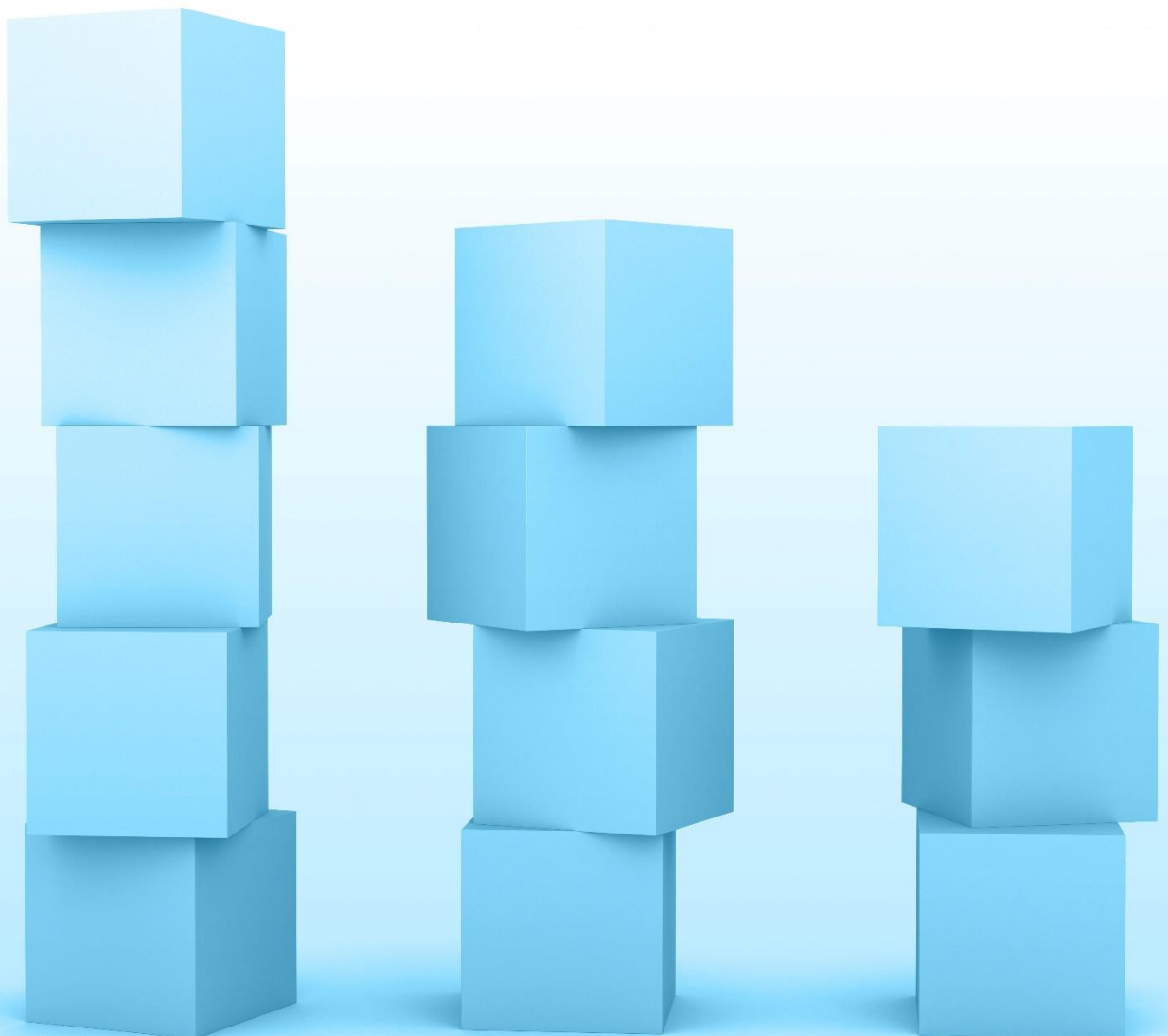




A path to universal early childhood education and care

Inquiry report – *volume 1*



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.

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28 June 2024

The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

In accordance with section 11 of the *Productivity Commission Act 1998*, we have pleasure in submitting to you the Commission's final report into *Early childhood education and care*.

Yours sincerely,

Handwritten signature of Martin Stokie in black ink.

Martin Stokie
Presiding Commissioner

Handwritten signature of Lisa Gropp in black ink.

Lisa Gropp
Commissioner

Handwritten signature of Deborah Brennan in black ink.

Deborah Brennan
Associate Commissioner

Foreword

The Australian, state and territory governments share responsibility for the early childhood education and care (ECEC) sector, which comprises centre-based day care, preschools, family day care, outside school hours care and in home care.

The Australian Government asked the Productivity Commission to undertake an inquiry into the ECEC sector in Australia and 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.

The report presents the Commission's analysis and assessment of progress towards these policy goals under the current policy, regulatory, funding and governance settings, and presents recommendations to improve upon these settings as a pathway forward to achieve a universal ECEC system. In making recommendations, the Commission has had a particular focus on removing barriers to and encouraging participation in ECEC for children and families who are experiencing vulnerability and disadvantage.

Professor Brennan has provided a supplementary statement on the operation and adequacy of the market, including types of care and the roles of for-profit and not-for-profit providers.

In undertaking this inquiry, the Commission has benefited from engagement with ECEC services, educators and early childhood teachers from around the country, in addition to families who attend ECEC services, unions, advocacy groups and academics. The Commission also engaged with officials from Australian, state and territory government departments and regulatory agencies. Through commissioned consultations, the Commission was able to understand and recognise the perspectives of children who attend ECEC services in a range of settings.

The Commissioners would like to express their appreciation to everyone who contributed their views and expertise.

Martin Stokie

Presiding Commissioner

Lisa Gropp

Commissioner

Prof Deborah Brennan

Associate Commissioner

June 2024

Terms of reference

Review of early childhood education and care

I, Dr 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 Dr 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.

Contents

The Commission's final report is in two parts. The inquiry report – volume 1 – includes an executive summary and the recommendations of the inquiry. The supporting papers and appendices – volumes 2 and 3 – provides further detail on each of the main topics covered in the inquiry report.

Early Childhood Education and Care – volume 1

Transmittal letter	iii
Foreword	iv
Terms of reference	v
Acknowledgments	x
Final report	1
Key points	2
Executive summary	4
1. A universal ECEC system that supports better outcomes for Australia's children and families	8
2. The ECEC system reaches many children and families but falls short in supporting those who would benefit most	9
3. Delivering high-quality ECEC requires more commitment from governments	25
4. Improving availability should underpin a universal ECEC system	27
5. Addressing affordability barriers to ensure equitable support for families	30
6. Enhanced focus on inclusion is a critical part of universal ECEC	40
7. The ECEC workforce is fundamental to reform	44
8. Governments will have to work together to achieve a universal ECEC system	46
9. What does success look like?	52
Recommendations and findings	57

Supporting papers and appendices – volumes 2 and 3

Volumes 2 and 3 contain supporting papers that provide further detail on each of the main topics covered in this report and appendices A to H. They are available on the Commission's website: pc.gov.au/childhood.

Acknowledgements

The Commission would like to acknowledge the assistance and support of other Australian Government bodies in the preparation of this report.

- The Australian Government Department of Employment and Workplace Relations worked closely with Commission staff to develop and implement the economic modelling that is included in this report.
- The Australian Government Department of Education shared data and background information that underpinned much of the analytical work.
- The Australian Bureau of Statistics facilitated access to datasets and contributed technical expertise in data linkage.
- The Australian Children's Education and Care Quality Authority provided data and background information.

The Front Project and the Creche and Kindergarten Association were engaged by the Commission to conduct consultations with children in preschool. Associate Professor Jennifer Cartmel and her team at Griffith University were engaged to conduct consultations with children in outside school hours care. Their findings are published alongside this inquiry report.

Prof. Guyonne Kalb and Tim Murray refereed the economic modelling work. Dr. Dan Cloney provided a rapid review of the summary of the literature on children's outcomes in supporting paper 1.

The Commissioners express their appreciation to the staff who worked on the inquiry report – Assistant Commissioners Lou Will and Miriam Veisman-Apter, who managed the inquiry, and other team members including: Mark Bryant, Rebecca Chin, Peter Bon, Belinda Cheong, Melisa Bubonya, Grace Tang, Roland Allen, Nick Fransen, Nicholas Sladden, Angela Kim, Holly Creek, Guy McInnes, Hiran Gamlath, Louisa Borland, Michelle de Ruyter, Phil Smith, Monica Wang and Ben Cochrane. Our thanks are also extended to Yvette Goss for administrative and project support.

Early Childhood Education and Care

Inquiry report

Key points

- * Early childhood education and care (ECEC) can improve outcomes for children – particularly those experiencing disadvantage and vulnerability – throughout their lives and deliver net community benefits. ECEC is also a critical enabler of parents’ participation in the labour force.**

Governments should work towards creating a high-quality universal ECEC system that is accessible, within the means of all families, equitable and inclusive for all children.
- * ECEC services already play a major role in the lives of many young children and their families but those who would benefit most are missing out.**

 - Following significant expansion, the number of ECEC places available to children has increased by 50% in the decade to 2023. Nearly half of one-year-olds attend some form of ECEC, and about 90% of four-year-olds are enrolled in ECEC. About one-in-seven children aged 5–12 years attend outside school hours care.
 - The expansion of ECEC has enabled an increase in parents’ labour force participation, in particular mothers with children aged 0–4 years. In 2023, three-in-four mothers with children aged 0–4 years were in paid employment.
 - But not all children and families benefit from ECEC. In parts of the country, services are scarce and for some families, ECEC may be unaffordable or not inclusive of all children. Children experiencing disadvantage and vulnerability, while most likely to benefit from ECEC, are less likely to attend.
- * Addressing affordability barriers should be a priority for reform.**

 - 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 children aged 0–12 years. The Higher Child Care Subsidy (HCCS) rate should rise to 100% for families with multiple children aged five and under in ECEC and incomes up to \$140,000. A consistent taper rate should apply to CCS and HCCS, reducing the rate of subsidy by one percentage point for every \$5,000 increase in income.
 - The CCS activity test should be removed. Children’s participation in ECEC should not depend on their parents’ activity.
 - Almost all families using ECEC are expected to benefit from these changes. Half of families would be eligible for CCS rates of 90% or more; nearly 80% would be eligible for CCS rates of over 75%. Attendance at ECEC is expected to rise by 10%, with most of the increase coming from children from low and middle income families.
 - The reform package is expected to increase CCS costs by 37% to reach about \$17.4 billion a year. Of the affordability options assessed, the recommended option is the most cost effective, supporting higher ECEC attendance by the children who would benefit most.
- * All children whose families choose to use ECEC should have access to high-quality services. All families with children aged 0–5 years who choose to use ECEC should be able to access at least 30 hours or three days a week of high-quality ECEC, for 48 weeks a year.**

 - Supply will respond in many areas to deliver this benchmark, in particular once additional subsidies are implemented. But in persistent ‘thin’ markets or communities with complex needs, the Australian Government should provide additional funding to enable the establishment of appropriate services and, where necessary, ensure their ongoing viability.
- * State governments should facilitate the provision of outside school hours care for children aged 5–12 years in public schools, wherever there is sustainable demand. Any impediments to the provision of wrap-around care in dedicated preschool should be removed, to expand the ECEC choices available to working families.**

*** Quality is paramount to achieving the benefits of ECEC. Regulators should be adequately resourced to deliver timely assessments of service quality, take action to tackle persistently poor quality and support continuous quality improvement.**

- By 2030, the proportion of ECEC services that are 'Working Towards the National Quality Standard' should be halved, to reach 5%. Services should not be allowed to hold this rating for longer than two years.

*** Addressing workforce challenges is a priority for expanding the availability of ECEC. This will require governments to focus on accelerated qualification pathways and consistent registration requirements. The pay and conditions offered to the ECEC workforce will likely be improved through processes arising out of recent changes to the Fair Work Act.**

*** All children, regardless of their characteristics or circumstances, should be welcomed and included in ECEC. In 2026, the Australian Government should establish the ECEC Inclusion Fund, which will allocate needs-based funding to CCS-approved ECEC services based on factors related to children's inclusion needs.**

- Pending the establishment of the Inclusion Fund, the Australian Government should immediately improve access to the Inclusion Support Program by increasing funding and streamlining administrative requirements.
- The new Inclusion Fund should take account of the reforms to the National Disability Insurance Scheme, which are likely to see some early intervention supports delivered through ECEC.

*** Aboriginal and Torres Strait Islander children are under-represented in ECEC. Aboriginal community-controlled organisations require a sustainable funding model, which recognises their knowledges and expertise to deliver the ECEC priorities of their communities.**

All ECEC services should be culturally safe. The ECEC workforce should have access to publicly funded professional development to support better cultural safety and inclusion practices.

*** Achieving universal access to ECEC will require long-term commitment and investment. Sequencing reforms will be critical to avoid crowding out children and families experiencing disadvantage.**

The Australian, state and territory governments should sign a new national agreement on ECEC that will outline their respective roles and responsibilities and the objectives they seek to achieve.

- By 2030, governments should work towards expanding access to ECEC in communities experiencing disadvantage, particularly in remote, regional and rural areas. By 2036, all children should have access to at least 30 hours or three days a week of high-quality ECEC for 48 weeks a year.
- By 2030, the proportion of children who are developmentally on track when they start school should rise by five percentage points as a result of greater access to ECEC. The labour force participation of parents is also expected to increase.

*** An independent ECEC Commission should be established to support, advise and monitor governments' progress towards universal access to ECEC.**

- Ongoing evaluation and monitoring by the ECEC Commission should be used to guide the planning of further investment and reform.
- Trials of alternative models of funding and service delivery would help develop an ECEC system that maximises benefits for children and the broader community.

Executive summary

A universal early childhood education and care (ECEC) system is one where all children have access to high-quality services; ECEC services are within the means of all families; and all services welcome and include all children, regardless of their circumstances. Access to affordable, high-quality ECEC can deliver substantial benefits for children, their families and the broader community.

In the terms of reference for this inquiry, the Australian Government stated its commitment to 'chart the course for universal, affordable ECEC'. The Government asked the Productivity Commission to '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'.

This report outlines what a universal ECEC system would look like, and the significant reforms necessary to achieve it. Implementing change on this scale is likely to take years – but the benefits to children and families will emerge at each step along the way.

ECEC supports many children and families – but some still miss out

At its heart, the ECEC system is about children, creating environments where they can thrive, develop, engage and learn from their educators and each other. Children who attend ECEC services describe them as places where they have fun, make friends, learn and explore new places and activities.

Each day, about 1.4 million children aged 0–12 years attend ECEC at 19,000 services across the country. About 90% of four-year-olds are enrolled to attend centre-based day care (CBDC), family day care (FDC) or preschool; and about 15% of 5–12 year olds attend outside school hours care (OSHC). The ECEC system can play a key role in giving children the best start in life and support their transition to full-time school, complementing the critical role of families and of other early childhood development programs and services.

ECEC also supports families as they balance family commitments with work, study and other activities. The expansion of ECEC services has been a key enabler of the growth in the proportion of working parents. In 2023, the proportion of mothers with children aged 0–4 years who participated in the labour force reached 72%, while for mothers with children aged 0–14 years it was 79%. ECEC services offer families information and advice as they navigate their children's early years, as well as linking them to community services, such as allied health. ECEC is a key element of a wider system of services and supports, part of what society as a whole offers for children and families.

Children experiencing disadvantage or vulnerability stand to benefit most from attending high-quality ECEC services. But in the current system they are also most likely to be missing out, as services can be unaffordable, difficult to access or exclude some children with additional needs.

Quality, access and inclusion are the pillars of universal ECEC

Overcoming access gaps will enable all children and families to benefit from ECEC attendance and is likely to create net community benefits by contributing to better outcomes for children as they start school and later in life. To realise these benefits, a universal ECEC system should be high-quality, accessible, inclusive and equitable.

A high-quality ECEC system should give children access to age-appropriate learning experiences, based on the growing body of evidence about what makes a difference in children's early years. The foundation of a high-quality system is educators and teachers, who make a pivotal contribution to children's learning and wellbeing. The ECEC system – and indeed, the community – should recognise the importance of their work with pay and conditions sufficient to attract and retain a qualified workforce.

An accessible ECEC system should overcome availability, affordability and other barriers to access.

The Australian Government should work with state governments and ECEC providers to increase availability, such that all children aged 0–5 years have access to at least 30 hours or three days a week of high-quality ECEC, for 48 weeks of the year. State governments should ensure that OSHC is available in all public schools where there is sustainable demand. In other words, governments should ensure universal access to ECEC.

Equally important is ensuring that ECEC is within the means of all families. Changes to the subsidies that the Australian Government offers to families should focus on those least able to afford ECEC, who currently face higher out-of-pocket expenses than families with larger incomes. And children’s eligibility for subsidised ECEC should not depend on their parents’ activity.

An inclusive ECEC system should enable all children to feel welcome at ECEC services that suit their needs, whether these arise from disability, developmental delay or their cultural background. An inclusive system should also be flexible and responsive to the needs of families.

Achieving a universal ECEC system

Governments and ECEC providers need to make significant changes to achieve universal access to ECEC. This report focuses on changes governments should make to the way they design and implement policy, funding and regulation, creating new governance structures and setting clear aims for reform (figure 1). Government policy will support providers to offer more accessible and inclusive ECEC but should also raise the bar on accountability. Services should continue to improve the quality of ECEC they offer children and families, and work with their communities to create positive and inclusive environments for children.

Phasing reforms over a number of years is critical to ensuring sustainable market development; if changes are made too quickly or without appropriate targeting, there is a real risk that those who need ECEC most will be crowded out of services altogether; services may close if reforms do not provide them adequate support (including funding) while others will expand without maintaining quality.

The reforms recommended by the Commission come at a significant cost. Addressing affordability barriers would likely raise the cost of the Child Care Subsidy (CCS) by 37%, to about \$17.4 billion each year, and further investment would be required to rectify availability and inclusion gaps and support the consistent delivery of high-quality ECEC. However, this is likely to be the most cost-effective pathway to achieving universal access to ECEC. The benefits of these investments will take time to be realised and are difficult to quantify – but focussing on children likely to benefit most means such investment will, in time, lead to net community benefit.

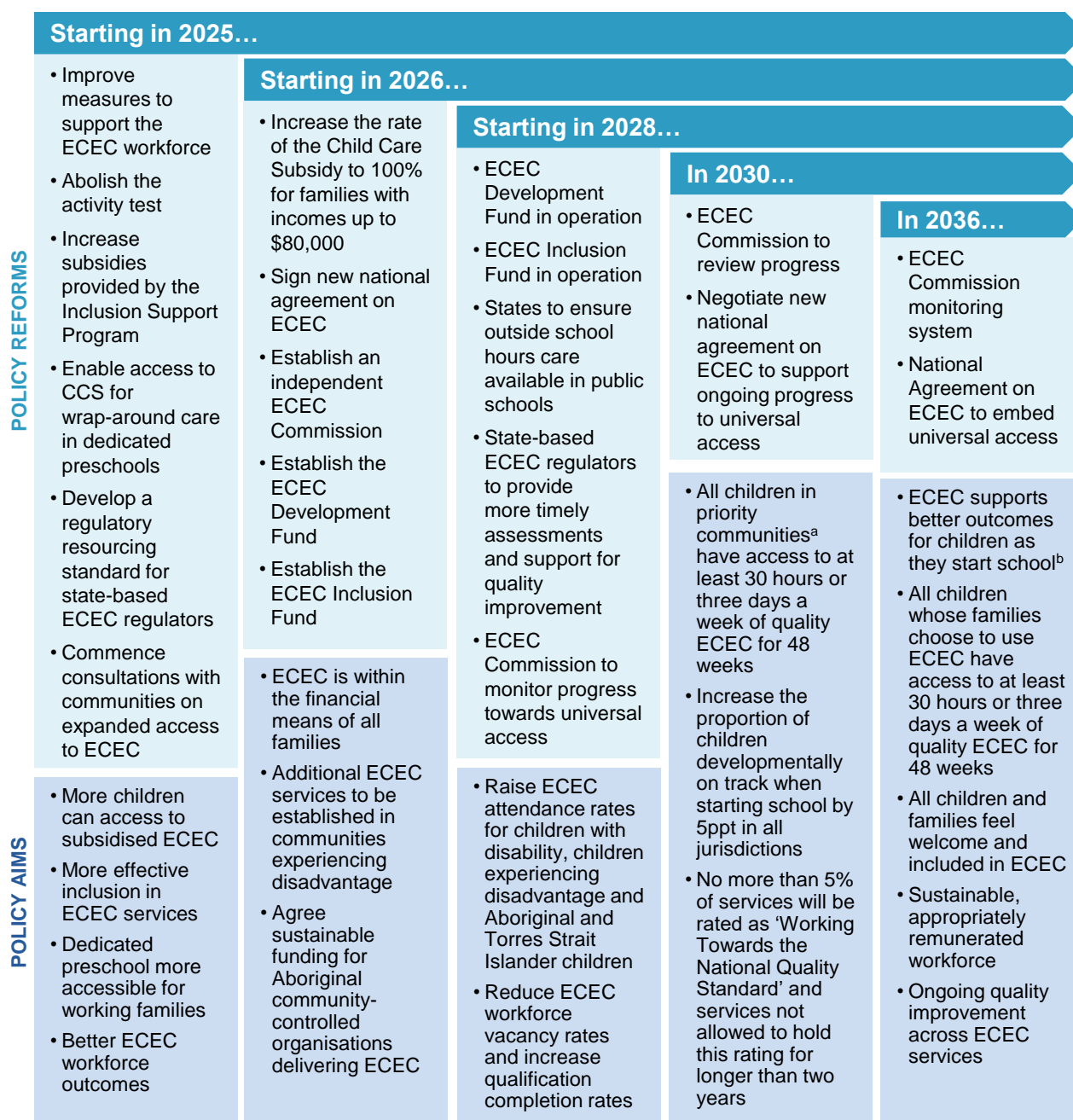
The first two years: a focus on workforce development and affordability

A qualified workforce that can deliver high-quality ECEC is the foundation of reform, and each step along the reform pathway hinges on workforce availability. Governments must first address the challenges the workforce faces, including improving training and career pathways. Separate processes under the *Fair Work Act 2009* (Cth) will likely lead to an increase in wages in the sector, and the Australian Government has indicated its intention to contribute to funding better pay for the ECEC workforce.

Affordability should be a major focus of the first tranche of ECEC reform. As a first step, the activity test that is part of the CCS should be removed, as it limits access to ECEC for those children and families who need it most, without substantial gains in labour force participation. Next, CCS rates should increase, such that families on incomes up to \$80,000 would be eligible for a subsidy rate of 100% of the hourly rate cap, which would make ECEC free in many cases. Streamlining the subsidy taper rate would see almost all families using ECEC eligible for a higher rate.

Governments should start to work towards expanding access to ECEC, consulting with local communities to identify the mix of services required to address needs. Improvements in the CCS would support greater demand for ECEC and are expected to enable the establishment of new ECEC services, particularly in areas of low supply. Where this does not occur, a new ECEC Development Fund would offer funding to service providers (through grants, block funding, or low interest rate loans) to facilitate better access to ECEC.

Figure 1 – Gradual implementation of ECEC reform will deliver benefits for children and families



a. Priority communities are communities experiencing disadvantage where there is low supply of ECEC. b. Outcomes can be tracked through the preschool outcomes measure developed under the Preschool Reform Agreement, and the Australian Early Development Census.

More support should be offered to services to enable the inclusion of children by addressing some of the shortcomings in the existing Inclusion Support Program, such as increasing funding available and simplifying application processes. In tandem with these steps, the Australian Government should start work towards establishing a new ECEC Inclusion Fund.

Governments should also start negotiations towards a new national agreement on ECEC, which will replace the current Preschool Reform Agreement. An independent ECEC Commission should monitor the progress of reforms. A greater measure of accountability is required in the ECEC system, from governments and providers, and an independent commission would have the capacity to provide the necessary levels of transparency.

Longer-term reform: ensuring availability and inclusion

By 2028, measures to support the workforce should see an increase in the completion of ECEC qualifications and lower vacancy rates. More children, particularly those experiencing disadvantage, would attend ECEC. A new funding model for Aboriginal community-controlled organisations delivering ECEC, alongside culturally safe mainstream ECEC services, would support Aboriginal and Torres Strait Islander children and families to thrive in services that understand and respond to their needs and preferences. To ensure ECEC is welcoming to all children, the new Inclusion Fund would provide needs-based funding to services, based on factors associated with children's inclusion needs.

The Development Fund will work with communities to ensure access to ECEC continues to expand. By 2030, all children in communities experiencing disadvantage where there was previously low supply of ECEC should have access to at least 30 hours or three days a week of quality ECEC for 48 weeks of the year. Greater resourcing for the state-based regulatory authorities that oversee ECEC quality would ensure that quality is maintained as access improves. By 2030, fewer than 5% of services – half the rate in 2024 – should be 'Working Towards the National Quality Standard' and no service should hold this rating for longer than two years.

The implementation of these reforms will have a measurable effect on children's outcomes, as reflected in the Australian Early Development Census, and more children will start school developmentally on track. Outcomes for families are also likely to improve, including through their ability to work hours that suit them. Better inclusion policies and greater availability of services will give more families the ability to make choices about how much time they spend working, training, volunteering or studying.

Evaluation will be a critical part of sustaining reform, including learning from trials of innovative approaches to service delivery and funding. Improved data collections, such as the preschool outcomes measure, would give families and policy makers better information when they make choices about ECEC – whether it is choosing a service or identifying the policies that will lead to greatest community benefit. The ECEC Commission should oversee a comprehensive evaluation and research agenda, to collect additional data and continue to build the evidence base on what works in ECEC. This would enable the ECEC system to maintain its focus on ongoing quality improvement.

This report recognises the significant contribution the ECEC system has made in supporting important outcomes for children, families and communities for over a century. Its recommendations chart a path that will enable the ECEC system to support better outcomes for all children and families – particularly those currently missing out – and deliver benefits across the community into the future.

1. A universal ECEC system that supports better outcomes for Australia's children and families

A universal early childhood education and care (ECEC) system – where high-quality services are accessible to **all** children and families, regardless of income, location or background – can support better outcomes and create benefits across the community.

In the terms of reference for this inquiry, the Australian Government stated its commitment to 'chart the course for universal, affordable ECEC'. The Government asked the Productivity Commission to examine the ECEC sector and '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'. Since receiving the terms of reference in February 2023, the Commission has consulted with over 180 individuals and organisations in all states and territories, held 12 days of public hearings and three roundtables, and received 329 submissions and 272 brief comments from a wide range of stakeholders. The Commission is grateful for the public engagement and input in developing the recommendations and findings of this report.

A universal ECEC system would enable children who are missing out on the benefits of ECEC to participate, if their parents so choose. It would give all children the opportunity to benefit from education and care services that centre their needs and give them space to play, form relationships with peers and educators, use their imagination and learn. Aboriginal and Torres Strait Islander children would be able to access services that recognise and celebrate their strong connections to culture, either in mainstream ECEC or in services provided by Aboriginal community-controlled organisations.

For families, a universal ECEC system would enable more parents and caregivers to balance their family responsibilities with work, training, study or volunteering. ECEC would be within the means of all families, including fully subsidised services in some circumstances. The ECEC system would also be more effective in helping families to access other support services and build connections across the community.

For the community, a universal ECEC system would see better outcomes across a number of domains; research has shown that attending high-quality ECEC can lead to better educational, employment and health outcomes later in life, especially for children experiencing disadvantage. Creating a universal ECEC system, in line with the recommendations included in this report, would come at a cost but the likely social benefits would be greater.

