their quality can be monitored and assessed. The **Netherlands** conducts inspections annually, and in **Ireland** they are required every three years and are almost always conducted without forewarning (Government of the Netherlands 2023a; Tusla 2023b). In the **Netherlands**, quality assessments also involve consultation with parents, and in **Sweden** inspectors must meaningfully consult with both parents and the children attending the services (European Commission 2019, pp. 130–132).

Inspection reports are available online for parents to access in the **Netherlands**, **New Zealand** and **Ireland**, and the Irish government also provides a guide for parents on how to read the reports (Government of the Netherlands 2023a; Irish Government Department of Education 2022; New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2022b). Some countries also use assessment results to monitor and evaluate their ECEC systems overall. For example, in the **Netherlands**, the local government bodies that are responsible for conducting assessments are required to report on their overall findings to provide a wider view of the strengths and weaknesses of the system as a whole (European Commission 2019, p. 133).

Workforce

Ratios

Educator-to-child ratios are fairly consistent between the countries examined, with ratios stricter at younger ages before loosening at about ages three to four (table B.4). While there are no regulations on the number of children per educator in **Sweden**, the average ratio in preschools (children age one to five) is relatively low – at about five children per staff member – and is roughly consistent with formal ratios in other countries (European Commission 2022e).

Table B.4 – Educator to child ratios are fairly consistent across the five countries
Educator to child ratios in centre-based settings

	British Columbia	Ireland ^a	Netherlands	New Zealand ^b	Australia ^c
0-1 years	1:4	1:3	1:3	1:5	1:4
1-2 years	1:4	1:5	1:5	1:5	1:4
2-3 years	1:4	1:6	1:8	1:10	1:5
3-4 years	1:8	1:8	1:8	1:10	1:11
4 years to school age	1:8	1:8	1:10	1:10	1:11
School age (OSHC)	1:15 ^d	1:12	1:12 ^e	1:10 ^f	1:15

a. Ratios for sessional (up to 3.5 hours per day) services in Ireland are different to other centre-based services, at 1:3 for children ages 0-1, 1:5 for children ages 1-2.5 and 1:11 for children ages 2.5-6. **b.** For children two years and over in New Zealand, the ratio is 1:6 where there are six or fewer children, 2:7–20 where there are between seven and twenty children, and 1:10 where there are more than twenty children. **c.** Ratios for Australia vary by state – the presented ratios are the National Quality Framework minimum standards **d.** OSHC ratios in British Columbia are 1:12 for children in grade 1 (typically age 6) and younger. **e.** OSHC ratios in the Netherlands are 1:12 for children age 7-13, and 1:11 for groups with children ages 4-13. **f.** OSHC ratios in New Zealand are recommended but not mandatory.

Source: ACECQA (2023, p. 448); Beach et al. (2023, p. 209); Government of the Netherlands (2023b); Citizens Information (2022); European Commission (2022e, 2022b); New Zealand Government (2023); Tusla (2023a); *Education (Early Childhood Services) Regulations 2008* (New Zealand).

Qualification requirements

As in Australia, it is common for other countries to require vocational qualifications for educators in contact roles in centre-based services. Educators in centre-based settings in **British Columbia, Ireland** and the **Netherlands** are required to hold a relevant vocational qualification (at a minimum), and in British Columbia, staff must also undertake additional training if they are working with children younger than 36 months or who have additional support needs (Beach et al. 2023, p. 208; European Commission 2023b; Government of Ireland 2021, p. 31). In **New Zealand**, for a service to be eligible to receive 20 Hours ECE funding, at least 50% of required staff must have a recognised teaching qualification, such as a bachelor's degree or graduate diploma (New Zealand Government Ministry of Education 2020). While there is no requirement that all educators have qualifications, as mentioned above supply-side funding is tied to 'quality funding bands' that link funding to the proportion of educators that are certificated (New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2020; Teaching Council of Aotearoa New Zealand 2023). There are no minimum qualification requirements for staff in **Sweden** in most preschools, but staff should have relevant training or experience, and there must be at least one person with a relevant university degree in the service. All staff in Sweden's preschool classes that specifically cater to 6-year-olds, however, must have a university degree (European Commission 2022e).

In some countries, qualification requirements are less strict outside of centre-based settings. In **British Columbia**, educators working in family day care settings or in OSHC services (with school-age children) do not require any ECEC qualifications and are only required to be deemed 'responsible adults' – they must be over 19 years old, complete a 20-hour course, have some relevant work experience and complete a criminal record check (Beach et al. 2023, p. 209). Similarly, 'childminders' in **Ireland's** family day care sector do not currently have any minimum qualification requirements, however these will be introduced by 2028 as the sector is brought into the scope of government regulation (Government of Ireland 2021, p. 15).

Measures in response to workforce constraints

Like Australia, many countries are struggling with workforce constraints in their ECEC sectors. There is a large focus internationally on the relatively low wages paid to ECEC educators, and this is resulting in challenges in attracting and retaining staff.

Workforce constraints have meant some countries have had to delay or alter plans to introduce reforms, such as in the **Netherlands** where the rollout of a 96% universal subsidy has been delayed by two years due to concerns regarding service quality and workforce size (NL Times 2023). In 2021 in **British Columbia** – which, as noted above, is also undertaking significant reforms to their ECEC policy – 45% of ECEC employers were losing more staff than they could hire, and 27% of services had to refuse enrolments due to a lack of qualified staff (The Social Research and Demonstration Corporation 2021, pp. 279–282).

Pay parity with similarly qualified educators working in other settings is another issue shared by other countries. In **New Zealand**, wages for educators in education and care services (the equivalent of centre-based day care services in Australia) have traditionally been lower than wages for educators working in kindergarten services.⁵ Education and care educators earned 23% less (on average) than those working in kindergartens in 2019 – despite having the same qualifications and largely working with children of the same age. It was estimated that this gap could widen to up to 49% in some cases after kindergarten educators received an 18.5% pay increase over two years from 2019, which was aimed at keeping their own pay rates in line with those of primary school teachers (Collins 2020).

⁵ Kindergarten in New Zealand is a particular type of centre-based ECEC service for children age two to five. Kindergartens are not-for-profit services and are managed by a Kindergarten Association.

The policies that governments are introducing to combat these challenges vary. As noted above, **New Zealand** and **Ireland** are requiring services to increase wages as a condition of receiving new operational funding. The pay parity opt-in scheme in New Zealand provides higher funding rates to ECEC services that pay all teachers in line with the national ECE Funding Handbook, and Ireland is supporting services to increase educator wages by introducing minimum pay rates as part of services' Core Funding budgets (New Zealand Ministry of Education (Te Tāhuhu o te Mātauranga) 2023c; O'Gorman 2022). **British Columbia** is also expected to introduce a 'wage grid' for educators as a commitment under the Canada-wide plan, which will set minimum wages and pay increases that correspond to educators' skills and experience (Beach et al. 2023, p. 196).

Some governments have also introduced direct wage subsidies to publicly fund these pay increases. In **New Zealand**, the government announced a publicly funded 10% increase in the minimum pay rate for qualified educators working in education and care services to match the starting rate for kindergarten educators. While this is largely only provided to new teachers entering the sector, the government has indicated that this is only a first step and that further support can be expected (New Zealand Government 2020). **British Columbia** has introduced a wider government funded 'wage enhancement' to all ECEC educators, which started as a CAD\$1 (AUD\$1.10) per hour wage increase in 2019 before rising to CAD\$4 (AUD\$4.40) per hour in 2021. This represents approximately a 20% increase on the median wage for educators of CAD\$21 (AUD\$24) per hour (Beach et al. 2023, p. 208).

In response to workforce constraints, the **Netherlands** has tried to help services reduce the number of staff required to meet demand for ECEC, including by introducing fee discounts on days with lower occupancy rates, and extending an exemption that allows half of all employees in a service to be 'working towards' a qualification until July 2024. A measure to relax educator-to-child ratios was also proposed but was not introduced (Álvarez Umbarila 2022).

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C. Overview of the National Quality Framework

Since 2012, most early childhood education and care (ECEC) services have been regulated under the National Quality Framework for Early Childhood Education and Care (NQF). The NQF is a framework of agencies, laws, regulations and standards, which combine to provide a national approach to the regulation and quality assessment of ECEC services. This appendix outlines the structure, governance arrangements and processes of the NQF.

C.1 Background

The NQF was developed in response to a growing recognition of the importance of ECEC for children's development and learning. Before the NQF, there was no national system for regulation and compliance in the ECEC sector – requirements such as those relating to the safety of a service's physical environment were often duplicated in state/territory licensing and Australian government quality assurance processes (ACECQA 2022c, p. 5). The quality of services receiving Commonwealth funding was overseen by the National Childcare Accreditation Council up until 2011, when it was replaced by the Australian Children's Education and Care Quality Authority (ACECQA) (ACECQA n.d.; CPD 2023, p. 4). Expectations across the states and territories were also inconsistent, with a complex system of requirements and minimum standards for different service types in different jurisdictions. The result was a sector facing high regulatory burdens and significant variation in the standard of education and care (ACECQA 2022c, p. 5).

In December 2009, the National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care (NQA) was established to contribute to the achievement of outcomes set out in the *Early Childhood Development Strategy* – which had been endorsed by the Council of Australian Government in July 2009 (COAG 2009a, p. 4, 2009b, p. 3). The strategy included the vision that 'by 2020 all children have the best start in life to create a better future for themselves and for the nation' (COAG 2009a, p. 4) and contained seven key outcomes:

1. children are born and remain healthy
2. children's environments are nurturing, culturally appropriate and safe
3. children have the knowledge and skills for life and learning
4. children benefit from better social inclusion and reduced disadvantage, especially Indigenous children
5. children are engaged in and benefiting from educational opportunities
6. families are confident and have the capabilities to support their children's development
7. quality early childhood development services that support the workforce participation choices of families (COAG 2009a, pp. 13–14).

The NQA gave effect to a commitment by all parties to the development of the NQF. Box C.1 sets out the steps involved in developing the NQF and changes that have occurred since the Framework came into effect in 2012.

Box C.1 – NQF development timeline

- 2009** Early Years Learning Framework for Australia published.
National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care comes into effect.
- 2010** National Law passed.
- 2011** National Regulations passed.
- 2012** NQF comes into effect, quality assessments and ratings begin.
- 2013** First national registers of service quality are published.
- 2014** New staffing requirements increase the number of early childhood teachers in services.
- 2015** Starting Blocks website launched.
- 2016** New educator-to-child ratios.
- 2017** Changes to National Law and Regulations from 2014 NQF Review.
- 2018** Revised National Quality Standard introduced.
- 2019** 2019 NQF review commences.
- 2020** New staffing requirements increase number of early childhood teachers and suitably qualified persons in services.
Quality assessment and rating temporarily suspended due to impacts of COVID-19.
- 2021** National Quality Framework Approved Learning Frameworks Update project begins.
- 2023** Changes to National Law and Regulation from 2019 NQF Review.

Source: ACECQA (2022c, pp. 3–4; 2023a).

C.2 Governance arrangements

A national legislative framework

The national legislative framework underpinning the NQF consists of:

- the Education and Care Services National Law (the National Law)
- the Education and Care Services National Regulations (National Regulations).

The legislative framework was established through an applied laws system. Under this system, a host jurisdiction (Victoria) first passed the *Education and Care Services National Law Act 2010* (Vic). This legislation was then adopted by all other states and territories with the exception of Western Australia, which passed corresponding legislation with some minor variations.

This legislative framework replaced separate licensing and quality assurance processes, as noted above, and aimed to create a jointly governed, uniform national approach to the regulation and quality assessment

of ECEC services (an aim which has been partially achieved (paper 8)). The approach aimed to reduce red tape, which was particularly complex for providers operating across multiple jurisdictions.

The National Law and National Regulations set out:

- approval processes for the operation of education and care services
- the assessment and rating system
- key operational requirements
- compliance, monitoring and enforcement powers
- the functions and powers of the Education Ministers, ACECQA and the regulatory authorities in each jurisdiction
- key transitional arrangements.

The NQF covers most centre-based day care (CBDC), family day care (FDC), preschool (or kindergarten) and outside school hours care (OSHC) services in Australia. Most preschools (kindergartens) in Tasmania and Western Australia are not covered (ACECQA 2023h, p. 5). In Western Australia, the NQF also applies to In Home Care (but this service type is not covered in other jurisdictions) (ACECQA 2023e, p. 37).¹ All other forms of care, including mobile, occasional care and most former Budget Based Funded² services were excluded from the NQF (ACECQA 2023e, pp. 37–38). Box C.2 details the types of services that sit outside the scope of the NQF.

Reviews of the framework and its elements

The NQF was envisaged to be reviewed every five years, with reviews occurring in both 2014 and 2019, though there is no mechanism to mandate reviews (paper 8). The 2014 review reforms included:

- removing conceptual overlap between elements and standards, clarifying language and reducing the number of standards and elements
- improving oversight and support within FDC
- removing supervisor certificate requirements so service providers have more autonomy in deciding who can be the responsible person in each service
- introducing a national educator to child ratio of 1:15 for services providing education and care to school age children (ESA 2022, p. 27).

Likewise, the 2019 review gave rise to changes. These included:

- new requirements regarding the safety, health and wellbeing of children
- improved oversight and compliance tools for regulatory authorities
- new workforce requirements which include increasing minimum qualification requirements for FDC educators and alleviating staffing requirements during short-term absences
- increasing the period of approval for the service 'Excellent' rating from three to five years
- improved regulatory guidance through government-developed resources (ACECQA 2019, 2023c).

Outside of these more regular, scheduled reviews, sections of the NQF may, from time to time, come under examination via targeted reviews. For example, the 2021 National Quality Framework Approved Learning Frameworks Update project held two rounds of consultation in 2021, ran a pilot in 2022, and led to an update

¹ In Home Care is where a child is cared for in their own home.

² The Budget Based Funded program provided a contribution to the operational costs of some services, predominantly located in rural, remote and Indigenous communities. In 2018, most Budget Based Funded services transitioned to funding under the Community Child Care Fund (CCCF).

to learning frameworks for young children from birth to 5 years of age, as well as those for care of school-aged children (Macquarie University 2023).

Box C.2 – Services out of scope from the NQF

- A service principally conducted to provide instruction in a particular activity (for example, a language class or ballet class).
- A service providing education and care to patients in a hospital or patients of a medical or therapeutic care service.
- Care provided under a child protection law of a participating jurisdiction.
- Disability services defined under state or territory law, and early childhood intervention services for children with additional needs.
- Education and care in a child's home.
- Except in WA, education and care in a residence, other than as part of a family day care service.
- Primarily ad hoc or casual education and care (commonly referred to as occasional care).
- Education and care provided by a hotel or resort to children of short-term guests at the hotel or resort.
- Education and care that is provided on an ad hoc basis to children of a guest, visitor or patron where the person who is responsible for the children is readily available at all times.
- Education and care that is primarily provided or shared by parents or family members.
- Education and care provided at a secondary school to a child of a student attending the school, where the parent retains responsibility for the child.
- Mobile services.
- Services that provide education and care for no more than four weeks per calendar year during school holidays.
- Transition to school programs provided by a school to orient children to that school.
- Services that on 30 June 2018 were funded under the Budget Based Funded program and were not approved under family assistance law.
- Services that on 30 June 2018 were funded under the Indigenous Advancement Strategy but were not approved under family assistance law nor regulated under the National Quality Framework.
- Playschools licensed in the Australian Capital Territory.
- Stand-alone services in Queensland.
- Playcentres in South Australia and New South Wales.
- Services licensed as Centre-based Class 4 or 5 services under the Act 2001 in Tasmania.
- Licensed limited hours or short-term services in Queensland or Victoria.
- Government-funded services under the *Children and Community Services Act 2004* of Western Australia.

Source: ACECQA (2023e, pp. 37–38).

Likewise, the National Children's Education and Care Workforce Strategy (*Shaping Our Future*) committed ACECQA to a review of staffing and qualification regulations for early childhood teachers and OSHC educators. The review commenced in May 2023 and aims to improve consistency, support quality and reduce the complexity of current qualification and staffing requirements, and is expected to make recommendations to the Education Ministers in December 2023 (ACECQA 2023m; ESA 2021, p. 55).

Governing bodies

The NQF is jointly governed by the Australian, state and territory governments in the form of two key national bodies and eight jurisdictional regulatory authorities (figure C.1).

Education Ministers provide ongoing oversight and ultimate decision-making for the NQF, with the Education Ministers Meeting³ (EMM) offering a forum for collaboration on ECEC, school education, higher education and international education (ACECQA n.d.; DoE 2023).

The Australian Education Senior Officials Committee (AESOC) is directly responsible to the EMM for the execution of EMM decisions. AESOC consists of senior officials with responsibility for ECEC, school education, higher education and international education. It performs a number of functions including providing policy advice to the EMM and performing supervisory and coordination roles (Commonwealth of Australia 2022). Three standing working groups support AESOC – one of which is the Early Childhood Policy Group (ECPG) (ACECQA 2018). The ECPG provides ‘high-level strategic policy advice’ to the EMM through AESOC on ECEC policy matters (Australian Government 2021; Tudge 2021, p. 2).

ACECQA is the independent national authority responsible for guiding and monitoring the implementation and administration of the NQF. It is responsible for matters including consistency of the application of the NQF between states and supporting the ECEC sector to improve service quality for children, and it assesses and approves qualifications for ECEC staff and organisations. It also undertakes various ongoing research and evaluation functions under the National Law and Regulations.

State and territory-based regulatory authorities administer the NQF in each state and territory. The regulatory authority is typically the first point of contact for service providers and is responsible for a range of functions including approving ECEC providers and services and assessing and rating ECEC services (figure C.1).

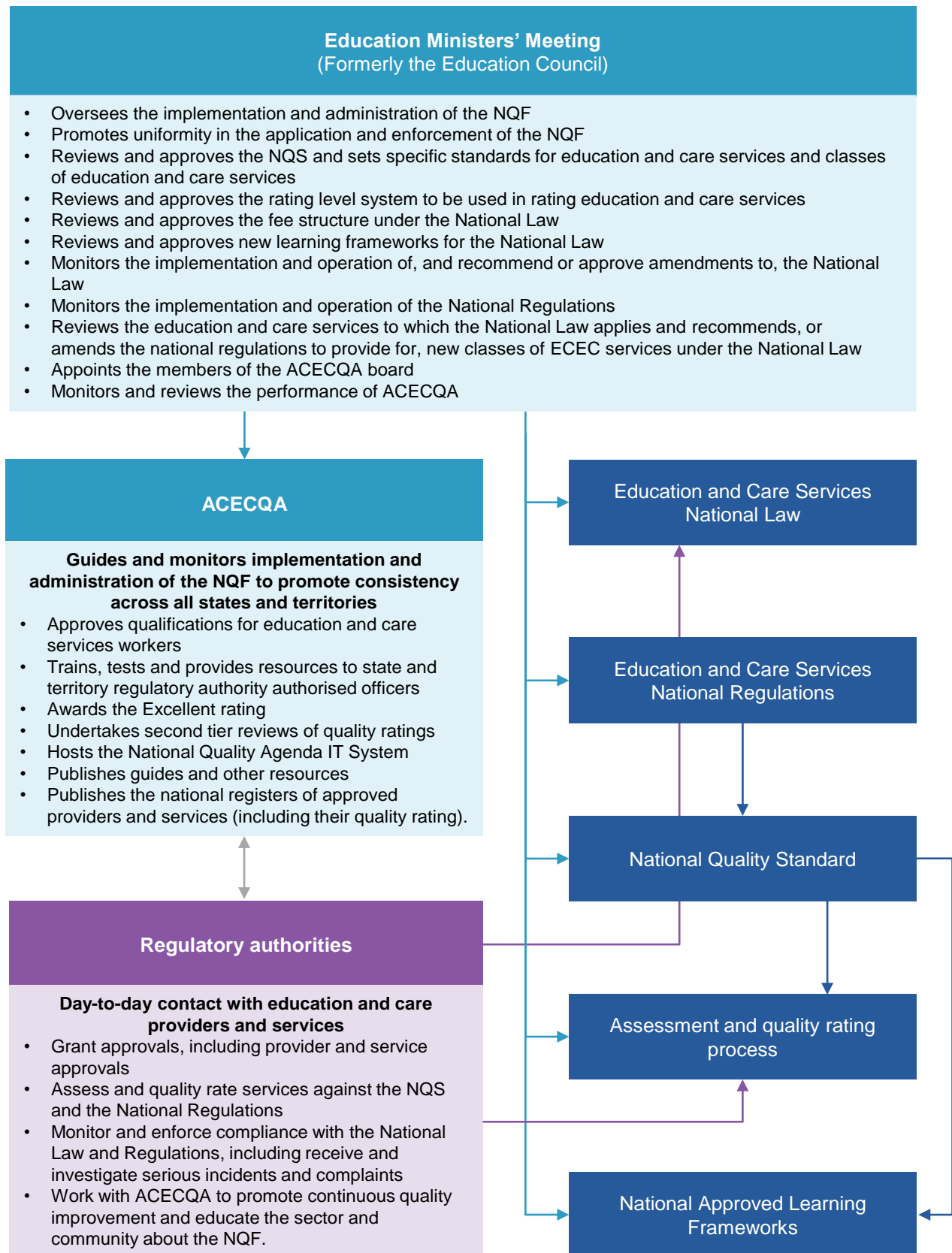
The role of regulatory authority in most jurisdictions is typically undertaken by that state or territory’s Department of Education, although Western Australia situates the regulator within its Department of Communities (box C.3). In South Australia, the regulator is an independent statutory authority.

Box C.3 – State and territory regulatory bodies

- **New South Wales:** Early Childhood Education Directorate, NSW Department of Education
- **Victoria:** Victorian Department of Education and Training
- **Queensland:** Regulation, Assessment and Service Quality, Early Childhood and Education Improvement, Queensland Department of Education
- **Western Australia:** Education and Care Regulatory Unit, WA Department of Communities
- **South Australia:** Education Standards Board
- **Tasmania:** Tasmanian Department for Education, Children and Young People
- **Australian Capital Territory:** Children’s Education and Care Assurance, ACT Education Directorate
- **Northern Territory:** Quality Education and Care NT, NT Department of Education

³ The EMM is successor to the COAG Education Council.

Figure C.1 – National Quality Framework



Source: ACECQA (2023e, pp. 12–13).

C.3 How the system works

The NQF provides a national system for ECEC, meaning that providers and staff should have equivalent experiences in each jurisdiction and services undergo consistent assessment processes.

Licensing of providers and services

The NQF includes three interrelated types of nationally recognised and ongoing approvals for providers and services.

- Provider approval enables an individual, body corporate, eligible association, partnership or prescribed entity to apply for one or more service approvals. Approval is recognised nationally.
- Service approval authorises an approved provider to operate an approved service. Each approved service must have one or more nominated supervisors. Approved providers must determine if a person is suitable to be a nominated supervisor.
 - There are two types of service approval: one for centre-based services (CBDC, preschool/kindergarten and OSHC); one for FDC services (ACECQA 2023e, pp. 19, 39).

State and territory regulatory authorities are responsible for granting both types of approval, and although authorities reference the NQF at the time of approval, a centre's quality rating is determined at a later stage. State regulators may consider the following factors when granting service approvals:

- the National Quality Framework
- the suitability of the service premises and its site and location for operating an ECEC service
- the adequacy of the policies and procedures for the service
- whether the applicant is an approved provider
- whether the nominated supervisor for the service has given their written consent
- any suspension or conditions on the applicant's provider approval
- any other matter that the regulator thinks is relevant (NSW Department of Education 2021, p. 13).

It appears that a provider's assessment and ratings history is only taken into account to the extent to which it may indicate that granting a service approval would pose a significant risk to the health, safety and wellbeing of children (NSW Department of Education 2021, pp. 16–17).

Regulating quality

The National Quality Standard

The NQS encourages a uniform approach to assessment and ratings for ECEC services and rates services across seven 'quality areas' (box C.4). These quality areas are divided into 15 standards containing 40 elements. For example, 'Standard 2.2 – Each child is protected' is one of two standards in quality area 2 (child safety) and contains three elements:

- Element 2.2.1 – At all times, reasonable precautions and adequate supervision ensure children are protected from harm and hazard
- Element 2.2.2 – Plans to effectively manage incidents and emergencies are developed in consultation with relevant authorities, practised and implemented
- Element 2.2.3 – Management, educators and staff are aware of their roles and responsibilities to identify and respond to every child at risk of abuse or neglect.

Each quality area contains two or three standards and each standard comprises between two and three elements. Several key aspects of the NQS – quality improvement plans, educator-to-child ratios and staff qualification requirements – are discussed in further detail below.

Box C.4 – The seven quality areas of the National Quality Standard

Quality Area 1: Educational program and practice

- Comprises three standards and nine elements in total.
- Requires the service to use and document an approved learning framework and develop an educational program.

Quality Area 2: Children’s health and safety

- Comprises two standards and six elements in total.
- Relates to policies and procedures regarding hygiene practices, healthy eating, physical activity, preventing harm to children and dealing with injury or illness.

Quality Area 3: Physical environment

- Comprises two standards and five elements in total.
- Requires the design of indoor and outdoor areas to be safe, suitable and provide a diverse range of experiences, and for the service to use sustainable practices.

Quality Area 4: Staffing arrangements

- Comprises two standards and four elements in total.
- Relates to educator to child ratios, staff qualification requirements and professional staff interactions.
- Requirements vary substantially between centre-based and family day care services.

Quality Area 5: Relationships with children

- Comprises two standards and four elements in total.
- Relates to interactions with and support for children.

Quality Area 6: Collaborative partnerships with families and communities

- Comprises two standards and six elements in total.
- Includes relationships with and information provided to families, engagement with the local community and facilitation of access to support assistance.

Quality Area 7: Governance and leadership

- Comprises two standards and six elements in total.
- Includes governance arrangements and the development of key documentation, records and administrative systems.

Source: ACECQA (2023f).

Quality Improvement Plans

The National Regulations require that each approved service develops a quality improvement plan (QIP) within three months of the grant of the service approval. Developing a QIP is a core requirement of the NQF

that requires each service to evaluate their current practices and conduct a self-assessment against the NQS. A QIP must:

- include an assessment by the provider of the quality of the practices of the service against the National Quality Standard and the National Regulations
- identify any areas that the provider considers may require improvement
- contain a statement of the philosophy of the service.

Services must submit a QIP to their state or territory's regulatory authority at least annually, or when requested by their local regulatory authority. A QIP must be kept at the education and care service premises, be made available for inspection by the regulatory authority or an authorised officer and, on request, to the family of a child who is enrolled at the service or who are seeking to enrol a child at the service (ACECQA 2023e, pp. 44, 349).

Staffing

Qualification requirements

The NQF establishes minimum qualification requirements for both centre-based and FDC services. These requirements are prescribed only for educators working with children who are under school age, so they are not applicable to OSHC services. Some states and territories have qualification requirements relating to the care of school-age children.

ACECQA maintains and publishes a list of nationally approved qualifications for centre-based and FDC services. It also maintains a separate list of approved qualifications for school-age children (where qualifications are approved separately for each jurisdiction).

There are two sets of qualification requirements for centre-based services and preschools:

- the hiring of up to two full-time equivalent early childhood teachers, dependent on how many children are cared for on a given day
- minimum qualifications for other educators at the service.

Detail on the requirements is set out in table C.1.

A person is counted as an early childhood teacher if they:

- hold an approved early childhood teaching qualification that is published on ACECQA's approved qualifications lists. This includes current approved early childhood teacher qualifications, and former approved early childhood teaching qualifications that commenced before 1 January 2012
- hold a qualification that ACECQA has recognised to be an equivalent early childhood teacher qualification
- are taken to hold an early childhood teaching qualification approved under former state and territory laws in place before the National Law (ACECQA 2023e, pp. 458–459).

Likewise, a 'suitably qualified person' is someone who:

- is actively working towards an approved early childhood teaching qualification and has completed at least 50% of the qualification or holds an approved early childhood education and care diploma, or
- is registered as a primary or secondary school teacher in Australia and holds an ACECQA-approved early childhood education and care diploma (or higher approved qualification) (ACECQA 2023e, p. 459).

Table C.1 – Qualification requirements under the NQF**Centre-based services, including preschools and kindergartens**

Number of children	Centre's weekly hours of operation	First early childhood teacher must be present	Second early childhood teacher or suitably qualified person must be present
<25	NA	20% of centre operating hours ^a	NA
25-59	<50	60% of centre operating hours	NA
	>=50	6 hours per day	NA
60-80 ^b	<50	60% of centre operating hours	30% of centre operating hours
	>=50	6 hours per day	3 hours per day
>80 ^c	<50	60% of centre operating hours	60% of centre operating hours
	>=50	6 hours per day	6 hours per day

a. Centres with less than 25 children need only have access to an early childhood teacher (ECT), and this access need not be in person (for example, via videoconferencing is permissible). **b.** This requirement can also be satisfied by employing one full-time ECT, and one half-time ECT or suitably qualified person. **c.** This requirement can also be satisfied by hiring one full-time ECT and one full time ECT or suitably qualified person.