To achieve these benefits, the ECEC system must be:

- high-quality
- accessible, such that it overcomes availability, affordability and other barriers to access
- inclusive and equitable.

A comprehensive, long-term reform agenda to improve quality, accessibility and inclusion is necessary to achieve a universal ECEC system. This report outlines the reform pathway for governments.

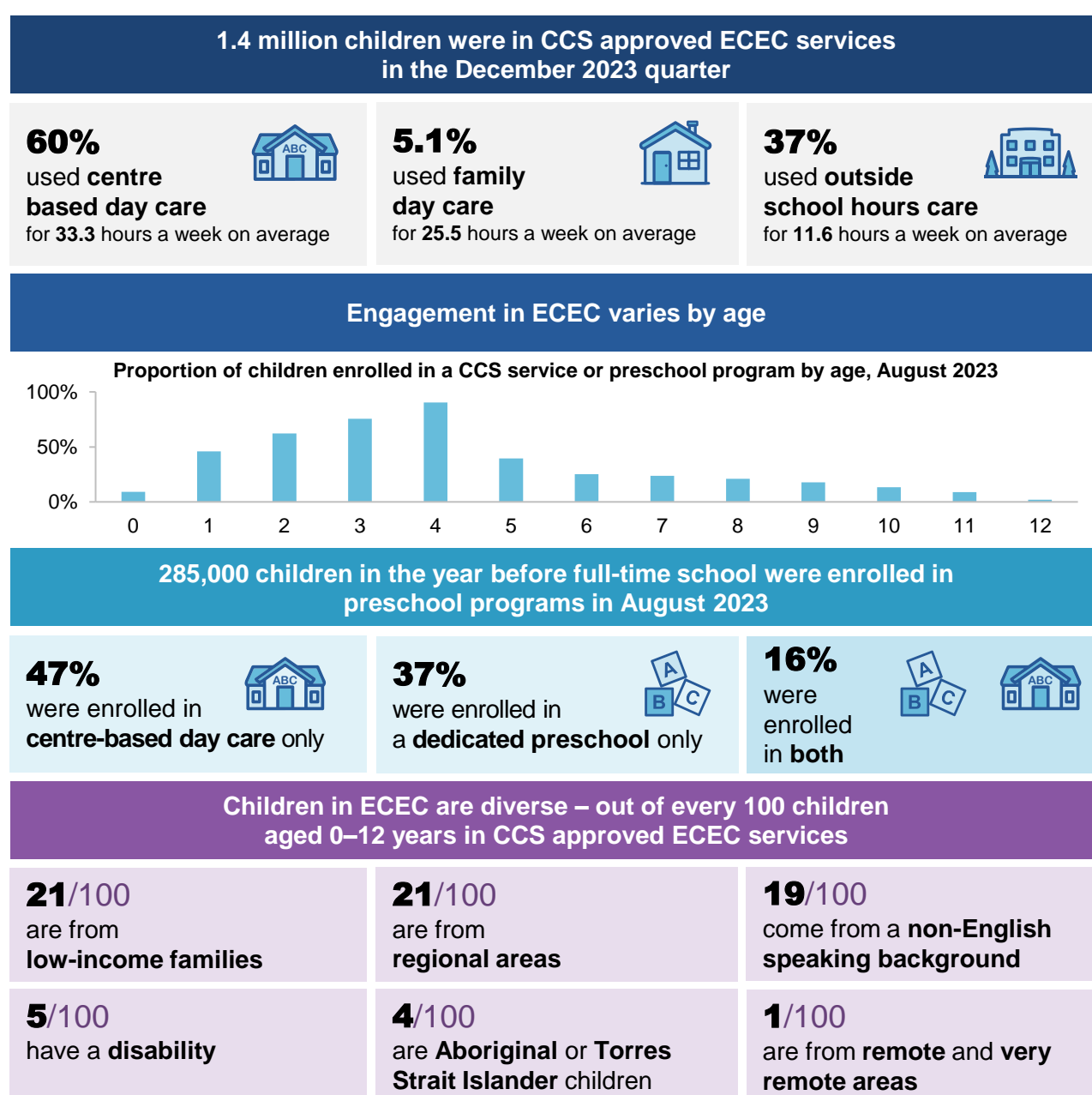
Reforms must be underpinned by effective and efficient approaches to government funding, regulation and governance in line with governments' responsibility for enhancing community-wide wellbeing. Governments must coordinate their efforts to achieve a universal ECEC system, and work towards clear objectives – including increasing the proportion of children who are developmentally on track when they start school and expanding ECEC availability in areas of low supply.

Achieving these reforms will build on the achievements of the ECEC system, recognising its important role in the lives of many children and families.

2. The ECEC system reaches many children and families but falls short in supporting those who would benefit most

The ECEC system has expanded significantly over the past decade, enabling more children to attend and more parents to work. Many children attend ECEC services, whether in CBDC, dedicated preschool, FDC, OSHC or other types of services (figure 1). In 2021, ECEC attendance rates (excluding dedicated preschool) of children aged 0–5 years reached 57%.

Figure 1 – More than 1.4 million children attend ECEC services



The services that comprise the ECEC system can offer children different experiences, reflecting the evolution of the system and the policies that affect it. Most four-year-old children, for example, are enrolled in a 'preschool program' – but this can be in CBDC run by a private provider and operating for 12 hours a day, 48 weeks of the year, or in a standalone service that is open only during school terms and is limited in its hours of operation. One-in-six children are enrolled in both types of service in the year before full-time school – and many more experience both formal and informal care (which is provided primarily by grandparents).

By enabling parents – particularly mothers – to make choices about their preferred balance of caring for children and other activities, including work, ECEC can contribute to the wellbeing of families. Working increases family income, which is beneficial for children and parents. It also allows parents 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 with children under 15 increased from 68% to 79% in the decade to 2023, particularly due to an increase in the participation of mothers with children aged 0–4 years. The participation rate of fathers with children under 15 years was consistently high (over 90%) and higher than for other men.

ECEC availability and affordability remain a barrier to work for some parents. Removing these barriers has the potential to increase their labour supply, but non-ECEC factors, particularly withdrawal of transfer payments, can create a strong disincentive to work for some parents (box 1). A comprehensive discussion of the effects of ECEC on labour force participation is in papers 4 and 6, and appendix F.

Box 1 – ECEC's contribution to changes in labour force participation

The increased availability of ECEC has been one of the major factors that supported a significant increase in the labour force participation of mothers over the past three decades. Mothers are not only more likely to work, but they are also more likely to work full-time – although part-time employment remains the norm.

Patterns of labour supply among women with children aged under 15 years vary markedly depending on their household income. Mothers from lower income households are much less likely to be employed, and when they do work, to work full-time or to be content with their hours if working part-time.

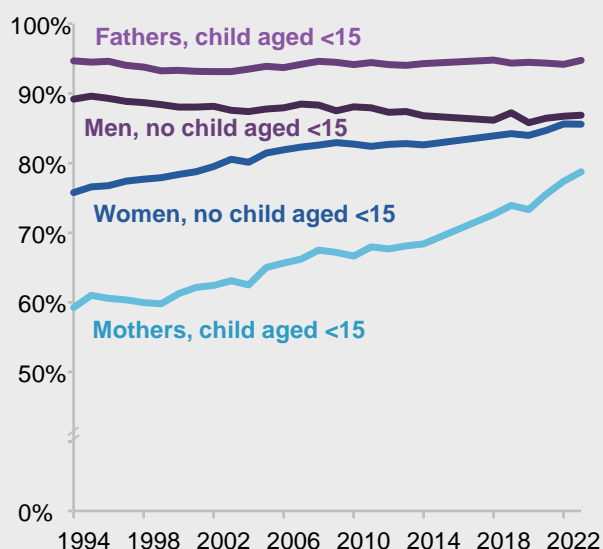
Many issues affect the decision to work, and how much to work. For parents, these can include their personal preferences for paid work compared to other activities, such as caring for children or studying; their personal characteristics, such as education and health status; their family characteristics, including income and expenses; economic and policy circumstances, which may include tax and transfer policy; the state of the labour market; gender norms and wage gaps; and the availability and affordability of ECEC.

Two million parents reported facing a barrier to work or to working more hours in 2022-23. Of this group, 55% nominated 'caring for children' as their main reason for not increasing their labour supply; and among these parents, 70% said they preferred to care for their children or that their children were too young/old for ECEC. The remaining 30% (or 328,000 people) nominated ECEC-related barriers, including cost, availability and quality. If *all* ECEC-related barriers were reduced, these parents might be able to increase their labour supply, which would see the labour force expand by 143,000 full-time equivalent workers. But other factors could still limit their labour force participation.

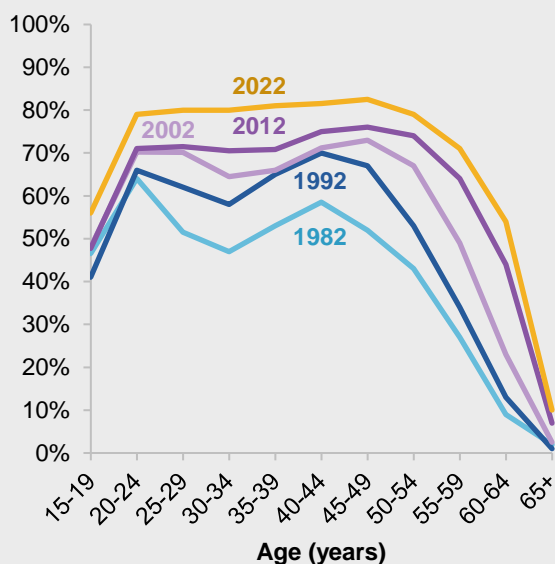
While out-of-pocket expenses related to ECEC are one of the barriers that parents may face, their effects on labour supply decisions can be weaker than other factors. Workforce disincentive rates (WDRs) measure the combined effect of income tax, the withdrawal of transfer payments and out-of-pocket ECEC expenses on a person's take home earnings.

More mothers are working – and maintaining their employment over time

Participation rates for men and women aged 25–54, 1994–2023

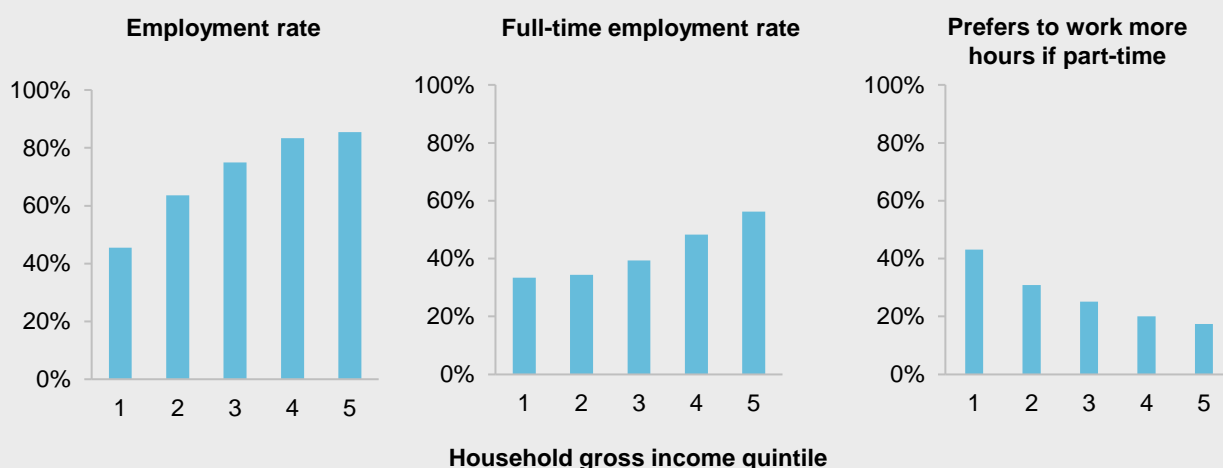


Female participation rates by age, 1982–2022



Mothers from lower-income households are much less likely to work

Employment status of mothers with a child aged <15 years by household gross income quintile, 2015–21



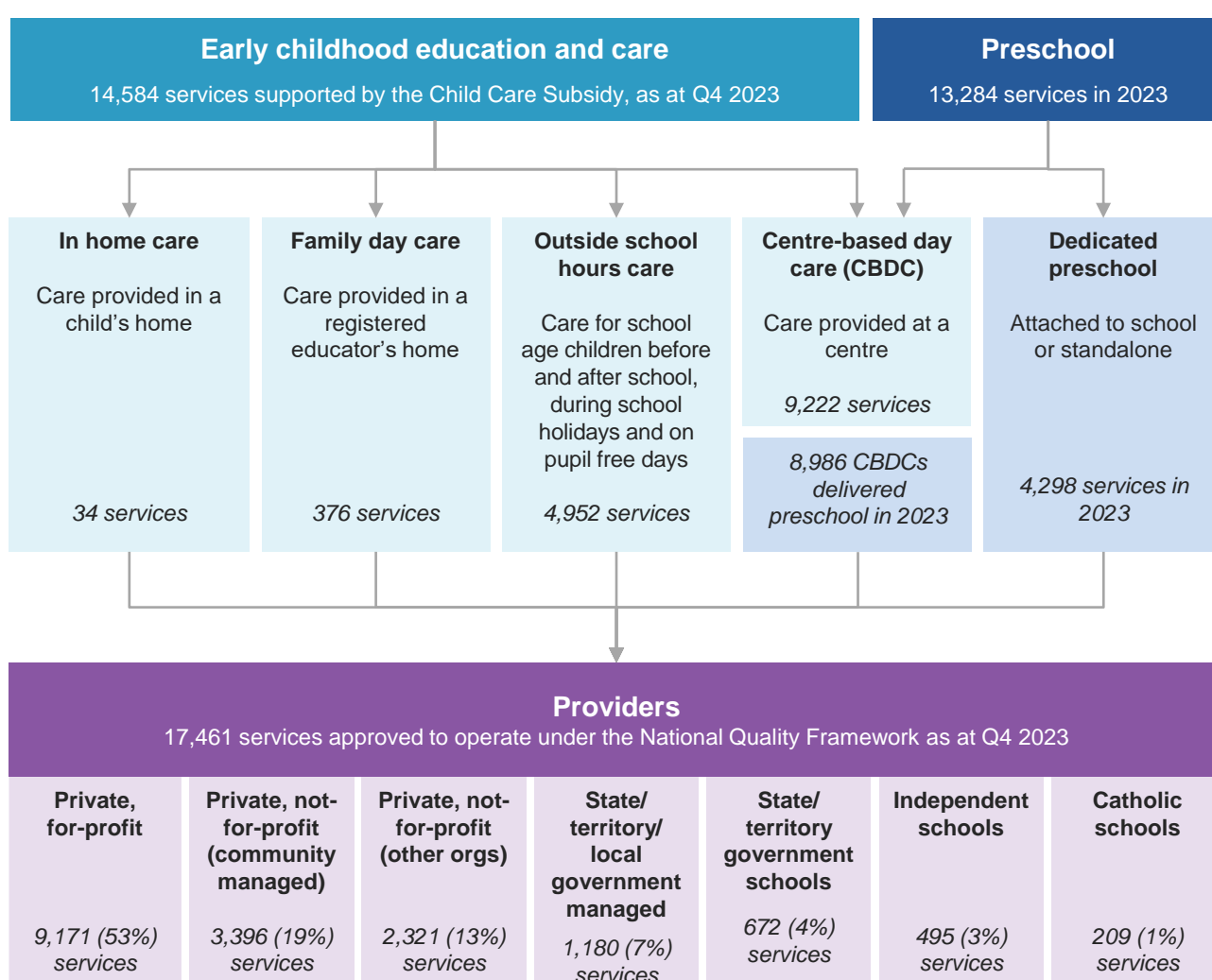
When WDRs are high, take home pay from working an additional day can be as low as 25% of a person’s wages. However, the largest disincentives are created by the withdrawal of transfer payments and increasing progressivity of personal income tax rather than out-of-pocket ECEC expenses. This is particularly the case for lower-income families – a likely factor in their relatively low rates of participation and full-time work. The contribution of ECEC expenses to high WDRs has been further reduced by the introduction of the July 2023 Cheaper Child Care reform.

In other words, tackling only ECEC barriers might have marginal impacts on labour supply. Modelling by the Commission (discussed below and in paper 6) suggests this to be the case. Other policy settings not related to ECEC would need to change in order to further shift parents’ work and care choices.

ECEC has mainly expanded through for-profit provision

ECEC services have changed markedly in the century since the first kindergartens and day nurseries were established to help mothers and children living in disadvantaged circumstances. In January 2024, there were almost 19,000 ECEC services, including over 9,200 CBDC services and about 4,300 dedicated preschools, operating across Australia (figure 2). The number of ECEC services grew by about 25% between 2013 and 2023, as for-profit operators responded to increased demand and opened new services, particularly in major cities and inner regional areas. The number of approved places grew even more rapidly, by nearly 50% in the decade to 2023. A comprehensive discussion on market trends can be found in paper 5.

Figure 2 – ECEC services and providers are diverse



For-profit providers account for about half the market, and almost 70% of centre-based day care services. For-profit provision is also the most common model for outside school hours care and family day care.

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. As the number of not-for-profit providers has remained largely unchanged, their share of ECEC services has declined over the past decade; 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, pay higher wages to staff and engage more 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 announced expansions 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 expansion.

Some children and families who could benefit from ECEC access are missing out

Many of the children who do not attend ECEC are very young and are cared for by their families at home, supported by policies such as paid parental leave and the parenting payment. But notwithstanding substantial increases in participation in ECEC, many older children also still miss out.

One-in-four three-year-olds and one-in-ten four-year-olds are not enrolled in any ECEC. In some cases, older children do not attend ECEC because of their parents' choices and preference to care for their own children or use informal care. In other cases, however, a lack of suitable options discourages families from enrolling their children or limits their participation. These children are more likely to live in regional or remote areas, where ECEC availability can be patchy and the quality of services tends to be poorer. 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 of appropriate support in ECEC.

The ECEC system does not consistently achieve the levels of quality, access and inclusion that would enable it to improve outcomes for all children and families.

Quality is paramount for children – but it is inconsistent across the system

There is a vast international literature that considers the impact of ECEC on children (paper 1 contains a comprehensive summary of the literature). 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 evaluated 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, but they are particularly significant for children experiencing disadvantage. The positive effects of ECEC attendance can extend to adult outcomes, such as income, completing school, getting a job and avoiding contact with the justice system. The extent to which an ECEC program promotes better outcomes for children depends on the quality of that program (although available measures of ECEC quality are imperfect) and the child's family circumstances.

The National Quality Framework (NQF), introduced in 2012, covers many aspects of ECEC quality and its regulations; ECEC services cannot operate without meeting safety standards and their quality is assessed by state-based authorities against the National Quality Standard (NQS) that forms part of the NQF. The NQF and the regulatory system supporting it are discussed in detail in paper 8.

Since the implementation of the NQF, 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 NQS. This figure reached 90% in 2024.

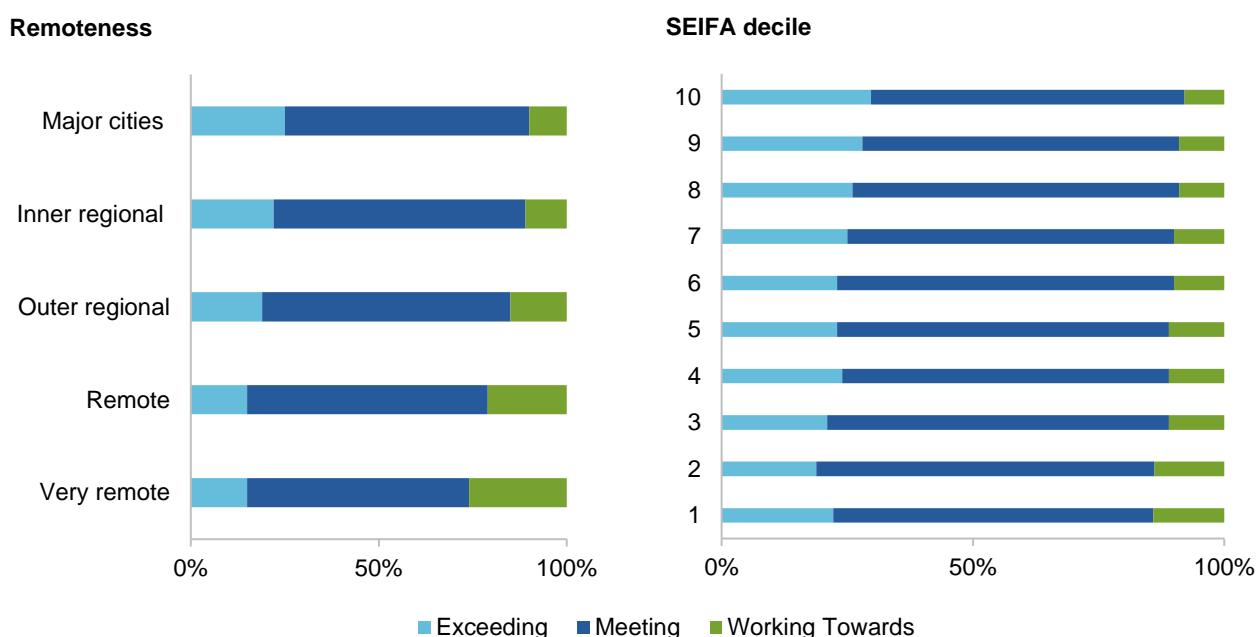
But quality is not uniform across the sector. Quality ratings tend to be lower in areas of socioeconomic disadvantage and remote regions, where service delivery can encounter persistent challenges (figure 3). Services run by not-for-profit providers, governments and schools have better NQS ratings, with 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; as noted above, some not-for-profit services use surplus funds to offer higher wages and engage more staff, which may affect the quality of ECEC offered.

Sector participants have raised concerns about the way the quality regulation system operates, and in particular the lack of timely quality assessments. For many services assessed as 'Meeting the NQS', which comprise the bulk of the sector, more than four years pass between assessments. This means that some children may start attending ECEC and eventually move on to school without the quality of the service they attend being assessed and rated 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.

About one-in-10 services are assessed to be 'Working Towards the NQS', and a further 12% hold a waiver that allows them to operate despite not fully meeting the NQS. While most services that are working towards the NQS meet or exceed the standard in their subsequent assessment, a small number have held this rating for many years. There is limited accountability among service providers and regulators for ongoing quality improvement. The Australian Children's Education and Care Quality Authority (ACECQA) supports the application of the NQF in all jurisdictions but has limited levers to ensure that system-level quality continues to rise over time.

Figure 3 – Services in more remote and lower socio-economic areas are less likely to meet the National Quality Standard

Overall quality ratings of assessed services by remoteness and socio-economic index (SEIFA) decile, April 2024



Availability of ECEC depends on where children live

Availability of ECEC services varies markedly in different parts of the country (figure 4). In regional and remote Australia, there are many communities with limited or no local services. Similarly to services for younger children, OSHC is less likely to be provided at schools located outside major cities or higher socio-economic areas.

Supply can take time to respond to demand for ECEC, given the significant investment required to establish new services and the challenges many services face in finding qualified staff. Persistently inadequate supply can also reflect the high costs of providing ECEC and families' unwillingness or inability to pay high prices, which deter providers from setting up a service in some communities. 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 out-of-pocket ECEC expenses despite government subsidies.

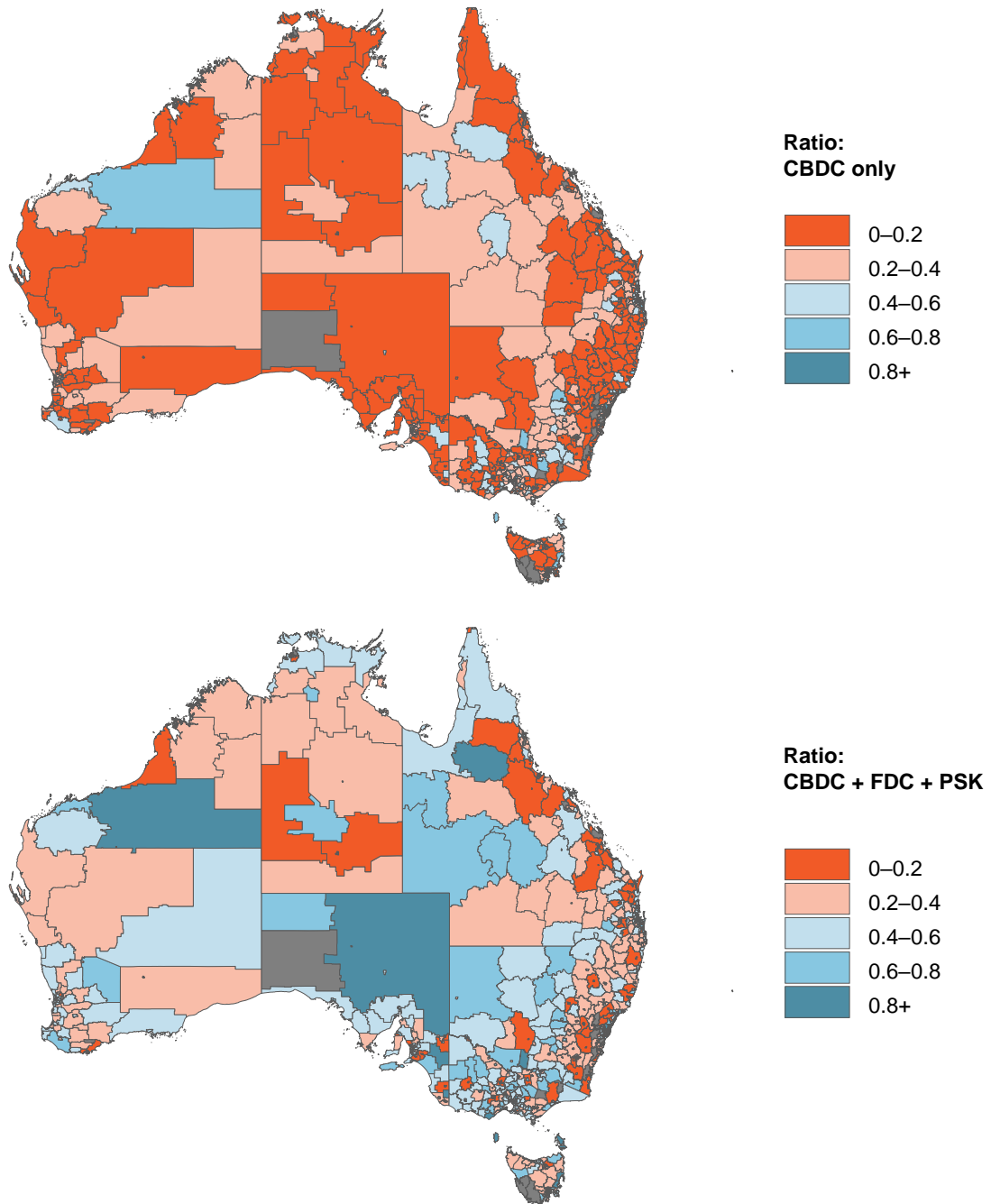
Governments have different ways of addressing supply issues. For example, community groups have access to grants that assist with the cost of setting up services. Such grants are also available to service providers looking to expand into areas experiencing disadvantage or supply shortages through the Australian Government's Community Child Care Fund (CCCF). The amount of funding available is limited, as the CCCF has an annual budget of \$150 million, 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 is insufficient.

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, and receive subsidies to offset the cost of employing an educator who works in the child's home. Mobile ECEC services, including preschool and playgroups, operate in regional and remote areas. Governments also fund Aboriginal community-controlled organisations (ACCOS) to offer ECEC as well as a range of additional services to children and families. And in many regional areas, FDC can provide flexible solutions to the community.

While governments may choose to invest in some locations, there is little coordination of this effort and in some cases, communities need to have the capacity to apply for funding, raise capital and establish their own service, a process that may take years.

Even in markets where many services have been established, places available for children may be limited due to long waiting lists or ECEC 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 undertaken in May 2023, more than half indicated that they were capping enrolments due to lack of staff.

Figure 4 – ECEC availability varies widely across Australia^{a,b,c}
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. **c.** Population data is from the 2021 Census. The number of ECEC places is at Q4 2022.

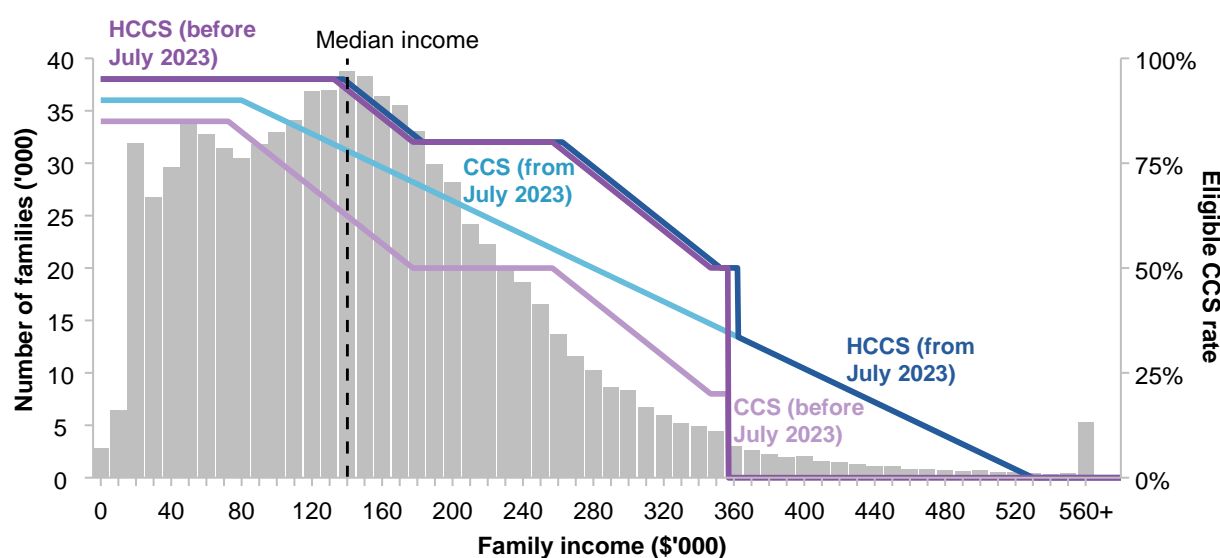
Out-of-pocket cost can be a significant barrier to ECEC access

Many families – particularly lower-income families – find cost a barrier to ECEC use. The Australian Government’s Child Care Subsidy (CCS) is intended to lower ECEC expenses for families and comes at an annual cost of over \$12 billion to taxpayers. Most types of ECEC attract the CCS, including centre-based day care, family day care, in home care and outside school hours care.

The CCS amount that families are eligible for is based on a complex equation that takes into account:

- the level and type of recognised activity undertaken by parents or guardians (including working, studying, looking for work or volunteering), which determines the number of subsidised hours a family can receive
- a family’s income. Families with an income up to \$80,000 are eligible for a 90% CCS rate, with the CCS rate tapering by one percentage point for every \$5,000 a family earns above \$80,000 (figure 5)
- the fees charged by the service and the session length offered
- the number of children aged five and under attending ECEC; families with multiple children five and under attending ECEC are eligible for higher rates of subsidy, but only for second and subsequent children
- a withholding rate, introduced to reduce the risk of overpayment.

Figure 5 – From 10 July 2023, about 65% of families receive a subsidy rate of at least 70%^a

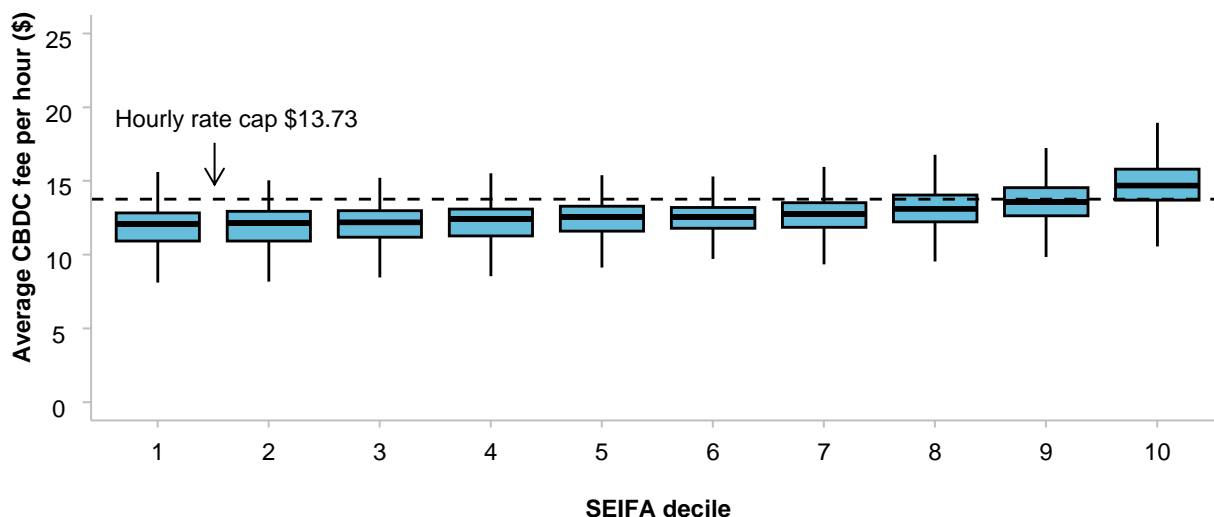


a. CCS – Child Care Subsidy; HCCS – Higher Child Care Subsidy.

The subsidy paid is calculated as a percentage of the hourly fee, up to an hourly rate cap set by the Australian Government. However, 24% of centre-based day care services (predominantly in more advantaged communities, figure 6) and 40% of family day care services charge fees that are above the cap. Any fees that services choose to charge beyond the hourly cap are unsubsidised.

Figure 6 – Fees for centre-based day care are more likely to exceed the CCS hourly rate cap in more advantaged areas^a

Average fees per hour by socio-economic index (SEIFA) decile, December quarter 2023



a. 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.

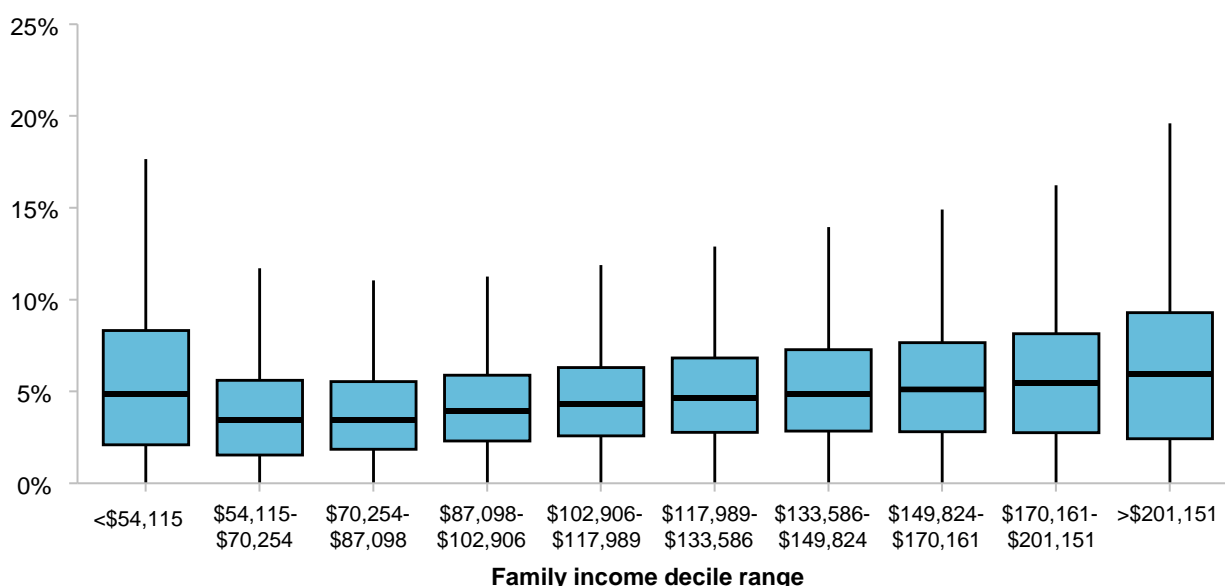
The CCS reduces families’ out-of-pocket expenses; in the December 2023 quarter, the average fee for CBDC was \$135.20 a day while the average out-of-pocket expense was \$39.40. Across the system in 2022-23 (before the Cheaper Child Care reforms took place), families paid 40% of costs in CCS-funded ECEC services, while the Australian Government bore 60% of the cost.

Notwithstanding higher CCS rates, families on the lowest incomes spend more on ECEC than middle income families as a share of their income (figure 7). 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. Financial resources are more constrained for lower-income families which makes them more sensitive to price. This is likely contributing to lower participation rates in ECEC, particularly for children and families experiencing disadvantage. These issues are explored in depth in paper 6.

State governments spend a further \$2.5 billion on the provision of preschool. Dedicated preschools are not eligible to administer the CCS. In many cases, dedicated preschool is free to attend but among those families who are required to pay, the majority face out-of-pocket expenses of up to \$4 per hour. It is difficult to compare preschool fees and out-of-pocket expense in dedicated preschool and CBDC settings due to data limitations.

Figure 7 – The lowest income families spend a larger share of their disposable income on ECEC than middle income families^{a,b}

Out-of-pocket expenses as a share of family after-tax income, by family income decile, fortnight to 26 November 2023



a. Out-of-pocket expenses for each family were calculated as charged fees less CCS and Additional Child Care Subsidy (ACCS). This accounts for any fees paid above the hourly rate cap. Family after-tax income is estimated by applying income tax rates to adjusted taxable income (ATI) as reported by parents and guardians and adding estimated Family Tax Benefit. These adjustments improve on the approach in the draft report, which only used ATI less estimated income tax. These income estimates may not be a precise reflection of families' actual financial resources, for example due to: the exclusion of wealth as a resource and income sources excluded from ATI (such as rent assistance); differences between definitions of ATI and taxable income that mean that income tax estimates are overstated; and limitations in estimating Family Tax Benefit from data only on children who access the Child Care Subsidy. **b.** Excludes In Home Care services.

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

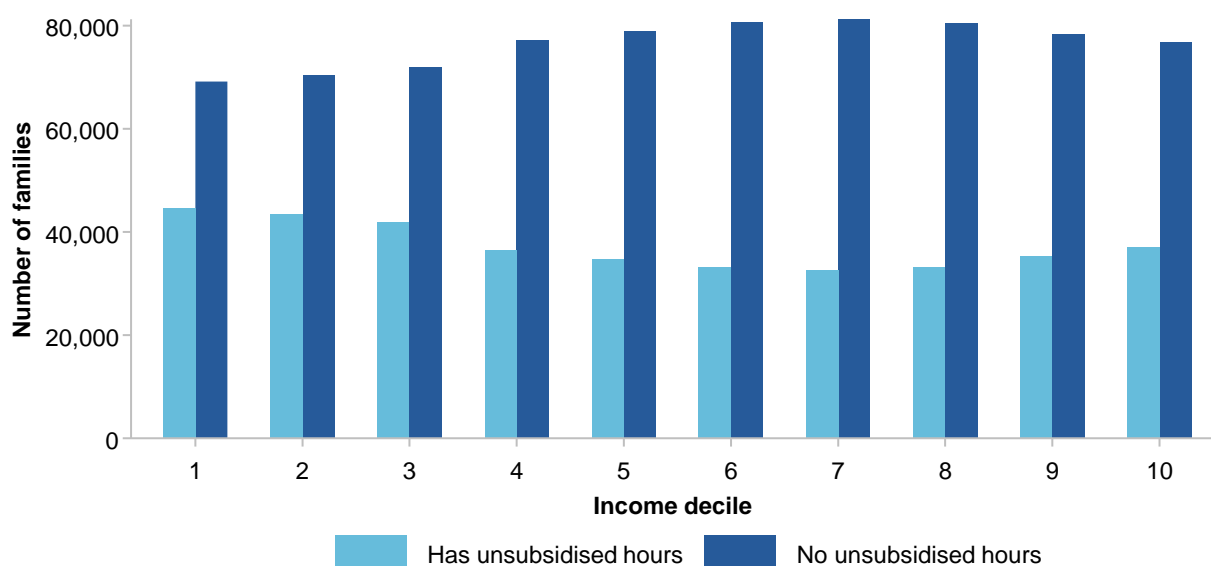
The CCS activity test means that as parents increase their activity, the number of subsidised care hours they are eligible for also increases (table 1). Activity encompasses hours spent working, studying, volunteering or looking for work. In a couple family, the number of subsidised hours is determined based on the eligibility of the parent or guardian with the lower activity level. Some groups are exempt from the activity test and are guaranteed a number of hours of subsidised care per 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, families can be required to pay for a significant number of unsubsidised hours (for example, some providers charge families for 12-hour sessions, and a family using five days of ECEC will need to pay for 60 hours – including at least 10 unsubsidised hours). Overall, about 2% of hours in ECEC services are unsubsidised. Families eligible for fewer subsidised hours are much more likely to accrue unsubsidised hours and some of these families are on particularly low incomes (figure 8), leading to substantial ECEC bills, and in some cases, debts to service providers.

Table 1 – The activity test limits access to subsidised ECEC for children depending on their parents’ hours of recognised activity

Family activity hours per fortnight	Hours of subsidised care per fortnight	Proportion of families in this group in 2022-23	Proportion of families who used ECEC and were charged for unsubsidised hours in 2022-23
<8	0 hours if earning more than \$80,000 in 2023-24 (\$72,466 in 2022-23)	0.9%	100%
	24 hours if earning \$80,000 or below in 2023-24 (\$72,466 in 2022-23)	1%	66%
8–16	36 hours	3.7%	63%
>16–48	72 hours	25.7%	32%
>48	100 hours	68.8%	30%

Figure 8 – Lower-income families are more likely to have unsubsidised ECEC hours
Number of families with and without unsubsidised hours by income decile, 2022-23



Many inquiry participants claimed the activity test discouraged ECEC use, particularly for families experiencing disadvantage. Families may misunderstand the activity test requirements or be concerned about a potential CCS debt if they cannot accurately predict or report their activity hours. These families may choose not to send their children to ECEC. Children from families with low activity levels – who often experience significant disadvantage – are only eligible for one day of subsidised ECEC per week, which may not be sufficient to build positive relationships with peers and educators and enable children to gain longer-term benefits.

The activity test was introduced to encourage labour force participation. Inquiry participants found that it cemented a view among some families experiencing disadvantage 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 families could access without meeting 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.

The ECEC system often fails to support children with additional needs

Even where services exist and families are able to meet the out-of-pocket expenses, the ECEC system does not cater for the needs of all children, and some groups are underrepresented in ECEC (figure 9). For example, inquiry participants have told the Commission that children with disability, developmental delay or other specific needs are often excluded from ECEC services. And while Aboriginal and Torres Strait Islander children may be more likely than their non-Indigenous peers to be enrolled in preschool, attendance is thought to be much lower.

This is a critical issue for a substantial number of children and families. 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.

Mainstream ECEC services may also be limited in their ability 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.

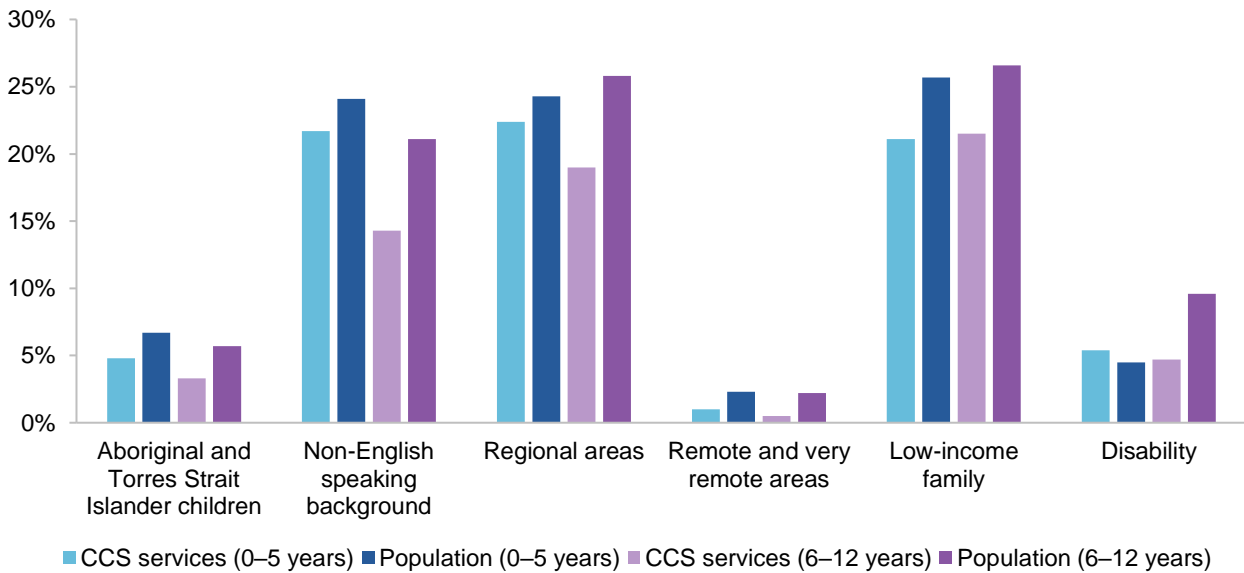
The most prominent funding mechanism that supports ECEC services to improve inclusion for all children with additional needs is the Inclusion Support Program (ISP), which provides funding and other supports for ECEC services (excluding dedicated preschools and in home care). The Australian Government budget appropriation for the ISP in the 2024-25 Budget is about \$230 million. More than 18,000 applications for ISP were approved in 2022-23 and demand has been increasing rapidly, particularly for funding to engage additional educators. In addition to the ISP, state governments offer programs intended to support inclusion.

Only 1% of children in ECEC services had applications for ISP funding lodged on their behalf in 2022-23. Even if all applications are approved, the reach of the ISP will remain limited, and many children are likely to miss out – particularly when an estimated 20% of children have learning difficulties, developmental issues or disability.

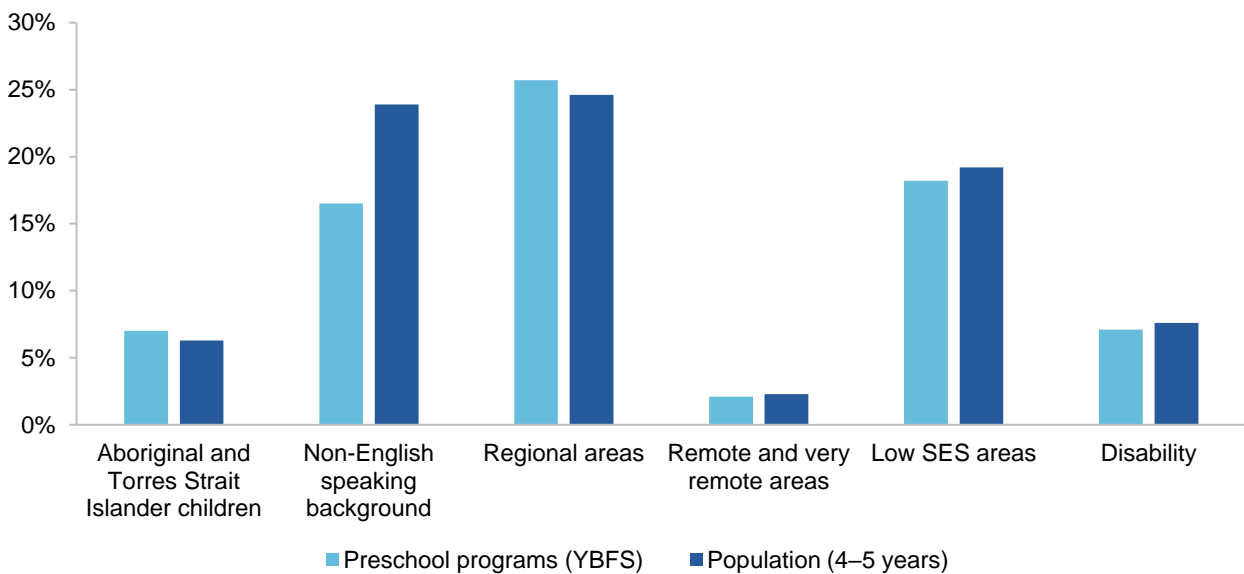
Funding from the ISP can be used to employ an additional educator, but the service may not always be approved to employ the educator for the full hours the child attends. Services can be left significantly out-of-pocket because the funding rate for additional educators does not cover wage costs. Despite these issues, applications for additional educators are exhausting the ISP budget. When the capped allocation is reached, funding is prioritised to children with, or awaiting, a diagnosis of disability. This means that children with other inclusion needs, because of their cultural background for example (whether Aboriginal and Torres Strait Islander or from culturally and linguistically diverse backgrounds), are likely missing out.

Overall, the ISP does not appear to have increased the representation of children with additional needs in ECEC substantially or embedded inclusive practice across the ECEC system. These issues are explored in detail in paper 2.

Figure 9 – Some children are less likely to take part in ECEC
Representation of select cohorts among children attending CCS-approved services, compared to their representation in the community



Representation of select cohorts enrolled in preschool in the year before full-time school (YBFS), compared with their representation among children aged 4–5 years



The ECEC system can be confusing for families to navigate, with multiple funding sources and programs. For some families, this difficulty is compounded by a range of factors, including low English proficiency or digital literacy, a lack of access to government services and mistrust or fear of governments.

Inflexible ECEC options (where the operating hours are incompatible with families’ work schedules or preferences and/or services cannot accommodate flexibility in required days) can act as a barrier to access for some. Families who require non-standard hours ECEC, shorter session lengths or access on a casual basis may struggle to find a service that meets these needs. With many dedicated preschools only available

during school terms, and for a limited number of hours each week, families may need to vary their working hours, use a combination of services or rely on informal care. These issues are explored in paper 7.

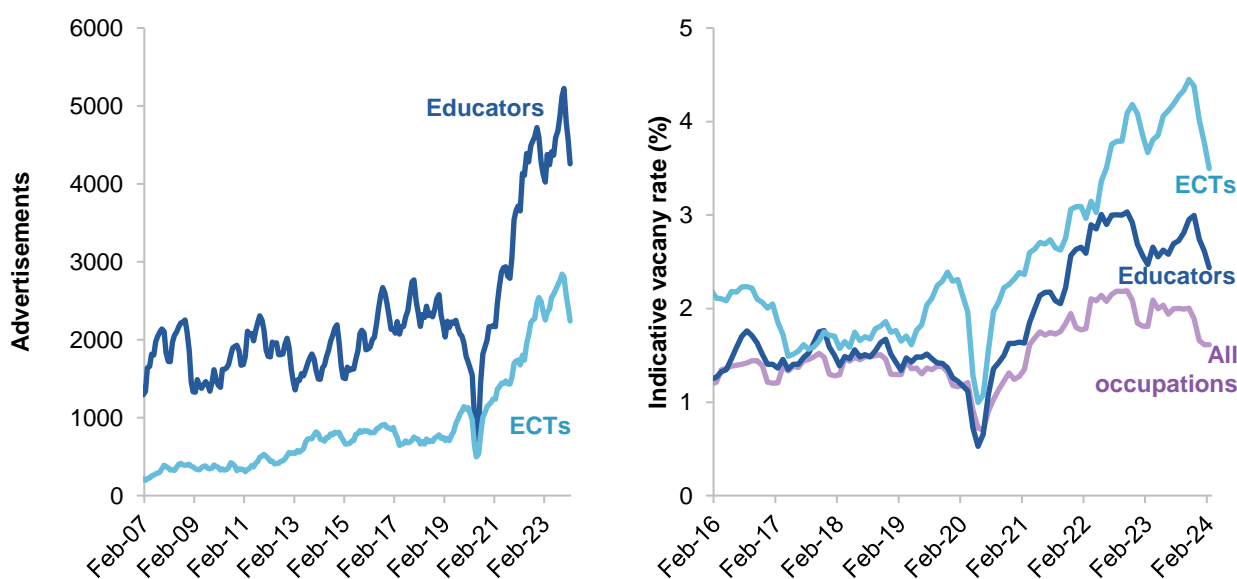
Workforce challenges constrain the ability of the ECEC system to deliver quality, accessible services

Many inquiry participants described staffing issues 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; 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. Vacancies for ECEC positions remain close to record highs and vacancy rates are above those of the wider workforce (figure 10).

Figure 10 – Vacancies in the sector are starting to fall following the COVID-19 pandemic but remain relatively high

Advertised vacancies and indicative vacancy rates



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.

I have worked in early childhood for 7 years and working conditions have only got worse. No support from management, we are incredibly underpaid, and I have a Diploma. ... It is physically, emotionally, and mentally draining and more and more educators are leaving the sector due to poor wages and lack of support. (Brief comment no. 235)

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 ... 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?? ...Why can I earn more money making coffee? (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, and their working conditions can be poorer, with fewer leave days and greater workplace pressures. These disparities appear to be biting – there is evidence to suggest more than half of graduates of early childhood education degrees choose employment in primary schools. The expansion of preschool programs in many jurisdictions is set to increase demand for ECTs in dedicated preschools. This will put further pressure on CBDCs, which already struggle to comply with the NQF-mandated qualification and staff ratio requirements.

Government policy lacks coordination and clear objectives

Governments play a major role in the ECEC system – as policy makers, funders and regulators – spending over \$15 billion each year on ECEC subsidies, grants and service delivery. ECEC expenditure increased by 40% in real terms in the decade to 2022-23. However, current policy settings do not create incentives for services to improve their quality, address gaps in availability or cater to the needs of all children.

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 through their education budgets; some have been delivering preschool as part of their school system for many years. Planned preschool expansions are set to substantially increase state and territory governments' spending.

Governments collaborate in 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 about 75% attend for the full 600 hours. Under the current Preschool Reform Agreement (PRA), all governments have agreed to implement better data collection, including a preschool outcomes 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.

Beyond the PRA, the policy landscape contains multiple laws, regulations and programs. There is little national coordination in the setting of ECEC policy, and while some policies have national objectives, they can be implemented in different ways in different jurisdictions. For example, even though the NQF has been in place for more than a decade, aspects of the regulatory system are inconsistent between jurisdictions.

In recognition of their evolving role in ECEC, the Australian, state and territory governments are developing a joint National Vision for ECEC. A draft of the vision positions governments as 'stewards of the system', implying greater accountability for the outcomes of the ECEC system. However, in the current policy landscape there is no entity that holds the responsibility for quality, access, inclusion, transparency and accountability across the entire ECEC system. These issues (which are discussed in detail in paper 10) will have to be addressed in order to achieve a universal ECEC system.

3. Delivering high-quality ECEC requires more commitment from governments

High-quality services that continuously improve their practices should be a key goal of the ECEC system.

While quality in ECEC is difficult to define and measure, a substantial body of research shows that quality matters to the outcomes of children, in particular those experiencing disadvantage, and that it hinges primarily on children's interactions with educators and teachers. Children's own views, gathered in consultations conducted in CBDC and OSHC services, echo these findings (box 2).