Source: ACECQA (2023e, pp. 456–458).

Extra conditions on qualifications exist depending on the nature of the provider.

- In centre-based services such as preschools, kindergartens and CBDCs, at least 50% of educators must be diploma level qualified or higher. All other educators must be certificate III level qualified (ACECQA 2023i).
- As of July 2023, new FDC educators must hold an approved certificate III level (or higher) qualification prior to commencing their role in an FDC service. Existing educators engaged at an FDC service have until 1 July 2024 to complete an approved qualification (ACECQA 2023j).
- As noted above, there are state and territory-based standards for OSHC, which can be accessed via ACECQA's website (ACECQA 2022a, 2023k).
- Educators working at an education and care service may be required to complete a first aid qualification, anaphylaxis management training and emergency asthma management training. Differing requirements exist for centre-based, school-based and FDC services (ACECQA 2023l).

Educator-to-child ratios

The NQF established national educator-to-child ratios for both centre-based and FDC services. Although the NQF extends to children of school age, it does not include a national staff ratio for these children – individual jurisdictions have their own arrangements (table C.2). While national ratios were phased in from 2012 to 2016, some jurisdictions have retained higher standards that override the national ratios for CBDC.

The National Regulations require ratios to be maintained at all times and there are no nationally consistent educator provisions in relation to taking breaks (ACECQA 2023e, p. 480). The Guide to the National Law and National Regulations states that regulatory authorities will 'allow' educators at centre-based services to take up to 30 minutes per day 'off the floor' without their position needing to be backfilled. Services must have sufficient staff available (whether full-time, part-time or casual) to fill planned or unplanned staff absences outside of this 30 minute period (ACECQA 2017b, p. 91).

This system of staff ratios also allows for children in older age groups to be 'mixed' into the ratio allocation for younger age groups, in cases where an educator has excess capacity. For example, if a service has one educator caring for three children aged 0 to 24 months, then that educator has the capacity to care for one

additional child in an older age group (thereby reaching the maximum 1:4 ratio allowed for the 0-to-24-month age group) (ACECQA 2023e, p. 478).

Table C.2 – Educator to child ratios – centre-based services

Age of children	Educator to child ratio	Jurisdiction
Birth to 24 months	1:4	All states and territories
Over 24 months and less than 36 months	1:5	All states and territories excluding VIC
	1:4	VIC
36 months up to and including preschool age	1:11	ACT, NT, QLD, SA, VIC
	1:10	NSW, TAS, WA
	2:25 ^a	TAS
Over preschool age	1:15	NT, QLD, SA, TAS, VIC, NSW
	1:11	ACT
	If no Kindergarten children present:	WA
	1:10 for first 12 children then 1:13	

a. For children attending a preschool program.

Source: ACECQA (2017a).

Family day care

Family day care facilities are limited to a ratio of seven children to one educator, with no more than four being preschool age or under. If the educator's own children (under 13 years old) are present, then they are counted in the total (ACECQA 2017a).

However, one educator can care for more than seven children (or more than four children preschool age or under) where:

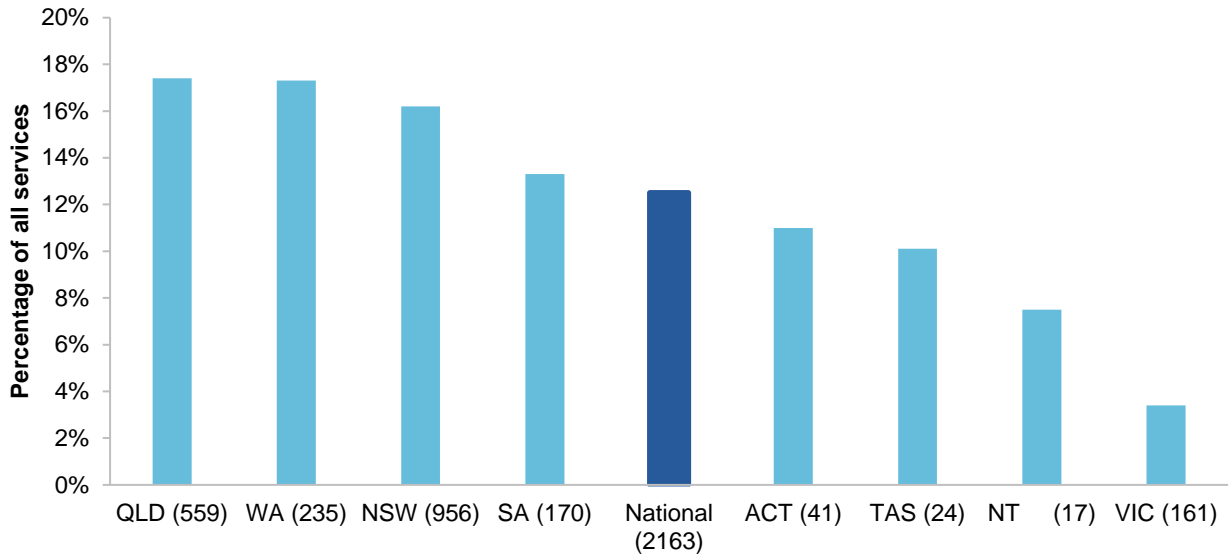
- all the children being cared for are siblings in the same family
- a child is in need of protection under child protection law and the family day care educator is the best person to educate and care for the child
- the family day care residence or approved family day care venue is in a rural or remote location and no alternative care is available (ACECQA 2023e, p. 480).

Waivers

A service may also apply to receive a waiver exempting it from certain requirements in the National Regulations where an issue is likely to be either temporary (fixable within 12 months), or ongoing (also known as a service waiver). A service may apply for one or more waivers to be exempted from some requirements relating to a service's physical environment (including requirements regarding fencing, indoor or outdoor space, ventilation and glass) and/or staffing arrangements (including educator–child ratios and educator qualifications) (ACECQA 2023e, pp. 61–62).

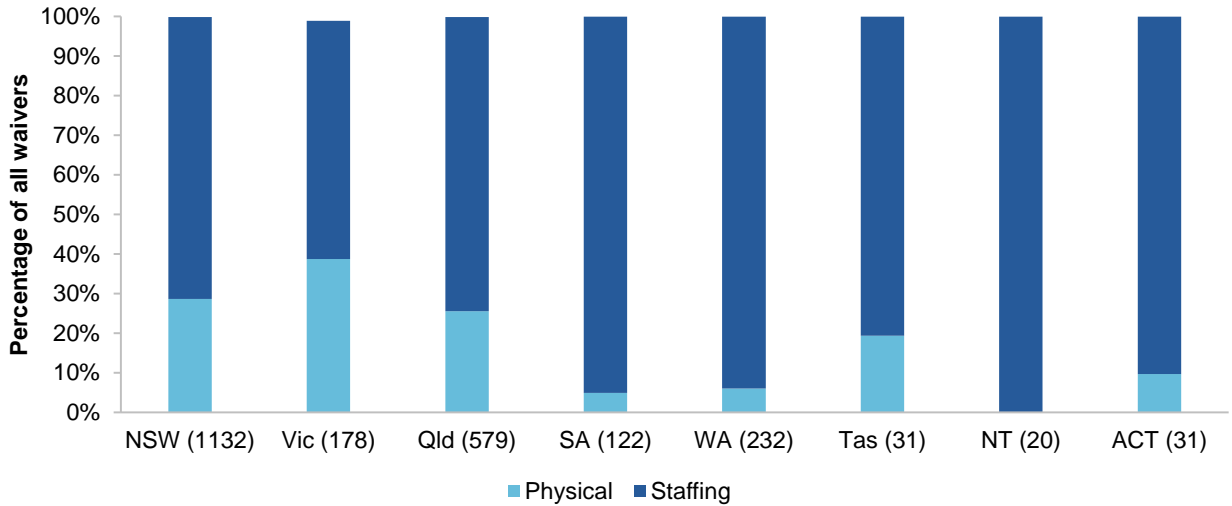
As of July 2023, 76% of waivers were temporary and 24% were service waivers. A total of 2163 services had active waivers, accounting for about 12% of approved services (ACECQA 2022b, 2023h, p. 5). Across the country, Queensland, Western Australia and New South Wales had higher rates of waiver use (figure C.2). Of waiver types, waivers for staffing dominate (figure C.3), but the gap between waiver types is less pronounced in higher-income areas (figure C.4). Centre-based day care services dominate staffing waivers (figure C.5), and ownership structure appears to be related to waiver use, with about 17% of private for-profit services using a waiver of some sort (figure C.6) – a considerably higher proportion than for other provider types.

Figure C.2 – Use of waivers varies across jurisdictions
Percentage of all services with at least one waiver, by jurisdiction, at October 2023



Source: Productivity Commission estimates using ACECQA data (2023o, 2023n).

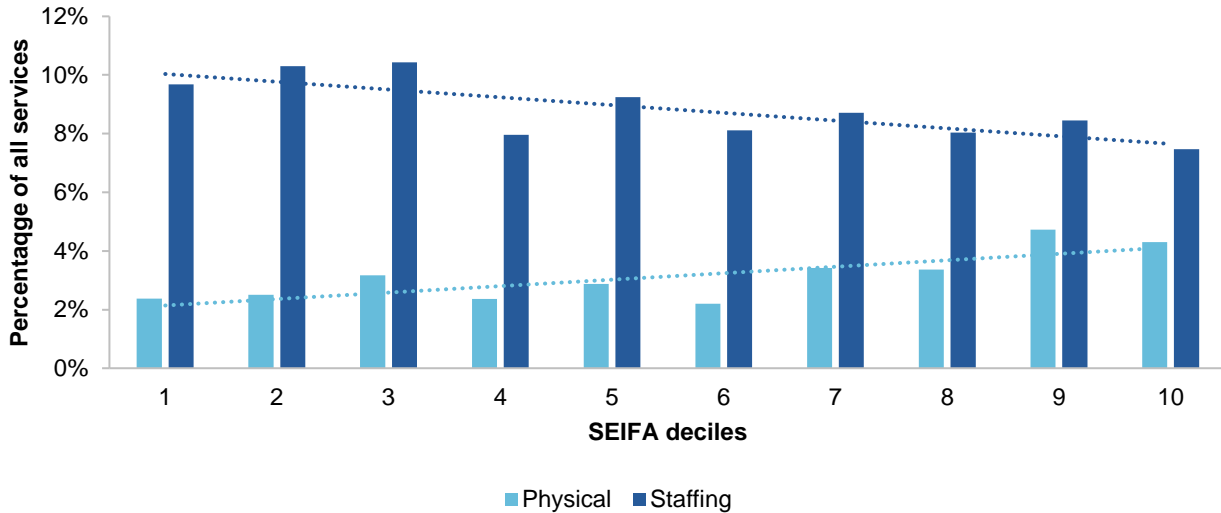
Figure C.3 – Most waivers are granted for staffing
Percentage of waivers in force in a state or territory, February 2023



Source: Productivity Commission estimates using ACECQA data (unpublished).

Figure C.4 – Waiver types change with area demographics^{a,b}

Waiver types as a percentage of services across socio-economic areas, February 2023

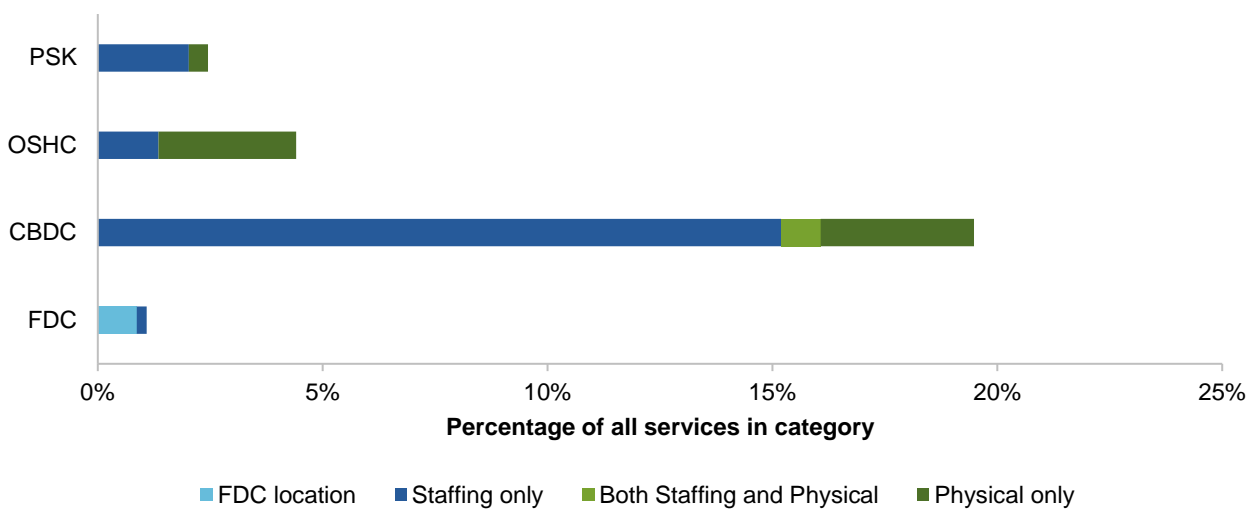


a. Calculated as the share of all services with any waivers of a particular type. The total number of services is based on data from the December quarter of 2022. **b.** SEIFA refers to Socio-Economic Indexes for Areas, and ranks areas in Australia according to relative socio-economic advantage.

Source: Productivity Commission estimates using ACECQA data (unpublished) and ACECQA (2023b).

Figure C.5 – Centre-based day care services are much more likely to hold staffing waivers^{a,b}

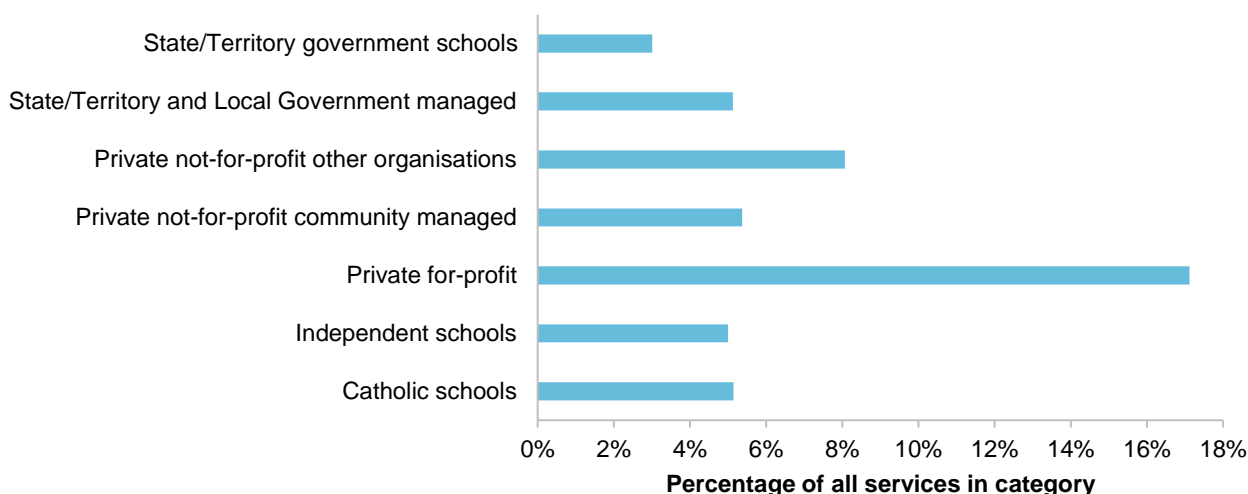
Waiver types as a percentage of services in category, February 2023



a. PSK = preschool/kindergarten; OSHC = outside school hours care; CBDC = centre-based day care; FDC = family day care. **b.** Calculated as the share of all services with any waivers of a particular type. The total number of services is based on data from the December quarter of 2022.

Source: Productivity Commission estimates using ACECQA data (unpublished) and ACECQA (2023b).

Figure C.6 – For-profit providers are more likely to hold waivers^a
Percentage of services with waivers by management category, February 2023



a. Total number of services is based on data from the December quarter of 2022.

Source: Productivity Commission estimates using ACECQA data (unpublished) and ACECQA (2023b).

Assessment and ratings process

Approved services are assessed by their jurisdiction-based regulatory authority. A service receives a rating for each standard and quality area in the NQS and this determines its overall rating. The potential ratings are:

- Excellent (overall rating only) – awarded by ACECQA on application
- Exceeding NQS
- Meeting NQS
- Working Towards NQS
- Significant Improvement Required.

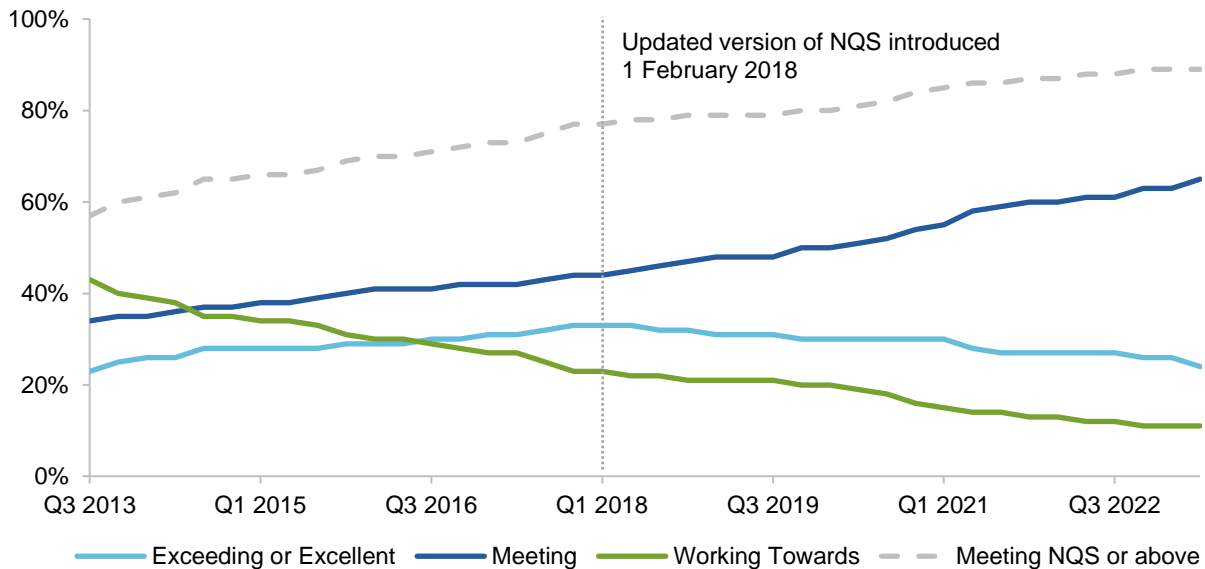
These ratings must be displayed by the service and are published on the Starting Blocks website and the national register (ACECQA 2023e, pp. 92–93).

There has been a general improvement in quality ratings across the ECEC sector since the introduction of the NQF (figure C.7). As at 1 July 2023, 89% of assessed services had a rating of Meeting the NQS or higher (Productivity Commission estimates, based on ACECQA 2023f). This improvement has been driven by an increase in the proportion of services assessed as Meeting the NQS. The proportion of services rated as Exceeding the NQS or above has declined since 2018 but this most likely reflects changes made in 2018 to the NQS and the assessment criteria to receive an Exceeding rating.

At July 2023, FDC services were more likely than centre-based services to be rated as Working Towards the NQS (34% versus 10%), and less likely to be rated as Exceeding (8% versus 24%) (ACECQA 2023h, p. 15).

Figure C.7 – Quality ratings have improved over time^{a,b,c,d}

Quality ratings of assessed services, as a proportion of all assessed services, 2013–2023



a. Subject to data caveats outlined in paper 2, box 2.1. **b.** Data covers the period from Q3 2013 to Q2 2023. **c.** Data captures services that had received at least one assessment by the end of the relevant quarter, regardless of whether the assessment and rating was conducted during that quarter. **d.** A very small proportions of services are assessed as Significant Improvement Required. These have not been depicted graphically but have been included in the total number of assessed services for the purposes of calculating the proportion of services achieving the respective quality ratings depicted in the figure.

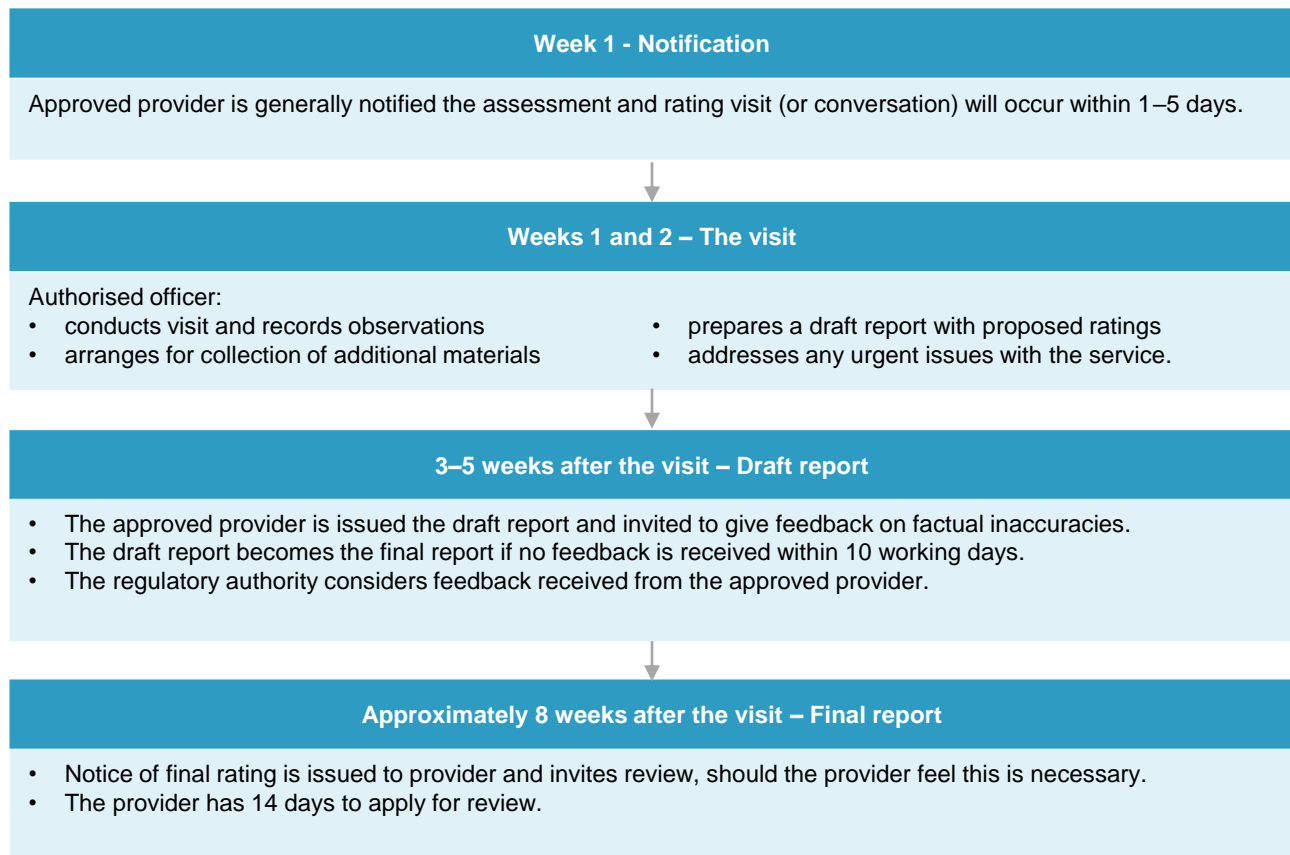
Source: Productivity Commission estimates based on ACECQA (2023g).

The current assessment process takes about nine weeks (figure C.8). The tiered design of the system means that a service must meet all 40 elements to receive an overall rating of at least Meeting NQS (figure C.9). If a service does not meet any element of the NQS, it cannot receive a higher overall rating than Working Towards the NQS.

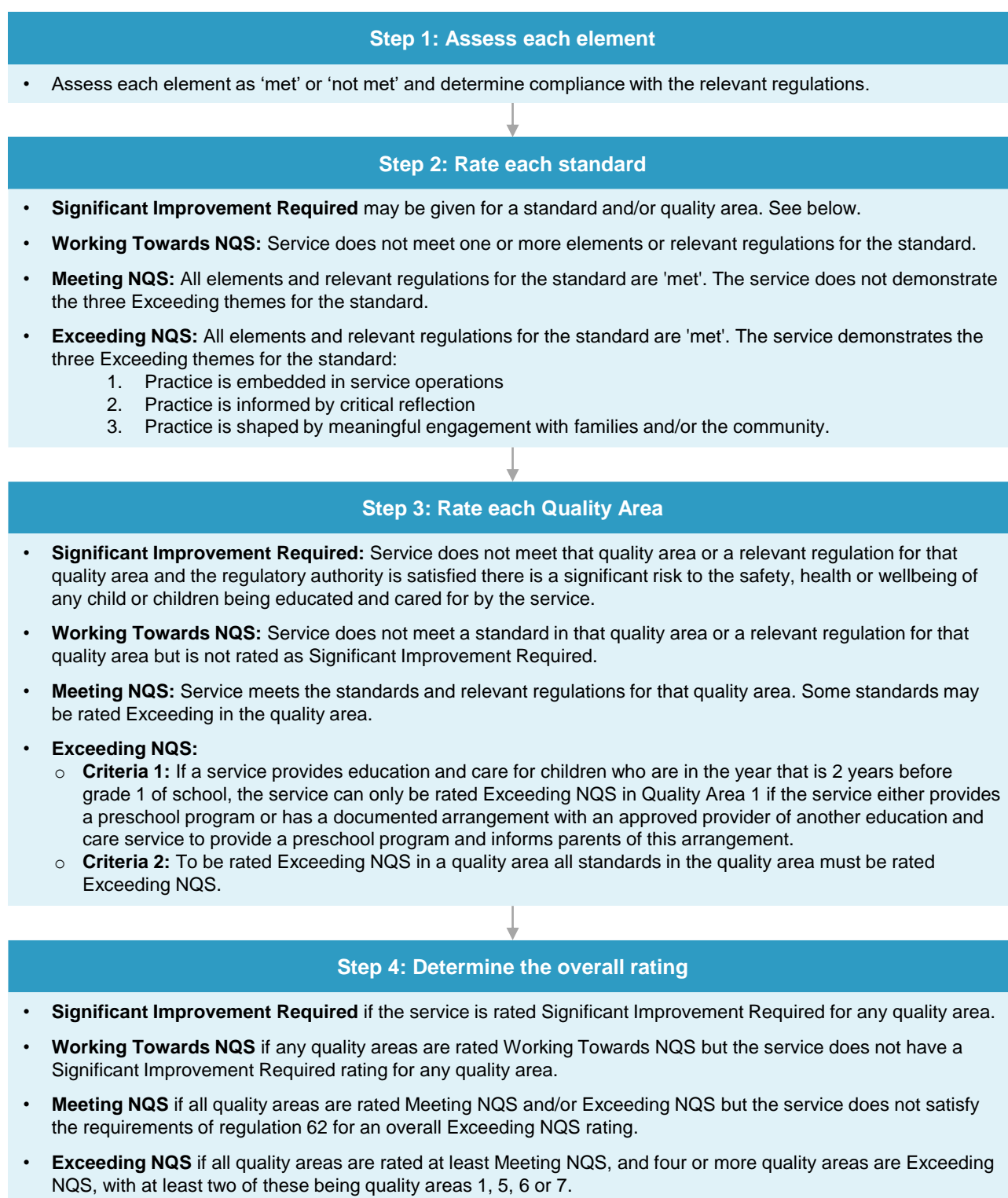
Services that are rated as exceeding the NQS in all seven quality areas can apply to ACECQA to be considered for an Excellent rating, which is the highest rating a service can achieve (ACECQA 2023e, p. 358). ACECQA assesses applications according to three criteria:

- the service exemplifies and promotes exceptional education and care that improves outcomes for children and families, across at least three of five quality ‘themes’
- the service demonstrates leadership that contributes to the development of a community, a local area or the wider education and care sector
- the service demonstrates commitment to sustained excellent practice through continuous improvement and comprehensive forward planning (ACECQA 2023d, p. 2).