There are many ways for governments and ECEC providers to support the workforce (discussed in detail below and in paper 3), which in turn would enable better quality services. At the same time, a proactive regulatory system is critical to ensuring quality in ECEC, through working with services to improve their quality and taking action against those who continuously fail to meet national standards.

Box 2 – How do children perceive quality in ECEC?

Children are the main beneficiaries of high-quality ECEC. While children's views are not directly considered as part of service assessments and ratings, broader measures – such as how educators build relationships with children and support their learning and development – are assessed under the NQS.

Children's perceptions of quality in ECEC services tend to align with aspects of the NQS. In a study commissioned by the Productivity Commission, The Front Project and Creche and Kindergarten Association consulted with 213 preschool-aged children attending 17 CBDCs across Australia. Children offered perspectives and insights that are often absent from broader policy and program design processes.

The study highlighted two key themes in how children experienced ECEC and what children valued in their ECEC service:

- the importance of children's relationships and connections with their teachers and educators, peers, families and the physical environment through ECEC
- rich experiences and deep engagements that occurred in ECEC. Children's access to learning, experiences, relationships and decision-making was supported by their access to ECEC.

The researchers found that:

children demonstrated their understanding and experience of quality programs ranging from how services worked to keep them safe through to how their interactions and experiences supported their learning, development, and wellbeing. Relationships and connections were a central component of this for children. (The Front Project and Creche and Kindergarten Association 2024, p. 45)

Griffith University conducted a study on behalf of the Productivity Commission that sought to understand children's experiences in OSHC services. Consultations were held with 270 children at 15 sites. Children's perceptions of ECEC quality also aligned with elements of the NQS. For example, participating children expected that their OSHC service would be safe and support their learning and development. They also valued choice in activities, the physical environment of the service, cultural programs and developing relationships with educators and other children at the service.

The regulation of ECEC is carried out by state and territory authorities, supported by ACECQA. State and territory authorities take different approaches to facilitating quality improvement – some have the resourcing and capacity to work with services to improve their ratings, but this is not always the case. There is limited transparency around the actions that regulatory authorities take to improve ECEC quality and ‘check in’ with services, beyond formal assessments. Improved reporting should provide better transparency around measures taken to improve quality and resolve complaints received from families and educators.

Regulatory authorities operate in different ways with various levels of resourcing, giving rise to significant differences across jurisdictions in the timeliness of assessments. More funding and better policy alignment would promote more consistent outcomes. While efforts are underway to address some of these issues, their effectiveness is not yet clear. An independent review of the regulatory authorities should determine the resourcing standard sufficient for effective quality regulation and the Australian Government should provide funding to meet the standard. A review of the NQF should seek to identify opportunities for further improvement.

The regulatory system has adequate tools to deal with serious breaches of safety, but it rarely takes proactive action against services that are repeatedly found to be ‘Working Towards the NQS’. ACECQA and the state and territory authorities should clarify their standards to state that repeatedly not meeting the NQS is not acceptable. ECEC services that receive a ‘working towards’ rating for the first time should develop a comprehensive quality improvement plan and receive support to implement it. If they fail to demonstrate improved quality after three consecutive assessments, the service should face compliance action, which should include a cancellation of service approval if other measures are unsuccessful. Regulatory authorities may also need to use a greater range of penalties and enforcement tools to address concerns about persistently poor quality.

Quality ratings should be a useful source of information to parents making decisions about ECEC services, but only half of families are aware of the ratings system. NQS ratings should be shared with families more often, with greater levels of detail. ACECQA should provide clearer and more detailed information on quality ratings on its national registers and Starting Blocks website. Parents should be given the opportunity to share information with regulatory authorities, as part of the assessment and ratings process.

The role of regulators will become increasingly important as ECEC services expand to provide universal access. Examples from overseas show the risk of rapid ECEC expansion without appropriate quality regulation. In Quebec, for example, a program to offer ECEC to all families at a low flat fee led to a substantial increase in ECEC availability but many of the services were of poor quality. 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 services should have to demonstrate that they are meeting or exceeding the NQS before being granted funding to establish a new service in areas of persistently low supply.

Some CCS-approved services, such as in home care, are important in ensuring access to ECEC, but are regulated separately to the NQF. The Australian Government should ensure there are mechanisms to guarantee 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 approach to regulation that recognises the unique characteristics and challenges of these services.

4. Improving availability should underpin a universal ECEC system

To create a universal system, every child aged 0–5 years whose family decides to enrol should be able to access high-quality ECEC for at least 30 hours or three days a week, for 48 weeks of the year. Children aged 5–12 years attending public schools should have access to OSHC if there is sustained demand within the school community.

Achieving this goal will require significant investment from government, both in facilitating the establishment and operation of new services in areas of low supply and ensuring that they offer children the type of ECEC access that can benefit them and that they value (box 3).

Box 3 – What does ECEC access mean for children

Preschool-aged children who participated in the consultation for this inquiry (box 2) offered valuable insights into the ways they think about ECEC access. To children, ECEC services offered access to positive experiences and relationships. Examples of the opportunities that children accessed through ECEC included:

- experiences that are not available to them in their home environments, including incursions and excursions that inspired creativity, imagination and critical thinking
- a broad range of sensory experiences that children can experiment with, such as messy or noisy play and a wide range of natural and man-made materials
- a new sense of place, through different built and natural environments, connections with peers, educators and the broader community
- engaging deeply with learning and developing a shared understanding of new ideas and concepts.

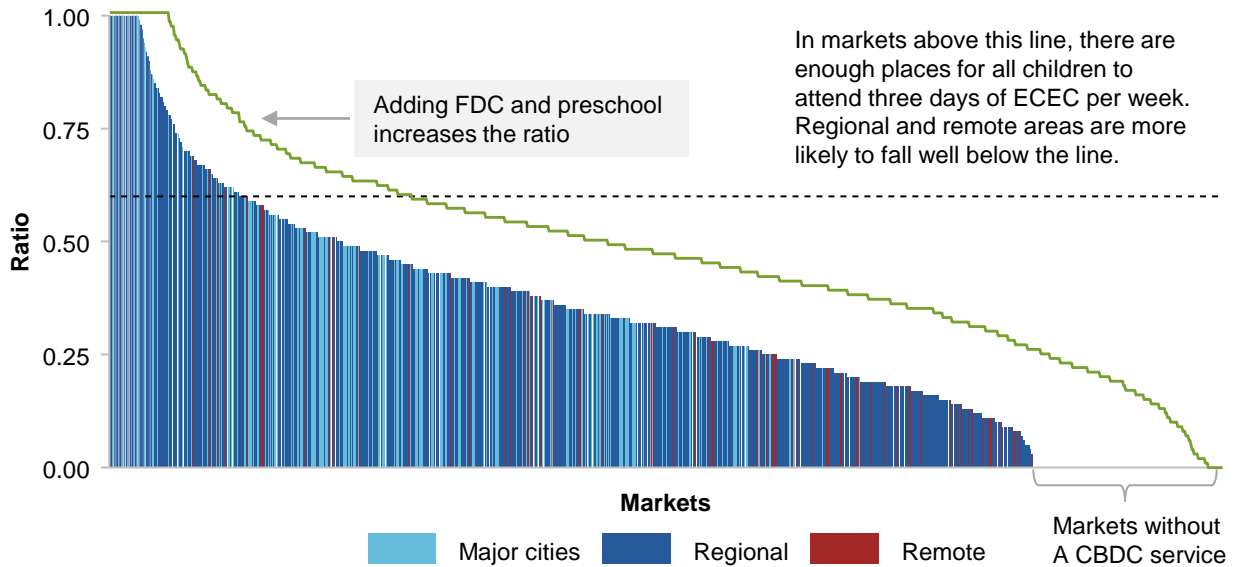
Older children who took part in the consultations valued access to experiences that emphasised fun, leisure and connections with friends. These children described instances where access was impeded by adult decisions, such as restricting access to technology in OSHC or situations where access to certain facilities was limited. Children expected to have access to a range of experiences and placed significant value on the ability to make choices.

There are relatively few communities across Australia where *all* children would be able to access three days of ECEC a week (figure 11). And only about half of public schools have OSHC services available.

The supply gap is estimated to be as high as 130,000 places, or 15% of existing places. However, this upper bound estimate assumes that all children aged 0–5 years would require three days of ECEC, in line with the definition of universal access. This is unlikely to be the case for very young children (only a very small proportion of 0–1 year olds use ECEC), but there is insufficient data to estimate the number of places by age group. Looking only at regional, remote and very remote areas, and including preschool places in the count of ECEC places, narrows this gap to about 40,000 places. The assumptions underlying this estimate are discussed in detail in paper 5.

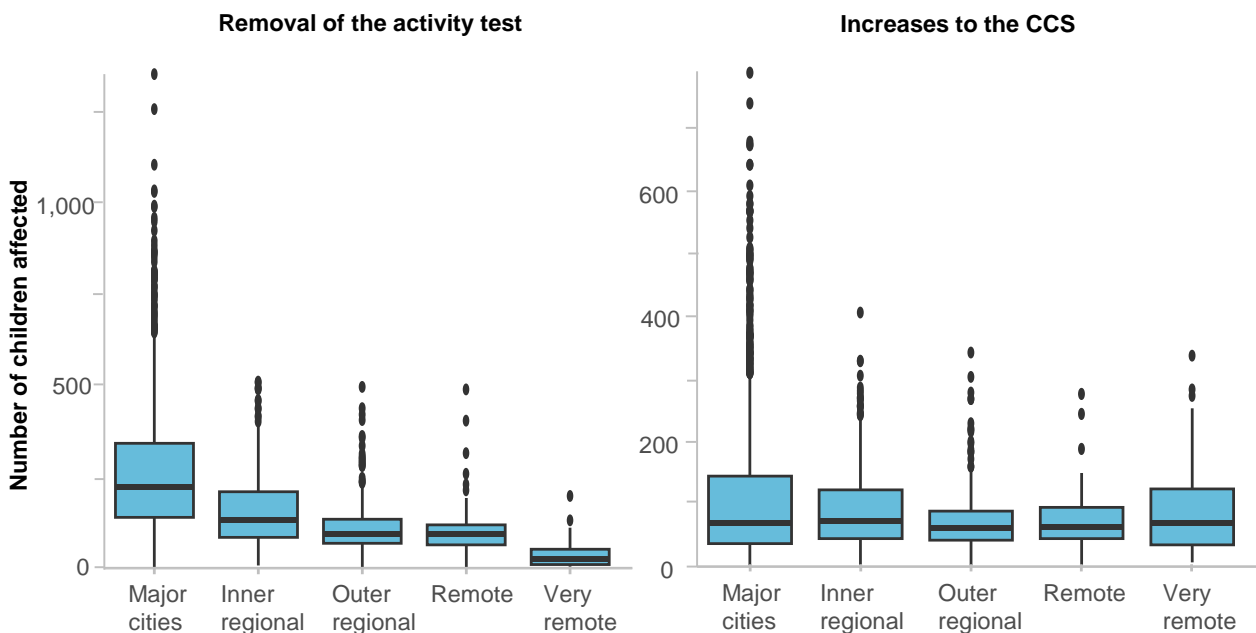
Some expansion in supply is expected in response to the removal of the activity test, increases in the CCS subsidy rate and improvements in inclusion funding. Modelling shows that most children who would be affected by the proposed CCS changes live in major cities and some regional areas (figure 12).

Figure 11 – The ratio of approved places to children varies widely across markets^{a,b}
Ratio of CBDC, FDC and dedicated preschools places to children, 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 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 family day care and dedicated preschools to the ratio the order of the markets changes. The green line only depicts the new distribution.

Figure 12 – The Commission’s recommended changes to the CCS should prompt a market response in major cities and some regional markets^a
Number of children affected by policy changes, by location



a. The average CBDC is attended by 87 children a week. The potential addition of 250 children to a local market, as expected in major cities and some regional areas, creates a possible opportunity for providers to expand without additional government intervention. The extent and swiftness of the market’s response would depend on workforce and any other supply constraints.

However, there are communities where supply of services is far lower than what would be required for all local children to have access to three days of ECEC a week 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 ACCOs may face particular challenges in delivering services
- on the outskirts of major cities.

In some of these areas, the market response would likely be insufficient to fully meet the demand for ECEC. Building on the CCCF, the Australian Government should develop a new Early Childhood Education and Care Development Fund that overcomes the limitations of the current approach, including the relatively small budget available, eligibility constraints and administrative complexity. The Development Fund will need to take a flexible approach – different supports will be needed to increase supply in different types of markets.

As a priority, support should be made available in regions with relatively small populations and low ratios of approved places per child, such as small regional and remote towns, where ECEC services would not be viable without additional funding beyond the supports already available to families and services through the CCS and inclusion support funding.

In markets with larger populations of children experiencing disadvantage, supply may be too slow to respond to increases in demand that would result from changes to the CCS and inclusion funding. In these cases, the Development Fund should consider other options to achieve universal access, including additional funding for services.

In some cases, community representatives will be able to establish ECEC services that fit local needs. Service provision would 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 that could then be viable without further support; block-based funding (recurrent lump sums) could be sought if support for both capital and ongoing operating costs was needed. Low-interest loans could also be considered where capital support is required (including where expansion or repurposing of other facilities might meet a community's needs).

An advisory service should be established within the Australian Government Department of Education to support community representatives – parent groups, local governments or schools – in working to identify the type and amount of funding required and fulfill the legal and administrative requirements imposed on all ECEC providers.

Some communities will not have local representatives to manage the development of ECEC services. In these cases, the Australian Government could tender out the building and operation of services. Where no providers respond to an invitation to tender, commissioning could be used to attract providers to an area. The Australian Government should retain ownership of these facilities.

The amount and type of funding for any new service should take into account other public investment, such as expansion of preschool, as well as potential philanthropic and private investment.

When determining the allocation of grants and other funding to support an expansion in ECEC provision, the Australian Government should consider the range of different ways ECEC is delivered and identify the most appropriate service to respond to local need. This could be family day care, which can be easier to establish in thin markets compared with CBDC, or in home care for families with complex needs. In both cases, the Australian Government should ensure policy settings do not preclude services from responding to the needs

of families, and that their funding arrangements are sustainable. The Development Fund should also have the capacity to contribute to ECEC services that address specific needs in the community, such as occasional care and ECEC operating as part of an integrated service, which may also offer health or other community services.

A large number of new ECEC places will be required to achieve universal access as defined by the Commission in this report. The annual budget available to the CCCF currently, at about \$150 million, provides funding (additional to the CCS) that supports about 57,000 places. It is likely that the new Development Fund will require a larger budget, at least in the initial period when ECEC expands to achieve universal access. The expansion of access to OSHC is expected to come at a lower cost compared to services for younger children, as it will continue to be funded through subsidies to families, and demand gaps to be addressed are smaller, compared to those affecting younger children.

This investment would require much greater collaboration and accountability from governments. The new independent ECEC Commission, which is discussed in more detail below and in paper 10, should provide advice to governments on tackling persistent thin markets. This could include monitoring trends in the availability of ECEC and advising governments on their investment priorities.

Availability is not only about places – families need access to quality services that suit their needs

Regardless of the type of services and the funding mechanism used, the quality of the ECEC service provided to children is paramount. ECEC providers should not be eligible to access the Development Fund if they have demonstrated poor quality elsewhere. New providers should have clear plans and access to staff who will deliver quality ECEC.

Flexibility and responsiveness to family needs should be a feature of a universal ECEC system. ECEC services, particularly dedicated preschools, can be relatively rigid in the way they operate. Wrap-around care is available in some dedicated preschools, which extend their hours of operation to match the needs of families or facilitate access to a separate preschool outside hours care service. In most cases, this type of care is not eligible for CCS due to restrictions imposed by the Family Assistance Law. South Australia will trial models of delivering wrap-around care, which may require amendments to CCS rules to enable parents to access the subsidy. The Australian Government should amend the Family Assistance Law to enable the provision of subsidised wrap-around care in dedicated preschools where there is sustained demand in their local community.

Families who use CBDC or FDC may also find it hard to access services that suit their preferred hours or days. The Australian Government should continue to encourage the provision of flexible services. These issues are discussed in detail in paper 7.

5. Addressing affordability barriers to ensure equitable support for families

For many families – and in particular families experiencing disadvantage – affordability is a substantial barrier to ECEC access. The Australian Government seeks to address this through the CCS, but different aspects of the subsidy limit its effectiveness. The Commission has considered a suite of options to address concerns about the affordability of ECEC (table 2).

The first option considered by the Commission lifts the subsidy rate for lower income families to 100% of the hourly fee (up to the hourly rate cap), increases the higher CCS rate (HCCS, for multiple children) and removes the activity test (option A). 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 is also modelled (option B). The introduction of a flat fee for ECEC that was raised by a number of inquiry participants is the final scenario modelled (option C).

Table 2 – Child Care Subsidy policy options

	CCS rate	Higher CCS rate (HCCS, for families with multiple children aged five and under in ECEC)	Activity test
Option A: Remove the activity test and increase the subsidy rate to 100% for low-income families	100% for families with incomes \$80,000 and under CCS rate tapers down from 100% by one percentage point for every \$5,000 over \$80,000	100% if income \$140,000 and under HCCS rate tapers down from 100% by one percentage point for every \$5,000 over \$140,000 Families with income greater than \$580,000 are ineligible	Remove
Option B: 90% subsidy rate for all families	90% for all families	No change	No change
Option C: Flat fee of \$10 per day and remove activity test	Remove the CCS and replace with a \$10 flat fee out-of-pocket expense per day for each child	Remove	Remove

The Commission has estimated the changes in labour force participation, demand for ECEC and costs to the Australian Government that might stem from each option (box 4; full details of the modelling approach are in paper 6 and appendix G).

Like all modelling exercises, the work done by the Commission examines specific aspects of policy change and relies on a series of assumptions. Despite its limitations (box 4), the model has useful characteristics and provides valuable insights in assessing the possible effects of reform to ECEC subsidies.

- The model includes the effects of the tax and transfer system as well as ECEC subsidies for different family types. This allows for consideration of the impacts of proposed reforms across families with different levels of income, including net fiscal estimates, and sheds light on the relative merits of different reform options.
- It includes a representation of families with children aged 0–12 years in Australia, including users and non-users of ECEC, as well as sole parents and coupled primary carer parents.
- Compared to some previous studies, the Commission’s model provides a more complete picture of families’ labour supply and ECEC demand responses to changes in ECEC subsidies, by including the impact on personal income taxes and transfer payments from changes in income. This is important to understand the possible responses of lower-income families, where mothers in particular may face significant workforce disincentive rates (box 1).

As part of the recommended changes to the subsidy regime, the CCS should be renamed the ECEC Subsidy, in recognition of the broad role the system plays in children’s and families’ lives. However, the discussion below continues to refer to the CCS, for ease of understanding.

Box 4 – Using behavioural microsimulation modelling to assess options for reform

The Productivity Commission and the Department of Employment and Workplace Relations (DEWR) worked together to develop a behavioural microsimulation model (CAPITA-B-ECEC) that can model the impact of ECEC subsidy changes on the primary carer parent's labour supply hours and ECEC hours. A full description of the model is in appendix G.

Behavioural microsimulation allows estimation of how the behaviour of individuals or families changes in response to a policy change, such as changes to tax rates or eligibility rules for benefits and subsidies. This allows for more complete understanding of the potential effects of a policy change on the demand for ECEC hours and labour supply. This type of model has been used for past analyses of ECEC policy changes (for example, Gong and Breunig (2012, 2017) and PC (2014)). External referee reports confirm that this type of model is well suited to answer the questions considered by the Commission.

For each policy option, the model determines the labour supply of the primary carer parent and ECEC hours that would be most preferred by the family given their individual circumstances. The results reflect the different preferences of families and enable comparison of the effects of policy changes on families with different incomes.

Assumptions and limitations

As with all models, CAPITA-B-ECEC is built on assumptions and has limitations. These reflect the data available for analysis, which may be incomplete, and the choices of different methodologies. The model assumes that the observed data reflects optimal choices for families given policy settings like subsidy rates and the activity test – but in reality, some families face other constraints when making choices about how much to work or use ECEC. The model accounts for cost and affordability constraints but it does not account for other constraints such as whether there is an actual ECEC place available or accessible on the relevant days for the family, nor does it account for families who are discouraged from trying to use ECEC due to their concerns and possible misunderstanding associated with the activity test, or where services are unable to cater for children's needs.

Further model limitations include that it assumes that once ECEC subsidies change, 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. It only models ECEC delivered through CCS-approved services and does not consider other settings (for example, dedicated preschools). In addition, families' choices can be influenced by social norms and expectations, which might be reset by large policy changes. The model reflects preferences at a point in time. To the extent that changes in policy change norms, for example with respect to mothers working or working more days, this effect will not be captured.

CAPITA-B with ECEC assumes that it is only the primary carer parent who changes their labour supply in response to changes in out-of-pocket ECEC expenses and that ECEC use by older children aligns with ECEC use by the youngest child. The model also does not estimate what might happen to informal carers' labour supply if children's participation in ECEC increases. Some grandparents, for example, might choose to retire later or to work more hours.

Comparisons to other studies

In examining the responsiveness of labour supply and ECEC demand to changes in gross ECEC prices (known as an 'elasticity'), the results from this model are lower than has been estimated in a number of past studies (such as Gong and Breunig (2017), appendix H). This means that the model finds that any

Box 4 – Using behavioural microsimulation modelling to assess options for reform

changes to gross ECEC prices will yield relatively small changes in labour supply and smaller changes in ECEC demand than suggested by past studies.

Elasticities from past studies have been used to estimate the potential effects of reform to ECEC subsidies in other research (including Grattan Institute (2020) and in the Commission's draft inquiry report), leading to larger estimated effects on labour supply, compared to the current model.

This in part reflects the fact that labour force participation for mothers has climbed over the past 30 years, such that there is no longer a dip in participation for women over their years in the workforce (box 1). The majority of mothers whose children are aged 0–4 work part time, although the proportion working full time has increased in the past two decades. Further, some of the barriers to ECEC access are lower than they have been previously, as the number of approved ECEC places has grown by 50% over the past decade. These may have lessened the potential of further changes to gross ECEC prices by themselves to support large scale changes in labour force participation; changes in prices may have more limited impacts on ECEC demand than they had in the past.

Differences between the model and other studies can also in part be explained by past studies using older data (sometimes decades older) and, for some, different methodologies. This is important as changes to ECEC subsidies have reduced out-of-pocket ECEC expenses for most families over the past five years, and older data would not reflect this.

The robustness of CAPITA-B-ECEC will improve over time with updated data and refinements, and as many of the remaining impediments to ECEC (including availability constraints) are reduced. It is likely to be an important tool for future policy considerations.

The modelling shows that all options considered are likely to yield higher demand for ECEC and minimal changes to labour force participation (table 3). The results of the modelling indicate the likely direction and magnitude of changes, to enable comparison between different policy options relating to changes in ECEC out-of-pocket expenses. There are likely to be further labour force participation and ECEC access impacts from policy options that are not captured in the model, such as greater inclusion and availability of ECEC. Survey data shows that removing *all* barriers to ECEC access, including issues relating to cost, availability, flexibility and quality, has the potential to add 143,000 (full-time equivalent) workers to the labour force – although other factors could still limit their labour force participation. This is discussed in detail in paper 4.

Table 3 – Modelling suggests ECEC participation would increase in response to subsidy changes

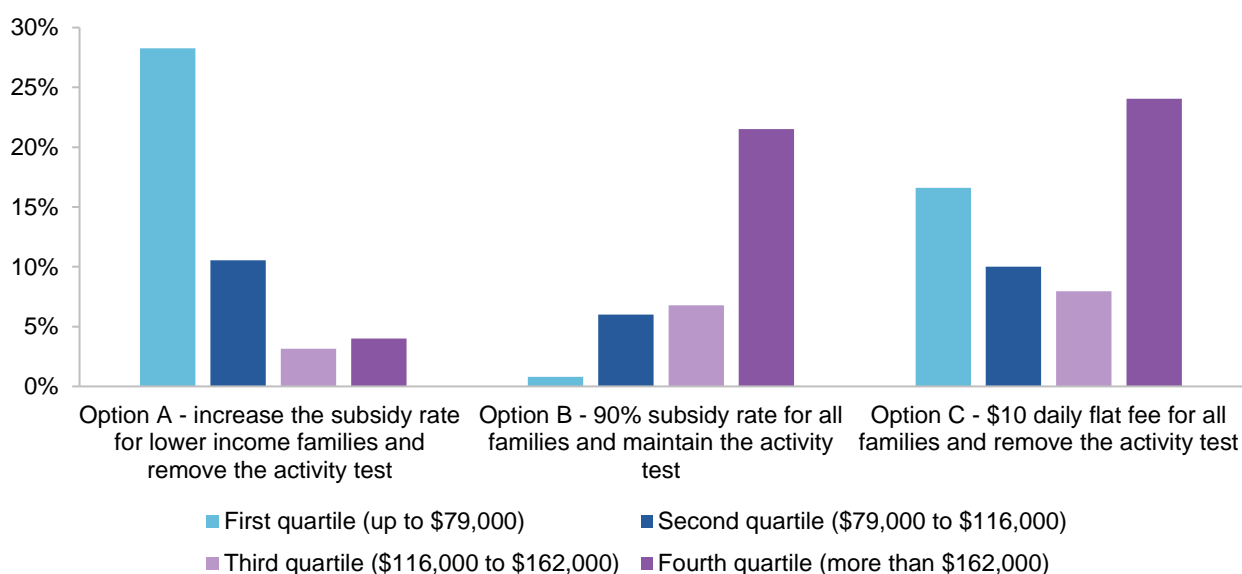
	Change in number of children attending ECEC		Change in labour force participation		CCS outlays	
	FTE	% change	FTE	% change	\$ bn	% change
Option A	45,100	10%	Negligible		\$4.7 bn	37%
Option B	39,600	9%	11,500	1.4%	\$6.0 bn	47%
Option C	61,900	14%	7,300	0.9%	\$8.3 bn	66%

Increasing the CCS and removing the activity test is the reform option most likely to lead to net community benefit

Implementing option A would address the inequity of the CSS by targeting the increase in support to the children and families who would benefit the most from ECEC and increasing the number of children benefiting from ECEC attendance (figure 13). Nearly 80% of the increase in demand for ECEC under option A comes from children who are currently not attending services.

Figure 13 – Changes to the CCS and removing the activity test would ensure the greatest increase in ECEC demand comes from those currently missing out

Expected change in ECEC demand in response to reform options, by income quartile



Labour force participation changes arising from changes to the CCS are expected to be minimal (table 3). This is consistent with research conducted in Australia and overseas, which found that changes in mothers' labour force participation in response to ECEC costs tend to be small; participation decisions are much more likely to be affected by other factors, such as wages. These issues are discussed further in paper 4.

Given the already high rates of labour force participation, the relatively high participation and satisfaction with work hours of higher-income mothers and the significant disincentive effects created by the tax and transfer system for lower-income mothers (box 1), it may not be surprising that further reductions in out-of-pocket ECEC expenses by themselves do not generate substantial shifts in labour force participation. However, ECEC affordability is only part of the reform agenda proposed by the Commission. Addressing availability and inclusion barriers – in effect, ensuring that services are available where needed and able to cater to the needs of all children – is likely to help more parents return to the workforce or increase their working hours than is estimated in the model (box 4).

The reforms included in option A significantly improve affordability for most families. Nearly all families would benefit from the lift in the CCS and HCCS rates (figure 14), and about half of families would be eligible for a 90% or above subsidy rate. An increase in the top subsidy rate to 100% of the hourly rate cap for lower income families would mean these families face very low out-of-pocket expenses; where charged hourly rates are below or equal to the hourly rate cap, ECEC use would be free. Based on current fees and

enrolment patterns, implementing option A would result in lower out-of-pocket ECEC expenses for families across the income range (figure 15).

Figure 14 – Option A would raise subsidy rates and change taper rates – making nearly all ECEC users better off

Current (2023-24) and proposed CCS and HCCS rate profiles

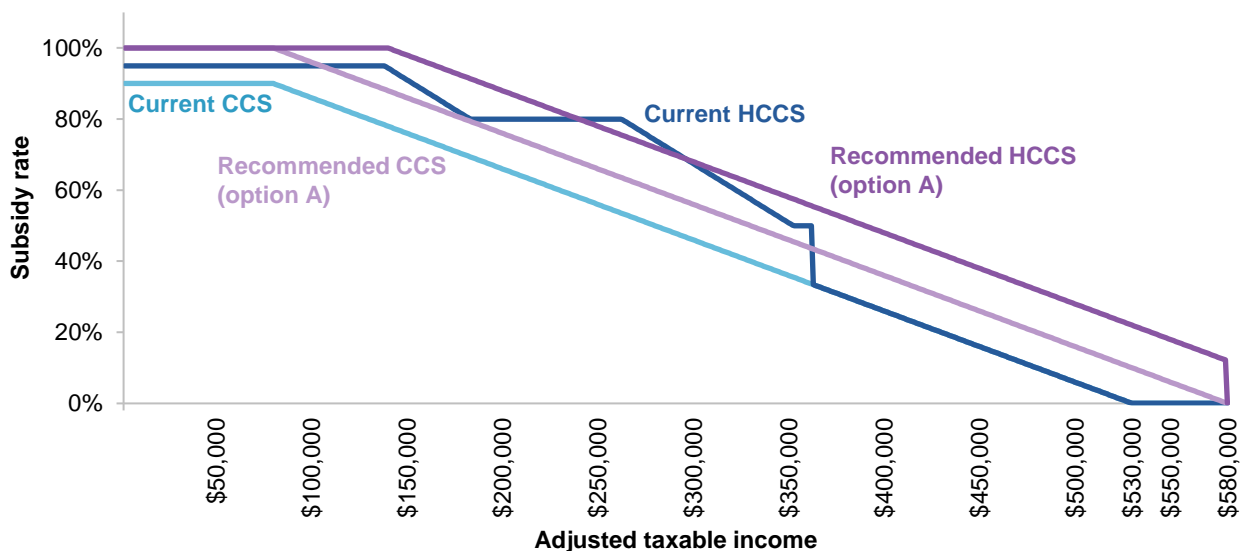
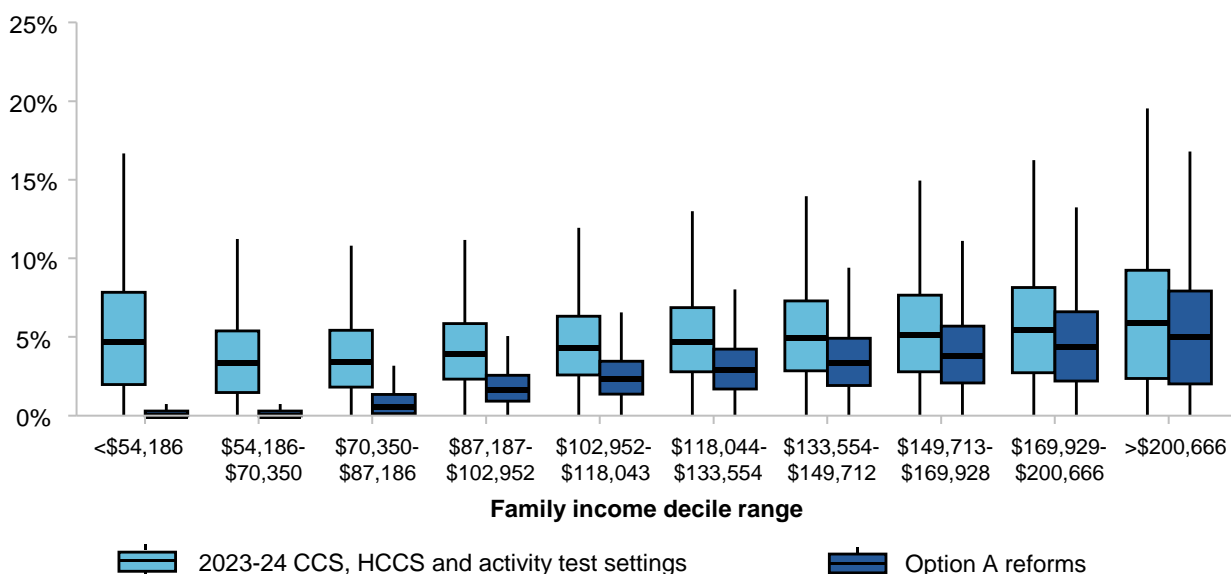


Figure 15 – Families across the income range will have lower out-of-pocket ECEC expenses under option A

Out-of-pocket expenses as a share of family after-tax income, by family income decile, under current and proposed settings



Removing the activity test would mean more families are able to access subsidised ECEC; modelling shows that almost all of those would be families on low incomes who currently face barriers to ECEC participation, although they are likely to benefit significantly from attending. The administrative complexity of the CCS would be reduced, making it easier for families to understand their eligibility for subsidised ECEC and families would no longer have to pay full fees for unsubsidised hours. This would be particularly important for families with variable patterns of work, such as people in casual jobs. It 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 subsidised ECEC while they are searching for a job.

Alongside improving ECEC availability and inclusion, the proposed changes to CCS and HCCS and removing the activity test would enable universal access to ECEC. These changes would also ensure that support is targeted at children and families who need it most; these are the children and families most likely to benefit from ECEC, but least likely to attend. Assessing the net community benefit of subsidy changes requires weighing up different factors, some of which cannot be reliably estimated or quantified (box 5). But of the options considered, the recommended CCS reforms are most likely to deliver benefits to Australian children, families and the broader community that exceed the economic costs of policy change.

Box 5 – Assessing the community-wide costs and benefits of ECEC subsidies

There are many potential costs and benefits arising from subsidised ECEC. To assess net community benefits it is important to compare cost and benefits on a consistent basis.

One of the main benefits of increasing ECEC subsidies is enabling more children to attend. While research shows that generally ECEC attendance is beneficial, potential life-long impacts, such as better health and education outcomes, can be difficult to quantify as they may take decades to be realised. The influence of ECEC on children's outcomes also depends on service quality and their family circumstances (including parents' income and work choices). Children experiencing disadvantage are likely to benefit more from increased access to quality ECEC.

Children's additional participation in ECEC enables parents and grandparents to work or undertake other activities. This increases families' income as well as national income and may increase taxation income to some extent. But income as measured by GDP omits impacts on non-market activities, such as volunteering. People who work more hours give up other activities that they and society value, representing an opportunity cost. This cost reduces the overall economic gain from additional hours worked.

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 – like benefits to children – 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.

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. Higher taxes create additional economic costs because taxes reduce economic activity. These economic costs can be significant; the marginal excess burden of the income tax system has been estimated to be in the order of 20% to 30%. If additional taxes are not raised, the funds required for ECEC subsidies have to be redirected from other government programs. In this case, the cost will be the benefits forgone from cutting those programs. The resource costs of

Box 5 – Assessing the community-wide costs and benefits of ECEC subsidies

providing additional ECEC must also be accounted for, as additional ECEC services will draw resources (labour in particular) from other activities.

In the short term, the Commission's modelling shows that the recommended changes to the CCS would increase CCS outlays by \$4.7 billion. The effect of the increased subsidies on the government's net fiscal position will depend on consequential changes to tax revenues – for example, the net effect on income taxes, as some people work more and others less; higher GST, as families may divert spending to other goods and services; and lower welfare payments, for families whose employment income rises.

On balance, the benefits of improving affordability of ECEC for children and families experiencing disadvantage as recommended by this inquiry appear likely to exceed the costs of the subsidy. However, the benefits will be realised only if children access high-quality ECEC; a substantial body of research (summarised in paper 1) shows that higher-quality services are more likely to improve outcomes, especially for children experiencing disadvantage.

A universal 90% subsidy or a \$10 a day flat fee come at a higher cost and do not prioritise families experiencing disadvantage

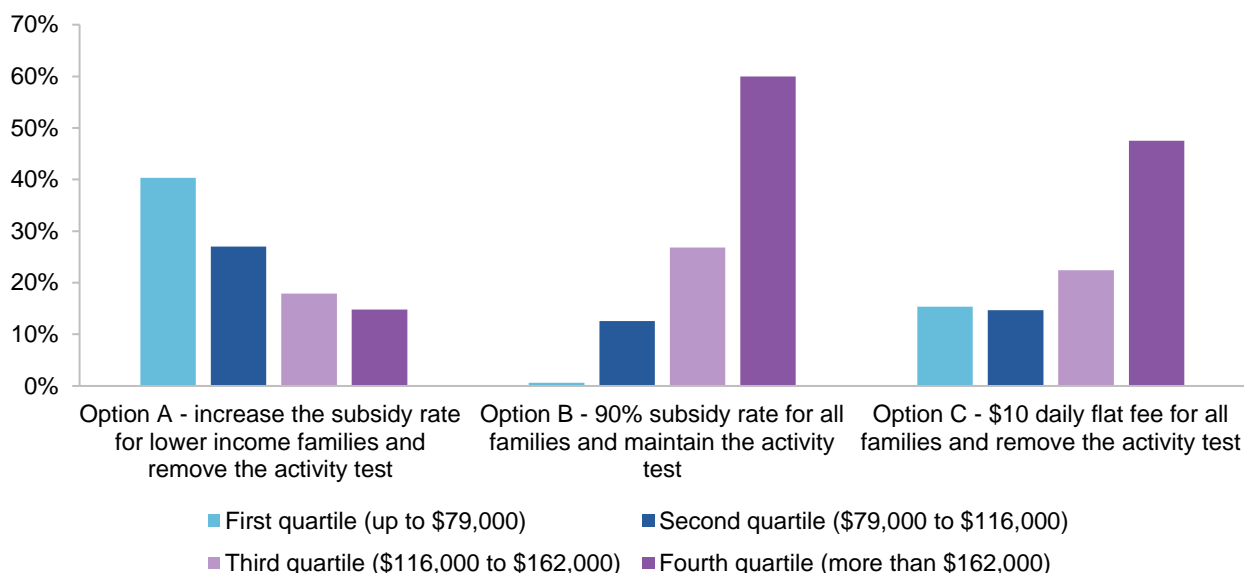
The Commission's recommended option entails changes to existing policies that retain the key principles of the CCS. The other policy options considered – a universal 90% subsidy rate and a flat fee – represent a greater departure from existing policy. These options would bring ECEC closer in line with some other human services provided by governments, and some inquiry participants argued that such fundamental change is necessary to enable universal ECEC.

These reforms would generate a somewhat stronger (but still small) labour market response from parents compared with CCS changes; a flat fee would also lead to a higher increase in ECEC demand. But both options come at a much higher additional cost to taxpayers. A disproportionate share of the increased government support would go to the families whose incomes are in the top 25% of the income distribution (those with a disposable income over \$160,000) and there would be more children from higher income families increasing their participation in ECEC relative to the recommended option (figures 13 and 16). 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.

Lifting subsidies for all families to 90% of the hourly rate cap would address concerns about the complexity of the CCS, as families would not have to understand their individual rate of subsidy, which is based on their expected income over the year. However, this would not address equity concerns as families on lower incomes are already eligible for a 90% subsidy rate. The greatest benefit flows to those on higher incomes, who are currently on a lower CCS rate (figures 14 and 16).

Figure 16 – Increased subsidies will flow mostly to higher-income families under a uniform 90% subsidy rate or a flat fee model

Expected change in subsidy outlays in response to reform options, by income quartile



Unless free or very low cost fees were adopted for lower-income families, a flat fee for ECEC could leave some families worse off as the fee would be higher than the out-of-pocket expenses they face now. That said, a flat fee is the simplest for families to understand, offering greater predictability and improving affordability for many families. A flat fee system would necessarily entail fundamental changes to the ECEC funding system with governments directly funding providers to meet their operating and capital costs (less the fees families pay). This would require a detailed understanding of ECEC costs to ensure that services remained viable while delivering appropriate quality services, absent the capacity of services to increase out-of-pocket charges paid by families. Government funding would need to increase substantially and be responsive to cost increases and cost differences. At least in the short term, while access to ECEC remains far from universal, such a shift risks crowding out the children and families who need ECEC most as families with greater resources are able to benefit from more heavily subsidised ECEC (as has been the case in Canada, for example). The implications of such a transition are discussed further below and in paper 9.

Overall, increasing the CCS rate to a universal 90% or introducing a flat fee for ECEC is likely to disproportionately assist higher-income families who are not, in the main, facing challenges in terms of access to ECEC. 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 removing the activity test and increasing the subsidy rate for lower-income families to 100%. These two changes should be a priority for policy action.

Reducing administrative complexity can make ECEC subsidies more accessible

Applying for ECEC subsidies is complex. Surveys show that many families found the application process challenging, noting issues such as clunky enrolment processes and difficulty understanding the CCS. Major ECEC providers such as Goodstart Early Learning employ staff dedicated to helping families applying for the CCS. Applications for other payments or programs, such as the ACCS for children in challenging circumstances, may impose further burden on families.

The Australian Government should take steps to simplify access to ECEC subsidies, as well as recognise the sometimes complicated and unexpected circumstances that families may face. Removal of the activity test would help. Other recommended steps include:

- simplifying the CCS application process by prefilling the application using information previously provided by families to Services Australia
- increasing the period of backdating the CCS from 28 to 90 days
- 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, 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). Eligibility for ACCS (Child Wellbeing) should be maintained for children on a long-term protection order, in formal foster care or in formal kinship arrangements while their circumstances remain unchanged.

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. Further, changes should be made to allow families to choose whether they would like some of their CCS to be withheld – currently, a 5% withholding rate is the default that families are able to vary. This suggested change would reverse this onus and allow many families to receive all of their CCS sooner.

The Australian Government should update the hourly rate cap indexation – and monitor changes to ECEC costs

Under the current CCS system, affordability for families becomes more challenging when fee rises outstrip increases in the hourly rate cap. Since the cap was introduced, it has not kept pace with fee increases faced by families and has had limited effectiveness in constraining fee growth.

This situation is likely to worsen if ECEC labour costs rise in the near future, as a result of multi-employer bargaining and other industrial processes underway (box 7). Labour is the main driver of cost for supplying ECEC, at 69% of the costs for CBDC services and 77% of costs for OSHC. A substantial increase in these costs without a commensurate increase in government funding will see the gap between fees and the hourly rate cap increase further, and more families would face affordability barriers.

Changing the indexation approach, to ensure the cap rises broadly in line with average provider costs (and, therefore, fees) would help to sustain affordability. The hourly rate cap is currently indexed to the Consumer Price Index (CPI). Given the extent of changes expected in ECEC in coming years, this approach is unlikely to be sufficient to mitigate the effects of rising costs on families' out-of-pocket expenses. A weighted index similar to that used by the Australian Government to index school funding through the Schooling Resourcing Standard (SRS) would be appropriate for indexation of the hourly rate cap. The SRS weighted index assigns

75% to Wage Price Index and 25% to CPI. This is similar to the proportion of labour costs for ECEC delivery. While reforms are underway, the hourly rate cap's ability to maintain affordability for families should be regularly monitored.

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 low-income families live. 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 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, as well as changes to the hourly rate cap, the Australian Government should conduct a detailed investigation of fees, costs and profits across the sector every three years.

Higher subsidy rates may also raise integrity concerns. The recommended changes to CCS will see more families able to access ECEC without a co-payment, which increases the risk of claims for ECEC services that have not been provided. The Australian Government Department of Education and Services Australia undertake many activities to lower integrity risk, including educating providers on their responsibilities. The Australian Government should continue to fund these activities and others where necessary to maintain the integrity of the CCS.

6. Enhanced focus on inclusion is a critical part of universal ECEC

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; every child develops in a unique way, and some may have a disability or developmental delay. ECEC services must accommodate all children and create environments where they thrive.

The current approach to inclusion primarily assists services to meet the needs of children with high needs. Insufficient support is provided to meet broader inclusion needs, such as those arising from children's diverse cultural backgrounds and past experiences. To promote inclusion across the ECEC system, the Australian Government should make significant changes to the way it funds supports for children, families and services.

The Australian Government should establish the Early Childhood Education and Care Inclusion Fund, with three streams, to deliver these supports. Children with higher needs should be assisted via an improved version of the Inclusion Support Program (ISP), which should become the Disability and Complex Needs Stream of the ECEC Inclusion Fund. Broader inclusion needs should be addressed through a new funding stream, as should upgrades to physical facilities to ensure all children can be included, regardless of their circumstances and abilities. While all three streams should be adequately funded, the Disability and Complex Needs Stream should be the highest priority.

This enhanced and expanded needs-based funding approach would contribute to all children being supported to succeed. It would enable services to provide culturally safe ECEC in addition to supporting children with disability, developmental delay and complex needs. It would support services to reach out to families and to connect with the other services that support them and their children. And where necessary, it would assist services to make reasonable adjustments to their facilities to enable the inclusion of all children, irrespective of their abilities. The characteristics of this enhanced approach are discussed further in paper 2.

The Inclusion Support Program requires urgent improvements

Urgent improvements should be made to the ISP to support children with higher needs. This function of the ISP would then transform into the Disability and Complex Needs stream of the new Inclusion fund. Changes include:

- increasing the hourly subsidy rate for additional educators
- removing limits on the weekly hours the additional educator subsidies can be approved for and ensuring they align with the hours that the child attends ECEC
- allowing other professionals, such as allied health practitioners, to be employed as an additional educator, where appropriate
- enabling services to access immediate, time-limited support while seeking documentary evidence and applying for the funding to employ an additional educator
- permitting service staff to exercise their professional judgement and apply for ISP funding if families are unwilling or unable to provide documentary evidence of a child's high support needs
- investigating the adequacy of funding for Inclusion Agencies and the Inclusion Development Fund Manager and providing an increase if necessary.

The changes would ensure that children with higher support needs have timely access to additional educators and address the financial disincentives that services face to enrolling these children.

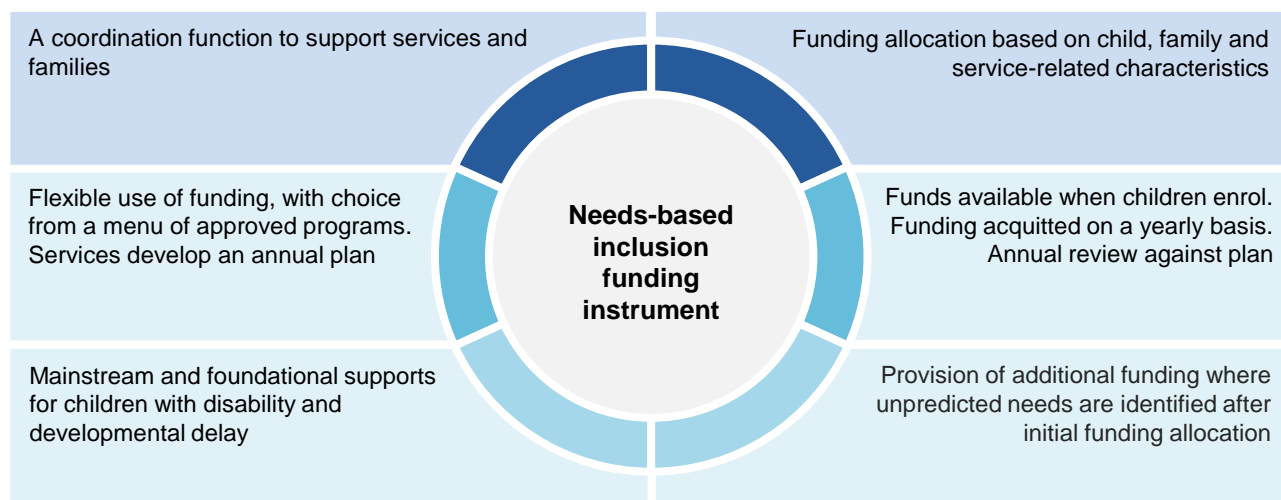
A mainstream funding instrument would address current gaps

Broader inclusion needs should be addressed through a Mainstream Inclusion Stream. Characteristics that should underpin the new approach (figure 17) include:

- a broad view of inclusion, encompassing the need for services that are accessible for children and families from diverse cultural backgrounds; and with experiences of trauma and disadvantage, including children from refugee families
- ensuring that services have access to funding based on the characteristics of children enrolled, their families and the service they attend, and in a timely manner
- giving services flexibility in how funding is used, with services offered a 'menu' of pre-approved activities they can choose to spend their funding on, including, for example, assisting children who face practical barriers to access, professional development for educators, programs that respond to the needs for cultural inclusion and support to connect with non-ECEC organisations. Services will have to be accountable for their spending decisions and be required to demonstrate to the Australian Government that funding has been used to improve inclusion outcomes, against a plan developed to identify needs within a service's community
- funding a coordination function to support services to navigate the new approach.

Design of the Mainstream Inclusion Stream could draw on state governments' inclusion policies, such as the Victorian School Readiness Funding, and the loadings for additional needs included in the Australian Government's SRS. While both approaches have limitations (for example, they may not reach all children who would benefit from additional support), their main benefit is in making funding available to services without the need for applications being made on behalf of individual children. Services would be able to respond to children's needs faster and have access to a broad range of tools and supports. They would also be better able to tailor supports to the needs of their local communities.

Figure 17 – Elements of an ECEC Mainstream Inclusion Stream



An Inclusion Fund Grants program should be established to enable services to apply for assistance to provide upgrades to physical facilities to ensure all children can be included, irrespective of their abilities.

The funding offered by the Australian Government through this new Inclusion Fund should be made available to CCS-approved services. Dedicated preschools (and some CCS-approved services in certain jurisdictions) have access to state government-funded inclusion programs. In future, the Australian, state and territory governments should clarify responsibilities of funding inclusion through the negotiations of a new national agreement for ECEC (discussed below and in paper 10). Governments should also consider the appropriateness of a single inclusion program for the ECEC system, based on joint funding commitments, as part of working towards universal access to ECEC.

Better inclusion in ECEC will require an increase in Australian Government expenditure. The ISP has a budget allocation of about \$230 million for 2024-25. Using the budget allocated to the Victorian School Readiness program as a rough guide, the national costs for the Inclusion Fund could reach more than \$500 million a year.

Interactions with the National Disability Insurance Scheme

The National Disability Insurance Scheme (NDIS), which supports over 100,000 children under six, is undergoing significant changes that are likely to affect the way ECEC services operate. The 2023 NDIS Review defined a new continuum of support for children under the age of nine under mainstream, foundational and individualised NDIS streams. Children whose needs will be better met with mainstream and foundational supports will cease to access support via the NDIS.

Mainstream supports will focus on early identification, screening, developmental monitoring and inclusion in ECEC and schools. Foundational supports involve capacity building with families and further early supports that may be specific to disability or developmental needs, such as specialist support or therapy. Both these streams are considered non-NDIS supports and will likely be offered in ECEC settings.

Ensuring that there are sufficient numbers of ECEC educators and teachers with the necessary skills to deliver foundational supports will be the first challenge of this reform. Many ECEC teachers and educators can identify developmental concerns and 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 and early intervention. These issues are discussed in depth in papers 2 and 3.

There is still some uncertainty around the specific scope of mainstream and foundational supports. These issues will be clarified as the Australian Government proceeds towards the implementation of the NDIS Review. The direction of the NDIS should be taken into account when determining how inclusion policies will be funded in ECEC (as a proportion of funding may be redirected from the NDIS) and the skills and tools educators, teachers and services will require to deliver foundational supports.

Creating connections across the community

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. 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 transition into their first year of formal education. There are parts of the education system where collaboration could be improved, such as the connection between schools and their onsite OSHC services. When these connections are poor, this affects the quality of OSHC and children's experiences.

Connections with services outside of the education sector – what the South Australia Royal Commission into Early Childhood Education and Care referred to as 'the glue' – are often ad hoc and unfunded. The new Mainstream Inclusion Stream should offer services the option to use their funding to create and sustain connections with other services; this can include, for example, funding for educators to have more time to liaise with allied health professionals who work with children in ECEC settings, or specific positions who will be tasked with improving coordination with other services and helping families navigate the ECEC system. ECEC services can play an important part in improving outcomes for children – but they cannot do this alone. Community connections and a network of services are needed, especially to support children experiencing disadvantage.

Building a culturally safe ECEC system

For many children, cultural safety is a key part of inclusive ECEC. Children from CALD backgrounds are more likely to attend FDC than the rest of the population, and inquiry participants pointed to advantages that FDC may have for children and families from diverse backgrounds. The NQF sets standards for cultural safety for all ECEC services, where creating a culturally safe environment often depends on educators' and teachers' background and training. Cultural safety should be a priority area for publicly funded professional development for the ECEC workforce (professional development is discussed below and in paper 3).

Community controlled organisations, such as Aboriginal community-controlled health organisations and 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. Ensuring the sustainability of ACCOs should be a priority for governments. 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 can work in partnership with governments to improve early childhood care and development outcomes. The way the ECEC system caters for the needs of Aboriginal and Torres Strait Islander children and families should be co-designed with Aboriginal and Torres Strait Islander communities, in line with the principles of the National Agreement on Closing the Gap.

7. The ECEC workforce is fundamental to reform

The ECEC workforce – educators, teachers, directors and other professionals – are the foundation of the sector. Children value their relationships with educators and teachers more than any other aspect of ECEC. Their work has far reaching benefits for the children and families who use ECEC (box 6).

Box 6 – Children and parents value their relationships with educators and teachers

The relationships between children, parents and educators are at the heart of the ECEC system. Children attending ECEC services who participated in the Commission’s consultations (box 2) spoke of the importance of those relationships to their wellbeing and learning. The value of these relationships is evident in everyday interactions – throughout the consultation, the interactions between children and educators enabled children’s voices to be heard and understood.

Children in CBDC and OSHC settings spoke about the strong connections they felt with their educators:

They plan activities. They look after us. They are like our guardians. (Cartmel et al. 2024, p. 15)

Building strong relationships enabled the children to feel safe in the space they share with peers and educators. Particularly in OSHC, children valued consistent connections that enabled the educators to get to know them. Where they felt these connections did not exist, this had a negative effect on children. One child reflected on the frequent changes in OSHC staff:

Being an educator (in OSHC) is a part-time job before they get a real job. (Cartmel et al. 2024, p. 22)

Educators’ training and skills were paramount in building and sustaining relationships. In OSHC, this can present unique challenges given the age range of children attending, and the need to balance the needs of younger and older children who often share the same space.

The Commission also heard from parents who expressed their appreciation for ECEC educators:

As a mum with three children who have attended, currently attending or will attend a child care centre, I feel it’s important to make comment on how influential and important childcare educators are in very formative years of our children’s lives. These workers (the ones that work at our centre) are part of our village, they provide our children with love and support just like we do while also helping prepare them for school, providing important opportunities for structured social and emotional development and I am forever grateful for their special involvement in our children’s lives. (Brief comment no. 246)

My kids EDUCATORS love my kids like their own. Having anxiety and PND [post-natal depression], I struggle to sit and play with my kids. I love that I was able to send my kids to DC [day care] and know that they are loved, having fun and getting the attention they need while I was able to work on my issues. I could never thank my centre’s educators enough for what they have done for my kids. (Brief comment no. 233)

But the workforce is stretched, and it is increasingly difficult to attract additional educators and teachers into the sector. Any ECEC reforms will hinge on resolving pressing workforce issues that have been plaguing the system for a long time. 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 7).