Figure C.8 – Assessment timeline



Source: ACECQA (2023e, pp. 353–354).

Figure C.9 – How quality rating levels are determined^a

a. This figure outlines the ratings awarded by state and territory regulatory authorities. Services rated Exceeding NQS in all seven quality areas can apply to ACECQA for an Excellent rating.

Source: ACECQA (2023e, pp. 359–360).

Frequency of the assessment and rating cycle

Regulatory bodies schedule quality rating assessments with a view to rating the quality of services, driving continuous improvement and keeping information for families and communities accurate and up to date. The schedule for reassessment follows a risk-based framework, which considers:

- the quality rating of a service when previously assessed
- changes in service attributes that might affect the service's quality – for example, changes in provider or service management
- changes in ratings over time
- events occurring at the service, such as serious incidents, complaints or non-compliance with the National Law
- indicators that a service is failing to notify the regulatory authority of complaints or incidents
- if the quality rating of the service conflicts with recent compliance history
- the length of time since the last monitoring or assessment visit
- size of the service – given larger services can have an impact on more children (ACECQA 2023e, pp. 355–356).

Across the board, the NQF delivers a form of 'earned autonomy', whereby lower-rated centres are reassessed more often and higher-rated centres experience fewer reassessments. However, a number of factors combine at the local level resulting in different reassessment timeframes between states and territories, including different resourcing of regulatory authorities (paper 8).

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D. The Child Care Subsidy system

As the 2023-24 Education Portfolio Budget Statement states:

The Child Care Subsidy (CCS) aims to improve access to quality early childhood education and care by providing assistance to meet the cost of early childhood education and care for families engaged in work, training, study or other recognised activity (DoE 2023d, p. 32).

This appendix explains different features of the CCS system such as: how eligibility and subsidy amounts are determined for families (for both CCS and Additional CCS (ACCS)) (section D.1); the evolution of the CCS (section D.2); and how the system is administered (section D.3). It also includes information on government spending on CCS (section D.4) and some distributional analysis of children in CCS-approved services (section D.5). The appendix provides background information for the discussion of early childhood education and care (ECEC) affordability in paper 6.

D.1 Eligibility and subsidy amounts

To receive CCS, a child must be attending a CCS-approved¹ ECEC service, which can be a centre-based day care (CBDC), family day care (FDC), outside school hours care (OSHC) or In Home Care (IHC) service (Services Australia 2023h). These service types are discussed in more detail later in this section.

The child must also not be attending secondary school² and the parent or guardian applying for CCS must care for them at least two nights per fortnight (or have a 14% share of care). Residence rules³ and child immunisation requirements also apply (Services Australia 2023h).

The subsidy amount that families are eligible for is a function of:

- the activity test
- the hourly fee charged by the service, as well as whether that fee is above or below the hourly rate cap
- a family's adjusted taxable income⁴
- whether the family has more than one child aged five or younger in ECEC

¹ A provider running a service that offers CCS must have two types of approval (appendix C). One, granted by the relevant state or territory government, deems the service suitable to ensure the health, safety, wellbeing and educational outcomes of children (National Law or state regulatory approval). The second, granted by the Australian Government, deems the service suitable to administer CCS (CCS or Family Assistance Law approval), and cannot be granted until state or territory government approval has been granted. Both approvals can be applied for at the same time (DoE 2023a).

² Exemptions may apply if the child is 13 years old or under, or 14 to 18 with a disability (Services Australia 2023h).

³ On the day the individual claims, they or their partner must be living in Australia and have Australian citizenship, a permanent visa, a Special Category visa, or a Partner Provisional or Temporary Protection type visa. Alternatively they may be in hardship, experiencing other special circumstances or they or their partner may be a student from overseas and receiving financial assistance from the Australian Government to study in Australia (Services Australia 2023d).

⁴ For the remainder of this appendix when discussing a family's adjusted taxable income, which determines CCS and HCCS rates, it will be referred to as income.

- whether the family is eligible for further targeted assistance, such as through the ACCS.

These elements are explained below.

The activity test

The activity test determines the number of hours of subsidised care a family is eligible for per child given the parent's or guardian's activity type and level. If there are two parents or guardians, the parent or guardian with the lower activity determines the eligible number of hours of subsidised care (Services Australia 2022a). Hours of different activity types can be combined (Services Australia 2022a). Recognised activity types include:

- employment related activity
 - paid work, including being self employed
 - unpaid work in a family business
 - unpaid work experience or unpaid internship
 - actively setting up a business
 - actively looking for work
- other forms of activity
 - paid or unpaid leave, including paid or unpaid parental or maternity leave
 - doing an approved course of education or study
 - doing training to improve work skills or employment prospects
 - volunteering
 - other activities on a case by case basis (Services Australia 2022d).

For some activity types, only a certain amount of time is recognised:

- periods of unpaid leave for up to six months (this does not apply to unpaid parental leave)
- setting up a business for six months out of every 12 months
- 16 hours per fortnight if the only activity is volunteering or actively looking for work (Services Australia 2022d). For example, if a parent or guardian only undertakes volunteering as their activity and completes 20 hours in a fortnight, then only 16 of those hours would be recognised and they would be eligible for 36 hours of subsidised care for that fortnight.

In most cases, however, the number of eligible subsidised care hours increases as the activity level increases (table D.1).

Table D.1 – Hours of subsidised care increase with the level of activity^a

Activity level each fortnight	Hours of subsidised care each fortnight
Less than 8 hours	0 hours if earning more than \$80,000 per year ^b 24 hours if earning \$80,000 or below per year ^b
More than 8–16 hours	36 hours
More than 16–48 hours	72 hours
More than 48 hours	100 hours

a. Does not apply to IHC (being eligible for IHC entitles families to receive up to 50 hours of care a week). **b.** \$80,000 is the 2023-24 threshold.

Source: Services Australia (2022a).

Exemptions to the activity test provide an entitlement of a certain number of hours of subsidised care a fortnight per child for:

- families who earn \$80,000 or less per year (2023-24 income threshold) (24 hours)
- Aboriginal and Torres Strait Islander families (36 hours)
- children attending a preschool program at a CBDC in the year before school (36 hours)
- grandparents who are primary carers (100 hours)
- parents or guardians who have a disability or medical condition that stops them from participating in recognised activity, or who would be unable to adequately care for their child if the child did not attend ECEC (100 hours)
- parents or guardians who provide constant care for a child or adult with a disability or medical condition (100 hours)
- families eligible for ACCS (eligible subsidised hours vary, table D.4 provides further details)
- Carer Payment recipients (100 hours)
- Carer Allowance recipients (72 hours)⁵
- families with a parent or guardian in receipt of JobSeeker, Youth Allowance, Parenting Payment or Special Benefit and who have mutual obligation requirements (36 hours)
- families with a parent or guardian in receipt of JobSeeker, Youth Allowance, Parenting Payment or Special Benefit and who do not have mutual obligation requirements (100 hours)
- parents or guardians who are temporarily outside Australia for up to a maximum of six weeks (100 hours)
- parents or guardians who are in prison or psychiatric confinement because they have been charged with or convicted of an offence (100 hours) (DSS 2023b, 2023a).

The CCS hourly rate cap

The CCS hourly rate cap sets the maximum hourly rate to which the subsidy applies. When the CCS hourly rate cap was introduced, it reflected the 'projected mean price at the time of implementation plus 17.5% for Long Day Care and OSHC and 5.75% for FDC' (Abbott and Morrison 2015).⁶

If the hourly fee charged by a service provider is below the hourly rate cap, then the subsidy rate is applied to the hourly fee. However if the hourly fee charged is at or above the CCS hourly rate cap, then the subsidy rate is applied to the CCS hourly rate cap and any fee above it is unsubsidised (Services Australia 2023g).⁷

The 2023-24 CCS hourly rate caps are presented in table D.2.

Hourly rate caps are indexed annually to the CPI (DSS 2023c).

⁵ Carer Allowance recipients who report more than 48 hours of activity per fortnight (either hours of caring or hours of caring combined with hours of other recognised activities) will be entitled to 100 hours of subsidised care per fortnight. If the Carer Allowance recipient also receives Carer Payment, the higher number of eligible subsidised care hours applies (that is, 100 hours).

⁶ With the introduction of the CCS in 2018, long day care and occasional care were combined and are now collectively called CBDC.

⁷ The exception to this is when a child is eligible for ACCS (box D.1).

Table D.2 – Hourly rate caps vary by type of care and age of the child 2023-24

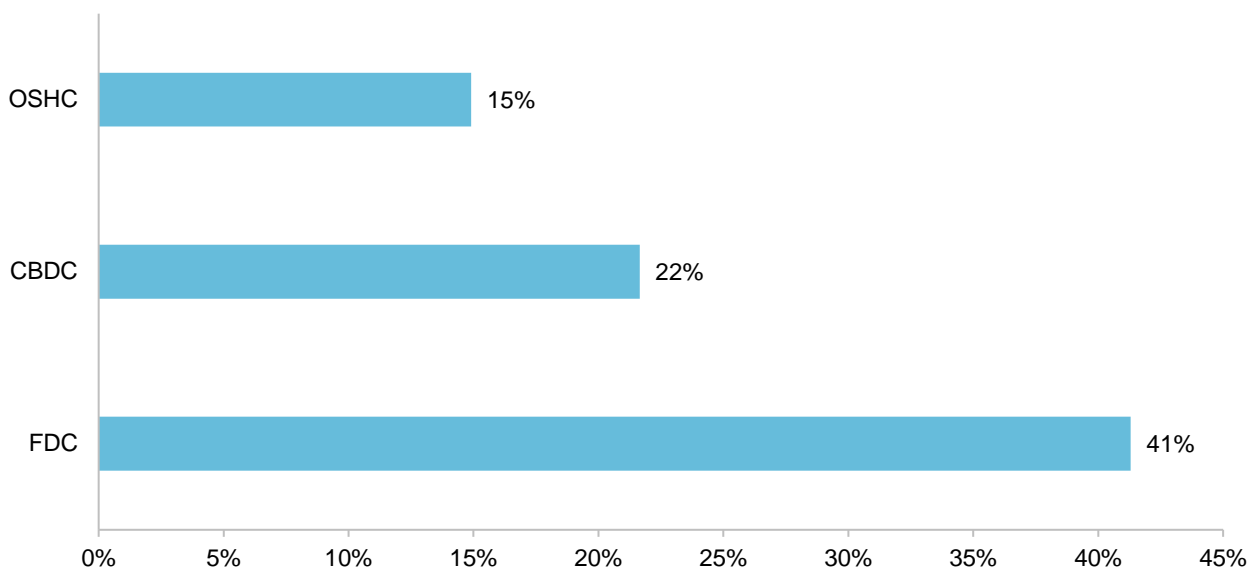
	Hourly rate cap (children below school age)	Hourly rate cap (school aged children)
CBDC	\$13.73	\$12.02
OSHC	\$13.73	\$12.02
FDC	\$12.72	\$12.72
IHC (per family)	\$37.34	\$37.34

Source: Services Australia (2023g).

Some services charge above the hourly rate cap (figure D.1). For example, in the December 2022 quarter, 22% of CBDC services charged above the CCS hourly rate cap. And about one quarter of children had average hourly fees above the cap at some point during the quarter, with this situation being considerably more common among families with higher incomes (figure D.2).

Figure D.1 – The proportion of services that charge above the hourly rate cap differs by service type^{a,b}

Proportion of services charging above the hourly rate cap, December quarter 2022

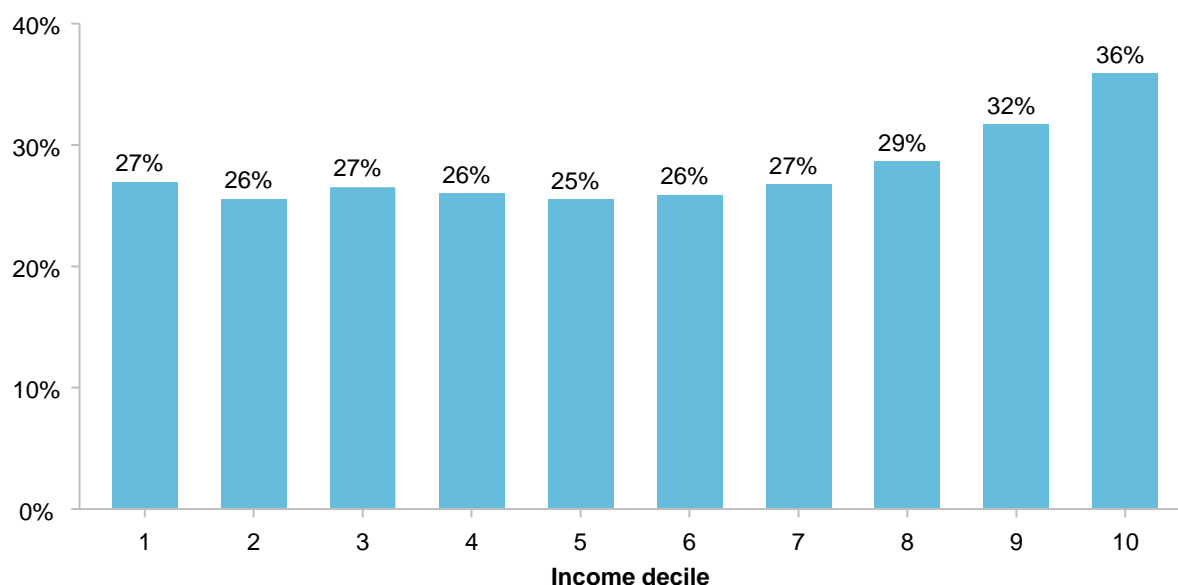


a. Data excludes IHC. There are 35 IHC services, representing less than 1% of CCS-approved services. **b.** An average hourly fee is calculated to determine whether a service is under or above the cap. The average hourly fee may differ from the actual fee charged by a service. One reason for this is that children often attend services on a sessional basis, not an hourly basis, particularly at CBDC and OSHC services. When services offer multiple sessions and use sessional charging, the hourly fee paid by families can vary across sessions.

Source: DoE (2023g, table 3.2).

Figure D.2 – Towards the end of 2022, families of more than one in four children were charged fees above the CCS hourly rate cap^a

Proportion of children for whom fees charged were above the hourly rate cap by income decile, December quarter 2022



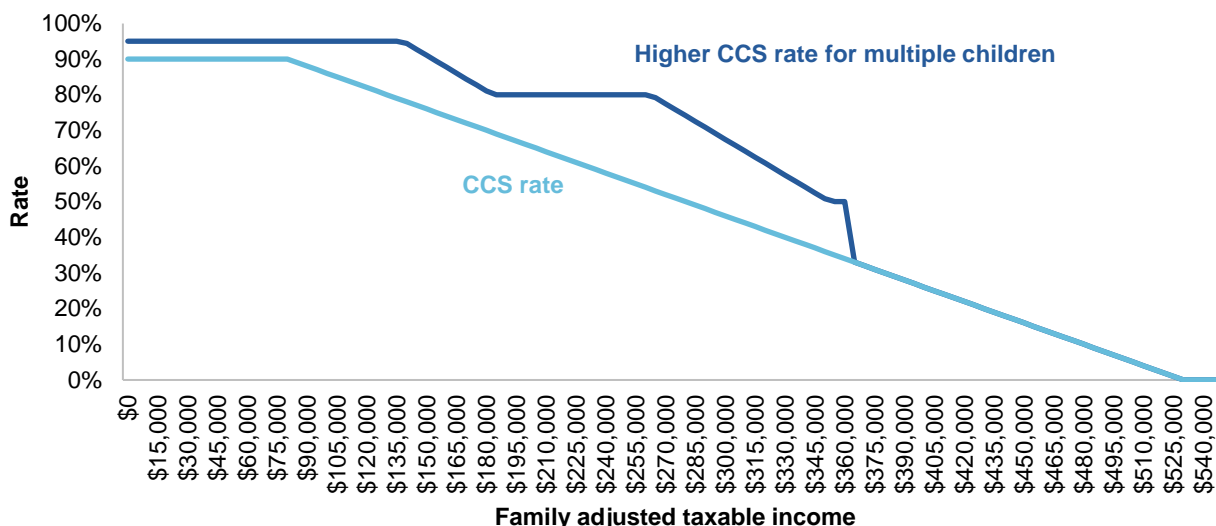
a. The percentages in this chart represent the proportion of children who have faced average hourly fees above the CCS hourly rate cap for any week during the quarter. Income deciles have been calculated based on family income and at the family level, among those using CCS-approved services.

Source: Productivity Commission estimates using DoE administrative data (unpublished).

A family's income and personal circumstances determine the subsidy rate they receive

The subsidy rate is specific to each child within a family and depends on the family's income, number of children aged five or younger within the family that attend ECEC and the family's personal circumstances. Subsidy rates are usually applied to the ECEC hourly fee up to the CCS hourly rate cap. For the first child attending ECEC, the CCS rate is 90% if their family's annual income is up to \$80,000 in 2023-24, with the CCS rate tapering by 1% for every \$5,000 a family earns above \$80,000 (figure D.3). Families with more than one child aged five or younger attending ECEC may be eligible for a higher CCS rate for their second and subsequent children. For families with an annual income up to \$138,118 in 2023-24, a subsidy rate of 95% applies, tapering down as income increases (figure D.3). Income thresholds are indexed annually to the CPI. The ACCS provides higher subsidy rates for children from families with certain personal circumstances. Higher subsidy rates for multiple children and ACCS are explained in more detail below.

**Figure D.3 – CCS rates and higher CCS rates for multiple children^a
2023-24**



a. Income thresholds are indexed annually to the CPI.

Source: Services Australia (2023i, 2023j).

Higher CCS rates for more than one child attending ECEC

Table D.3 sets out the relevant subsidy rates and income thresholds for families with more than one child aged five or younger attending ECEC. These rates are represented graphically in figure D.3. When the higher CCS (HCCS) was first introduced, it was determined as a family’s CCS rate plus 30 percentage points, up to a maximum of 95% for CCS eligible families (DoE 2021). However, this relationship between CCS and HCCS ended when the 2023 Cheaper Child Care changes were introduced – the CCS was streamlined but the structure of the HCCS rates and thresholds broadly remained unchanged.⁸ In 2021-22, 40% of families who used CCS-approved services had more than one child attending for at least part of the financial year (Productivity Commission estimates based on DoE (unpublished)).

For combined families where both members of a couple received CCS for different children in their family, the combined family is assessed as a whole to determine the eligibility for higher CCS rates. This includes all CCS-eligible children aged five or younger attending ECEC in the care of both members of the couple (Services Australia 2023j).

⁸ The 2023 Cheaper Child Care changes also resulted in higher-income families being eligible for CCS where previously they were not. While these families remain ineligible to receive a higher subsidy rate, they can now receive the standard CCS rate for all their children (Services Australia 2023j).

Table D.3 – HCCS rates for families with more than one child aged five or younger attending ECEC^a**2023-24**

Annual family income	CCS percentage
\$0 to \$138,118	95%
More than \$138,118 to below \$183,118	Between 95% and 80% The percentage goes down by 1% for every \$3,000 of family income.
\$183,118 to below \$262,408	80%
\$262,408 to below \$352,408	Between 80% and 50% The percentage goes down by 1% for every \$3,000 of family income.
\$352,408 to below \$362,408	50%
\$362,408 or more	Higher CCS rates no longer apply, all children in the family attract the standard CCS rate.

a. Income thresholds are indexed annually to the CPI.

Source: Services Australia (2023j).

The ACCS

For families in certain circumstances, higher subsidy rates are available through the ACCS. To receive ACCS, families must also be eligible for CCS. There are four categories of ACCS:

- ACCS (Child Wellbeing) is for families caring for a child who is vulnerable or considered to be at risk of harm, abuse or neglect – this includes a child in formal foster care or formal kinship placement; or in the care of the state, territory or the Minister (Services Australia 2021)
- ACCS (Grandparent) is for grandparents on income support who are the principal carers of their grandchild(ren) (that is, they provide 65% or more care of the child; and make day-to-day decisions about the child's care, welfare and development) (Services Australia 2022f)
- ACCS (Temporary Financial Hardship) is for families experiencing temporary financial hardship due to an event that happened in the preceding six months (Services Australia 2023e)
- ACCS (Transition to Work) is for families transitioning to work from income support. To be eligible, the parent or guardian must:
 - be studying, looking for a job, working or training
 - have a family income of less than \$80,000 per year (2023-24 income threshold)
 - have a Job Plan (unless receiving Austudy, ABSTUDY or Disability Support Pension) or Participation Plan (if receiving the Disability Support Pension)
 - receive one of the following payments: Parenting Payment, JobSeeker Payment, Disability Support Pension, Youth Allowance, Carer Payment, Special Benefit (if ineligible for JobSeeker Payment or Parenting Payment), Austudy, Farm Household Allowance, a means tested ABSTUDY payment (Services Australia 2023f).

In addition to a higher subsidy rate, families eligible for ACCS can receive more subsidised hours a fortnight than if they were only eligible for CCS (except for families transitioning from income support) (table D.4). Depending on the ACCS type, families may only be eligible to receive ACCS for a limited time.

Between the December 2018 and December 2022 quarters, the number of children accessing ACCS rose markedly from 27,180 to 40,450 (DoE 2019, 2023g). This increase may reflect a delay in children

transferring to ACCS from previous programs that provided additional support to families (section D.2). Bray et al. (2021, pp. 329–330) identified that the transition to ACCS was ‘challenging’ for services and that the number of children accessing ACCS increased once ‘[transitional] issues were resolved and understanding of eligibility and processes improved’.

Within the December 2022 quarter, 19.4% of children at a weekly level who received ACCS faced out-of-pocket expenses.⁹ For the weeks in which those children faced out-of-pocket expenses, the average out-of-pocket expense was about \$50 a week (Productivity Commission estimates based on DoE (unpublished)).

Of the 40,450 children accessing ACCS in the December 2022 quarter, about three quarters did so through Child Wellbeing (figure D.4). Further information on government spending on ACCS is in section D.4.

Table D.4 – ACCS provides higher subsidy rates and subsidised hours^a

ACCS category	Subsidy percentage	Hours of assistance per fortnight	Length of eligibility
Child Wellbeing	i) 100% of the fee if below or equal to the rate cap, or ii) up to 120% of the rate cap if the fee is above the rate cap	100 hours	Six weeks. After the initial six, the ECEC service can assess if the applicant needs to keep receiving the subsidy. If so, the service can apply for longer periods of up to 13 weeks ^a
Grandparent	i) 100% of the fee if below or equal to the rate cap, or ii) up to 120% of the rate cap if the fee is above the rate cap	100 hours	No time limit
Temporary Financial Hardship	i) 100% of the fee if below or equal to the rate cap, or ii) up to 120% of the rate cap if the fee is above the rate cap	100 hours	13 weeks per event
Transition to Work	i) 95% of the fee if below or equal to the rate cap, or ii) up to 95% of the rate cap if fee is above the rate cap	Depends on activity level	Depends on type of activity

a. The service can apply for up to 52 weeks if the child is on a long-term protection order, in formal foster care or in a formal kinship arrangement.

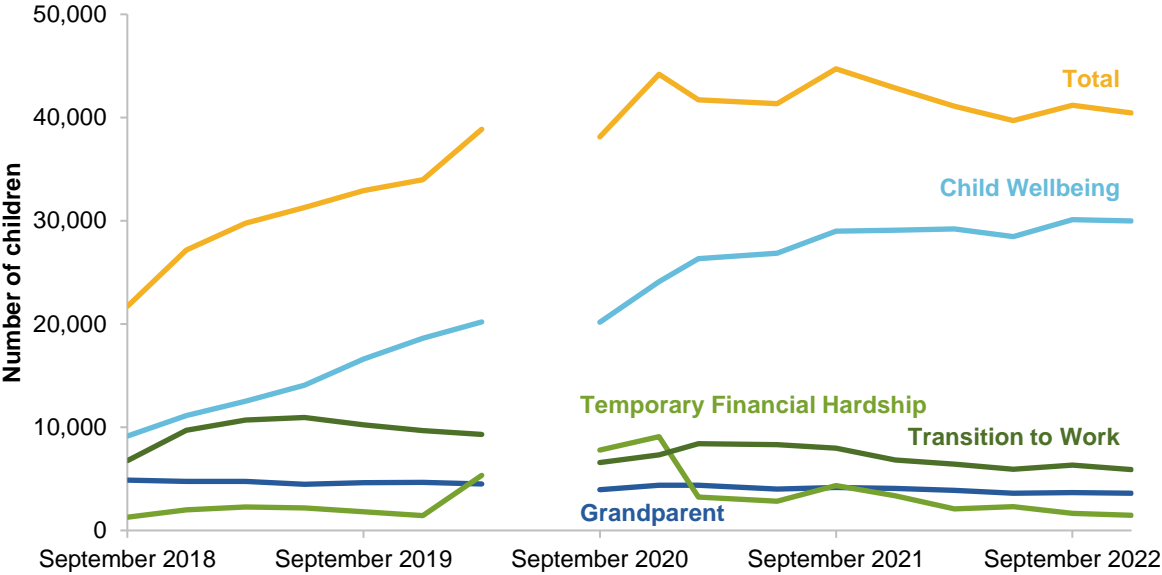
Source: Services Australia (2022b, 2022c, 2022e, 2022g).

In the December 2022 quarter, the 40,450 children accessing the ACCS represented about 3% of all children using CCS-approved services. The rate at which children in CCS-approved services accessed the ACCS rose throughout 2018 and 2019 before peaking in the December 2020 quarter (figure D.5).

⁹ Calculated as a share of weekly-level child observations. Children who received ACCS in multiple weeks are included multiple times in the denominator.

Figure D.4 – The number of children accessing ACCS increased in the 18 months following September 2018, but has been stable since 2020^a

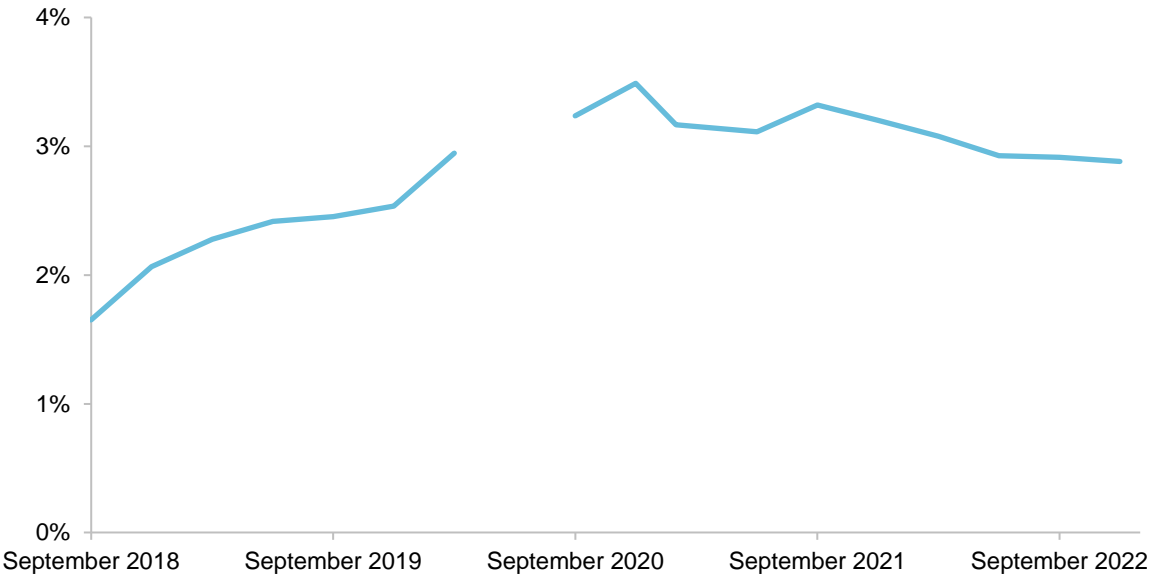
Number of children accessing ACCS, September 2018 to December 2022



a. Data for June quarter 2020 is unavailable due to temporary measures implemented in response to COVID-19. Source: DoE (2023g, table 7.1) (and previous quarters).

Figure D.5 – The proportion of children in CCS-approved services accessing ACCS peaked during COVID-19^a

Proportion of children in CCS-approved services accessing ACCS, September quarter 2018 to December quarter 2022



a. Data for June quarter 2020 is unavailable due to temporary measures implemented in response to COVID-19. Source: Productivity Commission estimates using DoE (2023g, tables 1.1 and 7.1) (and previous quarters).

Box D.1 provides examples of how the CCS and ACCS, coupled with fees charged by services and family characteristics, affect families' out-of-pocket expenses.

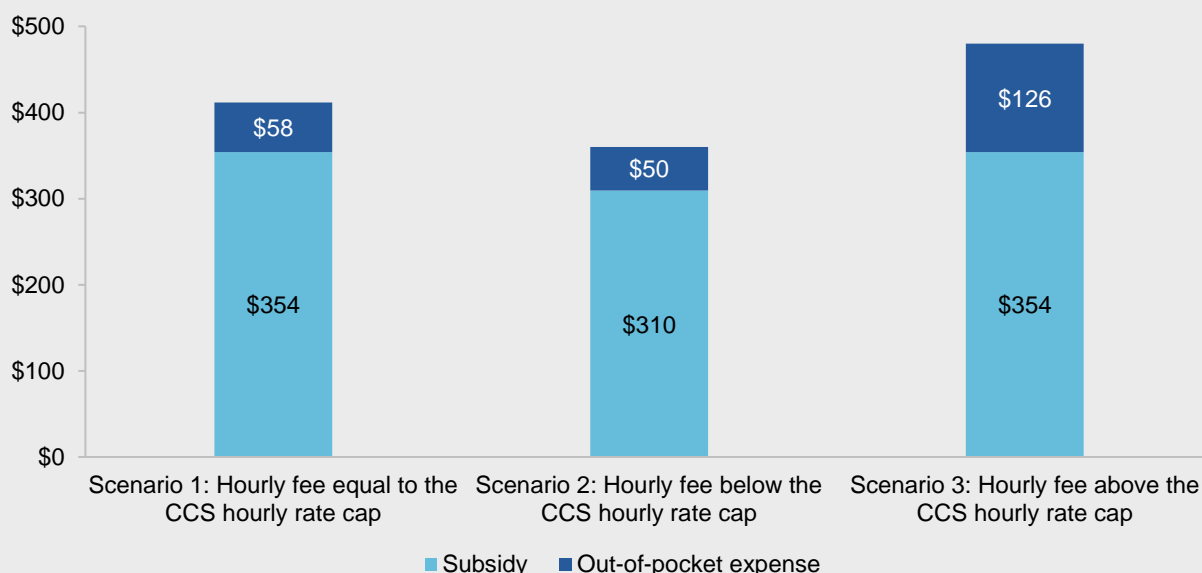
Box D.1 – The relationship between fees, subsidies and out-of-pocket expenses

Scenarios for a family eligible for Child Care Subsidy (CCS)

Consider a family with an annual income of \$100,000 and one three-year-old child who attends centre-based day care (CBDC) for ten hours a day, three days a week. Given their income, the family is eligible for a CCS rate of 86%. The amount of subsidy this family receives and, therefore, their out-of-pocket ECEC expenses are a function of the fees charged by the CBDC and the CCS hourly rate cap.

Hourly fees affect out-of-pocket expenses and CCS amounts^{a,b}

2023-24 CCS rates and thresholds, weekly expenses



a. This example assumes an annual family income of \$100,000 and one child in CBDC for three 10-hour days a week. b. Scenario 1 assumes an hourly fee equal to the CCS hourly rate cap, \$13.73. Scenario 2 assumes an hourly fee of \$12 and scenario 3 assumes an hourly fee of \$16.

Source: Productivity Commission estimates based on Services Australia (2023i).

The figure above illustrates three scenarios.

- Scenario 1: the hourly fee charged by the CBDC (\$13.73) is equal to the CCS hourly rate cap. Without CCS, ECEC would cost the family \$412 a week. With CCS, the family receives a weekly subsidy of \$354 (86% of \$412) and has an out-of-pocket expense of \$58.
- Scenario 2: the hourly fee charged (\$12.00) is below the hourly rate cap. Total fees are \$360 for the week and, as under scenario 1, their subsidy equates to 86% of this figure. The family's out-of-pocket expenses for the week are \$50.
- Scenario 3: the hourly fee charged (\$16.00) is above the CCS hourly rate cap. Total fees are \$480 for the week, but the subsidy is not 86% of this amount. Because the CCS rate applies to the minimum of the CCS hourly rate cap and the hourly fee, the subsidy amount is the same as under

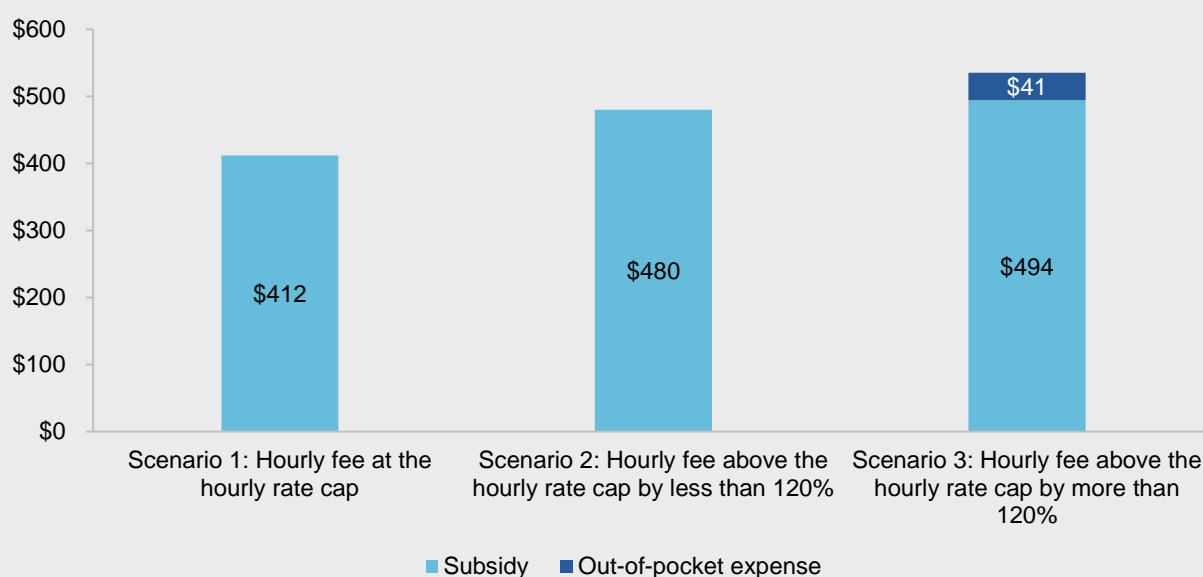
Box D.1 – The relationship between fees, subsidies and out-of-pocket expenses

scenario 1. In this scenario, therefore, the subsidy amounts to 74% of the family's total fees and the out-of-pocket expense is \$126, \$68 higher than under scenario 1.

Scenarios for a family eligible for Additional Child Care Subsidy (ACCS)

Most ACCS recipients receive a 100% subsidy, and where a service charges above the CCS hourly rate cap, ACCS recipients are eligible to receive up to 120% of the CCS hourly rate cap (ACCS (Transition to Work) recipients receive a 95% subsidy). Essentially this means ACCS recipients would have 100% of their ECEC expenses subsidised if their hourly fee is up to or at 120% of the CCS hourly rate cap. ACCS recipients that are charged an hourly fee above 120% of the CCS hourly rate cap would be eligible to receive a subsidy of 120% of the CCS hourly rate cap only.

Consider a family with an annual income of \$60,000 and one three-year-old child who attends CBDC for ten hours a day, three days a week. This family is eligible for the ACCS (Child Wellbeing).

Families with children eligible for ACCS can have fees subsidised up to 120% of the hourly rate cap^a**ACCS (Child Wellbeing), 2023-24 CCS rates and thresholds, weekly expenses**

a. This example assumes an annual family income of \$60,000 and one child in CBDC for three 10-hour days per week. The scenario 1 hourly fee is assumed to be at the CCS hourly rate cap of \$13.73, the scenario 2 hourly fee is assumed to be \$16 and the scenario 3 hourly fee is assumed to be \$17.85.

Source: Productivity Commission estimates based on Services Australia (2022b).

The figure above illustrates three scenarios.

- Scenario 1: the hourly fee charged by the CBDC (\$13.73) is equal to the CCS hourly rate cap. Without ACCS, ECEC would cost the family \$412 a week. With ACCS, the ECEC is fully subsidised.
- Scenario 2: the hourly fee (\$16.00) is above the hourly rate cap, but it is less than 120% of the cap. Again, the family's total fees for the week (\$480) are fully subsidised.

Box D.1 – The relationship between fees, subsidies and out-of-pocket expenses

- Scenario 3: the hourly fee (\$17.85) is more than 120% of the hourly rate cap. The family faces an out-of-pocket expense of about \$41 (total weekly fees of about \$535 less the maximum subsidy of \$494).

Scenarios for families with different incomes

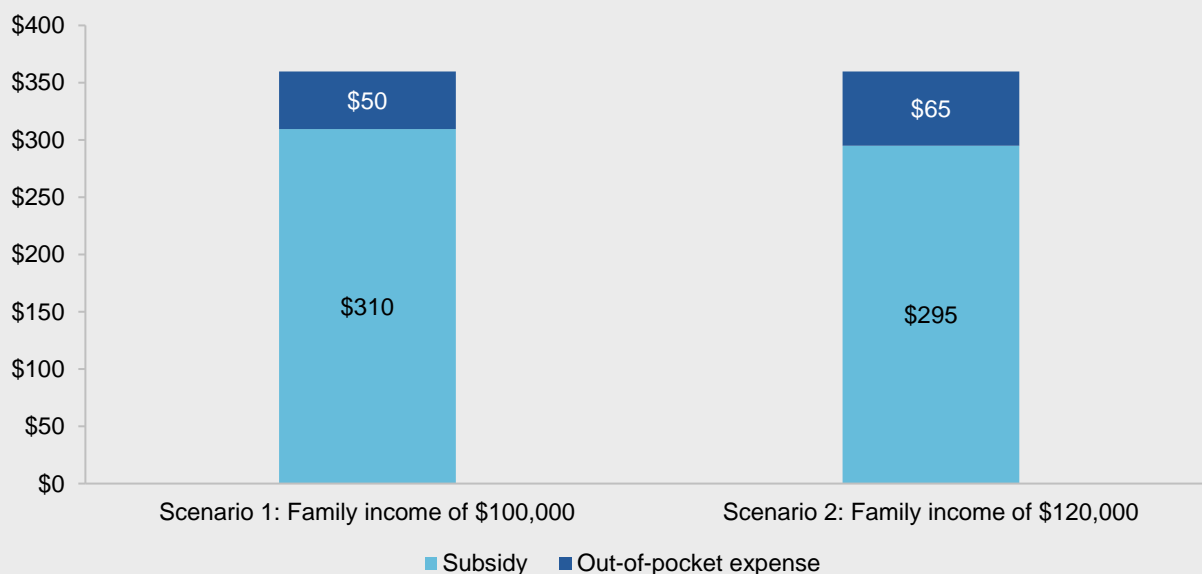
As described above, the subsidy rate received by a family depends on their income. This means that out-of-pocket expenses may change as a family’s income changes (and otherwise identical families will face different out-of-pocket expenses).

Consider again a family with one three-year-old child who attends CBDC for 10 hours a day, three days a week. The centre charges an hourly fee of \$12, so absent any subsidy the family faces total weekly fees of \$360. The family is eligible for CCS.

- Scenario 1: the family has an annual income of \$100,000 meaning they are eligible for a CCS rate of 86%.
- Scenario 2: the family has an annual income of \$120,000 meaning they are eligible for a slightly lower CCS rate of 82%. The family’s out-of-pocket expense is \$15 higher than under scenario 1.

Family incomes affect out-of-pocket expenses and subsidy amounts^a

2023-24 CCS rates and thresholds, weekly expenses



a. This example assumes one child in CBDC for three 10-hour days per week and an hourly fee of \$12.

Source: Productivity Commission estimates based on Services Australia (2023i).

Increased labour force participation means a family’s income will rise, with potential implications for their income support payments.

Box D.2 provides examples of how Parenting Payment and Family Tax Benefit payment rates change with changes in a family’s income.

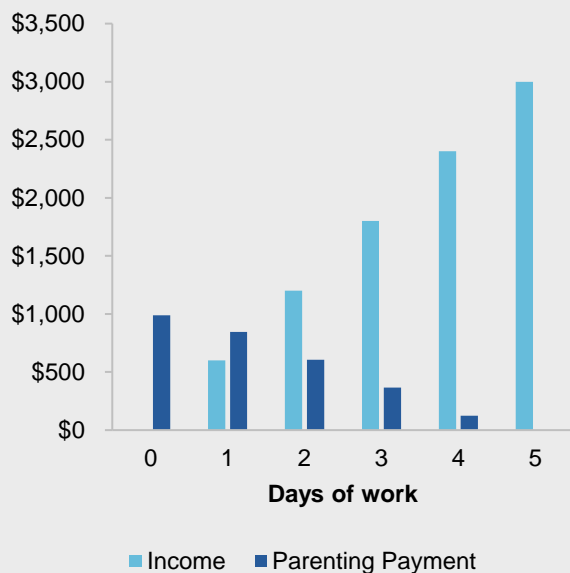
Box D.2 – Changes to a family’s income impact eligibility for the Parenting Payment and Family Tax Benefit

Three simple examples are discussed in this box which show the impact of changes in income on Parenting Payment and Family Tax Benefit (FTB) transfers.

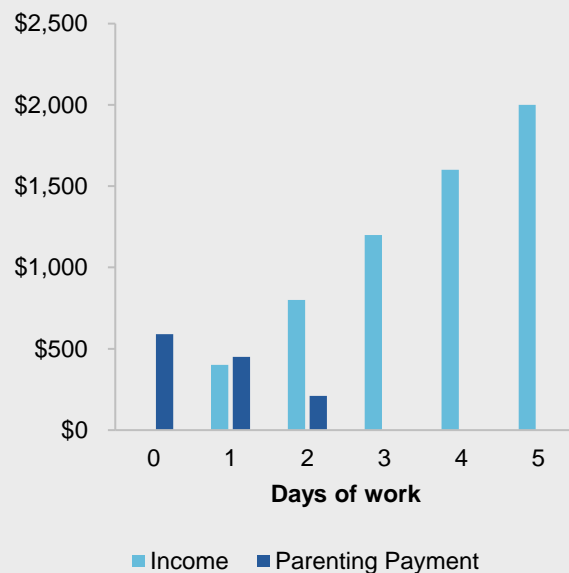
Parenting Payment

Parenting Payment is the main income support payment for principal carers of young children (Services Australia 2023a, p. 12). The payment rate differs depending on whether the parent is single or partnered and is assessed fortnightly (so depends on fortnightly income).¹ Eligible parents can earn some income before their payment begins to reduce.² The following two examples illustrate this.

Sole parent (Andrew)



Partnered parent (Rachelle)



- a. The examples assume that Andrew receives the Energy Supplement, basic Pension Supplement and the Pharmaceutical Allowance as part of his Parenting Payment and that Rachelle receives the Energy Supplement (partnered parents are generally not eligible for the basic Pension Supplement and Pharmaceutical Allowance).
- b. Income and payment amounts are fortnightly.
- c. The amount of Parenting Payment received by partnered parents does not depend on the number of children they have.

Source: Productivity Commission estimates.

Andrew is a sole parent with two children under the age of five. If Andrew did not work (and was not receiving income from other sources), he would be eligible to receive \$988.80 in Parenting Payment per fortnight. If Andrew worked one day per week, earning \$600 per fortnight, his Parenting Payment would reduce to \$844 per fortnight. Further increases in the number of days worked would lead to a further fall in his Parenting Payment, with Andrew’s eligibility for Parenting Payment ceasing at five days of work per week (figure above).

Rachelle and Ji Mun are parents to a child under the age of five. Ji Mun works full-time and earns \$1,500 per fortnight. If Rachelle did not work (and was not receiving income from other sources), she would be eligible to receive \$589 of Parenting Payment per fortnight. If Rachelle worked one day per week and earned \$400 per fortnight for that work, her Parenting Payment would reduce to \$450 per fortnight.

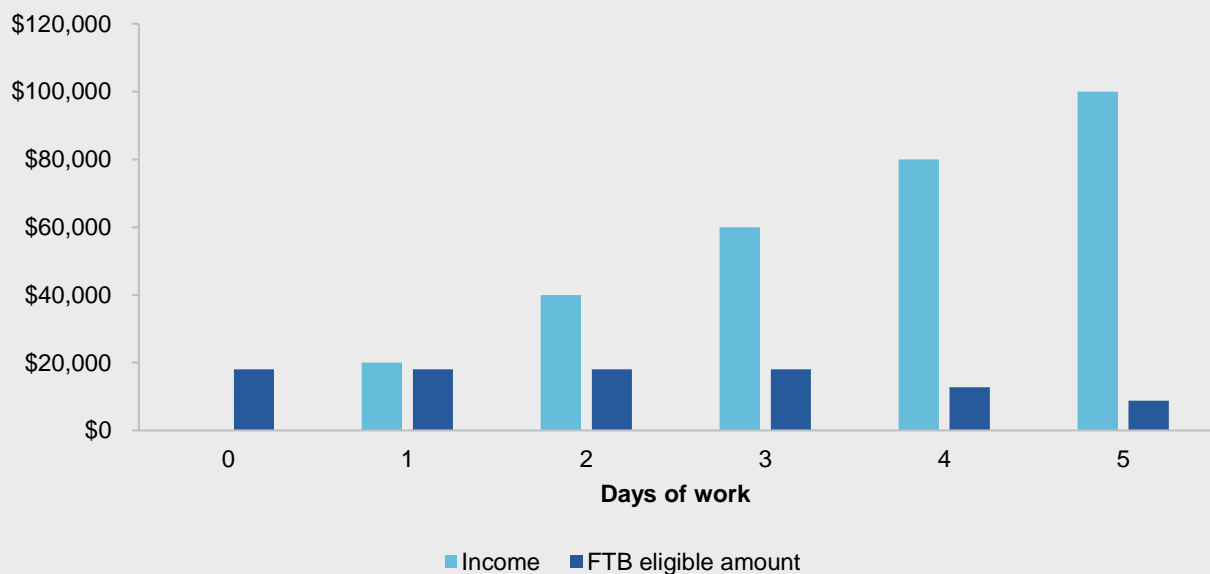
Box D.2 – Changes to a family’s income impact eligibility for the Parenting Payment and Family Tax Benefit

Further increases in the number of days worked would lead to a further fall in her Parenting Payment, with Rachelle’s eligibility for Parenting Payment ceasing at the third day of work (figure above).

Family Tax Benefit

FTB is a two-part payment that helps families with the cost of raising children.³ FTB is comprised of FTB Part A and FTB Part B, which have differing eligibility requirements. Families can receive FTB fortnightly but the amount they are eligible for depends on annual income.⁴ The below analysis is therefore based on a family’s annual income. Usually, a family’s FTB will start to decrease once their annual income reaches \$62,634 (as at 20 September 2023).

As an example, Ivy is a sole parent with two children aged under five. If she did not work (and was not receiving income from other sources) she would be eligible to receive an annual FTB amount of \$18,046. Her FTB would not start to decrease until she works four days a week, at which point her annual income is \$80,000. This example does not take into account that Ivy may also be eligible to receive Parenting Payment and assumes the only source of income Ivy receives is from employment.



a. This example assumes that Ivy has an adjusted taxable income of \$20,000 per year per day worked in a week. It is also assumed that Ivy does not receive Rent Assistance or Energy Supplement. b. Income and payment amounts are annual.

Source: Productivity Commission estimates.

¹ The amount of Parenting Payment received depends on a person and, if relevant, their partner’s assessable income. This assessable income is before tax or any other deductions. From 20 September 2023, a typical total fortnightly rate for eligible sole parents is \$988.80 and for eligible partnered parents (where their partner earns less than \$1,325 per fortnight), \$693.90.

² From 20 September 2023, the earned income threshold at which Parenting Payment began to be reduced was \$214.60 per fortnight for a sole parent with one dependent child, with \$24.60 for each subsequent dependent child. For partnered parents, the threshold was \$150 per fortnight.

³ In order to receive FTB, a family must include a dependent child or a full-time secondary student aged 16 to 19 who is not getting a pension payment or benefit.

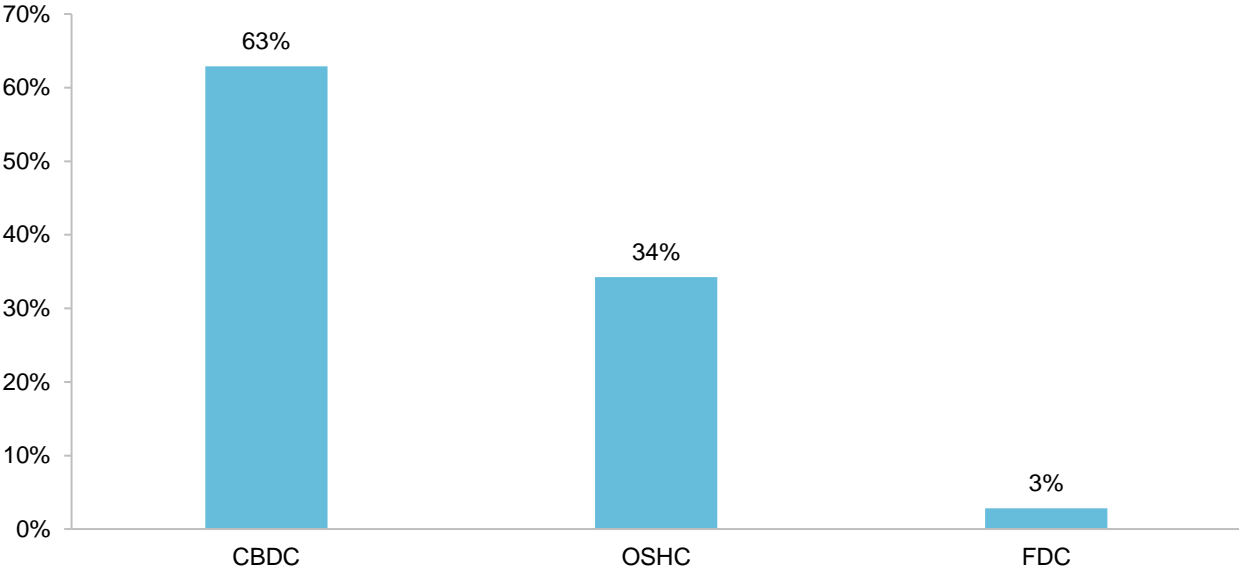
⁴ The amount of FTB a family receives depends on the family’s annual adjusted taxable income.

CBDCs are the predominant CCS-approved services

63% of CCS-approved services are CBDCs, while OSHC services represent 34% of all services (figure D.6). These two service types make up more than 95% of all CCS-approved services in all jurisdictions (figure D.7). While the number of FDC services is small compared to other service types, they make up a larger proportion of services in outer regional Australia (figure D.8).

CBDCs that offer preschool services are eligible for CCS. Dedicated preschools, however, are not eligible for CCS.

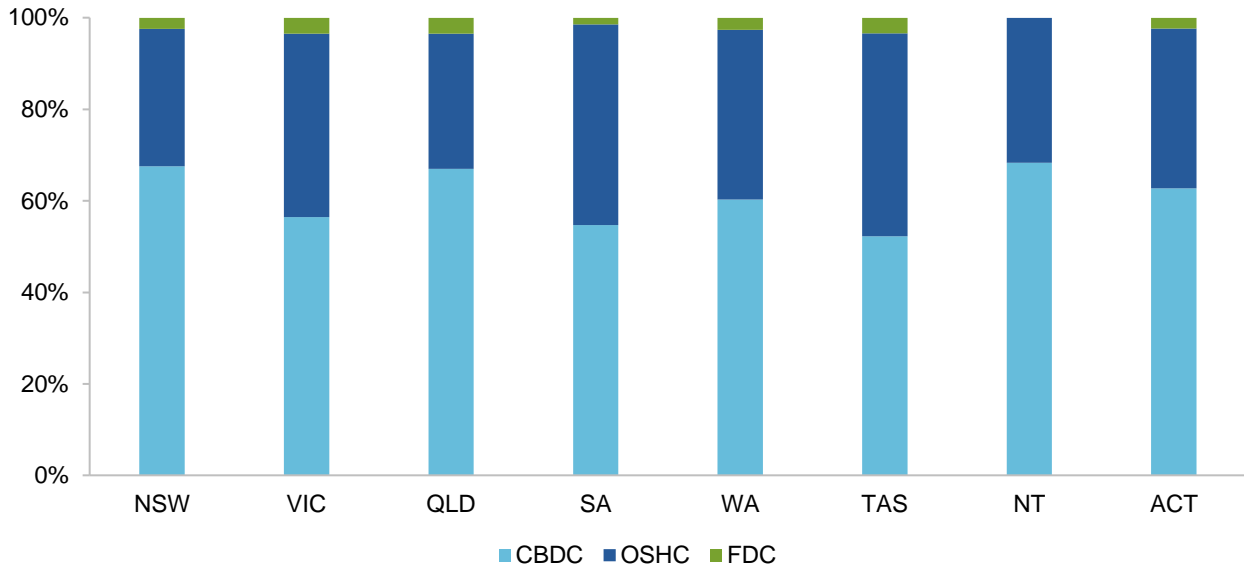
Figure D.6 – The majority of CCS-approved services are CBDCs^a
Proportion of CCS-approved services by service type, December quarter 2022



a. Data excludes IHC. IHC services represent less than 1% of approved services.
Source: DoE (2023g, table 3.2).

Figure D.7 – Most CCS-approved services are CBDC or OSHC services^{a,b}

Proportion of CCS-approved services by service type and jurisdiction, December quarter 2022

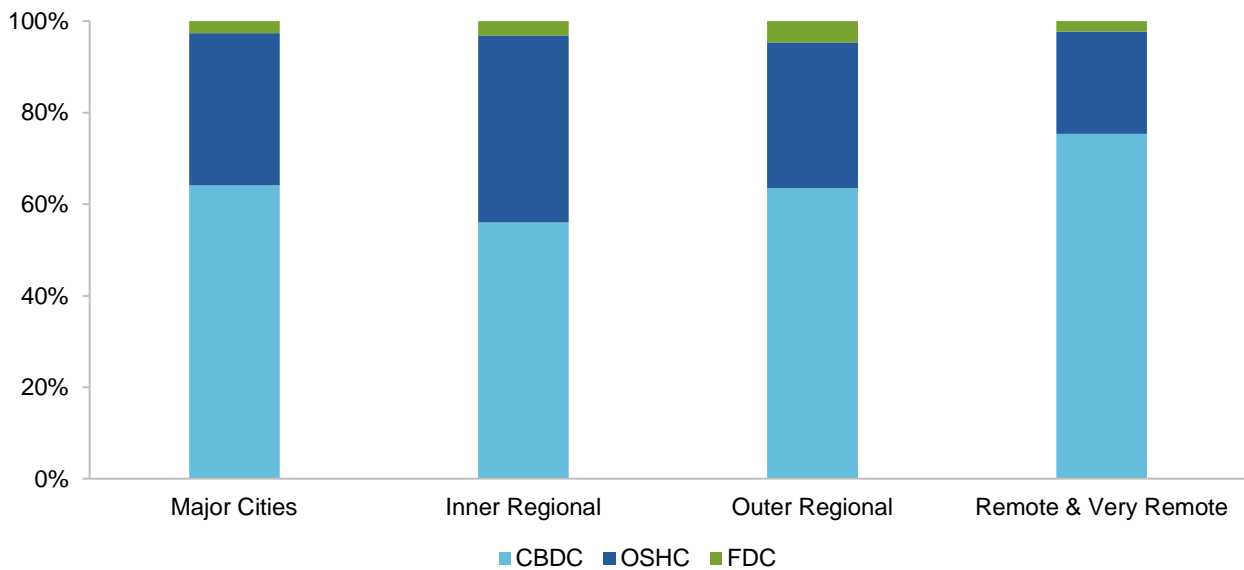


a. Data excludes IHC. IHC services represent less than 1% of approved services. b. Data on FDC in the Northern Territory is censored due to the small number of services.

Source: DoE (2023g, table 3.2).

Figure D.8 – FDC services are a larger proportion of services in outer regional areas^{a,b}

Proportion of CCS-approved services by service type and remoteness, December quarter 2022



a. Further detail in figure D.7 note a. b. Region is based on the ABS Accessibility/Remoteness Index of Australia.

Source: DoE (2023g, table 3.3).

Types of care that are not eligible for CCS include:

- informal care provided through personal arrangements (for example, grandparents providing ad hoc care to their grandchildren, or nannies caring for children)¹⁰
- services primarily providing a disability or early intervention service
- services primarily providing instruction in an activity (such as sport or music)
- services that provide care, but in which the parent retains responsibility for the child while the service is provided (such as play groups)
- services primarily providing short-term, irregular care at premises in which the parent is a visitor or guest, and the parent is readily available (such as at a gym)
- services that primarily provide early education in the year that is two years before grade one of school such as a preschool or kindergarten (Australian Government Department of Education, sub. 90, p. 12, DoE 2023e).