Box 7 – 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 64 employers and 12,000 employees, and in September 2023, 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
- steps by the Fair Work Commission to review the *Children’s Services Award 2010* (among others) to determine whether minimum wage rates in this award should be increased on work value grounds ‘in order to remedy potential gender undervaluation’
- 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.

These processes are likely to see increased pay and better conditions across the ECEC system, which, while alleviating workforce pressures, will increase the cost of providing services and result in higher fees. Under existing funding mechanisms, these higher costs will be shared between the Australian Government, through the CCS, and families’ out-of-pocket contributions.

The Australian Government has indicated its intention to contribute to funding better pay for the ECEC workforce but has not specified the mechanism it intends to use. The government could choose to provide direct funding to services that offer higher wages, a system-wide wage subsidy or a change to the CCS hourly cap that reflects higher wage costs. Funding services that increase wages or introducing a wage subsidy would enable government to ensure that additional resources are used to increase ECEC wages. However, both options could be difficult to unwind when labour market conditions change and may impose significant administrative burden. Changing the hourly rate cap to reflect higher wage costs provides the greatest flexibility to services to allocate these resources to where they best meet their needs, but also raises the risk that providers may use this extra funding for purposes other than raising staff wages. This risk would be minimised if award rates increase, which would require all employers in the sector to pay higher wages. Increasing the hourly rate cap also means that some of the cost of higher wages would be borne to some extent by parents if services raise their fees.

The choice of payment mechanism will depend on numerous factors, some of which are uncertain. Regardless of the specific policy option chosen, the Australian Government should ensure that higher wages for staff (and therefore, higher costs for services) do not unduly affect the ability of children to access ECEC services.

Changes to pay and conditions as a result of the Fair Work Commission's processes are likely to be one step towards addressing the structural disparities between educators and teachers who are employed in CBDC and those who work in school settings – and get paid up to 20% more as well as having better working conditions. Future awards that cover the ECEC workforce will likely need to enable similar remuneration for similar work, regardless of the setting in which teachers and educators are employed. Registration eligibility should also be similar, and all ECTs should be recognised by teachers' professional registration bodies. Addressing this disparity will make it easier for all ECEC services to recruit and retain staff.

Governments should improve career pathways in ECEC as well as training pathways and supports available to the ECEC workforce. Barriers to obtaining initial or further qualifications can be removed through accelerated degrees, better recognition of prior learning, considering delivering courses in ECEC services 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 vocational education and training 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 public support for ongoing professional development. This is especially the case if professional development builds workforce capability that offers community benefit, such as to support more culturally safe and inclusive ECEC, or to assist ECEC staff to remain up to date with the latest pedagogical research and how to apply this in their teaching .

Better mentoring would be particularly important for new ECTs, whether they work in dedicated preschools or CBDC. ECTs are often required to shoulder substantial responsibility early in their careers, with few formal structures in place to support them.

These issues are well known and have been the topic of multiple government processes. Governments have produced a workforce strategy for the ECEC sector that seeks to ensure future workforce needs are met. Some features of the strategy are commendable, but it has no clear and measurable objective or any clarity around funding for the actions required. Governments largely continue to pursue their workforce goals independently without considering the overall needs of the sector. Updating the strategy, to specify its objectives and the resourcing to achieve them, and to introduce greater accountability and transparency around progress made towards these objectives, would maximise the strategy's value to the ECEC system.

8. Governments will have to work together to achieve a universal ECEC system

Early childhood, and in particular ECEC services, is a focal point for government policy in Australia and overseas (box 8). This policy focus reflects the scale of government expenditure in this space and expected benefits that follow from improving children's access to high-quality ECEC.

Box 8 – Governments in Australia and overseas are exploring options for ECEC reform

Many recent policy initiatives introduced by the Australian, state and territory governments focus on children's outcomes, including improving the ECEC system.

- National Cabinet is due to consider the National Vision for ECEC, developed by Australian, state and territory education and early years ministers. The draft vision, published in early 2023, 'sets out how Governments will work together as system stewards, in partnership with the sector. This will ensure that all families can get the education and care they need when and where they need it, supporting children to flourish, families to work and a strong, sustainable ECEC workforce'.
- In 2024, the Australian Government released its Early Years Strategy, which aims to improve coordination between Commonwealth programs, funding and frameworks affecting young children and their families.
- The Early Childhood Care and Development Policy Partnership established under the National Agreement on Closing the Gap continues its work to improve early childhood outcomes for Aboriginal and Torres Strait Islander children.
- New South Wales and Victoria have announced substantial expansions of their preschool offering, South Australia and the Australian Capital Territory are working to increase access, Queensland is making additional investments and Tasmania and the Northern Territory are considering changes to preschool provision (appendix E discusses preschool reform in detail).
- Major recent reviews of the ECEC systems include the South Australia Royal Commission into Early Childhood Education and Care; Australian Competition and Consumer Commission's childcare inquiry; Jobs and Skills Australia's study of ECEC workforce needs; and the NSW Independent Pricing and Regulatory Tribunal's report on ECEC affordability, accessibility and consumer choice.
- Many other policies and strategies released in 2023 and early 2024 affect the ECEC sector, including the Review to Inform a Better and Fairer Education System, the Review of Australia's Higher Education System, the review of the National Disability Insurance Scheme, the National Strategy for the Care and Support Economy, the National Strategy to Achieve Gender Equality and the White Paper on Jobs and Opportunities.

Other countries are also making substantial changes to their ECEC system and investing in improving ECEC access (discussed in detail in appendix B). For example:

- 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. This plan was inspired by reforms in Quebec, where the provincial government introduced flat fee ECEC in 1997, leading to higher ECEC participation for children and higher labour force participation for parents. 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
- Ireland is progressing a ten-year plan focussing on children aged 0–5 and their families. As part of this plan, services are transitioning from demand-side to supply-side funding
- the Netherlands is set to transition to a universal 96% ECEC subsidy by 2027.

There are three aspects of governments' policy that need to be examined as part of the transition to a universal ECEC system:

- funding – how can the funding system support universal access to ECEC in ways that are efficient and cost-effective?
- stewardship – how can governments fulfill their role as system stewards?
- accountability – who is responsible for monitoring and evaluating progress to hold governments to account?

Aspects of ECEC funding require improvement to enable universal access

The mixed model of funding that has emerged in ECEC has shortfalls but has also enabled a significant expansion of services over time. A key question for this inquiry is whether this mixed model will be able to support a universal ECEC system.

A fit-for-purpose funding system should follow a clear set of principles, to determine priorities for allocating funding and the most appropriate mechanisms to use. The principles should reflect the funding settings needed to achieve a high-quality, accessible, inclusive and equitable ECEC system. In addition, funding should be underpinned by principles of simplicity, efficiency and integrity, in line with best practice policy design. These principles should apply across all individual funding programs, as well as the funding system as a whole. Paper 9 provides a comprehensive description of these principles and an assessment of the three funding options analysed in the Commission's modelling.

Assessing the existing mixed model of funding against this set of principles shows that it can enable the delivery of universal ECEC, albeit with substantial improvements as recommended in this report (box 9). These reforms would address the shortcomings identified in the current model and create an equitable approach to funding that centres the needs of children. More comprehensive change risks imposing high costs without obvious additional community benefits.

Box 9 – Assessing the ECEC funding model and its alternatives

Governments fund ECEC in different ways, involving different levels of contribution from families and taxpayers. To enable universal access to ECEC, the funding model needs to support a high-quality, accessible, inclusive and equitable system, in a way that promotes simplicity, efficiency and integrity.

High-quality ECEC can only be delivered if there is sufficient funding for a quality program to be offered to children. Concerns have been raised about the ability of different approaches to support quality ECEC. Demand-side funding (like the CCS) draws on competition and parents' expectations to raise quality – and while services do compete on quality in some markets, this may not happen where supply of ECEC is constrained. Regulatory regimes supplement competitive forces, and services can augment subsidies with co-contributions from families to support quality provision. Supply-side funding (like a flat fee model) gives governments a greater degree of control over services, but funding must be adequate to support demand at the appropriate quality to avoid rationing of places and a decline in quality.

Accessible ECEC means that services are both available and affordable to parents. Availability of ECEC can be sustained in many markets through universal demand-side funding (as has been the case in

Box 9 – Assessing the ECEC funding model and its alternatives

major cities, for example), but other areas where costs are high relative to demand (for example, because of remoteness) will require direct funding in different forms that meet diverse community needs.

Affordability can be interpreted and measured in different ways; but to improve affordability in a way that is equitable and efficient, funding instruments would be designed to provide a higher level of support to those less able to afford ECEC, as would occur under the recommended changes to the CCS.

Supply-side funding options such as a flat fee would disproportionately provide additional taxpayer support to families on higher incomes who are in a better position to contribute towards their ECEC expenses. To ensure that lower income families are also assisted or not made worse off, a flat fee system might need to provide free or very lower cost provision to these groups.

Inclusive ECEC requires funding that overcomes the many barriers to access that children and families experience. There is a clear case for this funding to be available directly to services and to be based on factors associated with children's inclusion needs.

A funding system that delivers on best practice policy design

In the context of best practice policy design, the most efficient funding model is the one that creates incentives for providers to respond to ECEC demand while meeting quality standards, encourages innovation and flexibility in the market and minimises costs and administrative burden relative to the benefits created for the community. A mixed model can achieve this through better support for flexible solutions and incentives that are aligned to the needs of the community. Using supply-side funding models across the entire ECEC system requires a precise understanding of the efficient cost of delivery and must be regularly and rapidly updated to mitigate the risk of services being under- or over-funded. It may also dampen incentives for innovation and flexibility.

Integrity and simplicity are key considerations for any government program that provides public funding. Regardless of the mechanism chosen, there will be trade-offs that governments will need to manage – increasing funding to the system will raise the risk of fraudulent activity, while using a mixed model is more complex for families. But transitioning the system away from a mixed funding model is likely to impose much higher costs than those involved in managing the integrity and simplicity trade-offs.

On balance, a mixed model of funding, which harnesses the advantages of different funding approaches, combining demand-side funding as an efficient mechanism to support affordability with targeted supply-side funding to address inclusion and availability barriers, is an efficient model to support a universal ECEC system while maximising benefits to children, families and the community.

Nonetheless, as the ECEC system expands to provide universal access, there is scope to trial a range of approaches. This could include different support services, such as navigators to assist families to access services, or different funding models, such as flat fees or co-funding arrangements between the Australian, state and territory governments that can facilitate the delivery of integrated services or innovative delivery models. Trials should be used to learn more about the ECEC models that deliver benefits to children, families and the broader community, and their implications for service delivery and policy.

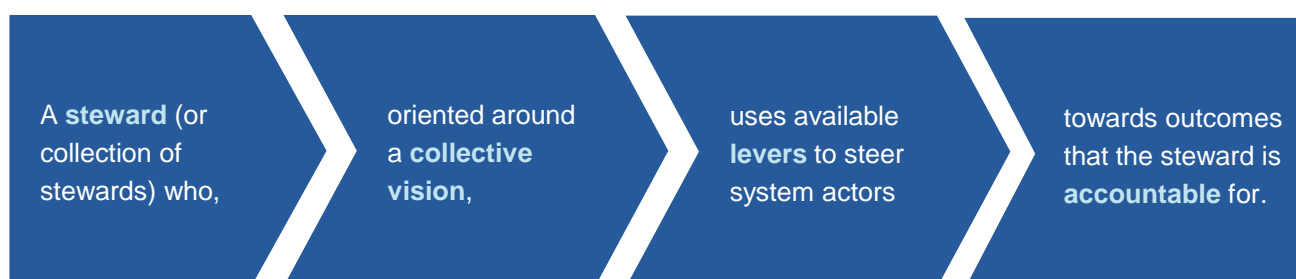
The ECEC system is undergoing significant change – and the recommendations of this report will transform many aspects of its operations. A comprehensive review of the ECEC system should be undertaken after the proposed reforms to ECEC are bedded down. The review, to happen no later than 2030, should take into account lessons from trials as well as ongoing evaluations of the ECEC reforms.

A new national agreement should support effective system stewardship

Achieving a universal ECEC system is a major challenge requiring governments to work together. A stewardship model – where the Australian, state and territory governments better coordinate their roles in the ECEC system and share accountability for 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 18).

The way governments intervene in ECEC already applies some elements of stewardship, such as national agreements, 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 and achieve a more effective model of stewardship. A comprehensive discussion of governance and stewardship is included in paper 10.

Figure 18 – A model of effective 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 – noting that a draft National Vision for ECEC has been developed for consideration by National Cabinet (box 9) – stewards should establish a plan that determines roles and responsibilities within the system. While this should be subject to negotiations between the jurisdictions, one plausible approach could include:

- the Australian Government retaining responsibility for achieving affordability objectives through subsidies to families and its contribution to preschool funding; as well as workforce objectives through ongoing support for training and professional development
- state and territory governments retaining responsibility for preschool funding and taking on responsibility for facilitating the provision of OSHC in all public schools where there is sustainable demand
- all governments having joint responsibility for:
 - achieving availability objectives, with the Australian Government providing funding via the ECEC Development Fund and working with state, territory and local governments as well as community organisations to ensure ECEC services are established in response to community need. This may include co-funding integrated services as needed
 - inclusion targets, through the new ECEC Inclusion Fund and funding for inclusion in preschool
 - quality targets, through continued joint support for the NQF and the state regulatory authorities
 - and better outcomes for Aboriginal and Torres Strait Islander children and families, in line with the commitments under the National Agreement on Closing the Gap, including through ensuring sustainable and appropriate funding for ACCOs.

These roles and responsibilities should be formalised in a new national agreement on ECEC. The current Preschool Reform Agreement (PRA) will expire at the end of 2025 – and the negotiations for the next agreement create an opportunity to shift the governance arrangements across all elements of the ECEC system. In addition to a clear articulation of the roles and responsibilities of governments, the new national

agreement should set out governments' overarching objectives for the system and the outcomes they seek to achieve, including measurable targets to promote accountability. There are several aspects of the PRA that should also be covered in the new agreement, including overcoming barriers that prevent preschool funding from being assigned to each child regardless of the setting in which they attend the program and improving preschool data collection.

The new national agreement should recognise the progress made in ECEC reform by state and territory governments. In recognition of the different reform pathways that states and territories are undertaking, bilateral implementation plans should be developed between the Australian Government and each state and territory government, which should include an articulation of the role preschool will play in achieving universal access to ECEC in their jurisdiction.

An ECEC Commission should monitor progress and promote accountability

There are many government entities operating in the ECEC space, across all jurisdictions. But there is no dedicated body that monitors the system's performance against its objectives and takes a comprehensive national view of ECEC, including availability, quality and outcomes. There is limited transparency and accountability – both from governments and service providers – and despite substantial collections of data, data is not always used to improve decision making and there are many important questions that cannot be answered. For example, not enough is known about the ECEC experiences that make a difference to children, including the attendance patterns that best support children at different ages. Governments have not set a clear agenda for research into ECEC to address these and other knowledge gaps, and as highlighted by the South Australia Royal Commission into Early Childhood Education and Care, data collected by the Australian Government is not routinely shared with states and territories.

An independent ECEC Commission should be established to fulfil critical monitoring, advice and data management functions and fill the gaps in the existing policy architecture (figure 19).

While there are existing government entities, such as ACECQA, that have a national presence in the ECEC system, these entities would not be able to provide credible independent assessments of the performance of the system and of governments as stewards. For example, while a body like ACECQA, which was established to assist governments in administering the NQF, could undertake the role envisaged for the ECEC Commission, this would require the support of the states and territories and would necessitate a fundamental shift in its role, responsibilities and resources.

Government departments have the authority and capacity to conduct research on ECEC policies, but they may be restricted in the areas that they can focus on to those that fall directly within their jurisdiction. The ECEC Commission would be able to consider the ECEC system as a whole and could have the capacity to champion longer-term, national objectives and strengthen accountability for the stewards, without being subject to the same limitations.

To ensure its independence, the ECEC Commission should be underpinned by legislation and overseen by a board with fixed-term appointments. The new commission should bring together representatives from all jurisdictions to recognise the interwoven nature of ECEC policy and promote interjurisdictional collaboration.

Figure 19 – Potential functions of the ECEC Commission

<p>Hold the stewards to account</p>	<ul style="list-style-type: none"> • Assess and report on governments' progress on commitments made under the national agreement and other relevant agreements and strategies • Report on key metrics that can inform assessments of the system's performance • Collate and publish information on how governments are exercising their functions in the system • Conduct or commission evaluations of government programs
<p>Advise governments on how to better steward the system</p>	<ul style="list-style-type: none"> • Make recommendations on what governments can do to improve their stewardship of the system. This should include making public recommendations to governments on: <ul style="list-style-type: none"> • widespread availability gaps and trends • how to better connect the ECEC system with other child and family services • the effects of the hourly rate cap on families and services • steps that can be taken to maintain or improve the quality regulation system • the impacts of inconsistencies across jurisdictions on families', services' and employees' experiences with the system • other matters at the request of the Australian, state and territory governments
<p>Act as a custodian for research and data</p>	<ul style="list-style-type: none"> • Oversee the ECEC research agenda, including by coordinating, conducting and commissioning research into educational processes, innovative programs and policies • Act as a data custodian for the sector, including by: <ul style="list-style-type: none"> • collating and publishing data on system performance • developing rules, protocols and procedures to facilitate the sharing of data • identifying where there are gaps in current data collection arrangements
<p>What the ECEC Commission should <u>not</u> do</p>	<ul style="list-style-type: none"> • Make any funding or policy decisions, manage any funding or administer any programs • Focus on particular local markets • Regulate any services – either with respect to quality or price • Provide advice for non-government actors • Provide 'hard' recommendations (for example recommending that the hourly rate cap should be set at a particular dollar figure)

There are also functions that should not be carried out by the ECEC Commission. The information and advice it will provide should be a key input for setting national priorities for policy makers and regulators. However, the commission should not be a regulator or a price setting body, as these functions conflict with its responsibilities around accountability and transparency. Nor should it replace core functions of government departments, including the existing responsibility to evaluate individual programs and policies. The commission's evaluations should focus on progress towards a universal ECEC system, with its advice supporting and enabling governments to steward the system in an effective and coordinated way.

9. What does success look like?

Change has been the reality of the ECEC system for many decades. The CCS was rolled out in 2018, redefining the way services are funded. Governments, services and families are contending with changes to preschool in New South Wales, Victoria, Queensland and South Australia, which in some cases have had to be delayed due to budgetary constraints and workforce challenges; in other cases, families have reported difficulties in finding preschool places or services limiting the programs on offer. Taking a coordinated, national approach to ECEC expansion is likely to be part of the solutions to these challenges.

Lessons from policy changes, in Australia and overseas, show that the pathway to creating a universal ECEC system must be sequential, with continual monitoring to ensure that objectives and milestones are being met. The reforms recommended in this report would require at least a decade to be fully implemented (figure 20). Staged implementation will be critical to avoid overwhelming the system through expansion that is not well planned or coordinated, crowding out the children and families who need ECEC most and delivering poor quality services.

The implementation of reforms, as detailed in this report, should start immediately, and in the first instance focus on the ECEC workforce, investing in existing educators and teachers as well as expanding the workforce to meet future demand. The Australian Government would also have to consider the funding implications of any increase to wages resulting from the processes that have arisen out of recent changes to the Fair Work Act (box 7). The availability of a suitably qualified workforce should be a key determinant of the timing and sequencing of reforms.

Other reforms that should commence in the near term include:

- removing the activity test
- addressing shortcomings in the ISP
- consulting with communities about the types of ECEC they would benefit from
- reviewing the operations of state regulatory authorities to establish what additional funding would be required to improve the effectiveness of the regulatory system.

In the second tranche of reform, starting in 2026, the Australian Government should:

- change the CCS, such that households on incomes of up to \$80,000 receive a subsidy rate of 100% of the hourly rate cap
- establish the Early Childhood Education and Care Development Fund, to improve access to ECEC in persistently thin markets
- establish the Early Childhood Education and Care Inclusion Fund, collecting the necessary data and establishing benchmarks for funding levels that enable inclusion of all children in ECEC
- enter into a new national agreement for ECEC and establish the ECEC Commission.

The reforms will complement each other to create universal access to ECEC. A more considered approach to market expansion through the Development Fund will be based on close monitoring of the system by the ECEC Commission. At the same time, a higher rate of CCS will boost demand, which in turn is expected to lead to an increase in supply in some areas where there are availability gaps. Services will have to demonstrate their strong quality track record in order to expand; coupled with a better resourced regulatory system, this will create incentives for ongoing quality improvement. Families will find the system easier to navigate, as a result of simpler policy settings while governments will provide them with better information. This convergence in policy directions can create an ECEC system that is much simpler and based on common, child-centred principles and a consistent set of outcomes.

Setting clear policy aims for a universal ECEC system

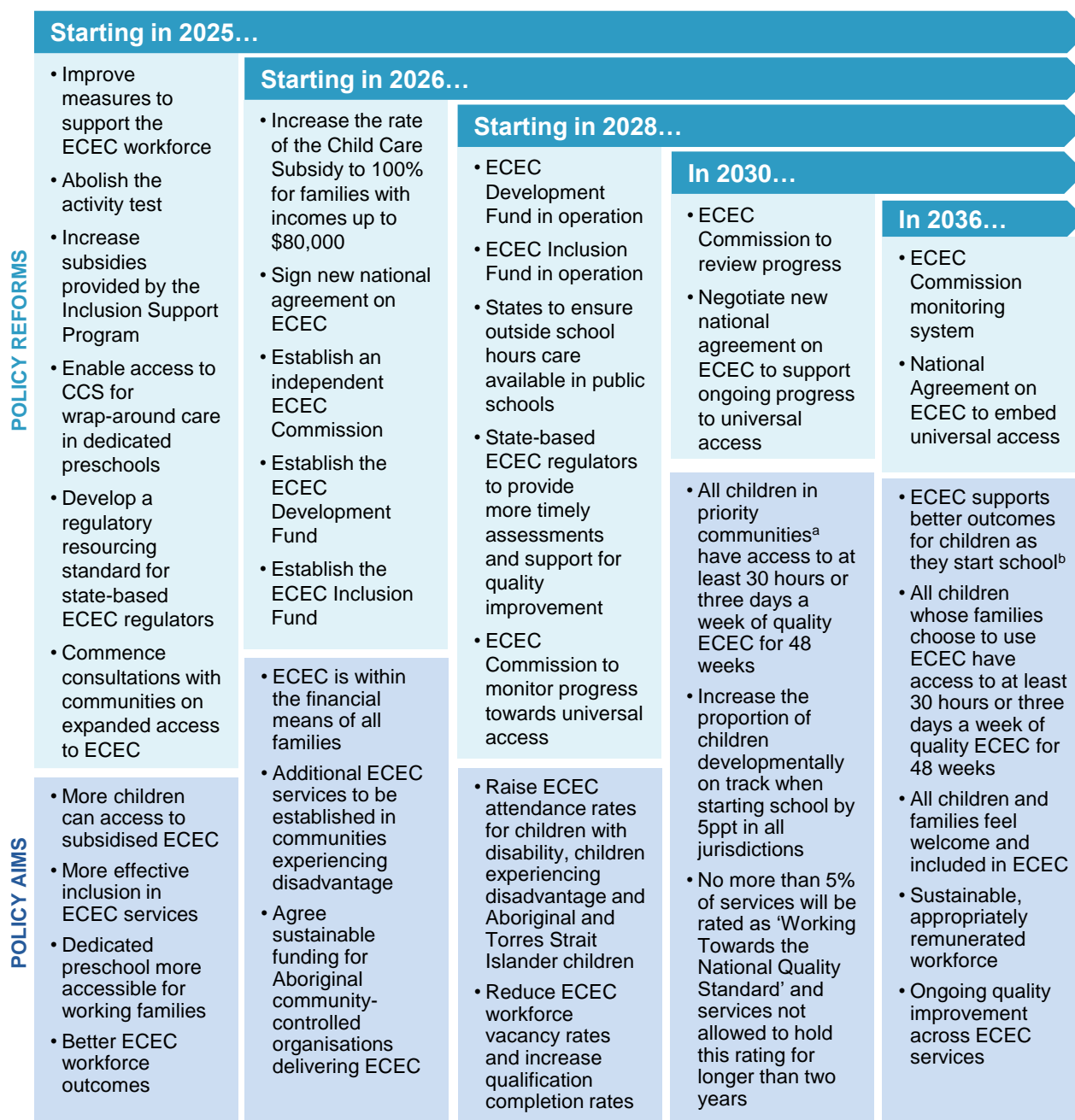
The key objective of governments in introducing a universal ECEC system is to ensure that it is high-quality, accessible (both available and affordable), inclusive and equitable. Progress against this objective should be evaluated as reforms are implemented.

Following the first tranche of reform, several important policy aims would be achieved in 2025 and 2026.

- With the changes to the CCS, ECEC is expected to be within the financial means of all families.

- The ECEC workforce would have access to better training and career pathways, as well as better wages and conditions as a result of processes that have arisen from changes to the Fair Work Act.
- The ISP would be more effective in achieving its inclusion goals.
- Dedicated preschools would be able to cater to the needs of working parents, with an expansion in wrap-around care.

Figure 20 – Sequencing ECEC reforms will be critical for successful implementation



a. Priority communities are communities experiencing disadvantage where there is low supply of ECEC. **b.** Outcomes can be tracked through the preschool outcomes measure developed under the Preschool Reform Agreement, and the Australian Early Development Census.

Improving ECEC access and quality will mean more children start school ready to learn, increasing the likelihood that they achieve better educational outcomes. By 2030, the aim for governments should be to achieve an increase of five percentage points in the proportion of children who start school developmentally on track, as measured by Australian Early Development Census. In 2021, this proportion ranged between 38.6% in the Northern Territory and 57.5% in Western Australia; the national rate was 54.8%.

Greater access to ECEC, through market expansion and the investments of the Development Fund, should see children in communities experiencing disadvantage where there was low supply of ECEC have access to at least 30 hours or three days a week of quality ECEC by 2030. More effective funding for inclusion should lead to improvements in attendance rates for children with disability, children experiencing disadvantage and Aboriginal and Torres Strait Islander children.

Steps to address workforce challenges are expected to support a more sustainable ECEC workforce and reduce vacancy rates in line with primary education. More proactive and better resourced regulators will work with providers to halve the proportion of ECEC services rated as 'Working Towards the NQS'.

There are inherent challenges in setting measurable policy aims or targets. In some cases, such as children's development, improvements in ECEC alone may not be enough to achieve the goals governments are working towards. In other cases, data may not be available (for example, for benchmarking the ECEC workforce against other parts of the education system), or may be incomplete (for example, data is missing for some aspects of inclusion). There is also a risk that setting specific targets would restrict the ability of the system to respond to changing circumstances or that other aspects of reform would fall by the wayside as policy makers and ECEC providers focus on achieving these targets.

However, setting clear aims for the ECEC system to work towards would provide common goals and direction in the process of reform. They would offer a framework against which to assess progress and prioritise further investment. Targets are an important feature of national agreements and should also be included in the national agreement on ECEC.

The ECEC Commission should report annually on progress towards these aims, and work to address any data gaps through new data collection or more effective use of existing data. As reforms are implemented, other targets or measures could be considered for subsequent iterations of the ECEC national agreement. For example, the preschool outcomes measure is likely to offer a better indicator of the specific effects of ECEC on children's outcomes than the Australian Early Development Census, where assessments of developmental vulnerability can be affected by other factors, such as children's home environment and access to health and other services. Over time, outcome measures could also be implemented for children attending OSHC, based on the outcomes detailed in the Framework for School Aged Care in Australia.

By 2036, the reforms will deliver on the goal of universal access, enabling every child aged 0–5 years to access high-quality, affordable ECEC for at least 30 hours or three days a week for 48 weeks, and every child aged 5–12 years in public school to access OSHC, where there is sustainable demand in the school community. Families will be able to choose the types of services that suit their circumstances – including inclusive and welcoming CBDCs that build stronger connections to community; dedicated preschools that are better aligned with the needs of working parents; family day care, in home care and other types of services that offer fit-for-purpose ECEC, particularly in regional and remote areas. Parents would be much less likely to restrict their labour force participation due to ECEC-related barriers, as services would be available, affordable and inclusive.

And for children, the time spent in ECEC would enable them to explore, grow and learn and offer them benefits that have the potential to last a lifetime.

Recommendations and findings

Paper 1 – Children’s outcomes



Finding 1.1

Most evidence shows children can benefit from attending high-quality ECEC

Most credible evaluations of ECEC programs have shown that ECEC attendance can have benefits for children.

While difficult to quantify, these benefits 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. This evidence is more extensive for children aged three and above, and for preschool programs.

The effects of ECEC attendance hinge on the quality of the service and the characteristics of the home environment.



Finding 1.2

There is more to learn about how ECEC programs can best improve children’s outcomes

The literature on ECEC presents some lessons about how programs and systems to improve children’s outcomes might be designed. But there is much that is not known.

- The benefits from ECEC programs can be greatest for children experiencing vulnerability or disadvantage, while extending more broadly. While intensive, targeted programs will be best for some children, services that are accessible to children from a wide range of backgrounds may be more conducive for the learning and development of each child who attends.
- Children have benefited from 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. A better understanding is needed of how children’s outcomes will be affected by efforts to improve these measures, including regulated features of services such as staffing requirements.



Recommendation 1.1

New collections for the Longitudinal Study of Australian Children

The Australian Government should provide funding for the Longitudinal Study of Australian Children to establish new cohorts at regular intervals. The data collected should be linked with administrative data to provide a more comprehensive understanding of children's experiences.



Recommendation 1.2

A research agenda for ECEC can address key knowledge gaps and inform policy

The Australian, state and territory governments should support the development and delivery of a research agenda for ECEC.

As a first step, the Australian Education Research Organisation should commence development of the research agenda. It should work collaboratively with researchers, policymakers and the ECEC sector to identify research priorities, support access to data and disseminate research outputs.

Once the ECEC Commission is established (recommendation 10.2), it should take on the coordination and further development of the research agenda.

Paper 2 – An inclusive ECEC system for all children



Finding 2.1

Many Australian children attend ECEC services, but children who would benefit most are less likely to attend

ECEC services play a major role in the lives of young children and their families. In August 2023, nearly half of one-year-olds used some form of ECEC and participation rates rose until children reached school ages. About 90% of four-year-olds were enrolled in ECEC and about 15% of children aged 5–12 years used outside school hours care.

However, children experiencing disadvantage and vulnerability— who are likely to benefit most from ECEC services – are less likely to attend than their more advantaged peers.



Finding 2.2

Work-in-progress should clarify services' obligations to include children with disability

The Commission notes the Australian Government's work-in-progress to amend the *Disability Standards for Education 2005* (Cth) to cover the whole ECEC sector. Amendments would further clarify services' obligations under the *Disability Discrimination Act 1992* (Cth), both for the sector and families, and address the misconception that rights vary in different ECEC services.

The Commission also notes planned efforts to help services find and use resources that set out their obligations under the *Disability Discrimination Act 1992* (Cth), and to include more detail on supporting children with disability in the *Guide to the National Quality Framework*. These initiatives should lift the ECEC sector's understanding of, and compliance with, the obligations established by the *Disability Discrimination Act 1992* (Cth) and contribute to improved inclusion of children with disability.



Finding 2.3

A range of supports can promote the inclusion of children from diverse backgrounds

The National Quality Framework (NQF) sets expectations around inclusion and cultural responsiveness for ECEC services. The updated approved learning frameworks provide a stronger focus on cultural safety and responsiveness, and there is scope for other aspects of the NQF, such as the National Quality Standard, to align with this focus.

While most services aim to deliver inclusive practice, structural barriers, such as educator capacity or funding limitations, restrict implementation of the NQF. Exclusionary practices persist for many children and their families, hindering their full access and participation.

A new approach to inclusion funding could support services in better addressing cultural safety through capacity building and dedicated programs.

Bilingual and bicultural educators have the potential to play a significant role in children's cultural safety and development. Through shared language, cultural understandings and experiences they can build connection and engagement with children and their families. Their presence and contributions to the sourcing of culturally relevant resources and programming can support culturally and linguistically diverse children to feel included and educate other children about diversity.



Finding 2.4

ECEC services should support cultural safety for Aboriginal and Torres Strait Islander children

Mainstream ECEC services need to support cultural safety because of the contribution it can make to the cultural wellbeing, identity, school readiness and ongoing ECEC participation of Aboriginal and Torres Strait Islander children.



Finding 2.5

Uptake of Innovative Solutions Support is not fulfilling its potential to address inclusion needs

The very small number of applications for Innovative Solutions Support strongly suggests that this component of the Inclusion Support Program is not fulfilling its potential to assist services in addressing the inclusion needs of their communities. This is likely due to the characteristics of the current system, including a lack of awareness and the onerous application process.



Finding 2.6

Inclusion support funding is not distributed in line with developmental vulnerability

Results from the Australian Early Development Census (AEDC) show stark differences in the proportions of children with developmental delay by socio-economic status (SES). In 2021, just over 33% of children in the least advantaged quintile were developmentally vulnerable on one or more of the AEDC domains, in comparison with just under 15% of children in the highest SES quintile.

But the proportion of services receiving Inclusion Support Program funding varies little by the socio-economic status of communities. Children who would most benefit from an inclusive ECEC experience are more likely to be missing out on additional support.

A distribution of inclusion support funding more in line with the distribution of developmentally vulnerable children in communities would be expected in an inclusive system.



Finding 2.7

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.

The requirement that families provide evidence of high ongoing support needs is also a barrier when a family is unwilling to acknowledge that to be the case, or unable to obtain documentary evidence.

The prioritisation of children with disability diagnoses when demand exceeds the capped allocation risks precluding some children with other additional needs from receiving support and entrenching the Inclusion Support Program as a 'disability-only' program.



Finding 2.8

Subsidy design and rules for additional educators are unduly restrictive

Eligible services can apply for subsidies to hire additional educators 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 these programs that create disincentives for services to enrol children with additional needs.

- 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 for a single child in centre-based day care), irrespective of the number of hours that children who require support attend.
- 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.



Finding 2.9

Applying for the Inclusion Support Program is unduly burdensome

Some services experience challenges in applying for the Inclusion Support Program (ISP).

Inclusion Agencies and the Inclusion Development Fund (IDF) Manager can struggle to approve applications for ISP subsidy support within contracted timelines during periods of high demand. Services can experience lengthy wait times for approval of their applications for subsidies for an additional educator and, in the meantime, bear the costs if they have engaged someone to support a child. Delays contribute to the financial disincentives to services to enrol children with additional needs. Increases in the budgets of Inclusion Agencies and the Inclusion Development Fund Manager might be needed.

Expanded access to Immediate/Time-Limited Support irrespective of whether the child's needs are short- or longer-term would reduce the disincentive to services to enrol children with additional needs.

Inquiry participants also raised administrative issues with the ISP. Most notably, the administrative requirements of the IDF Subsidy for an Additional Educator (such as the Strategic Inclusion Plan or seeking reapproval with changes to a child's care environment) posed were a barrier for many services.

Navigating the Inclusion Support Portal may be difficult for many services. This may improve with the Portal enhancements that the Australian Government Department of Education and Services Australia are undertaking.



Finding 2.10

An enhanced and expanded needs-based funding approach would more effectively contribute to achieving inclusion

The Inclusion Support Program (ISP) only meets some of the inclusion needs of children and families using ECEC. The ISP primarily provides support to services to meet the needs of individual children, particularly those with diagnosed disability. There is insufficient funding to meet broader inclusion needs of children attending ECEC, including, for example, to support children affected by trauma to participate, ease practical barriers to access and improve cultural safety.

An enhanced and expanded needs-based funding approach would address the needs of both individual children with diagnosed needs and those whose additional needs are evident but not diagnosed. It would support services to reach out to families and to connect with the other services that support them and their children.

An appropriately funded, enhanced and expanded needs-based program would be more likely to contribute to all children being supported to succeed, regardless of their circumstances and abilities.



Recommendation 2.1

Amend the Disability Standards for Education

The Australian Government should amend the *Disability Standards for Education 2005* (Cth) to cover the whole ECEC sector as soon as possible.



Recommendation 2.2

Enhancing the Inclusion Support Program should be an immediate priority

Immediate changes to the Inclusion Support Program (ISP) are needed to ensure children with additional needs are adequately supported in early childhood education and care (ECEC).

The Australian Government Department of Education should amend the Inclusion Development Fund Subsidy for an Additional Educator (IDF-AE Subsidy) and Immediate/Time-Limited (I/TL) Support to:

- increase the hourly subsidy rate for an additional educator's wage to the level set for a Children's Services Employee Level 3.3 and index the subsidy rate to that wage classification
- remove limits on the weekly hours the subsidies can be approved for and ensure they align with the child's attended hours
- allow other human-services qualified staff and inclusion professionals, such as allied health or other relevant professionals, to be employed as an additional educator.

The Australian Government Department of Education should investigate the role of the Inclusion Development Fund Manager (IDFM) and Inclusion Agencies (IAs) in delays in processing applications for ISP funding during periods of high demand and increase their funding if necessary.



Recommendation 2.2

Enhancing the Inclusion Support Program should be an immediate priority

When a service identifies that a child has high support needs and engages an additional educator (or other inclusion support worker), they should be able to receive I/TL Support while seeking documentary evidence and applying for the IDF-AE Subsidy. This would reduce the costs that services incur while waiting for subsidy approval, helping to reduce the disincentives to enrolling children with high support needs and ensuring those children can be supported when they start attending a service.

If the IDFM is experiencing high levels of demand and struggling to process applications, they could have the discretion to extend I/TL Support while processing a service's application for IDF-AE Subsidy.

Where families are unwilling or unable to provide documentary evidence to support an IDF-AE Subsidy application, service staff should be able to exercise their professional judgement and apply for ISP funding. While in receipt of I/TL Support, the service's IA should attend the service and determine whether to endorse the service's application for the IDF-AE Subsidy. Where a service's application is not endorsed, further payments should be discontinued, and services should be required to pay back any subsidies received.

To further streamline application processes, the Australian Government Department of Education should also consider relaxing requirements for reapprovals when there are changes to the care environment.

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

The Australian Government Department of Education and relevant state and territory departments of education should work together to streamline application requirements between their respective inclusion programs, to reduce the need for services to apply for funding multiple times.



Recommendation 2.3

Adopt an enhanced and expanded needs-based inclusion funding instrument

By 2028, the Australian Government should develop and implement a new needs-based Early Childhood Education and Care Inclusion Fund (Inclusion Fund). The fund should have three streams.

- Children with high support needs should be supported through a stream similar to the Inclusion Development Fund, but with the enhancements suggested in recommendation 2.2 (Disability and Complex Needs Inclusion Stream).
- Broader inclusion needs within the community of children and families supported by services should be funded based on the characteristics of that community (Mainstream Inclusion Stream).
- A program should be established to enable services to apply for support for upgrades to physical facilities to ensure all children can be included, irrespective of their abilities (Inclusion Fund Grant Stream).

Calculation of Mainstream Inclusion Stream funding provided to a service could draw on indicators correlated with children's inclusion needs and data from the services' historical enrolment profile. The Mainstream Inclusion Stream should include mechanisms to ensure timely allocation. Services should have funding available to address children's needs when those children enrol.



Recommendation 2.3

Adopt an enhanced and expanded needs-based inclusion funding instrument

A service should have flexibility in determining how funds are used to best fit the needs of its community. Services should develop plans outlining how funds will be spent and should receive assistance in doing so. Plans should be approved before funding is received.

A 'menu' of approved programs should be developed to help services purchase support from verified providers. Recipients of larger allocations could have some flexibility in implementing programs that are not on the menu. Prospective program providers could tender to be included in the menu, in a process similar to that for whole of government purchasing.

Design of the fund should include an annual review by services of progress against their plan to help them understand what is working well and what might be improved, and an acquittal process to verify how funds were used.

Trials to test the effectiveness of different program and service approaches should be set up. The Inclusion Fund should be evaluated after three years to gain insight into outcomes, sufficiency of funding, menu content and features of fund administration.

The Australian Government Department of Education should investigate services' funding requirements for physical modifications to facilities to accommodate children with additional needs and establish a fund to address them.

When the implications of the Australian Government's response to the NDIS Review become clearer, they could be reflected in determination of funding levels across the three streams. As part of designing and implementing a new instrument, the Australian, state and territory governments should work together to clarify responsibilities and streamline their inclusion funding programs.

Paper 3 – The ECEC workforce



Finding 3.1

Workforce constraints affecting the capacity of the sector risk persisting without action

Workforce constraints are affecting the ECEC sector, and there are risks that, without action, there will be fewer ECEC workers than needed. This will frustrate efforts by governments to make ECEC more accessible – 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 educators and teachers to meet extra demand.



Recommendation 3.1 Set goals for the ECEC workforce

The Australian, state and territory governments should set goals for the ECEC workforce. The outcomes for the ECEC workforce identified in the draft National Vision for ECEC can form the basis for these goals, but the goals should also include reference to:

- the pay and conditions being sufficient to attract and retain enough qualified workers in the sector so that all children and families have access to at least 30 hours or three days of high-quality ECEC for 48 weeks per year for children aged 0-5 if they choose to, and for outside school hours care to be available in all public schools where there is sustainable demand
- there being a pipeline of future educators and teachers that will meet future ECEC demand
- the ECEC workforce having access to pathways that facilitate career advancement and that encourage ECEC workers (both current and future) to view a career in the sector as attractive and rewarding.

These goals should be incorporated into an enhanced ECEC workforce strategy (recommendation 3.12). The ECEC Commission (recommendation 10.2) should publicly report on progress towards achieving these goals for the ECEC workforce.



Finding 3.2 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 – will likely be addressed through processes arising out of recent changes to the *Fair Work Act 2009* (Cth), including through the multi-employer bargaining process that is underway and proceedings by the Fair Work Commission to address potential gender undervaluation in the *Children's Services Award 2010*, which covers a significant number of employees working in the sector.



Finding 3.3 Government support can help to offset the impacts of wage increases on ECEC affordability and accessibility

Wage increases for ECEC staff will result in higher costs for services, which can be expected to lead to adverse impacts on ECEC affordability and accessibility, including:

- higher out-of-pocket expenses for families as providers pass on higher wage costs in the form of higher fees
- some services closing because they cannot meet the higher wage costs and remain viable, and slower expansion by the sector as a whole
- a potential decline in the quality of some services as they look to offset the cost of increasing wages by reducing spending on other inputs that enhance ECEC quality.

Government funding to support a wage increase – which the Australian Government has indicated it will provide – would help to mitigate some of these impacts.



Recommendation 3.2

Evaluate recent changes to ECEC VET training packages

HumanAbility, as the Jobs and Skills Council responsible for Vocational Education and Training (VET) package development for the ECEC sector, should commission an evaluation of the CHC30121 Certificate III in Early Childhood Education and Care and the CHC50121 Diploma of Early Childhood Education and Care qualifications no later than 2025.

The evaluation should consider whether reforms to these qualifications in 2021 led to increased training quality and are resulting in VET that is meeting the needs of the sector, including by considering the content taught across the Certificate III- and Diploma-level ECEC qualifications and the quality and job readiness of graduates from these programs.

If the evaluation finds that quality concerns remain, HumanAbility should strongly consider making greater use of independent assessment within Early Childhood Education and Care VET qualifications as a way to address these concerns.



Recommendation 3.3

Re-examine entry requirements for Diploma courses for people who already hold a Certificate III qualification

As a matter of priority, HumanAbility should review the prerequisites for entry into the CHC50121 Diploma of Early Childhood Education and Care, with a view to making enrolment more accessible for holders of older Certificate III-level qualifications in Early Childhood Education and Care that are not deemed to satisfy the prerequisites for the Diploma-level course.



Recommendation 3.4

Develop bespoke traineeship pathways for family day care settings

HumanAbility, in consultation with governments, the Australian Children's Education and Care Quality Authority, training providers and family day care providers, should develop tailored pathways that encourage traineeships to be undertaken in family day care settings.

**Finding 3.4****Accelerated qualifications for Diploma-qualified educators should 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 can play an important role in growing the pool of ECTs.

These programs address some of the barriers that Diploma-qualified educators face when upskilling by reducing the financial and study time commitments that educators face in order to undertake further study.

**Finding 3.5****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. 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 48%. A range of reasons have contributed to these falling completion rates, including increased difficulties balancing work, life and study commitments among students, and challenges accessing mentoring and support while studying.

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 educators who are studying to become early childhood teachers.

**Finding 3.6****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.



Recommendation 3.5

Reduce barriers for qualified educators to upskill to early childhood teachers

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

- work with universities and the ECEC sector to develop and promote accelerated degree programs through which Diploma-qualified educators can upskill to become 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 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 to complete supervised professional experience requirements associated with 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 should examine the supervised professional experience that is required for an early childhood teaching qualification to be approved for the purposes of the National Quality Framework, and consider extending the ability of students to fulfil such requirements in their existing workplaces.



Recommendation 3.6

Support innovative delivery of teaching qualifications

Governments should provide financial incentives to universities to facilitate trials of innovative approaches for providing Initial Teacher Education to early childhood teachers, while still maintaining high standards in teaching degrees.

The Australian Children's Education and Care Quality Authority 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.

**Finding 3.7****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.

Teacher registration requirements for ECTs across jurisdictions are inconsistent, which risks limiting the work opportunities for ECTs who move across jurisdictions, to the detriment of their careers, and reducing the number of ECTs who are available to services to employ.

**Recommendation 3.7****Improve registration arrangements for early childhood teachers**

State and territory governments should ensure that under their teaching registration arrangements:

- early childhood teachers (ECTs) working in National Quality Framework-approved ECEC settings are required to 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
- there are accessible pathways for ECTs with an ACECQA-approved qualification to teach in primary school (after they undertake additional study focussing on teaching in primary school settings).

State and territory governments should also review their arrangements concerning highly accomplished and lead teacher (HALT) certification (in relevant jurisdictions) and act on opportunities to make it more accessible for ECTs. As part of these reviews, state and territory governments should:

- issue guidance on the eligibility of ECTs for HALT certification, the process through which ECTs can seek HALT certification, and the implications for ECTs if certification is achieved
- ensure all ECTs have access to a HALT certification authority.

**Recommendation 3.8****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 (ECTs) 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.



Recommendation 3.9

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 and 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 learning support to Aboriginal and Torres Strait Islander students.



Recommendation 3.10

Facilitate more placements in Aboriginal and Torres Strait Islander ECEC services

HumanAbility and the Australian Children's Education and Care Quality Authority, as the organisations who set requirements with respect to placements in ECEC, should review any requirements that limit the extent that placements are able to take place in Aboriginal and Torres Strait Islander ECEC services and provide advice to training providers on the circumstances in which placements can be undertaken in these services.



Finding 3.8

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 provide support to overcome these barriers.

**Recommendation 3.11****Contribute to professional development for the ECEC workforce**

The Australian, state and territory governments should provide financial support for the ECEC workforce to undertake professional development activities, including activities to 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.

This support should be additional to support for professional development through the ECEC Inclusion Fund (recommendation 2.3), which aims to improve the capability of staff and services to provide more culturally safe and inclusive ECEC.

**Recommendation 3.12****Enhance the National Children's Education and Care Workforce Strategy**

In addition to incorporating an agreed set of goals for the ECEC workforce (recommendation 3.1), the Australian, state and territory governments should enhance the value of the National Children's Education and Care Workforce Strategy (*Shaping our Future*) by:

- including projections of the number of educators and teachers the sector is expected to require (over different timeframes) in the strategy
- revising the actions of the strategy to incorporate the recommendations of this inquiry on growing and developing the ECEC workforce
- clarifying how each action in the strategy will be resourced.

The ECEC Commission (recommendation 10.2) should monitor the strategy's implementation, including through public, biennial assessments of governments' progress implementing the strategy, and whether this progress has been sufficient to deliver the goals for the ECEC workforce.

Paper 4 – ECEC and labour force participation



Finding 4.1

Lower-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.

Families who do not participate in ECEC typically have lower incomes, are less likely to be in the labour force, more likely to 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 to live in lower socio-economic communities.

Families are also less likely to use ECEC if they have a parent at home to care for children – whether this is due to their preferences to care for their children themselves or reflects 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.



Finding 4.2

Mothers' labour force engagement has increased markedly in recent years

The labour force participation rate of mothers (with a child aged under 15 years) increased from 68% to 79% over the decade to 2023 – mostly due to an increase in the participation of mothers with a child aged 0–4 years. Full-time employment has also been on the rise, up by 10 percentage points to 52% over the decade to 2023, but the part-time employment rate of Australian mothers is still higher than the rate in most OECD countries.

High rates of part-time work are a feature of the Australian labour market and survey evidence suggests that many mothers choose to work part time (but some of those who make that choice may increase their working hours with changes to ECEC policy).

While mothers' engagement in the labour force has increased, the labour market disruption that often comes with having a child negatively affects the lifetime earnings of many women. ECEC can help mothers back to work, improving their labour market outcomes and gender equality.



Finding 4.3

About 328,000 parents nominate ECEC-related barriers as the main barrier they face to greater labour force participation

In 2022-23, about 2 million parents with children aged under 15 years old (the large majority of them mothers) were either not in the labour force or were working part time.

Of this group, just over half reported that 'caring for children' was the main barrier they faced to increasing labour supply. When asked what it was about caring for children that influenced their labour force decisions, about 30% of these parents (or 328,000 people) nominated ECEC-related issues including affordability, availability and other factors. The other 70% nominated a preference to care for their children or that their children were too young or old for ECEC.

Parents who reported issues other than caring for children as the main barrier to increasing their labour supply nominated factors like study or long-term illness.

The data suggests that if ECEC-related barriers were reduced, about 328,000 parents might be able to increase their labour supply. It is also likely that additional parents would change their preferences around caring for children if ECEC were more affordable or readily available, leading to a greater number of parents – mostly mothers – increasing their participation.



Finding 4.4

Removing ECEC-related barriers could see an increase in labour supply of up to 143,000 full-time equivalent workers

If all reported ECEC-related barriers were removed, it is estimated that the equivalent of an additional 46,000 full-time workers among parents who *want* a job or more hours could be added to the labour supply. These would mostly be mothers from lower-income households and those with younger children (aged 0–4 years).

If parents who reported ECEC-related barriers to working yet did *not want* a job or to work more hours are included in the estimate, the equivalent of 143,000 full-time workers could be added to labour supply.

These figures are likely upper bounds – the analysis assumes that all ECEC related barriers are solved (including availability) and that non-ECEC barriers do not prevent these parents' increased engagement in the labour force. That said, there might also be some parents who would change their preference to care for their own children and engage in paid work if ECEC-related barriers were removed.



Finding 4.5

High workforce disincentive rates are largely due to the tax and transfer system

The contribution of ECEC expenses to high workforce disincentive rates (WDRs) has been reduced by recent policy changes. The introduction of the July 2023 Cheaper Child Care reform reduced WDRs by an average of 4 percentage points for a range of different family compositions modelled by the Commission. The removal of the annual cap on subsidies received by higher-income families in 2021 and introduction of the Higher Child Care Subsidy in 2022 would have further reduced WDRs for some families.

WDRs remain high – sometimes exceeding 70% – for many sole parents and some secondary earners, typically mothers, creating a financial disincentive to work and to increase days of work. However, these rates are mainly due to the tax and transfer system rather than out-of-pocket ECEC expenses.

Some families face relatively high daily WDRs with a relatively high contribution from ECEC out-of-pocket expenses. These are typically coupled families with more than one child aged under 5 years and the WDRs are associated with the third, fourth and fifth days of work in a week for the secondary earner.

Paper 5 – Availability of ECEC



Finding 5.1

Universal access to high-quality ECEC for at least 30 hours (or three days) per week for 48 weeks per year for children aged 0–5 years should be a long-term policy goal

Governments should set a long-term policy goal to ensure that all children aged 0–5 years whose families choose to use ECEC can access at least 30 hours or three days a week for 48 weeks per year of high-quality ECEC. Meeting this benchmark, along with improved affordability, inclusion and flexibility, would enable a universal ECEC system.

Nonetheless, flexibility for families to choose the level of use and type of service that suits them is important. Families should be able to choose the number of days/weeks that are most appropriate for their children and their labour force participation choices.



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. For-profit centre-based day care accounted for just over 60% of that growth, with a further 22% due to expansion by for-profit outside school hours care services. Growth in centre-based day care was delivered mostly by a mix of small, medium and large sized for-profit providers, while growth in outside school hours care was delivered mostly by large for-profit providers.

Growth in for-profit provision of centre-based day care was reasonably evenly spread across all areas of socio-economic advantage.

**Recommendation 5.1****Advisory service for small not-for-profit providers**

To help overcome the barriers to expansion faced by small not-for-profit providers, the Australian Government should establish an advisory function that supports these providers to build capacity.

This function should be separate from the ECEC Development Fund advisory body (contained in recommendation 5.2), which is designed to assist community groups with applying for Development Fund grants and competitive tenders.

**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.

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.

**Finding 5.4****Recommended changes to the Child Care Subsidy and ongoing demand from parents will further support increases in supply in some regions; but in other areas, more support will be needed**

Some areas are persistent 'thin markets' – where demand is insufficient to support the competitive provision of services.

If the activity test were removed and affordability improved for lower-income families (recommendation 6.1), demand for ECEC will increase in some areas to the point where services may be viable without further government support and supply will expand through market dynamics. This is likely to occur in lower socio-economic areas with larger populations (including on the urban fringe).

In other markets, prospective providers may be reluctant to invest due to higher costs, variable demand and the challenges of recruiting and retaining educators and teachers.

In these markets, supply-side funding programs will be needed to boost provision to achieve at least 30 hours or three days a week of high-quality ECEC for 48 weeks a year for all children aged 0–5 years whose families choose to use ECEC.



Recommendation 5.2

Support universal access in persistently thin markets via an ECEC Development Fund

To ensure that at least 30 hours or three days a week of quality ECEC is available for 48 weeks of the year 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 by this inquiry.

This support could take the form of:

- grant funding or low-interest loans 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, repurposing 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. Funding in these markets should generally be ongoing and enable a baseline level of provision, with periodic review to determine if a service can be self-sustaining with Child Care Subsidies. Ongoing funding could also mean that existing grants are reassessed (including scope for changing providers) without an onerous process of re-application
- specific arrangements for Aboriginal community-controlled organisations to be co-designed with Aboriginal and Torres Strait Islander communities.

The Australian Government should use a process of competitive tendering or commissioning to provide services in markets where community representatives do not apply for grants. This process should:

- be open to all prospective service providers, not just incumbent providers in a given area
- be open to centre-based day care, family day care and mobile care providers, depending on the needs of the community
- consider the quality of other services operated by prospective providers and give preference to those who have been at least Meeting the National Quality Standard
- strongly prefer not-for-profit providers where a service is completely or substantially directly funded by government.

In some cases, the current requirement for a capital co-contribution of 50% can be a significant barrier to potential providers entering a market and should be waived on a case-by-case basis. An advisory program should be established that works with community representatives and enables them to get the support they need.

Ownership of facilities established by communities should remain in community hands. Ownership of other services should be retained by the Australian Government.