D.2 The evolution of the CCS

The CCS was introduced on 2 July 2018 as part of the *Jobs for Families Child Care Package*, replacing the Child Care Benefit (CCB) and Child Care Rebate (CCR) (box D.3). The ACCS was introduced at the same time, replacing a number of payments including Special Child Care Benefit, Grandparent Child Care Benefit and the Jobs, Education and Training Child Care Fee Assistance payment (Bray et al. 2021, p. 1; Parliamentary Library 2019).

Bray et al. (2021, p. vii) estimated that the introduction of the CCS reduced out-of-pocket expenses of ECEC for about 60% of families, increased out-of-pocket expenses for about 30% and had minimal effect on out-of-pocket expenses for the remaining 10%. Expense reductions tended to be larger for low-income families, families with a higher number of children using ECEC, families using ECEC for longer periods and families using for-profit FDC services.

Box D.3 – Child Care Benefit and Child Care Rebate were the predecessors to the CCS

The Child Care Benefit (CCB) was a means and activity tested benefit targeted towards low- and middle-income families. It subsidised the use of both approved and registered care.¹¹ The amount of CCB a family received depended on the number of subsidised hours they could access and their subsidy amount per hour (CCB rate). The number of subsidised hours was based on whether families met the work, training, study test. The test could be satisfied through work, study, job seeking or volunteering activities. Families could access up to 100 hours of subsidised ECEC per child per fortnight if they participated in approved activities for 30 hours per fortnight (for approved care) or any hours per week (for registered care). Families that did not satisfy the test could access up to 48 hours of approved care per fortnight. A family's CCB rate differed with income, the number of children using ECEC, whether the

¹⁰ Nannies were subsidised temporarily under the Nanny Pilot Program, which was introduced in early 2016. The program was intended to run for two years but was discontinued in December 2016 due to low take-up. It provided a means and activity-tested subsidy for nanny care for families who worked non-standard hours or lived in regional or remote areas (Australian Government 2016, p. 145; DSS 2015).

¹¹ 'Approved care' included the current CCS approved service types: CBDC (including occasional care), FDC, OSHC and IHC. 'Registered care' included relatives, friends, neighbours, nannies or babysitters and some ECEC facilities that were registered as carers with the Department of Human Services (PC 2014, p. 75).

Box D.3 – Child Care Benefit and Child Care Rebate were the predecessors to the CCS

children were at or below school age and the type of service attended, up to a maximum rate of \$4.30 for a non-school age child and 85% of that rate for a school age child.

The Child Care Rebate (CCR) was a non-means tested payment that provided additional assistance for families using approved care. CCR subsidised up to 50% of a family's out-of-pocket expenses after any other fee assistance (such as CCB) was deducted, up to a maximum of \$7,613 per child per year. To be eligible for CCR, families had to undertake a test-approved activity at some point during the week. In contrast to the Child Care Subsidy – which subsidises fees up to an hourly rate cap – the amount of CCR received was based on the actual fees charged by services, up to the annual per child cap.

Source: Bray et al. (2021, p. 8); DoE (2015); PC (2014, p. 4).

On 10 December 2021, the annual CCS cap – which precluded families earning more than \$190,015 from receiving more than \$10,655 in subsidies per child each financial year – was removed (DoE 2021). On 7 March 2022, the higher subsidy rate for families with more than one child aged five or younger was introduced (DoE 2021).

On 10 July 2023, CCS rates were increased under the Plan for Cheaper Child Care (Australian Government 2022, p. 93; Services Australia 2023b) for the base rate of CCS. The maximum base subsidy percentage was increased from 85% to 90%, with the subsidy rate tapering more slowly with increases in household income. Additionally, Aboriginal and Torres Strait Islander families became eligible to receive 36 hours of subsidised ECEC per fortnight, regardless of their activity level (Services Australia 2023b).

D.3 Administration of the CCS

CCS is administered by Services Australia. To access CCS, families must have a myGov account linked to Centrelink. Before CCS can be paid, families must confirm their child's enrolment by asking their ECEC provider to send their child's enrolment details to Services Australia, then the family needs to confirm the details through their Centrelink account. CCS is only back paid for a maximum of 28 days (DoE 2023f, pp. 25–31).

Families must report their estimated income and activity levels when applying for CCS and at the start of each financial year, and the CCS amount they receive is based on this information (DoE 2023c). No documentation on activity levels is required at the point of application or when updating activity information. Services Australia can ask individuals to provide evidence as part of random spot checks. Families whose hours of paid work vary unpredictably from fortnight to fortnight (such as those in casual employment) can estimate the highest number of hours they expect to work in a single fortnight over a 3-month period and use this number to determine their hours of subsidised care each fortnight. Families can also update their activity levels and income at any time if their circumstances change (DSS 2023a).

Balancing and debt

A family's reported and actual income may differ at the end of the financial year and this can impact the amount of CCS they are eligible to receive for that year. A balancing process occurs after the end of the financial year once families have confirmed their income either by lodging a tax return or informing Services Australia that they do not need to lodge a tax return (even if they have already notified the Australian Taxation Office).

Families risk incurring a debt when:

- they update Services Australia due to a change of circumstances which affects their CCS eligibility or entitlement
- at the end of the financial year their actual income is bigger than their reported income
- they do not confirm their income (DSS 2023d).

To reduce the potential for CCS debt, 5% of a family's CCS entitlement for each week is withheld until the end of the financial year (this withholding percentage can be changed by families up to two times a year). This measure is to provide some protection for families from a potential CCS debt if they underestimate their annual income or overestimate their activity hours. The withheld amount is used to either pay any CCS debts that arise during reconciliation of estimated and actual incomes or is refunded to families if there is no CCS debt. Families are also expected to notify Services Australia if their income or activity levels change to avoid the potential of being overpaid their CCS entitlement and therefore incurring a CCS debt (DoE 2023c).

Smaller debts raised during the year will not have any recovery action taken until the end of the financial year when balancing occurs. Smaller debts may arise due to families reporting a change in circumstances such as changes in income or activity levels. Families can repay or enter into a repayment arrangement earlier if they wish. Larger debts, however, will be raised as they arise and families have 28 days to respond (either by repaying or entering an arrangement to repay the debt). If families do not respond, debt may automatically be recovered via offsetting from future CCS payments (the default is 20% of CCS payments) and/or interest being applied (DSS 2023d).

Families have up to one year after the end of the financial year to confirm their income, otherwise their CCS will stop. This is called the 'first deadline'. After the first deadline, families have to pay full fees for ECEC. ACCS also stops unless families are receiving ACCS (Child Wellbeing). Once families confirm their income, CCS and ACCS payments restart (DoE 2023c).

If families have not confirmed their income two years after the end of a financial year (the 'second deadline'), they may have to repay any CCS they received for that financial year. Their CCS and ACCS, including ACCS (Child Wellbeing), will also be cancelled. Families need to reapply to receive CCS and ACCS again, which can only occur once they have confirmed their income and repaid any outstanding debt or entered into a payment arrangement. Backdated CCS cannot be paid for the period before income is confirmed (DoE 2023c).

Absences

If a child is absent from ECEC, CCS may continue to be paid if the family has been charged by the service. Families are allowed 42 absence days per child, per financial year. Absences can be taken for any reason, such as illness or a family holiday (Services Australia 2023c).

If a service is closed on public holidays and charges fees, children who would usually attend the service on these days can count them as absences. If a service does not charge fees on public holidays though, no CCS is payable, and a child's non-attendance is not considered an absence. When a service closes on days they would normally be open that are not public holidays – for example, an extended shutdown during late December and early January – CCS is not paid and the days are therefore not counted as absences (DoE 2023b, 2023f, pp. 41–42).

After a child's 42 absences have been used, CCS can be continued to be paid if a suitable reason exists (for which families need to provide evidence – for example, by providing a medical certificate) (Services Australia 2023c).

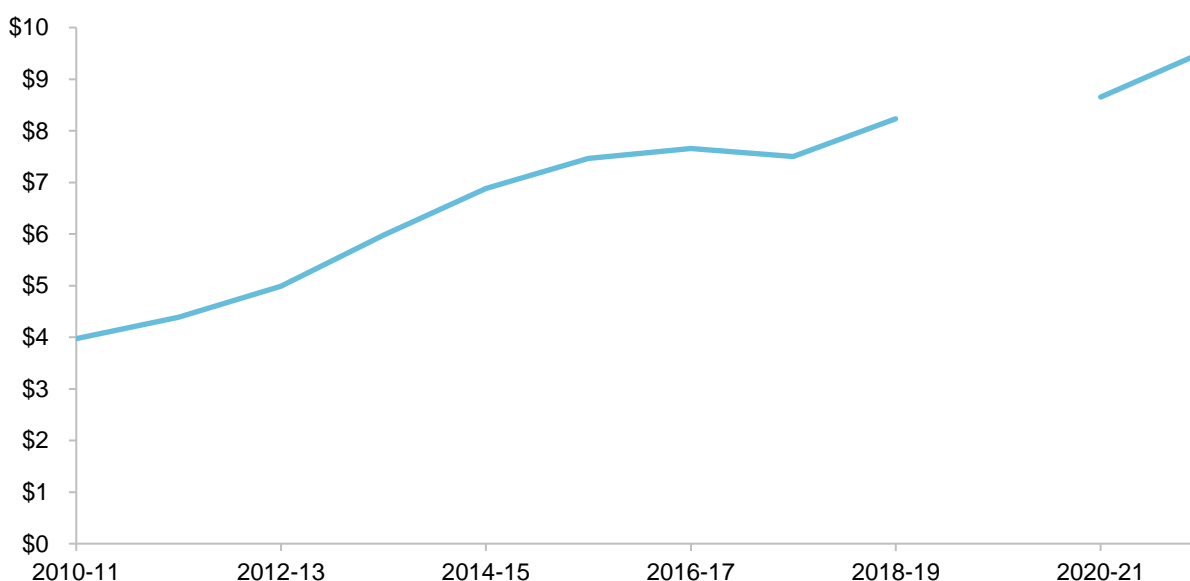
D.4 Government expenditure on CCS and ACCS

Total expenditure on the CCS program (including the ACCS) was \$10.6 billion in 2022-23, up from \$9.8 billion in 2021-22. The estimated outlay for 2023-24 is \$12.7 billion (Australian Government Department of Education, sub. 90, p. 17).

Expenditure on CCS and its predecessors, CCB and CCR, has risen over time (figure D.9).

Figure D.9 – Spending on CCS has increased over time^{a,b,c,d,e}

Real government expenditure on CCS, CCB and CCR, 2010-11 to 2021-22 (2021-22 dollars, billions)

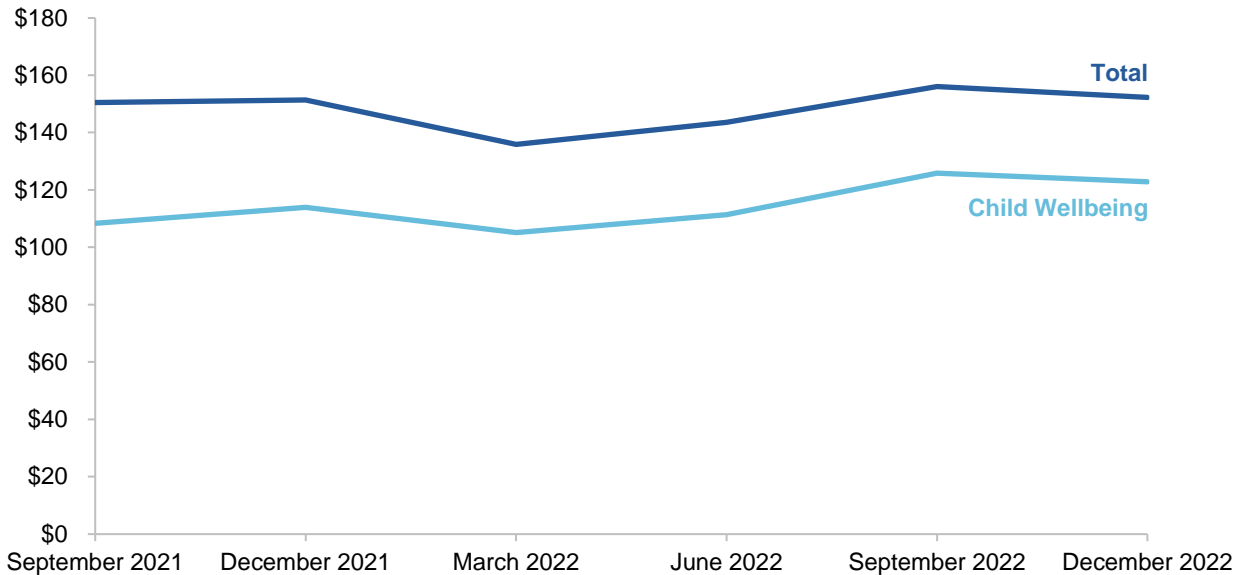


a. CCS was introduced in the September 2018 quarter, replacing CCB and CCR. **b.** Expenditure for September 2010 quarter is calculated as a residual from the 2010-11 financial year report as the quarterly report is not available online. **c.** CCS expenditure from September 2018 to June 2019 contains ACCS expenditure as disaggregated figures are not available in quarterly reports. **d.** Data for June quarter 2020 (and therefore 2019-20) is unavailable due to temporary measures implemented in response to COVID-19. **e.** Data is adjusted to 2021-22 dollars (2021-22=100) using the GDP implicit price deflator (general government – national; final consumption expenditure; non-defence).

Source: Productivity Commission estimates using DoE (2023g, table 4.1) (and previous quarters) and ABS (June 2023) 'Table 5. Expenditure on Gross Domestic Product (GDP), Implicit price deflators, series A2303936X' [time series spreadsheet], *Australian National Accounts: National Income, Expenditure and Product*, accessed 1 November 2023.

Spending on the ACCS aligns with trends in children accessing the additional subsidy (figure D.4). Total spending has been relatively stable since September 2021 (figure D.10), while spending on Temporary Financial Hardship and Transition to Work has fallen (figure D.11).

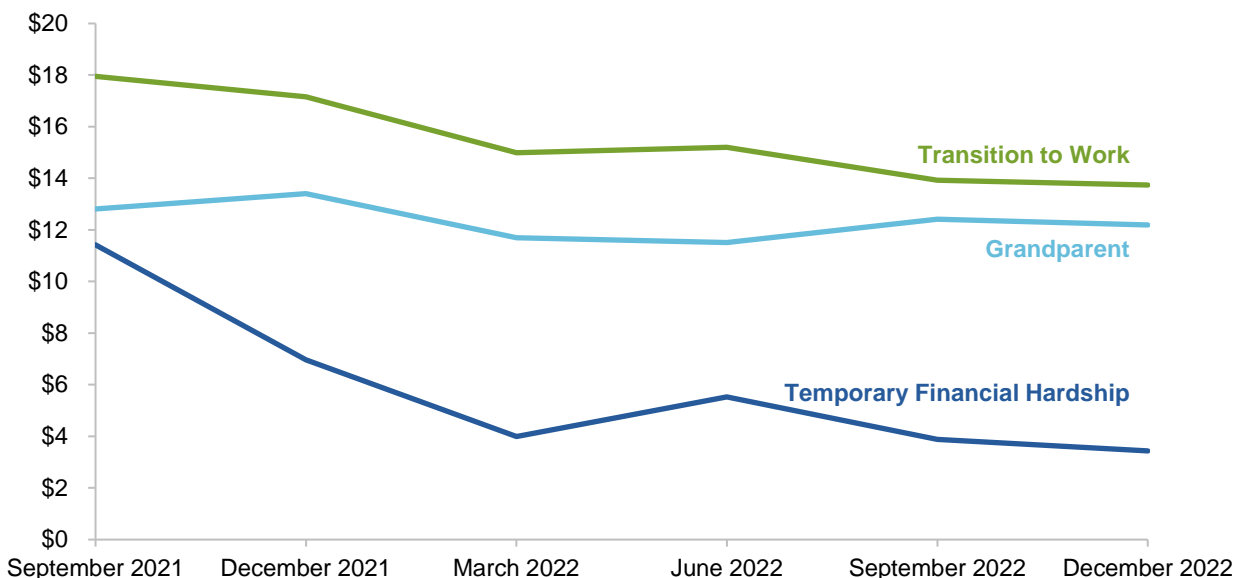
Figure D.10 – Total spending on ACCS has been stable in recent years^{a,b}
Real ACCS amount by category, September quarter 2021 to December quarter 2022
(2021-22 dollars, millions)



a. Data is from September quarter 2021 onwards as ACCS subsidy amounts are not comparable with previous quarters due to a change in appropriation arrangements which took effect on 12 July 2021. b. Data is adjusted to 2021-22 dollars (2021-22=100) using the GDP implicit price deflator (general government – national; final consumption expenditure; non-defence).

Source: Productivity Commission estimates using DoE (2023g, table 4.3) (and previous quarters) and ABS (June 2023) 'Table 5. Expenditure on Gross Domestic Product (GDP), Implicit price deflators, series A2303936X' [time series spreadsheet], *Australian National Accounts: National Income, Expenditure and Product*, accessed 1 November 2023.

Figure D.11 – Spending on Temporary Financial Hardship and Transition to Work has fallen^{a,b}
Real ACCS amount by category, September quarter 2021 to December quarter 2022
(2021-22 dollars, millions)



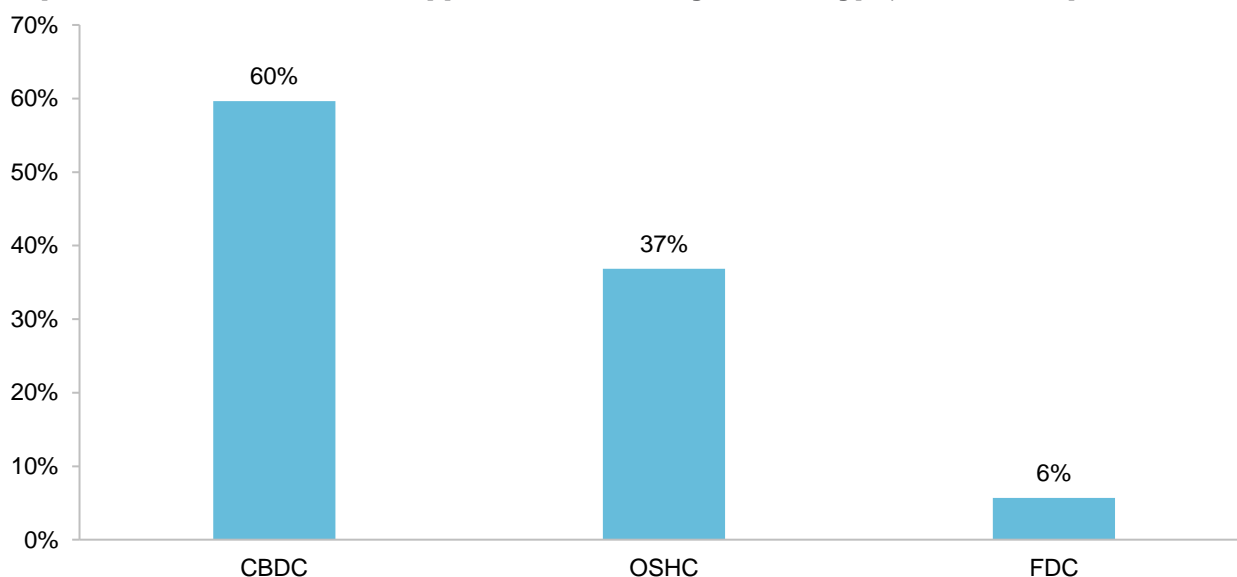
a. Data is from September quarter 2021 onwards as ACCS subsidy amounts are not comparable with previous quarters due to a change in appropriation arrangements which took effect on 12 July 2021. **b.** Data is adjusted to 2021-22 dollars (2021-22=100) using the GDP implicit price deflator (general government – national; final consumption expenditure; non-defence).

Source: Productivity Commission estimates using DoE (2023g, table 4.3) (and previous quarters) and ABS (June 2023) ‘Table 5. Expenditure on Gross Domestic Product (GDP), Implicit price deflators, series A2303936X’ [time series spreadsheet], *Australian National Accounts: National Income, Expenditure and Product*, accessed 1 November 2023.

D.5 Children in CCS-approved services

More than 1.4 million children attended CCS-approved ECEC services in the December quarter of 2022 (DoE 2023g). A relatively large proportion of children in CCS-approved services (60%) attended CBDCs (figure D.12). Use of CCS-approved services peaks at the age of three with noticeable drops at age five and six as children start school (figure D.13).

Figure D.12 – CBDCs account for the largest share of children in CCS-approved services^{a,b}
Proportion of children in CCS-approved services by service type, December quarter 2022

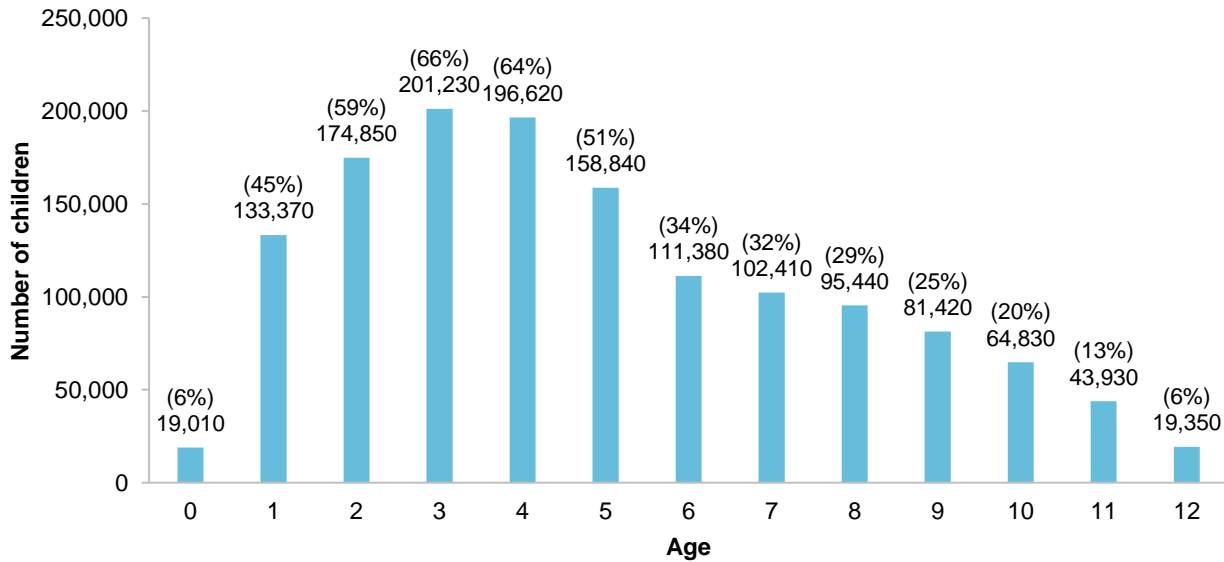


a. About 2000 children are in IHC, representing less than 1% of all at CCS-approved services. **b.** As children may use more than one service, and due to rounding, the sum of proportions exceeds 100%.

Source: DoE (2023g, table 1.2).

Figure D.13 – The number and proportion of children in CCS-approved services peaks when children are three-years-old^{a,b}

Number and proportion of children in each age group in CCS-approved services, December quarter 2022



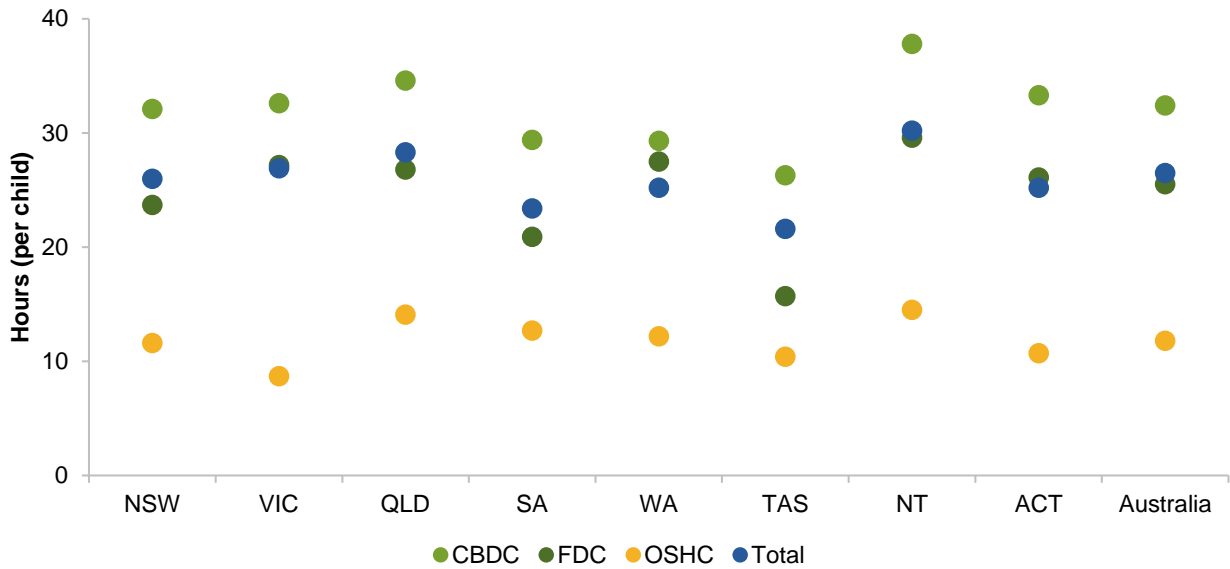
a. Labels in parentheses represent the proportion of children in each age group in CCS-approved services. **b.** Data excludes 1,190 children aged 13 and older in CCS-approved services (less than 1% of children in that age group).

Source: DoE (2023g, table 1.7).

The jurisdictions with the overall lowest average hours of attendance at CCS-approved services are South Australia, Western Australia and Tasmania (figure D.14). This likely reflects the relatively large share of children attending dedicated preschools (that are not eligible to receive CCS) in these jurisdictions. The Northern Territory has the highest average hours of attendance (figure D.14). Comparing by remoteness, total average hours attended per child are similar across Australia (figure D.15).

Figure D.14 – Average hours of attendance differ by jurisdiction

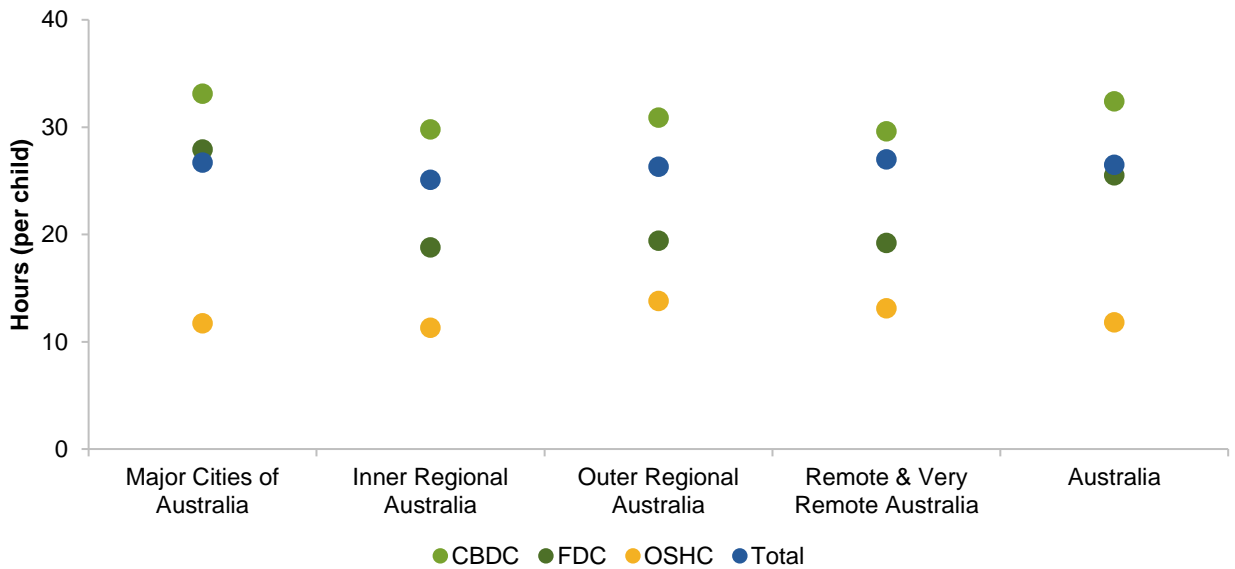
Average weekly hours of attendance per child at CCS-approved services by service type and jurisdiction, December quarter 2022



Source: DoE (2023g, table 6.2).