**Finding 5.5****Family day care can be an effective solution to improving access to ECEC in 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. Expansion of family day care in recent years has been limited. 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.

**Finding 5.6****Eligibility for the In Home Care program could support workforce participation by parents of multiples**

The Australian Government could consider extending the In Home Care program to families with triplets or a higher number of children of the same age.

**Recommendation 5.3****Allow two family day care services to be run in a single venue in regional and remote Australia**

The National Quality Framework should be amended to allow two educators to provide education and care to up to 14 children at any one time at an approved family day care venue. No more than eight children can be preschool age or under.

This amendment should only apply to approved family day care venues in Inner Regional Australia, Outer Regional Australia, Remote Australia and Very Remote Australia as defined in the Australian Statistical Geography Standard.

Paper 6 – Affordability and CCS system barriers to ECEC access

**Finding 6.1****The extent to which services charge fees above the hourly rate cap varies markedly by service type**

Indexation of the Child Care Subsidy (CCS) hourly rate cap against the Consumer Price Index has not kept pace with growth in hourly fees over the past five years. The share of services with an average hourly fee above the CCS hourly rate cap increased markedly for centre-based day care (CBDC) and family day care (FDC) services, though fell for outside school hours care (OSHC) services.



Finding 6.1

The extent to which services charge fees above the hourly rate cap varies markedly by service type

However, the majority of CBDC and OSHC services still have an average hourly fee below the hourly rate cap. And CBDC services with average fees above the hourly rate cap are heavily concentrated in areas of higher socio-economic status. Average fees charged by OSHC services are also higher in areas of higher socio-economic status, but are much less likely to exceed the hourly rate cap in those areas. The case to reset the CBDC and OSHC hourly rate cap to promote affordability for those facing barriers to accessing ECEC is not strong.

Many FDC services have average fees that exceed the hourly rate cap, including in lower socio-economic status areas. The FDC hourly rate cap should be reviewed.

The hourly rate cap for in home care may also not sufficiently reflect costs of provision (paper 5) and should be reviewed, as should the need for an hourly rate cap for non-standard ECEC hours (paper 7).



Finding 6.2

ECEC is less affordable for lower-income families

The Child Care Subsidy (CCS) lowers out-of-pocket expenses for most families, but ECEC is relatively more expensive for those who can least afford it.

Among families receiving CCS, those in the bottom 10% of the income distribution (with incomes of \$40,000 on average) are estimated to pay out-of-pocket expenses equal on average (mean) to about 7% of their income (with the median family facing out-of-pocket expenses of about 5% of their income). Families in the following few deciles pay less on average, with the share of out-of-pocket expenses gradually increasing across the deciles. Families whose incomes are in the top 10% of the income distribution (incomes of \$250,000 on average) spend about 6% of their after-tax income on average (both mean and median) on ECEC.

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. Financial resources are more constrained for lower-income families which makes them more sensitive to price. 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. This is likely contributing to lower participation rates in ECEC for lower-income families.

**Finding 6.3****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. 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.

**Finding 6.4****Targeted CCS changes would improve affordability for lower-income families as well as families across all income groups**

To reduce affordability barriers that affect access to ECEC, the Commission has considered a suite of Child Care Subsidy (CCS) reforms, including:

- removing the activity test for all families
- increasing the rate of CCS to 100% for families on incomes of up to \$80,000, tapering by one percentage point for every \$5,000 over \$80,000
- raising the rate of Higher Child Care Subsidy (for families with more than one child aged five and under in ECEC) to 100% for families with incomes up to \$140,000, tapering by one percentage point for every \$5,000 over \$140,000, with families with an adjusted taxable income of \$580,000 and above being ineligible.

About half of families would be eligible for a 90% or above subsidy rate with these reforms.

Modelling shows that when implemented together, these reforms would target support to children and families who would benefit the most, but would also result in lower out-of-pocket ECEC expenses for the vast majority of families across the income range. Demand for ECEC for children aged 0–12 is expected to rise by 10%, and come particularly from children who had not previously attended ECEC. Alongside improving availability, inclusion and flexibility, these changes would enable universal access to ECEC.

**Finding 6.5****A low flat fee would make ECEC more affordable for many families but come at a substantial cost to taxpayers**

Introducing a low flat fee for ECEC services would represent a significant shift in the way the sector operates. Modelling shows that introducing a flat fee is likely to lead to an increase in demand for ECEC, particularly from families with higher incomes, and a small increase in labour force participation. This policy is estimated to see an increase of 66% in government outlays on ECEC subsidies.



Finding 6.6

A universal 90% subsidy rate would mostly benefit families on higher incomes

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.

A uniformly high rate of CCS would reduce out-of-pocket expenses for some families but not benefit low-income families, who are already eligible for a 90% subsidy rate.

Modelling shows that ECEC demand would increase as a result of a universal 90% subsidy – but this increase would come overwhelmingly from higher income families, rather than those experiencing disadvantage.



Recommendation 6.1

Modify the Child Care Subsidy to improve affordability and access

The Australian Government should modify the Child Care Subsidy (CCS) to:

- remove the activity test
- raise the subsidy rate for families with annual adjusted taxable income at or below \$80,000 to 100% of the fee, up to and including the hourly rate cap
- taper down the CCS rate from 100% by one percentage point for every \$5,000 above an adjusted taxable income of \$80,000
- increase the Higher Child Care Subsidy rate to 100% for families with an annual adjusted taxable income at or below \$140,000 and taper down from 100% by one percentage point for every \$5,000 above an adjusted taxable income of \$140,000, with families with an adjusted taxable income of \$580,000 and above being ineligible.

The CCS should be renamed the ECEC Subsidy.



Recommendation 6.2

Increase the ACCS (Transition to Work) subsidy rate to 100% of the fee up to and including the hourly rate cap

In the event that recommendation 6.1 were adopted, the Australian Government should also increase the Additional Child Care Subsidy (Transition to Work) subsidy rate to 100% of the fee, up to and including the hourly rate cap to align with the recommendation to increase the Child Care Subsidy rate to 100% for families with an income up to and including \$80,000.

Recommendation 6.3**Change the approach taken to indexing the hourly rate cap and review levels of the hourly rate cap for some types of service**

To maintain ECEC affordability for families, the Australian Government should change the indexation approach used for the Child Care Subsidy hourly rate cap. The indexation rate should be set at either:

- the higher of either:
 - 3% (the indexation ‘floor’), to provide certainty and maintain a minimum level of indexation during times of low inflation
 - a composite index comprising 75% of the Wage Price Index and 25% of the Consumer Price Index
- a rate prescribed by the Minister of Education.

The Australian Government should also review the hourly rate caps for family day care and in home care to determine the levels they should be set at to better reflect operating costs and support affordability, while maintaining integrity. The review should also consider the need for an hourly rate cap for non-standard hours.

The ECEC sector is facing a period of significant change. As part of the three-yearly review into the fees, costs and profits (recommendation 6.12), the hourly rate cap, and the indexation weighting and suitability of the 3% floor should be evaluated. The evaluation should examine whether the hourly rate cap has kept pace with changes in the costs of ECEC delivery and if the indexation approach needs to be adjusted.

Recommendation 6.4**Set the default CCS withholding rate at 0% and make it simple for families to choose a different rate if they wish to**

The Australian Government should set the default Child Care Subsidy (CCS) withholding rate to 0% for all families.

The Australian Government should clearly provide the option to adjust the CCS withholding rate both during the CCS application process and whenever families update their details, improving visibility and knowledge about the rate.

The Australian Government should also increase the number of times families can change their withholding rate online to 12 per year.

Recommendation 6.5**Review CCS eligibility for restricted or temporary residents**

The Australian Government Department of Education, in consultation with the Department of Home Affairs, should review Child Care Subsidy eligibility for restricted or temporary residents with the aim of extending eligibility to reduce financial barriers to ECEC participation.



Recommendation 6.6

Trial expanding the Assistance for Isolated Children Distance Education Allowance to include preschool education programs

The Australian Government should trial an expansion of the Assistance for Isolated Children Distance Education Allowance to include preschool programs delivered via distance education. An evaluation of the trial should determine the public benefits and costs of an expansion and whether there is sufficient evidence to justify permanent expansion.



Recommendation 6.7

Simplify the Child Care Subsidy application and income reconciliation processes

The Australian Government should simplify the Child Care Subsidy (CCS) application and income reconciliation processes to make it easier for families to access subsidised ECEC.

- In the short term, Services Australia should use information previously provided by families to prefill CCS applications to remove the need for families to provide information twice. In the medium to longer term, Services Australia should aim to introduce automatic CCS eligibility.
- Aspects of CCS income reconciliation should be aligned with Family Tax Benefit income reconciliation to make the income reconciliation process easier for relevant families.
- Families in receipt of Additional Child Care Subsidy (Child Wellbeing) and Additional Child Care Subsidy (Grandparents) should be exempt from notifying Services Australia of their income for CCS reconciliation purposes.
- The period of backdating for CCS should be increased from 28 to 90 days.
- If the activity test remains in place, the CCS application should include a drop-down menu for families to choose their activity hour range for the activity test.



Recommendation 6.8

Support families with changing or challenging circumstances through CCS and ACCS

The Australian Government should support families in changing or challenging circumstances so that children can consistently attend ECEC.

- Eligibility for the Additional Child Care Subsidy (ACCS) (Child Wellbeing) should be maintained for children on a long-term protection order, in formal foster care or in formal kinship arrangements while their circumstances remain unchanged.
- ACCS (Grandparent) should be extended to recognise informal kinship carer arrangements.
- The determination length for ACCS (Child Wellbeing) should be extended to 26 weeks.
- The need for families to report their income if they receive ACCS (Child Wellbeing) or ACCS (Grandparents) for an entire year should be removed.
- A child's eligibility for CCS should be maintained for a period of eight weeks when there is a change of guardian.



Recommendation 6.9

Establish a 'one stop shop' Early Childhood Education and Care website

The Australian Government should establish a website that contains all of the information that families need to understand how their Child Care Subsidy (CCS) eligibility is determined and how the CCS withholding rate functions.

The website should also provide a CCS calculator with functionality to estimate a family's out-of-pocket expenses based on:

- the fees of a range of services in their local area and any other services that the family chooses to include in the comparison
- different hours of ECEC use and levels of family income.

The website should also include up to date information on fees and vacancies in all CCS-approved ECEC services. The Australian Government Department of Education should consider using CCS administrative data to update fee information.

This 'one stop shop' website could be built upon the current Starting Blocks website.



Recommendation 6.10

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 through SMS and/or email to update their activity (if the activity test remains in place), income level details and their withholding rate with Services Australia.



Recommendation 6.11

Maintain integrity of the Child Care Subsidy program

The Australian Government should provide additional funding to maintain integrity of the Child Care Subsidy (CCS) program if it makes changes to the CCS that increase the amount of subsidy families are eligible for.

Integrity measures should not increase barriers to ECEC participation by families or to the provision of ECEC by CCS-approved services.



Recommendation 6.12

Monitor rises in fees and out-of-pocket expenses and conduct three-yearly reviews of fees, costs and profits

The Australian Government should continue to monitor changes in ECEC fees and out-of-pocket expenses on a regular basis to identify services where movements are out of step with sector norms. The Department of Education should carry out this role. Increases in fees that vary markedly from those of similar services should prompt closer investigation, and a regulatory response should be considered if they are not reasonable.

The Australian Government should also introduce a three-yearly review into the fees, costs and profits of ECEC to be completed by the ECEC Commission and by the Department of Education while the ECEC Commission is being established. This review should aim to:

- understand the costs associated with ECEC delivery and any significant changes in those costs
- identify if movements in fees are reasonable given movements in costs and if not, why not
- whether there is any evidence of excessive profits in the sector.

The review should also identify if the hourly rate cap has kept pace with changes in the costs of ECEC delivery and if the indexation weighting requires updating (recommendation 6.3).

The Department of Education's monitoring function should use the outcomes from this review to inform its ongoing monitoring of fees and out-of-pocket expenses.

Paper 7 – Meeting the needs of families



Recommendation 7.1

Address practical barriers to ECEC access through an ECEC Inclusion Fund

As part of a new ECEC Inclusion Fund (recommendation 2.3), funding should be available to services to address practical barriers to ECEC access, such as providing a bus service or addressing other non-fee barriers, such as clothing or food, where it would enable children currently missing out to attend ECEC.

To minimise duplication, funding available under the current Community Child Care Fund to address community-level barriers to participation should be transferred to the ECEC Inclusion Fund. The Australian Government Department of Education should examine the activities currently funded to determine whether they would be suitable for incorporation into the new Fund.

**Recommendation 7.2****Trial a system navigator role**

The Australian Government should trial a ‘system navigator’ role to support families who face complex barriers to navigating and accessing the ECEC system and who would be otherwise unlikely to engage.

The initiative should:

- be delivered by Inclusion Agencies as part of the Inclusion Support Program and be independent of ECEC services
- operate on a referral model from other services that support children and families. The need for a navigator to undertake outreach should be explored further during the trial implementation
- include a small pool of funding that Inclusion Agencies could draw upon to address barriers to access (such as assisting with ECEC bonds, clothing, or other issues as necessary)
- support families to access both CCS-approved services and dedicated preschool
- be subject to an evaluation prior to consideration of further investment or expansion
- be trialled alongside immediate changes to the Inclusion Support Program (recommendation 2.2).

**Finding 7.1****Additional costs of providing ECEC during non-standard hours are not reflected in the hourly rate cap**

Families working non-standard hours may find it harder to access ECEC that meets their needs. Services incur additional costs, such as penalty rates, to provide ECEC during non-standard hours but these costs are not reflected in the hourly rate cap.

**Recommendation 7.3****Review barriers to providing ECEC during non-standard hours**

The Australian Government should review barriers to providing ECEC during non-standard hours and consider appropriate policy responses, including:

- alongside reviewing the hourly rate caps for family day care and in home care (recommendation 6.3), consider if a non-standard hours ECEC rate cap is required
- review the extent to which planning regulations restrict ECEC services from operating in non-standard hours.



Finding 7.2

There is limited data on the availability of, and demand for, casual ECEC

Data limitations preclude a thorough examination of whether there is unmet need for casual ECEC. However, for some families, such as those experiencing disadvantage and vulnerability, access may be important.



Recommendation 7.4

Support occasional care for those most in need

A small pool of funds should be available through the ECEC Development Fund (recommendation 5.2) to support occasional care services attended by families experiencing high levels of disadvantage and/or vulnerability and for whom alternative options are not available. Both CCS-approved and non-CCS-approved services should be eligible to apply. Depending on services' CCS status, this funding could either be supplementary to the CCS, or instead of the CCS (in which case, the funding amount would likely need to be higher).

The Australian Government Department of Education should engage with occasional care services and the ECEC sector more broadly to determine the appropriate form of this funding, eligibility and other requirements. At a minimum, this should include:

- requirements for services to demonstrate they are providing, or will provide, occasional care to families experiencing high levels of disadvantage and/or vulnerability and for whom alternative options are not available. Other families, such as those working variable hours, should also be permitted access to places funded by the Development Fund where there are vacancies, but the focus and first priority for funded places should be families experiencing disadvantage and/or vulnerability
- requirements for services to demonstrate other funding options are not available or have been exhausted
- appropriate mechanisms such that funding is not provided to centre-based day care services predominantly providing regular bookings of 'long day care'.



Recommendation 7.5

The flexibility of ECEC services should be encouraged

Families identify flexibility as an area of improvement for the ECEC system, with issues cited relating to session lengths and charging practices, service operating hours and the ability to access casual options or swap days.

Providers face real constraints in providing flexible services beyond what they currently offer. But there is evidence of providers offering flexibility where they are able, such as by allowing families to change days, pick up additional days where available or offering discounts when families take holidays.

The Australian Government Department of Education should continue to consider ways it could encourage ECEC providers to offer greater flexibility to families as the market evolves and new insights emerge.

**Finding 7.3****Dedicated preschools have had 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 some 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 have made it hard for these types of activities to attract the Child Care Subsidy.

**Recommendation 7.6****Address barriers to providing subsidised wrap-around care in dedicated preschools**

The Australian Government should ensure that Family Assistance Law does not pose a barrier to providing subsidised wrap-around care in dedicated preschools where there is sustainable demand.

**Finding 7.4****ACCOs are well placed to provide early years and family services – but face funding challenges**

Aboriginal community-controlled organisations (ACCOs) provide culturally safe ECEC and other services to Aboriginal and Torres Strait Islander children and families – 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.



Recommendation 7.7

Funding arrangements for ACCOs should be considered as part of a process of shared decision-making

Governments should consider funding arrangements for Aboriginal community-controlled organisations delivering ECEC and other integrated early years services through a process of shared decision-making. Consistent with Priority Reform 1 of the National Agreement on Closing the Gap, the Early Childhood Care and Development Policy Partnership is the most appropriate forum for this process to take place.



Finding 7.5

ECEC services cater to many children and families, but some families need additional support

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 can also overcome the siloing of services, providing more effective support to families.



Recommendation 7.8

Consider if new ECEC services receiving supply-side funding should be established as integrated services

When the Australian Government is engaging with communities on solutions to limited or no ECEC supply in their area (recommendation 5.2), it should also work with them to identify if there is a need for a new ECEC service to operate as an integrated service.

Where a need is identified, the Australian Government should work with the relevant state or territory government to consider if an integrated service should be established and if so, how. Funding should be available under the ECEC Development Fund for the ECEC component of the service.



Recommendation 7.9

Support connections between ECEC and child and family services

As part of an ECEC Inclusion Fund (recommendation 2.3), ECEC services should be permitted to use inclusion funding to liaise and coordinate with other services a child may require or be accessing, such as allied health or National Disability Insurance Scheme professionals.

Pending establishment of an ECEC Inclusion Fund, funding for services to undertake these types of liaison or coordination activities should be available on an application basis through the Innovative Solutions Support component of the Inclusion Support Program.

Paper 8 – Regulating for quality



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 in the previous 12-month period, including metrics on the:

- number of service assessments performed
- average time to conduct an initial assessment on a new service and average time between reassessments of services
- proportion of services with a rating and the proportion of services assessed
- proportion of services that received a visit from the regulatory authority
- number of complaints and the average time taken to investigate a complaint
- total funding for the regulatory authority
- the number of dedicated staff and number of authorised officers within the regulatory authority.

This information may be included in the relevant state government department's annual report, and should also be collated and published by the ECEC Commission (recommendation 10.2), to make the information more accessible to governments, the ECEC sector and users of ECEC.



Recommendation 8.2

A new review of the National Quality Framework

The Australian, state and territory governments should, through the Education Ministers Meeting, commission an independent review of the National Quality Framework (NQF), 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.

Independent 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.



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.



Recommendation 8.3

Ensure regulatory authorities are adequately resourced

The Australian Government should provide additional funding to the state and territory regulatory authorities that administer the National Quality Framework, to allow sufficient monitoring of quality and support for quality improvement.

This should be guided by an independent review to determine a regulatory resourcing standard sufficient for effective quality regulation.



Finding 8.2

Families rarely use information about ECEC service ratings

Families care about ECEC quality but are usually unaware of or do not value ratings against the National Quality Standard when choosing between ECEC services, preferring other indicators. Families would benefit from more detailed, accessible information on service ratings.



Recommendation 8.4

More effective communication of quality ratings

Families would benefit from more useful and more accessible information on services' National Quality Standard ratings.

The Australian, state and territory governments should amend the National Quality Framework to:

- ensure families are informed when their service receives a new quality rating
- require services to inform families of their quality rating before they enrol
- require services to include their quality rating on their website.

The Australian Children's Education and Care Quality Authority should provide clearer and more detailed information on quality ratings on its national registers and Starting Blocks website.



Recommendation 8.5

Clear courses of regulatory action when services are Working Towards the NQS

The regulatory authorities and the Australian Children's Education and Care Authority (ACECQA) should publish consistent guidance to the sector outlining that it is not acceptable for services to be repeatedly rated as Working Towards the National Quality Standard (NQS). When a service is rated as Working Towards the NQS, they should face a broadly consistent, escalating range of regulatory measures.

- The first instance of Working Towards the NQS should generate increased support from the regulatory authority. The service should develop a comprehensive plan to meet the NQS.



Recommendation 8.5

Clear courses of regulatory action when services are Working Towards the NQS

- The second consecutive rating of Working Towards the NQS should generate additional support if the service has demonstrated meaningful improvements since its previous assessment, and is willing to continue to lift quality. If the service has not made meaningful progress, the regulator should issue a compliance notice to the service provider.
- If the service has been rated as Working Towards the NQS for three consecutive assessments, and has not made meaningful progress towards meeting the NQS, the regulator should issue a compliance notice to the provider, with a financial penalty issued if the service has not made changes to meet the NQS by the end of the compliance notice period. If the service has not made significant progress towards meeting the NQS following a financial penalty, the service approval should be suspended. If a service has not resolved its issues by the end of the service approval suspension period, the approval should be cancelled.



Recommendation 8.6

Powers for regulators to issue compliance notices to underperforming services

The *Education and Care Services National Law (2010)* should be amended to allow regulators to issue a compliance notice when a service is repeatedly rated as Working Towards the National Quality Standard (NQS) and is not making meaningful progress towards meeting the NQS. This would include the power to issue financial penalties if the compliance notice is not successful in compelling the service to meet the NQS or make significant progress towards meeting the NQS.



Recommendation 8.7

Support for services to improve quality

State Governments should facilitate the provision of a more consistent suite of support for ECEC services, including more intensive programs for services not meeting the National Quality Standard, as well as education, training and information that assist all services to foster continuous improvement. Any programs should be developed with guidance from the Australian Children's Education and Care Authority to improve consistency and effectiveness.

As part of the review of the resourcing of regulatory authorities (recommendation 8.3), the resourcing needed for state governments to provide quality improvement supports to services should also be considered.



Recommendation 8.8

Reward quality provision in new ECEC services

State regulatory authorities should consider greater use of fast-tracked approvals to reward high quality providers wanting to open new services.



Recommendation 8.9

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

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

The ECEC Commission (recommendation 10.2) 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.

Paper 9 – ECEC funding models



Finding 9.1

Proposed reforms would increase the quantum and proportion of government funding

The Commission's recommended reforms to alleviate affordability barriers, enable a significant expansion of ECEC availability and move to a comprehensive needs-based inclusion funding instrument would significantly increase the quantum and proportion of government funding of the ECEC sector.

This is in addition to increases in funding likely to occur as a result of any government funding to support wage increases as a result of the Fair Work Commission processes currently underway and state and territory governments' continued preschool reform.



Recommendation 9.1

ECEC funding mechanisms should be designed around clear principles

The Australian, state and territory governments should adopt a set of principles to guide decision-making about ECEC funding instruments. These principles should comprise equity, affordability, quality, accessibility, simplicity, efficiency and integrity.



Finding 9.2

Improving components of the current 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 support for inclusion needs and establish services in regional and remote markets.

Reforms to improve the efficiency and effectiveness of the Child Care Subsidy, expand targeted supply-side funding to uplift availability and deliver a comprehensive approach to inclusion, would represent a significant improvement on the current funding model towards realising the National Vision for the ECEC sector.

This mixed funding model performs strongly against the key funding design principles of affordability, accessibility, equity, quality, and efficiency. Reforms to simplify the system and improve accountability and transparency will strengthen and underpin this approach.



Recommendation 9.2

The Australian Government should focus on improving the current funding model

The Australian Government should focus on delivering improvements to the existing funding architecture in line with recommendations in other supporting papers to improve the efficiency and effectiveness of the Child Care Subsidy, expand targeted supply-side funding to uplift availability and deliver a comprehensive approach to inclusion.



Recommendation 9.3

The national agreement for ECEC should be a vehicle to address preschool funding issues

In forming a new national agreement for ECEC (recommendation 10.1), the Australian, state and territory governments should resolve a number of preschool funding issues. Over the next two agreements, the Australian, state and territory governments should consider:

- ensuring state and territory government fee relief is applied after the Child Care Subsidy, such that families receive the full benefit of reduced gap fees for children attending preschool programs in centre-based day care settings
- in the short term, using bilateral funding agreements to address perceived inequities in funding for states and territories that primarily depend on dedicated preschools to deliver preschool programs
- in the long term, adopting a consistent funding model for all ECEC, regardless of setting, that would be applied across all jurisdictions and designed in line with the funding principles outlined in this paper (recommendation 9.1).



Recommendation 9.4

Proposed ECEC reforms should be evaluated as part of a future sector review

A comprehensive review of the ECEC sector, including a review of funding models, should be undertaken after the proposed reforms have been implemented. The review, to commence by 2030, should take into account ongoing evaluations of the reforms, any learnings from their staged implementation and the outcomes of any trials.

Paper 10 – Governance arrangements for a future ECEC system



Finding 10.1

System stewardship is a missing part of the policy puzzle

To ensure that the ECEC system delivers better outcomes for children and families, a system stewardship approach is needed, with the Australian, state and territory governments acting as the primary stewards for the system. However, a lack of effective coordination mechanisms across governments and limited government accountability for system-wide outcomes, at present, hamper the effective use of a system stewardship model.



Recommendation 10.1

Improve policy coordination, role clarity and accountability through a new national agreement

The Australian and state and territory governments should negotiate a new national agreement for ECEC. This agreement should include:

- governments' overarching objectives for the system and the outcomes they seek to achieve through their policy settings
- a set of policy aims that reflect improvements in access, affordability and inclusion
- a detailed articulation of the roles, responsibilities and functions of different governments, government agencies, and coordination mechanisms.
 - As part of this, governments should formally commit to adopting a system stewardship approach for the sector, where they – as the stewards – acknowledge that they are responsible and accountable for the outcomes produced by the system as a whole.
 - State and territory governments should also be given responsibility for ensuring access to outside school hours care services in public schools where there is enough demand for a service to be viable.
- commitments to advance reforms relating to preschool funding and data, including to:
 - address barriers to passing Australian Government preschool funding to centre-based day care services delivering a preschool program and ideally ensure funding follows individual children. While states and territories should retain the ability to negotiate a state-specific preschool definition, or to require providers to meet conditions to access funding, this should not unreasonably restrict the ability of centre-based day care services to deliver a preschool program or to access Australian Government preschool funding
 - improve preschool data collection, sharing and research.
- consideration of how the agreement interacts with other key strategies and agreements that impact the ECEC sector.



Recommendation 10.1

Improve policy coordination, role clarity and accountability through a new national agreement

Continued opportunities for coordination between the Australian, state and territory governments following the negotiation of the national agreement should be facilitated to allow governments to form coordinated responses to persistent and emerging issues as they arise. A forum should be established to:

- consider how governments' policies and programs interact
- identify and address persistent or emerging challenges
- coordinate the design and implementation of new policies.

The agreement should commence in 2026 and have a term of five years. A review of the ECEC system – including the performance of this agreement – should commence no later than 2030 (recommendation 9.4), and once the term of the agreement expires, a new agreement should be negotiated based on the findings of the review.



Recommendation 10.2

An ECEC Commission to support system stewardship

The Australian and state and territory governments should establish an independent ECEC Commission. The ECEC Commission's functions should include:

- monitoring and publicly reporting on the progress of governments – as system stewards – towards their commitments under the national agreement (recommendation 10.1) and on outcomes produced by the ECEC system more broadly
- providing independent advice to the system stewards on how they can coordinate and design their policies to achieve effective outcomes for the system, by leveraging an ability to take a system-wide view
- acting as a custodian over research and data, and facilitating the better use and dissemination of ECEC data and research learnings.
- To ensure its independence, the ECEC Commission should be underpinned by legislation and overseen by a board with fixed-term appointments. At least one of these appointments should be an Aboriginal or Torres Strait Islander person who is able to promote the experiences of Aboriginal and Torres Strait Islander families and providers in the ECEC system.