Figure D.15 – Average hours of attendance also differ by remoteness

Average weekly hours of attendance per child at CCS-approved services by service type and remoteness, December quarter 2022

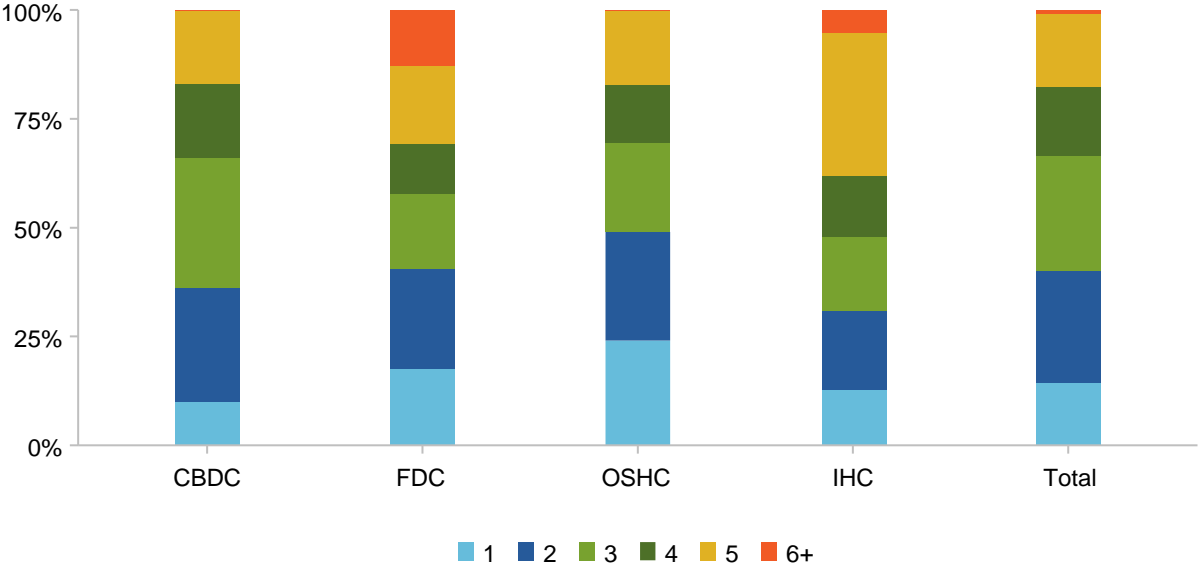


Source: DoE (2023g, table 6.3).

In all service types except IHC, the majority of children attend CCS-approved services for three or fewer days each week. FDC and IHC have larger shares of children who attend for five or more days (figure D.16).

Figure D.16 – The majority of children attend CCS-approved services for three or fewer days each week^a

Weekly days attended by service type, December quarter 2022



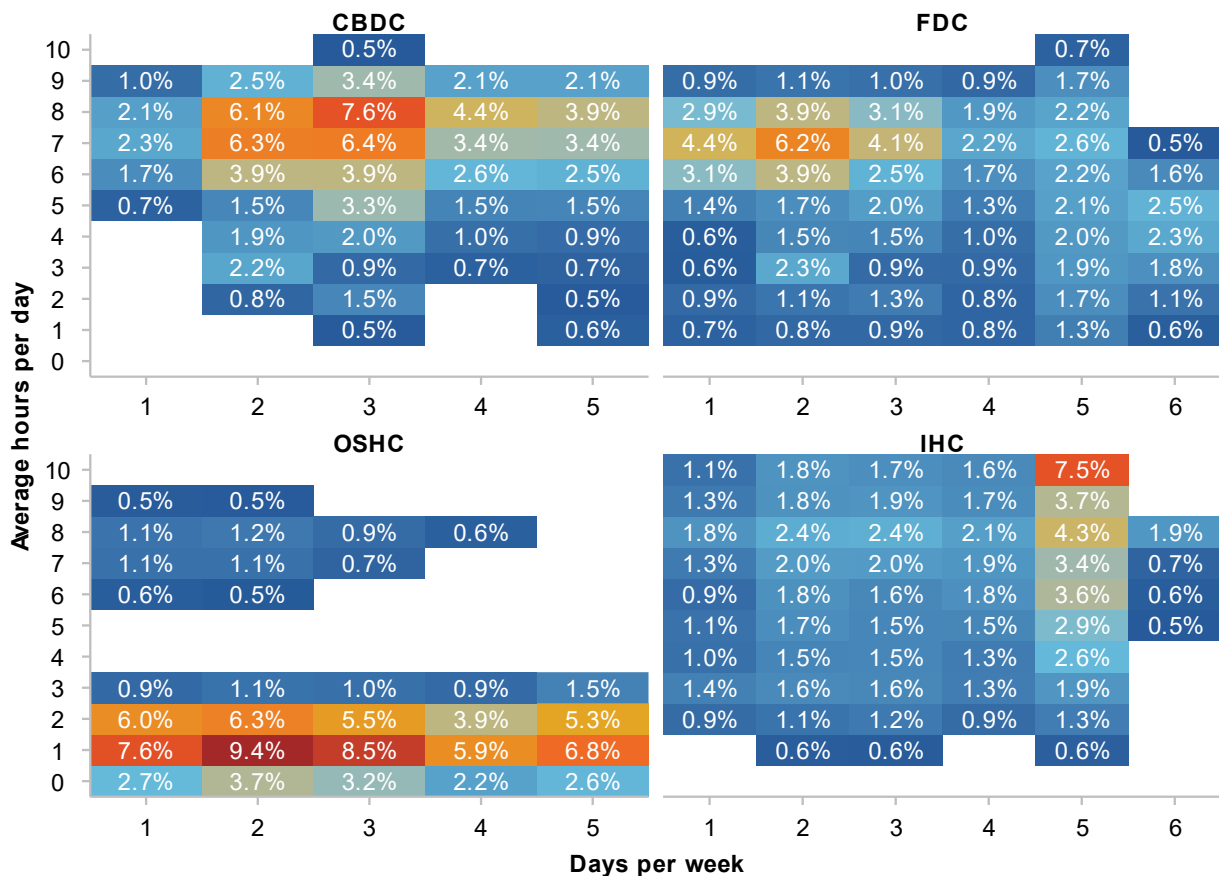
a. Calculated as a percentage of child–week–service type combinations in the quarter.

Source: Productivity Commission estimates using DoE administrative data (unpublished).

Attending three days a week for an average of 7 to 8 hours is most common for children attending CBDC. Two days a week with an average of 6 to 8 hours is most common in FDC. However, attendance patterns vary greatly (figure D.17).

Figure D.17 – There is a lot of variation in attendance patterns^{a,b}

Attendance by days and hours, by service type, 2021-22



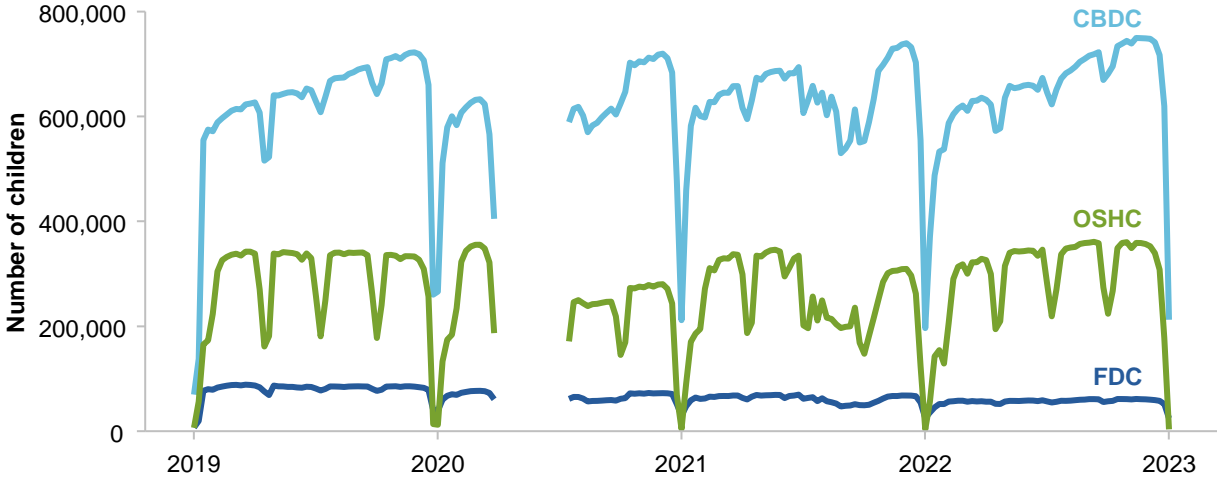
a. Numbers refer to percentage of child-week-service type combinations in the financial year. Combinations for which children did not attend any sessions are omitted. Redder areas indicate more common occurrences. b. Attended hours per day are rounded down to the nearest hour. This means that '0' refers to less than 1 hour attended. Data points that comprise 0.5% or less observations have been excluded from the chart (including where average hours per day are greater than ten).

Source: Productivity Commission estimates using DoE administrative data (unpublished).

The total number of children attending ECEC tends to fall during school holiday periods (figure D.18). Average hours attended during the year varies across service types, with hours at CBDCs typically dropping during Christmas and other school holiday periods, but hours at FDC, OSHC (which includes vacation care) and IHC typically rise during these periods (figure D.19).

Figure D.18 – The number of children attending CCS-approved services fluctuates during the year^a

Number of children attended per week by service type, 2019–22

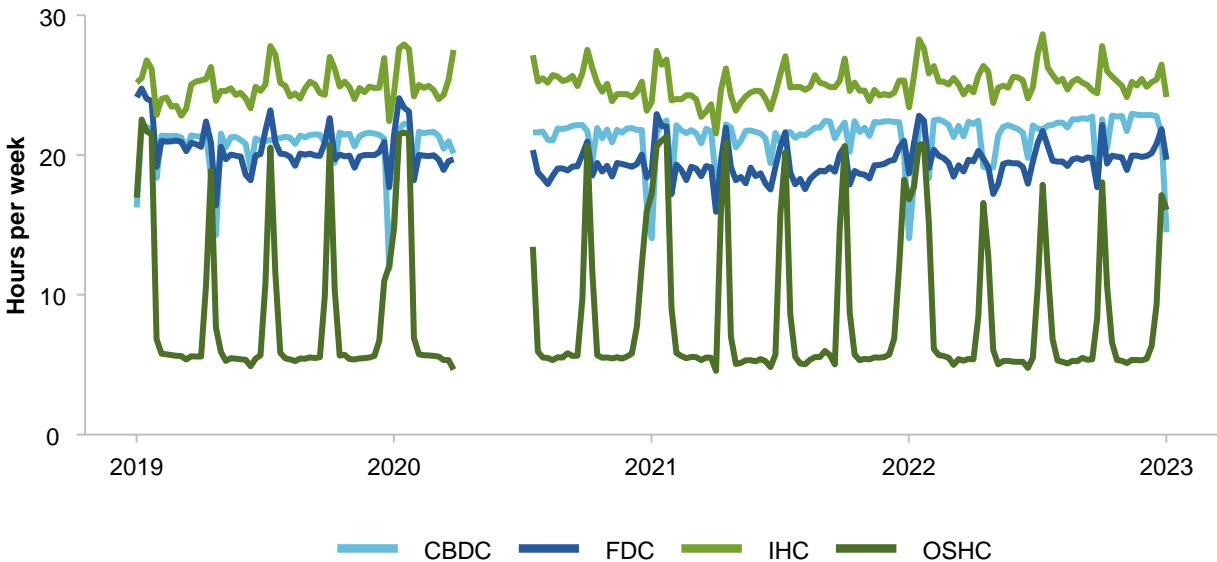


a. Data excludes IHC due to the small number of children attending IHC services. Excludes children with missing records on hours attended.

Source: Productivity Commission estimates using DoE administrative data (unpublished).

Figure D.19 – Attendance patterns change through the year^a

Average hours attended per week by service type, 2019–22



a. Excludes children with missing records on hours attended.

Source: Productivity Commission estimates using DoE administrative data (unpublished).

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E. Preschool funding and reforms

E.1 Introduction

This appendix supplements the discussion of preschool funding and reforms in the main papers by providing an outline of current preschool funding arrangements, including state and territory funding arrangements, the Preschool Reform Agreement and the Child Care Subsidy (CCS). It also outlines recent state and territory reforms that will lead to changes in preschool funding and access in the future.

Definition of a preschool program

A preschool program is a structured, play-based learning program, delivered by a degree qualified teacher, aimed primarily at children in the year or two before they commence full-time schooling (ABS 2023). The Australian Government's preschool policy focuses on children in the year before full-time school (YBFS). Age cut-offs for the YBFS differ across the states and territories (table E.1). Several state and territory governments are expanding preschool eligibility within their jurisdictions to include children in the two years before they commence full-time schooling. For simplicity, this appendix uses the terms 'four-year-old preschool' and 'three-year-old preschool' when referring to preschool programs for children in the YBFS and the year before that, respectively.

Preschool programs are named 'preschool' or 'kindergarten' depending on the state or territory (table E.1). This appendix uses the term 'preschool' for consistency, unless referring to the names of specific state funding policies or reforms (for example, Victoria's Free Kinder program).

Table E.1 – Many children are enrolled in a preschool program in the YBFS, with age cut-offs varying by state and territory

Preschool program name and age of entry in a preschool program for children in the YBFS, by jurisdiction, 2023

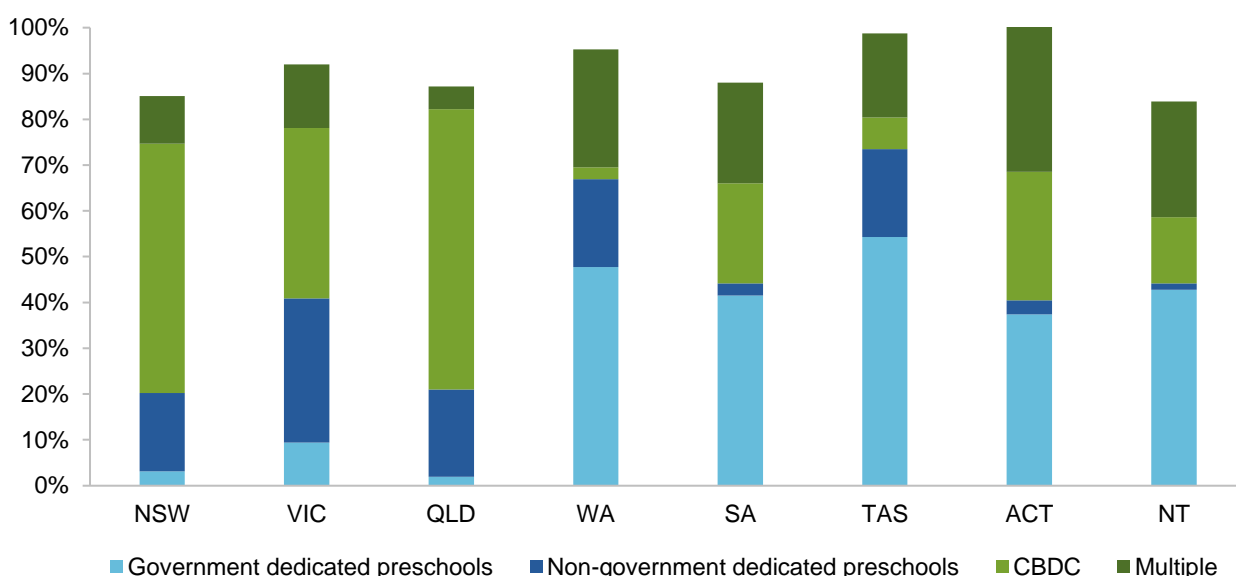
	Program name	Age of entry in preschool program (YBFS)
New South Wales	Preschool	Generally aged 4 and 5
Victoria	Kindergarten	4 by 30 April
Queensland	Kindergarten	4 by 30 June
Western Australia	Kindergarten	4 by 30 June
South Australia	Preschool	4 by 1 May
Tasmania	Kindergarten	4 by 1 January
Australian Capital Territory	Preschool	4 by 30 April
Northern Territory	Preschool	4 by 30 June

Source: SCRGSP (2023).

E.2 Children attend preschool in different settings across Australia

Children attend preschool programs in different settings around the country (figure E.1). For example, preschool children in Victoria, New South Wales and Queensland are mainly enrolled in centre-based day care services (CBDC) and non-government dedicated preschools, with a smaller proportion enrolled in government-run dedicated preschools. In contrast, preschool children in the other states and territories are enrolled in government-run dedicated preschools in much higher proportions.

Figure E.1 – Children attend preschool in different settings around the country^{a,b,c,d}
Proportion of children enrolled in a preschool program in the YBFS, by setting, by jurisdiction, 2022



a. Data relates to children enrolled in a preschool program in the state-specific YBFS. This means certain cohorts of children, such as those attending three-year-old preschool, are not captured. **b.** Dedicated preschools include standalone preschools and preschools attached to schools. **c.** The multiple category shows children enrolled in multiple dedicated preschools or children enrolled in a dedicated preschool and a CBDC service. **d.** Children who are in the YBFS and attend CBDC services are assumed to be enrolled in a preschool program.

Source: SCRGSP (2023).

Preschool programs are required to be delivered by an early childhood teacher (ECT) under the Preschool Reform Agreement. However, in practice, the agreement accepts preschool programs that align with the National Quality Framework (NQF), which requires services to engage or have access to an ECT based on the number of children in attendance (but does not necessarily guarantee they deliver the preschool program) (ACECQA 2023).¹ As such, all children in the YBFS who attend a CBDC service are assumed to

¹ Services with fewer than 25 children in attendance at any one time must have access to an ECT for at least 20% of the time the service is operating (including through ICT solutions). If there are 25 or more children in attendance, services must employ or engage a full-time or full-time equivalent ECT (or have one in attendance for a prescribed amount of time based on the weekly operating hours of the service). Services with 60 or more children in attendance must employ a second ECT or suitably qualified person in attendance for a prescribed amount of time.

be enrolled in a preschool program for the purposes of the Preschool Reform Agreement.² This assumption stems from data collection limitations for preschool delivered in CBDC services. The Australian Government is a primary source of preschool data in CBDC services through the Child Care Subsidy System (CCSS). The CCSS collects data on services that are compliant with the NQF but is not required to collect data on whether preschool programs are being delivered by an ECT. A consequence of the data limitations is that it is not clear how many hours of preschool are attended by children in CBDC settings.

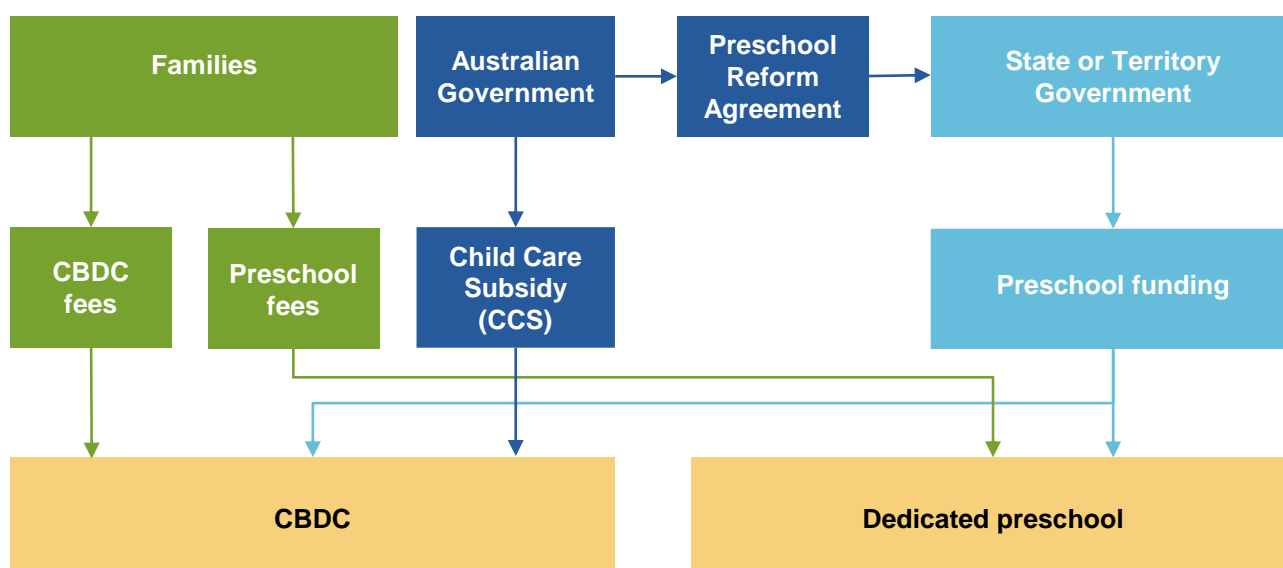
Dedicated preschools include standalone preschools and preschools attached to schools. They provide programs that typically offer shorter or sessional hours during the school term. Under the Preschool Reform Agreement, every child is entitled to 600 hours of preschool in the year before they start school, usually delivered as 15 hours per week over 40 weeks in dedicated settings. In practice, delivery of this entitlement can vary for families in terms of the number of hours per day and number of days per week. The term ‘sessional preschool’ is sometimes used to describe dedicated preschools.

E.3 Current preschool funding arrangements

Preschool programs are funded from a range of sources (figure E.2).

State and territory governments are responsible for ensuring all children have access to preschool in the YBFS as part of their commitments under the Preschool Reform Agreement. They are supported in meeting this commitment by funding contributions from the Australian Government. State and territory governments also contribute funding to preschool programs for younger children and some are working to extend the hours available to children in the YBFS (relevant reforms are discussed in section E.4).

Figure E.2 – A range of sources fund delivery of preschool for children in the YBFS^a
Australian, state and territory governments and families fund preschool programs



a. Dedicated preschool includes standalone preschools and preschools attached to schools.

² Some state and territory governments operate their own systems of identifying whether services have a preschool program delivered by an ECT, such as the Victorian Government’s Kinder Tick.

Recurrent preschool funding across all states and territories totalled \$2.14 billion in the 2021-22 financial year (SCRGSP 2023) (details are discussed below). This included contributions made by the Australian Government through the National Partnership Agreement on Universal Access to Early Childhood Education (UANP), which was the National Partnership that preceded the Preschool Reform Agreement. The Australian Government contributed \$472.5 million in total funding to all states and territories under the UANP in the 2021-22 financial year.

The Australian Government also subsidises preschool fees for families with children attending preschool in CBDC services through the CCS. Families may contribute to the costs of preschool through fees, which can vary based on the setting (box E.1).

Box E.1 – Preschool out-of-pocket expenses for families depend on the program setting

Preschool out-of-pocket expenses for families can vary based on the setting that their children attend.

Median hourly out-of-pocket expenses for families with children in government-run dedicated preschools are mostly zero or close to zero across the states and territories. For non-government dedicated preschools, out-of-pocket expenses are generally higher. Out-of-pocket expenses for preschool delivered in CBDC services are also generally higher than in government-run dedicated preschools, but caution should be used when interpreting these amounts as they likely include costs related to different operating models.

Variation in preschool out-of-pocket expenses by setting has implications for families. Families with preschool children may decide to change from a CBDC service to a government-run dedicated preschool, given the fee differential. However, the availability of government-run dedicated preschools varies greatly by jurisdiction (figure E.1). Furthermore, dedicated preschools generally have shorter operating hours, which may not align with families' working arrangements. In such cases, families may opt for a combination of preschool provided through a CBDC service and a dedicated preschool.

While 2022 data on out-of-pocket expenses represents the latest data available, it does not account for policies implemented from 2023 onward, including in Victoria and New South Wales, which aim to provide fee relief for families with preschool children. Caution should therefore be used when considering this data.

Median hourly out-of-pocket expense for a preschool program (after subsidies) per child enrolled aged four and five years, by setting, by jurisdiction, 2022 (2021-22 dollars)^{a,b,c}

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Government dedicated preschools	–	\$2.60	–	–	–	–	–	–
Non-government dedicated preschools	–	\$3.00	\$5.67	\$2.84	\$1.47	\$2.68	\$12.31	–
CBDC	\$4.44	\$4.46	\$3.39	\$4.50	\$4.00	\$3.71	\$7.76	\$4.31
All preschool programs	\$2.91	\$3.33	\$3.67	–	\$1.18	\$1.19	\$3.63	–

a. Amounts denoted as '–' are nil or rounded to zero. **b.** Dedicated preschools include standalone preschools and preschools attached to schools. **c.** Out-of-pocket expenses are from 2022, which is the latest available data. As such, they do not account for policies implemented from 2023 onward, including in Victoria and New South Wales, which aim to provide fee relief for families with preschool children.

Source: SCRGSP (2023).

State and territory funding arrangements

State and territory governments fund and deliver preschool in various ways, including:

- government-run dedicated preschools that are delivered and funded by the states and territories
- funding provided to non-government service providers, including CBDC services, community preschools, mobile preschools and non-government schools that deliver preschool
- additional funding to improve access and outcomes for Aboriginal and Torres Strait Islander children, children who are experiencing vulnerability and disadvantage and children in rural and remote areas.

State and territory funding arrangements are determined by the main preschool delivery methods within each jurisdiction. For example, in Victoria, New South Wales and Queensland, where preschool is mainly delivered through CBDC services and non-government dedicated preschools, various subsidy programs allocate funding to private service providers (table E.2). In contrast, states like Western Australia and Tasmania predominantly fund and deliver preschool directly through their school systems.

State and territory funding arrangements aimed at providing fee relief for families may be applied in conjunction with the CCS. If these state and territory payments are classified as prescribed third-party payments, the CCS is applied to families' fees first, with fees then further reduced by state-based fee relief. Further discussion of this is provided in the CCS section of this appendix.

In addition, many state and territory governments have announced or are undertaking preschool reforms within their jurisdictions. These are discussed in section E.4 of this appendix.

Table E.2 – Funding arrangements vary across the states and territories^{a,b}

Recurrent expenditure on preschool (2021-22 financial year) and key funding arrangements by jurisdiction

	Recurrent expenditure (2021-22 financial year)	Key funding arrangements as at November 2023 ^c
NSW	\$522,302,000	<p>The NSW Government's Start Strong program provides funding to CBDC services and community preschools as two components – program funding and fee relief. Program funding must be spent on costs associated with running a preschool program, whilst fee relief must be passed on to families as a reduction to their enrolment fees (after the CCS has been applied). Both program funding and fee relief are provided on a per enrolment basis for eligible children. Children are eligible if they attend four-year-old preschool in CBDC services and three-year-old preschool and above for community preschools.</p> <p>In addition, the NSW Department of Education operates 101 preschools, which provide 600 hours per year of free preschool for children in four-year-old preschool. These preschools aim to cater for specific cohorts of children, including Aboriginal children and children experiencing vulnerability and disadvantage.</p>

Recurrent expenditure

(2021-22 financial year) Key funding arrangements as at November 2023^c

VIC	\$726,632,000	<p>Kindergarten per capita funding is provided to preschool service providers as a contribution toward the cost of running a preschool program. The funding is available to all preschool service providers, but funding rates vary based on the location of the service, the service setting and the type of industrial award or agreement that educators are employed under. Service providers receive a per enrolment amount for eligible children. Children in both four-year-old and three-year-old preschool are eligible for funding but have different requirements regarding hours of enrolment. Children in four-year-old preschool must be enrolled for 15 hours per week whilst children in three-year-old preschool currently only need to be enrolled for 5-15 hours per week.</p> <p>The Free Kinder program allocates funding to provide fee relief for families with preschool children. The funding is provided to dedicated preschools and CBDC services that choose to opt into the program. Service providers who opt into the program and receive funding must meet specific conditions. For instance, dedicated preschools must deliver a free 15 hour per week preschool program for children in four-year-old preschool and a free 5-15 hour per week program for children in three-year-old preschool. Services may offer programs with greater hours and can charge families for those additional hours. CBDC services are not required to provide a free preschool program but must simply offset the full funding amount they receive from families' preschool fees (after the CCS has been applied). As such, some families may still face out-of-pocket expenses depending on the fees they are charged by CBDC services. Service providers may receive both funding from the Free Kinder program and kindergarten per capita funding.</p>
QLD	\$230,267,000	<p>The Queensland Government funds CBDC services and dedicated preschools through various subsidies and grants. These include a base subsidy to cover the cost of delivering a preschool program, which is provided as a per enrolment amount for children in four-year-old preschool across all settings.</p> <p>In addition to the base subsidy, targeted subsidies are provided to service providers including the:</p> <ul style="list-style-type: none"> • affordability subsidy – provided for each eligible child from families of relative socioeconomic disadvantage and families receiving Family Tax Benefit Part A or B • service location subsidy – provided for each eligible child from a regional or remote area • educational need grant – provided to respond to children's learning and developmental needs • inclusion subsidy – to support inclusion of children from diverse backgrounds and with additional needs. <p>The Queensland Government also funds 136 state delivered preschool programs in 118 remote state schools or their campuses, including 31 programs in discrete Aboriginal and Torres Strait Islander remote communities.</p>

Recurrent expenditure**(2021-22 financial year) Key funding arrangements as at November 2023^c**

WA	\$346,931,000	Preschool is mainly provided through the school system. Western Australia provides preschool for 600 hours per year in public schools, community preschools, Catholic and Independent schools, with four hours per week funded by the Australian Government.
SA	\$198,632,000	<p>The South Australian Government funds 480 hours per year of preschool for children in four-year-old preschool and certain cohorts of children in three-year-old preschool in government-run dedicated preschools. Children in three-year-old preschool that are eligible include Aboriginal children and children in out-of-home care. Preschool provision is increased to 600 hours per year for children in four-year-old preschool through funding from the Australian Government.</p> <p>In addition, CBDC services, non-government schools and non-government dedicated preschools receive funding subsidies on an application basis which can be used to offset the costs of running a preschool program. Non-government services can also access targeted additional subsidies to offset the costs of delivering preschool to children experiencing disadvantage, Aboriginal children and children with disabilities.</p>
TAS	\$36,892,000	<p>Preschool in Tasmania is delivered and funded through the school system. The Tasmanian Government funds 10 hours per week of preschool for children in four-year-old preschool in government schools and not-for-profit non-government schools. Additional funding to reach 15 hours per week is provided by the Australian Government.</p> <p>CBDC services must register as non-government schools to deliver preschool in Tasmania. Registering as a non-government school allows these services to be eligible for Australian Government funding through the Preschool Reform Agreement, regardless of profit status. However, for-profit CBDC services delivering preschool are ineligible for state funding under the Tasmanian Education Act 2016. This legislation does not allow state funding to go to for-profit services. There were no CBDC services registered to deliver preschool in Tasmania in 2022 (although ABS data collection assumes preschool-age children in CBDC services are enrolled in a preschool program).</p>
ACT	\$44,074,000	The ACT Government is the primary funder of 600 hours per year of preschool for children in four-year-old preschool in government-run dedicated preschools. In addition, the Koori Preschool program provides Aboriginal and Torres Strait Islander children in three-year-old preschool and above with 600 hours per year of free culturally safe preschool. As part of its commitments under the Preschool Reform Agreement, the ACT Government will establish and implement the funding mechanisms to distribute funding to non-government school based preschool sectors.

	Recurrent expenditure (2021-22 financial year)	Key funding arrangements as at November 2023 ^c
NT	\$39,058,000	The Northern Territory Government funds 490 hours per year of preschool for eligible children in government schools. Children are eligible if they are in four-year-old preschool, or if they are in three-year-old preschool in very remote locations. The remaining funding to reach 600 hours per year is provided by the Australian Government (for four-year-old preschool). The Northern Territory Government also provides funding on a per enrolment basis to remote non-government schools where there is no government preschool provision. As part of its commitments under the Preschool Reform Agreement, the Northern Territory Government will support access to preschool programs regardless of service type, including government and non-government schools and CBDC services.

a. Recurrent expenditure includes state and territory expenditure funded by the Australian Government under the National Partnership on Universal Access to Early Childhood Education. It excludes capital expenditure. **b.** The key funding arrangements column shows policies implemented as at November 2023, however the recurrent expenditure figures are from the 2021-22 financial year, which are the latest available. Therefore, the recurrent expenditure figures will not include expenditure for policies implemented after 30 June 2022, including the Victorian Government's Free Kinder program and the NSW Government's expanded Start Strong program. Furthermore, the key current funding arrangements do not detail preschool reforms implemented from 2024 onward, these reforms are discussed in section E.4 of this appendix. **c.** Key funding arrangements include broad-based preschool funding arrangements implemented by each state and territory as at November 2023. Additional funding arrangements not covered in the table include funding for inclusion support programs, playgroups and other programs that cater to the needs of specific cohorts of preschool children.

Source: ACT Education Directorate (2023a), Australian Capital Territory and Commonwealth of Australia (2023), Northern Territory and Commonwealth of Australia (2023), NSW DoE (2023a, 2023f), Queensland DoE (2023b), SA Department for Education (2023), SCRGSP (2023), State of Queensland and Commonwealth of Australia (2023), State of South Australia and Commonwealth of Australia (2023), State of Tasmania and Commonwealth of Australia (2023), State of Western Australia and Commonwealth of Australia (2023), Victorian DoE (2023).

Australian Government involvement in preschool funding

The Australian Government's role in preschool funding has shifted over time. Funding began in the early 1970s. By the mid-1970s, the Australian Government was providing the majority of preschool funding, with state and territory governments contributing the balance (Elliot 2006, p. 4). This changed in the mid-1980s when funding was rolled into Financial Assistance Grants to state and territory governments, removing direct funding of preschools by the Australian Government (Elliot 2006, p. 11). The Australian Government's role shifted again when it signed the National Partnership Agreement (NPA) on Early Childhood Education (2009–2013) with state and territory governments.

The NPA on Early Childhood Education aimed to ensure children had universal access to a preschool program. Under the agreement, universal access was defined as every child in the YBFS having access to a preschool program for 15 hours per week, for 40 weeks per year. The program was to be delivered by a four-year degree qualified ECT and provided at a cost that did not present a barrier to participation.

Prior to the NPA on Early Childhood Education, when preschool provision was the responsibility of state and territory governments, the level of provision could differ by jurisdiction (Australian National Audit Office 2011, p. 13). A principal aim of the agreement was to introduce nationally consistent universal access (COAG Education Council 2020, p. 18). The Australian Government provided contributions to state and territory governments and they were then responsible for allocating this funding within their jurisdictions to work towards this objective. A total of approximately \$996 million of funding was made available to state and territory governments under the agreement (SCRGSP 2023).

Between 2013 and 2021, the NPA on Universal Access to Early Childhood Education (UANP) maintained funding for universal access, with some changes. The definition of universal access was changed to 600 hours of preschool in the YBFS. The change to an annual hours quota allowed preschool providers more flexibility in the delivery of programs. The UANP also required ECT qualifications to be in line with the NQF as a precondition for funding. In total, approximately \$4 billion of funding was made available to state and territory governments over the course of the agreement (SCRGSP 2023).

The COAG Education Council commissioned an independent review of the UANP in 2019 (COAG Education Council 2020, p. 1). The review found that:

- the UANP had increased participation in quality preschool by children in the YBFS but some children, particularly Aboriginal and Torres Strait Islander children and children experiencing vulnerability and disadvantage, were missing out
- the UANP established a national system, while preserving state and territory autonomy to meet local needs
- funding flexibility from the UANP should be retained but variations in state and territory investment warranted further consideration
- Australian Government funding and national coordination should continue
- governments should enter into a new five-year National Partnership from 2021 to 2025 and transition to a National Agreement from 2026 onwards
- a minority of funding under the new National Partnership should be performance-based.

In 2021, the UANP expired and was superseded by the Preschool Reform Agreement (2022–2025).

Preschool Reform Agreement (2022–2025)

The Preschool Reform Agreement aims to ensure children have universal access (as set out in previous agreements) to a preschool program for 15 hours per week or 600 hours per year, delivered by a degree qualified ECT in the YBFS.

Funding allocations under the Preschool Reform Agreement are calculated by multiplying the annual YBFS populations of the states and territories (based on the latest ABS data projections) by a specified per-child amount. The per-child amount for 2023 was \$1,377.83. Over the course of the agreement, the Australian Government will provide an estimated \$1.84 billion of funding to state and territory governments.³

Key differences from previous agreements

Australian Government funding follows children at the setting level

The Preschool Reform Agreement requires that funding from the Australian Government is passed on to benefit children in the setting in which they attend preschool. This could be through reduced out-of-pocket expenses for families and/or improvements to quality, such as through the employment of additional ECTs beyond the requirements of the NQF.

However, unlike CCS funding, funding from the Preschool Reform Agreement is only required to follow the child to the type of setting they attend, not the individual service. Funding is not attached to each individual child or family but is calculated at an aggregate level. State and territory governments must identify the total number of children attending preschool in each setting in the YBFS and then allocate funding to each setting type by multiplying these totals by the Australian Government per child contribution. As such, if a child attends a particular service, the service itself will not necessarily receive funding, but funding will be

³ *Preschool Reform Agreement*, Table 1a.

allocated to the setting type. Funding is reconciled at the end of the year to ensure it is accurately allocated to the setting type that children attend.

State and territory governments could previously use Australian Government funding more flexibly to support the provision of universal access. In its 2014 inquiry, the Productivity Commission noted that state and territory governments varied widely on whether they passed on Australian Government funding to CBDC services and non-government dedicated preschools (PC 2014, p. 647). Subsequently, the Commission recommended that the Australian Government require state and territory governments to direct these payments to the approved preschool service nominated by the family. However, Australian Government funding currently follows children to the setting type, as discussed above.

New national preschool attendance measure

The Australian, state and territory governments have developed a new national preschool attendance measure. The new measure underpins a key objective of the Preschool Reform Agreement to improve participation in preschool programs, raising both enrolment and attendance, rather than focusing on enrolment as has previously been the case.

The design of the measure, including data definitions and the implementation approach, was agreed upon by Australian, state and territory government Education Ministers in 2023.⁴ Baseline (initial) data for the measure will be provided by the state and territory governments in 2024.

State performance will be measured against enrolment and attendance targets, which will be negotiated by the Australian, state and territory governments, taking into consideration factors such as differing state circumstances and baseline data. The targets will become applicable from 2025.

New national preschool outcomes measure

A new national preschool outcomes measure is being developed by the Australian, state and territory governments. This measure underpins another key objective of the Preschool Reform Agreement – maximising the benefit of the preschool year by improving outcomes for children. The Australian Government has convened an expert group to advise on the development of the measure. As part of their terms of reference, the group has been asked to provide advice on the factors in preschool participation that improve or impact transition to school, with the aim of formulating an overall measure of school readiness (DoE 2021).

The proposed design of the outcomes measure will be trialled and validated prior to becoming applicable, with a national trial commencing in 2025 (DoE 2023). Upon completion, the trial will be independently evaluated and outcomes of the evaluation will be used to inform decisions about its potential future implementation.

Child Care Subsidy

As noted above, the Australian Government provides funding through the CCS to reduce out-of-pocket expenses for families attending CCS-approved services (appendix D). The amount that CCS-approved service providers charge to families is the fee less the subsidy. To receive the subsidy, families must have a child who attends a CBDC, family day care, outside school hours care (OSHC) or In Home Care service. Families with children attending a preschool program in a CBDC service are eligible to receive the CCS.

Under Family Assistance Law, families are only entitled to the CCS in relation to fees they are charged, meaning any third-party payments must be deducted from fees prior to assessing CCS. However, prescribed

⁴ *Preschool Reform Agreement*, Appendix A.1.

third party-payments do not affect CCS and will reduce fees after CCS has been applied. This contrasts to payments that are not prescribed, which must be deducted from fees prior to the application of CCS.

Some prescribed third-party payments are made by state and territory governments. Under the *Child Care Subsidy Minister's Rules 2017* (s. 16A(3D)), these payments include contributions made to reduce session fees for a child attending a preschool program in a CBDC between 1 January 2023 and 31 December 2025. The preschool program must be aimed at children in the two or three years before grade one of school.

In practice, this means that some families may see their preschool fees reduced to zero through a combination of the CCS and fee relief measures provided by state and territory governments. However, this will depend on the fees that families are being charged by service providers, the number of hours per week their children attend preschool and the state or territory they reside in.

The number of subsidised hours that a family is eligible for under the CCS is based on parents' or guardians' hours of recognised activities, measured on a fortnightly basis. Recognised activities include, for instance, paid work and studying an approved course. However, families with preschool children may receive an exemption and be eligible for 36 hours of subsidised care per fortnight without having to meet the test. To be eligible for the exemption, families must have preschool children attending a CBDC service in the YBFS and must be eligible for less than 36 hours per fortnight of subsidised care based on their current activity levels.

E.4 State and territory reforms

Most state and territory governments have announced or are undertaking preschool reforms within their jurisdictions. These reforms vary in terms of focus and scope and include funding commitments for:

- reducing fees or expanding hours of enrolment for four-year-old preschool
- trialling or continuing state-wide rollouts of three-year-old preschool
- investing in preschool workforce and infrastructure
- conducting state-wide reviews of preschool provision with the aim of guiding future policy considerations.

These reforms will impact preschool funding arrangements and the ECEC sector more broadly, in the future.

The below discussion reflects information available publicly as at November 2023.

New South Wales

As part of the 2022-23 state budget, the NSW Government announced a range of ECEC reforms, including significant reforms to preschool. These reforms were maintained in the 2023-24 budget, with additional reforms announced in a number of areas. Key reforms are discussed below.

Universal pre-kindergarten

The NSW Government has committed to providing universal pre-kindergarten in the YBFS by 2030, at a cost of \$5.7 billion over 10 years (NSW Government 2022a, pp. 2–4). The commitment will extend four-year-old preschool to up to five days per week at low or no cost to families, beyond the 15 hours per week currently provided under the Preschool Reform Agreement (NSW Government 2022b, p. 53).

As a first step, the 2022-23 state budget provided \$40.2 million for planning, consultation and early steps in the implementation of this program (NSW Government 2022a, pp. 2–4).

In the 2023-24 budget, the NSW Government committed to deliver 100 preschools on NSW public school sites and 50 new or upgraded preschool facilities on non-government school sites (NSW DoE 2023b). Furthermore, all new public primary schools built in New South Wales will have a preschool on their grounds.

Three-year-old preschool

The 2022-23 NSW budget provided funding to trial three-year-old preschool in CBDC services (NSW Government 2022a, pp. 2–4). The trial commenced in 2023 as part of the broader Start Strong program (discussed in section E.3).

As part of the trial, eligible CBDC services receive funding on a per-child basis for children enrolled in three-year-old preschool (NSW DoE 2023e). Services are eligible if they deliver a three-year-old preschool program and meet the eligibility requirements under the broader Start Strong for Long Day Care program.

In addition, the NSW Government has committed \$64 million over two years to provide fee relief for families with children in three-year-old preschool as part of the 2023-24 budget (NSW DoE 2023c). Families with children attending three-year-old preschool in CBDC services will receive \$500 of annual fee relief per child from 2024.

These changes build on the commitment announced in the 2018-19 NSW budget to provide funding for three-year-old preschool programs in community preschools, which was implemented from 2019 (NSW DoE 2023d).

Victoria

The Victorian Government has committed \$14 billion over 10 years for the Best Start, Best Life reform package, including expanding the provision of preschool across the state (Victorian Government Department of Education, sub. 146, p. 17). In addition to providing the Free Kinder program for three and four-year-old preschool at participating services from 2023 (discussed in section E.3), the Best Start, Best Life reform package includes:

- transitioning four-year-old preschool to 'Pre-Prep' by 2032
- rolling out three-year-old preschool across the state by 2029
- establishing government-owned and operated early learning centres
- funding other measures related to preschool infrastructure and workforce.

Pre-Prep

The Victorian Government has committed to introducing a universal 30 hours per week of play-based learning (Pre-Prep) in the YBFS by 2032 (Victorian Government 2023). The program will be delivered through dedicated preschools and CBDC services and remain optional for children to participate in.

Four-year-old preschool will begin transitioning to 'Pre-Prep' in stages from 2025. The rollout will initially prioritise preschool in parts of regional Victoria, followed by Aboriginal children and children experiencing vulnerability across the state and then children experiencing disadvantage across the state. The program will expand to all Victorian children by 2032.

Three-year-old preschool rollout

The Victorian Government has committed to funding 15 hours per week of three-year-old preschool for children in dedicated preschools and CBDC services by 2029 (Victorian Government 2023). The program launched in 2019 and will be rolled out in stages over 10 years. In 2020, funding was provided to support 5-15 hours per week of three-year-old preschool in six regional local government areas (Victorian

Government 2022). This was expanded to 21 local government areas in 2021, before being rolled out across the state in 2023.

Other measures

Additional funding as part of the Best Start, Best Life reform package includes:

- establishing 50 government-owned and operated early learning centres in areas of greatest need, with the first of these centres expected to be available in 2025
- investing in preschool infrastructure and workforce, including grants to build, expand and maintain kindergarten services and scholarships, incentives, traineeships and career advancement programs for educators (Victorian Government 2023).

Queensland

The Queensland Government has committed \$645 million over four years from the 2023-24 financial year to provide free preschool for eligible children from 1 January 2024 (Queensland Government 2023, p. 7). Children will be eligible if they are in four-year-old preschool and may attend a dedicated preschool or preschool in a CBDC service (Queensland DoE 2023a). Funding will be made available to service providers who opt into the program, which will require them to deliver a free four-year-old preschool program in their services for 600 hours per year. For preschool children in CBDC services, only the preschool component of their attendance will be free, comprising 15 hours per week, 40 weeks per year.

South Australia

On 16 October 2022, the South Australian Government established a Royal Commission into Early Childhood Education and Care. The Royal Commission was asked to consider a range of matters, including how universal quality preschool programs for three and four-year-old children can be delivered.

The Royal Commission's final report was released in August 2023 and made 43 recommendations, including several recommendations and findings in relation to three and four-year-old preschool (SA Government 2023a).

To date, the South Australian Government has accepted 13 recommendations (SA Government 2023b), including in relation to:

- commencing rollout of universal three-year-old preschool in 2026, to be completed by 2032
- providing up to 30 hours of preschool per week for the most vulnerable three and four-year-old children
- prioritising the 1,000 most vulnerable children in the state
- trialling out of hours care in government-run preschools in 2024.

Royal Commission recommendations

Key findings and recommendations related to three and four-year-old preschool included (SA Government 2023a, pp. 112–116):

- the delivery of three-year-old preschool should adopt a mixed approach, which the South Australian Government may wish to review once universal coverage and other considerations are resolved:
 - three-year-old children already in CBDC should receive preschool through this setting
 - three-year-old children not in CBDC, or whose CBDC does not offer a preschool program, should access preschool through government preschools
 - there should be place-based commissioning of integrated service hubs in areas of high developmental vulnerability

- the rollout of universal preschool should occur progressively from 2026, with the first phase completed by 2029 and the final phase completed by 2032
- the minimum duration of a three-year-old preschool program should be 600 hours per year (or 15 hours per week for 40 weeks a year)
- children at risk of developmental vulnerability should be able to access additional hours and days of three and four-year-old preschool, up to 30 hours per week, with around 1,000 children in each year level most at risk prioritised in the short to medium term
- for three-year-old preschool, there should be targeted fee relief for disadvantaged families or families facing a sudden change in financial circumstances but broader fee relief should be considered once future Australian Government policy settings are known
- to ensure universal uptake of three and four-year-old preschool, there should be support for indirect cost reduction (such as transport) for families experiencing economic disadvantage and investment in services to support community outreach
- the South Australian Government should conduct trials to evaluate a range of three and four-year-old preschool OSHC delivery models on government preschool sites, with a view to finalising models to be rolled out progressively across government preschools from 2025
- the South Australian Government should consult with providers across all sectors to develop a new state funding model for preschool, covering both three and four-year-old delivery and government and non-government settings, which includes:
 - funding sufficient to meet professional learning and release time requirements for ECTs
 - loadings for the provision of supports for children who are likely to be developmentally vulnerable or need additional support
 - support for outreach and indirect cost reduction in areas of high vulnerability.

Broader recommendations relating to preschool included:

- implementing three-year-old preschool through locally based implementation teams
- providing access to supports and resources for early childhood educators and ECTs in all preschool settings to support high-quality teaching
- investing to grow capacity in quality preschool settings
- building an evidence base relating to preschool attendance, outcomes and other factors.

Tasmania

In August 2022, the Tasmanian Government announced its intention to provide universal access to early learning for three-year-old children in the year before preschool (Tasmanian Department for Education, Children and Young People, sub. 159, p. 6).

To deliver the first stage of this long-term goal, the 2023-24 state budget provides \$6.04 million over four years to establish trial sites for delivery of three-year-old preschool (Tasmanian Department for Education, Children and Young People, sub. 159, p. 6). Trial sites will commence service delivery from 2024, with ECEC services as the preferred provider. Findings of the trials will inform the approach to broader implementation of universal access to preschool for three-year-old children in the future.

Australian Capital Territory

The ACT Government launched *Set up for Success: An Early Childhood Strategy for the ACT* in 2020, a 10-year plan for ECEC reforms in the territory. As part of this initiative, the ACT Government aims to provide 600 hours per year of free preschool for all three-year-old children in the Australian Capital Territory.

As part of the first phase, two days per week of free preschool is available for certain cohorts of children in three-year-old preschool in participating services (ACT Education Directorate 2023b). Up to 500 places are available for children experiencing vulnerability and disadvantage in participating education and care services and up to 100 places are available for Aboriginal and Torres Strait Islander children in government-run Koori Preschools.

In addition, the 2023-24 budget provides \$50 million over four years to fund three-year-old preschool across the territory (ACT Government 2023, p. 211). Eligible services that opt into the program will receive funding to provide free three-year-old preschool for 300 hours per year (or one day per week over 40 weeks) from the start of 2024. Services will be eligible if they are an Approved Service Provider under the NQF and will be invited to participate in the program by the ACT Government.⁵ Participating services will receive program funding and fee relief funding on a per enrolment basis (ACT Education Directorate 2023c, p. 3). Fee relief funding will be passed on to families as a reduction to their preschool fees (after CCS has been applied). Families must be eligible for and accessing the CCS and will be required to pay for additional hours if their child is enrolled in three-year-old preschool beyond one day per week in a CBDC setting.

Northern Territory

The Northern Territory Department of Education commissioned a review of preschool as part of the broader early childhood system in the Northern Territory (Nous Group 2023). The review, which began in October 2022, considered various matters, including effective preschool delivery models for the Northern Territory and measures to expand access, simplify funding and support providers. The final report was due to be delivered to the Northern Territory Government in June 2023. Findings of the review are intended to shape the future of preschool delivery in the Northern Territory.

In addition, as at 2022, six Northern Territory government schools were participating in a trial of three-year-old preschool (Gunner 2022). The trial complements existing policies in the Northern Territory that enable three-year-old children in very remote areas to access preschool in government schools (as discussed in section E.3).

⁵ Services must be Meeting or Exceeding the NQF for Governance and Leadership and Educational Programs and Practice.

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F. Preliminary modelling of Child Care Subsidy policy changes

The Productivity Commission has undertaken preliminary modelling of the effects of potential Child Care Subsidy (CCS) policy changes on labour supply, demand for early childhood education and care (ECEC) and fiscal costs. The modelling examined six policy options involving changes to CCS rates and the activity test. Further details of the options and results from the modelling are presented in the report and in paper 6.

This appendix describes the data used in the analysis (section F.1), and the methodology and assumptions behind the modelling of changes to hours of work and ECEC (section F.2) and of changes in fiscal costs (section F.3).

The approach draws on the method used by the Grattan Institute (Wood, Griffiths and Emslie 2020, pp. 78–81), which applied elasticities to estimate potential changes in behaviour from changes in CCS policies. The Grattan Institute estimated the effects of changes in subsidy rates but not those from changes to the activity test or unsubsidised hours. The Commission has made adjustments to the Grattan Institute's approach to enable modelling of both these features of the CCS. Modelling limitations are discussed in section F.4.

The preliminary modelling improves on some past analysis of CCS policy changes that only examined the effects of some components of the CCS regime, or estimated effects for much broader groups of families, but more sophisticated modelling options exist. The Commission's final inquiry report will include estimates of the potential effects of CCS policy changes derived from a behavioural microsimulation model. This approach models individual families' decisions to choose work and ECEC hours through preferences that are unique to the family's characteristics, rather than by applying broad-based elasticities (box F.1).

Box F.1 – Behavioural microsimulation modelling of ECEC

The Productivity Commission and the Department of Employment and Workplace Relations (DEWR) are developing a behavioural microsimulation model of early childhood education and care (ECEC).

Microsimulation models operate at the level of an individual entity – in this case, an income unit.^a For income units, these models can capture the effects of policy parameters such as tax rates and eligibility rules for benefits and subsidies. *Behavioural* microsimulation allows estimation of how behaviour changes in response to a policy change. This allows for more complete modelling of the potential effects of a policy change, for example, effects on ECEC participation and labour force participation. This type of model has been used for past analysis of ECEC policy changes (for example, Gong and Breunig 2012, 2017; PC 2014).

The Commission and DEWR are extending CAPITA-B, a behavioural labour supply microsimulation model of the Australian Government's tax and transfer system, to include the ability to model the Child Care Subsidy and ECEC demand. CAPITA-B was developed and is maintained by DEWR, and is based

Box F.1 – Behavioural microsimulation modelling of ECEC

on CAPITA, the Australian Department of the Treasury’s static non-behavioural microsimulation model of the Australian tax and transfer system.

Extending CAPITA-B to include the Child Care Subsidy involves a number of steps, including modifying the model’s decision algorithms, updating the dataset to include ECEC use, imputing ECEC fees, updating wage imputations and preference equations for parents based on their characteristics, and adding benchmarks relating to receipt of CCS. Results from this model will be included in the Commission’s final inquiry report.

a. An income unit consists of a single or couple (whose income is assumed to be shared) and their dependent children.

F.1 Data, subsidised hours and elasticities

Data

The preliminary modelling draws on data from the 2019-20 ABS Survey of Income and Housing (SIH) Confidentialised Unit Record File. Key variables from this dataset include numbers and ages of children, single and couple status, hours of formal care used, hours worked and incomes.

The sample was restricted to families with children aged 0–5 years. Effects for school-aged children are not modelled to make the analysis more tractable, given the method used assumes that families consider the cost of a full day of care in making decisions to use ECEC (described further below). Further, the analysed policy changes will primarily affect families with children aged 0–5 years.

For couples, only the partner with the lowest number of hours worked (the ‘secondary earner’) was considered in the modelling. It is assumed that only the secondary earner adjusts their hours worked in response to changes in CCS policy.

Some additional variables and adjustments were required to estimate CCS policy effects.

- Hourly wage rates were calculated by dividing wage and salary income by total hours worked. Wage rates of non-workers are required to model the effect of entering work on CCS rates and income tax. These were imputed using a selection and wage equation approach (see, for example, Creedy (2000), Kalb (2002) and Mercante and Mok (2014)).¹
- Total hours of formal care used within a family² were assumed to be evenly split between each child aged 0–5 years, as the SIH Confidentialised Unit Record does not report on individual hours of care for each child. It was assumed that these hours are the same as hours of formal care paid for.³
- ECEC fees were assumed to be \$115 per day per child.⁴ The hourly fee was assumed to be \$11.50 (assuming ten-hour days), which is less than the hourly rate cap of \$12.74 for centre-based day care in

¹ Further details of wage imputations will be provided as part of the technical details of the behavioural microsimulation modelling for the final report.

² For simplicity, income units are referred to as families through this appendix.

³ In actuality, families may be paying for more hours than they use due to session lengths offered. It is unclear whether families’ responses in the SIH reflect hours charged or hours attended, or a mix of both.

⁴ While the SIH includes variables on ECEC fees, consultations with the Department of Employment and Workplace Relations raised concerns that they may not be completely reliable (DEWR, pers. comm., 20 November 2023).

2022-23. These figures compare to an average hourly fee of \$11.80 for centre-based day care in the December quarter 2022 (DoE 2023a, table 5.2).

- Adjusted taxable income is used to calculate the CCS rate that families are eligible for (Services Australia 2023). This was estimated for each family based on family income from all sources, less payments that are excluded from adjusted taxable income (including Family Tax Benefits, Commonwealth Rent Assistance, Carer Allowance and Carer Supplement).
- Wage rates and incomes in the 2019-20 SIH were adjusted to 2022-23 values using the Wage Price Index, as part of forming an updated baseline (described further in section F.2).

Estimating eligible subsidised hours of ECEC

Modelling of the activity test requires an estimate of eligible subsidised ECEC hours, reflecting activity hours and exemptions from the activity test. The activity test and its exemptions are detailed in appendix D. While the activity test is based on hours per fortnight, SIH data are reported at a weekly level, so calculations using the SIH and in the model were performed at a weekly level (table F.1). Information about activity hours accrued other than through paid work is not available in the data, but assumptions were made to reflect activity hours that could be accrued through studying, job searching or volunteering. Eligible subsidised hours were estimated based on the following assumptions.

- Activity hours were assumed to be 1.2 times hours of work. This is greater than hours of work alone to allow for reasonable travel time (Services Australia 2021).
- Single parents or secondary earners who were studying were assumed to have enough activity hours to be eligible for 50 subsidised hours per week.
- Those who were receiving Carer Payment or permanently unable to work were assumed to have an exemption from the activity test, and were also assumed to be eligible for 50 subsidised hours per week.
- If a single parent or secondary earner's activity hours would make them eligible for fewer than 18 hours of subsidised care per week, and their youngest child was preschool aged or the parent was volunteering or looking for work, it was assumed that they were eligible for 18 subsidised hours per week.
- If estimated activity hours suggested that a family was not eligible for any subsidised care but they were observed to be receiving CCS in the SIH data, it was assumed that they were eligible for 18 subsidised hours per week as a consequence of engaging in activity not captured by the assumptions above.

Table F.1 – Fortnightly and modelled weekly subsidised care levels

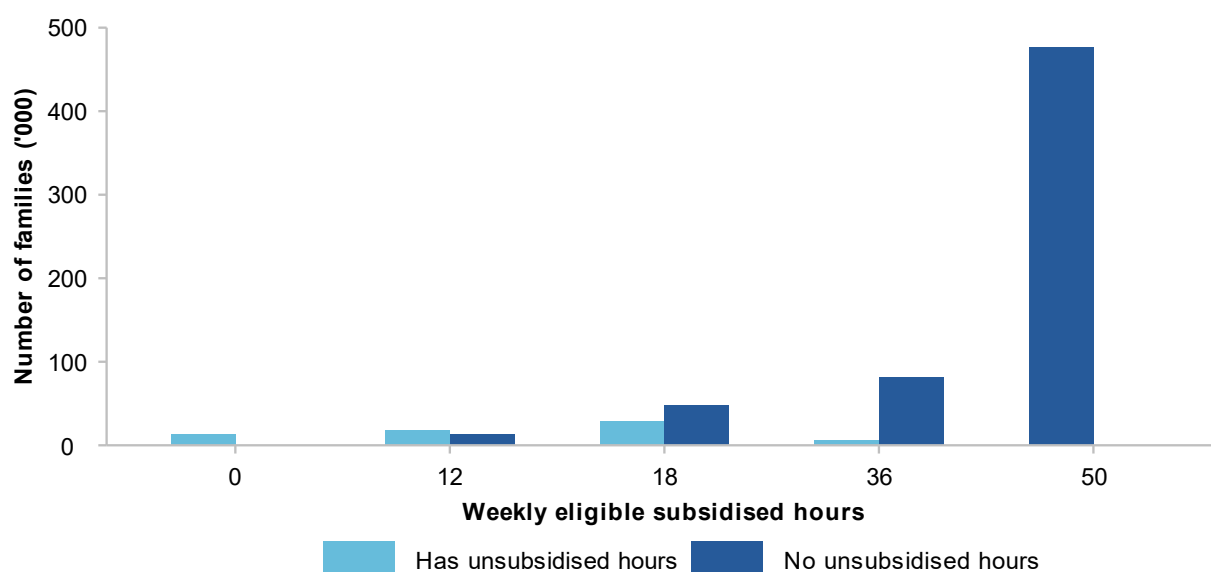
Activity hours each fortnight	Hours of subsidised care each fortnight	Modelled activity hours each week	Modelled hours of subsidised care each week
Less than 8	0 if earning above \$80,000 24 if earning \$80,000 or below	Less than 4	0 if earning above \$80,000 12 if earning \$80,000 or below
More than 8 to 16	36	More than 4 to 8	18
More than 16 to 48	72	More than 8 to 24	36
More than 48	101	More than 24	50

Source: Services Australia (2022) and Productivity Commission modelling assumptions.

The final distribution of families in each eligible subsidised hours category and whether they have unsubsidised hours, among families that use ECEC in the baseline model (figure F.1), is similar to distributions the Commission has produced using CCS administrative data from the Department of Education (unpublished) (figure 6.13, paper 6). However, the share of families who have any unsubsidised hours is *underestimated*, especially for families with a larger number of eligible subsidised hours – this is likely due to

the modelling assumption that ECEC hours are ten hours per day, with a maximum of 50 hours per week per child. Further analysis suggests that for families with any unsubsidised hours, the share of total hours that are unsubsidised is *overestimated* when compared with CCS administrative data – this is likely due to the adjustments outlined above still not fully reflecting the suite of applicable activity hours and activity test exemptions that families face. These effects in two directions offset each other to an extent, with the combined effect being a slight overestimate of the total share of ECEC hours that are unsubsidised, when compared with CCS administrative data. Some adjustments to estimated fiscal costs from CCS policy were made to account for this (section F.3).

Figure F.1 – Modelled number of families by weekly eligible subsidised hours threshold and whether have unsubsidised hours, among families that use ECEC^a



a. Weighted to population values using SIH weights. Grouping of families into whether they have any unsubsidised hours is based on reported hours of formal care and estimated number of eligible subsidised care hours. Care hours were capped at 50 per week per child.

Source: Productivity Commission estimates based on ABS 2022, *Income and Housing, 2019-20*, Microdata, <https://www.abs.gov.au/statistics/microdata-tablebuilder/available-microdata-tablebuilder/income-and-housing-australia> (accessed 11 May 2023).

Elasticities

Elasticities were applied in order to estimate the effects of changes in out-of-pocket ECEC expenses on hours of ECEC demanded and hours of work supplied. These elasticities were drawn from Gong and Breunig (2017, p. 32), which published estimates for partnered mothers of 0–5 year old children.⁵ Past studies that have estimated similar elasticities for both single and partnered mothers suggest that labour force participation of single mothers is more responsive to changes in ECEC expenses (paper 4). To the extent that elasticities for single mothers are higher than for partnered mothers, the modelling in this paper could underestimate the effects of policy changes on behaviour.

⁵ In comparison, the Grattan Institute (Wood, Griffiths and Emslie 2020, pp. 79–80) assumed a 1% reduction in expenses increased ECEC hours by 0.25% for those using ECEC and the probability of entering ECEC by 0.13 percentage points (where ECEC hours are determined by work hours), drawing on ECEC demand elasticities used by the Parliamentary Budget Office (2020, p. 12) and based on Gong and Breunig (2012, p. 34).

A 1% reduction in out-of-pocket ECEC expenses was assumed to increase:

- hours of formal care by 0.239% for families using formal care for fewer than five days a week and 0% for families already using five days of care
 - Gong and Breunig (2017, p. 32) estimated 0.203% across the whole sample, which included people who were already using five days of formal care and those who were not using any formal care. Adjustments to this figure were made so it could be applied only to families who were using formal care for fewer than five days a week. The adjustment assumes that families already in formal care for five days will not increase use of formal care (effectively a zero elasticity), and takes account of the fact that the effect of families entering formal care in response to a fall in expenses is modelled separately⁶
- the probability of using formal care by 0.125 percentage points for families not already using formal care
 - Gong and Breunig (2017, p. 32) estimated a formal care use elasticity that suggests that a 1% increase in out-of-pocket expenses would reduce participation in formal care by 0.125%. In the model, this was applied such that each percentage reduction in expenses would increase the probability of entering formal care by 0.125 percentage points for those not already using formal care⁷
- hours of work by 0.177% for single parents or secondary earners who are working part-time and 0% for those working five days a week
 - Gong and Breunig (2017, p. 32) estimated 0.081% across the whole sample, which included people who were already working full-time and those not working at all. For similar reasons to the elasticity for hours of formal care, adjustments to this figure were made so it could be applied only to single parents or secondary earners working fewer than five days a week. The adjustment assumes that families already working five days will not increase work hours further (effectively a zero elasticity), and takes account of the fact that the effect of those entering work in response to a fall in expenses is modelled separately
- the probability of working by 0.055 percentage points
 - Gong and Breunig (2017, p. 32) estimated an employment elasticity that suggests that a 1% increase in out-of-pocket expenses would reduce participation in employment by 0.055%. In the model, this was applied such that each percentage reduction in expenses would increase the probability of working by 0.055 percentage points for single parents or secondary earners who were not already working.

Gong and Breunig's (2017, p. 32) elasticities indicate that hours of formal care are more sensitive than hours of work to changes in out-of-pocket ECEC expenses. This is because some families who are already working replace informal care with formal ECEC after ECEC becomes cheaper. And some families use ECEC for reasons other than work (such as for study, volunteering, housework or social activities). Further, hours of ECEC are typically lower than hours of work, which means that the same hours increase can appear as a larger percentage increase for hours of ECEC due to its lower base.

⁶ First, the aggregate number of additional care hours that would result from a 1% fall in out-of-pocket expenses was estimated as 0.203% of the number of reported formal care hours (weighted by SIH person weights). Second, the number of hours attributed to families entering care was calculated, assuming that 0.125% of families (based on Gong and Breunig's (2017, p. 32) estimated elasticities) who were not using formal care would start using ten hours. The difference between these two numbers is attributed to the increase in hours by families using formal care for fewer than five days. The percentage increase in hours for this group is calculated to form the new elasticity.

⁷ The application of this elasticity follows an approach similar to that taken by the Grattan Institute (Wood, Griffiths and Emslie 2020, pp. 79–80), except the Commission's approach involves simulating individual families' use of formal care, while the Grattan Institute's approach estimated an average effect across all non-users of formal care.

F.2 Estimating changes to work and ECEC hours

Establishing baseline behaviour before the policy change

CCS policy changes have occurred since the 2019-20 SIH data were collected — in particular, changes to CCS rates in 2023 via the Cheaper Child Care package.⁸ Therefore, new baseline levels of ECEC hours and work hours have to be modelled to reflect current policies. This involved the following steps.

Step 1: Estimate the percentage difference in the out-of-pocket expense of an extra day of ECEC for each family, when compared with the out-of-pocket expense of an extra day of ECEC before the policy change.⁹

1. Calculate CCS rates and higher CCS rates for each family under the income test, using estimated 2022-23 family income levels, before and after the 2023 policy changes.
2. Given reported formal care hours, calculate weekly subsidised and unsubsidised hours of care per child under the activity test (which did not change in 2023).
3. Calculate weekly subsidised and unsubsidised hours of care if formal care were to increase by one day (10 hours) per week (up to a maximum of five days).
4. Estimate out-of-pocket expenses for an extra day of formal care before and after the 2023 policy changes, based on assumed ECEC fees, number of children, estimated CCS rates and subsidised and unsubsidised care hours.
5. Estimate the percentage change in out-of-pocket expenses of an extra day of formal care after the policy change.

Step 2: Apply elasticities to estimate changes in hours of formal care and hours of work.

- a) Estimate the increase in hours of formal care per child for each family that uses formal care for fewer than five days a week.

⁸ The effect of other smaller policy changes such as the increase in higher CCS for families with multiple children in 2022, and the removal of the annual CCS cap in 2021, are not modelled in the baseline.

⁹ One of the primary departures from the Grattan Institute (Wood, Griffiths and Emslie 2020, pp. 78–81) approach is that ECEC hours are no longer based on data for work hours for each single parent or secondary earner. This departure was required in order to implement the activity test, and allows families to use formal care without necessarily working. The Grattan Institute approach calculated out-of-pocket expenses assuming that higher family incomes from an *additional day of work* (equal to an additional day of ECEC) reduced CCS rates. In this inquiry's preliminary model, family income and activity levels are assumed to be unchanged when investigating the change in out-of-pocket expenses from an *additional day of ECEC*. If an extra day of work is considered as well, higher family incomes would tend to reduce the CCS rate while higher activity levels would tend to increase subsidised hours, leading to an ambiguous direction of effect on the size of subsidies and expenses associated with an additional day. This ambiguity is amplified when comparing the change in expenses of an additional day before the policy change with the change in expenses after the policy change. For example, working an additional day may make a family eligible for more subsidised hours under current policies and as such have a *fall in out-of-pocket expenses* associated with an extra day of work and care. Under a policy that relaxes the activity test, that fall in expenses no longer applies, making the *marginal expense* of the extra day of work *higher* after the policy change (even if the absolute expense is lower). If applied to the current methodology, the increase in *marginal expenses* would lead to a fall in modelled care hours. This highlights the complexity of making work decisions in the context of care. This complexity is currently assumed away for ease of modelling and interpretation.

- b) Estimate the probability of entering formal care. A subset of families that were not using formal care are assumed to begin using formal care based on their individual probabilities. They are assumed to begin using one day (10 hours) of formal care per child each week.¹⁰
- c) Estimate the increase in hours of work for single parents and secondary earners who are employed and working fewer than five days a week.
- d) Estimate the probability of entering work. A subset of single parents and secondary earners are assumed to enter employment based on their individual probabilities. They are assumed to begin working one day (8 hours) per week.¹¹

The resulting baseline dataset, reflecting 2023 policy changes, includes updated hours of formal care, hours of work and family incomes based on the additional hours of work.

Estimating behavioural changes after policy change

Changes in hours of care and work between the new baseline scenario and each policy option are estimated in a similar way to **step 1** and **step 2** above. Step 1 parts a, b and c incorporate the different CCS rates and subsidised care hours under the policy options investigated.

For policy options that involve relaxing or removing the activity test to allow families at least three days of subsidised ECEC (paper 6), further adjustments are made to reflect the fact that families will likely be considering changes in hours of work and care in greater increments than a single day, especially if they were previously eligible for fewer than three days of subsidised ECEC. Under step 1, the number of extra days of ECEC considered in calculating the change in out-of-pocket expenses depends on the current number of days that families are using ECEC: families not using ECEC are assumed to consider the change in expenses over three days per child; families using one day of ECEC consider the change in expenses over an extra two days; and all other families consider the change in expenses over an extra one day. Under step 2 parts b and d, the number of ECEC days and work days that families enter into reflect that same number of extra days considered under step 1.

F.3 Estimating changes in fiscal costs

CCS policy changes could affect fiscal costs through increased CCS outlays, as well as increases in income tax revenues and reductions in transfer payments from parents increasing their labour force participation. The methods used to estimate changes in CCS outlays and income tax revenues are described below. Reductions in transfer payments were not estimated as part of this preliminary modelling due to the complexity of the transfer system, but illustrative scenarios of the potential effects are presented in appendix D.

Estimating changes in CCS outlays

The sum of estimated subsidies in the SIH data (weighted to population values using SIH weights), as calculated using the approach described in section F.2, is less than the amount that the Australian

¹⁰ The Grattan Institute's (Wood, Griffiths and Emslie 2020, p. 79) approach assumed that single parents and secondary earners entering the workforce would work one day per week. This inquiry's preliminary model also assumes that those entering work or entering formal care will do so by one day a week, as a minimum. However, for policy options that involve relaxing or removing the activity test, adjustments are made to reflect the fact that families will likely consider changes in hours of work and care in greater increments than a single day.

¹¹ See previous footnote.

Government provides in CCS payments. This could be due to underreporting of formal care in the SIH data, which was not benchmarked to administrative data in this preliminary model. Therefore, taking absolute changes in the size of subsidies from the SIH would understate the possible fiscal costs from policy change.

Following the approach used by the Grattan Institute (Wood, Griffiths and Emslie 2020, p. 78), aggregate CCS expenditure was benchmarked to actual CCS expenditure. The SIH data was used to calculate the proportional increase in aggregate subsidies paid to families after a policy change, and this proportional increase was applied to a baseline benchmark of \$12.7 billion (the amount the government is expected to provide in CCS payments in 2023-24 after the Cheaper Child Care policy changes (DoE 2023b)).¹²

These fiscal costs were estimated both before and after behavioural effects of the policy change as follows.

Step 3: Estimate CCS outlays before and after behavioural change.

- a) **Baseline subsidy:** Calculate the weekly subsidy paid to each family under baseline hours of care and work, using baseline CCS rates and subsidised hours.
- b) **Policy subsidy, no behaviour change:** Calculate the weekly subsidy paid to each family under baseline hours of care and work, using policy CCS rates and subsidised hours.
- c) **Policy subsidy, with behaviour change:** Calculate the weekly subsidy paid to each family under estimated hours of care and work after behavioural effects, using policy CCS rates and subsidised hours.
- d) Calculate aggregate subsidies across the population for each of a, b and c, through sums of family subsidies under each scenario (weighted to population values using SIH weights).
- e) Calculate proportional increases of the aggregate policy subsidy amounts from the aggregate baseline subsidy amount.
- f) Apply the proportional increases to the benchmark value of the aggregate baseline subsidy (\$12.7 billion), to estimate the aggregate size of subsidies after the policy, both before and after behavioural change.

For the analysis of policy options that involve relaxing or removing the activity test, estimated fiscal costs were further adjusted, to account for the observation that assumptions made using the SIH data tended to overstate the total number of unsubsidised hours of care that families have under the activity test (section F.1). Based on the Commission's analysis of the Department of Education's CCS administrative data (unpublished), it was assumed that relaxing the activity test would lead to a 1% increase in CCS outlays without behavioural change. This was used to adjust CCS outlays as follows.

Step 3 adjustment: Adjust CCS outlays for policy options that involve relaxing or removing the activity test.

- a) 1% of \$12.7 billion was assumed to be the increase in CCS outlays before behavioural change for policy option 1 (relaxing the activity test to allow all families at least three days of subsidised ECEC per week).
- b) Calculate the dollar difference between the above value and the model's estimated CCS outlay from policy option 1 before behavioural change.
- c) Subtract the value b from the model's estimated CCS outlays across each policy option that involves relaxing or removing the activity test.

¹² The estimated \$12.7 billion in CCS payments includes CCS paid to families with children aged over 5 years attending outside school hours care, who are not captured by the model and may have different considerations in their choices of hours of ECEC. Using this figure as the baseline benchmark could therefore overestimate the costs of reform. That said, OSHC only made up about 8% of total subsidies in the December quarter 2022 (DoE 2023a, table 4.2).

Estimating changes in income tax revenues

Increases in government revenues from income tax and the Medicare levy were estimated as follows.

Step 4: Estimate increase in income tax revenue after the behavioural change.

- a) Calculate the individual taxable income for each single parent or secondary earner, as well as the family's income, before and after the policy change taking into account changes in work hours.
- b) Estimate income tax paid before and after the policy change by applying income tax policy thresholds to individual taxable income for each single parent or secondary earner.
- c) Estimate Medicare levy paid before and after the policy change by applying Medicare levy policy rules to individual and family incomes, and number of children.
- d) Calculate the aggregate change in income tax including Medicare levy, based on b and c (weighted to population values using SIH weights).

F.4 Limitations of the preliminary modelling

The modelling for the final inquiry report will aim to improve on some of the limitations of the preliminary modelling and that report will also present sensitivity testing to illustrate the effect of certain changes to assumptions. Some of the limitations that will be improved upon are outlined below.

- The preliminary modelling focuses solely on behavioural effects for families with children aged 0–5 years, excluding school aged children attending outside school hours care. *The behavioural microsimulation will include children attending outside school hours care.*
- Broad-based elasticities are applied to every family. However, it is likely that different types of families would respond differently to changes in out-of-pocket expenses, for example based on whether they are a single parent, their family income levels and number of children. *The behavioural microsimulation will have preference equations that use family-specific characteristics to determine preferences, and will use a calibration method to adjust the preferences of each family to reflect their observed individual choices of labour supply and ECEC demand. Individual estimation of preferences enables more nuanced analysis of potential behavioural changes in responses to declines in out-of-pocket expenses.*
- The application of broad-based, population-level hours elasticities also means that some individual families may see only a small increase in hours of work or care (for example, an increase of less than an hour) after a policy change. In actuality, families are unlikely to make decisions about hours of work or care in such small increments. Therefore, the modelled changes should be interpreted in aggregate terms rather than for individual families. Even though the modelled results for each family may indicate a small increase, in reality this could play out as some families increasing their hours by a day while other families make no change. *The behavioural microsimulation modelling ensures that families make decisions in larger hours increments, but families still have a limited number of hours options that they can choose from.*
- Elasticities for entering formal care and entering work are applied to individual families independently. This could mean that some families only enter work without entering care, or vice versa. Similar to the above point, these behavioural responses may not make sense at an individual level, but will produce appropriate results in aggregate. *The behavioural microsimulation considers work and care choices simultaneously for each family.*
- The potential for reductions in labour force participation arising from relaxing the activity test are not captured in this model, although empirical evidence suggests this effect may be small (paper 6). *The behavioural microsimulation will allow for the possibility that some families choose to reduce their labour force participation.*

- Increases in labour supply and ECEC demand are assumed to be fully accommodated by the labour and ECEC markets, without any changes in wages or ECEC fees. *The final report modelling will illustrate the sensitivity of results to changes in wages and ECEC fees.*
- ECEC fees are assumed to be the same across all families at \$115 per 10-hour day per child. In actuality, different families will face different fees, and some may exceed the hourly rate cap. This would affect their amount of subsidy received and out-of-pocket expenses, and hence their behavioural responses. Higher-income families in particular may use ECEC services with higher fees, and under certain policy options that increase subsidy rates, this could lead them to receive larger increases in subsidies that are not captured in the model. *For the final report, ECEC fees in the behavioural microsimulation will exhibit greater variation.*
- Hours of ECEC in total and hours of subsidised ECEC inferred from the SIH data may not accurately reflect administrative data. *The behavioural microsimulation modelling will seek to make greater use of administrative data in the underlying dataset and benchmarking.*
- Changes to transfer payments are not estimated. *The behavioural microsimulation captures the broader Australian Government tax and transfer system and will be able to estimate fiscal effects of changes to transfer payments and tax receipts.*

While some limitations will be addressed by behavioural microsimulation modelling for the final report, there are some aspects of the CCS that will remain difficult to incorporate. For example, eligibility for the Additional Child Care Subsidy (which provides extra support for some families usually on a temporary basis) is difficult to capture using survey data. The myriad exemptions to the activity test are also difficult to accurately capture.

In addition, there are costs and benefits of CCS policy changes that the model will not be designed to estimate, including effects relating to:

- reducing administrative complexity
- reducing misunderstanding and concerns about incurring CCS debt
- increasing certainty in parents' access to a number of hours of subsidised ECEC while searching for a job
- supporting educational outcomes for children, particularly children from disadvantaged families
- the time it takes for behavioural changes to occur.

Many of these broader effects are discussed in the report and paper 6.

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Glossary

Term	Description
Activity test	An assessment of the combined hours of work, training, study, recognised voluntary work or other recognised activity undertaken by a family. The activity test is used to determine the number of subsidised hours that a family is entitled to through the Child Care Subsidy.
Centre-based day care	Early childhood education and care that is provided in licensed or registered centres. It can include any pattern or arrangement of care provided in this setting but is primarily focused on children up to 6 years of age. This term incorporates long day care and care provided on an occasional basis.
Child Care Subsidy (CCS)	Government assistance to help families with the cost of ECEC.
CCS-approved services	A service that is authorised under Family Assistance Law to operate and administer the Child Care Subsidy. An approved service can provide centre-based day care, family day care, outside school hours care or in home care.
Dedicated preschool	Services that only provide sessions of preschool to children. This comprises standalone preschools and preschools co-located as part of a school. Dedicated preschools are not approved services for the purposes of the Child Care Subsidy, and instead are co-funded by the Australian Government and state and territory governments.
Early Childhood Education and Care (ECEC)	Any service providing or intending to provide education and care on a regular basis to children under 13 years of age. The main forms of ECEC catering to children before they start school are centre-based day care, preschool, family day care; outside school hours care is generally attended by school age children.
Early Childhood Teachers (ECTs)	Holders of an early childhood teaching qualification that has been approved by the Australian Children's Education and Care Quality Authority (ACECQA). Such qualifications are typically bachelor's-level or higher.
Educators	People who provide education and care to children who are not early childhood teachers. Depending on the ECEC setting they work in, educators are often required to hold a Certificate III or diploma-level VET qualification that has been approved by the Australian Children's Education and Care Quality Authority (ACECQA).
Family day care	A type of ECEC that is usually provided in the home of an educator.
Formal care	Regulated care and early learning services for children. These services are government regulated and most receive public funding and/or subsidies. This includes, for example, centre-based day care, outside school hours care, family day care, in home care and preschool.

Hourly fee	The hourly fee of ECEC services. This is calculated by dividing total fees charged by total hours charged.
Hourly rate cap	The maximum fee up to which the Australian Government will subsidise ECEC through the Child Care Subsidy.
In Home Care	A flexible form of ECEC where an educator provides care in the child's home. It is restricted to households who are unable to access other forms of ECEC.
Informal care	Refers to non-regulated care and includes care provided by relatives, friends, neighbours, nannies, au pairs and babysitters, both on a paid and unpaid basis.
Long day care	A centre-based form of service that provides all-day or part-time care for children aged birth to six who attend on a regular basis.
National Quality Framework (NQF)	A jointly governed uniform national approach to the regulation and quality assessment of ECEC services, including a national legislative framework that consists of the National Law and National Regulations; a National Quality Standard; and an assessment and rating system.
National Quality Standard (NQS)	A national quality benchmark for ECEC services covered by the National Quality Framework.
Out-of-pocket expenses	The expenses to households, calculated as fees charged less the Child Care Subsidy (including any Additional Child Care Subsidy).
Outside school hours care	A service that provides ECEC for before and after school hours and during school vacations for children who normally attend school.
Preschool	An early childhood education program, delivered by a qualified teacher, often but not necessarily on a sessional basis in a dedicated service. Alternative terms used for preschool include kindergarten, pre-preparatory and reception.
Remoteness areas	Remoteness Areas divide Australia into 5 classes of remoteness which are characterised by a measure of relative geographic access to services. These classes are major cities, inner regional, outer regional, remote and very remote.
Socio-Economic Indexes for Areas (SEIFA)	This index combines Census data such as income, education, employment, occupation, housing and family structure to summarise the socio-economic characteristics of an area.
Statistical areas	Geographic areas specified by the Australian Bureau of Statistics.
Subsidised hours	Hours eligible for Child Care Subsidy to help families with the cost of ECEC.

Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACCO	Aboriginal Community-Controlled Organisation
ACCS	Additional Child Care Subsidy
ACECQA	Australian Children's Education and Care Quality Authority
AEDC	Australian Early Development Census
AEDI	Australian Early Development Index
AIFS	Australian Institute of Family Studies
AIHW	Australian Institute of Health and Welfare
ANZSIC	Australian and New Zealand Standard Industrial Classification
ASQA	Australian Skills Quality Authority
ATO	Australian Taxation Office
BBF	Budget Based Funded
CALD	Culturally and linguistically diverse
CBDC	Centre-based day care
CCB	Child Care Benefit
CCCF	Community Child Care Fund
CCR	Child Care Rebate
CCS	Child Care Subsidy
COAG	Council of Australian Governments
CPI	Consumer Price Index
DAMA	Designated area migration agreement
DDA	<i>Disability Discrimination Act 1992 (Cth)</i>
DEWR	Department of Employment and Workplace Relations
DOE	Department of Education
DHS	Department of Human Services
DSE	<i>Disability Standards for Education 2005 (Cth)</i>
DSS	Department of Social Services
ECCD SSP	Early Childhood Care and Development Sector Strengthening Plans
ECEC	Early Childhood Education and Care
ECT	Early childhood teacher
EMTR	Effective marginal tax rate

FDC	Family day care
FTB	Family Tax Benefit
FTE	Full-time equivalent
GDP	Gross Domestic Product
HALT	Highly accomplished and lead teachers
HCCS	Higher Child Care Subsidy
HILDA	Household, Income and Labour Dynamics in Australia (HILDA) Survey
ICFC	Integrated Child and Family Centre
IDF	Inclusion Development Fund
IHC	In Home Care
ISP	Inclusion Support Program
LDC	Long day care
LSAC	Longitudinal Study of Australian Children
LSIC	Longitudinal Study of Indigenous Children
NAPLAN	National Assessment Program — Literacy and Numeracy
NDIS	National Disability Insurance Scheme
NPA	National Partnership Agreement
NQF	National Quality Framework
NQS	National Quality Standard
OCC	Occasional care
OECD	Organisation for Economic Co-operation and Development
OOP	Out of pocket (expenses)
OSHC	Outside School Hours Care
PPL	Paid Parental Leave scheme
PRA	Preschool Reform Agreement
SEIFA	Socio-Economic Index for Areas
SES	Socio-economic status
SIH	Survey of Income and Housing
SRS	Schooling Resource Standard
SSC	State Services Commission
SSP	Sector Strengthening Plan
VAC	Vacation care
VET	Vocational Education and Training
WDR	Workforce Disincentive Rate
